# Detroit bankruptcy sets stage for national assault on public-sector pensions

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Last week's bankruptcy filing by the city of Detroit is being used as a test case for a much wider assault on the pensions and health benefits of millions of state and municipal employees around the country.

The city's emergency manager, Kevyn Orr, Michigan's Republican governor, Rick Snyder, and Detroit's Democratic mayor, David Bing, made this clear during appearances on nationally televised news talk shows Sunday.

On Fox News, Orr acknowledged that the city's 31,000 current and retired city workers would see "some adjustments" to their benefits, declaring that federal bankruptcy laws would supersede Michigan's constitutional protections against pension reductions.

Orr is pushing for brutal cuts in pensions and benefits. He wants to pay as little as 10 cents on every dollar of the $3.5 billion in unfunded pension obligations. He also wants to freeze all future payments into the pension fund and dump retirees onto Medicare or private medical insurance exchanges under the Obama administration's health care scheme.

Orr—whose former bankruptcy law firm, Jones Day, represents many of the Wall Street banks holding the city's debt—insisted Detroit's 700,000 residents had to pay for the financial crisis, which he cynically blamed on an "addiction to debt."

Asked what lessons other cities should take from Detroit's experience, the financial czar said, "Delay doesn't produce positive outcomes. Whatever the problems are, deal with them. Have the wherewithal and political will to deal with them—that's exactly what we are doing."

Mayor Bing, who has cut 20 percent of the municipal workforce since taking office in 2009, appeared on ABC's "This Week" program. "We are not the only city that is going through the struggle we are going through," he said. "There are over 100 major urban cities having the same problems we are having. We may be one of the first, we are the largest, but we will absolutely not be the last. So we have to set a benchmark on how to fix our cities and come back from this tragedy."

The *Detroit Free Press* reported that Chicago recently had its credit rating downgraded because of a $19 billion unfunded pension liability, which the ratings service Moody's puts closer to $36 billion. Los Angeles could, by some estimates, face a liability of more than $30 billion. Moody's also recently downgraded Cincinnati, largely because of its unfunded pension liability.

The newspaper wrote: "It's no surprise—given the pressure public pensions are putting on municipal budgets—that any move to ease those liabilities, especially through a bankruptcy court order like what's happening in Detroit, is being watched carefully nationwide by state and municipal officials, union leaders, bond traders and retirees.

"'We're just at the front of the line here,' Michigan Treasurer Andy Dillon said Friday. 'It could be a landmark case.'"

Appearing on CBS's "Face the Nation" program, Governor Snyder made it clear there would be no state bailout of the city. Feigning concern over the "tragic situation" facing "retirees who had worked hard," Snyder asserted that bankruptcy would allow the city to reduce benefits in "a more thoughtful, better way."

The Obama administration, which has overseen a record number of public-sector job losses, has rejected any federal bailout. Top administration officials have been in close contact with Michigan and Detroit officials.

The *Free Press* reported that Orr had "lobbied hard with Obama and senior adviser Valerie Jarrret (a longtime friend) for federal help and has been frustrated by the White House's lack of engagement."

While the administration rushed to bail out Wall Street, Vice President Joseph Biden said White House officials "don't know at this point" what they can do to help Detroit.

Obama, who allowed the auto companies to dump their retiree health care obligations during the 2009 auto industry bailout, clearly sees the attack on Detroit workers as paving the way to slash benefits owed to state and municipal workers throughout the country. The Pew Center for the States has estimated that states' public pension plans across the US were underfunded by $1.4 trillion in 2010.

After decades in which the bankruptcy courts were used to gut the pensions and health care benefits of private-sector retirees in steel, airlines, auto, mining and other industries, public-sector workers are now being targeted for having supposedly unsustainable "legacy costs."

The federal judge chosen to preside over the bankruptcy proceedings for Detroit has been involved in several cases where the wages, pensions and other benefits of workers were slashed in order to satisfy the demands of big investors.

US Bankruptcy Judge Steven W. Rhodes, 64, was assigned the case by Alice Batchelder, the chief judge for the US Court of Appeals in Cincinnati, Ohio. Batchelder is the wife of the speaker of the House of Representatives in Ohio, who spearheaded anti-worker laws stripping workers of collective bargaining rights and attacking their pensions and other benefits.

Rhodes oversaw Detroit-area bankruptcy cases in which workers were forced to accept devastating cuts. Awrey Bakeries used his bankruptcy court in 2005 to impose severe wage reductions.

In 2007, Rhodes approved a liquidation plan for Southfield, Michigan-based auto parts maker Collins & Aikman, which decimated the jobs and benefits of 21,000 employees and retirees. Former Reagan budget director and Wall Street asset-stripper David Stockman threw the company into Chapter 11 bankruptcy after the exposure of false accounting by the firm. Rhodes approved a plan to shut factories in Georgia, Ontario and elsewhere and dump the company's underfunded pensions into the government's Pension Benefit Guaranty Corporation (PBGC).

Rhodes also oversaw the bankruptcy of Simplified Employment Services, one of the nation's largest payroll outsourcing firms, which went out of business in 2001. Two former top executives later pled guilty to charges of conspiring to defraud the IRS and several banks.

The web site Center for a Changing Workforce noted that after the company filed for bankruptcy, "it left thousands of employees unpaid and without health insurance."

The web site reported, "After the company was allowed to reorganize and be sold, employees were told not to worry because all medical bills would be paid." However, only a few health care providers were paid, at pennies on the dollar, leaving workers with thousands of dollars of debt.