Aspirations of Economic Resilience:

An Analysis of the Infuriating Logic of Detroit's Little Caesars Arena Development

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Grace spent all of her life in the Sun Belt before moving to Michigan for graduate school. She first learned about urban planning as a college student at UCLA and was immediately struck by the concept of structural injustice. Through her exploration of the discipline, she has come to appreciate the possibilities of using planning to promote equitable outcomes in local spaces. Grace is currently pursuing her Master of Urban and Regional Planning at the University of Michigan and has been enjoying the four seasons and Eastern Standard Time.

ABSTRACT

The narrative of deindustrialization and urban decline has been well-documented in literature. Local governments in the United States have responded to structural inequities in the use and generation of capital with some degree of success, continued challenges, and/or worsening conditions. Promoting economic development after decades of decline is no easy feat and requires perseverance, compromise, and risk. This paper will define urban economic resilience as promoting a diversity of goods, services, and industries; managing and moderating market cycles; actively preventing stagnation and decline; and protecting vulnerable groups. The qualities of urban economic resilience should be promoted, especially in urban areas that have suffered from increasing political and economic constraints. This paper will examine the unique case study of Detroit, Michigan and the downtown Little Caesars Area development project. This example demonstrates how local governments have used traditional economic development tools in an attempt to achieve positive growth outcomes. However, the use of these tools merits sincere critique in the face of historical economic troubles and existing conditions of inequality and disinvestment. Ultimately, this paper critiques local economic development tools by highlighting the public and social costs of implementing them.

In the local development landscape, no one builds with the expectation of decline. In the past 60 years, technological advances have contributed to the rise of high-wage, high-skill industries, including finance and advertising. Some local economies have shifted to include these new generators of capital, which has allowed them to adapt well to change. Cities and regions that have focused exclusively on manufacturing have inevitably declined.[1] Many of these post-industrial cities in Northeastern and Midwestern America have found themselves in the position of planning for population decline, budget constraints, blight, and vacancy.[2]

In addition to structural shifts in local economies, changes in political sentiment have further placed fiscal pressure on cities. Since the 1970s, most states have passed laws that restrict local governments from increasing taxes.[3] In addition, dwindling revenue sharing to local governments has contributed to the mismatch between revenues and expenditures.[4]

Given these restrictions, municipal decision makers have begun to engage in an "entrepreneurial" form of governance to promote local economic development.[5] Local governments can use subsidies such as tax abatements, low-interest loans, regulatory leniency, and land transfers to support large, private-sector projects with the expectation of expanding employment and economic activity.[6,7] Local subsidization of development inherently results in public assumption of private risk, which Harvey characterizes as a marked shift from managerial to more speculative forms of governance.[8] These new public-private partnerships reflect the ideological, financial, and political challenges of growing and revitalizing urban neighborhoods. This current model of economic development reveals the coercive power of private capital in shaping local decision making.

This shift in public decision-making begs the question of whether this form of economic development promotes economically resilient cities. Not only must local governments deal with increasing federal and state retrenchment,[9] they are also vulnerable to recession under a neoliberal system that does little to moderate fluctuations in the private market.[10] Somewhere between promoting city growth and keeping the lights on, local governments have been forced to make compromises to their fiscal security. This paper will discuss urban economic resilience as the promotion of a diversity of goods, services, and industries; the management of a market with cyclical booms and busts; active prevention of stagnation and decline; and protections for vulnerable populations. One can imagine that economic resilience, like equity, is an aspirational goal that is under-resourced, politically unpopular, and unlikely to be pursued without some forms of ideological compromise. Urban planners and policymakers must consider the implications of the pursuit of economic resilience, as well as the failure to do so.

As one of the most recognizable examples of urban decline, the city of Detroit offers an important case study for modern economic development and the challenges of achieving economic resilience. While the city's challenges are unique, they offer insight on economic development that can be applied more broadly. This paper will describe the structural forces that have contributed to Detroit's multi-faceted development challenges and the preconditions that forestall economic resilience. It will then analyze the Little Caesars Arena public-private partnership in Downtown Detroit. This analysis will challenge the logic of having local governments absorb the risks of private enterprise. Detroit has a pressing need to establish economic stability; achieving urban economic resilience is a process that may require financial, social, and political compromises in a city that has experienced decades of unfavorable investments.

CHALLENGES TO DETROIT'S GROWTH

The city of Detroit offers rather extreme economic and political conditions in which to study economic development, but this context provides insight into broader constraints on local governance. Deindustrialization has played a widely recognized role in the city's decline over the past 60 years.[11] Decades of racially discriminatory federal policy, local planning, and real estate practices effectively enabled employment centers and the white population to move to the outlying suburbs.[12] This slow-moving crisis hollowed out Detroit's jobs and neighborhoods, a process that intensified after the 2008 subprime mortgage crisis.[13] As a result, almost 30% of Detroit's housing stock is now vacant,[14] creating a visually stark landscape that poignantly demonstrates the effects of political, social, and economic disinvestment.

Because of this decline, the municipal government has struggled to maintain its role as a local service provider. The loss of population has forced 600,000 residents – almost 40% of whom are impoverished – to maintain water, sewage, and street infrastructure that was built for two million people.[15,16] Faced with a shrinking and weakening tax base, reduced economic activity, and declining property values, local agencies have been forced to raise the City's property tax rate, which is currently one of the highest in the country.[17,18] Furthermore, the State of Michigan has been reducing its revenue sharing to local governments to deal with its own chronic deficits, which has resulted in further strain on the City.[19] To deal with these and other serious issues, the City actively disinvested in certain neighborhoods for decades, cutting vital services like streetlights, police protection, and firefighting.[20,21] In 2013, the City filed for Chapter 9 bankruptcy with billions of dollars of debt and a stark inability to service its obligations.[22,23] Discussing economic resilience in this context requires a nuanced understanding of the deep, structural challenges that impede municipal leaders from promoting fiscal stability.

Given the complex causes of Detroit's decline, two realities exist: The city of Detroit as a geographic entity is in desperate need of investment, which is generated by private economic activity. The City of Detroit as a municipal body is in desperate need of revenue, much of which is generated by economic activity and property tax revenue. According to the "urban growth machine" theory, the primary role of local governments is to promote a business climate favorable to growth, namely by raising property capital.[24,25] Within the context of its extreme physical and economic decline, the City of Detroit has an especially dire need to attract capital to begin to improve its own fiscal condition, as well as to facilitate a meaningful recovery process for its residents. Although the methods for drawing investment to the city are politically contested,[26] Detroit requires new capital to make meaningful progress toward economic resilience.

DETROIT'S ECONOMIC DEVELOPMENT LANDSCAPE

Amid over 100 square miles of single-family neighborhoods that continue to lose population, the 7.2 square miles that comprise Detroit's Downtown and Midtown neighborhoods have been growing. Because of its central location, "the 7.2" has been the focus of public and private investments in the city since at least the 1990s. Dan Gilbert (the owner of Quicken Loans and the Cleveland Cavaliers) and the Illitch family (the owners of Little Caesars Pizza) are prominent billionaires who control large swaths of land in the 7.2. They have made significant investments in this part of Detroit and have received large public subsidies for their efforts.[27]

Given these and other ventures, a private-sector report recently hailed "America's comeback city" as having successfully attracted development and diversified its economy.[28] While these claims are somewhat dubious and certainly do not hold true for most of the city's longtime and mostly black residents, they reflect the optimism of the private sector around the potential for profit-making in Detroit. Local public and private actors have both been heavily involved in promoting radical city-building after decades of decline. These efforts, however, deserve sincere critique.

DETROIT CASE STUDY: THE LITTLE CAESARS ARENA DEVELOPMENT

One of the major criticisms of government support for economic development is the use of public monies to subsidize profit-seeking activities. This is an especially salient point in Detroit, which only recently emerged from bankruptcy and still faces serious problems, such as a failing public school system.[29] The development of the Little Caesars Arena in Downtown Detroit provides an important case study of the costs and compromises of local economic development. It raises questions about current processes and tools for promoting urban economic resilience, which impose undue costs on local third-party stakeholders.

The Illitches have been acquiring lots in the 7.2 at least since the 1990s.[30] They currently plan to redevelop a 50-block area that includes the Little Caesars Arena, which they have rebranded as the "District." The estimated total investment in this area will be over $2 billion.[31] The Arena, which is now home to the Detroit Red Wings hockey team, has received substantial public subsidies. In 2013, the Little Caesars Arena redevelopment project initially received $250 million of tax-exempt bonds from Detroit's Downtown Development Authority. At the time, this amounted to 60 percent of estimated construction costs.[32] The state later offered an additional $34.5 million in new bonds and $4.85 million in closing costs and interest payments to support the relocation of the Pistons basketball team to the Little Caesars Arena from suburban Auburn Hills. By September 2017, the cost of the stadium had ballooned to $863 million.[33]

State and local support for the stadium development has reached $289.4 million, one-third of the total construction costs. The development redirects property tax revenue in downtown Detroit's tax increment financing (TIF) district to support redevelopment costs. The funding scheme diverts property tax revenue from a state education tax, the Wayne County Regional Educational Service Agency, and Detroit Public Schools.[34]

THE ILLOGIC OF GOVERNMENT SUBSIDIES FOR PRIVATE STADIUM DEVELOPMENT

One could make a case for the potentially catalytic nature of this redevelopment project, particularly in the context of Detroit. However, the facts of this project undermine justifications for public subsidy. First, experts have consistently criticized public subsidies for stadiums because of the lack of benefits for taxpayers. These developments often lead to above-market rates of return for investors, meaning that public financing and tax abatement policies essentially funnel excessive profits to the private sector. Highly publicized economic benefits in job creation and "spillover" effects are often unrealized. In addition, tax revenue from new stadiums to local governments often reflects a transfer of expenditures from one form of entertainment to another, meaning that the developments do not necessarily increase overall local and regional economic activity.[35] This is especially true of the Red Wings' move from Joe Louis Arena in Detroit and the Pistons' move from suburban Auburn Hills. In spite of the claims of public benefit, the Little Caesars Arena may not contribute much to the City's fiscal condition or to its residents outside of the 7.2 square miles of concentrated redevelopment. America's cities and metropolitan areas are already marked by intense stratification;[36] the disparities within Detroit and its surrounding region can only be amplified by continued uneven development. The City cannot build its tax base around sports teams that have moved within and outside of the city multiple times in the last fifty years. Promoting economic resilience thus will likely require new methods beyond popular economic development tools.

Another problematic aspect of the Little Caesars Arena development is the use of tax increment financing (TIF) to the detriment of the city's public school system. TIF essentially redirects taxpayer money away from vital City services to support profit-seeking activities.[37] This is particularly troubling for Detroit, which has struggled with poor public school performance and its effects on enrollment and families.[38] By 2051, $726 million of property tax revenue will be diverted from state and local public school funds to pay for the redevelopment.[39] Economic recovery and resilience at the neighborhood level require stable schools that support families and children, which requires substantial investment in the local school system. Far from redistributing the benefits of redevelopment to marginalized groups, Detroit's arena project is depriving public schools of much-needed capital.

A final critique of government support for private development asks whether the economic activity could have happened without subsidies. Besides the construction of the arena, the Illitches have made a $1.1 billion investment in their massive District redevelopment project, an ongoing effort that does not use public subsidies. This suggests that the Illitches have a significant amount of capital and are more than willing to invest in Detroit. It begs the question of whether the subsidy for the arena was necessary at all.
Herein lies the excruciating truth of economic development: city leaders take risks – correctly or incorrectly – to divert money from essential services to promote private enterprise with the hope of ultimately benefitting the city. In the case of Detroit, it is difficult to imagine a situation in which the City would reject an offer of substantial reinvestment, especially in the very year that the City filed for bankruptcy. This is likely no accident on the part of Detroit's billionaire developers; both the Illitches and Dan Gilbert took advantage of the disorder caused by the 2013 bankruptcy to readily acquire property and permissions for redevelopment. They were further empowered by weak community opposition to these proposals.[40] The projects did little, and arguably will do little, for Detroit's most vulnerable and underserved populations. It is hard to say whether the Arena would have been built without public subsidies. It may be better to ask whether the Illitches could have afforded to pay for the arena without government support, in spite of the challenging development context of Detroit. A question of further relevance for economic development professionals is whether the City of Detroit can afford to subsidize development – or whether it can afford not to.

CONCLUSION

The task of remaking a city is not easy. The City of Detroit has faced, and continues to face, strong fiscal constraints. Within this context, economic development professionals have worked behind the scenes to promote recovery and growth. While both public and private actors have contributed to the city's recent improvements, one cannot help but question the methods of recovery that have actively disinvested from Detroit's many impoverished, disenfranchised, and minority neighborhoods. When public financing is involved, urban planners must be vigilant in determining appropriate uses of limited taxpayer resources.

This brief discussion of development in Detroit illuminates the elusive nature of true economic resilience. Peck discusses the phenomenon of "trickle-down austerity," in which federal retrenchment transfers financial burdens to lower levels of government.[41] Under this conception of urban governance, it follows that local governments are heavily restricted in their ability to promote resilience, especially for their more vulnerable constituents. Counties, cities, townships, neighborhoods, and blocks will vary in their ability to manage shrinking resources, depending on their political, financial, and social capital. Local governments will thus have varying degrees of success in adjusting to the multi-faceted restrictions that have been imposed on them. Economic development tools like subsidies for stadiums give local government bodies the ability to build up resilience, though not without consequences for the city as a whole. Ultimately, the question of economic resilience is one that could be resolved by a shift in how resources are allocated at the state and federal levels. Discussions about strengthening our cities and regions must engage higher governmental units to promote economic resilience through the redistribution of resources. ■

ENDNOTES

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