



## Detroit's Dilemma Tests Lansing's Leadership

By Michael LaFaive

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### Summary

Bailing out Detroit with state dollars is unfair to Michigan taxpayers, but if legislators insist on pursuing such a plan, they must make sure to get much needed pension reforms in the Motor City.

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Selling just one painting, such as Bruegel's "The Wedding Dance" from the Detroit Institute of Arts, would bring the city \$200 million, which is \$5 million more than what it would cost the state to bail out Detroit.

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 in April found that likely voters oppose the bailout by a 49-to-44 margin. Among Republican voters, the gap grows to a 55-to-38 margin against the bailout.

In response, state lawmakers have put together a 10-bill package to accompany the bailout, including significant pension reform.

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 employee retirement benefits get paid as they are promised.

Opponents have already mounted a defense, claiming that the "transition costs" associated with such a reform is reason enough to scuttle it. Not true. The accounting guidelines that opponents call "transition costs" are avoidable, and these guidelines do not dictate funding.

This change is vital to reduce the sting of forcing taxpayers everywhere to rescue Detroit, but there remain many reasons not to bailout the city.

First, it went bankrupt "openly and notoriously," to quote 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 some other important need 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." Detroit collects 58 percent of the

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optional portion despite claiming only 7 percent 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 Detroit could take on another \$250 million in debt.

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 as "hands off," while continuing to hold out both hands.

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

A Detroit bailout is a bad proposition for taxpayers statewide for these reasons and more. If legislators do force this "Grand Bargain" on Michigan, they must get the reforms they seek — pension reform in particular.

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**Michael D. LaFaive is director of the Morey Fiscal Policy Initiative at the Mackinac Center for Public Policy**, a research and educational institute headquartered in Midland, Mich. Permission to reprint in whole or in part is hereby granted, provided that the author and the Center are properly cited.

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Please contact:

**TED O'NEIL**

Media Relations Manager

140 West Main Street

P.O. Box 568

Midland, Mich. 48640

Phone: 989-631-0900

Fax: 989-631-0964

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