Bush signs bankruptcy law: another cruel blow in a one-sided class war

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President Bush signed into law April 20 the second major piece of domestic legislation enacted by the Republican-controlled Congress in 2005: a massive restructuring of federal bankruptcy laws which punishes middle-class debtors and awards increased payouts of as much as $1 billion a year to their creditors, mainly banks and credit card issuers.

The 500-page bill was largely written by the financial interests, who have spent $40 million and eight years lobbying Congress for a measure to make it more difficult for individuals to escape debt repayment. The law imposes a two-stage means test on bankrupt debtors that will reduce the number permitted to file for bankruptcy under Chapter 7, which provides for liquidation of most debts, and force more debtors to file under Chapter 13, which requires significant repayment.

Debtors who have sufficient discretionary income to make some repayment—as defined by the new law—and whose incomes are above the median for their state will be required to file under Chapter 13. Last year, over 1.1 million filed under Chapter 7, while some 450,000 filed under Chapter 13. Under the new law, which will take effect in six months, anywhere from 30,000 to 200,000 debtors will be shifted from the more lenient to the more restrictive regime.

Bankruptcy judges, who now have considerable discretion in fashioning or waiving repayment plans, will be required to follow much more restrictive guidelines. Hundreds of judges and law professors expressed their opposition to these provisions, but their experience was ignored.

Bush's brief statement before signing the bill at the White House was the usual mixture of moralizing and hypocrisy. "America is a nation of personal responsibility, where people are expected to meet their obligations," he declared. "If someone does not pay his or her debts, the rest of society ends up paying them."

Actually, the burden of unpaid debts falls on the creditors, who frequently contribute to bankruptcies in the first place by pushing misleading credit card offers on the poor, the elderly, young people and others not in a position to make repayment. In many cases, the exorbitant fees and rates charged for high-interest credit cards are a major reason why people become overwhelmed by debt. Nowhere in the new law are they held accountable. The credit card industry succeeded in defeating a proposed amendment that would have required them to tell customers how much more expensive it is, in terms of interest charges, to make only minimum payments.

As for "personal responsibility," the huge rise in bankruptcies in recent years is due far less to reckless spending than to inadequate or nonexistent health insurance coverage. The majority of the 1.6 million personal bankruptcies last year were caused by unpaid medical bills. They were the result of an acute crisis of the health care system in the United States, which manifests itself in personal tragedies, both medical and financial, for millions of people.

Talk about taking personal responsibility and paying one's debts is particularly hollow coming from a president who has never taken responsibility for the disastrous outcome of his own policies, both domestic and foreign. (No Bush administration official has been fired for the lies used to justify the war in Iraq, the failure to prevent the 9/11 terrorist attacks, or the transformation of record federal budget surpluses into record federal deficits.)

The first two major pieces of domestic legislation in Bush's second term to be enacted by the Republican Congress—with considerable Democratic support—were the bill limiting class-action lawsuits and the new bankruptcy law. Next up is legislation to limit the right of patients to sue doctors and hospitals for damages in cases of medical malpractice, a bill long desired by the American Medical Association and the insurance industry.

All these bills have one thing in common. They are brazen acts of favoritism towards the most privileged layers in American society at the expense of working people. In the case of the bankruptcy law, the class character was underscored by a legislative coincidence. The House of Representatives gave final passage to the bankruptcy bill on April 15. The day before, the House passed a bill for the permanent repeal of the estate tax.

The estate tax is paid on only 3 percent of inheritances, those worth $7 million or more. Under the law enacted by the Bush administration in 2001, this tax was to gradually decline to zero by 2010, then be restored in 2011. The restoration was a bookkeeping device to reduce the projected cost of the Bush tax cuts. The new bill eliminates the restoration, making the estate tax repeal permanent.

The juxtaposition of the two bills is instructive. On April 14, the House voted to provide a windfall to the super-rich costing $290 billion over the first decade, and nearly $1 trillion the second decade. The next day it voted to put the squeeze on the most vulnerable middle-income families—households that are, for the most part, already reeling from a major medical crisis, divorce, or loss of a job—to boost the profits of the banks and credit card issuers.

The House vote on the bankruptcy law was 302 to 126. Not a single Republican voted against the bill. Nearly 40 percent of the Democrats voted for it. The difference is worth underlining. The Republicans proceed in lockstep, as disciplined, ruthless, unashamed advocates of the financial oligarchy. The Democrats are divided and impotent, split not so much over the substance of the bill, as over the fear that the party's increasingly shabby pretense to represent the interests of working people will be completely shattered.

So naked is the class warfare being practiced by the Bush administration and Congress that even sections of the bourgeois political establishment are beginning to grow nervous. The *Washington Post* published a front-page article April 21 headlined "Economic Worries Aren't Resonating on Hill." The article pointed to the difficult conditions facing working people, hit by falling wages and skyrocketing gasoline prices. "Yet," the newspaper noted, "the only economic bills signed into law this year have tilted against the little guy: Legislation that restricts class-action lawsuits, and a major rewrite of the nation's bankruptcy laws, signed yesterday, that will make it harder for debt-ridden Americans to wipe out their obligations."

The *Post* continued: "The disconnect between pocketbook concerns of ordinary Americans and the preoccupations of their politicians has helped send President Bush's approval ratings on the economy down, while breeding discontent with Congress. The problem has yet to grow into a political wave that could sweep significant numbers of lawmakers from power next year, but both parties face risks if they fail to pivot their attention to economic issues."

It is noteworthy that the impact of the bankruptcy law will be greatest in poorer states in the South and West. The 10 states with the highest bankruptcy filing rates are Utah, Tennessee, Georgia, Nevada, Indiana, Alabama, Arkansas, Ohio, Mississippi and Idaho, in that order, according to the American Bankruptcy Institute. All 10 states voted for Bush in both 2000 and 2004. These states are also heavily Republican in their congressional delegations: 16-4 in the Senate, 44-28 in the House.

In other words, the legislation will punish millions of lower- and middle-income families who voted in significant numbers for the very congressmen and senators who passed the bill, as well as the president who signed it. What concerns the *Post*—a fervent defender of the war in Iraq—is that Bush's policies are so brazen they are destabilizing the already limited and fragile social base of his administration. At the same time, the Democrats' response is so craven, the net effect is to undermine the entire two-party system, creating the conditions for political upheavals.