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Detroit financial advisory board finds model in New York City, Washington D.C.

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With Detroit in apparent free fall, city officials voted this week to install a nine-member financial control board with the authority to approve the city's budget, dramatically reduce spending and likely force concessions from city worker unions.

Detroit will get a \$137 million emergency-loan package to cover bills due in May, when the city had been projected to run out of money. State officials will appoint most of the board's members and Detroit will remain subject to outside financial controls until certain fiscal standards are met.

"This, to me, is gangster politics," said the Rev. David Bullock, who was raised in Detroit, lives in the city and serves as pastor of Greater St. Matthew Baptist Church in neighboring Highland Park, Mich. "They say the agreement left the mayor and the city council in place. But if they do anything the board doesn't like, they can eventually implement reform. Who do you think is in control of Detroit?"

But advocates -- including five members of Detroit's nine-member city council -- say a financial control board was the best in a series of bad options. A financial control board can force the kind of unpopular cuts and changes that elected officials have been unwilling or unable to make in Detroit, they argue, just as similar boards did in two other cities that teetered on the brink of financial collapse: New York and Washington, D.C.

"Sure, a board is absolutely at odds with the notion that voters get to decide things," said Kim Rueben, a senior fellow at the Urban Institute, a Washington, D.C. think tank. Reuben studies state and local finance. "But it's also an acknowledgment that there are serious problems. It puts somebody else in the room with a green eye-shade who will say I don't believe the most optimistic [tax revenue] projections. Let's make that unpopular cut right now."

New York City went through its own financial crisis in the 1970s. The financial control board that Gov. Hugh Carey, a Democrat, created in response has been cited as a historical predecessor to the Detroit financial control board pushed by Michigan Gov. Rick Snyder, a Republican.

Seymour Lachman, a professor at Wagner College, co-authored a book on Carey during that time. To critics who think that cutting services could drive cities deeper into despair, Lachman said that in New York, the board "actually staved off a worse situation ... due to similar problems in terms of Detroit -- demographic changes, social class problems -- which exist today."

Lachman noted that despite the undemocratic features of the board, Carey was able to make labor and business feel like they had a common interest in righting the state and the city's financial ships. "New York City was going to go bankrupt, and followed by, in all probability, the state of New York," he said. "And what Hugh Carey did is, he brought together diverse business and labor groups."

Many people remember the iconic "FORD TO CITY: DROP DEAD" New York Daily News headline, outlining why Republican President Gerald Ford was opposed to bailing out the nation's financial capitol. Fewer remember that Ford eventually did bail out New York, giving

the city long-term loans. That decision points to one advantage Gotham has that Detroit lacks: a powerful interest group in the form of bankers concerned about their investments.

“I think what happened was that the people who owned the world, and also owned most of the Republican Party, they sort of called Washington and taught the president something about the global integration of markets,” said Marshall Berman, a political science professor at the City University of New York who has co-edited a book about New York since the 1970s.

Rep. Hansen Clarke (D-Mich.) is looking for a somewhat similar federal bailout of Detroit -- but the city has far fewer friends in high places than New York did.

Under the financial control board’s direction, Mayor Abe Beame slashed New York City’s workforce by 65,000, adding more unemployed to the rolls in a city already buffeted by the winds of the manufacturing industry’s decline. But the city was eventually able to once again borrow money, and three decades later it is on sound financial footing.

A similar transformation happened in Washington, D.C. In the early 1990s, questionable accounting practices; years of disguised deficit spending; and a tax base constrained by the number of nonprofits, government agencies and consulates that occupy land in D.C. left the city on the verge of financial collapse.

By 1994, Washington had endured several years with the highest per-capita murder rate in the country. Its population was declining. City government also moved in a notoriously slow fashion. Getting a call back from a city staff member could take months and obtaining city permission to build or renovate a facility was a totally unpredictable process, said John W. Hill, who served as executive director of D.C.’s financial control board from 1995 to 1999.

Washington was and is unusual among cities in that its government provides services and oversees functions normally associated with cities, states and counties. Until the early 1970s, Congress also controlled Washington, rather than a local government. So when President Bill Clinton appointed a financial control board and gave it absolute authority, the board faced a complicated, sensitive task.

One other issue, also ever-present in Detroit, was race. The capital city had long chafed under the control of Congress, which residents perceived as insensitive to the needs of the majority-black city.

Hill, who is black, believes that Clinton had this dynamic in mind when he appointed the city’s financial control board. The board included the nation’s first black member of the Federal Reserve’s Board of Governors and just one white member. Still, the group had to be mindful about the propensity for the residents to distrust the city’s elite, power-broker class.

“That’s part of the reason I think spent three, sometimes more nights a week attending meetings in recreation centers around town,” Hill said. “We had to make sure that people understood our work. We had to tell our own story.”

The board slashed about 10,000 people from the city’s 40,000 worker payroll, sold off school buildings and stepped in to make sure that the specific development projects, such as the city’s convention center and the Washington Wizards’ Verizon Center arena, moved forward.

“There’s no question that the work the financial control board did is one of the key reasons that today this is a city where it’s hard to actually find land to develop,” Hill said. “It’s an incredibly different city.”

Several people who worked closely with the financial control board went on to hold key city positions, including former Washington, D.C., Mayor Anthony Williams, former Police Chief Charles Ramsey and his successor, current police commander Cathy Lanier.

Back in Detroit this week, City Council President Pro Tem Gary Brown joined a slim majority and approved the city's new financial control board. Brown dismisses claims that the control board makes a mockery of democracy.

"The emergency financial manager the governor wanted to appoint, one person, that would have been the end of democracy," Brown said.

Detroit has challenges that it must face. One major problem: demographics. A decade ago the city had about 951,000 residents and 22,000 city employees to help cover the cost of pensions and health care for city employees that retired. Today, the city has only about 714,000 people, 10,000 workers and 22,000 retirees.

Detroit needs to eliminate workers and pensions and to outsource some basic city services to get its finances in order, Brown said. The fiscal control board will force the city to take that kind of unpopular action.

Rev. Bullock, the critic of the financial control board who also has a Ph.D. in political philosophy, has been deeply involved in a still-pending effort to overturn a state law that gives the governor the authority to appoint a lone financial controller. Bullock doesn't take even potential dings to democracy lightly. But what concerns him most is that the financial control board won't likely deal with the city's biggest problems, such as nearly 100,000 foreclosed and vacant properties, troubled schools and elevated unemployment.

"This seems like a financial improvement plan, not an economic development plan," said Bullock, who is also president of the Detroit Chapter of the civil rights organization, Rainbow PUSH. "I think the goal is to get us back to a place where we can borrow money again. But I'm not sure anybody thinks Detroit is too important to let it fail."