

Detroit bankruptcy essay examples

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Detroit has been in the limelight for some time now on issues of bankruptcy. In the year 2013, Detroit filed for bankruptcy due to various economic headwinds and problems. Detroit officially became one of the largest municipalities in the United States to be bankrupt. It was declared in court that Detroit was not in a position to pay its debts. There are various reasons why Detroit is in bankruptcy. These include an increase in taxes, decline in Detroit population, increase in the unemployment rate, low tax revenue, company employees forming unions, low production level, as well as too much borrowing. In the general perspective, the issues are directly and indirectly related to why Detroit is in bankruptcy. Critical analysis show how the reasons are justified and could easily lead to bankruptcy.

Since the year 2000, the population of Detroit has tremendously reduced. The decline of population in Detroit is linked to various economic issues. There are approximately 700, 000 people in Detroit compared to 1. 8 million people in the 1950. The decline is worrying since it correlates to collection of tax revenue and economic output. Many people have gone out of Detroit city, and the trend still continues (Greenup 45). High crime rate continues to drive the residents out of Detroit city. In fact, increase in crime rate has reduced property values, meaning that residents of Detroit have stopped paying the taxes related to property. The city collects very low percentage of property tax. Hence, the decrease in property tax and high crime rate continue to strain finances of Detroit city.

The economic malaise in Detroit began after Second World War when most non-automotive manufacturing jobs moved out of the city. Detroit state and local government took less interest in the exodus of non-automotive

manufacturing companies. The manufacturing jobs decreased tremendously affecting the economy of Detroit adversely. The unemployment rate in the city increased and many people in the city remained jobless. Economically, the per capita income was extremely low meaning the tax revenue pouring into the city was extremely low (Greenup 67). On the same note, the tax revenue in Detroit is low; meaning that the services offered by the city are very low. For example, prevention of crime and solving of crime rate problems are low. The street lights in the city do not operate well, and many buildings are abandoned.

The fiscal woes of Detroit were also heightened by the decades of mismanagement. Evidently, the city bungled numerous federal aid programs and also overpaid the projects in order to incentivize them (LeDuff 34). The issues of bureaucracy in Detroit city bogged down the contracts and deals. The programs that needed urgency and functions of the city were affected. The city sagged into decades of bad governance and management. In fact, most operations in the city became dysfunctional due to years of mismanagement, budgetary restrictions, and corruption, indifferences. The state also borrowed more money with no intention of paying back. Research shows that Detroit owes its creditors approximately \$18.5 billion, which was unable to pay back. Detroit focuses on closing budget holes in 2000, and it borrowed billions of money to cover its budget deficits. The debt worsened the economic situation of Detroit, and the city was in no position to pay the debts and meet its state obligations. Kilpatrick's gambling behavior and being known for perjury scandals eroded the image of Detroit. In addition, the corruption threats distracted the fiscal storm in the city

(Greenup 75). The worst damage that Kilpatrick's cause the city was when he borrowed \$1.44 billion to deal with pension fund debt. Currently, the debt represents one-fifth of the entire city's debt. The damaged image of the city led to increased number of opportunities that the city could have used to rebuild its financial stability and economic strength.

The highest income tax rate in the city forced people to another downturn, whereby people faced many financial and economic challenges. The increased economic challenges forced more people out of the city and those who remained exerted more pressure to the local government. The cost of retiree benefits and health care increased, yet the city government failed to act (LeDuff 46). The retiree's health care obligations drain the budget of the city. For example, the city spent more on fire and police retirees than the active workers. In the real sense, it strained the pension system, as well as the ability of the city to fund it. It is evident that Detroit bankruptcy was caused by employees who formed unions and refused to work. Employees refused to work the revenues and output level in companies reduced forcing some of the companies to shut down.

In the general perspective, Detroit is one of the largest cities to record bankruptcy protection. There are critical issues that drove Detroit city into bankruptcy. These issues include corruption, poor management of finances, too much borrowing, failure to pay debts, high tax rate, increase in employee benefits, Kilpatrick's gamble, as well as employees refusing to work.

Works cited

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