Biggest ever US municipal bankruptcy

Stockton, California slashes workers' health benefits ahead of bankruptcy filing

David Brown, Barry Grey
28 June 2012

The City Council of Stockton, a river port with nearly 300,000 residents in California's central valley region, voted Tuesday night to file for bankruptcy protection and adopted an interim budget that slashes health benefits for both current and retired city workers.

Hundreds of retirees and other residents packed the council chamber and two overflow rooms, denouncing city officials as "tyrants" and "incompetents." Retirees tearfully protested that proposed cuts in their health plan were tantamount to a death sentence.

The Associated Press quoted Gary Gillis, a retired fire chief on the board of directors of the city retiree association, as saying, "Some people will be devastated. There are those who have such severe medical problems that they will not be taken up by any medical company. This plan appears to be a sledgehammer or a machete."

The Council nevertheless voted 6-1 to file for protection under Chapter 9 of the federal bankruptcy statute and provided a foretaste of the type of attacks that are to come by, among other measures, stripping city workers with less than ten years service of all health coverage.

Stockton will become the biggest city in US history to file for bankruptcy when it files papers this week in federal court in Sacramento. That will initiate a process in which an unelected judge will have the legal power to rip up city worker contracts and gut the wages and benefits of both current and retired workers, as well as ordering sweeping cuts in public services.

By means of bankruptcy, the government will insure that the burden of the city's collapse is imposed on the working class and the city's major bondholders, such as Wells Fargo bank, suffer the least possible losses.

Financial giants such as Wells Fargo and its counterparts on Wall Street played the central role in the financial collapse of Stockton and the downward spiral of hundreds of other cities and towns across the country. They made billions fueling the sub-prime mortgage bubble, packaging and selling securities backed by predatory home loans. When the bubble burst, cities like Stockton were suddenly confronted with the collapse of their tax base alongside a rapid growth of unemployment and poverty.

Stockton has the second-highest foreclosure rate in the country. Housing values have plummeted to a third of their peak and unemployment now stands at 17.5 percent. Median household income in Stockton is $13,000 below the state average.

Some 20 percent of its residents are below the poverty line. Homelessness, crime and prostitution have soared.

Over the past three years, the city has cut $90 million from its general fund, laying off a quarter of its police force, 30 percent of its fire department and 43 percent of its non-uniformed workforce.

Despite these massive cuts, the city has a deficit of $26 million and has begun missing loan payments. Wells Fargo recently foreclosed on the new city hall and several parking lots.

Under the terms of a new state law, the city was required to hold talks with bondholders, labor organizations, retiree groups and vendors to seek an agreement before going the bankruptcy route. The 90-day period for those negotiations expired June 25 without a deal, resulting in the City Council meeting and vote on Tuesday.

Stockton becomes the seventh US municipality to file

for bankruptcy so far this year and the first in California since the bankruptcy of Vallejo in 2008. Thirteen cities, countries and other government entities filed for bankruptcy protection in 2011, the highest number in nearly two decades.

The example of Stockton will be cited in an attempt to blackmail workers in other cities into accepting cuts in wages and benefits. “What’s going on in Stockton is endemic to what’s going on all over the state and the country,” said Michael Sweet, a San Francisco bankruptcy attorney.

Dan Walters, a political columnist for the *Sacramento Bee*, recently wrote: “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.”

A new stage in the assault on working class living standards is opening up, in which the target will be not simply the retirement benefits of new-hires, but the pensions of current retirees. Since the Obama administration imposed sweeping cuts in wages and benefits as part of its restructuring of General Motors and Chrysler in 2009, companies and government agencies across the country have, with the collaboration of the unions, stripped new-hires of pensions and saddled them instead with 401(k) stock plans.

Now a propaganda offensive is underway to justify slashing the pension benefits of current retirees. Last year a study found that state and local governments have fallen behind in their pension funding by between $1.3 trillion and $3 trillion. Articles are appearing with increasing frequency in the press complaining that “overly generous” pensions are undermining public finances. Earlier this month, two major California cities, San Diego and San Jose, moved to slash the pensions of retired city workers.

Bankruptcy or the threat of bankruptcy will be used in this expanded anti-working class offensive.

The fact that workers have a legal right to these modest benefits—a tiny portion of the wealth they have created in their years of service—will be swept aside. The double standard—one law for the worker and one for the capitalist—is underscored by the response of the Obama administration in 2009 to demands that millions in executive bonuses awarded by the bailed-out insurance firm AIG be rescinded. At that time, Obama’s chief economic adviser, Lawrence Summers, declared: “We are a country of law. These are contracts. The government cannot just abrogate contracts.”

There will be no similar response from the administration to the ripping up of contracts with workers.

The bankruptcy of Stockton underscores the fraud of the so-called “recovery” touted by Obama. The reality is a deepening crisis that is engulfing ever broader layers of the working population and threatening them with poverty.

Neither party, Democrats or Republicans, supports any measures to aid state and local governments that are facing massive deficits. Having allocated trillions to rescue the banks, the White House and Congress are tacitly promoting the brutal attacks on education, health care and other public services and on the jobs and living standards of public employees that are being carried out across the country. Meanwhile, they are preparing sweeping austerity measures at the federal level, including against Medicare, Medicaid and Social Security, to be launched after the elections, regardless of which party wins.

The trade unions are fully complicit in these attacks. Their support for Obama’s reelection goes hand in hand with collaboration in wage-cutting and layoffs. Neither of the major public employee unions in California, the Service Employees International Union (SEIU) or the American Federation of State, County and Municipal Employees (AFSCME), has even issued a statement on the Stockton bankruptcy filing.