The Economic Club of New York
324th Meeting
81st Year

The Honorable Bill Bradley
Senator, State of New Jersey

and

The Honorable Jack Kemp
Congressman, State of New York

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Questioners: Hank Greenberg
President, American International Group

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Chairman and Chief Executive Officer
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Introduction

Chairman Rand V. Araskog

Ladies and gentlemen, welcome to the 324th meeting of the Economic Club of New York in its 81st year. Just after this election, 1988, we're very fortunate to have with us two of the leaders of their respective parties with us this evening. One from the state of New Jersey and one from the state of New York. I'm very proud to present our first speaker this evening, the Senior Senator from the state of New Jersey serving his second term. He graduated from Princeton. A scholar there, he was also an All-American basketball player and in 1964 received an Olympic Gold Medal. Following Princeton, he was Rhodes Scholar at Oxford, and subsequent to that was for ten years, as all of you know, a player on the New York Knicks basketball team during which time he wrote a book, *Life on the Run*. I think he's still on the road but he wrote another book called, *The Fair Tax*, in 1984. We're very pleased tonight to welcome the Honorable Bill Bradley.

The Honorable Bill Bradley

Senator, State of New Jersey

Thank you very much, Rand, for the introduction, and trustees and officers of the Economic Club, members, and ladies and gentlemen, as the first order of business I would like to dedicate this evening to Dwayne Andreas whom some of you know and whom I disappointed a few years ago when I was the featured speaker at the Economic Club but could not make it at the last minute. And I want to dedicate my appearance here tonight, not only to Rand, but to Dwayne Andreas.

Also tonight is a real first. It's a privilege for me to be on the platform with Jack Kemp. As you know, Jack is leaving the Congress and is going to move out into the private sector. He's going to lecture and work with the Heritage Foundation. I think Jack has made outstanding contributions to the political debate in this country up to this point in his career and will continue to. He's a man that is interested in ideas and that you should all be aware that tonight you are witnessing also Jack Kemp's last free speech.

I was pleased that Rand mentioned be prepared. I have come tonight with a speech that I would like to make in just a minute, but you said be prepared. I am always prepared. I try to be, always have been. And you mentioned the Olympics and it triggered a story which let me share with you. Back in 1964 I was a member of the U.S. Olympic basketball team. The story occurred to me watching the team lose this year in the Olympics. And I wanted to be prepared and I thought that we were probably going to end up playing the Soviet Union in the final game. And so I went to a Russian professor at Princeton and I said, "Look, can you give me a few Russian phrases that I could use in case I got into trouble out there in the game if we play the Soviet Union." He said, "Well, what do you want to know?" I said, "Well, how about, hey, big fella, watch out." And so he gave me the phrases and I got them down and we moved over to Tokyo. That's where the games were that year. And we ended up indeed in the final game against the Soviet Union. My opposite – by the way at that age I was my present height, I weighed 195 pounds – my opposite was 6' 7" and weighed 240 pounds. About eight minutes into the game he cracked me with an elbow up along my upper chest and lower neck, the kind of thing where you kind of lose your voice. But I remembered that Russian professor, I fell back, I gathered myself, I looked him right in the eye and I said...(Speaking in Russian). He fell back startled and looked at me. And an interesting thing happened, you know, up until that point the Soviet team had called all their plays verbally. (Laughter) Not only did they stop calling their plays verbally, but they stopped talking to each other on the court and we won the Gold Medal. (Applause)

You know we're all reading in the newspapers these days about the LBOs. They're pretty hot and I was just thinking coming here tonight that, you know, as parents you've always been asked, do you know where your child is tonight? Well, for all the chief executives in the room tonight, we might paraphrase that to say, do you know where Henry Kravis is tonight? And I don't know if Henry is here tonight, but you know Henry Kravis is the man who brought Third World debt to the corporate boardroom. Apologies to all those of you who had any fees connected with the most recent event. (Laughter)

Tonight I'd like to talk about a subject that is important to me and I hope will be important to you. And it deals with the whole issue of international trade, competitiveness, financial aspects of all of that. The United States is the world's largest debtor. If our trade deficit doesn't fall, by

1993 US external debt will reach 25% of GNP. That means that we will owe the world more than the value of all buildings, machinery, factories and equipment in all the manufacturing industries in America. We simply can't continue accumulating debt at current rates and retain control of our economic destiny. Our children's future is at stake.

Given these massive trade deficits, some people think we should protect domestic industry by cutting imports. But if the US cut imports enough to eliminate the trade deficit, worldwide demand would fall by an amount greater than the total output of Mexico and unemployment would skyrocket. To avoid paying the bills of the 1980s with as staggering global recession in the 1990s, the US simply must increase exports.

For US exports to rise, for the world economy to grow, for the benefits of technology to spread, world trade must expand. But the increase in trade barriers, the spread of discriminatory regulation, the emergence of unprecedented trade imbalances and the decline of economic policy coordination during the 1980s have eroded the confidence in the trading system and indeed the confidence in the general agreement of tariffs and trade. This loss of confidence has given protectionist politics a boost as politicians retreat from a belief in the competitive marketplace to the delusion of economic isolationism.

Restoring confidence in the multilateral system won't be easy. Current trade talks designed to bolster the gap have only increased US trade isolation. Some US politicians call for a series of bilateral trade agreements. European negotiators preoccupied with 1992 internal market reform won't discuss even eventual elimination of agricultural trade distortions. In developing countries, unconvinced that negotiations help with their present development needs block discussion of the US agenda, for example, on intellectual property. If multilateralism dies, and in its wake trade shrinks, everyone in all countries will be hurt. It's as simple as that.

So to strengthen the multilateral trading system, we have to break the stalemate in trade talks, reduce trade imbalances, particularly those in the US, and with a sense of urgency promote greater cooperation between developing and industrial countries. The economic interests of developing countries are in many ways the universal interests of the future. Industrial countries have capital and aging populations.

Developing countries have little capital, little capital, and the most young people, both in absolute numbers and as a proportion of the national population. In fact, most of tomorrow's workers are today teenagers in developing countries. For example, in Mexico half the population is under the age of 15. To create jobs for these teenagers requires investment and economic reform. Investment requires capital and reform requires politically painful choices. To say no to investment or reform is to perpetuate poverty, to produce social unrest, and in the case of Mexico, to guarantee a wave of illegal immigration into the United States in search of jobs.

Only with assurance of access to industrial country markets, of low interest rates, of stability in the world economy will a developing country leader be likely to take the political risks necessary with economic reform. Only if capital flows to developing countries now will they be able to grow enough to support through debt repayments or their own investments the burgeoning ranks of the industrial country retirees in the years ahead.

Yet disputes on debt, intellectual property, services, agricultural, steel subsidies, investment and safeguards prevent cooperation between the young, developing countries and the aging developed world. Even successful trade talks couldn't restore confidence in the trading system if current trade imbalances persist. The biggest trade imbalances are between Pacific Rim countries because their policies are the least coordinated, US/Korea, US/Japan, etc. Yet more than any other part of the world the nations in the Pacific Rim depend on the health and strength of the multilateral trading system. Trade has made the Pacific Rim the only part of the post-war world to evolve successive generations of high growth economies. These economies' dependence on the multilateral system makes them natural allies of any effort to reinvigorate it.

Therefore, tonight, to reach the plateau of worldwide, the next plateau of worldwide prosperity I propose the US support a Pacific Coalition for economic growth and democracy. Now the coalition should start small. Only a small group of countries is likely to reach substantive agreement on the tough economic issues dividing nations today. Adapting the form of the Group of Seven industrial countries, the Pacific Coalition should include the largest GATT members in the Pacific with equal numbers of developing and developed countries. For example, the United

States, Japan, Canada, Australia, Mexico, South Korea, Indonesia, and Thailand. Drawing on my previous profession, let's just call that group the PAC-8.

The Pacific Coalition I propose, it's a microcosm of the world. As a diverse group committed to strengthen the multilateral system, the coalition would be far more than a regional block. It includes two members of ASEAN, a newly industrializing economy, creditors and debtors from developing and industrial countries. Some of the countries are aging, others are bursting with teenagers. It includes manufacturing countries at all stages of development. It includes one OPEC and one non-OPEC oil exporter. Its members control most of the principal currencies of the Pacific. And, of course, they all trade with one another across the Pacific.

The coalition's mission should be three-fold. To reinforce the Uruguay Round by building consensus on trade issues. Two: to ensure greater economic policy coordination among countries around the Pacific Rim. Three: to remove obstacles to developing country growth. To grapple with the full range of trade and economic policy coordination issues, the coalition's members should involve trade ministers, finance ministers, central bankers in the dialogue. The coalition should set itself an agenda to meet the three-fold mission. It should start negotiating a consensus position on agriculture trade and present it to GATT. It should establish a Pacific currency regime to reduce yen-dollar volatility. And it should negotiate a framework to work out debt problems such as Mexico's.

Now let me describe these tasks. First, the dominant task should be to strengthen the multilateral trading system. The process should begin with a statement by each nation of what it wants out of the Uruguay Round. Some would emphasize services, others dispute settlement mechanisms, others agriculture, maybe some natural resource trade. I believe there's a potential for substantial agreement on agricultural trade even though the coalition includes consumer countries and both tropical and temperate producers. Just think, though, a consensus proposal from this diverse group of Pacific traders on agricultural trade would galvanize the Uruguay Round.

The second task on the agenda should be to move toward greater Pacific economic integration. The coalition could promote stable Pacific economic growth and better policy coordination through rules for exchange rate management and policy surveillance. A currency regime that improved the ability of the US and Japan to manage speculative swings of the yen-dollar rate would reduce currency volatility throughout the Pacific and make Pacific business conditions more predictable. The coalition could sponsor perhaps a basket of Pacific currencies for countries that want to peg exchange rates without distorting trade. Better Pacific currency management would send clear warning signals of inconsistencies in Pacific countries' economic policies. For example, movements of a country's exchange rate outside a relatively agreed upon zone, for example, would warn that its economic policies could disturb trade balances. Corrective actions could be taken before distortions get worse. The real payoff, though, of a Pacific currency arrangement would be greater policy discipline and economic coordination in the area.

The third task on the agenda should be to create closer partnerships between the developing and industrial countries. This requires case-by-case reduction of Third World debt. The Pacific Coalition would be in a unique position to do this by linking interest rate relief to investment and trade liberalization in developing countries. This linkage generates capital for the developing country immediately and in the long run.

Let's take Mexico as the case. The coalition could sponsor negotiations to reach consensus on the amount of debt Mexico's economy can sustain without sacrificing reasonable growth targets. It would also need to reach agreement on the amount of relief Mexico's current reform programs require. Once negotiations arrived at a consistent figure, they could structure an interest rate or debt reduction proposal which would free up capital in Mexico for domestic investment. As economic reform took hold, more capital would flow from abroad and the combination of more capital and economic reform would bring long-term economic growth. Success in Mexico could serve as a model for other Pacific countries, maybe the Philippines, Costa Rica, maybe Ecuador.

In pursuing this three-fold agenda, multilateral trade, economic policy coordination, and developing country growth, the Pac-8 would address major interests of each of its members. Agricultural trade liberalization is critically important for Thailand, Australia, and the United States while natural resource trade liberalization addresses the needs in Mexico, Canada, and Indonesia. Better exchange rate management is especially important to Japan, Korea, Canada, and the United States. Linking debt relief to trade and investment liberalization addresses concerns in Mexico, Indonesia, the United States, and Japan.

US cultivation of closer Pacific economic ties should scrupulously avoid trade actions that in any way disadvantage Europe. Europe's Economic Unification Project deserves our support, but we have to recognize that the sheer weight of Europe's legislative requirements will preoccupy their trade negotiators at least into 1992. It makes sense then for the United States to pursue other efforts at economic coordination while the European community works out its new rules. Indeed, greater US involvement in Pacific economic affairs could even result in a decrease in trade tensions between Europe and the Pacific Rim as more and more countries saw the potential for a more integrated and open economic system.

The Pacific Coalition offers a strategy to meet the most pressing problems in the world economy. If we ignore these problems, terrible crises could impoverish hundreds of millions of people, destroy democracy, and lead to massive social unrest. The potential of the Pacific Coalition to reinvigorate the Uruguay Round stabilized Pacific trade and bridged differences between industrial and developing countries all serves critical US economic security interests. It also shows the rest of the world the path to the next wave of worldwide economic growth.

Americans have often sought our destiny by going west. Now our destiny calls us to go where West meets east. It calls us not to use gunboats but ideas. Not to dictate but to listen. Not to conquer but to lead. Lead in a new way toward uniquely American objectives which if achieved bring a better day for all the world's entrepreneurs and all the world's children. Thank you very much.

Chairman Rand V. Araskog: Thank you Senator Bradley. I think we can all see why now as a senator that old nickname he had as an athlete, Dollar Bill, has taken on new meaning. I would now like to introduce our second speaker of the evening, the Honorable Jack Kemp, who has been a leading architect of the economic and many of the political policies of the Reagan administration. He also has written two books, one, *An American Renaissance,* and the other, *The American Idea.* He has served for 18 years in the Congress of the United States. He has been on the Appropriations Committee through much of that time and has been the Senior Member of the Foreign Operations Committee of the Appropriations Committee. He also has a tremendous record in human rights, participating in the Helsinki Commission, has fought for the rights of children and education. He also is an outstanding athlete. I think most of you know that in 1964 and '65 he led the Buffalo Bills to league championships and in 1983 was awarded the Gold Medal by the National Football Foundation and The Hall of Fame for leadership on and off the field. It gives me great pleasure tonight to introduce the Honorable Jack Kemp.

The Honorable Jack Kemp

Congressman, State of New York

Thank you very much. Thank you. Well, Rand, thank you very much for that introduction. Ladies and gentlemen, I am delighted to join my colleague, Bill Bradley, in addressing the Economic Club of New York. This is my second opportunity to do so, and I would recall, for those of you who perhaps either did not notice or were not here, I had the opportunity on December 4th ten years ago this month to address this very club on the subject of fighting inflation and stagnation by cutting marginal income tax rates. And I can remember that night a gasp went over the audience. There was no applause. It wasn't very popular frankly. Henry Kaufman could hardly finish his meal. Gerry Corrigan rushed down to the Open Market Committee of the Fed to announce that there was a wild man loose in New York suggesting that you could fight inflation by cutting tax rates. It was quite unorthodox at the time. And while I'm not going to stand up here and say that I told you so, I must say how pleased I am to be back. That in and of itself says a lot.

I'm particularly pleased to be here with Bill Bradley, my favorite Democrat. And let me say with a great degree of honesty and sincerity that I think Bill Bradley, with all due respect to our friend Carla Hills, I think Bill Bradley would have been a very, very fine United States trade representative for the Bush administration. I wish he'd picked you, Bill. I hope that Carla doesn't know that I'm saying this, but I think Bill Bradley speaks for all of us when he suggests that this country has a vital stake in the growth, not only of our own country and the developed world, but the Third World and the less developed world as well and his concern for democracy and free enterprise and trade worldwide is admirable. And I can't imagine it was basketball that did it. I played football. I mean football is capitalism. I don't know what basketball is. They play basketball in sneakers. You play football in cleats. They run around the basketball court in shorts. You play football in a uniform with shoulder pads and thigh pads and...Basketball players get free throws. Quarterbacks throw bombs.

I want to say not only is it a pleasure to be here and to be with a lot of old friends and some new friends, but also to recognize Ambassador Whittlesey, Secretary of State Muskey, my old colleague from the Congress and the now the President of New York University, John Brademas, and Ed, it's a great pleasure to see you and John, and Faith, it's a pleasure to be in your company. And I want to thank the New York Economic Club for inviting me back, just ten years later.

I want to make one other invitation. I want to invite Bill Bradley to join the Republican Party. I mean it's about time. (Applause) Now wait a minute, now look, if you're for free trade and low tax rates, and global economic growth, and you're an anti-protectionist, anti-isolationist, anti-pacifist Democrat, there's only place for you to be, and that's in the Republican Party. Because very frankly, our friends on the other side of the aisle have switched, and you see the debate going on in the world. For instance, in Canada, isn't it interesting that the US-Canadian Free Trade Zone was negotiated by a Conservative Republican president and a Progressive Conservative leader of Canada, Brian Mulroney. And it was the Liberal Party of Canada – Liberal, the word means to be free and generous and open – and isn't it interesting that a Liberal

Party member in Canada would make the most outrageous statements against trading in our hemisphere that have been made in any political campaign. And who won? The people voted-in a Progressive Conservative leader like Brian Mulroney, and they endorsed, I think you could say, that that was an endorsement of the Free Trade Zone ideas of Mr. Mulroney and Mr. Reagan.

And I want to endorse the Bradley idea. Only I would extend it. I would extend it. Why let in Australia, New Zealand, and Mexico, and Japan, and who else...Singapore, Thailand, United States and Canada. How about Taiwan, and how about the PRC, and how about Hong Kong, and how about all of the countries of Central America. Why not have a worldwide trading regime? Europe is moving towards a common market and common trading block with a common currency, the European currency unit. The United States and Canada are going to expand their Free Trade Zone and trading block into Latin America and that's very important. Asia is moving in that direction. And I would suggest, Bill, that you and I ought to get together and maybe form a new party if that will make you happy and work on a new international monetary and trading regime in which there is open and free trade across borders and I am convinced that that would do more to bring the type of prosperity and relief of debtor nations that you've been talking so eloquently about for so long. But I do applaud you for your comments and it's about time you either join us or run for president and do it yourself. I mean you just can't do it from the Senate. (Applause)

My speech is not formal, as you can tell. I gave a formal speech one time and I was so humiliated. It was at the Republican Convention and I got up and I read a 10-minute speech off my tele-prompter. I thought I did a pretty good job and walked out on the floor of the convention on Monday night, and a woman came running up to me and she said, “Congressman, your speech was simply superfluous.” And I said, “Well, thank you.” She said, “Do you think it will ever be published?” And I’m a wise guy so I said, “well, probably posthumously.” And without batting an eye she said, “I can hardly wait.” (Laughter)

My remarks will not be published. But I share with my colleague, Bill Bradley, and I think I share with each and every man and woman in this room, a common belief in the power of ideas. Hugo said, “An idea whose time has come is the most powerful force on this earth.” And isn’t it interesting that as I came in today to the Hilton Hotel from La Guardia – I’ve been out in Wisconsin giving a speech – for no money – (Laughter) I came in from La Guardia, from the airport to the hotel and it was about 11:45. And there was no traffic on the other side of the highway and the General Secretary of the Soviet Union, Mikhail Gorbachev, was in this incredible motorcade. It wasn’t 40 cars, it was 140. And I was in a lonely, little limousine, winding my way through the streets of New York. And I saw this very powerful Soviet Union leader. And things flash through your mind. I thought what a portentous time it is for the world to have his visit, to listen to his comments. I think we have reason to be skeptical in many ways. A 5,000 or 10,000 reduction of tanks leaves 51,000 main battle tanks in the Warsaw Pact country against about 21,000 by NATO. But nonetheless, the speech itself was indeed a change that is, to those of us who are looking for those signals, very important indeed.

Ideas do matter. You read Commentary magazine this month and look at their celebration of the global expansion of Democratic capitalism in Third World countries as well as European countries who a number of years ago had been told by Jean-Jacques Servan-Schreiber that free enterprise was not the road to economic development, that huge spending projects and huge government investments and giant military industrial complex was the way to go.

The IMF and the World Bank for a number of years have had the idea that economic development was government-induced. And I want to recall once again standing up here in December of 1978 and suggesting that there was nothing standing in the way of the development of an economy, either Third World, or less developed world, or developed or industrial world, other than bad political leadership. That good policies led to good results. That bad policies would lead to bad results. And electing the best men and the best women and getting the right Parliaments, getting the right policies, there were no limits to the ability of countries to grow. Not Anglo countries, but any country, developed or undeveloped. The right policies were reported. That there was no inevitability, historical inevitability, of decline. That there was no reason for a recession. There was no reason for a depression. I came through the airport, looked at the book, at the sales of some of the most popular books in the non-fiction area and I saw Ravi Batra's book up there right at the top of the list, *The Depression of 1990.* Another one was Paul Erdman, *How to Prepare for the Crash of 1989.* Of course, he's the author of, *How to Prepare for the Crash of '85, and '86, and '87.* And he's going to get it right sooner or later.

Paul Kennedy, you've all read Paul Kennedy's new book, *The Rise and Fall of Great Powers.* Isn't it ironic, isn't it ironic indeed my friends that at the very time that there's a celebration of democracy and free market economics in most of the world that we get a book suggesting that we are in the midst of perhaps a decline of a great power and he's not talking about 16th century Spain or 19th century Great Britain. He's talking about the United States of America. And it's the Soviet Union that's in decline. It is the Soviet Union that is reaching out for credit and capital and technology and markets and access to the West. And it is the United States that's once again helping to lead the world with those ideas that Bill Bradley articulated so well. And while we may disagree on the last election and we may disagree over our parties, we have a fundamental agreement that ideas are powerful tools, that it is not gunboat diplomacy that matters, it is the example that a country sets in showing other countries the road to prosperity and democracy and literacy and erasing poverty that so many of you have seen firsthand throughout the world.

I recall ten years ago, ten years ago, this year, Bill Steiger, a young Wisconsin Congressman advocated cutting capital gains tax. Probably you don't remember but the top capital gains rate in America was 49 percent in 1978 before Bill Steiger and a broad coalition of Democrats and Republicans had the audacity to suggest that we should cut the capital gains tax rate. Now that's interesting. John F. Kennedy in 1960 advocated cutting the capital gains tax rate by 50%, not to line the pockets of the rich but to encourage the entrepreneur, the men and women of ideas to go out from a large company and start their own company. And today that's been happening for at least six or seven years to an extent unparalleled in our age.

In fact, when Mrs. Thatcher was here a couple of years ago before her most recent visit, she said to Dick Gephardt and I who were showing her through the House chambers, “how is it possible that the United States and you Yanks,” she said, “could establish the conditions for such an entrepreneurial revolution?” And I suggested there was something, that it had something to do with dropping the top tax rates. And Bill, I give you a lot of credit and I take some of it and I give Ronald Reagan some of the credit because he took a lot of heat suggesting back in 1981 that we ought to go from 70 down to about 25. And he was joined, I mean Bill Bradley thinks he did it, and I think I did it, Reagan probably was going to go to California thinking he did it. But that’s the beautiful thing about an idea. That is. We all can share it. (Applause) That’s the beautiful thing about an idea. They’re not one person’s. They belong to anybody who can share in that type of an idea.

And I want to stress this point again. Nothing is inevitable. There is no historical process at work that suggests that our economy has to go into a recession. Nor is there anything inevitable about economic growth. It takes good policy. Bill brought up some of the ideas. But I again want to recall what we came through ten years ago. I remember, and I’m not picking on the administration of ten years ago, but I remember one leading economist who said in the 13% rate of inflation in 1978 and 1979, that inflation is caused by a number of factors that act and interact in very strange and mysterious ways. That was his contribution to the debate over inflation.

(Laughter) I would use his name tonight but it would embarrass. We had another economist not too far from New York University who suggested that we could fight inflation by learning to ride bicycles to work. That the answer to inflation was to live with less.

We didn't even know what was inflation, much less how to conquer it. I remember Fortune magazine, ten years ago again this month, doing an article. I can't say whether it was this month or not but it was in 1978. They did a cover story on inflation. And they had economists on the right and economists on the left. They had Friedrich von Hayek and Alan Greenspan on the right. And they had James Tobin and...it wasn't you Henry...on the left. (Laughter) I told Henry Kaufman he was not going to like my speech tonight because I was going to make him feel good about the American economy. (Applause)

And Hayek and Greenspan on the right and Tobin on the left basically came to the conclusion that the cause of inflation was democracy because there were too many people in our democratic system who were trying to live better than their parents and this constant pressure on the resource base of the earth was bidding up prices and it was democracy that was at fault. And we had to find some way to impose restraints on the people's desire to live at ever-increasing levels of prosperity.

How do you, what would you say to the 50% unemployed in Mexico, that all of a sudden the United States of America decided that we were going to fight inflation by holding down our growth and our trade? What were we going to say to the countries of Central America who were desperately attempting to cope, not only with a Marxist threat, but also the poverty threat, or in Africa or Asia? Indeed, what do you say to economists who tell us that we're operating at 5.2% unemployment, that we're operating at 83.5% of our plant capacity? Therefore, any more growth in the economy above 2.5% will engender inflation and we've got to micro-manage our economy at right around 2% growth notwithstanding the fact that this country has grown for 40 or 50 years since Harry Truman brought us out of World War II on an average of 3% per annum. And we've been through recessions and inflations, we've been through periods of economic problems.

In fact, if you went back to the indebtedness that this country faced after World War II, you would have said it was an impossible task to lead America out of that period. Twenty-five million men coming out of uniform, 120% of our gross national product was debt. The deficit was 40%. Not 3% which it is today, 40% of our gross national product was the deficit. Tax rates, I forget what they were, but I would imagine somebody in the room would recall that the top corporate rate was in the 50s, maybe even higher. I don't know what the capital gains rate was, but the personal rates were probably in the 90% range.

And a combination of Harry Truman and Robert A. Taft, Mr. Republican, helped bring them down somewhat, took off the excess profit tax. We began to grow again. And we grew out of the debt. We established the conditions for an incentive in the economy for production. We established the conditions for a freer world trading system by joining the Bretton Woods system in an international monetary regime with stable exchange rates which Bill Bradley is tippy-toeing towards. He's tip-toeing towards it. He talks about managed, flexible exchange rates which is the oxymoron of the night. But I know he's just embarrassed to say it. But he's going to do it, I guarantee he's going to do it because he's intellectually honest and he recognizes that you can't have a world trading system with every country trying to beggar thy neighbor by manipulating their currencies.

I think this is an exciting time. We've come through our 72nd month of non-inflationary economic growth. It isn't everything that Jack Kemp wants it to be, or you Henry, or you Bill, or anyone in this room. There's lots of things that need to be worked on. But I want to suggest tonight that I think that these problems are resolvable, just as they were in 1978 when we were told by both the right and the left that our problems were insurmountable, that our problems were insurmountable, that they were historical and demographic and political reasons why we had these endemic problems.

A young man in 1978 wrote a book, *The Way the World Works*. He suggested that we should remove the barriers that stand in the way of entrepreneurs and savers and workers and producers. Ronald Reagan, in 1980, ran for president suggesting that we could grow our way out of inflation. And I want to suggest here tonight that we can grow our way out of the deficit. Now you say, well, Kemp, we've heard that from you before. You promised us that in 1981. Ladies and gentlemen, and I'm sure this will come up in the questions, the first order of political leadership is not to micro-manage the budget of the United States. We can hire Dick Darman to do that. (Laughter) Leadership in a country, whether it's Gorbachev in the USSR or Mrs. Thatcher in the UK or Chancellor Kohl or Francois Mitterrand who today has turned his back on socialism and has begun to celebrate profit and incentives and privatization, Brian Mulroney, Edward Seaga in Jamaica, Rafael Hernandez Colon, a Liberal Democrat who got elected to Governor of Puerto Rico, moving towards a flatter tax in Puerto Rico, Felix Houphouet-Boigny in the Ivory Coast, Botswana, Hungary. And then you can look at countries that have gone the other model and see the juxtaposition of sound policies leading to good results, bad policies leading to bad results.

Of course, deficits matter. Of course they matter. But as Herb Stein wrote the other day in either The Wall Street Journal or in The Washington Post, I forget which, he said, "Sure deficits matter but so do aircraft carriers. So do tax rates. So does monetary policy. So do exchange rates. So does education." All of these things matter. And the purpose of leadership is to make the pie bigger. Robert Samuelson in Newsweek two weeks ago, he's not a Conservative Republican. He said we've got make the pie bigger. We've got to make it bigger not only in the United States. We've got to make it bigger throughout the world. And that's, I think, what Bill Bradley was saying. So I want to offer my modest, little suggestions for making the US economic pie bigger and the world economic pie bigger. And here they are and then I'll look forward to answering or discussing with you some of the questions that will be asked.

Number one, let's keep in perspective our deficit and our debt. We're not a debtor nation. It's an outrage to suggest that the United States ranks up there with Mexico in its indebtedness. It's a bookkeeping tactic to suggest at book value the United States investment in other countries is represented at book value while other countries are represented at the market level of their investment. If you took the market rate of US investments in overseas, we would not be a net debtor nation. We'd be still in the creditor position.

Number two, we should not raise taxes to balance our budget. George Bush had it right when he suggested we should put a freeze on spending, the growth of spending, and we should prevent a tax increase. Indeed, he suggested that we ought to cut the capital gains tax. I've heard it suggested that we have to do something...(Applause)...I've heard it suggested that we need to do something about all these leveraged buyouts and this accumulation of corporate debt. I've got an answer to it. Make equity investment more attractive in comparison to debt investment and that means cutting the capital gains tax and stopping the double taxation of dividends. In fact, I'd abolish the capital gains tax in the South Bronx and Bedford-Sty and Harlem and Downtown Liberty City, Miami, and Watts, Los Angeles. If you want to unleash the entrepreneurs in the minority community, take off the capital gains tax on any man or any woman of any color who wants to go down into Downtown Harlem or Bed-Sty or South Bronx and I'll put in my own city of Buffalo in there, and I can pick a lot of Watts around this country, and let's bring back the men and women who create jobs. Government doesn't create growth. It is done by entrepreneurs, and there again Bill Bradley is right. We need a global entrepreneurial revolution.

Finally, free trade zones with Mexico, Latin America, and in our hemisphere let's celebrate what Europe is doing in 1992 and let's ask them to join in a currency union, global currency union. And I'm not suggesting that I have the perfect stabilization rate for the dollar-EQ or the dollar-yen, but let's work towards a more stable exchange rate system.

And finally, let's get men and women at the World Bank and the IMF and the International Bank of Settlements and the United States Agency for International Development who understand that the purpose of political leadership is economic growth and opportunity and removing the barriers that stand in the way of entrepreneurs creating jobs and men and women producing income so they can feed their children and do what this country did for the last 200 years, waged war on poverty by following the advice of a Professor of Moral Philosophy. Now can you imagine, here we are in 1988, celebrating a global recovery of free enterprise around the world and it wasn't Reagan's idea, it wasn't Kemp or Bradley, it wasn't George Gilder or Jude Wanniski or Robert Mandell or Henry Kaufman or David Rockefeller. It was a Professor of Moral Philosophy at the University of Glasgow who published his thesis, An Inquiry Into the Nature and Cause of the Wealth of Nations. He was not an economist. He was a Professor of Moral Philosophy who believed that freedom was an inalienable right of all men and all women. And he suggested that you could develop nation's economies, not Anglo economies or industrial economies or First World economies. He suggested any economy, Black or White or mixed or as pluralistic as ours, Third World, developed world, hot climates, cold climates, any nation that practices incentives for working, saving, investing, and producing sound honest money, open trade, free trade, insofar as that is politically possible, private property, and yes, democratic markets as well as democratic politics could develop prosperity.

Ladies and gentlemen, the good news of 1988 here on the 10th anniversary of my revolutionary speech to the New York Economic Club is it works. We know what works. And to know what works, as empiricists and pragmatists as we all are, and to fail to follow it would be a mistake of a lifetime. But to do the right thing, we will lead this country and this world into that Golden Age of democracy and free enterprise and prosperity and the war on poverty and an end to illiteracy and an end to the type of disease and it'll even creep behind the Iron Curtain as it has into Deng Xiaoping's China. That's good news. That's good news. Even Henry Kaufman has to admit that that's good news. Thank you very much.

QUESTION AND ANSWER PERIOD

CHAIRMAN RAND V. ARASKOG: Thank you very much Congressman Kemp. We're going to go very quickly into questions and answers. Our distinguished questioners tonight are Mr. Hank Greenberg, the President of American International Group, and Mr. Robert Van Buren, the Chairman and Chief Executive Officer of Midlantic Corporation. We'll begin with Mr. Van Buren.

ROBERT VAN BUREN: Thank you Rand. I think as a constituent it's appropriate for me to direct my first question to my senator, Senator Bradley. Senator Bradley, the deficit is the top economic priority on everyone's list of issues for President-elect George Bush. And most agree that a combination of expense reductions and revenue enhancements will be required to do the job. If we have all read his lips correctly, Mr. Bush does not intend to reduce the deficit through an increase in personal or business income taxes. As one of the architects of the Tax Reform Act of 1986, would you agree that an income tax increase should be avoided as a means of raising revenue at this time. And if so, how would you raise additional funds? And looking at the other side of the equation, what budget programs have you identified that could be cut to limit or reduce federal spending?

THE HONORABLE BILL BRADLEY: The answer to your question is yes. Well, that's a long question and it deserves a long answer, but I'll try to make it brief. We're all waiting in Washington for the read of the most popular mystery book in Washington which will be George Bush's budget. And the real question is what will the President propose? I think if he makes a serious proposal Democrats will be at the table. I think he won the election in part, whether it's in large part or not is debatable, but he won the election in part because he said no new taxes. So from the standpoint of a Democrat let's put taxes over on the side. Don't expect the Democrats to come forward with taxes. We lost the election. And we're not going to come forward with taxes. What we want to see is Vice-President Bush's budget. Now the only clues we have for what he might propose is what he said in the campaign. He said no new taxes. He said he would not touch Social Security. He said he wanted to spend more for defense. He said that he wanted to be the Education President and since 6% of the education dollars come from the federal government, that implies more revenue. He said he wanted to clean up the environment and I know everybody in New Jersey expects the oceans to be clean next year after he ran that Boston Harbor ad for three weeks in the campaign. And he says he wants a kinder, gentler nation, particularly with regard to young people in our cities. And in addition to that, he's got to deal with the savings and loan crisis that is meandering down the road. And then on top of that, there are nuclear storage facilities that are leaking and threatening the public health and safety. And therefore, I, and a lot of other people who are bipartisan, not just Democrats, want to see the President's budget. Now if he submits a budget that deals only with spending cuts, I think that then you'll find the Democratic Congress in a negotiation with the President on what spending and how much spending, and you'll get only spending cuts. If he really had lunch with Rostenkowski last week and asked him to float the idea of a gasoline tax when he left the White House to see how many people respond to the idea of a gasoline tax, and he therefore puts a gasoline tax in his budget, then you'll find, I think, the Democrats responsive to a revenue increase along the lines of a gasoline tax. But it all depends on George Bush's budget. I personally would not want to see individual income tax rates raised. I think that we still have to see the full effects of this '86 reform and I think it would be precipitous to raise individual income tax rates. Now, you know, you might think that that's a kind of real politique answer, and maybe it is, but we're kind of living in that kind of world now. The President leads, or should, and the President leads on fiscal matters by proposing a budget. If he proposes a serious budget, he'll get serious responses from the Congress, negotiation, and action. There's a part of me that wonders if he is going to be serious with the budget. There's a part of me, and I will say this is the very small side of me that is cynical, and it's very, very small, the side of me that says, well, maybe he's not going to really do much on the budget deficit. Maybe he's going to assume that we can kind of live with the deficits for a while. We can continue to borrow from abroad, that indeed maybe the dollar will depreciate in value further. We'll be poor relative to other countries. But people will feel relatively secure. And with the major effort of convincing the public things are all right, things will be all right. I don't know. That's the very small side of me that is cynical. The hopeful side of me is that side that has talked to enumerable numbers of George Bush's friends who have said, you know, in the campaign, you know, he was just in a campaign, and wait until you see his first budget. It's going to be a serious document. And so we're waiting to see the first Bush budget. (Applause)

HANK GREENBERG: Congressman Kemp, of course, you answered most of our questions I think, but I have one or two others. It's been argued by many that the American people do not save enough. Hence, we have to rely on borrowing from abroad. What would you do to encourage more savings? And do you think the tax code as currently structured provides sufficient incentive for savings?

THE HONORABLE JACK KEMP: Well, I think this question, I think this question fits somewhat to the question that was asked to Bill Bradley. Because the theory is that the deficit is crowding out savings and I would suggest that taxes crowd out savings. And that raising taxes, be they income taxes or consumption taxes, will come out of the real disposable income of the American people and savings must come from real disposable income. I personally believe that the savings rates are distorted again by definition because we don't count corporate savings. We don't count retained earnings. We don't count the increase in the capability of our pensions. We don't count Social Security. We don't count home ownership. I think the answer to the savings rate is to keep income tax rates down, and I would suggest cutting the capital gains tax for gaining more revenue. I want more revenue. I just don't want to raise taxes to do it. I think you get more revenue by cutting the capital gains tax down to about 15 and indexing it. And my view is that the most important thing we can do to handle the budget deficit is make sure this economy grows fast enough to service our debt and that's particularly important for Third World countries. And I think the tax-free savings accounts are wonderful but my approach would be to make sure that the income tax rates go down from say 33 to 28, the capital gains rate goes down, and we stabilize our dollar, bring interest rates down and make sure that we have people who are willing to stand up to statements like this that were made recently by the Federal Reserve Board which suggested that the economy is at its full employment level. Unemployment is at 5.2%. Factories are at 83%. And we cannot grow faster than 2.5% or it will engender inflation. In other words, if we keep the economy from growing too fast, it will get interest rates down which will let the economy grow. Which reminds me of my favorite New York Times editorial which recently said Congress should cut the deficit to prevent a recession, don't cut the deficit too much or it'll cause a recession. The deficit is 3% of gross national product. It needs to come down. And it seems to me the way to bring it down is not with raising taxes, it is to put a freeze on the growth of spending at about 4% to answer that price increase and then continue the revenues which are growing, ladies and gentlemen, at 6% to 7%. Revenues will go up by $90 billion in 1990. But if we panic right now and we put a tax increase on that slows down our economy, revenues will not go up. They'll go down. And I think this should be the lesson of the last eight years. So make sure income tax rates are low and don't punish savings by making it more attractive to borrow. (Applause)

ROBERT VAN BUREN: Senator Bradley, during the ten years that you have been a US Senator you have made a concerted effort to gain a better understanding of the cultural, political, and economic systems of the countries such as the Soviet Union that impact the United States. And you have stated that one of the challenges that Mr. Bush will have to face early in his administration will be to establish an open dialogue with Mr. Gorbachev. The Soviet leader has built a reputation as an innovator and a tough and powerful negotiator whose charismatic leadership and flare for public relations are well known as we've all witnessed here the past few days. From your experience, what do you think are the principal issues on Mr. Gorbachev's agenda? And what type of initiatives can we expect from him in these early meetings between these two world leaders?

THE HONORABLE BILL BRADLEY: Well, let me say first that I think he is a different kind of Soviet leader. I think he has the potential of being the most significant Soviet leader since Lenin.

I think that he assumed power in 1985, looked out at a Soviet Union that was in a fundamental state of disarray. Rising infant and adult mortality rates, 13% of the deaths due to bad water. Corrupt at its core, not simply in the normal sense of criminality, but in the sense of people losing faith in the possibility that the system would deliver a better standard of living for their children. And he decided he was going to do something dramatic. We have come to know what he has done – the words perestroika, glasnost, and democratization. I think that the speech he just gave at the U.N. was striking in its boldness. I think that his proposal on the 500,000 unilateral troop reduction was surprising and welcome. Of course, it will mean more if those are concentrated in Europe as opposed to the Defense Ministry, but I nonetheless think that it was a very significant proposal. But it is a proposal that we should have expected was coming. And we should have expected that it was coming because of the internal dynamic of perestroika. Frankly, not to toot the horn, but last summer at the Press Club, I thought that indeed he would come forward with a conventional force reduction proposal. I thought it would be joint. I didn't think it would be unilateral and we could bank it. And the reason that he is, in my view, is that if you talk to the reformers, they say that if they succeed, the result is that economic criteria become dominant in the allocation of resources in the Soviet Union. If economic criteria become dominant in the allocation of resources in the Soviet Union, then they don't need a million troops in Eastern Europe. In fact, because they have a manpower shortage and real need for capital, they need them in the Soviet Union in order to make the system function, particularly in the reform mode. So, you know, this was predictable. I predict that in the next 18 months, he'll come back with a further reduction. Only this one will require negotiations and that's where it will begin to get ticklish. Imagine, you know, that we're dealing with somebody who sees things in a little different way than we have anticipated Soviet leaders saw things. Imagine who he surrounded himself with. Now one of the people he surrounded himself with and who knows if he's got the ear, is Mr. Yakovlev. A little background, Mr. Yakovlev was a graduate student at Columbia University in '59 and '60, Ambassador to Canada for ten years, a student of America so-called. He doesn't really like America. He believes that America is controlled by the military industrial complex. He believes that America's power in the world derives from our ability to project military power. Therefore, he would argue that if Mr. Gorbachev became less overtly hostile, less threatening to the world, if the Germans and the Japanese and others felt less threatened by the Soviet Union, then that could very well lead to a diminishment of American power in the world. Now I don't know if that is the ideology that flows into the strategy that makes Mikhail Gorbachev come to the U.N. and unilaterally propose a reduction of 500,000 troops. But I do believe we're dealing with a leader who thinks in different categories than heretofore we have experienced a Soviet leader thinking in which means we have to be ready and understand. If he comes forward with a proposal for conventional force reductions, we have to be at the table. Strategic weapons, we have to be at the table. In terms of economic relations, I'd argue we should be rationale capitalists that maximize profit and not romantic capitalists that simply invest for reasons other than pure economic grounds. For example, I think I have some experience with romantic capitalists. They used to own basketball teams. And they would pay people money that they really couldn't, at the end of the day, make much money on but they'd do it for a variety of reasons. They wanted to have breakfast with Kareem Abdul-Jabbar. They wanted Bradley to come to the school or whatever. In the Soviet Union my sense is that there are some people, primarily in Europe at this stage, who are romantic capitalists, who when they do the numbers aren't going to make any money but they're still willing to throw the money away. So many times my Soviet opposites will say to me in a discussion, when I say, well, I think this part of reform will work and that part of reform will work, they'll say, hey, wait a minute, Bradley, we're not doing this for you. We're doing this for us. And ultimately Mikhail Gorbachev will succeed or fail. He'll either reform the economy, decentralize, put a price mechanism in, all of the things that are talked about overtly in the Soviet Union now, because he was able to work the system effectively and accomplish that. Not because of anything we've done. So we are in a new environment and we're dealing with, I think, a formidable adversary. It could be a tremendous asset that would lead to a better future or it might not. It's too early to tell. I'll tell you one thing, though, we have to understand how hands-on he is. And just one anecdote, today he went back to the Soviet Union because of the earthquake in Armenia. And members of the press immediately said, well, is he going back because Akhromeyev resigned or because there's a crisis...No, he went back because he's a hands-on leader. How do I know he's a hands-on leader besides the bold strokes he's made since he's taken over? Last January I was in Baku and Tbilisi. Baku, Azerbaijan, Tbilisi, Georgia. When I go to these places I like to talk to the ___, find out what's on their mind. I was talking to the First Party Secretary of Georgia who told me that the year before in January there were some natural catastrophes in Georgia. There was an avalanche, flooding, a lot of people died. And during the month of January and the first week in February, every day Gorbachev personally called him. How are you doing? What do you need? Things coming along? What can I do to help? We'll get this down to you. What about that? He personally was managing the crisis and demonstrating his concern to his political people, the Governor essentially of Georgia. And there was no doubt in my mind why he went back. He went back because he's got a natural catastrophe in one of the most valuable republics in the Soviet Union. So how should we deal with him? That's your question, Bob? My thought is that we need to be flexible enough to think about how we take advantage of the openings and wise enough to make sure that in fact they're openings. Thank you. (Applause)

HANK GREENBERG: Senator Bradley, another question. Could you summarize for us the initiatives you've proposed on Third World debt? Has the situation improved in your view? And what is the outlook given the fact that the world economic growth is generally slowing down?

THE HONORABLE BILL BRADLEY: Out of respect for Jack Kemp and the lateness of the hour, I will not summarize what my Third World debt proposal is. I see enough heads bobbing in the back now. I will try to do it as succinctly as possible. Basically that we need to provide some room for these countries to grow. They need capital. They need to make investment. If they don't make investment, they don't create the jobs. In Mexico, where half the population is under the age of 15, the result of not creating the jobs is a wave across our borders. So I've argued for a number of years we ought to provide interest rate relief, leverage that for liberalization of trade and investment in these countries. That's the nub of the proposal. It can take many different forms. But once again looking at the Gorbachev speech, what did Gorbachev come to the U.N.

and call for? He called for essentially some form of debt relief, right? Now this is Mikhail Gorbachev who is the leader of a system that no Third World country has opted for in the last 15 years. They've all opted for the dynamism of our system. But we've got a problem. You can't lead if you have a debt policy that doesn't recognize legitimate aspirations of the people living in those countries for jobs now and growth, and that requires investment. So that's the nub of my thought, and I don't want to take all the time because I know Jack wants to speak. And I just want to say, because I might not get the opportunity after the next question is asked, Jack...no, no, not because of Jack, but because I have a time problem here. I just want to say that, Jack, I don't hold it against you because you cast dispersions on basketball, but I would like to point out that it was a big, tough football player who spent the whole night picking on little Henry Kaufman. (Laughter)

ROBERT VAN BUREN: Congressman Kemp, you touched on this briefly a minute ago. But the announcement last week of the record buyout of RJR Nabisco continues the trend of mega-corporate LBOs. According to one recent study, US banks have loaned more than $100 billion to finance LBOs so far this year accounting for almost 60% of all major corporate loans. Do you see any dangers in the expansion of LBOs? And if so, what ways would you recommend that this activity be controlled?

THE HONORABLE JACK KEMP: Keep Congress out of it. There could be problems and I am not an expert so I'm not going to suggest that I have the total answer because I don't. And I don't know if any man or woman in this room does, including the best of the minds. But I would suggest that the marketplace is far better able to deal with these than our Washington bureaucrats and I would suggest the most important thing we can do is to make equity, capital, and investment more attractive vis-a-vis debt. And the way to do that is to stop double taxing dividends at the high rate and we tax – the corporate rate is 34 and we tax income at 33, some at 28. And capital gains tax rates are too high. So I think the combination of lower tax rates on dividends and a lower tax rate on capital gains would tend to make equity investment more attractive than just debt. And I can't pass up – I know we've got to get out of here – you guys are going to keep us all night long. That's what you're saying about Kemp and Bradley. I want to close just by suggesting that you can't pass up the opportunity to realize that Mr. Gorbachev is not making these decisions in a vacuum. America is stronger. Our alliances, despite the problems, are stronger. Our defenses are stronger. And there is something about that message of peace through strength that President Reagan talked about in 1981. And I know whether you voted for him or not, as he retires I think someone at least ought to stand up and say, how much we owe to the true last lion of the 20th century, not Winston Churchill, but Ronald Wilson Reagan, our President, who helped make some of these historic changes that are going on around the world. Thank you very much. (Applause)

CHAIRMAN RAND V. ARASKOG: Well, Senator Bradley and Congressman Kemp, we want to thank both of you and our questioners for one of the really exciting evenings for the Economic Club of New York. I might tell the membership that for the last five meetings we have averaged well over 1,000 people in this room and it's really, I think, good for the club to show the kind of participation, due to people like this that we have that kind of participation. There's just one last thing. Senator Bradley has to catch a plane and rather than to make a normal activity out of this, I'm going to say to each of our speakers, we're going to send the traditional Big Apple, and we will do that on behalf of all of you and thank you again very much.

END OF MEETING