



## How Detroit failed

By: Michael Tanner, Senior Fellow at the Cato Institute  
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Free markets and limited government are to blame for the largest municipal bankruptcy in US history. That is the new meme to explain Detroit's plight.

Former Michigan Gov. Jennifer Granholm blames "free trade" for the decline of Detroit's auto industry and thus the city itself.

New York Times columnist Paul Krugman suggests that "for the most part the city was just an innocent victim of market forces."

Yet other cities, such as Pittsburgh and Cleveland, that have struggled with the same challenges have managed to bounce back or at least stay afloat. And auto manufacturing continues to thrive in states such as Alabama and Tennessee. As for "small government" being to blame, one has to go back 52 years to find Republicans in control of Detroit's government.

No, one has to look elsewhere for the reasons Detroit hasn't been able to recover from its troubles.

The most obvious candidate is the city's vast unfunded pension programs, which have been running deficits for years. Fully 99.6% of the city's retiree health-care liabilities are unfunded, and the program generally pays 80% to 100% of retirees' medical costs. From 2007 to 2012, the city's two biggest pension programs paid out \$3.3 billion more in benefits than they took in through contributions or investment income. Unfunded obligations account for \$9.2 billion of Detroit's \$18 billion debt: \$3.5 billion comes from the pension part and \$5.7 billion comes from the retiree health-care liability.

In many ways, Detroit is a model of tax-and-spend liberalism. The city's per-capita tax burden is the highest in Michigan. Detroit has the country's highest property taxes on homes, the top commercial property tax and the second-highest industrial property tax.

A few years ago, the nonpartisan Bay Area Center for Voting Research rated Detroit as the most liberal city in America. The city's own choices, not free markets and limited government, are really responsible for Detroit's failure.