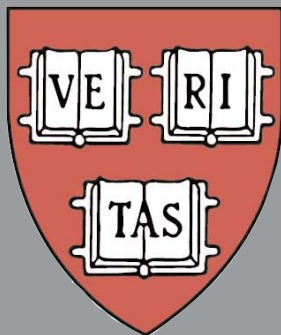


THE JOHN T. DUNLOP LECTURE

WITH

JACK F. KEMP



JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY

GRADUATE SCHOOL OF DESIGN & JOHN F. KENNEDY SCHOOL OF GOVERNMENT

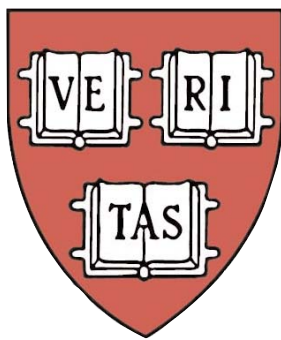
SEPTEMBER 28, 2005

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THE JOHN T. DUNLOP LECTURE

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**JOINT CENTER FOR HOUSING STUDIES
OF HARVARD UNIVERSITY**

**THE ROLE OF DEMOCRATIC-CAPITALISM IN A
GULF COAST RENAISSANCE**

SPONSORED BY
THE NATIONAL HOUSING ENDOWMENT

THE JOHN T. DUNLOP LECTURE WITH JACK F. KEMP

Delivered on September 28, 2005 at the Harvard Graduate School of Design, Piper Auditorium.

Sponsored by the National Housing Endowment.

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Established in 1959, the Joint Center for Housing Studies is a collaborative unit affiliated with the Graduate School of Design and the Kennedy School of Government.

The Joint Center illuminates the role of housing in shaping communities and outlines the ways in which housing policy and practices are shaped by economic and demographic trends. Through research, education, and public outreach programs, the Joint Center informs debate on critical housing issues and provides leaders in government, business, and the non-profit sector with knowledge and tools for formulating effective policies and strategies.

TABLE OF CONTENTS

History of the John T. Dunlop Lecture	1
Biography of Jack F. Kemp	5
The Role of Democratic-Capitalism in a Gulf Coast Renaissance. Jack F. Kemp, <i>Founder, Kemp Partners</i>	9



HISTORY OF THE JOHN T. DUNLOP LECTURE AT HARVARD UNIVERSITY

The John T. Dunlop Lecture commemorates the life and work of the late John T. Dunlop, Lamont University Professor *Emeritus* of Harvard University from 1985 to 2003 and United States Secretary of Labor during the Ford administration. In a lifetime career dedicated to improving labor-management relations, Professor Dunlop's skillful arbitration and negotiation led to celebrated dispute resolutions in academia, industry, and government.

Professor Dunlop was also a widely respected leader in the nation's housing and construction related industries. In 1970, he played a key role in establishing the Policy Advisory Board of Harvard's Joint Center for Housing Studies. Under his guidance, this board of housing industry leaders, through the Joint Center, significantly helped to shape U.S. housing policy and to advocate for measures to insure quality homes for all Americans. Joint Center director Nicolas P. Retsinas remarked: "John Dunlop was a master bridge-builder. He consistently connected the academy with industry. His

insights and his integrity served him well in both worlds. The Joint Center for Housing Studies...is a lasting legacy to his perseverance and to his dedication to informed public policy."

Professor Dunlop was chairman of the Construction Industry Stabilization Committee from 1971-1974, and was instrumental in establishing the National Institute for Building Sciences. He served on the board of the National Housing Endowment and in 1986 was inducted into the National Housing Hall of Fame by the National Association of Home Builders.

In 1999, the Joint Center for Housing Studies partnered with the National Housing Endowment and the Harvard Design School to create a named lecture that would serve as a lasting tribute to Professor Dunlop and his many contributions to the national housing community. The John T. Dunlop Lecture was established to bring a housing leader to the university each year to highlight the importance of housing as a policy and research area.

The seventh speaker in this honored tradition is Jack F. Kemp, Former Secretary of the U.S. Department of Housing and Urban Development and founder and chairman of Kemp Partners. Previous lectures have been delivered by the following distinguished housing and community leaders:

KIM B. CLARK (October 25, 2004)

*The University and the World of Business:
Creating Deep Knowledge with Power and Practice*

HENRY G. CISNEROS (September 29, 2003)

*Homes for Americans in the 21st Century:
Challenges and Opportunities for the Nation*

ANGELO R. MOZILO (February 4, 2003)
*The American Dream of Homeownership:
From Cliché to Mission*

HERBERT V. KOHLER, JR (October 29, 2001)
Designing Form and Function in the American Home

BARBARA T. ALEXANDER (October 12, 2000)
*The U.S. Homebuilding Industry:
A Half-Century of Building the American Dream*

KENT W. COLTON (May 4, 1999)
Housing at the Millennium

The lecture honors Professor Dunlop's accomplishments as both a scholar and administrator. He began his Harvard career in 1938, becoming associate professor of economics in 1945 and full professor in 1950. He chaired the Economics Department from 1961 to 1966, and while serving as dean of the Faculty of Arts and Sciences from 1969 to 1973, led the faculty-student University Committee on Governance. He was appointed Lamont University Professor in 1971.

During his tenure at Harvard, Professor Dunlop was instrumental in founding many academic programs, including the Trade Union Program (now the Labor and Work Life Program), the Ph.D. Program in Business and Economics, and the Program in Business and Government. At a 2003 memorial service, Harvard President Lawrence H. Summers commented: "John Dunlop was a towering figure in Harvard's history. As a scholar, dean, secretary of labor, and an adviser to countless institutions, John Dunlop was a major contributor to the life of our nation and to our university."

Professor Dunlop's leadership extended into his government service. In addition to serving as secretary of labor from March 1975 to January 1976, he served as an adviser to many United States presidents beginning with Franklin D. Roosevelt. His many government posts included director of the Cost of Living Council (1973-74), chair of the Commission of the Future of Worker/Management Relations (1993-95), chair of the Massachusetts Joint Labor-Management Committee for Municipal Police and Firefighters (1977-2003), and chair of the Commission on Migratory Farm Labor (1984-2003).

Professor Dunlop's numerous books and articles advanced the understanding of labor relations. His contributions included: *Wage Determination Under Trade Unions* (1944); *Collective Bargaining: Principles and Cases* (1949); *Industrial Relations Systems* (1958); *Labor in the Twentieth Century* (ed., 1978); *Dispute Resolution, Negotiation and Consensus Building* (1984); and *A Stitch in Time: Lessons from the Apparel and Textile Industries* (with Abernathy, Hammond, and Weil, 1999).

Professor Dunlop's impact was vast and profound. Former Harvard president Derek Bok said of his colleague: "John Dunlop led a remarkable life. As a teacher, he helped develop generations of labor economists. As a scholar, he was a leading figure in furthering our understanding of labor markets and institutions. As a practitioner, he played an indispensable role in finding common ground between labor unions, employers, and government."



BIOGRAPHY OF JACK F. KEMP

Jack Kemp is Founder and Chairman of Kemp Partners, a strategic consulting firm which seeks to provide clients with strategic counsel, relationship development, and marketing advice in helping them accomplish business and policy objectives.

From January 1993 until July 2004 he was co-director of Empower America, a Washington, D.C.-based public policy and advocacy organization he co-founded with William Bennett and Ambassador Jeane Kirkpatrick.

In September 2001, Mr. Kemp helped form a new non-partisan, non-profit think tank, the Foundation for the Defense of Democracies to counter the terrorist propaganda efforts, and he has been writing a weekly syndicated column for the Copley News Service nationwide since February of 2000.

Kemp received the Republican Party's nomination for Vice President in August of 1996 and since then has campaigned nationally for reform of taxation, Social Security and education.

In 1995, Jack Kemp served as chairman of the National Commission on Economic Growth and Tax Reform, which promoted major reform and simplification on our tax code in order to unleash the American entrepreneurial spirit, increase economic growth and expand access to capital for all people.

Prior to founding Empower America, Mr. Kemp served for four years as Secretary of Housing and Urban Development. He was the author of the Enterprise Zones legislation to encourage entrepreneurship and job creation in urban America and continues to advocate the expansion of home ownership among the poor through resident management and ownership of public and subsidized housing.

Before his appointment to the Cabinet, Mr. Kemp represented the Buffalo area and western New York for 18 years in the United States House of Representatives from 1971-1989. He served for seven years in the Republican Leadership as Chairman of the House Republican Conference.

Before his election to Congress in 1970, Mr. Kemp played 13 years as a professional football quarterback. He was

captain of the San Diego Chargers from 1960-1962. He was also the captain of the Buffalo Bills, the team he quarterbacked to the American Football League Championship in 1964 and 1965, when he was named the league's most valuable player. He co-founded the American Football League Players Association and was five times elected president of that Association.

Mr. Kemp was born and raised in Los Angeles and educated in the LA public schools. He is married to the former Joanne Main of Fillmore, CA. Both are graduates of Occidental College. They have four children (Jeffrey, Jennifer, Judith and Jimmy) and fifteen grandchildren. The Kemps reside in Bethesda, Maryland and have a home in Vail, Colorado, and are building a vacation home in Big Sky, Montana.

THE ROLE OF DEMOCRATIC-CAPITALISM IN A GULF COAST RENAISSANCE

Thank you, Nic [Retsinas], for the introduction and your leadership of the "Center". You may wonder how I ended up here at Harvard. Actually Nic, called me a year ago, and said "Kemp, do you believe in free speech?" I said "Nic, we're friends. I worship at the shrine of the First Amendment. Of course I believe in free speech. Why do you ask?" He said, "Will you give one at Harvard?" How could one say no to such cunning and intrigue.

Gary [Garczynski], thank you for the kind words, and reminding everybody that I lost to Al Gore in 1996. And Kent [Colton], I still remember our task force on housing regulations, and I look forward to talking about this issue. I thank you for your strong leadership, your friendship, and your counsel over the years.

Let me start by saying what an honor it is for me to deliver, not a speech - but a talk, really, a conversation - in lieu of a lecture, because calling these comments a lecture would not do justice to the great John Dunlop. I knew him in the Ford administration, and he was truly one of the great men of the 20th century and I'm honored in his name to be in this hall with you all. Thank you for coming.

Calling this a lecture would also be a little too academic

for me. I majored in physical education at Occidental College, went into professional football, spent 13 years quarterbacking in the American and National Football Leagues, and then retired in 1970 to run for Congress from Buffalo, where I had spent the last eight years. (People in Buffalo thought had I quit playing in 1967, but I retired formally in 1970.)

One thing I always appreciated about my professional football career was that some of my best friends were the enemies on Sunday. This was good preparation for Congress. When I arrived, I made clear very early on that while I was a partisan Republican from the Lincoln wing of the party I wanted to make friends on the other side of the aisle. I hope I contributed to some of the bipartisan efforts particularly in the field of housing and urban economic development.

Speaking of bipartisanship, it was a great pleasure to get together with Henry Cisneros, who is one of my dearest friends, Nic and Kent to write *Opportunity and Progress*. I don't know if there are any copies lying around tonight, but the book offers a good way of talking about the importance of homeownership and housing in our nation, not only in terms of providing shelter, but as a means of making our capitalistic economy more democratic. Our market oriented economy functions well for the vast majority and the ladder of opposition is wide open to so many Americans, but, the trouble is it doesn't work very well in all too many of our urban areas of America - ghettos and barrios where people go without access to capital, without access to ownership, without access to housing in all too many cases. So that's why Henry and I came together with Nic and Kent and did this book, and we commend it to your attention. Indeed we're working

on our second book on housing, shelter and homeownership in America.

One of the things I came here to talk about today is the importance of access to capital and ownership opportunities for all. The same is true of so many living in America's ghettos and barrios and most recently those who tragically are the victims of hurricanes in the Gulfport region of America.

A Chinese philosopher once said that there is a great deal of wisdom in the world but unfortunately it was all divided up among the people. I would not say this was "unfortunate." I interpret this to mean that the pie of wisdom has many slices and we all have a slice of wisdom to offer. So I am here today to share with you my slice of the pie of wisdom, and look forward any dialogue to follow.

CRISIS AND OPPORTUNITY

Dr. Martin Luther King was not only a great theologian, he was a great historian. He had a great sense of history. He was once asked at what point in the history of the world he would most have wanted to live. Was it Egypt at the time of the pharaohs and Moses? Jerusalem at the time of Jesus? Spain in the 16th century? Athens at the time of Socrates, Sophocles, and Pericles? Dr. King responded, essentially, that this very moment in time was the moment during which he most wanted to be alive. I recognize the wisdom of his words. Because I believe now is the most exciting time to be teaching or studying at Harvard or to be involved in this great center for the study of housing or working in an industry that brings shelter and housing to

people, indeed to be part of manifesting all that's good about America and helping make it a "shining city on the hill."

Consider the following statistics. Housing and related industries represents about 20 percent of the nation's gross domestic product (GDP), yet we have 3 million Americans without a home. Seventy-eight percent of white people own their own home but only 48 percent of people of color. We have low rates of interest yet we have de-facto redlining. We have incredible wealth capacity in our capitalistic system - yet there's poverty of undeniable proportions. So what do we do about it? Do we just wring our hands? Do we duplicate the mistakes of the past or can we learn from the successes we have had in the 229 years of history since we declared that "all men are created equal."

The Chinese symbol for "crisis" is a combination of two characters - one for "danger," the other for "opportunity." I suggest that we should look upon the Gulf region problem of poverty and despair as a great opportunity. I consider the regions of Louisiana, Mississippi, Alabama, as presenting a great opportunity to demonstrate what works. Hurricanes Katrina and Rita exposed poverty of unbelievable proportions in these areas, but they also revealed incredible acts of heroism. While the looting sickened each of us, we would then see footage of a fireman risking his life to go into a burning house. Such scenes were not unlike 9/11 and we must honor these first responders.

Congress now faces an unprecedented chance to implement proven policies that have been on the drawing boards since the late 1970s. Indeed, such ideas go back as

far as Abraham Lincoln, with the Homestead Act, and FDR, with the Federal Housing Administration (FHA) and the GI Bill. Responding to this huge problem requires "big ideas." While I am not going to defend everything that Republicans are doing during this terrible crisis but it is clear from the President's words and actions that he understands this - he understands the magnitude of this tragedy, the scale of the opportunity.

When the president alluded to the history of racial discrimination that for so long denied equality of opportunity and economic justice to people of color, he showed an understanding of the issue and compassion for people all too often neglected by the party of Lincoln. There are appalling cases of historical racial discrimination in education, housing, and employment that I believe have contributed to the conditions we witnessed in this tragic and historic catastrophe of near Biblical proportions.

As we think about the government's role in assisting people to get back on their feet after Katrina and Rita, we should be thinking about how to expand private property rights and business ownership, particularly in the minority community. We should be thinking about how best to create jobs and greater opportunity for those most severely affected by these hurricanes. We should devise rational and reasonable incentives to build a new Gulf Coast and Delta Region unencumbered by bureaucratic rules and strictures. We have an enormous opportunity to replace outmoded government programs and bureaucracies with public-private partnerships and new private institutions that derive their legitimacy from adherence to the principles of individual ownership, private property rights, personal responsibility, and social justice. We have the

opportunity to lay the foundation for a stakeholder society.

President Bush has said that he wants to combat poverty through expanding entrepreneurship generally and minority enterprise in particular. The most important social program in America is a job, a home, and an education. Those three goals alone are the greatest weapons against poverty the world has ever known. He is therefore on the right course in calling for an opportunity zone for the entire Gulf region. He knows that an opportunity (or enterprise) zone for the whole region will attract capital and encourage investment in job-creating businesses in the "green-lined" area of Gulfport. Let me take a moment to explain the concept of the enterprise zone.

In 1980, Luis Muñoz Marín, the Governor of Puerto Rico, passed away, and there were memorial remarks on the floor of the House of Representatives. He was a great man and Franklin Roosevelt was his icon. He was a near socialist professor at San Juan University, yet he recognized that dividing up a loaf of bread was not the best way to help people, because it just gave them equal access to poverty. He did not become a Ronald Reagan or Jack Kemp Republican, but he understood the importance of government policies and public-private partnerships. He created the first enterprise zone. He called it "Operation Bootstrap." He knew that if he could get men and women to go into business building bakeries they could produce more food, more bread and feed more people. That's entrepreneurial enterprise at its most practical level.

I was one of the few Republicans to speak on behalf of Luis Muñoz Marín. I had read about him and I thought to

myself "Wouldn't it be great to have an Operation Bootstrap in Buffalo, New York, where people are really hurting for jobs, hurting for access to capital?" Now some of my friends on the Right say things like, "I picked myself up by my boots and my straps, so why don't they?" Well it's tough to pick yourself up by your boots and straps if you don't have any. The purpose of good public policy is to use incentives and carrots to drive capital and jobs and enterprise into areas that are starved for that type of thing.

At the memorial remarks for Luis Muñoz Marín, Congressman Robert Garcia from the South Bronx was giving a speech, and Congressman Charlie Rangel from Harlem and Bill Gray of Philadelphia were waiting to give their tribute. They were memorializing the governor of Puerto Rico, and I said "Would the gentleman from the South Bronx yield?" I had never met Bobby Garcia before, and I didn't know Charlie Rangel well at all. Bob Garcia yielded, and I said "Wouldn't it be great if we could do an 'Operation Bootstrap' in the South Bronx?" And he said "Oh, that would be great." And then Rangel got up, and I said "We could do it in East Harlem, and I'd like to do one in Buffalo, and I grew up in LA so how about Watts? How about East LA? How about North Long Beach, North Compton, East St. Louis, East Palo Alto?" We all knew where those zones should be.

So we went to work on a bipartisan basis, and we designed these zones of opportunity. President Bill Clinton called them "Empowerment Zones", by the way. There is a renaissance going on in Harlem today thanks to President Clinton, Charles Rangel, and the Republican Congress that gave Harlem the tools needed to launch an Empowerment Zone that's working so well today and

would work even better if capital gains taxes were eliminated in Harlem, Watts, Los Angeles, and any "redlined" area of America.

President Bush's proposal to transform the Gulf region into an opportunity zone was greeted by a Washington Post editorial labeling it a "Go Go Zone." The Post opined, inexplicably, that tax incentives offer breaks for investment but not for job creation. Did the Post editorialist ever take a look at the renaissance going on in Harlem? Have they looked at the low-tax industrial zones (maquiladoras) along the Tijuana-San Diego border? Have they noticed that low-tax, pro-business cities like Shanghai, Shenzhen, Pudong, and Hong Kong are thriving in China? While the President's opportunity zones need tweaking, there are many other examples and empirical evidence which show that they will work. If you create strong incentives for investors to put their capital to work in specially designated areas of need.

In fact, we already have a bipartisan consensus on Enterprise Zones that formed back in 1995 around the Enhanced Enterprise Zones Act, legislation that was supported by Spencer Abraham, J. C. Watts, Peter King, Jim Talent, Joe Lieberman, Carol Moseley Braun, John Breaux, and Eleanor Holmes-Norton, among others. The bill was based on the old Kemp-Rangel Enterprise Zone bill of the 1980s. A more contemporary example is the Brownback-Fortuno-Ryan National Enterprise Zone Act of 2005.

The fundamental idea behind these bills is that private enterprise, not government, is the source of economic and social development. The failure to recognize this fact was, in my opinion, a flaw in President Clinton's Empowerment

Zones. While a sincere effort, Empowerment Zones fell short of what was dramatically needed to spawn a complete rebirth of economic vitality and entrepreneurship in distressed areas. It's a good start but needs more dramatic incentives such as a zero capital gains tax.

Empowerment Zones had only limited tax incentives, including a small increase in expensing for plant and equipment, and they were driven by a kind of Great-Society mentality, with some \$280 million in social services block grants. Social services block grants are based on the failed notion that government can create jobs and prosperity. As I have said repeatedly, we must get away from this "big-brother" mentality. Government does not and cannot create wealth. The best it can do is to unleash citizens' drive and initiative to succeed in the market economy. We need to free up capital and the entrepreneurial spirit, and that is what a super-charged enterprise zone in the Gulf Coast region can do and could do for our urban areas of distress throughout America.

A PROPOSAL FOR THE GULF REGION

How can we best take advantage of this opportunity to get capital back into the Gulf region? Congress recently passed legislation extending limited tax relief to the victims of hurricanes Katrina and Rita. Congress should add more "juice" to the president's opportunity zone idea by enacting follow-on legislation that includes tax and other incentives that will generate economic activity and jobs - with homeownership and housing as key components.

I wouldn't be Jack Kemp if I didn't say what I am about to

say. Here are some thoughts:

- ◆ Eliminate the capital gains tax on any individual who puts his or her surplus capital and savings at risk in an enterprise that hires people in the zone. Sunset this after say 15 years if one is worried about too much investment capital flowing into ghettos and barrios.

- ◆ Eliminate the income tax and pay roll tax on any working man or woman who comes off welfare and unemployment and earns up to 180 percent of the poverty level or thereabouts.

- ◆ Allow companies and homebuilders doing business in the zone to pay federal taxes under a streamlined federal tax system, to enjoy a full and immediate write-off of all investment expenditures and inventory purchases and a full deduction for all dividends paid, and to be exempt from any tax on capital gains for say 15 to 20 years. Wow!

- ◆ Permit the total expensing of all investments in plant, machinery, equipment, and technology in the zone for 15 to 20 years.

I also support another idea that was contained in the Enhanced Enterprise Zones Act of 1995, which is to allow all individuals and companies to deduct the purchase of qualified "enterprise-zone stock" (and I would suggest interest on bonds as well) from their income up to some generous limit, say \$250,000 a year and \$1 million dollars over their lifetime.

In addition to tax provisions such as these, Congress should enact broad regulatory relief for companies doing

business in the hurricane enterprise zone. The President has already suspended some federal regulations for purposes of rebuilding, but more than a piecemeal approach is required. Federal environmental, labor, and other economic regulations should be reviewed with an eye on - temporarily - leaving it to state and local governments to determine which regulations are so essential to public health and safety that they should be enforced during the life of the zone.

Where education and homebuilding are concerned, education and housing vouchers are also tools that can be used more widely. Congress should authorize Section 8 education vouchers for the children living in or displaced from the hurricane region, and these vouchers should be redeemable at any public or private school or go toward the education-related expenses of home-schooled children. This is also a good opportunity to modify the housing vouchers program so that residents are not penalized--but rewarded--for increasing their earned income.

Congress also should take immediate action to preserve the Historically Black Colleges and Universities in the region, including Dillard University, Xavier University of Louisiana, and Southern New Orleans University. These schools have experienced student-body declines of approximately 20 percent of enrollment. They will go out of business if we don't hold them harmless. Congress should follow the suggestion of Howard University's President, Pat Swygert, and enact an emergency appropriation to compensate these institutions for their lost tuition and fees.

It is absolutely essential that Congress use this opportunity

to enact the President's urban homesteading program, which will give displaced and otherwise low-income people an opportunity to own homes. The secret of this whole idea of urban homesteading is to take the vast industry that so many of you in this room are a part of and unleash it, incentivize it, pull off some of the regulations that make housing the most regulated industry in the United States of America. Expense all the investment, in the rebuilding of the Gulfport housing stock.

I was thrilled to hear President Bush refer to Habitat for Humanity as integral to his urban homesteading initiative. Habitat is one of the most cost-effective ways to provide homeownership opportunities for the most needy in our society. Thanks to NBC's "Today" show, Warner Records, and my friend Tim Blixseth, about \$65 million was raised for Habitat in just four weeks. Through "Operation Home Delivery," Habitat will build 25,000 or more homes and send many of them down the Mississippi River on barges to the Gulf Region. Our hope is that mayors and governors in the region will donate vacant properties where Habitat volunteers can build homes that will house families, help communities expand the tax base, and stabilize neighborhoods. We're going to have to condemn a lot of property. Instead of using eminent domain to serve governments, let low-income people homestead on those federal properties and become property owners.

To support this homesteading program, I would suggest taking 3, 4, or 5 percent of the profits of the government-sponsored enterprises (Fannie Mae and Freddie Mac) and have them (as Federal Home Loan Banks does) dedicate the funds to this industry-wide effort for affordable housing. Funds could be pooled and used to buy out low-income property owners, and then these newly acquired

federal properties could be made available - through the Federal Housing Administration - for low-income people to "homestead." The money provided by the buy-out, along with perhaps a Section 8 voucher, could be used to relocate or re-invest in property (when it makes sense to rebuild on the old site) or as a down payment on a new home. Obviously there would have to be guidelines and income limits, but the homesteading idea would be an asset-based welfare and anti-poverty idea where the poor could then create the "live capital" outlined so well in Hernando de Soto's magnum opus, *Mystery of Capital*.

I also urge Congress to consider enacting legislation to permit Fannie Mae and Freddie Mac to purchase or guarantee the non-interest bearing mortgages of Habitat for Humanity. The pending GSE [Government Sponsored Enterprises] legislation could be amended, or a proposal could be attached to emergency Katrina and Rita relief legislation.

Another important idea would be to modify slightly the New Markets Tax Credit (NMTC) program. With some minor changes, this existing Treasury program could be targeted for homeownership, shelter, real estate, and business development, making it into a leading catalyst for private-sector reinvestment in the affected areas of the Gulf. If Congress would extend the definition of distressed areas to the parishes and counties affected by Hurricanes Katrina and Rita, raise the incentive percentage for small business equity investments, and dedicate a pool of money to the affected areas, then this program would go a long way toward increasing the private sector's role in the rebuilding effort and decreasing dependency on the government.

Finally, the Brownfields legislation proposed by Congressman Michael Turner of Ohio suggests a useful approach that could be tailored and adapted to the Gulf Coast to deal with environmental liability exposure, which will emerge as the rebuilding proceeds.

THE COST OF OPPORTUNITY

Many of my Republican friends are wringing their hands at the thought of paying for these efforts. Imagine what a dispossessed low-income family living in temporary housing might think of Congressional conservatives who talk about not spending the money on necessary emergency relief, restoration, and rebuilding. Of course we have to spend money.

I operate on this thesis, this premise. Every single human being on Earth 'wants to improve their lot in life.' There are some people - I don't know who they are, I don't know where they come from - but as Adam Smith said in *An Inquiry Into the Nature and Cause of the Wealth of Nations*, the "desire to improve our lot in life comes to us out of the womb of our mother and never leaves until the day we die." If you can tap into that desire to improve someone's lot in life you've found the key to creating wealth wherever it may be. When he wrote that book Smith was a white, Scottish, Presbyterian professor of moral philosophy at Glasgow University. But when he said nations he meant all nations - big, small, rich, poor, huge resources, little resources. He said it would work on an island in the Pacific with no resources whatsoever, and guess what? From 1959 to 1989, the per capita income on Hong Kong increased to the point where it was 80 percent greater than that of the people on the mainland. The

income of Hong Kong is higher per capita than that of the people of the British Empire. People ask, how is it possible that one could create wealth on a little rock that doesn't have enough oil to grease a bicycle? The answer lies in that island's embrace of free trade, sound and stable money, low taxes, private property, and a spirit of enterprise that is inspiring to any outside observer.

Republicans accuse the president of reckless spending and allowing the federal government to grow in this crisis. Abraham Lincoln faced the same criticism in 1862 when he passed the Homestead Act. Under that Act, if you moved to Illinois, Indiana, Minnesota, Ohio, or Wisconsin, you got 160 acres of land free and clear if you lived on it and worked to improve it. Guess what? You don't need to tell people to improve that which they own. As soon as they own something the improvement begins. You touch that responsive chord in their hearts and minds and politicians who focus solely on the cost of a Gulfport rebuilding risk engaging in penny-wise, pound-foolish politics.

In fact, much of the cost of these efforts could be paid for by reducing other nonessential discretionary federal spending, which has gotten completely out of control. Most of those who criticize the president's spending in this crisis voted for the 6,000-plus pork-barrel projects contained in the recently enacted transportation bill and the "no-energy" energy bill. This is the hypocrisy W.F. Buckley defined as "the tribute that vice pays to virtue." I endorse the idea being proposed by congressional conservatives of across-the-board spending cuts on non-security and non-entitlement accounts. I also commend the Republican Study Committee for coming up with "Operation Offset," which identifies some \$50 billion in

corporate pork and \$300 billion in overall discretionary spending that should be delayed. But I don't support cutting the support system spending so essential for low income people and poor families.

Is \$100 billion to \$150 billion a lot of money? Of course it is. But as my friend at the Free Enterprise Fund and TV economists, Larry Kudlow, points out, it is an amount that easily can be shouldered by our economy, which will be GDP \$13 trillion by 2006 and is projected to grow to \$20 trillion during the coming decade. Project that out over 10 years and look at over 160 trillion dollars of GDP.

As Kudlow points out, "The budget deficit will rise for a year or two, from roughly 2.5 percent of GDP to perhaps 3 1/2 percent. Big deal. The very bond markets that actually do the financing have shrugged the spending off, with Treasury issues continuing to trade around 4.25 percent. There was no 'spiking up' of long-run interest rates that might suggest a financial crisis. The stock markets, meanwhile, just registered their best third quarter in seven years." Growth at 3.5 percent to 4 percent is essential to keeping our revenues sufficient to meet this challenge. This is no time for the Federal Reserve Board to raise interest rates and slow down the economy.

Kudlow also points out that family net wealth - which includes the value of our nation's businesses, bonds, stocks, and real estate - just hit an all-time high of \$50 trillion. This is a great figure, but the pie needs to be "democraticized," not by redistribution but by giving the poor and low income people greater access to capital, which will allow them to build wealth and get a larger share of an even faster growing pie.

In fact, enterprise zones for the Gulf Coast will be relatively inexpensive and very cost effective. Every new job means a new taxpayer and a broader tax base. The 1995 nationwide enterprise zone proposal was estimated, on the high side, to cost \$2 to \$3 billion over five years. The Brownback-Fortuno-Ryan National Enterprise Zones are expected to "cost" \$26 billion over 10 years. Clearly the cost of a Gulf Region enterprise zone would constitute a mere drop in the bucket compared with the total cost of rebuilding.

We know the kinds of tax reforms contained in enterprise zones will work. For example, between 1977 and 1982, when the capital gains tax was reduced from 49 percent to 20 percent, the number of small company start-ups exploded by nearly 50 percent. More recently, as a result of the accelerated write-off provision--so-called "expensing"--enacted in 2003, firms' retained earnings reached an estimated 4 percent of potential GDP during 2004, a share not matched since the 1960s.

Even under the fairly tepid Clinton Empowerment Zones, 35 states and the District of Columbia produced hundreds of thousands of new jobs and scores of billions of dollars of new capital investment. And the concept has long been endorsed by the National Governors Association, the Conference of Black Mayors, the Council of Black State legislators, and the U.S. Conference of Mayors. There is a tremendous bipartisan coalition just waiting to be built around this concept.

In order to rise above some of the interagency turf competition that invariably will arise, I have urged the White House to think about appointing proven leaders of national stature like Ambassador Andrew Young, Urban

League President Marc Morial, District of Columbia Mayor Anthony Williams, and former HUD Secretary Henry Cisneros to help consolidate a bipartisan consensus. Outstanding men and women are available to help get over the bickering and start rebuilding the levees, rebuilding the infrastructure, and rebuilding the housing stock of this devastated area of our nation. And of course the things I'm talking about are down the road. Can't start a business if there's no security. You're not going to invest where there's not an opportunity to register your property, so there's a lot of work to be done. I too would be willing to contribute in any way that might be useful and productive. As Chair of Speaker Hastert's "Saving America's Cities" Working Group, I have recently re-intensified the thinking and the work I have been doing on these issues for nearly 30 years.

Further attacks on the president are coming for not raising taxes, and it is time for Republicans and thoughtful Democrats in Congress to come to his defense. They need to point out that even at the lower tax rates enacted under Bush, tax revenues have grown more than 16.5 percent for two straight years. Instead of raising taxes, Congress should create a Gulfport opportunity zone by adopting some of the proposals listed above. As the president said, the people who suffered the most dislocation and distress must participate fully in the rebuilding. The job opportunities that will result from these policy prescriptions will help them to do so.

The need to rebuild the Gulf Coast provides Congress and state legislatures with the opportunity to implement big ideas that not only can rebuild in a rational and efficient manner but also could provide a model for beginning to transform the rest of the United States. African-American leaders like Morial, Bruce Gordon of NAACP, Donna

Brazile, Earl Graves of Black Enterprise Magazine and Andy Young, the former mayor of Atlanta, have all said access to capital is one of the most important social and economic goals for minority business development and job creation.

I just wish as I close that the Republican party and the Democratic party could put aside their rhetoric, which has become so vitriolic, and start figuring out what to do to unleash the enterprising, home-building, job-creating, furniture-building enterprises of America, because it's the only way we're going to rebuild the south Gulfport area. We have a golden opportunity to "green line" the Delta and Gulf Coast with government policies that facilitate and empower the private sector and private citizens, and in the process prove these policies will also work in the rest of the country. In the aftermath of this national tragedy, we have an unprecedented opportunity to combat poverty, despair, and racial discrimination by democratizing capitalism so as to help people put their lives and families back together. This is the vision for a true renaissance for the Gulf Coast - and indeed the entire nation. We can do it with the greatest economy in the world. Making our capitalistic system more democratic is why I'm on this earth. It's why I wanted to come up here to Harvard and it's why I accepted Nic's phone call and invitation. Nic, thanks for all your friendship, leadership and counsel to this old Q.B. and old Secretary of Housing and "bleeding heart" conservative.

Let's get going!

Thank you and Godspeed.