

The Detroit News

THE FINAL WORD

Detroit can't postpone economic reform

Here are five ways the city can restore prosperity and avoid state receivership

BY MICHAEL D. LaFAIVE

Detroiters are on the cusp of voting for mayor, and they may call for a changing of the guard. Regardless of the outcome, the winner must recognize that his victory brings with it a sobering challenge.

Detroit's decline has been reported since 1961, when Time magazine printed a full-page story on the subject, and the downward spiral has only accelerated, with Detroit now ranked as the poorest big city in the United States, according to figures released Tuesday by the Census Bureau.

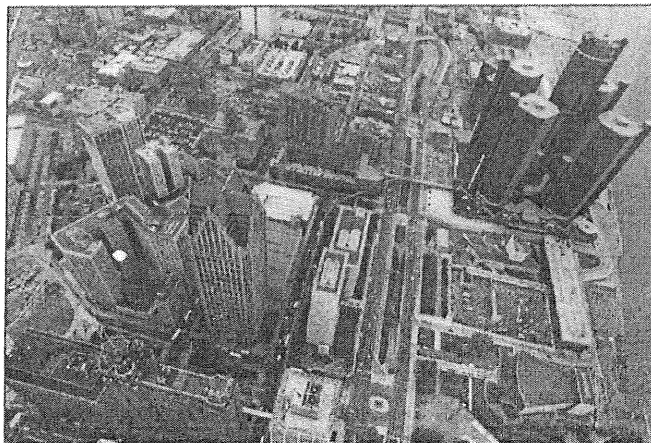
The next mayor must make fundamental changes to Detroit's economic landscape. Appalling public services, sky-high tax burdens and suffocating business regulations have chased people, entrepreneurial talent and financial capital away from the Motor City for five decades. It would not be a stretch to say several Detroit mayors were the best economic development officers Oakland County ever had.

The following are five recommendations for returning prosperity to Detroit.

■ Accelerate reductions in the city income tax. Add no new or higher taxes to the already sky-high tax burden. The city of Detroit maintains an excessive tax burden that weighs on citizens and job providers alike. According to a study prepared by the Washington, D.C., Finance Department, Detroit was the eighth highest-taxed city in the country for a family of four making \$50,000 in 2003.

■ Contract city services to competitive private firms with proven track records. The city should conduct a "Yellow Pages" review of the services it provides — that is, it should ask: If you can find it in the Yellow Pages, should city government really be doing it? Whenever private companies can perform a particular activity, the city should either stop producing it or provide it through competitive bidding.

Between 1991 and 1998, Indianapolis saved more than \$550 million by applying this Yellow



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Detroit faces a shortfall of \$300 million in its \$1.4 billion budget.

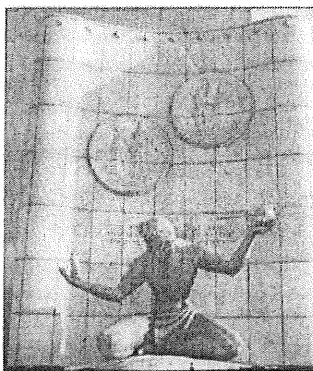


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The city could save money by selling its bus service and letting a private company run it, the Macklinac Center proposes.

Pages test to more than 75 city services. The research literature on privatization shows that with adequate guidelines, private contracting can be effective and avoid cronyism.

■ Dramatically downsize the city bureaucracy, now one of the largest per capita in the Midwest. The use of private contractors should allow the city to decrease its bureaucracy substantially. Through fiscal 2005, Detroit maintained a complement of about 18,600 employees, yielding a resident-per-city-employee ratio of just over 48-1. By contrast, Indianapolis maintains a ratio of about



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Detroit could attract more businesses by accelerating its income tax cuts, says the Macklinac Center.

203-1. Detroit's poverty makes this gap inexcusable.

■ Sell assets, such as underused buildings and equipment, and use these one-time revenues to reduce debt and finance unfunded retiree health care obligations. The city of Detroit is sitting on a mountain of untapped assets. For example, the city could sell its electricity-generating department to the highest bidder. It could also sell its bus fleet and contract the operation of its bus system to a private firm. It may even be able to sell its water department, which the Macklinac Center for Public Policy estimated in 2001 could fetch more than \$1.7 billion.

■ Reduce the regulatory burden on city businesses to a level similar to comparable cities. Detroit operates a Byzantine maze of regulations that blanket nearly every facet of private enterprise. For instance, movie theaters in Detroit must submit to an annual city building inspection. This is in addition to a fire inspection, and this regulation is only one of many that add both time and cost to a Detroit theater's business operation.

Indianapolis, by contrast, requires no annual building inspections for theaters and has a generally milder regulatory regime. Not coincidentally, Indianapolis, with a population of 784,000, is served by 17 theatres with more than 160 screens. Detroit is a city of less than 900,000 and is served by only two theaters with 16 screens.

There is more the next mayor can do to help the city, of course. He should focus Detroit's resources on fighting crime and tell Detroit's families that their children matter by welcoming philanthropist Bob Thompson's proposed investment of \$200 million in charter schools for Detroit.

But the five steps outlined here would help reverse the "Decline in Detroit" that Time magazine described in 1961. They would change the city's economic climate, rather than hoping once again for economic development from high-profile building projects like the Renaissance Center, which was sold in the 1990s at a fraction of its original value.

Real reform can't be postponed. If Detroit's decline persists and the city's financial problems continue, the state may be forced to appoint an "emergency financial manager" to run the city under Public Act 72 — an ignominious end for the mayor and Detroit itself.

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