Jack Kemp proposes summit between Reagan and EMS founders

In remarks before the National Press Club on Jan. 7, and in an interview with the Executive Intelligence Review *following these remarks, Reagan adviser Rep. Jack Kemp (R-N.Y.) argued for a broad economic recovery perspective, with emphasis on accelerated depreciation tax schedules for industry and international monetary reform in cooperation with the European Monetary System. Kemp's speech and his responses to* EIR's *questions go beyond much of the New York congressman's well-publicized statements in the past on the issue of tax reduction and economic growth.*

The following transcript combines Kemp's remarks to the full press group and responses to questions in an interview with EIR *Washington, D.C. correspondent Laura Chasen following his speech.*

Conventional economics have no answer to stagflation. The purpose of economic policy is to achieve widely shared prosperity. Fighting inflation, balancing the budget—these are goals, but not *the* goal. Such prosperity has been achieved before in this century. . . . It is no miracle at all. . . .

Heretofore, the liberal prescription was for trickle-up. The conservative prescription was to tighten up fiscal and monetary policies. The problem with both these models is that we have both high inflation and high interest rates *and* low productivity and low employment. You have in the Republican Party today an unconventional attempt to work on the supply, production, private side of the economy, what I call "incentive"—so that people produce, work, save, invest, be entrepreneurs—not just so that people buy, but because they get a reward for effort. So if you devalue the currency or raise taxes, you take away incentive.

What we need is a sound currency, stabilized fiscal situation mainly achieved through budget reduction especially in FY 82-FY 84, a restructured tax code to increase the rate of return on productive effort, and reducing counterproductive regulations.

FDR quickly established an environment of confidence and hope and cooperation with Congress. Reagan should use this as a model, assure people that there is control and stabilization. . . .

EIR: There appears to be a convergence between institutions as diverse as the Heritage Foundation and the British Fabian Society that basic industry must be phased out in favor of a service economy. How can you ensure that liquidity generated by tax cuts or by other means will flow toward productive investment rather than speculation in casinos, currency arbitrage, or other inflationary investment?

Kemp: I do not accept that there is an inexorable process at work in which much of manufacturing industry is in decline. I do not agree we should move toward a service economy. I disagree with the White House commission [on an "agenda" for the 1980s] on the future of cities. I do not buy the idea that U.S. industry cannot compete. There are industries that are going to rise and decline. To keep those—like manufacturers of buggy whips, for example—alive would be a mistake. But steel, autos, housing, computers, high technology, the machine-tool industry—these are not inexorably in decline unless we allow the processes now at work to continue. . . .

But that is one of the reasons why Reagan was elected. He convinced people that it is *policies* that caused the decline.

In a free society, consumers and producers will make those choices—if the reward for speculation increases, speculation increases. So we must increase the reward for investment. For instance, if you invest in new equipment for a steel plant in Buffalo, you can take the depreciation over more than 15 years. If you build a new plant across the river in Canada, you can write off the depreciation in *one* year. So who's at fault for people not investing productively? In fact, speculation advances in relation to the devaluation of a currency. Today the reward for saving is very low and the reward for borrowing is very high because you are writing off interest on your taxes. So now we are encouraging speculation by devaluing the currency and taxing capital investment.

Press: Are you willing to sacrifice economic growth in order to achieve a balanced budget?

Kemp: [OMB Director-designate] David Stockman and I both agree that the tax code now is inflationary and is itself causing the budget deficit. There are two kinds of deficit. President Kennedy early on said there is a deficit that comes from slow economic growth, and a short-term deficit that comes from investment in the economy, which is not a problem. So the deficit is not the issue, but the question is what is it from and how do you finance it, by the federal government buying more debt, or through an increase in the capital stock of the country. We want a bigger capital stock from which to finance it.

The President-elect has eschewed a balanced budget. He is willing to take a deficit. I am less concerned about a balanced budget than about how to get the economy moving again, not sacrificing employment opportunities and military requirements and other vital social goals for a balanced budget. Herbert Hoover had a balanced budget and low inflation. Our goal is prosperity. Our goal is an increase in the real income of the population.

My point and Stockman's point is that you cannot balance the budget in a declining economy. I am speaking for myself, not necessarily for the incoming administration, but I have seen several statements to the effect that the answer to a balanced budget is to remove eligibility levels for social programs, give them a lower indexing, et cetera. I do not favor that. The CPI is a contract the U.S. government has made with senior citizens. If we get the CPI down through appropriate economic policies, then the cost of social programs and the budget deficit will go down anyway because the cost of indexing will be much lower. So we should restrain runaway growth in some programs, but should focus on making the economy perform better. Our problem is the utilization of our resources, natural and physical— that is the real waste. And we will never balance the budget until we bring down unemployment rates. The only way to effect long-term interest rates is to show we have a handle on the budget for FY 82, 83, 84. Lowering the tax rates is *not* inflationary. Our point is that high taxes are inflationary because this reduces the tax base for lowering the deficits. What we propose is not a "tax cut" but a restructuring of the tax base. In the past, Republicans viewed a tax cut as a reward for a balanced budget. This President [Reagan] says we cannot balance the budget without a tax restructuring.

On my "Enterprise Zone" bill, this concept is just a concept. Reagan is committed to doing something economically to change the situation of the inner city. All myself, Bill Gray, [Robert] Garcia, Gus Hawkins are saying is that there should be a new approach, not government infusion, but an increase in rewards, lowering the tax rate on entrepreneurs in the cities. Not that social programs are not important, but we should also use entrepreneurial capitalism. We suggest a big reduction in the tax rate for both employer and employee in the cities—it is like what Governor Barcelo has done in Puerto Rico. It is very, very different from the notion of handouts to the disadvantaged. Reagan wants to encourage new enterprises, encourage risk taking, which must be distinguished from speculation, not just expand existing industry.

We must also do something for labor because they have been burned. Why, in New York State between 1965 and 1980, working people have not had any pay increase at all in real terms. This is a disincentive to labor as much as heavy taxes are a disincentive to industry. If you do not change this decline for labor, we will indeed have a "zero-sum society"—and that is socially divisive and would destroy the fabric of this nation.

EIR: Is your view shared by the Reagan economics advisory group as a whole?
Kemp: Yes, I believe austerity is not an answer; it is a problem. But very frankly, there is a difference in emphasis among Reagan people, although there is consensus on the need for a tax cut.

EIR: Could you elaborate on your perspective for returning gold to the monetary system?
Kemp: I would hope that either through the Helms legislation [mandating a commission to study the question of moving back to a gold standard, an amendment Helms attached to last year's IMF legislation—ed.] or some other legislation, or perhaps under the aegis of the President, that there be a blue ribbon commission appointed or a study conducted to look toward a reconstitution of an international monetary standard backing our currency. I mean dollar convertibility. I think gold would be the best link, but the question should be studied. There should be attempts to work with the EMS and Schmidt and Giscard to work this out. You know, if Carter won I would have invested in gold, because speculation would have been rising all around. But with our policies, gold will not collapse in price, but will not rise speculatively, because people will be investing in real production.

EIR: Have you raised the gold issue personally with President-elect Reagan?
Kemp: Yes, I discussed this with him. He is intuitively pro-hard currency. Reagan recognizes that the only way to stop inflation really is through the discipline on the central bank, in our case the Fed, imposed through convertibility. But he will not make this issue a focus until the rest of his economic policy is in place since it would be too much to take all this on at once, so we will not raise that issue now.

It is like what Schmidt and Giscard did. They faced serious economic problems so they focused on them, called it an emergency, and created a new monetary system to deal with it.