

WITH DAVID LITTMANN, CHIEF ECONOMIST, COMERICA BANK



David Littmann joined Comerica Bank in 1970 and is Senior Vice President and Chief Economist in charge of Comerica's Economics Department and Research Library. He is author of the Bank's business brochure entitled Economic Briefs and has developed a variety of business activity indexes for many regional economies, along with a tourism index for the State of Michigan. He compiles and reports monthly results of the Southeast Michigan survey of the National Association of Purchasing Management-Metro Detroit. The Wall Street Journal and the prestigious Blue Chip Economic and Financial Forecast services include on their outlook panels, the GDP and interest rate forecasts of Comerica's Economics Department. Mr. Littmann recently served as chairman of the Economic Advisory Committee of the American Bankers Association in Washington. He is past president of the Detroit Association of Business Economists. In 1976, he represented the Bank on the Michigan Efficiency Task Force in Lansing. He was interviewed after his speech to the Frontier Centre on September 9th, 2003 in Winnipeg.

Frontier Centre: The Detroit Comeback Index has received a great deal of positive attention. What is it, and why has it had such an impact?

David Littmann: Well, I think it has had a great impact simply because it shows the contrast for a city that was close to the abyss and now we can measure what policy moves, what economic circumstances turn it around a make a situation more viable.

FC: How about a brief background on Detroit? You say it was at the abyss, and people say Winnipeg is a struggling city. Is Detroit like Winnipeg?

DL: Detroit and Winnipeg are two different types of cities. The fact is that after nearly a century of phenomenal growth, Detroit after the 1967 riots had urban blight, white flight and, of course, the aftermath of the riots. Winnipeg has maintained infrastructure and the city living that one would expect.

FC: What led you to invent the index? Are the tools we now use to gauge progress inadequate?

DL: There are a lot of data that are very valuable and reflecting how people are thinking and, more so, voting with their feet and voting with their dollars. It was clear that Detroit's plight needed a turnaround and we had to measure how much turnaround, what kind of policies worked and what didn't.

FC: How often do you report your findings?

DL: For the Detroit Comeback Index it is a quarterly indicator so we are doing an annual update for revisions to make sure the data are good and consistent, but quarterly is the frequency.

FC: The Comeback Index mixes objective elements of economic measurement with other social variables, more resistant to quantification. Aren't some more important than others? How did you arrive at your weightings?

DL: The priorities one must put on a city, if it is to be viable, are the protection of life and property. So crime becomes, obviously, a more heavily weighted part of the 23 components of the index than, say, occupancy rates on office buildings.

FC: If it started in 1993, what is index saying now? Is Detroit ahead of where it was, has it made remarkable progress? How would you sum it up?

DL: Yes, there has been progress, some of which has been a rise in the economic tide, which lifts all ships. But because tax rates have been reduced and other incentives have been strengthened, there has been legitimate comeback on its own, which is the whole purpose of the index. What was once in 1993-94 approximately 100 on the index today stands at something in the order of 115 to 118. It reached a peak of 125.

FC: Has the index been a way of sort of depoliticizing the discussion around policy change in Detroit?

DL: One would hope so. There are no politics in it. Statistics tend to speak for themselves. You are better off, or you are worse off. People are voting with their feet and their dollars to stay or to leave to more

competitive venues. So there are no politics, the main thing is economics, and socio-economic factors speaking with the loudest voice.

FC: You have mentioned that, when property taxes were reduced in Michigan, there was an effect on the value of property in Detroit. Can you talk about that?

DL: Whenever you reduce the tax burden on an asset, whether it is a share of stock or a home, the value of that asset rises. And it was absolutely phenomenal. No place in Michigan had the equivalent gain in appreciation that the homes in the most viable neighbourhoods in Detroit had. By that, I mean the 31 neighbourhoods that we track in the index had the best appreciation of any in Michigan.

FC: How did they make up the revenue for the shift away from property taxes?

DL: The State of Michigan gave us a 50% increase in the sales tax, from 4% to 6%, which didn't do very much to make the state business climate more competitive. Other taxes went up, including the transfer tax on homes, so that when they were sold there was .75% tax on the sales value of the home. That's a mighty tax and averages about \$2500-\$3000.

FC: What was the effect on total revenues from cutting the property tax? Did the property tax revenues go up or down?

DL: By cutting the taxes on homes, the overall tax revenue collections went up. That is because the value of the properties went up and there was more incentive to re-invest by homeowners in the home to make sure the property values went up. Obviously, reducing the tax burden improves the economic fortunes of a community.

FC: What would that say to people who think we should not fund schools with property taxes?

DL: I think the important thing is to be able to see how the taxes that one pays are related to the quality of one's benefits. To the extent that people see a tax burden as being well-spent, they will continue to live in the homes that fund schools that they can appreciate the investment in.

FC: Last December in the Los Angeles Times, Reed Johnson called Detroit "America's Cultural Hot Spot." What do you think sparked that revival?

DL: Detroit becomes a more livable place and a more employable place to the extent that incentives begin to improve, and that's what we saw after a great hiatus of almost 30 years where tax rates were inexorably rising. But we are today seeing a slow reduction in corporate and individual income taxes.

FC: Winnipeg's historic Exchange District is often lauded as a jewel in the rough. The Frontier Centre has identified regulatory barriers, like zoning and building codes, as major impediments to its renewal. You include regulatory costs in your index, but how do you measure what doesn't happen?

DL: One of the insidious things in cities and states and provinces today is that you don't see the casualties of the higher regulations, the

costs of inspections that the marginal businesses, especially small businesses, simply cannot afford and still be competitive. We include four costs of inspection, or fees, and three regulation costs as proxy components in the index. To the extent that you have deregulation or regulatory costs that are reduced, you have a better chance of businesses and therefore employment surviving, and stronger incentives that increase business activity and therefore revenues to the city. That's what we compare: quarter to quarter and year over year, on an index basis.

FC: Canada's cities are perennially complaining that they have fewer taxing powers than their American counterparts and municipal services are arguably more important to citizens than many provincial or federal functions. What sort of mix do you favour?

DL: It is most important to keep the taxes as close to the individual community as possible, because the individual communities and the citizens must have a way of demanding accountability and seeing how those taxes are being spent to their advantage. The farther away those taxes drift, the less accountable and the more waste and redundancy and bureaucracy there becomes. They become more subject to abuse.

FC: Milwaukee's mayor, John Norquist, spoke here last year and he had some interesting comments about the nature of cities. He said that urban congestion was a good thing and that freeways which accelerate movement through cities kill that. Milwaukee tore down a major freeway and created thousands of new housing units along the river in its place.

DL: I don't think you can force a situation. People have to voluntarily, through incentives, be willing and able to move and locate themselves, their families or their employment opportunities in communities. Any force or contrivance by government ahead of those incentives will prove to be a colossal waste.

FC: You include the crime rate in your comeback index and effective policing is obviously a necessary pre-condition for any progress. Don't all the other variables and the index depend on a basic level of public safety?

DL: Indeed they do. If you cannot preserve the safety and integrity of the property and lives of the citizens, no government should go on to a third priority. There is no third priority; either those are taken care of very well, or there will be no base for growth of businesses or residences.

FC: Deregulation is getting the blame for the recent power blackout in northeastern America, even though it was the regulated sector, the electric grid system, that failed. How much are we conflicted with this sort of public dishonesty? How do we correct such misperceptions?

DL: Only the facts coming through a media that is a truly honest, educated, exploratory and investigative will get us to the truth. And the fact is the grid system, the distribution system, was never deregulated.

FC: So it is not a question of deregulation being the reason behind this failure?

DL: No, it was the lack of competition and lack of deregulation that is the cause for non-accountability and the shortage and the waste associated with the power outages. Also there is one other facet. The lack of deregulation led to a lack of competition. Competition would

have fragmented the system in a way that would have prevented such a large scale outage, even under the worst circumstances.

FC: You say you are a short-term optimist regarding the U.S. economy. Why is that, and why would you be a long-term pessimist?

DL: I am a short-term optimist because, in all the forty years I have watched the swings of the business cycle, I have never seen the confluence of more stimulative monetary and fiscal policies, low interest rates and so forth, to accelerate the economy, along with the tax cuts that are going to be very heavily front-weighted for both businesses and individuals. Cuts in income taxes are the most potent of all the possible tax incentives. That is the reason for my supreme optimism that we will have an economy over the next eighteen months that overall moves from about 2% real growth to over 4%. We will see the maximum dynamic strength of this expansion experienced between now and year-end 2004.

I am a long-term pessimist because this expansion should be the window of opportunity to initiate the long-overdue reforms in a bankrupt Social Security and Medicare system. I do not see these reforms underway and, without reform, these spending programs become an albatross around our growth-rate potential, just as they have pushed Europe from 4% growth potential to about 1.5%. The United States, if not addressing these reforms, will experience that long-term decline.

FC: What are your views on rent control?

DL: Rent control, like any government interference with the normal processes of the market, is a disaster. It deprives people who most need it of affordable housing, builders of a venue for profitability and expansion, and a city of its future. Rent controls are an unequivocal disaster to any city that has tried them, including New York and San Francisco. I would hope it will be phased out just as quickly as possible, so that people have a better opportunity for affordable housing in Winnipeg.

FC: What will our cities look like in a hundred years? What looms on the horizon that will change their shape?

DL: Only people, and their desire to be in charge of their pocketbooks. Only as they see themselves as better custodians of their resources, financial and human, compared to government, are they able to salvage a situation. Only by making themselves less slaves to government spending and government bureaucracy will they be entrepreneurial and growth-oriented rather than redistribution-oriented, and take matters under their own advisement to enjoy a prosperity that has characterized the North American continent for two centuries.

FC: So how will the city look?

DL: Under those circumstances of prosperity and growth, citizens will have prosperous cities, with opportunity and choice. If they choose, instead, to see government as a better custodian of their resources, they will find their lives very limited and will become very much slaves, essentially, of the state, with few opportunities for upward mobility.

FC: Any last words for Winnipeg?

DL: Winnipeg should be very proud of itself. What it needs to do is augment its growth rate and magnet qualities for attracting new growth of population, employment, retailing and investment. It has the infrastructure, it has the location, it has the energy cost potential to grow at a faster clip and provide a more prosperous future to its citizens.