A postindustrial Detroit

Following EIR*'s Boston expose, Part Two of an urban series: Stephen Parsons on the planned shrinkage of a strategic economic center.*

Max Fisher and several of his fellow board members at Detroit Renaissance and New Detroit were named to two blue-ribbon commissions recently established by Michigan Gov. William Milliken and Detroit Mayor Coleman Young to plan the basis for the economic "diversification", of Detroit and the state of Michigan. Their appointments coincided with the contracting of Lazard Frères and Felix Rohatyn as Detroit's financial consultants; and a spate of legislative initiatives that has been proposed that would radically alter Michigan's economic climate.

Fisher and his associates are trumpeting the economic wonders of high-technology growth industries—electronics, semiconductors, and robotics—in a "diversified," postindustrial Michigan. Through a combination of their financial muscle and the state's depressed and ever-worsening economy, they have initiated a series of new institutions and institutional "restructurings" to pave the way toward their actual goals.

In mid-January, Governor Milliken created a 12-member panel to explore avenues for "high-growth, new technology industry in Michigan." Besides Max Fisher, a Republican Party king-maker and chairman of Detroit Renaissance and United Brands, he appointed such luminaries as former Treasury Secretary W. Michael Blumenthal, now chairman of Burroughs Corporation; William Agee, chairman of Bendix Corporation and a Detroit Renaissance director; Donald Mandich, president of Detroit Bank & Trust Company; and Paul McCracken, former chairman of President Nixon's Council of Economic Advisers.

A few weeks later, Mayor Young announced the hiring of Lazard Frères and the formation of a "Budget Stabilization Committee" charged with recommending measures to eliminate Detroit's gaping $130 million deficit. Chaired by retired Ford Motor economist Fred Secrest, this committee includes a number of Detroit Renaissance/New Detroit board members, such as Rodkey Craighead, chairman of Detroit Bank & Trust; Dean Richardson, chairman of Manufacturers National Bank; Robert M. Surdam, chairman of the National Bank of Detroit; Arthur Seder, Jr., chairman and president of American Natural Resources Company; and two labor representatives, Raymond Majerus, secretary-treasurer of the United Autoworkers, and Jack Wood, president of the Greater Detroit Building Trades Council.

It is a matter of record that the policies of former Big MAC chairman Felix Rohatyn have resulted in an accelerating deterioration of New York City, simultaneously generating unprecedented real-estate speculation, while industry has, at best, stagnated. And that has come mostly during a relative economic upswing.

In Detroit, the same incompetent policies will have a much worse effect. As Mayor Young aptly remarked during his state of the city address on Feb. 5: "Mr. Rohatyn has already described our situation as one where we will have to choose between 'extreme pain and agony.' Detroit's choice comes down to this: give up some of what we have now, or have nothing left to give up later." The Budget Stabilization Committee has already drawn up a laundry list of cuts in personnel and services, wages and benefits, and new taxes in order to ram Rohatyn's prescriptions down the city's throat.

Boom or bust?

Mayor Young might as well have generalized his words for the entire state. Amid what many see as the terminal collapse of the U.S. auto industry, Michigan's economy is reeling into a depression rivaling that of the 1930s. The state's unemployment level of 13.7 percent is the highest in the nation, as is its inflation rate. Over 55,000 autoworkers have been laid off in the past two years, with 170,000 manufacturing jobs vanishing altogether. By June, something like 150 smaller auto-related companies will close their doors, sending thousands more workers to the unemployment lines.

"People are flooding out of this state," says Jan Gordos, a researcher at the University of Michigan's Institute for Industrial and Labor Relations. "No one has any figures, but they're just rolling out of here. People in Flint are ripping their kids out of the school system in Febuary and moving south. That is really extraordinary, we haven't seen that before."

"Right now, you could basically float Flint away and you'd do us a big favor," comments Mark Morante at the Michigan Department of Commerce.

Max Fisher's high-tech boom is touted as the new hope for providing this huge pool of unemployed labor with jobs. But Gordos summed up the feelings of the many businessmen and experts we interviewed: "You just can't retrain many people in these high-tech programs, it didn't work before when we had plenty of money in the sixties. Given the quality of our educational system and the amount of remedial work that has to be done per individual to get them into a position where even if there are sufficient jobs of higher skill level than they have had, the chances are that these industries cannot under any circumstances absorb them all."

Furthermore, the high-tech industries themselves have already started cutting back. In Michigan, for example, Burroughs Corporation, one of the nation's largest electronics firms, has just announced its plans to shut down four plants in the Detroit area, throwing 1,800 onto the unemployment dole, with a ripple effect spreading through related businesses.

So with high-tech industry itself undergoing economic contraction—unable to absorb Michigan's unemployed and unable to attract a significant number of out-of-state workers into Michigan where services are being severely curtailed, especially in its major cities—Fisher and company's real goals begin to emerge: lowering wages and salaries to generate an accelerating speculative bubble.

Robert McCabe, president of Detroit Renaissance, said just that. "There's a lot of people who believe that in order to have jobs, we may have to face unpleasant things like reducing wage rates. And certainly the UAW has been involved in that." McCabe and Gordos both agree that unless workers are willing to accept a wage rate that will come down from its current average of $11 an hour to around $5, they will have no choice but to emigrate. And this is the exact prescription of both the Global 2000 and Agenda for the '80s reports of the Carter administration.

At the same time, McCabe is anxious to ensure that whatever high-tech industry or real-estate development does come into the state gets large tax breaks and grants. "We'll use whatever tools make the damn thing competitive. We'll use tax abatements, UDAG grants, enterprise zones, anything to get firms in here."

The legislative angle

The legislative side of these efforts is being led by State Sen. John F. Kelly, chairman of the Senate Committee on Corporations and Economic Development. A 31-year-old freshman legislator trained at Georgetown University and slated for the foreign service, Kelly is pushing through measures that will facilitate rampant financial speculation while destroying what is left of the state's industrial base, as well as the banking and homebuilding sectors.

Kelly is currently assembling a legislative packet that over a two-year transition period will permit unlimited statewide branch banking, as opposed to the current 25-mile limit on branch locations from home offices. This will essentially enable the largest banks in the state—those primarily centered in Detroit and whose chairmen sit on the blue-ribbon commission in Detroit—to break out of what he terms "stagnant growth patterns" in urban areas and replace "a number of smaller, inefficient community bankers."

As *EIR* has discussed during the past year, this kind of move dovetails with the Federal Reserve's attempt to rationalize the U.S. banking system into a top-down credit control mechanism administered by a handful of the largest institutions. Given the already sad state of Michigan's economy, such rationalization plans will merely feed the industrial contraction, with bank capital increasingly going toward areas of higher and quicker profitability, like real estate and corporate paper.

To facilitate this and other legislative proposals that would encounter stiff constituency opposition, Kelly is in the process of restructuring the state legislature machinery that deals with economic development. He has already catalyzed the formation of a Joint Economic Policy Committee, a grouping of the key legislative leaders of the various economic committees in both the state Senate and House. Within weeks, the Joint Committee structure is to be officially formalized and will become the primary vehicle for enacting any kind of economy or business-oriented legislation.

Kelly has arranged for the committee to be run de facto "by a private sector group of business and industry leaders assisted by our institutions of higher education to work more on the applied technology industries that are coming along . . . and get down to the nitty-gritty of diversification in Michigan." This "advisory task force," is headed by Dr. Thomas Bonner, president of Wayne State University, and includes Detroit Renaissance board member and Ford chairman Philip Caldwell, Irving Bluestone of the UAW, and William Marshall of the AFL-CIO. Kelly cites Bluestone as "very flexible in putting together programs that are going to benefit business."

A good barometer of the kinds of legislation that Kelly has in mind is a "neighborhood development corporations" bill and companion legislation that was made law in December. Under the rationale that these neighborhood entities might provide the basis for low- to moderate-income housing in cities like Detroit, and

The "Detroit Renaissance," viewed from the Philip A. Hart Plaza.

thus facilitate the location of new business there, the legislation could in fact open up an orgy of speculation in inner city real estate, while destroying prevailing wage rates and the state's building trades unions.

The new law designates "neighborhood development corporations" to function in tandem with "local development corporations," or LDCs. These qualify for federal Small Business Administration (SBA) loans to be extended to local small businesses. Kelly's idea is to ultimately have thousands of minimum wage ghetto youth either form or attach themselves to construction companies that will rehabilitate inner city housing. The materials, labor, and training monies are to come through SBA loans, CETA funds, and a provision permitting the LDCs to float bonds—guaranteed by "captive assessments," that is, liens on future property taxes of the rehabilitated properties.

But rather than providing actual low-cost housing for a city's residents, the scheme is a potential boondoggle for major banks and mortgage-financial institutions. First, the refurbished houses, once resold, would redeem the otherwise worthless paper these institutions are holding. Second, these same institutions would make a handsome and guaranteed profit on the bonds sold. And third, there is the potential for turning neighborhoods where real-estate values are going through the floor into areas of speculation, driving property values sky high.

However, as many businessmen point out, there is no guarantee that the whole thing can fly. "You have to come back to basics," said a spokesman for the Detroit Economic Growth Corporation. "We're all interested, we're looking, it might be great. But the question is whether land values can come up high enough to finance the risk. And that depends on whether we can get industry back here, whether the high-tech ventures can overcome the high wage levels, the cuts in city services, and the untrained labor force."

Bob McCabe at Detroit Renaissance has his doubts. "Fraser, [UAW president] Doug Fraser, is the guy" who pulled off the Chrysler settlement where workers took substantial wage cuts. But Chrysler is one thing, said McCabe. "Look, we're in areas that we're all completely unprepared for. This could very well be a bottleneck in our plans."

A top researcher at the University of Michigan's Labor Relations Institute perhaps summed up McCabe's "bottleneck" best: "The American dream is not dead, it's taking a vacation. Even with all the adversity, people still believe in the American dream."

'Rationalize banking, cut union wages'

EIR's Stephen Parsons interviewed Michigan State Sen. John F. Kelly, who is chairman of the Senate Committee on Corporations and Economic Development.

EIR: I understand you are drafting legislation for an international banking facility, or IBF, in Detroit. Are you also thinking in terms of non-IBF foreign banking?
Kelly: Yes, I am. I want to bring them into Michigan. I want to make Michigan—at least Detroit—a major financial center much like New York in attracting foreign banks. I've got a whole financial institutions agenda over the next two years.

We're now a limited branching state. I'm putting together a package that's going to change that over a two-year transition. First of all, we have regionalization, that is, a 25-mile limit now on branches from home office. So I'm going to put in a bill that provides a two-year period in which holding companies and parent banks within the nine economic regions of the state can rationalize the banking structure with each region. And then within two years, open up the whole state to statewide branching and interstate banking and international banking.

EIR: I would imagine the smaller banks would object strongly.
Kelly: Yeah, that's what we've been fighting about for two years, but with the monetary deregulation act and the International Banking Act of 1978, we're moving rapidly toward across-state-lines banking and more international banking in this country. What this will mean for us here in Michigan is that we have several large banks who are in stagnant growth patterns because they're limited to the urban areas. And as we go through the decline of the automobile, they're finding their whole profitability eroding. We have a number of smaller, inefficient community bankers who are just not providing consumers with the services they need.

At the same time, if we see the repeal of those amendments that limit foreign banking and interstate operations, which I think is reality, then what we'll have is a total intrusion into the capital markets here in Michigan from out-of-state banks. So I'd like to see a two-year rationalization internally to allow the holding companies to consolidate in the nine regions, and via mergers or whatever, rationalize things. People who want to hold out can wait two years and see if they get a better offer from the interstates. The smaller guys will be taken care of in terms of their own needs.

Internally, we'll rationalize and strengthen the holdings of our larger financial institutions to withstand the initial waves when the floodgates open . . . and I want to see them extend themselves in terms of involvement in local capital markets. As for IBFs, Michigan's tax law is very conducive right now. In New York, you have an 18 percent aggregate tax, here it's 2.83 percent. For an IBF bank, after the federal deduct, it comes out to less than 1 percent.

EIR: What about the prevailing wage rate, do you think things will go in the Chrysler direction in terms of workers taking wage and benefits cuts?
Kelly: I can't see the unions changing immediately. Unfortunately, most unions still take the Meany position of more, more, more. I'm a Democrat and come from a labor district in Detroit, and I've been at odds with most of them for the two years I've been in office because I think that's an asinine policy. . . . What I am sure of doing is to at least change the capital markets so that the state outside Detroit doesn't look so bad to business. . . . I think over the long term it will lead to a reduction in the union wage-scale, but you got to give them something like management participation to offset that, too.

Look, I've got a project I just had funded here for neighborhood rehabilitation in Detroit for minority youth. Minority programs have never worked in Detroit because basically you can't do this competition with the wages, right? So I put through a couple of bills that are going to provide a bonding mechanism for the housing units in Detroit—the Neighborhoods Development Corporations bill.

We're going to train minority youths and CETA people in building trades programs and then we're going to use them to rehab the homes in Detroit. Now, CETA will provide funds for six months, and here's how we're going to make up the difference. The Small Business Administration [SBA] has a thing called "Local Development Corporations" or what they call LDCs, which are community organizations that provide loans for small businesses. And you can get half a million bucks in direct SBA loans under these LDCs, for *each* LDC! It's a wonderful program, no one has utilized it in the state!

What I said is okay, you got 5,000 homes in the neighborhood and 200 that need to be rehabilitated. That will keep a labor force of, say 10 people working for a year and a half. Take these 10 youths, send them to some training program like Chrysler Learning or GM Pre-Employment or some other CETA training facility, to learn your basic skills. Then pair existing home improvement companies with these unemployed youths. These companies then have these youths subsidized for the next six months, they get new equipment, and they get loans from the LDCs. In exchange, instead of the neighborhood group having any liens on the company, the youths become employee stock owners.

You're rationalizing the whole home improvement industry, you're increasing the competition in the area, you're giving them subsidized employees for the first six months, you're giving them access to half a million bucks in new equipment and revamping of their own business structure at subsidized rates from SBA, and you're putting people in partnership with existing firms—and you don't have to end up with a unionization problem! You're getting around the high cost of construction wages!

And in terms of the rehabilitation monies, there's "captured assessments." Say there's a vacant home in Detroit that would be valued at $5,000. That may produce, in academic terms, $50 a year in property taxes. If we rehab that home and sell that home for $26,000, it's going to be producing every year $300 in property taxes. Well, the bonds that we're floating are floated on the captured assessment; that is, you take the increase in the taxation that will be gained and you float a bond on that new valuation, that is, on the difference between $50 and $300—guaranteed by the tax revenues on the property for 10 years.

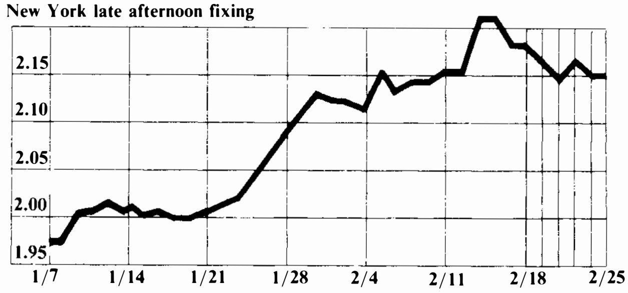
EIR: Are you sure you'll be able to get away without paying prevailing wages, though?

Kelly: Well, there's only one exemption right now in the state of Michigan from the prevailing wage statute, and that's the Neighborhood Development Corporations. . . . It took me two years to get it through, but it was really fun doing it. That's my baby.

Currency Rates

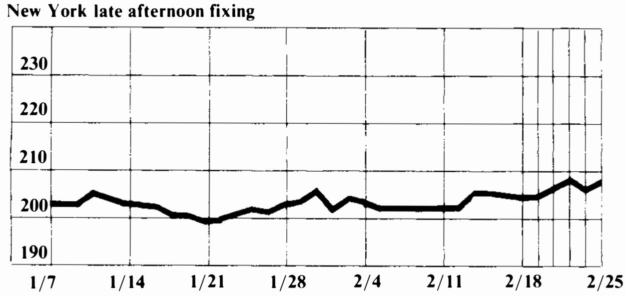
The dollar in deutschemarks

New York late afternoon fixing



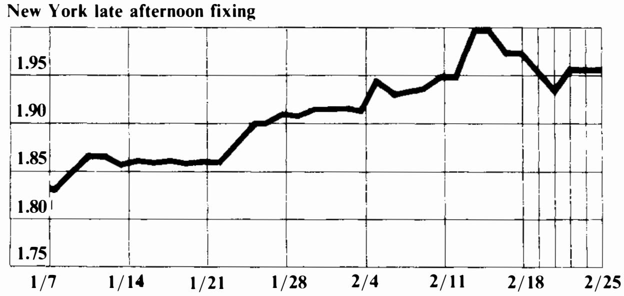
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing