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DETROIT ECONOMIC CLUB

NOVEMBER 1, 1976

WHEN I BECAME SECRETARY OF HUD, TWENTY MONTHS AGO, ONE OF THE FIRST MAJOR TROUBLE SPOTS THAT CAME TO MY ATTENTION WAS THE CITY OF DETROIT.

THE LIST OF "WRONGS" HERE GENERALLY SQUARED WITH THE HISTORY OF MANY MAJOR AMERICAN CITIES OVER THE LAST TWO DECADES -- BUT THERE WAS A CLASSIC DIFFERENCE.

IN ADDITION TO THE CLOSE PROXIMITY OF MANY SUBURBAN AND SMALLER INDEPENDENT COMMUNITIES WHICH WERE SYPHONING OFF ITS COMMERCIAL LIFEBLOOD, DETROIT, TRADITIONALLY, HAD BEEN A CITY WHOSE VITALITY WAS ORIENTED TO SINGLE-FAMILY HOMEOWNERSHIP.

THUS, WHEREAS THE NATIONAL OUT-MIGRATION OF PEOPLE, HAD A MORE GRADUAL EFFECT ON CITIES WHICH HAD LARGER NUMBERS OF RENTAL PROPERTIES, DETROIT HAS EXPERIENCED AN EXDIOUS OF FAMILIES WHO HAVE BOTH A VESTED INTEREST AND A TAX-BEARING RESPONSIBILITY IN THE PROSPERITY OF THE CITY.

AND BEHIND THE STORY OF DETROIT'S DEEP TROUBLES IS THE SADDER STORY OF FEDERAL MEDDLING THAT TOOK A BAD SITUATION AND MADE IT WORSE.



I WON'T GIVE YOU A DETAILED HISTORY OF YOUR OWN CITY -- WHICH YOU KNOW ONLY TOO WELL.

BUT DETROIT'S EXPERIENCE CAN SERVE AS A POINT OF REFERENCE FOR MY REMARKS TODAY. FOR, PERHAPS MORE THAN ANY OTHER URBAN ENTITY, THIS CITY HAS A BASIC BREAD-AND-BUTTER STAKE IN TOMORROW'S NATIONAL ELECTION.

BUT IF YOU THINK THAT, AS A MEMBER OF THE FORD ADMINISTRATION, I'M GOING TO SUGGEST THAT DETROIT HAS THE BEST REASON IN THE WORLD TO WANT PRESIDENT FORD AS PRESIDENT -- YOU ARE ABSOLUTELY RIGHT!

AND THE BEST WAY TO START IS TO TAKE STOCK.

WHERE WERE WE A YEAR AGO? WHAT HAVE WE DONE ABOUT IT? WHAT HAVE WE LEARNED?

NONE OF US CAN FORGET 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 AN UNCEASING INCREASE IN THE COST OF EVERYTHING.



So, here we are -- one year later -- what do we find?

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; -- retail sales increase 16 percent; -- auto sales 38 percent; -- general merchandise 11 percent; -- new factory orders up \$17 billion.

Today, there are three 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.

In housing -- perhaps the hardest hit sector of our entire economy -- new starts are up 40 percent over last August, and 93 percent over the beginning of 1975.

What have we learned?

WE HAVE COME THIS FAR, NOT THROUGH THE MAGIC OF A BIG FEDERAL GOVERNMENT "SAVE", BUT THROUGH THE STRONG AND CONSISTENT GUIDING HAND OF A PRAGMATIC PRESIDENT.

AND OUR PROSPECTS FOR CONTINUED GROWTH AND PROGRESS DEPEND ON MAINTAINING THE STEADY COURSE PRESIDENT FORD SET WHEN HE TOOK OFFICE TWO YEARS AGO.

ACROSS THE BOARD, WE ARE RIGHT ON TARGET WITH OUR FORECASTS MADE AT THE BEGINNING OF THE YEAR.

WHAT WORRIES ME ARE THE REPEATED CALLS FOR MORE GOVERNMENT SPENDING PROGRAMS.

I HAVE LISTENED TO OUR OPPOSITION'S PROPOSALS THAT WOULD ADD \$100 TO \$200 BILLION TO A BUDGET THAT IS ALREADY PRODUCING A DEFICIT OF OVER \$50 BILLION. BUT I HAVE NOT HEARD HOW WE ARE TO PAY FOR THEM.

WE WILL EITHER HAVE HUGE DEFICITS OR WE WILL HAVE HIGHER TAXES. THERE ARE NO SECRET SOURCES OF REVENUES.

THEY TELL US THEY WILL BALANCE THE BUDGET.

THEY TELL US THEY WILL FIND THE MONEY BY RAISING THE TAXES OF THE UNDESERVING RICH. SOME CONFUSION EXISTS WHETHER THE RICH TO BE TARGETED ARE THOSE WITH INCOMES ABOVE THE NATIONAL MEDIAN OF \$14,000, THOSE ABOVE \$25,000, OR THOSE ABOVE \$50,000.

BUT WE SHOULD KNOW THAT ONLY 10 PERCENT OF FAMILIES MAKE \$25,000 OR MORE AND A FULL 40 PERCENT OF THEM DO IT WITH TWO WAGE EARNERS.

IF WE FOCUS ONLY ON \$50,000 INCOMES -- THEN WE MUST BE AWARE THAT FEWER THAN 5 PERCENT OF AMERICAN FAMILIES MAKE \$50,000 PLUS.

IF WE DOUBLE THEIR TAX, WE COULD ONLY PICK UP ABOUT \$20 BILLION.

IF WE LOOK FOR TAX LOOPHOLES TO CLOSE, THEN WE MUST BE AWARE THAT \$65 BILLION IN PREFERENCES GO TO ALL TAXPAYERS. \$53 BILLION GO TO PERSONS WITH INCOMES BELOW \$25,000. IF WE CLOSE ALL LOOPHOLES FOR PERSONS MAKING \$25,000 PLUS, WE COULD ONLY PICK UP \$12 BILLION -- FAR SHORT OF THE \$200 BILLION WORTH OF NEW PROGRAMS WHICH ARE GLIBLY OFFERED AS CURES TO OUR NATION'S ILLS.

THE ANALYSIS OF OUR OPPOSITION REMINDS ME OF H.L. MENCKINS
COMMENT:

"FOR EVERY HUMAN PROBLEM THERE IS A
SOLUTION THAT IS SIMPLE, NEAT AND WRONG!"

DON'T BE MISLED.

THE UNVARNISHED EVIDENCE IS THAT THESE BIG SPENDING PROGRAMS
THWART NEEDED BUSINESS EXPANSION BY DRIVING UP COSTS OF DOING
BUSINESS.

THAT HURTS THE VERY PEOPLE SUCH PROGRAMS WERE SUPPOSED TO
HELP -- WITH GREATER EXPENSES, EMPLOYMENT CONTRACTION, LAY-OFFS
AND STILL ANOTHER ROUND OF UNEMPLOYMENT CHECKS -- NOT TO MENTION
OUR CITIES.

IT WORRIES ME THAT WE HEAR OUR OPPOSITION IN THIS CAMPAIGN
CALLING FOR THE FEDERAL GOVERNMENT TO SUBSIDIZE BUILDING UP TO
2.5 MILLION HOUSING UNITS A YEAR. WE HAVE ALREADY BEEN DOWN
THAT ROAD -- DISASTEROUSLY.

FOR 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 URBAN DWELLERS HEEDED THE PIED PIPER CALL OF "NEW IS BETTER". NEIGHBORHOODS WERE BLIGHTED WITH ROW UPON ROW OF BOARDED-UP HOUSES LEFT TO DECAY.

NOWHERE, WAS THE FOLLY OF THIS GRAND FEDERAL INTERVENTION IN THE PRIVATE MARKETPLACE MORE EVIDENT THAN IN DETROIT.

BETWEEN 1969 AND 1973, HUD WAS THE DARLING -- NOT THE OGRE -- OF THE MOTOR CITY, AS IT PROCEEDED TO INSURE A RECORD 66,500 LOW INCOME MORTGAGES IN YOUR INNER-CITY -- WHICH WAS LIKE PUTTING A 600-POUND JOCKEY ON A RACE HORSE.

COMING OUT ON THE OTHER END OF THIS ECONOMIC PIPELINE WERE THE DEFAULTS WHICH KEPT MOUNTING -- HUD WAS LITERALLY SWAMPED WITH FORECLOSURES AND REPOSSESSIONS WHICH, BY JANUARY 1973, REACHED A STAGGERING HIGH OF ABOUT 1,000 A MONTH, AND BY JANUARY 1975 CREATED AN INVENTORY BACKLOG OF 12,000.

IN THE LONG RUN, THOUGH HUD AND "THE GOVERNMENT" TOOK THE HEAT AS THE "VILLAINS", THE REAL LOSER WAS DETROIT AND ITS PEOPLE.

BUT IT WAS NOT ONLY CITIES LIKE DETROIT THAT SUFFERED -- OUR HOUSING INDUSTRY -- MANAGEMENT AND LABOR -- WAS INCAPACITATED. BECAUSE AN ARTIFICIALLY PRODUCED "BOOM" CANNOT CONTINUE FOREVER, THE NEXT PERIOD, WHICH HIT US ABOUT TWO YEARS AGO, WAS ONE OF EXAGGERATED CONTRACTION TO ENABLE US TO WORK OFF THE EXCESSIVE INVENTORIES, WITH DISASTEROUSLY HIGH LAY-OFFS IN THE CONSTRUCTION INDUSTRY.

PRESIDENT FORD'S HOUSING POLICIES ARE DESIGNED TO ACCOMMODATE THE LOGICAL CALL FOR REASONABLE LEVELS OF STARTS WHILE AVOIDING THE DISASTEROUS CYCLES OF ALL OR NOTHING THAT HAVE CHARACTERIZED THE HOUSING CONSTRUCTION INDUSTRY EVER SINCE BIG GOVERNMENT GOT INTO THE ACT.

AND THESE HOUSING POLICIES HAVE WORKED. EVEN IF WE FAIL TO BUILD ANOTHER HOUSE IN 1976, THIS YEAR -- RIGHT NOW -- WILL BE THE FOURTH BEST YEAR ON RECORD FOR NEW SINGLE-FAMILY STARTS -- CURRENTLY AT 1.3 MILLION. AND MULTI-FAMILY STARTS, ALTHOUGH NOT SO QUICK TO RECOVER, JUMPED 48 PERCENT IN AUGUST AND 46 PERCENT IN SEPTEMBER WITH EXCITING JUMPS IN PERMITS SO THAT WE HAVE EVERY REASON TO BE CONFIDENT OF THEIR CONTINUED GAIN.

IT IS A CREDIT TO PRESIDENT FORD'S POLICY OF WORKING WITH -- AND NOT AGAINST -- THE MARKET, THAT THE NEW HOUSING MARKET HAS RALLIED SO WELL, WHILE AT THE SAME TIME HUD HAS BROKEN EVERY PAST SALES RECORD IN RETURNING HOMES TO USEFUL OCCUPANCY, AND HAS PREVENTED THE ABANDONMENT OF OTHERS THROUGH ITS NEW RENTAL SUBSIDY PROGRAM. OVER THE PAST 18 MONTHS HUD HAS REDUCED ITS UNSOLD HOMES IN DETROIT FROM 12,000 TO 1900 AND WE CAN SEE THE DAY OF A ZERO-BASED INVENTORY IN THE NEAR FUTURE.

RATHER THAN RE-CREATE MASSIVE SUBSIDY PROGRAMS TO EXPAND HOMEOWNERSHIP OPPORTUNITIES, WHICH TOO OFTEN FORCE TAXPAYERS TO SUBSIDIZE THEIR ECONOMIC PEERS, THE PRESIDENT ANNOUNCED IN ANN ARBOR THREE INITIATIVES WHICH HAVE BEEN UNDER STUDY IN MY DEPARTMENT FOR SEVERAL MONTHS.

THE FIRST IS TO LOWER DOWNPAYMENTS FOR THOSE WHO BUY HOMES WITH FHA INSURANCE. FOR THE TYPICALLY-PRICED NEW HOME, THE PRESIDENT'S INITIATIVE WILL CUT THE DOWNPAYMENT IN HALF, THUS HELPING FAMILIES -- PARTICULARLY YOUNG FAMILIES WHO ARE BUYING THEIR FIRST HOMES -- TO GAIN THE PRACTICAL AND PERSONAL BENEFITS OF HOMEOWNERSHIP.

THE SECOND IS TO EXPAND FHA MORTGAGE LIMITS TO COVER ABOUT 87 PERCENT OF SALES.

AND THE THIRD IS TO PROVIDE A FEDERAL GUARANTEE OF A GRADUATED PAYMENT MORTGAGE, WHICH ALLOWS YOUNG FAMILIES TO REDUCE THEIR MONTHLY PAYMENTS IN THE EARLY YEARS WHEN THEIR INCOMES ARE LIKELY TO BE LOWER. THE PAYMENTS INCREASE MODERATELY IN LATER YEARS WHEN THEIR INCOMES ARE EXPECTED TO RISE.

IN THE 1930'S AND 40'S THE FEDERAL GOVERNMENT REVOLUTIONIZED HOME PURCHASING BY INTRODUCING THE 30-YEAR FULLY-AMORTIZED LOAN WITH A 10 TO 20 PERCENT DOWNPAYMENT. YOU MAY RECALL THAT IN 1930, THE TRADITIONAL MORTGAGE WAS FOR 5-YEARS WITH A 50 PERCENT DOWNPAYMENT.

UNDER THE PRESIDENT'S GRADUATED PAYMENT PROGRAM, WE CAN CHANGE THE MARKET IN A SIMILAR WAY IN THE 1970'S. THESE PROPOSALS ARE NOT BASED ON SUBSIDIES PAID FOR WITH TAX DOLLARS -- THEY ARE INNOVATIVE METHODS FOR HELPING FAMILIES TO PAY FOR THEIR OWN HOMES.

BUT NO AMOUNT OF INNOVATION WILL WORK IF THE AMERICAN FAMILY DOES NOT HAVE THE SPENDABLE INCOME TO MAKE THE DOWNPAYMENT AND TO PAY THE MORTGAGE, UTILITIES AND MAINTENANCE.

THE ONLY SURE PRESCRIPTION FOR THAT IS THE CONTINUATION OF THE STEADY PROGRESS WHICH PRESIDENT FORD HAS MADE IN REDUCING INFLATION BY HOLDING THE LINE ON EXPENDITURES, AND IN SO DOING HE HAS CREATED THE LARGEST NUMBER OF JOBS IN OUR NATION'S HISTORY.

IT HAS BEEN MY PRIVILEGE TO SEE A NEW EFFORT BY CIVIC LEADERS, LIKE YOURSELVES, TO FIGHT AGAINST THE OLD AND EXPENSIVE NOTION THAT OUR CITIES, OUR ENTERPRISES, AND OUR LIVES CAN BE RUN FROM WASHINGTON -- WITH A NEW COSTLY NATIONAL PROGRAM FOR EVERY SOCIAL AND ECONOMIC ILL.

WE SIMPLY CANNOT IGNORE THE LESSON FOR WHICH WE PAID SO DEARLY IN THE 1960'S -- THAT NO MATTER HOW MUCH WE MAY WILL IT -- A "SOCIETY" IS NOT SUDDENLY MADE "GREAT" THROUGH WELL MEANING PROGRAMS WHOSE SOLE SOURCE OF SUSTENANCE IS THE FEDERAL EXCHEQUER.

WE ARE TOLD BY MR. CARTER AND SENATOR MONDALE THAT THEY REPRESENT A "NEEDED CHANGE" FOR AMERICA.

BUT OUR NATION CANNOT TOLERATE A "CHANGE" WHICH CALLS FOR GREATER FEDERAL EXPENDITURES WHEN OUR AWESOME NATIONAL DEBT IS ALREADY COSTING US \$100 MILLION DOLLARS A DAY IN INTEREST ALONE.

AND DETROIT, OR FOR THAT MATTER OUR OTHER MAJOR CITIES, CANNOT TOLERATE A CHANGE WHICH CALLS FOR ADDITIONAL FEDERAL MEDDLING IN ITS MARKET, ITS ECONOMY, AND ITS VERY LIFE.

SO, INDEED, THIS CITY DOES HAVE A BREAD-AND-BUTTER STAKE IN TOMORROW'S ELECTION.

AND I AM PROUD TO SPEAK UP FOR PRESIDENT FORD. BECAUSE I THINK THE PEOPLE OF OUR CITIES WILL GO TO THE POLLS TOMORROW AND VOTE FOR THE MOST IMPORTANT "CHANGE" IN NATIONAL POLICY THAT HAS OCCURRED IN MORE THAN A DECADE. AND THAT IS THE REFRESHING, HEALTHY AND NEEDED CHANGE THAT TOOK PLACE TWO YEARS AGO WHEN GERALD R. FORD BECAME PRESIDENT OF THE UNITED STATES.

THANK YOU.