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The Interdependency of Detroit and the Automotive Industry

Skyscrapers are one of the most symbolic types of architecture to humans. They represent their city's population, purpose, and potential. For example, the One World Trade Center in Manhattan was built to be a symbol of America's unity and strength after the tragic terrorist attacks on Sept. 1st, 2001. If every major skyscraper holds some symbolic significance, what does it mean that Detroit's tallest skyscraper also serves as General Motors World Headquarters? In 1996, General Motors bought the tower originally built by Henry Ford and since then the over 700 feet high General Motors logo has overlooked the entire city (*About GMRENCEN*). The logo's position over the city serves as a perfect metaphor for the interdependent relationship between the automotive industry and Detroit, Michigan.

Detroit and the automotive industry have been intertwined since the automobile was invented. While Detroit was a large, machinery-focused city, it did not begin to receive much attention until the automotive industry landed there in the late 19th century. As cars became more popular and affordable, the industry grew deeper roots in Detroit and attracted a significant number of people to move there. In the blink of an eye, Detroit became the industrial hub and fourth-largest city in America due to its newfound economic engine. The dependency of Detroit on the automobile industry and vice versa has been evident from the beginning and plays a significant role in the politics, economics, and culture of the entities. Unfortunately, the relationship between the city and industry has proven to be volatile over the years. When problems such as crime or economic recessions affect one side, it directly affects the other, meaning the success or failure of one defines the success or failure of the other. Recently, the automotive industry and Detroit have taken steps to separate themselves from one another. Factories have been relocated and the glory of Detroit has faded. However, the General Motors logo still resides high over the city and has grown to represent the potential for the industry and city to be restored as independent powerhouses. Policies and programs are needed to protect Detroit against the inevitable highs and lows of the automotive industry. Meanwhile, automotive manufacturers must restructure their companies and adopt new technologies and principles to be successful in the twenty-first century. As the city of Detroit and the automotive industry face the challenge of rebuilding they must discover their identities as individual entities to restore a mutually beneficial relationship.

To understand the interdependency of the automotive industry and Detroit, one must learn the history of their relationship. Before automobiles, Detroit was founded on the lumber, railroad car, and tobacco industries. The economic opportunity of these industries was enough to attract people to the area and establish Detroit as the leading city in Michigan. As the carriage and wagon business started to take hold in Detroit, it produced a great number of educated engineers. With trained engineers, railroad systems, and natural resources like ore and salt deposits already around Detroit, it was the perfect place for automobile manufacturers to get started. By the late 1880s, entrepreneurs like Henry Ford had developed and tested automobiles but, to the middle class, it seemed as though only the rich would ever be able to afford this new invention. It was not until about 1920 that automobiles eliminated horse-drawn carriages for all practical purposes. In 1900 the first factory in the world specifically built to produce automobiles was completed in Detroit by Olds Motor Works, a company that was purchased by General

Motors in 1908 (Senter and McManus). The late 1880s to early 1900s was a period of experimentation for the automobile industry in Detroit. Automobile manufacturers were popping up all over Detroit, but only a few manufacturers survived the trial and error period. Those that survived are the companies most familiar to people today, including Ford Motor Company and General Motors.

As the automobile industry grew exponentially, the city of Detroit was developing at a similar rate. With an influx of jobs and a new mode of transportation, Detroit had to redesign its infrastructure and grow its resources to keep up with the demand. For example, road commissioners had to advance road designs to accommodate motor vehicles. To prevent automobile accidents "the first white dividing line in the automotive era was applied on River Road … near Trenton, Mich., in 1911" and the first mile of a concrete highway was poured on Woodward Ave in Detroit in 1913 (Szudarek 261). So, not only was Detroit leading the way for automobile manufacturing, it was leading the way for modern road construction as well. Another industry that grew as a result of automobile manufacturing was gasoline. The home of the first-ever "drive-in" gas station was on the corner of First and Fort streets in Detroit in 1905 (Szudarek 344). Before this, gasoline was purchased in general stores and was difficult to transfer. By 1950, Detroit's population hit 1.85 million and offered 296,000 manufacturing jobs. This made Detroit the fourth largest city in America (Weber). With Detroit's new standing and population influx, the entertainment industries also grew and provided even more job opportunities. Motown Records was founded in 1959 and was very influential in the development of modern music (Weber). In general, the existing skills and resources of Detroit provided the automotive manufacturers the necessary tools to jump-start their ideas with ease. Once the automotive industry proved to be successful, it returned the favor to Detroit by providing jobs and incentives to live there. Thus, Detroit and the automobile industry established a mutually beneficial relationship that they continued to foster until the Great Recession of 2008 that exposed their relationship's weak points.

The interdependency of Detroit and the automotive industry was a relatively healthy one until recent years. During the Great Recession, General Motors was advised by the United States Federal Government to declare Chapter 11 bankruptcy. Chapter 11 bankruptcy means "the debtor remains 'in possession,' has the powers and duties of a trustee, may continue to operate its business, and may, with court approval, borrow new money. A plan of reorganization is proposed, creditors whose rights are affected may vote on the plan, and the plan may be confirmed by the court if it gets the required votes and satisfies certain legal requirements" (Chapter 11 - Bankruptcy Basics). Thus, declaring Chapter 11 bankruptcy allowed General Motors to propose a plan of reorganization and pay creditors over time. The United States government acted as the creditor in this case and provided General Motors with emergency funds that kept the manufacturer from completely dissolving. The bankruptcy happened quickly and left General Motors' previous shareholders with nothing. The United States government was given a significant amount of equity in the company, but even if the government sold all of its shares the amount of money required to keep General Motors alive could never be recovered completely (Senter and McManus 2).

Although General Motors' bankruptcy was swift, the causes of their bankruptcy had been festering since General Motors' inception. Essentially, General Motors' problems began when the executive teams shifted to people with finance backgrounds. These finance-minded executives were unqualified to make product and manufacturing decisions. They also mishandled the company's financial products (Senter and McManus 11). Alfred P. Sloan Jr. became the Chief

Executive Officer of General Motors in 1923. Immediately, Sloan worked to create more balance in the multi-divisional company by creating committees and dispersing decision-making power from the central administration. Furthermore, Sloan shifted the executives' focus from direct supervision of product development to financial control in an effort to optimize profit. This operation structure worked until Sloan stepped down from his position as CEO. His absence allowed for the executive team to morph into a financial team while simultaneously gaining more control over the divisions. These executives wanted to "achieve even greater economies of scale in its car and truck population" (Senter and McManus 10). To achieve their goal, General Motors reduced cost by producing cars that lacked variety or improvement while also introducing financial products to the company. The executives' attempts to increase profit did the exact opposite. "The really bad Detroit cars of the late 1970s and early to mid-1980s launched a cycle that has proven disastrous for all three companies. Poor design and bad reliability records led to customer dissatisfaction, which led to weaker demand for new Detroit cars as well as used ones. Customers were willing to buy Detroit cars--but only if they received a discount in advance for the mechanical problems they assumed they would have" (White). The diminishing profit of physical cars was offset by the initial success of General Motors' financial products, such as loans. However, an unhealthy dependence on the financial industry is ultimately what launched General Motors into bankruptcy during the Great Recession. "GM did see an opportunity in the money to be made from selling mortgages, and plunged its GMAC (General Motors Acceptance Corporation) financing operation aggressively into that market. Of course, GM did not see the crash in subprime mortgages coming, either, and now GMAC effectively is bankrupt" (White). From 2006 to 2009, General Motors' profit fell by almost 50% and they eliminated one-third of their workforce. GM's massive debt and poor prospects stopped any private equity interests from purchasing the company before it went under prompting the government to step in before it was too late.

Just a few years after General Motors declared bankruptcy, the city of Detroit followed in its footsteps. The origin of the city's problems can be traced back to the late 1950s as suburbs drew the wealthy population out of the metropolitan area. Then, a string of racial issues beginning with the 1967 race riots pushed even more, specifically white, residents further out of town. Like the residents, the automotive manufacturers were also fleeing Detroit and opening plants in other cities. Thus, white Detroiters "reinforced African Americans' ghettoization, trapping them in the center of the city as it was being rapidly stripped of jobs. By so doing, they forced black Detroiters to bear the burden of deindustrialization" (Boyle 114). Furthermore, foreign manufacturers started to infiltrate the American industry reducing demand for vehicles from American manufacturers. All of these factors contributed to property values falling, tax revenue decreasing, and a significant rise in crime. The final straw for Detroit's financial woes was the bankruptcy of General Motors in 2009 (Detroit in Bankruptcy). At that point, it was only a matter of time before Detroit was forced to declare bankruptcy. How much of a role did the automotive industry play in Detroit's downfall? Every financial issue the automobile industry faced was echoed in Detroit's economics. As the manufacturers started to abandon the city and close factories the city's tax base dissolved (Detroit in Bankruptcy). Job opportunities were slim in the automotive realm and Detroit's population had to look past the city border for prospective jobs. Today, General Motors is the only major automotive manufacturer still headquartered in Detroit.

At the time of Detroit's bankruptcy, it was "the largest city in American history to file for bankruptcy protection" (Detroit in Bankruptcy). Never before had a city of this scale failed so horribly in American history. Similarly, General Motors was one of the largest American companies to almost be completely liquidated. Thus, the proceedings of General Motors and Detroit after bankruptcy would be a lesson to all on what, or what not to do, if such an event happened again. Generally, the population of Detroit and General Motors remained optimistic in the media that they could bounce back and grow stronger from their struggles. Whether their optimism was correct or not, it can not be forgotten that their failures hurt the industry, city, and individuals in ways that cannot be reconciled.

The impact of bankruptcy is felt economically, socioculturally, and environmentally. The main difference between General Motors and Detroit's filing of bankruptcy is the chapter they each filed under. General Motors filed under Chapter 11 which is more common with businesses, even if it had not been used on such a large scale before. On the other hand, Detroit filed under Chapter 9. "Chapter 9 offers municipalities an opportunity to effect a plan of adjustment. The plan of adjustment is a settlement to restructure debt filed by the debtor in Bankruptcy Court" (Tatum 169). This means that "overall, debtors under Chapter 9 hold more power than creditors compared to other chapters of the Bankruptcy Code" (Tatum 271). Chapter 9 stipulations came into play quickly for Detroit when the opportunity to sell much of the collection at the Detroit Institute of Arts, also called the DIA, was proposed. The DIA is significant to the culture of Detroit and is one of the city's greatest achievements. Nevertheless, "due to the enormity of Detroit's liabilities -- $18 billion -- and the pricey valuations attached to the DIA, if there was ever a case for new precedent to be set on the vulnerability of public assets in Chapter 9 bankruptcy it would be this case" (Tatum 273). Fortunately, the sale or disbursement of the DIA's collection was prevented by the threat of "lawsuits by donors" that "could have forestalled an auction and ultimately the payment of creditors" (Tatum 276). This is just one example of how

Detroit's inevitable bankruptcy continued to destroy the city's identity. If not for citizens that valued the promise of Detroit to be a city that fights and makes something of itself, the DIA's extravagant collection of art would have been ruined.

Another consequence of the bankruptcies can be seen in the city services of Detroit. Since General Motors and the city declared bankruptcy, the basic necessities to keep Detroit operating have been failing as well. "The city's managers literally cannot keep the lights on. According to the report, street lights in 40 percent of Detroit do not work, and Detroit is crowded with some 78,000 'abandoned and blighted structures' and 66,000 'blighted and vacant' lots" (Clarke 12). For the population left in Detroit, it is disheartening to witness their home crumble around them. Between the sudden job shortages and failing city, it is understandable that a sense of desperation would fall upon the people. Desperate people often feel cornered and take drastic measures to feel secure again. This helps explain why crime took root in Detroit and the city's current reputation of being dangerous and harsh was established. Detroit's crime rates are significantly greater than the United States average, especially in the violent crimes and robbery classifications (Detroit MI Crime Rate). Clarke summarizes the impact of bankruptcy on Detroit very well. He says, "Detroit is poised to become some kind of cautionary tale for other U.S. cities struggling with rising costs, declining populations and persisting job loss. Will it be a story of ruined retirees, lost civic treasures and scavenging vulture investors, or will it be a tale of shared sacrifice, reinvestment and civic reinvigoration that involves all members of a recovering community?" (Clarke 13).

Since General Motors and Detroit's respective bankruptcy, they have taken action to rebuild and improve themselves independently from each other. The most notable change General Motors made to survive was dissolving its least profitable subsidiaries, such as Saturn and Hummer. Once General Motors accomplished that, they took the company public again generating billions of dollars. By 2011, GM regained its title as the largest automaker in the world ("General Motors"). While General Motors could make sudden changes to avoid financial ruin, the city of Detroit faced a longer period of rebuilding before success was evident. A wave of entrepreneurship has been inspiring people to become rooted in Detroit and pursue business opportunities unrelated to the automobile industry. Additionally, corporations have been working to fulfill the basic needs of the city services in Detroit prior to its bankruptcy. "Local corporations have joined in an $8 million campaign to provide 23 new emergency medical service vehicles and up to 100 new police cars to replace the city's aging and poorly maintained municipal fleet. Quicken Loans brought its headquarters and 7,000 jobs to downtown Detroit in 2010, inspiring a rush of tech start-ups to join in. Cafes and restaurants are opening. New jobs are being created by entrepreneurs attracted to the city by its low overhead" (Clarke 14). Based on the actions General Motors and Detroit took directly after bankruptcy, the potential for unprecedented recovery is evident, although the rate of success must be measured by different variables for each entity. And there is still much work to be done to prevent a sudden collapse again in the future.

The question experts are working to answer now is how to prevent General Motors or Detroit from experiencing bankruptcy again. The manufacturer and city have taken steps in the right direction already, but progress must be continuous in order to stay in front of another unpredictable economic downturn. In regard to General Motors, most analysts agree that the manufacturer needs to diversify its product. "For GM to thrive requires a higher level of achievement. It has to develop cars and trucks that are not just as good as but better than the competition and that begin to appeal not just to red-state customers but to more critical buyers on the coasts. … And it has to be a leader in technology that is important enough to consumers for them to pay a premium for it" (Taylor 237-238). As the manufacturer builds its product portfolio, it also should consider its reliance on Detroit in the process. For example, dispersing the location of new plants around the country and remaining open-minded to opportunities outside the metropolitan Detroit area will help to avoid destructive dependence on the city. General Motors has taken these ideas into consideration with recent business decisions. In October 2020, General Motors announced its Spring Hill, Tennessee plant will be transitioning into an electric vehicle manufacturing site. In the same announcement, it was revealed that significant investment in existing plants around Detroit is also happening (GM Investing). These actions prove General Motors is still grounded in Detroit but willing to expand as it pursues product advancement. The manufacturer's reluctance to accept changing technology prior to 2009 has completely changed as well. General Motors has rebranded and declared its intention to be an all-electric vehicle manufacturer. As a company traditionally centered around trucks and sport utility vehicles, this is a drastic change that was met with some resistance from its customers. With the rebrand, a new logo was introduced "intended to acknowledge General Motors' latest focus on electric vehicle technology and vision for a world with zero crashes, zero emissions, and zero congestion" (Lopez). Thus, a new logo also resides over the city of Detroit.

As General Motors works to diversify, the city of Detroit must work to lift up its current residents, encourage new industry to grow, and update city policy to promote independence from the automotive industry. As mentioned earlier, the population of Detroit has proven and must continue to be resilient. When jobs are hard to come by residents could easily move, abandon their neighborhoods, and pursue better opportunities elsewhere. However, to restore the city residents need to view the bankruptcy as a chance to start over. An entrepreneurship initiative has blossomed in Detroit since 2013, especially in the younger population of native Detroiters. For example, Christopher Prater is a “young African-American entrepreneur, born and raised in Detroit” (Clarke 15). Christopher moved back to the city after its bankruptcy and is rejoining the family business while opening his own clothing store. He is just one of many young people passionate about the reconstruction of Detroit and willing to use their talents to help make progress (Clarke 15). The method of entrepreneurship is another factor to consider when planning the future of Detroit. Generally, entrepreneurs are investment-focused. They believe fast-paced ventures with high investment rates are the most effective. However, this is not the only way to approach entrepreneurship. In Detroit’s case, where the entire city is needing to be rebuilt, an organic growth method may be more stable long term. GREEN is a local business incubator in Detroit that was developed after the city’s bankruptcy. Business incubators are organizations that aid startup companies and entrepreneurs with services, workspace, training, etc. GREEN differs from other business incubators because it disregards “rapid customer validation” and emphasizes “grounding business ideas in the entrepreneur’s identity and in the unique needs and opportunities of local communities” (Kim 772). GREEN has been very successful with its approach and adapted well to the changing needs of its companies that provided jobs to the struggling communities. “This suggests that a successful reframing during crisis can stem from situating oneself in the environment that is rich in terms of crisis-induced troubles” (Kim 798). GREEN’s philosophy of solving a problem from the inside out had been crucial to their success. It also explains why the people of Detroit are the best ones to rebuild the city. They understand the problems better than anyone and want long-term solutions. Outside investors will never understand the heart of Detroit well enough to give it the best chance at a bright, successful future. Christopher Prater, the native Detroit entrepreneur, described the city best when he said, “At the heart of what Detroit is, we're a manufacturer” (Clarke 15). The city has proven itself to be creative and manufacture ways to survive when it seems there are no good options. As long as the people maintain that mindset and keep pushing forward, the city of Detroit will survive.

In addition to determination and perseverance, the leaders of Detroit must change the city’s policies and make Detroit function independently from the automotive industry. When Detroit declared bankruptcy, a conference including experts from government, academia, nonprofits, and business was held to discuss what lessons should be learned from the city’s fiscal crisis. At the end of the conference, the experts concluded that “improved state government oversight of local budgets—coupled with institutions that are empowered to complete fiscal restructurings with little outside political pressure—may hold the key to preventing local financial distress or mitigating its effects” (*What happens after Detroit’s bankruptcy?*). This reasoning implies that Michigan’s state government needs to take action in Detroit’s financial circumstances when the problems begin to spread farther than city borders. In addition to more oversight of finances, the city desperately needs to fix the systems it already has in place to make Detroit more welcoming. “Detroit officials have plans to lure new business to the area by providing tax breaks, assembling parcels of land, and even offering to match investors' money with grant funding. But those plans are likely years away from becoming reality” (Klinefelter). If the city officials can keep their attention on the small details of Detroit to help clean it up and prepare it for future entrepreneurs, it will set a stable foundation for the city in its new era. Lastly, it should be mentioned that politicians often promise money away that they do not actually possess and that is a direct factor in Detroit’s bankruptcy. “Cities like Detroit -- and states like Illinois, California, and Connecticut -- got into fiscal trouble because their political leaders spent too much and promised too much to public-sector employees in the form of future pension benefits" (Fisher). Moving forward, Detroit's political leaders must make better financial decisions and be truthful about the state of the city's economy before making empty promises to their constituents.

Since the collapse of the American automotive industry and the city of Detroit in the late 2000s, progress in rebuilding the industry and city separately has been made. Their collapse, or bankruptcies, was directly influenced by the interdependence of Detroit and the automotive industry. While that history should be respected, it is evident that positive progress will only be made if the two are strong separately before they rely on each other again. General Motors rebranded and Detroit is making strides to improve its reputation, but the biggest question still hovers over the automotive capital of the world, literally. Will General Motors' new logo over the city of Detroit signify a new and improved relationship or will it signify the harmful cycle of overreliance beginning again?

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