Approval of Stockton, California bankruptcy paves way for new assault on workers’ pensions

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On Monday, a federal bankruptcy judge ruled that the city of Stockton, California could proceed with the largest municipal bankruptcy in US history. The decision sets the stage for a possible ruling allowing the city to cut back on pension contributions that are mandatory under state law.

Stockton, at the center of the US housing bubble and bust, is one of the most impoverished and destitute municipalities in the nation. The case is receiving attention from city officials throughout the country, and from the ruling class more generally, for the precedent it could set for similar attacks.

The ruling by Judge Christopher Klein settled opposition to the filing from a group of the city’s bondholders and insurers, who insisted that the city had not gone far enough in attacking workers before filing for court protection. In particular, the group wanted the city to repudiate part or all of the $900 million it owes to California’s pension system, CalPERS, before taking court action that might include a “haircut” for bondholders.

The bondholders also wanted further cuts. The *Wall Street Journal* reported that “before the trial, Assured Guaranty Corp., the insurer of $161 million of the city’s debt, and others scrutinized the city’s finances, suggesting that it sell buildings such as its City Hall, the Bob Hope Theatre and the Stockton Events Center while raising taxes on utilities, tourists and those who make emergency 911 phone calls.”

The court ruling in no way preempts further attacks on the working class. In particular, Klein left open the possibility of ruling that Stockton’s bankruptcy would supersede state law relating to the city’s mandated payments into the CalPERS system.

The *New York Times* noted, “The judge said he would decide those questions in the next phase of Stockton’s bankruptcy, in which the city’s creditors will litigate whether its plan of adjustment is fair.” Klein said in reading his decision from the bench: “The city is going to have a difficult time confirming a plan over the objection of unfair discrimination” by the bondholders.

The judge also insisted that the creditors negotiate with the city, chastising them for walking away from the table until the city agreed to cut CalPERS payments.

The judge’s ruling essentially means that the decision as to whether the city can halt pension payments will now be made *through the courts* .

John Pottow, a law professor from the University of Michigan, described this impending decision as a “moment of reckoning.” A bankruptcy expert, Pottow believes that “state laws are probably superseded under bankruptcy code.”

Any further moves under bankruptcy will come on top of what are already brutal cuts in social services. In the past few years Stockton has fired 30 percent of its firefighters, 25 percent of its police force and 43 percent of its non-uniformed workers. It has reduced city workers’ pay by 23 percent and severed *all* medical coverage for aging and sick retirees.

While city officials have at times postured as opponents of Wall Street banks by opposing the bondholders in court, to the ruling class they have attempted to sell themselves as the best mechanism for attacking workers. The city has teamed up with public employee unions to cut more than $90 million from workers’ total compensation. In an editorial in the *Wall Street Journal* earlier this year, City Manager Bob Deis boasted, “Over the next two years, city-paid retiree health benefits will be completely eliminated, wiping out this inherited $540 million unfunded liability.”

The social situation in Stockton is already dire. It has the second largest foreclosure rate and was recently ranked the United States’ worst city to live in by *Forbes* magazine. The housing market, which soared on cheap credit and predatory loans, has since plummeted, with an average home losing more than 67 percent of its value since 2005.

First under Bush and then Obama, the government has bailed out the major banks with trillions of dollars. However, cities throughout America were left with high unemployment, increased homelessness and huge debts as the economy collapsed. This devastation led Stockton and others to take on debt from the same banks that produced the crisis. However, as the economy grew worse, these cities found their budgets sinking deeper into the red.

However the final proceedings conclude, the bankruptcy of Stockton is the prelude to an even deeper attack on workers—in the city and throughout the country.