

SUFFICIENT AFFLUENCE/SUSTAINABLE ECONOMY: ECONOMICS FOR EVERYONE (PART ONE)

By John F. Sase, Ph.D.

“I make my living off the Evening News / Just give me something--something I can use / People love it when you lose / They love dirty laundry / Kick 'em when they're up / Kick 'em when they're down / Kick 'em when they're stiff / Kick 'em all around”

Don Henley and Danny Kortchmar, “Dirty Laundry,” *I Can't Stand Still* (Warner Brothers, 1982)

Detroit and its woes have become a national media-fest as well as a feeding frenzy. News outlets constantly are exploiting the city's bankruptcy and urban decay. Apart from a handful of articles from the rarified air of public broadcasting and leading magazines and newspapers that have a few shreds of integrity, media pundits focus repeatedly on the same myopic concerns and razed neighborhoods. Much of what appears in print and on electronic media either has been taken out of context or has been exaggerated in order to support the agendas of the writers. However, in respect to the economic situation at hand, very few of these stories and editorials contribute anything of merit to the history of--and the understanding of--Detroit's debacle. Therefore, we will step back and take a high-altitude appraisal of this situation for the next couple of months. In this month's column, we will focus upon the Urban Economics of Detroit.

“I'll Remove the Cause (*chuckles*) but Not (*pause*) the Symptom”

--Dr. Frank-N-Furter (Tim Curry), *The Rocky Horror Picture Show* (Twentieth Century Fox, 1975)

Much of what continues to be written about Detroit tells the same old tale, so familiar to locals. This tale concentrates tiredly on racial tension, white flight, auto-industry failures, greedy unions, and corrupt politicians. Meanwhile, the national media plays the blame game by pointing at the usual suspects, providing gawking materials for dwellers of other cities that are about as newsworthy as Miley Cyrus's giant foam finger. Unfortunately, all of the events in the usual media coverage prove to be symptomatic rather than systemic root-causes. In order to get to the economic basis of the problems in Detroit that we face today, we must travel back centuries. If we are to discover a solution and move forward into the future, we must understand HOW and WHY Detroit arrived at its present state by looking at its history from antiquity to the present day.

Roots of the Current Dilemma

The redundant stereotyping of Detroit as the dying automotive capital negates a series of production booms and busts throughout the history of the city that spans more than 300 years. The boom phase of the automotive industry only lasted from the 1920s through the 1960s, a period of just fifty years. This industry represents only a small part of the economic history of Detroit, which spans many centuries. Our history is marked by a series of incremental industries in which each cycle parlays into another. Detroit did not fall apart when the fur-trapping/trading boom subsided around 1800. Instead, the human experience and accumulated capital lent itself to

an era of lumbering that helped to build a young United States. When this boom went into decline after the Civil War, the more extensive steel-rail and rolling-stock industries eclipsed the preceding Timber Era. Following the decline of rail production around 1890, the shorter-run iron-stove industry helped the world to convert from cooking over an open hearth to using modern appliances. At this point, Detroit emerged as the stove capital of the world. All the while, visionaries were experimenting with the automobiles. The industry that grew around these early experiments became a major game-changer. Cars would replace the horse and its obvious pollution by placing electric and internal-combustion engines and drive-trains into carriages and wagons. After a quarter century of struggle, the Detroit auto companies hit their stride in the 1920s, limped through the 1930s, became the Arsenal of Democracy in the 1940s, and ruled as the dominant firms in the 1950s. In the 1960s, the economies of Europe and Japan, which had been crippled by war, re-entered the global marketplace. Now, in the second decade of a new millennium, Detroit is searching for its next “big hit,” though it continues to retain a significant vestige of its automotive industry.

From the Beginning

In order to understand what may transpire, we need to start at a practical beginning. Let us begin our appraisal of the situation from the era following the great Ice Age, a time in which glaciers buried all of the Great Lakes biome (this climatically and geographically defined contiguous area of the earth) about 10,000 years ago. As the glacial ice receded, the mega-cycle of warming exposed lakes that previously had existed as inland salt-seas. These bodies of water became the five lakes that now hold one-fifth of all fresh water on the planet. As a result, Michigan is surrounded by a resource that is becoming more and more valuable as the global population continues to increase while relying upon a fixed amount of fresh water.

As the land in Michigan rose again after the Ice Age, the channel that once flowed from the Georgian Bay to Lake Ontario ceased to exist. Water from Lakes Michigan, Superior, and Huron cut a path southward through the great flood-plain that transformed into the current Lake St. Clair over the past six millennia. With the present lake-levels of this age, the two peninsulas of Michigan are left with only three practical crossing points to Ontario, Canada. The northernmost crossing is located at the narrows of Sault St. Marie in the Upper Peninsula. The remaining two include Port Huron, north of the marshlands adjoining the St. Mary’s River, and Detroit, which is along the narrow strait from which the city takes its French name (*De Troit*, “of the strait”). Therefore, this location of Southeast Michigan and Detroit creates a valuable economic advantage. Currently, the greatest portion of total trade between the U.S. and Canada crosses between Southeast Michigan and Ontario.

In addition to this locational advantage, Detroit commands a political advantage. Upon the initial settlement of this region by French trappers, explorers, and habitants during the seventeenth century, all of Michigan had been considered the western part of New France, the colony that extended eastward beyond the City of Quebec. However, following the French and Indian War, which transferred political possession to the British, and the subsequent American Revolution, which transferred the region next to the United States, Detroit has remained along the U.S.-Canadian border for more than two centuries. Even though its location lies far inland, Detroit exists as an international port both economically and politically. This characteristic constitutes a major advantage for Southeastern Michigan in respect to global trade. We continue to remember

the observation by Sarah Palin about seeing Russia from her Alaskan backyard. Many Detroiters honestly can say “I can see Canada from my house!”

A City Plan Inherited from Ancient Mound-Builders

Detroit is a radial monocentric city. This means that it sprawls outward like spokes that extend from a hub like those on a wagon wheel. This kind of expansion leads to an urban-transportation problem known as the cross-haul. The further out that we go on one of the spokes, the greater the distance between the spokes. As we move away from the hub, the cost of building and maintaining public-transportation systems to handle the cross-haul becomes increasingly expensive. In addition, the increasing distance between nodal points of population on different spokes has a similar effect: the cost of building and maintaining delivery systems for public utilities, such as water and sewerage, increases. We will address the issue of cross-haul in more detail in a forthcoming column.

The City of Detroit and its suburban ring are united by a series of major surface roads that radiate outward from the hub at the Central Business District in downtown Detroit. In refutation of the erroneous myth that the broad avenues of Gratiot, Woodward, Grand River, and Michigan Avenues (fanning east to west) were modeled after the radial/monocentric designs of Paris, France, and Washington, D.C., let us note that these roads were established by mound-builders who were known as the Hopewell Civilization. This culture, which flourished in Michigan from about 500 BCE to 1400 CE, built more than a thousand mounds. The first three pathways, known today as Gratiot, Woodward and Grand River Avenues, formed routes to other settlements of mound-builders in Michigan. For example, Grand River Avenue led to two major settlements. The first, just north of Lansing, thrived around the largest concentration of mounds in the state. The second, which was in Grand Rapids, surrounded another cluster of mounds, which are still preserved today. The fourth route, Michigan Avenue, leads directly to the recently discovered remains of an ancient civilization that flourished near Michigan City, Indiana, at the time that the glaciers still covered most of Michigan. In respect to our current economy, these well-trodden paths form the spokes of the monocentric-urban configuration along which most of the towns, villages, and hamlets had arisen. These now form the basis of modern Metropolitan Detroit. Continuing with the analogy of a wheel, we may suggest that, if portions of the spokes or the hub are left to rot, then the outlying rim eventually will collapse.

In addition to such outlying cities as Royal Oak and Birmingham along Woodward Avenue, Mt. Clemens along Gratiot Avenue, and Dearborn along Michigan Avenue, approximately forty independent towns or villages existed within the borders of the present City of Detroit until the last quarter of the nineteenth century. The places that continue to remain along Grand River Avenue include the following: Ravenswood and Sherwell, in the old retail area near Oakman Boulevard; the village of Greenfield, which became the major shopping district at Greenfield Road; and the villages of Sand Hill and Redford, which survive as the retail district at and beyond Lahser Road. Along Gratiot Avenue, evidence exists of the former villages of Leesville (Butler), Trombley, and Maybury in the acreage that forms City Airport. Moving north of Trombley to the former village of Greiner, the avenue continues to exist as a commercial strip from the cemeteries near the airport to beyond East Seven Mile Road. Until the first decade of the twentieth century, these places existed as local trade hubs in largely rural areas. However, the

rapid expansion of the City of Detroit changed all of these places as residential subdivisions filled most of the open space between these villages. This era of rapid and expansive growth that enlarged the city eight-fold over a short period of time presents us with a deeper look into the beginnings of Detroit's collapse. For such a large economy to remain sustainable requires sufficient affluence that must be maintained by a comparably high level of sustainable employment. As with an inflatable play castle, the structure stays up only as long as a sufficient volume of air continues to flow through it.

Another major economic asset that predates the expansion of the city remains in the form of more than seventy miles of railway rights-of-way. Plus, there are many more miles of rail in the form of sidings, spurs, and yards. However, only eleven miles of these rights-of-way are located within the bounds of East and West Grand Boulevards, the city limits of Detroit during the last quarter of the nineteenth century. These rights-of-way would provide not only a transportation nucleus for the region but would help to define the neighborhoods of the city. These residential and commercial areas developed within the network of rail lines that allows crossing only at one-mile or half-mile intervals. On one hand, this limitation allowed individual pockets to develop their own unique characteristics and cultures. However, the rails would isolate these rapidly evolving neighborhoods from one another, an effect that would compound itself in the latter half of the twentieth century due to the positioning of sub-surface expressways.

In order to understand the economics of any urban area or region, it is important to know about their progressive development and accumulation of capital. The City of Detroit grew rapidly during its second great industrial wave, the Automotive Age, which began in the late 1800s. This wave would define the manufacturing character of the city for more than a century. The auto industry brought many positive benefits. However, it also carried hidden costs that we continue to experience.

In order to understand the economics of Detroit fully, we need to retrace the history of successive industries that developed here. Let us start by returning to the "travelers of the woods," the seventeenth-century trappers who came from France by way of Quebec in order to gather furs for the waiting market in Paris. In France, the pelts would be used whole for coats, muffs, and gloves, while the shaven hairs shaven went to form felt hats and other articles. As Detroit developed, those in the fur trade began to add value to the pelts by tanning the hides here. The local industry also removed the hair from hides and packed it for later production in Europe. This fur trade continued to help Detroit through the time of the British occupation as well as the American and French Revolutions. As time progressed, the availability of fur-bearing animals in the wild decreased. Meanwhile, the Paris market was disrupted by the French Revolution as fewer heads remained to wear felt hats.

The fur trade in Michigan waned as the lumber industry rose to succeed it. Following the American Revolution, home-building boomed in the original thirteen states. Unfortunately, three centuries of settlement along the eastern seaboard had depleted the supply of virgin timber severely. Therefore, the young nation became more and more dependent on the Northwest Territories of the interior for lumber. Under the command of General Anthony Wayne and his chief officer Colonel Jean-Francois Hamtramck, Detroit controlled the virgin forests throughout Michigan and Wisconsin. With the aid of rivers flowing amply through the timberlands to the Great Lakes, a new economy developed from harvesting trees and shipping out cut lumber by way of wooden sailing vessels and, later, by steamship. This cargo moved through the closed

system of the four western Great Lakes to Erie, Pennsylvania. From there, goods were transferred to barges and moved through the Erie Canal, which opened in 1825. It linked the Lakes to New York City via the Hudson River.

The Erie Canal was a boon to trade. It further facilitated the growth of Detroit and the adjoining region as the lumbering boom commenced during the second quarter of the nineteenth century. From the flow of lumber wealth, large amounts of capital accumulated in the form of tools, wagons, ships, and infrastructure. The companies of lumber barons Augustus Palms, David Whitney, and others built the fortune that led to the next phase of industrialization in Detroit. Though the lumber industry remained very active until the fourth quarter of the nineteenth century, it diminished after the first growth of trees had been cut. With a lack of modern forestry management, the delay in waiting for a second growth to mature reduced the flow of timber supply.

With the development of the modern steam engine by Scottish inventor and mechanical engineer James Watt, steamboats and steam-engine trains made it possible to move greater weight more quickly and at a lower cost per ton between the Atlantic Coast and the inland ports of the Great Lakes biome. With the shipment of raw and semi-finished materials out of the region and finished goods back in, the economy of Southeast Michigan grew rapidly. However, the greater success of urban areas is measured in terms of the value added to outgoing products.

The value that is added locally in the manufacturing process leads to more employment in occupations that encompass a higher level of skills. The economic goal is to produce finished products for final consumption that possess a high value-to-weight. However, before reaching such a level of industrial development, Detroit would need to go through its rite-of-passage by producing high-value intermediate goods for final producers. As a result, the city would emerge as the world capital for the production of track and railcars to supply builders and operators of railroad systems. First, Detroit would supply the eastern railways in the years preceding and during the Civil War. After the war, it supplied the railroad companies that pushed western expansion to the Pacific Coast.

Detroit has a desirable location along a large waterway. The abundance of flowing water was needed for steel-rail production that used the then-new Bessemer process; developed in 1855, this method utilizes water to cool hot steel. At its apex, Detroit annually produced the greatest footage of steel rail in the world. In addition, the Michigan Car Works and the Peninsula Car Works built freight and passenger rolling-stock to complement the steam locomotives that were turned out by Baldwin of Philadelphia, the American Locomotive Company of Schenectady, and other companies. The manufacture of complex products contributed to the development of the educational infrastructure in the fields of engineering and allied disciplines at the University of Detroit, the University of Michigan, and other schools. Mathematics and trades education also filtered down to the high-school curriculum. In addition to the manufacture of rails and rolling-stock, massive rail-yards and repair “sheds” were erected. Surviving sites such as the Livernois Yard in Southwest Detroit complemented other early industries in the demand for skilled labor. With the push to the western shores completed by 1890, the demand for railroad products subsided. However, the industry continued beyond its heyday as it produced rails for short lines and sidings and rolling-stock for replacement orders as well as for reduced amounts of new orders. During the 1890s, Detroit slid into a depression. However, the new cast-iron stove

industry that relied upon much of the same skilled labor, capital, and technology picked up some of the slack left by the declining railroad-equipment industry.

The automotive industry began in the 1880s and 1890s. Though it held hope for future prosperity, production was limited to the output of many small firms of a few employees each. Typically, these workers built vehicles in small shops that often were attached to the homes of company owners. As of 1905, there were more than 300 car companies in Detroit that had emerged from the wagon and carriage industries. However, most of these small firms survived for no more than a year as entrepreneurs would combine, split, and recombine with other solo producers. This pre-boom phase of Automotive-Age development lasted until the beginning of the First World War in 1914. This period of experimentation, invention, and innovation would not flourish fully until the 1920s.

To summarize thus far, Michigan was designed to be a hub for transportation by the expansion and contraction of glaciers. This hub has supported the manufacture as well as the import and export of a series of products over the centuries. The automotive boom has been only one of such industries in the past three centuries. In order to turn around Detroit and help it to recover, the city must take stock of its assets, including location, accumulated capital, skilled labor, and various elements of infrastructure. By doing this, Detroit can plan for and support its recovery and growth for a subsequent boom period. Perhaps the next industry also will be in the field of transportation. Maybe it will emerge as something totally different that will thrive upon the current base that has developed over centuries to its present state. Replicants? Spinners (flying cars)? Starships? Teleportation machines? Let's think outside the box.

In forthcoming columns, we will explore the major event that formed the horns of the present dilemma in the City of Detroit and its surrounding suburban ring. We will consider the dimensions of Detroit in 1885 when the city limits held at East and West Grand Boulevards. Then we will analyze the rapid expansion of Detroit over the next forty years up to 1926 as the size of the city expanded by eight-fold overall with more than 80% of land annexation occurring during the final decade of expansion. Based upon this analysis, we will consider how the existence of one dominant industry became a necessary feature throughout World War II and the decades that followed in order to generate the income, sustain the employment levels, and maintain the tax base necessary to support the infrastructure provided and maintained by the city and county governments. In addition, we will visit the causes and effects of the post-war housing boom. Furthermore, we will consider the construction and real-estate industries and their perceived necessity to sustain the market for new housing; the pent-up demand by young couples married during or soon after World War II would be satisfied by the early 1950s. Beyond these factors, we will explore the economic malaise brought about by the re-globalization of the economy that grew slowly throughout the decades that followed World War II.

What does the above have to do with attorneys? We present this information because the City of Detroit needs your help. You, our readership, are highly educated and socially engaged. Do you have a vested interest in the next phase of development? If so, then we look to you to be teachers, mentors, and problem-solvers in this endeavor of commonwealth. By using your skills, you can impact the future of Detroit and help it to achieve its full potential, both now and in the future.

