Stockton, California seeks bankruptcy

Kevin Kearney
6 March 2012

Stockton—California's 13th largest city—is considering filing bankruptcy under Chapter 9 of federal bankruptcy law. The city, a major population center, agricultural hub and inland port, would be the largest California city to declare bankruptcy as a means of easing its overwhelming debt burden. City officials voted February 28 to take the initial steps required before filing the petition.

Since 2008 the city's finances have shipwrecked on the housing crisis, despite being home to billionaire Alex Spanos—owner of the San Diego Chargers football team and member of the Forbes 500—and the exporting point for a number of multi-billion-dollar agribusiness giants.

For more than a decade, the city's economy was given an extraordinary lift by wild speculation in residential real estate. This was fueled by a combination of the Fed's long-running cheap credit policy and the securitization of increasingly questionable mortgage debt, which together drove housing prices to more than twice their inherent value.

Priced-out of San Francisco's tony Bay Area neighborhoods, workers moved further inland in droves, seeking the security of owning a home, despite the ridiculous prices. However, unlike the Bay Area, Stockton—like most of California's Central Valley—has chronically suffered a lack of decent jobs, severe environmental problems, poverty and crime. It is also not near the ocean or the mountain ski resorts of Lake Tahoe.

So when the housing bubble burst nationwide after 2008, California's Central Valley suffered the hardest blow. And Stockton, due to the factors mentioned above, was hit the hardest of nearly all Central Valley cities. Thus, last October Stockton rocketed past Las Vegas as the nation's top metropolitan city for foreclosure activity, according to RealtyTrac's US Foreclosure Market Report. The inordinately high level of social misery suffered by working Stocktonians is horrific and positively criminal when one considers the extraordinary wealth enjoyed by a handful of Californians.

The sheer extent of the social wreckage was hammered home last year when Forbes named Stockton the "most miserable city" in the country, noting: "Median home prices in the city tripled between 1998 and 2005, when they peaked at $431,000. Now they are back to where they started, as the median price is forecast to be $142,000 this year, according to research firm Economy.com, a decline of 67 percent from 2005. Stockton's violent crime and unemployment rates also rank among the 10 worst in the country… Jobless rates are expected to decline or stay flat in most US metro areas in 2011, but in Stockton, unemployment is projected to rise to 18.1 percent in 2011 after averaging 17.2 percent in 2010."

But Stockton is not an aberration in California or the nation. Despite the constant "false dawns" glimpsed by the criminals of finance capital and dutifully trumpeted by their lackeys in the press, California took 6 of the top 20 positions on the Forbes list of social misery, which included other major Central Valley cities like Modesto, state capital Sacramento (which ranked number 5 this year), Bakersfield, and Merced. These California cities and others have also considered bankruptcy.

Allowing a city to default on its obligations was not the intent of the bankruptcy law. The process is nothing like a personal or even small business filing, where a single person or a few people associated with a business venture seek protection and relief from wealthy and powerful banks marshaling all of their resources to squeeze out their "unearned increment."

Chapter 9 was not designed to handle the new specimen of bankruptcy spawned in the depths of the worst economic crisis since the Great Depression.

Therefore, the legislature has required “neutral evaluation” of a city’s finances before a filing can be allowed. The third party evaluator must first come in and look for alternatives and this can be a very delicate issue.

The cause for concern is that while the city will escape big bank creditors it will also tear up long-standing contracts with its employees. This is particularly important for Stockton, where the largest employers—excluding the poverty-wage jobs in the fields on the outskirts of town—are the state and local government.

Much like the European bailout packages, a bankruptcy filing would increase the social misery for Stockton workers by raising unemployment, slashing health and retirement benefits and ultimately depressing the city and regional economy even further.

Moreover, Stockton’s bankruptcy—which would be the second largest in the state after Vallejo—could mark the beginning of an eventual stand-off between US states and finance capital. California and other states are at the mercy of finance capital and depend desperately on the purchase of municipal bonds. But if the financial vampires demand deeper and faster austerity measures—the state’s infrastructure and schools are already a wreck—before purchasing the state’s bonds, a European scenario could quickly unfold and expand to other states.

In addition to Stockton and other devastated towns in the Central Valley, several other, smaller California cities are considering bankruptcy, including Lincoln, Hercules and Half Moon Bay. California Treasurer Bill Lockyer expressed concern over the “reputational stain” from further municipal bankruptcies. Richard Larkin, director of credit analysis at Herbert J. Sims, told the *Wall Street Journal*, “The more [bankruptcies] that occur, the more likely that the credit market will begin to make borrowing more difficult by raising interest rates for bond issues of other organizations in California, including the state itself.”