# The managed bankruptcy of GM and Chrysler: A model for the assault on Detroit

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With Michigan governor Rick Snyder's appointment of a financial manager in Detroit, the working class in the city is about to be subjected to a financial dictatorship modeled on the savage wage and benefit cuts imposed by the Obama administration during its forced bankruptcy and restructuring of General Motors and Chrysler in 2009. Like the auto workers, the city's public sector workers and residents will be forced to sacrifice their jobs, pensions and the needs of their families to pay for a financial crisis they did not create.

The script is the same. According to the politicians from both big business parties and the corporate-controlled media, Detroit is burdened with "unsustainable legacy costs," i.e., the pensions and health care benefits owed to tens of thousands of retired municipal workers and their families. "Antiquated work rules" are preventing 11,000 city workers from working efficiently. The only way out is to hand the city over to "turnaround experts" ready to make "tough decisions."

Even the personnel are the same. The emergency financial manager chosen by Governor Snyder is Kevyn Orr, a lead attorney for Chrysler during the company's restructuring in 2009. Orr made $700 an hour during the bankruptcy, 50 times as much as the $14 an hour poverty wage that the Obama administration was demanding of newly-hired auto workers.

Orr played the leading role in in convincing the bankruptcy court to allow the automaker to shut 789 of its 3,200 auto dealerships—one quarter of its total—wiping out an estimated 37,000 jobs in cities and small towns across the US. The *Detroit News* reported Orr gave the dealerships less than a month to transfer unsold inventory to other dealers and close their doors. "The company is trying to be compassionate toward its dealers," Orr told the court in June 2009.

Unlike General Motors—which gave 1,300 closing dealers nearly $600 million in wind-down payments and 18 months to sell unsold inventory—Chrysler took a much tougher line, the *News* wrote. "The automaker opted not to provide any wind-down payments to its dealers. When a lawyer for the dealers, Stephen Lerner, said Chrysler was acting in an 'unconscionable' fashion and orchestrated a process that was 'less than fair to dealers,' Orr didn't give ground. 'We're not here to negotiate,' Orr said."

Orr, who will take over on March 25, will be paid $275,000 to be the hatchet man in Detroit. Even though Michigan voters repealed the EFM law, a rewritten law will give him dictatorial powers to tear up union contracts, dump pensions and sell off public assets, from the water department, transit system and municipal zoo, to streetlights, garbage collection and the art museum.

Financial analysts have already floated the idea that Detroit could follow the pattern established by the bankruptcy court, which it split up GM into a "new GM"—where profitable assets remained—and an "old GM," where the automaker dumped its unwanted factories, brands and other financial liabilities. A "new" Detroit, free of unwanted obligations, including the wages and benefits of its workforce, and forcing its citizens to pay higher taxes and fees for privatized services, would channel the bulk of its revenues to billionaire hedge fund operators who control the city's municipal bonds and other debt.

"Would there be pain in a massive restructuring of the City of Detroit managed by outsiders, either an emergency manager or bankruptcy judge?," *Detroit Free Press* columnist Tom Walsh gloated. "Of course—just as there was at GM and Chrysler. Jobs lost,

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wages cut, bondholders stiffed, credit ratings mangled for a while.

"There's nothing pleasant about those things when they are happening, but once all the surgery is done and the tough medicine is swallowed—or forced, if necessary, into body cavities—there is hope for both survival and revival in Detroit."

The question is, "survival" for whom? Since the 2009 restructuring, the auto companies have been raking in record profits—$11 billion last year alone—enabling Wall Street investors and auto execs to make a killing, including Ford's Alan Mulally, who pocketed $21 million last year.

This was paid for by auto workers forced to accept a 50 percent wage cut for new-hires, the continuation of a decade-long wage freeze and elimination of cost of living adjustment raises, 10-hour work days and a new schedule that destroys the health and family lives of employees. All of this, including a ban on strikes, was agreed to by the United Auto Workers union, which in turn was given billions in corporate shares of Chrysler and GM.

After accepting the position, Orr insisted the restructuring of the auto industry was the model for Detroit, saying, "Chrysler, GM and Ford are back with a bullet." The only "bullet" was the one fired at auto workers and their families.

Like the Obama administration in 2009, Orr is threatening to carry out a "managed bankruptcy" of Detroit to extract unprecedented concessions from city workers. "I am hopeful to engage in fruitful and productive discussions without the need to resort to bankruptcy," Orr said last Thursday, adding that, "One thing everybody needs to know, if you go into bankruptcy, Chapter 9 of the bankruptcy code is weighted toward the municipality."

In other words, if the unions prove unable to force city workers to accept savage wage and benefit cuts, then the bankruptcy court will impose this and much more on workers, retirees and city residents. "I don't want to pull that cudgel out unless I have to," Orr said. "I'd prefer to pursue a consensual resolution…Don't make me go to bankruptcy court. You won't enjoy it."

In 2009, Obama held the threat of bankruptcy and liquidation over the heads of auto workers. After working with the UAW to blackmail workers to vote for historic givebacks, the White House threw GM and Chrysler into bankruptcy anyway.

The city unions, just like the UAW before them, have signaled their willingness to impose deep concessions, only asking that bondholders also take some losses too in order to give the appearance of equal sacrifice. "What we are hoping for is that there must be concessions for more than just the work force, that those who hold bonds or debt also take a haircut," said Albert Garrett, president of Council 25 of the American Federation of State, County and Municipal Employees (AFSCME), which bargains for 3,000 city workers, according to the *Wall Street Journal* .

City unions are reportedly seeking the establishment of a retiree health care trust fund just like the Voluntary Employees' Beneficiary Association or VEBA operated by the UAW. Such a payoff to the unions—in exchange for imposing the dictates of the banks on their members—is the type of "consensual agreement" both Orr and the union bureaucracy can live with.

The "revival" of Detroit has nothing to do with improving conditions for ordinary workers any more than the revival of the auto industry did. On the contrary, it means securing the profits of the corporate financial elite through the pauperization of the working class. Every section of the political establishment—from Obama and Snyder to Orr, Mayor Bing and the Democrats on the City Council—functions as nothing more than debt collectors for Wall Street.

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