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INTERVIEW: Randal O'Toole on Detroit's crisis and the American Dream

By: Danny de Gracia- June 25, 2013

The decline and bankruptcy of Detroit may be remembered in history as one of the most tragic moments in public policymaking. Once an industrial powerhouse and a symbol of American progress, today's Detroit is impoverished and scattered with tens of thousands of vacant properties, many of which are in severe disrepair.

As the nation continues to worry about the financial health of so many other American cities, lessons learned from Detroit's regulatory and tax regime can help other city councils and state legislatures avert future planning disasters. Cato Institute senior fellow and world renowned policy expert Randal O'Toole shared his analysis of Detroit and what it means for America's future in an exclusive interview.

Danny de Gracia: *The dire fiscal situation in Detroit is really a terrible moment for the American Dream. What do you think are some of the important policy or market lessons that other city councils and state legislatures around the United States can learn - and if possible, avoid - from Detroit's experience?*

Randal O'Toole: The most important lesson from Detroit is that cities should live within their means. Detroit's \$15 billion debt required annual payments that consumed much of the city's income. Cities should not borrow unless they have a guaranteed revenue stream – not a speculative one – that can repay the debt without eating into other city services.

DDG: *There seems to be a tendency among many policymakers that public infrastructure spending can drive economic prosperity. Is that true? Can a city spend itself into success?*

O'Toole: The Interstate Highway System was a fantastic piece of infrastructure that allowed people to greatly increase their mobility at higher speeds, lower costs, and increased safety. However, too many politicians believe that *any* infrastructure spending will automatically create the same benefits.

Projects such as the Woodward Avenue light rail are slow, expensive, and not particularly safe, and thus will create no new mobility or other economic benefits.

Interstate highways worked because they were paid for by user fees and without borrowing. User fees are a symptom that people consider infrastructure to be worthwhile; infrastructure that requires taxes and borrowing is likely to be a waste.

Whenever possible, infrastructure should be left to the private sector rather than politicians, as the former will not be swayed by short-term political benefits when the long-term benefits cannot possibly cover the costs.

DDG: *A lot of people argue that public mass transit plays a key role in long term economic success. What's your thoughts on that?*

O'Toole: Outside of New York City, transit carries such a small share of travel that it has almost no positive effect on economic development. Instead, the more likely effects are negative as heavy investments in transit require high taxes and often add to, rather than reduce, traffic congestion.

DDG: *What kind of policies would "fix" a city like Detroit?*

O'Toole: The city of Detroit is going bankrupt but most of its suburbs are still healthy. While suburbs everywhere are growing faster than cities, many cities still maintain healthy growth by keeping taxes low, regulation to a minimum and keeping up on basic urban services such as schools and crime control.

The cities that lose sight of these basics and instead get fascinated by silver bullets such as expensive rail transit, tax-increment financed developments, or sports stadiums are not going to do well compared with their suburbs or other cities.

DDG: *Last but not least, do you think that Detroit might be a microcosm of the direction the United States as a whole might be headed in the future? Is America a land of declining opportunity?*

O'Toole: America has as much if not more potential than ever. Detroit however is an object lesson: relying on income redistribution to support low-income people will do little to help those people. It is much better for government to get out of the way and let people of all incomes achieve their potential without being thwarted by regulation, taxes, and bureaucracy.