McTevia: All governments must learn from Detroit's bankruptcy

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If there is any possible good to come from Detroit's painful bankruptcy the lesson that if you insist on spending money you do not have and borrow to support deficit spending, the time will come when you can no longer borrow and you eventually run out of options and time.

While Detroit is the largest city (so far) to attempt solving its financial crisis via bankruptcy, other government entities could soon follow Detroit and the other pending smaller municipal bankruptcies and join the many businesses trying to solve financial problems with federal court supervision.

But for those wanting to, if at all possible, avoid the pain that is headed Detroit's way, what lessons can we and more importantly other governments learn from studying the decades of financial gross mismanagement by the Motor City?

First, a city's declining population should be treated as a crisis in itself, much like a business's shrinking customer base.

Elected officials should have easily observed and reacted quickly to a drop in tax revenue, which for a municipality is the source of cash to pay bills. In the case of Detroit, the serious trouble began when Detroit lost its "highest margin" customers when residents in homes with the top property values, requiring the fewest city services, moved out.

A problem-solving model should have been put in place at that point. Just like in any household, business or municipality, when income drops and expenses stay the same or even worse increase, that scenario contributed to a crisis.

But the household and business analogies can only go so far.

That is because the pivotal moment that headed Detroit toward bankruptcy court was a perfect storm: the lack of cash, an unavailability of borrowing, overwhelming debt, the greater portion being an underfunding of the pension funds, all brought Detroit's crisis to a head.

Years of underfunding the two municipal pension funds would not have been tolerated in the real world of business. Only a political mechanism could put the kind of pressure on the checkbook to enable continued underfunding of the pension funds while borrowing to support deficit spending. Only under political influence could pension fund fiduciaries allow the city of Detroit to defer funding in such a destructive manner. In retrospect, the pension funds are now the victims of their own generosity.

Cities across Michigan and other states need to keep their eyes on Detroit's bankruptcy proceedings, and use the court's ongoing decisions as benchmarks. But no pending financial crisis looks as familiar today as that of the United States of America. The federal government's addiction to borrowing money to support deficit spending, under political pressure from both parties to "kick the can" as far as possible, is the national equivalent of the city of Detroit leaning on its pension funds. It is toxic behavior that would never continue for years upon years in the private sector and will lead to doom, with the only question being, when?

The federal government's constant increasing of the debt limit is equal to Detroit's failed credit swaps deal. Both look good politically while doing nothing to solve the long-term intrinsic problems that loom over the finances of the government.

While the lessons learned from Detroit may be helpful for other municipalities, this should also serve as an alarm bell heard from coast-to-coast about the crisis and potential sovereign default facing the government headquartered in Washington, D.C.

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