

Trial on Detroit bankruptcy begins

Thomas Gaist, Jerry White
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US Bankruptcy Judge Steven Rhodes heard opening arguments Wednesday at Detroit's federal courthouse, in a trial that will determine whether the city's emergency manager met legal requirements to file the largest municipal bankruptcy case in US history.

If the judge rules in favor as expected it will open up the floodgates for the gutting of city workers' pensions and the selloff of the city's publicly owned assets, including the treasures of the Detroit Institute of Arts, to pay off the banks and big bondholders who own the city's debt. This would set a precedent for similar measures across the country.

The first day of the trial included opening statements from attorneys for the City of Detroit, city worker unions and a committee representing retired municipal workers.

Opening the trial, the city's attorney Bruce Bennett—who was hired from Emergency Manager Kevyn Orr's former law firm, Jones Day—argued that the city carried out the necessary negotiations with creditors, including pensioners and unions, and had exhausted all alternatives to bankruptcy. “There's nothing left to do here. There is no revenue solution,” he declared. “Chapter 9 is more needed here than any other possible scenario you could think of.”

He added that witnesses would “present a mountain of evidence showing the insolvency of the city,” claiming that “the data speaks very clearly and persuasively on its own. It needs no gloss.”

All of these claims are fraudulent. The decision to file for bankruptcy was driven essentially by political considerations, not economic imperatives. Ample evidence proves that Michigan's Republican Governor Snyder conspired with then-state treasurer Andy Dillon—a Democrat and former investment banker—to use the state's antidemocratic emergency manager law to install an unelected official in Detroit who would file for bankruptcy. They planned to use federal bankruptcy

laws from the beginning to circumvent the state constitution, which specifically upholds the inviolability of public workers' pensions.

In his opening remarks, Bennett said he would show that the bankruptcy filing had received “state authorization”—one of the prerequisites for a legal bankruptcy filing. This is far from an objective measure of the validity of the filing, given the fact that Governor Snyder—who authorized it—was one of the chief conspirators pushing for the bankruptcy in the first place.

Before the trial began, Judge Rhodes denied a request by the retiree committee to exclude city's estimate of unfunded pension liabilities, giving the city the necessary “added gloss” to bolster its claims that Detroit is \$18 billion in debt.

The arguments of the attorneys representing the unions accepted without question that workers should pay for a financial crisis they did not cause. Barbara Patek, a lawyer for the public safety unions, including the Detroit affiliate of International Association of Fire Fighters, said the unions “never disputed that Detroit was in severe financial distress.” Their only complaint, she said, was that Orr did not negotiate with unions in “good faith” before declaring bankruptcy.

The argument of the unions boils down to this: the city unions were prepared to impose tens of millions of dollars in additional concessions on their members but Orr refused to use their services. That is why they are challenging the bankruptcy.

An equally reactionary argument came from the lawyer representing by the city-appointed retiree committee—which is staffed by union functionaries, including the American Federation of State, County and Municipal Employees and the United Auto Workers International. As part of his opening statement attorney Anthony Ullman said the city did not give adequate consideration to possible asset sales before

filing for bankruptcy. “The city may well be in a position to obtain substantial” cash from sale of assets, including the artwork of the DIA, Ullman said.

This argument, which has been the position of the UAW, AFSCME and other unions, was anticipated and countered by the city’s attorney. Rejecting the argument that proceeds from the sales of the masterpieces of the DIA would have made the bankruptcy declaration unnecessary, Bennett said, “There are no sales possible without significant change in the current management of the museum and/or litigation.”

While self-serving, this statement has ominous implications. It only means that Orr is considering ways to remove the current leadership of the DIA, including director Graham Beal, who have said they would initiate legal action to block the selloff of the museum’s artwork. The emergency manager has given the DIA until next month to come up with a plan to “monetize” its world-famous collection, which includes masterpieces by Bruegel, Rembrandt, van Gogh and others, and extract \$500 million by leasing the artwork or using it as collateral for a loan or new bond issue.

At the conclusion of Wednesday’s proceeding, Judge Rhodes gave lawyers two weeks to file their “good faith” briefs making a ruling by the judge unlikely until mid-November.

A brief demonstration was held in front of the courthouse as the trial began in the morning. AFSCME and other unions called the protest to divert workers’ anger into dead end appeals to the federal judge. Nevertheless several hundred workers attended in a sincere outpouring of discontent.

Charlene, a retiree and long-time Detroit resident, said, “The bankruptcy is a total lie. They want the city, the museum, and the water for themselves.” She added, “dealing with the unions is almost as bad as dealing with the city manager.”



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