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Mackinac Center: Making the case against the 'grand bargain' for Detroit

By Michael D. LaFaive
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Proponents of a $195-million Detroit bailout, Gov. Rick Snyder chief among them, pitch the gift as part of a "grand bargain" to get the city back on its feet.

Lawmakers who represent voters outside Detroit, however, are hesitant — and with good reason. A public opinion poll commissioned by the Mackinac Center and conducted by Mitchell Research & Communications in April found that likely voters oppose the bailout by a 49%-44% margin. Among Republican voters, the gap grows to a 55%-38% margin against the state's proposed contribution to a deal in which several foundations and the Detroit Institute of Arts are contributing to shore up pensions and save the museum's art.

State lawmakers have put together an 11-bill package to accompany the bailout.But there are many reasons for the state not to bail out Detroit.

First, it went bankrupt "openly and notoriously," to quote Detroit emergency manager Kevyn Orr. State and city officials were warned of the city's impending fiscal problems as early as 2000, and did little of substance to help Detroit avoid bankruptcy.

Second, it is unfair. Michigan taxpayers were not responsible for the failed oversight of Detroit. The Motor City fouled its own nest and should be required to clean it up. The opportunity cost of bailing out the city means that money can't be spent filling potholes or on other important needs that would benefit the entire state.

Third, the city has already been "bailed out" with other special favors from Lansing. The state, for example, spreads a portion of its tax revenue among municipalities through revenue-sharing. Though the city has raised concerns about not getting the revenue-sharing it has been promised, Detroit collects 58%of the discretionary portion of state revenue-sharing, or the Economic Vitality Incentive Program,despite claiming only 7% of the state's population. The state also permits special taxes on casinos and utilities in Detroit that no other city enjoys, and in 2010, legislators changed borrowing rules so that Detroit could take on another $250 million in debt.

Among the demands the recently introduced bills make is that all new City of Detroit employees be enrolled in a 401(k)-style defined-contribution retirement plan. The current defined-benefit plan is substantially underfunded. Detroit's employees should not be among the city's biggest creditors, and this reform ensures that, in the future, employee retirement benefits get paid as they are promised.

Romain Blanquart/Detroit Free Press
Legislators listen at the state Capitol on Thursday as Detroit retirees talk about the impact of Detroit's bankruptcy on them.

There are claims that the transition costs associated with such a reform may make it fiscally imprudent. Not true. The accounting guidelines that opponents call transition costs are avoidable, and these guidelines do not dictate funding. In the long run, 401(k) plans are less expensive. If a grand bargain is to be approved,this change is vital to reduce the sting of forcing taxpayers everywhere to rescue Detroit. But a state bailout shouldn't be necessary.

No one is saying that Detroit is not a vital part of Michigan or that it does not contribute to the state's overall economy, but the numbers show that it already receives a disproportionate amount in return. Many have deemed the paintings at the DIA to be "hands-off," while continuing to hold out both hands.

But selling just one painting — Bruegel's "The Wedding Dance" — could bring the city up to $200 million; that's $5 million more than everyone else is being asked to fork over. Such a bold step would show that Detroit has some skin in the game and is serious about fixing the mess it created.

A Detroit bailout is a bad proposition for taxpayers statewide. If legislators do force the grand bargain on Michigan, they must get the reforms they seek — pension reform in particular.

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