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Chicago is not Detroit – a tale of two cities and bankruptcy

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If you Google "Chicago" and "Detroit" together, you will find dozens of dire predictions about Chicago as "the next Detroit." Detroit recently emerged from a Chapter 9 bankruptcy, and many commentators believe Chicago will soon seek permission of the Illinois General Assembly to file for bankruptcy, too.

"The new junk city," screams a Bloomberg headline. "Chicago is on the road to Detroit," warns the Chicago Tribune editorial board. Are the doomsayers right?

Emphatically no! The doomsayers, who sometimes seem to want Chicago to go bankrupt so that the public employee contracts can be invalidated, do not understand the constitutional and political histories of Detroit and Chicago. Much less do they understand the relative revenue-raising powers of both cities in recent years.

The key to the histories is home rule, a concept that means that either a state constitution or a state legislature has given a municipal government key powers, such as the power to levy taxes, set fees and incur debt without seeking approval from the legislature first. Let's look at the historical record.

In 1908, Detroit obtained the power to raise taxes and incur debt without going hat in hand to the capital in Lansing. With its great home-rule powers, Detroit was the envy of cities around the nation and was well-poised to become Motor City, the center of major automobile manufacturing in the country.

By contrast, Chicago lived with Dillon's Rule, the constitutional concept that no city could do anything unless the legislature empowered it to do so. In 1913, when Navy Pier was built, Chicago wanted to license peanut vendors on the pier. It could not do so without first obtaining authorization from Springfield.

In the boom times of the next few decades, both Detroit and Chicago flourished economically, but Chicago had to go hat in hand to Springfield to obtain permission to enact ordinances that promoted economic development.

To a certain extent, Chicago skirted Dillon's Rule by establishing special districts that performed what were otherwise Chicago municipal services. Each was (and is) a separate unit of government that can levy taxes and incur debt on its own, subject to Dillon's Rule.

All that Chicago needs is the political will to attack its financial problems.

In 1971, the relative positions of the two cities changed. The 1970 Illinois Constitution granted substantial home-rule powers to Chicago and many other cities in Article VII, Section 6.

When the Illinois Constitutional Convention met in 1969-70, Mayor Richard J. Daley lobbied for Chicago and other major cities to be freed from the shackles of Dillon's Rule. With few objections, the delegates agreed.

Since then, Chicago's home-rule status has provided the legal and political structure that underlies the economic position of the city. Local government officials and scholars around the country point to Chicago as an example of modern municipal home rule.

By contrast, Michigan voters dealt Detroit a terrific blow in 1978. They approved the Headlee Amendment, named after a Republican gubernatorial candidate, which was part of a taxpayer revolt of the time.

The Headlee Amendment prohibited local governments such as Detroit from adding new taxes or even increasing existing taxes without first gaining approval at a referendum. It also forbade a city to incur debt unless the voters approved it at a referendum.

In effect, Detroit's finances were stuck in a time warp: that of 1978.

As the decades passed, Detroit tried every method to increase revenue without going to the voters, who were almost certain to vote down any tax or debt. In 1998, Detroit wanted to increase water rates, but it learned that it could not even do that without going to a referendum.

Detroit ran out of debt options when its diminishing financial base made borrowing almost impossible. Finally, it sought to raise money by licensing more gambling, including slot machines in restaurants.

In the end, Michigan saw no way out of the plight of its largest city except by passing legislation to authorize Detroit to file for reorganization under Chapter 9 of the Bankruptcy Reform Act. A federal bankruptcy judge took control over Detroit's finances.

As part of the bankruptcy proceedings, Detroit has begun shifting costs and duties, including water service, from the city to other governments. In short, it is following the same path Chicago did when Chicago was bound by Dillon's Rule, by shifting powers and tax burdens to other governments. We shall see how Detroit fares in the post-bankruptcy era.

What is Chicago's situation? Chicago has many options for raising revenue and changing its governmental operations, thanks to its home-rule powers.

Chicago has a kitty of up to $2 billion it can call upon as a cash reserve, thanks to the tax increment financing statutes Chicago has taken advantage of since the 1970s. Under the intergovernmental cooperation section of the 1970 Illinois Constitution (Article VII, Section 10), Chicago may collaborate with other governments and even private entities to provide services more economically and efficiently.

The structure is there. All that Chicago needs is the political will to attack its financial problems.

Chicago, in short, is not Detroit.