

Wall Street Journal demands “discipline” for Stockton, California “deadbeats”

Kevin Kearney
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The financial elite, backed by the two big business parties, is intensifying its campaign to force Stockton, California to impose further massive attacks on city workers and retirees as part of its bankruptcy process.

The rapacious demands of the ruling class were expressed in an editorial published in the *Wall Street Journal* —the American voice of finance capital—December 31, “Stockton Tries a Chrysler.” The editors chastised the city for not sufficiently gutting workers’ pensions before entering bankruptcy. In Stockton the banks are testing out using the courts to enact the same manner of “pension reform” they are trying to enforce through legislation across the country.

To date Stockton’s Board of Supervisors has dutifully slashed everything but city employee pensions in efforts to placate corporate bond investors, including eliminating a quarter of its already insufficient work force, reducing employee pay by 23 percent, dramatically cutting medical insurance and, most tragically, cutting off medical coverage for aging and sick retirees.

But this is not enough for the *Wall Street Journal*. They scold the city and the city’s financiers like a mafia loan shark: “Investors who fail to impose discipline on deadbeats are likely to find the deadbeats playing them for suckers.” Unlike more pliable local governments in San Bernardino, San Diego and San Jose, Stockton’s great sin against Wall Street is that it continues to make pension payments to CalPERS—the country’s largest public pension fund with assets relied on by 1.6 million public employees and their families.

The *Journal* speaks for wealthy investors that have become increasingly anxious about the bets they made on the bond market—historically a safe haven for investment—before the global economic crisis of 2008. The editor writes, “Ratings agencies downplay the

‘systemic risk’ that the Stocktons of the United States pose to the \$3.7 trillion municipal bond market. But then they also said mortgage-backed securities were Triple-A... Bondholders face a very real danger of being blown off to preserve worker pensions.”

The *Journal* then cites a number of much larger cities that may seek bankruptcy in the near future including Oakland, Sacramento and Los Angeles, which they describe as “slouching toward insolvency”.

This all comes in anticipation of an upcoming legal hearing called for by one of the Stockton’s bond insurers: Assured Guaranty and National Public Finance—which is praised in the *Journal* editorial. Assured Guaranty underwrote many of the bonds purchased by banks such as Lehman Brothers.

Eager to take advantage of Bankruptcy Judge Christopher M. Klein’s friendly disposition, Assured Guaranty has filed an opposition to Stockton’s bankruptcy. It argues instead that Stockton failed to properly attack workers’ pensions prior to petitioning for bankruptcy, or in bourgeois legal terms that it failed to negotiate with creditors in “good faith” by sheltering workers’ pensions at the expense of other “similarly situated creditors”. Klein’s decision will set a precedent that will affect every worker in California and any other state that permits cities to file bankruptcy under chapter 9.

The use of the courts to enforce cuts in worker benefits is part of a broader trend. “The judges are much more involved,” John Pottow, a University of Michigan Law School explained to *USA Today* on Detroit’s possible bankruptcy petition. “They’re reflecting an amenability to serious labor cuts, and I think that’s surprising to a lot of people who didn’t think they’d do much in bankruptcy. We are in a new era of Chapter 9 and using it in new ways. It’s an

unknown, uncharted and unpredictable process.”

While Stockton City Manager Bob Deis has criticized the Assured Guaranty case, he has himself overseen all the attacks on Stockton workers since he was brought in by the City Council in July 2010, working closely with the trade unions to do so.

Defending himself against charges that the city has not done enough, Deis penned a column published in the *Wall Street Journal* in September noting among other things, “Over the next two years, city-paid retiree health benefits will be completely eliminated, wiping out this inherited \$540 million unfunded liability.”

All sides of the political establishment accept the lie that there is no money to fund worker pensions, that there is no alternative to massive cuts. This under conditions in which the financial elite is wealthier than ever, and the state of California is home to the largest number of billionaires in the country.

The attack on workers in Stockton is part of a bipartisan policy to force the working class to pay for the capitalist crisis. Nationwide, the Obama administration has used the fiscal cliff negotiations to introduce cuts to Social Security and Medicare. In California, Democratic Governor Jerry Brown signed a pension “reform” bill last September that raised the retirement age for most new state employees from 55 to 67.

Regardless of Klein’s ruling in this particular case, the savage assault on workers’ basic living standards will persist. Workers must develop their own socialist leadership in order to defend living standards, independently of the Democrats and Republicans, both bought and paid for by the financial aristocracy.

*** *The SEP is organizing a meeting today on the socialist perspective on the Stockton bankruptcy crisis. Details are: Monday, January 14, 6:00pm*

University of the Pacific
Wendell Phillips Center Room 219
1000 W Stadium Drive
Stockton, California Map



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