Detroit bankruptcy provokes calls for nationwide assault on pensions

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Government representatives of a number of major American cities have seized on Detroit’s bankruptcy filing last month to raise calls for an intensified attack on public worker pensions and benefits. The wave of comments have come in the weeks following Detroit Emergency Manager Kevyn Orr’s announcement that he will seek to cut the pensions of Detroit city workers and retirees.

The most aggressive statements were made by billionaire New York City mayor Michael Bloomberg, who said in a speech Tuesday that Detroit is “the road to ruin for any American city. I believe that the Detroit experience holds lessons for every American city—and that we have an obligation to protect our future by examining those lessons.”

Bloomberg then laid the blame for the Detroit bankruptcy at the feet of workers and retirees:

“One of the major reasons that Detroit could not stop its downward spiral was that its labor costs—especially its retiree costs for pensions and health care—crowded out its ability to invest in the things that make a city an attractive place to live and visit.”

Bloomberg’s speech culminated in a blunt threat to workers and retirees in America’s most populated city. “We are only a short distance from relapsing into decline if we allow health care and pension benefits to crowd out the investments that make New York City a place where people want to live, work, study, and visit,” he said.

Bloomberg’s comments were echoed by the mayor of Chicago, the third most populated city in the US. Rahm Emanuel, a Democrat who served as chief of staff to President Obama from 2009 to 2010, told the *New York Times* on August 5 that “this is kind of the dark cloud that’s coming ever closer,” and that “what the system needs is a hard, cold dose of honesty.”

In an article, the *Times* wrote that, “as the Detr its way through the federal court system, other cities, including Chicago, are wrestling with overwhelming pension liabilities that threaten to undermine their capacity to provide municipal services and secure their futures.”

Democrat Eric Garcetti, the mayor of the second largest city in the US, Los Angeles, also promised deep cuts to pensions.

“It’s going to be very important to me that we hold down those raises [for city workers], pensions and health care plans that in the past have driven expenses in this city… I will continue to do that at the negotiating table as mayor,” he said in the aftermath of the Detroit declaration of bankruptcy.

Philadelphia, the fifth-largest city in the US, has already cut benefits for new city workers, according to Mark McDonald, a spokesman for Democratic Mayor Michael Nutter. Additionally, Democrat Greg Stanton, the mayor of Phoenix, Arizona, told Bloomberg News last week that a recent decision to raise worker contributions toward retirement benefits “will put us in a significantly better position. Phoenix is not Detroit.”

Threats of deeper cuts to pensions are not limited to those cities listed above. Funds in New Orleans, Louisiana; Charleston, West Virginia; Omaha, Nebraska; Houston, Texas; San Jose, California and a host of other major cities have recently been slated for significant cuts.

The matching responses of the most powerful mayors in America illustrate the fact that the bankruptcy of Detroit is being used as a test case for a nationwide scheme to strip current and former workers of their contractually guaranteed pensions and benefits. Beneath the relentless pressure of Wall Street creditors, scores of American cities are employing the threat of the “dark cloud” of Detroit to implement a massive transfer of wealth out of the pension funds and into the speculative markets.

This effort has already shaken some municipal bond markets in a manner that threatens to drive cities even further into debt. Following the Detroit bankruptcy, three Michigan localities have delayed sales of general-obligation bonds, fearing that concerns over the Detroit bankruptcy may drive interest rates higher and force cities and counties to fork over larger sums to creditors.

This scenario has the potential to produce wild gains for Wall Street creditors, who will use the prospect of larger municipal deficits to demand deeper cuts to pensions, benefits and social services.

An article headlined “Is Your City Next?” from the August 2 issue of *Time* magazine summarized the process: “While the broader re-rating of municipal debt that’s very likely to happen down the pike would increase borrowing costs and reduce the amount of money all cities can raise through bond issuance, it might also prompt many to shift their growth models, rein in unsustainable labor costs and partner in more innovative ways with the private sector…”

This process was demonstrated in a decision by Moody’s Investors Service on July 17—the day before Detroit’s Chapter 9 filing—to downgrade Chicago’s general-obligation bond rating by three notches.

Moody’s made clear that its decision was made on the basis of Chicago’s contractual obligation to provide city workers and retirees with pensions.

“Fixed costs—namely pension contributions and debt service payments—may soon comprise more than 50 percent of Chicago’s operating budget,” the report noted.

Mayor Emanuel played his part when he reiterated his desire to respond with deeper cuts to pensions.

“This confirms what I have been saying for more than a year,” he said. “Without comprehensive pension relief from Springfield, municipalities such as Chicago will continue to receive negative reviews from ratings agencies.”

This charade typifies the process by which Wall Street, with the support of the two big business parties, is exerting immense pressure to oversee the reorganization of social relations in the US and across the world.