## Press demands shrinkage

*From recent U.S. newspaper editorials reflecting a new "small is ready" approach to military mobilization:*

**New York Times, Sept. 27:** Even with the defense budget greater than $150 billion a year, large parts of the armed forces are not yet ready to fight. Those that are ready lack what is needed to fight very long. If intervention were required in the Persian Gulf, the Pentagon would plead it can't. . . . The Air Force needs fewer planes and more crews and maintenance. . . . we should scrap the MX. . . . the money would be better spent on keeping and recruiting skilled manpower. . . . If America wants to maintain a mass Army without the draft . . . it will have to settle for fewer than 2 million men [current force levels—ed]. . . .

**San Diego Tribune, Sept. 12:** Our military forces must be ready. . . . we need a good army, not a big one. Available funds should be used to organize smaller forces, highly professional, highly paid and ready for instant action . . . anywhere in the world and supply them. . . . the means for this must exist.

**St. Louis Post-Dispatch, Sept. 23:** The Army is enlisting an unacceptably large number of recruits in the lowest mental category [46 percent—ed.]. . . . at bottom the solution is in the quantity of the personnel, for a disproportionately large number of lowest-category recruits . . . aggravates other problems bearing on readiness. . . . up to now the military appears to have emphasized quantity instead of quality.

**Newsweek, Sept. 29,** editorial by Milton Friedman, one of the architects of the All-Volunteer Force in 1973: The military has long insisted on getting skilled personnel primarily by recruiting 18- and 20-year-olds, training them, and promoting them. . . . This makes no sense today when many, perhaps most, persons in the military will never be anywhere within sight of an enemy. . . .

Let the military recruit from civilian occupations, regardless of age. . . . Why pay for the training. . . ?

# Michigan in a fiscal catastrophe

by Stephen Parsons

Michigan's 12.5 percent unemployment rate is by far the highest in the United States, with seven of the nation's 15 highest unemployment areas located in the state, as shown in Table 1. Over a half-million workers are officially unemployed, with at least another 155,000 having exhausted their unemployment benefits. Many are beginning to turn up on the welfare rolls. Businessmen in the industrial center of Flint plan to reopen shut-down auto plants—as museums for tourists.

As the 1980 fiscal year closes, municipalities and the state itself are confronting severe budget crises that have already generated sharp cutbacks. In the 1981 fiscal year, Michigan residents are facing budget cuts that add up to 30 percent or more in real dollar terms.

Revenue receipts have declined sharply. Governor William Milliken expects a $180 million deficit for this year, despite the exhaustion of cash reserves, and over a half-billion dollars in fiscal year 1981. He has implemented a de facto hiring freeze and policy of attrition in most state departments, along with some outright layoffs, and is immediately paring $800 million in expenses from the budget—a cutback of nearly 10 percent. The heaviest budget cuts are in the service sector—20 percent or about $700 million—which includes police, corrections, and justice as well as education, transportation, and social services.

### The welfare story

The cutbacks in social services, especially in welfare and Medicaid benefits, are particularly severe. At a time when most workers simply have no place to go, Milliken is proposing to cut the rolls by 68,000, designated "employable." The primary victims will be those in the General Assistance category, who are mostly single people. General Assistance, unlike Medicaid or family benefits categories that qualify for federal funding, is almost totally funded by the state. In the last year, the caseload has nearly doubled, from 50,000 in July 1979 to 90,000 as of July 1980.

This means that two-thirds of these people are to be completely cut off. Milliken had projected saving $144 million with cuts in this and other social service areas, but revised estimates show only a $56 million saving. The difference will be made up in large part by throwing families off the rolls for having "too many assets that are not necessities," like second cars, and by denying Medicaid benefits.

All this comes amid an explosion of applications, as workers exhaust supplementary unemployment benefits (SUB pay) and unemployment compensation. Last year the number of new family applications was 300-400 per month; now it is well over 1,000 per month and climbing fast. "We are perched right under a mountain that is about to give way and crush us in an avalanche," said one harried administrator.

The avalanche has already begun. Last summer both Ford and Chrysler's SUB pay funds virtually ran out. With revenues of only $636 million and payouts of over $1.5 billion, the state unemployment fund is bankrupt and totally dependent on borrowings from the federal Unemployment Trust Fund.

### Bottom line for Detroit

The future of the state, however, is embodied in the situation of Detroit, the nation's automobile capital and Michigan's premier city. Four major automobile-related plants have closed this year, and Mayor Coleman Young has announced that eight more will follow in 1981.

The combination of inflation, economic collapse, skyrocketing unemployment, and a 25 percent drop in population over the last 20 years has resulted in an erosion of Detroit's tax base and a shortfall in revenue that has created a budget crisis rivaling New York City's. In August, Moody's and Standard & Poor's lowered the city's bond ratings to below investment grade, citing Detroit's $85.5 million deficit at the end of its 1980 fiscal year last June. To restore the former bond classifications, both rating services are demanding a "plan of action" by the city—i.e., budget slashes.

Mayor Young has already instituted draconian austerity (see Table 2). He has ordered 10 percent across-the-board cuts in all city departments and is trying to get legislative approval for a tax increase. Last month he laid off 18 percent of the city's police, putting total police layoffs this year at 1,100.

The capital budget for plant and equipment construction (see Table 3) is equally jeopardized. As of 1979, the real purchasing power of capital expenditures had fallen almost 20 percent. Now, without the ability to raise any funds at all, the city is on a straight bandaid track that can only raise operating expenses further and necessitate more cuts.

Meanwhile, Detroit faces a budget deficit currently estimated at $130 million and up, or more than 15 percent of the current budget. When inflation is figured in, the magnitude of compensatory cutbacks approaches 30 percent.

Table 4 gives a sense of Detroit's budget problems. Two-thirds of the increase in the city's revenues have come from federal and state transfer funds, which have generally been earmarked for specific programs. The bulk of city services have been dependent on general fund revenues, which rose only 18.4 percent from 1975-79. In constant dollar terms, these revenues actually declined by 13.2 percent. With the industrial decline and exodus of the population accelerating, property tax revenue has remained absolutely flat, despite higher assessments and millage, meaning a more than 25 percent decline in real terms. Expenditures in constant dollars have increased only 2.7 percent for 1975-1979.

Table 1

### The 15 highest unemployment areas

| | Number Out of Work | Unemployment Rate |
|---|---|---|
| **Flint, Mich.** | 54,700 | 23.1% |
| Anderson, Ind. | 13,300 | 22.0% |
| **Saginaw, Mich.** | 19,300 | 20.8% |
| **Bay City, Mich.** | 10,200 | 18.5% |
| **Detroit, Mich.** | 299,600 | 14.4% |
| **Muskegon, Mich.** | 11,500 | 14.4% |
| Decatur, Ill. | 8,800 | 14.2% |
| Gary-East Chicago/ Hammond, Ind. | 44,300 | 14.2% |
| Modesto, Calif. | 18,600 | 13.7% |
| Toledo, Ohio | 33,300 | 13.7% |
| Muncie, Ind. | 7,800 | 13.4% |
| **Jackson, Mich.** | 8,600 | 12.7% |
| Johnstown, Pa. | 13,300 | 12.0% |
| **Battle Creek, Mich.** | 9,700 | 11.9% |
| Williamsport, Pa. | 6,300 | 11.9% |

Source: U.S. Dept. of Labor

Michigan has seven of the 15 metropolitan areas hardest hit by the recession. The actual unemployment rate is even higher than these Dept. of Labor figures, as the economy moves into a renewed recession.

Table 2

### City of Detroit budgeted employment Selected departments

| Fiscal Year | 1978 | 1979 | 1981 |
|---|---|---|---|
| Recreation | 1,434 | 1,479 | 1,291 |
| Public Works | 2,490 | 2,668 | 2,128 |
| Police | 6,370 | 6,337 | 4,860 |
| Fire | 2,238 | 1,923 | 1,759 |
| TOTAL | 25,329 | 25,773 | 22,429 |

Source: City of Detroit Budgets

A common scapegoat for the city's financial problems has been its unionized work force, particularly the police and fire unions, which both received wage hikes of 36 percent covering the 1978-80 period. Also cited is the fact that from 1975-79, employee earnings plus benefits increased 45 percent overall, and 56 percent per employee. However, in real dollar terms, the actual gain has been only about 7 percent overall, and 14 percent per individual. Moreover, the relative gains of many of these employees is a vital factor in maintaining even a modicum of productivity and morale in an otherwise adverse situation. The gains are being paid for, in large measure, through layoffs of several thousand workers, a process that will accelerate next year.

## New Detroit, Inc.

There is one organization, however, that is enthusiastic about Detroit's crunch: New Detroit, Inc., a tripartite "public interest" conglomerate that is the key planning body for Detroit's future. It is the gathering point of the major power centers in the city and state, with close ties to the big New York banks that oversaw the New York City fiscal crisis.

One New Detroit officially referred to New Detroit's complicity with Moody's. "Well, as we said about the Arabs' precipitating the energy crisis, if they hadn't created the crisis, we would have had to create it ourselves to deal with the problem. We're using this to get everyone off their asses."

New Detroit envisions "a city of the future" where heavy industry will be largely restricted to a new General Motors complex under construction, flanked by Hong-Kong-style light industry. "Planned shrinkage" is a key part of their plan. "Some will have to relocate, a lot will permanently. . . . You don't have to be a genius to figure out that there's going to be fewer and fewer people employed in cities like Detroit."

First coined by former Housing and Urban Development official Roger Starr, now on the editorial board of the *New York Times,* planned shrinkage calls for eliminating services for whole areas of inner cities, thereby forcing "undesirable" layers of the population out of a city, shrinking the utilized area, and bringing in more middle-class layers to man the service industries. The remaining urban poor are slated for low-paying dead-end jobs, or for relocation into similar fates elsewhere.

Table 3

### Detroit outlays

| (millions of dollars) | | Current dollars | | Constant dollars | |
|---|---|---|---|---|---|
| | 1975 | 1979 | % change | 1979 | % change |
| Operating expenditures | $618.8 | $866.7 | 40.1 | $635.4 | 2.7 |
| Capital outlays | 69.8 | 77.8 | 11.5 | 57.0 | −18.3 |
| Salaries, wages and employee benefits: appropriations | 408.4 | 595.5 | 45.8 | 436.6 | 6.9 |
| Same benefits appropriations for 1981 | 597.7 | 46.0 | 383.1 | − 6.2 | |

Sources: City of Detroit General Obligation Tax Anticipation Net, Prospectus, Annual Financial Reports.

Table 4

### Detroit operating revenue

| (millions of dollars) | | Current dollars | | Constant dollars | |
|---|---|---|---|---|---|
| | 1975 | 1979 | % change | 1979 | % change |
| Property tax | $157.2 | $157.7 | 0% | $115.6 | −26.5% |
| Income tax | 102.6 | 141.7 | 38.1 | 103.9 | 1.3 |
| Utility users tax | 21.8 | 33.3 | 52.8 | 24.4 | 12.0 |
| Total taxes | 281.6 | 333.3 | 18.4 | 244.4 | −13.2 |
| Intergovernmental assistance | 198.3 | 371.6 | 87.4 | 272.4 | 37.3 |
| TOTAL REVENUE | 576.7 | 849.0 | 47.2 | 622.4 | 7.9 |

Source: Detroit Annual Financial Reports