Stockton, California moves closer to bankruptcy

Kevin Kearney
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Stockton's city council overwhelmingly passed a resolution last week authorizing City Manager Bob Deis to declare bankruptcy if the city is unable to reach an agreement with its creditors once the state-mandated mediation process ends June 25. The default of Stockton—California's 13th largest city—would represent the largest municipal bankruptcy in US history, another unsettling milestone in America's social decline.

A major agriculture exporter and port city in California's central valley region, Stockton owes more than $700 million in long-term debt and faces a budget deficit of up to $26 million as of July 1. The city began a state-mandated negotiation process with interested parties in February.

The city has already slashed public services to the bone and laid off masses of workers over the last five years, including a quarter of its police force, 30 percent of firefighters and 43 percent of all other job classifications. The city suffers some of the highest rates of foreclosure and unemployment in the nation. Mayor Ann Johnston said, "We have hit the wall. This [the vote for bankruptcy] is the action that we must take to keep the services that are important for the safety and health of our citizens."

The media has emphasized in its coverage the city's profligacy, mismanagement and corruption. This is a red herring meant to obscure the real significance of Stockton's likely bankruptcy and what it reveals about the fetid state of US society.

Stockton's collapse is rooted primarily in the 2008 collapse of the housing market bubble, which—fueled by criminal financial speculation on mortgage debt and artificially low interest rates—boosted the revenues of thousands of major cities nationwide, only to leave them in ruins after the bubble burst. The ensuing global economic crisis and waves of austerity measures pushed by California's Democrat-dominated political elite have exacerbated the situation, leaving high levels of unemployment, a dearth of social services, emaciated schools and blighted neighborhoods in their wake.

Stockton is, in reality, one of several major cities in this predicament. *Sacramento Bee* political columnist and "insider" Dan Walters laid out the situation rather bluntly in a recent article: "It's no secret that other California cities are at least thinking about bankruptcy as their expenses outstrip revenues, including the state's largest, Los Angeles."

The underlying fear is that Stockton's bankruptcy could begin a domino effect in which a number of major cities go broke, compromising not only their own bond ratings, but that of the entire state, ultimately leading to a situation—not unlike that confronted by workers in Spain, Italy and Greece today—in which finance capital directly dictates ever-more extreme austerity measures while demanding crushing interest rates for the municipal bond holdings of already wealthy investors.

As Walters notes, Los Angeles—the second largest city in the nation and a critical hub of the global economy—is navigating a fiscal crisis like Stockton's. Another major California city, San Jose, has also openly considered bankruptcy. The vaunted center of the computer and Internet boom—third largest city in California and tenth largest in the nation—has been waging political war on its own public safety workers for months in an effort to strip them of pension benefits promised during the bubble. According to the *Wall Street Journal*, the city has spent the last 10 years—since the dot.com bubble burst—managing a fiscal deficit that reached $115 million this year.

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Although the city and its workers have proven critical for the creation of a number of billion-dollar Internet companies, San Jose's mayor, Chuck Reed, recently backed a successful referendum to cut the pensions of local police and firefighters in order to mitigate its chronic deficit. Last Tuesday, the measure passed over the meek opposition of San Jose's largest employee union, the American Federation of State, County and Municipal Employees, or AFSCME, which has threatened a lawsuit but refused to mobilize its membership.

In his 2010 bid for governor, Jerry Brown made much of his plan to "empower local governments." This was sold to the electorate as a way to move decision-making "closer to the people," in Brown's words. In practice, the plan amounted to nothing more than off-loading a number of expenses the state once covered onto cash-strapped local governments. Sentencing realignment—which has sent a number of state prisoners to local county jails as part of a Supreme Court order to reduce inhumane conditions caused by overcrowding—is just one of a number of large state expenses suddenly foisted onto local governments.

The recourse to municipal bankruptcy creates new tensions between state and local governments. Although bankruptcy threatens to damage municipal bond ratings—an issue of immediate concern for the state—it has become increasingly attractive to local governments as a potentially faster and less politically risky means of eliminating the pensions and benefits of workers.

The case of Vallejo, California, is instructive. Vallejo's city council voted to authorize Chapter 9 municipal bankruptcy in 2008, making it the largest city to do so in California's history. Like Stockton and San Jose, the city's politicians scapegoated workers and their "exorbitant" pensions and benefits for the fiscal breakdown. The city emerged from the process last year after using the threat of default and the collusion of labor union bureaucrats to force drastic reductions in pensions, benefits, and salaries and even alter minimum-staffing requirements for the fire department.

Dan Walters expresses rhetorically the growing allure of bankruptcy to a number of strapped local governments that have been all but abandoned by the state: "Could a bankruptcy court, citing the primacy of the federal law over the state law set aside local government labor contracts, slash pay and even reduce pension promises?"

In anticipation of such a development, the state legislature quickly passed a new law last year that requires Stockton, and all others from now on, to go through the current 90-day mediation process before filing for Chapter 9. Spurred by the prospect of many cities following Vallejo's lead in the seemingly endless economic crisis, the legislation was meant to stave off or at least slow down municipal bankruptcies.

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