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FEDERAL RESERVE BANK BOARD October 6, 1976

You have invited me to talk with you about the changing nature of intergovernmental relations.

OURS, WE ARE OFTEN REMINDED, IS A THREE-TIERED SYSTEM OF GOVERNMENT.

But, we cannot discuss the changing relationships among the three tiers -- Federal, state and local -- without considering, first, the changing nature of our national economy. For, in the final analysis it is the state of our economy that dictates how that relationship will work.

As Professor Harold Hill said, in "The Music Man":

"We've got a great band! Splendid uniforms! Now, if we could only afford instruments, we could teach the band how to play."

SO THE PRIMARY REQUISITE IS A STABLE, GROWING NATIONAL ECONOMY, SUPPORTED BY COMMERCIAL EXPANSION AND PRODUCTIVE EMPLOYMENT -- SO WE CAN AFFORD THE INSTRUMENTS OF INTERGOVERNMENTAL PRODUCTIVITY.

For, as any student of the urban condition knows, the economic ills that beset a nation strike first and hardest in the poorest in the poorest in the poorest in the poorest is are the last to feel any vistages of national economic upturn.

INDEED, NONE OF US HERE WILL FORGET OUR RECENT ECONOMIC HISTORY. WE ALL RECALL TOO WELL THAT IN 1975, THE MAJOR QUESTION-MARK WAS WHETHER OUR NATIONAL ECONOMY WOULD SUSTAIN THE FORWARD MOMENTUM WHICH WAS THEN ON THE CUSP OF A POSITIVE TURN-AROUND -- FROM THE BLEAK AND DEPRESSING 12-MONTH PERIOD OF A TERRIFYING RECESSION COMPOUNDED BY UNCEASING INFLATION.

INFLATION STOOD AT 12-14 PERCENT. THE UNEMPLOYMENT RATE WAS ABOUT 9 PERCENT.

URBAN REVENUES WERE WAY DOWN. NEW YORK WAS ON THE BRINK OF FINANCIAL FAILURE. INDUSTRY WAS DEPRESSED AND THE HOUSING SECTOR WAS SUFFERING ITS WORST YEAR IN 3 DECADES.

HERE WE ARE, ONE YEAR LATER.

THE NATION AND ITS ECONOMY SURVIVED -- AND THE DELICATE HEALTH OF THE ECONOMIC UPTURN, WHICH WE WATCHED SO FRETFULLY A YEAR AGO, HAS BECOME STRONGER AND STRONGER WITH EACH PASSING MONTH.

IN ONE SHORT YEAR WE HAVE SEEN:

Personal income jump \$83 billion; our Gross National Product grow by \$200 billion; tax revenues of state and local governments are up 11 percent. TODAY, THERE ARE 3 MILLION MORE AMERICANS WORKING THAN ONE YEAR AGO -- IN SPITE OF A TREMENDOUS INFLUX OF WOMEN AND YOUNG PEOPLE INTO THE LABOR MARKET. AND INFLATION HAS BEEN MORE THAN CUT IN HALF.

WE HAVE COME THIS FAR, IN MY VIEW, NOT THROUGH THE MAGIC OF A BIG FEDERAL GOVERNMENT "SAVE", BUT THROUGH THE STRONG AND CONSISTENT GUIDING HAND OF A PRAGMATIC PRESIDENT -- ASSISTED AND SUPPORTED BY PRIVATE ENTERPRISE.

PRESIDENT FORD HAS NOT ONLY PROVED THE SOUNDNESS OF HIS ECONOMIC COURSE, HE HAS SET THE TONE FOR A NEW NATIONAL AWARENESS THAT AMERICA'S WISDOM DOES NOT RESIDE ENTIRELY IN THE CORRIDORS OF CONGRESS -- THAT OUR STATES AND OUR CITIES ACROSS OUR DIVERSE LAND VERY OFTEN CAN DEVISE BETTER SOLUTIONS FOR THEIR INDIVIDUAL PROBLEMS THAN CAN CONGRESS WHICH DEALS IN NATIONAL STATISTICS AND DEVISES GRAND SOLUTIONS THAT TOO FREQUENTLY MISS THE MARK.

IN SHORT, PRESENT DISSATISFACTION WITH GOVERNMENT IS BASED IN LARGE MEASURE ON THE ABSENCE OF SOUND AND COORDINATED INTERGOVERNMENTAL ACTION.

THE GREAT AMERICAN ESTABLISHMENT THAT MEANS "WASHINGTON" TO MOST PEOPLE -- WITH ITS VAST ARRAY OF CONGRESSIONAL COMMITTEES AND SUBCOMMITTEES, PRESSURE GROUPS AND OFFICIAL LOBBIES -- HAS SOMEWHERE LOST TRACK OF THE FACT THAT PROGRAMS FOR THE PEOPLE CAN ONLY BE JUDGED ON HOW WELL THEY SERVE THE PEOPLE.

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The Federal government can not answer the needs of the people simply by legislating new programs with fancy titles and highflown statements of purpose. Nor can it deliver the promise of America Just by throwing money at problems.

IT WORRIES ME THAT WE STILL HEAR CALLS FOR THE FEDERAL GOVERNMENT TO SUBSIDIZE THE BUILDING OF 2.5 MILLION HOUSING UNITS A YEAR.

PURSUANT TO THE HOUSING ACT OF 1968, THIS NATION SUBSIDIZED, ANNUALLY, WITHOUT REGARD TO THE MARKET NEEDS OF PARTICULAR AREAS, MORE THAN 2 MILLION HOUSING STARTS FOR THREE YEARS RUNNING -- AND GENERATED A BURST OF HOUSING OVERPRODUCTION THAT WE ARE STILL TRYING TO WORK OFF.

IN THE COURSE OF THIS PRODUCTION EXPLOSION OUR NATION ABANDONED THOUSANDS OF SOUND, WELL-DESIGNED HOMES IN OUR CITIES AND UNDER-UTILIZED ROADS, UTILITIES, AND SEWAGE SYSTEMS ALREADY IN PLACE THERE, AS BUYERS HEEDED THE PIED PIPER CALL OF "NEW IS BETTER". NEIGHBORHOODS WERE BLIGHTED WITH ROW UPON ROW OF BOARDED-UP HOUSES. But the Federal government is what the American people have made it. It has grown to fit the expressed will of the electorate. Many of its functions and many of its agencies have survived the voters and the legislatures which put them into being. Many have outlived their usefulness, yet carry on under the protection of strong special interest groups -- or voting blocs -- or simply because not enough people cared.

IT TOOK A LONG TIME, AND A LOT OF LEGISLATION TO CREATE THE PRESENT TANGLE, AND IT IS NOT GOING TO CHANGE OVER NIGHT, REGARDLESS OF CAMPAIGN RHETORIC.

SINCE THE START OF HIS ADMINISTRATION TWO YEARS AGO, PRESIDENT FORD HAS TAKEN STEPS TO IMPROVE THE FOCUS AND DELIVERY OF FEDERAL ASSISTANCE TO OUR STATES AND URBAN CENTERS.

ON JUNE 30TH, THE PRESIDENT APPOINTED A CABINET-LEVEL COMMITTEE ON URBAN DEVELOPMENT AND NEIGHBORHOOD REVITALIZATION, WHICH I CHAIR, TO UNDERTAKE A COMPREHENSIVE REVIEW OF ALL FEDERAL PROGRAMS WHICH AFFECT OUR URBAN AREAS; TO CONSULT WITH LOCAL OFFICIALS AND COMMUNITY GROUPS REGARDING HOW FEDERAL PROGRAMS IMPACT ON COMMUNITIES, AND TO PROPOSE TO HIM STATUTORY AND ADMINISTRATIVE CHANGES FOR IMPROVEMENT.

OUR INITIAL REVIEW OF THE AMASSED DATA QUICKLY CONFIRMED WHAT WE ALREADY SUSPECTED.

OVER THE PAST HALF-CENTURY, SUCCEEDING CONGRESSES HAVE ENACTED SO MANY SEPARATE CATEGORICAL PROGRAMS THAT IT DEFIES THE INGENUITY OF ANYBODY TO DEVELOP A COORDINATED STRATEGY FOR A CHICAGO, A LOS ANGELES, A CLEVELAND, OR A PHILADELPHIA.

IN ADDITION, THERE ARE SO MANY SUPPLIERS OF FEDERAL FUNDS WITH SO MANY DIFFERENT SCHEDULES, RULES, AND REGULATIONS THAT IT IS A PRACTICAL IMPOSSIBILITY TO DESIGN AN EFFICIENT URBAN PLAN IN OR OUT OF WASHINGTON THAT WILL GET THE MOST OUT OF THE FEDERAL DOLLAR.

I HAVE REVIEWED 103 FEDERALLY-FUNDED PROGRAMS WHICH AFFECT OUR URBAN AREAS AND WHICH CARRY A PRICE TAG OF ROUGHLY \$50 BILLION A YEAR. SIXTY-THREE OF THESE ARE DIRECT GRANT PROGRAMS -- OF WHICH ONLY 4 ARE BROAD BLOCK GRANT PROGRAMS WHICH GIVE SUBSTANTIAL DISCRETION TO LOCAL OFFICIALS. THE OTHER 59 FUND PROJECTS IN THE NARROW CATEGORIES FAVORED BY CONGRESS. THE REMAINING 40 ARE MISCELLANEOUS LOAN PROGRAMS.

SIGNIFICANTLY, LOCAL GOVERNMENTS ARE ELIGIBLE, DIRECT APPLICANTS IN BARELY ONE-FOURTH OF ALL THESE PROGRAMS WHICH PRIMARILY AFFECT LOCALITIES.

ALL OTHER PROGRAM FUNDS ARE DISTRIBUTED TO THE STATES OR TO SPECIAL-PURPOSE LOCAL AGENCIES.

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I DO NOT WISH TO FLATTER A LOCAL AUDIENCE BY POINTING TO THE SUPERIORITY OF LOCAL LEADERSHIP OVER WASHINGTON PLANNERS -- BUT I BELIEVE A BRIEF RECAP OF THE HUD EXPERIENCE ILLUSTRATES THE ADVANTAGE TO THE CITY, TO THE STATE, TO THE FEDERAL GOVERNMENT, AND, NOT LEAST OF ALL, TO THE TAXPAYERS, OF GIVING BROAD DISCRETION WITH FEDERAL FUNDING.

BEFORE PRESIDENT FORD SIGNED THE NEW HOUSING AND COMMUNITY DEVELOPMENT ACT INTO LAW IN AUGUST, 1974, HUD HAD 7 CATEGORICAL GRANT PROGRAMS THAT ARE NOW CONSOLIDATED UNDER OUR BLOCK GRANT PROGRAM -- EACH HAD ITS OWN SET OF REQUIREMENTS, REGULATIONS, AND TIMETABLES. WATER AND SEWERS; URBAN RENEWAL; OPEN SPACE FOR PARK DEVELOPMENT -- ALL OF THEM WELL-MEANING BUT WITHOUT ANY ALLOWANCE FOR GREATER COMMUNITY NEEDS THAT MIGHT LIE OUTSIDE OF THE STRICT SPECIFICATIONS OF THE SPECIFIED 7 CATEGORIES.

THE RESULT WAS CONFUSION, FRUSTRATION AND INTERMINABLE DELAYS -- OFTEN OUTLASTING LOCAL ADMINISTRATIONS, OR MISSING THE MOMENT FOR EFFECTIVE CORRECTIVE ACTION.

To make sense out of this morass, this Administration developed the Community Development Block Grant program. Under the program, large cities and urban counties receive unfettered funds which they spend, for their localities' most urgent community development needs.

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Regulations have been cut from 2600 pages to about 30 pages; applications from 1400 pages to about 50 pages; and review time from an average of 26 months to an average of 45 days. As compared to 1967, we are now providing twice as much funding to twice as many units of Government -- and we are doing it with fewer HUD employees.

BUT, MOST IMPORTANT, WE ARE PROVIDING LOCAL COMMUNITIES WITH VITALLY NEEDED FUNDS -- ON TIME AND IN TIME.

IT IS MY STRONG BELIEF THAT OUR CITIES CAN, AND WILL, MOVE FORWARD IF THE FEDERAL ESTABLISHMENT SHIFTS EMPHASIS FROM CATEGORICAL THINKING TO BLOCK GRANT PLANNING.

THEN FUNDING IS PUT BEYOND THE NARROW PERSPECTIVE OF SOME "EXPERT" IN WASHINGTON, WHO CANNOT POSSIBLY GRASP THE INDIVIDUAL DIFFERENCES OF THE THOUSAND UPON THOUSAND OF LOCALITIES ACROSS OUR VAST COUNTRY.

THE EVIDENCE, IN FACT, IS SO STRONG -- THAT I SUGGEST THAT A FORWARD-LOOKING APPROACH TO FEDERAL GRANT PROGRAMS SHOULD BUILD ON FOUR PRINCIPLES:

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FIRST, WE SHOULD PREFER BLOCK GRANTS TO CATEGORICALS FOR ALL THE REASONS I HAVE STATED HERE, TONIGHT -- PARTICULARLY IN GIVING LOCAL PEOPLE MORE CONTROL OVER THE RESOURCES THAT AFFECT THEIR LIVES.

Second, funding should be provided through the elected chief executive officers of states and localities both to assure coordination in the use of available funds and accountability to the people affected.

THIRD, CITIZEN PARTICIPATION SHOULD BE A RULE RATHER THAN AN EXCEPTION IN FEDERAL GRANT PROGRAMS, WHICH WILL INCREASE GOVERNMENTAL ACCOUNTABILITY, THE CORNERSTONE OF OUR DEMOCRACY.

AND, FINALLY, MULTI-YEAR FUNDING SHOULD BE THE RULE, SO THAT OUR COMMUNITIES CAN INTELLIGENTLY PLAN INTO THE FUTURE AND, AT THE SAME TIME, TAKE ADVANTAGE OF TIMELY OPPORTUNITIES TO GET THE MOST EFFECTIVE RETURN ON THEIR AVAILABLE FUNDS.

I DO NOT CLAIM THAT THESE FOUR PRINCIPLES ARE THE BE-ALL AND END-ALL FOR EVERY FEDERAL PROGRAM. BUT, I BELIEVE THAT OUR CONSTITUENCIES WOULD FARE A LOT BETTER IF THESE BECAME THE GUIDING PRINCIPLES OF FUTURE FEDERAL PROGRAM PLANNING. THESE PRINCIPLES WILL ENHANCE THE SPECIAL CAPABILITIES OF EACH LEVEL OF GOVERNMENT AND ENABLE EACH LEVEL TO BE MORE RESPONSIVE AND EFFICIENT.

For, ALTHOUGH LOCAL GOVERNMENTS ARE THE BEST SITUATED TO SOLVE LOCAL PROBLEMS, THEY ARE THE LEAST CAPABLE OF GENERATING SIGNIFICANT AMOUNTS OF REVENUE. EIGHTY-FIVE PERCENT OF LOCAL REVENUES COME FROM PROPERTY TAXES, AND WE KNOW THAT OVER- ' TAXATION OF PROPERTY ONLY SERVES TO HALT LAND DEVELOPMENT, OR ENCOURAGE DISINVESTMENT.

And, while it is the Federal government that has the most efficient means of generating revenues and setting national goals, it is the state government that brings regionalism to governmental decision-making, and provides a safeguard against inequities in local resource allocation.

IN PLANNING FOR THIS NATION'S URBAN FUTURE WE CANNOT IGNORE THE NEED TO INTEGRATE THE POLITICAL AND ECONOMIC DESTINIES OF OUR CITIES WITH THEIR SUBURBS. ONLY THE STATE CAN ACCOMPLISH THAT NEEDED FEAT OF POLITICAL-PHYSICAL CONSOLIDATION. The state legislature of Minnesota, for example, made possible the Minneapolis-St. Paul Metropolitan Council, which is charged with the coordination of community affairs in the twin-city area and has substantial responsibility for functions ranging from the placement of low-income housing to the location of sewage treatment plants.

AND IT IS BY MINNESOTA STATE LAW, THAT THE PROPERTY TAX BENEFITS FROM NEW COMMERCE AND INDUSTRY IN THE METROPOLITAN AREA ARE DISTRIBUTED AMONG ALL THE COMMUNITIES IN THAT LOCALITY.

By the same reasoning, it was the State of Indiana which enabled Indianapolis and Marion County to establish an efficient, and income-equitable, unitary government.

WHERE WE HAVE ACHIEVED A REAL INTERGOVERNMENTAL PARTNERSHIP -- AS WE HAVE IN SOME AREAS BASED UPON THE SHEER INGENUITY OF PEOPLE AT EACH LEVEL -- WE HAVE SEEN EXCITING PROGRESS. That the wind of change is blowing was clearly apparent as our President's Committee travelled to our cities over the past several months: In Boston, an energized downtown, supported both by a Government Center and the recently renovated Quincy and Faneuil Hall Markets; in Baltimore, a new convention center complex; in Annapolis, the reclamation of the harbor market; In New York, the rebirth of the old financial district -- and here, in Philadelphia, Independence Mall.

WE ALSO SAW FLOURISHING NEIGHBORHOODS -- REHABILITATED NEIGHBORHOODS FOR OUR LOW-AND-MODERATE INCOME CITIZENS; MIDDLE-CLASS ETHNIC NEIGHBORHOODS SUCH AS STIRLING STREET IN BALTIMORE AND MANCHESTER IN PITTSBURGH; AND WEALTHY NEIGHBORHOODS LIKE GEORGETOWN IN WASHINGTON, BEACON HILL IN BOSTON, AND SOCIETY HILL IN PHILADELPHIA -- EACH CONTRIBUTING TO THE ECONOMIC HEALTH AND CULTURAL DIVERSITY OF ITS CITY.

IT IS SIGNIFICANT THAT THESE TRIUMPHS OF NEIGHBORHOOD REVITALIZATION IN ALL PARTS OF THE COUNTRY -- COUPLED WITH DOWNTOWN REDEVELOPMENT MASTERPIECES -- HAVE IN COMMON ONE ESSENTIAL INGREDIENT OF SUCCESS: ALL OF THEM HAVE COME ABOUT THROUGH LOCAL INITIATIVE, LOCAL PLANNING AND LOCAL INVESTMENT. IN EACH CASE, THE PRINCIPAL ROLE OF THE STATE AND THE FEDERAL GOVERNMENT HAS BEEN SUPPORTIVE, NOT PRE-EMPTIVE.

AND BY THE NATURE OF INTERGOVERNMENTAL RELATIONS -- AS THEY HAVE EXISTED IN THE PAST -- WHO WOULD SAY THAT ANY OF THEM MIGHT NOT HAVE BEEN ACHIEVED SOONER AND LESS EXPENSIVELY IF THE FEDERAL PRESENCE, EXCEPT IN FUNDING AND NATIONAL POLICY CONSIDERATIONS, HAD BEEN FURTHER REDUCED?

NEVER HAVING HEARD THAT POINT PROTESTED BY ANY GROUP OF CIVIC LEADERS -- AND, CERTAINLY BY NO INDUSTRY DOING BUSINESS WITH WASHINGTON -- I SUBMIT THAT THESE LOCAL INITIATIVES WE NOW CELEBRATE AS "BREAK-THROUGHS" CAN BECOME STANDARD PROCEDURE FOR OUR CITIES IF PRINCIPLES SUCH AS I SUGGEST ARE ADOPTED TO STRENGTHEN INTERGOVERNMENTAL CAPACITY TO DEAL EFFECTIVELY WITH THE PROBLEMS OF OUR CITIES AS THEY EXIST TODAY.

IF WE PERSERVERE IN THE OLD MYTH THAT OUR CITIES CAN BE RUN FROM WASHINGTON, ALL OF OUR CITIES, NOT JUST THE OLDER ONES, FACE A VERY BLEAK TOMORROW.

AND "INTERGOVERNMENTAL RELATIONS" WILL BECOME JUST ANOTHER GOVERNMENT PROJECT THAT FAILED -- EXPENSIVELY. IN THE FINAL ANALYSIS WHAT WE SHOULD HOPE -- AND STRIVE -- TO ACHIEVE IN OUR RELATIONSHIP IS A PARTNERSHIP -- JOINING ALL THREE LEVELS OF GOVERNMENT WITH THE PRIVATE SECTOR, WITHOUT WHOM NO PLAN DEVISED AT ANY LEVEL CAN POSSIBLY WORK.

YOUR PHILADELPHIA MORTGAGE PLAN IS A PRIME EXAMPLE OF "PARTNERSHIP PARTICIPATION" IN URBAN DEVELOPMENT AND NEIGHBORHOOD REVITALIZATION.

Your consortium of banking, government, foundation and community leadership -- concentrating on one of the essential keys to the economic recovery of deteriorating urban areas -not only says something for the indomitable spirit of this fine old city, but it provides other cities with a needed, positive example that neighborhood re-investment does work.

AREA RESIDENTS MAY POINT WITH PARDONABLE PRIDE TO PHILADELPHIA'S NEIGHBORING AND BEAUTIFUL MAIN LINE. BUT, YOU HERE TONIGHT CAN POINT, WITH EVEN GREATER PRIDE TO PHILADELPHIA'S BEAUTIFUL INNER-CITY "GREEN LINE".

THANK YOU.