ISSUES IN PERSPECTIVE

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Detroit: A Metaphor for America

Detroit is the largest American city ever to file for bankruptcy. *The Economist* summarizes the details: Its long-term debt is estimated to be $18.2 billion ($27,000 per resident). Of this amount, about $9.2 billion is in unfunded retirement benefits. Since 2008 the city has spent about $100 million more each year than it has brought in. Attempts to solve these monumental challenges have been hampered by a feeble-economy, a shrinking population and rapidly increasing "legacy costs." Property-tax revenues have declined by 20% since 2008; income tax revenues by 30% since 2002. Fifty years ago the city was rich: GM, Ford and Chrysler made nearly all the cars sold in America. Detroit's population was 1.8 million people. Today, it is 700,000—many of those are poor and poorly educated (e.g., 82% have no more than a high school diploma). The entire city comprises a massive 140-square-mile area. In addition, the American car industry competes globally and Detroit no longer makes even a majority of those cars. Detroit's leaders have run up debts to serve a shrinking population—debts that population, through its taxes, can never pay. Those debts have forced the city to raise taxes and cut services. So much city revenue has had to be diverted to creditors and pensioners that there is practically nothing left to run the city. For example, 40% of the streetlights do not work; 67% of the parks are shut down and emergency police response time averages nearly an hour—if it comes at all.

- First of all, how did this mess develop? Where were the leaders of Detroit? Columnist George Will reflects on the role of Kevyn Orr, Detroit's emergency manager appointed by Michigan Governor Rick Snyder. Orr is a Washington bankruptcy lawyer and is basically optimistic that Detroit can renew itself. Orr speaks of "bureaucracy on steroids"—for example, "more than two dozen layers of approval for planning and zoning" exists in Detroit. Each layer provides an opportunity for cronyism and corruption. His explanation for the unsustainable pensions and other promises made to unionized city employees is: "IBG, YBG—I'll be gone and you'll be gone when the reckoning arrives." The city has 47 unions that it must negotiate with, including one for crossing guards—"government negotiating with government-employees' unions that are government organized as an interest group to lobby itself to do what it wants to do." Past corruption in Detroit was real. For example, the former mayor, serving time for an incredible range of fraud, extortion and racketeering, did not act alone. Columnist Charles Krauthammer observes that "The legal corruption [of Detroit] was the cozy symbiosis of Democratic politicians and powerful unions, especially the public-sector unions that gave money to elect politicians who negotiated their contracts—with wildly unsustainable health and pension benefits." As Krauthammer concludes, "It doesn't take a genius to see what happens when the entitlement state outgrows the economy upon which it rests. The time of Greece, Cyprus, Portugal, Spain, the rest of insolvent social-democratic Europe—and now Detroit—is the time for conservatives to raise the banner of Stein's Law ['If something cannot go on forever, it will stop.']. You can kick the can down the road, but at some point it disappears over a cliff."

- Second, Detroit raises some rather profound issues that must be addressed by our leaders—at the local, state, and especially the national level. Many American cities and states face a looming crisis: How to fund generous pension and health-care promises that are no longer affordable. In Detroit, for example, government employees could retire as early as 48 with "gold-plated pension and health-care packages." The underlying economics of pension funds have deteriorated over the past 40 years. Americans are living longer and there are fewer workers working to support them. By 2025, there will be an estimated 106 million Americans 55 and over, nearly a third of the total population, up from a fifth in 2000. Economist Robert Samuelson asks us to consider these issues:

    1. Swelling pensions. Not only are they increasing as baby boomers retire, but they are vastly underfunded. In 2012, promised benefits for state and local pensions exceeded fund assets by $1 trillion. This estimate assumes an 8% return, but if the more realistic return is 6% the unfunded liability is $2 trillion.
    2. Costlier Medicaid. States cover about 40% of the expenses of this health insurance program for the poor, and spending could increase by 87% from 2012 to 2021. An aging population and Obamacare are the primary drivers. Medicaid already consumes 20% of states' general funds, the highest share for any program except K-12 education.
    3. Weakening tax bases. Since 1980, state and local tax revenues have increased an average of 6% annually, but it is expected to drop to 4.5% in the next decade.
    4. Eroding federal grants. States receive 34% of their funds from the national government, including Medicaid's federal share. Deficit reduction imperils grants for both states and localities.

Obviously, this looming crisis requires some very hard choices and decisive leadership. Medicaid expansion is on autopilot. States and localities are losing control of their budgets. Pensions and health care benefits for their retirees are out of control and powerful government-employee unions make it almost impossible to solve these budget problems. At the state and local levels, it is literally becoming the choice between schools vs. nursing homes. Samuelson concludes, "We need a better balance between workers' legitimate desires for a comfortable retirement and society's larger interests. Instead, our system favors the past over the future." But what are our leaders doing? As Krauthammer suggests, "Reactionary liberalism simply cannot countenance serious reform of the iconic social welfare programs of the 20th century [Social Security, Medicare, and Medicaid]. Nancy Pelosi and Harry Reid are pledged to their inviolability." President Obama gives lip service to the need to address these needed reforms, but gives no leadership in doing so. In fact, he has added one enormous entitlement to the government offerings (his health care law) and has proposed another one (universal preschool education)!!! We live in a culture where, it seems, no one is responsible—but at some point, someone will have to pay. Detroit is an extreme, but if we do not soon address these ominous issues, it might become the norm.

See Charles Krauthammer at www.washingtonpost.com (25 July 2013); George Will at www.washingtonpost.com (1 and 5 August 2013); Robert J. Samuelson at www.washingtonpost.com (4 August 2013); and *The Economist* (27 July 2013), pp. 23-26.