Detroit bankruptcy ruling triggers calls for pension cuts across the US

Jerry White
6 December 2013

Within days of a federal judge's ruling in support of the Detroit bankruptcy, the devastating implications for the working class across the US are becoming apparent. States and cities throughout the country are citing the legal precedent of the Detroit ruling to attack public employee pensions, initiating a new stage in the assault on workers' rights and living standards.

Politicians of both big business parties, media outlets and financial institutions have welcomed the decision by Judge Steven Rhodes, hailing its categorical assertion that federal courts can override state and local guarantees of public workers' pensions.

The Michigan Constitution declares that accrued pension benefits are "contractual obligations" that "shall not be diminished or impaired." Many other state constitutions have similar provisions. But Rhodes brushed aside the Michigan Constitution in order to open the door to the gutting of pensions.

On Thursday, Illinois Governor Pat Quinn signed into law a pension bill that slashes benefits for retired as well as active state employees, in violation of the Illinois Constitution's prohibition of such pension cuts. Described as a "landmark" law, the Illinois measure will raise the retirement age for younger workers by eight years, slash cost-of-living adjustments for current pensioners, and transfer many workers from state-paid pension plans to employee-paid 401(k) plans.

The same day, the *New York Times* published a front-page article highlighting the plans of Chicago Mayor Rahm Emanuel, President Obama's former chief of staff, to gut the pensions of municipal employees in the third largest US city. The newspaper wrote that Emanuel was now "armed not only with the state vote but also with a federal judge's ruling…to formally send Detroit into bankruptcy."

The *Washington Post* published an editorial Thursday hailing the Detroit ruling. The newspaper wrote enthusiastically that the ruling would allow "mayors and city councils in distressed municipalities [to] wield enhanced bargaining power in their negotiations with public-sector unions. Help us limit unfunded-pension liabilities, they can argue, or you may find yourself dealing with a bankruptcy judge some day."

Wall Street commentators, rating agencies and the financial press welcomed the ruling as a boon to big investors, who have entangled distressed cities in trillions of dollars of bond obligations, credit default swaps and similar financial deals. Mark Palmer of BTIG Research, which serves large municipal bond holders and their insurers, told *Forbes* magazine: "The fact that the judge in the Detroit bankruptcy case ruled that pensions are not sacrosanct, and they can be cut, translates into potentially higher recoveries for bondholders in future bankruptcies."

The ruling was particularly welcomed in California, where city officials and lawyers are overseeing bankruptcy cases in Stockton, San Bernardino and Vallejo. As the *Sacramento Bee* wrote, "[T]he Detroit ruling was a milestone. Experts long suspected that cities could use bankruptcy to force reductions in their pension expenses, but until now they've never had a court's blessing."

Judge Rhodes's use of the US Constitution's Supremacy Clause to override state protections for public workers illustrates the turn by the American ruling class to outright criminality in its drive to impoverish the working class. From the Civil War to the Civil Rights era, this clause was often used by the federal government as a legal lever to override reactionary state laws and expand democratic rights.

Today, it is employed for the opposite purpose—to use the power of the federal government to scuttle democratic provisions of state laws. In this sense, Rhodes's ruling echoes the infamous *Bush v. Gore* Supreme Court ruling that overrode the Florida Supreme Court, halted vote counting in the state, and handed the 2000 presidential election to the Republican candidate, who had lost the popular vote.

The current federal assault on democratic rights and working-class living standards is being directed by a Democratic president. The Obama administration has from the outset been intimately involved in the conspiracy to use

© World Socialist Web Site

the federal bankruptcy courts to attack pensions and sell off public assets. It intervened in Judge Rhodes's court to oppose suits by pension funds and retirees challenging the bankruptcy filing, giving its support to the state-appointed emergency manager, Kevyn Orr, who is functioning as a front man for the city's financial creditors.

Last year, the bipartisan State Budget Crisis Task Force established by the White House recommended that states and cities reduce pension payments, blaming supposedly unsustainable pension and retiree health care obligations for draining resources needed for essential services. The Task Force, headed by Obama financial adviser and former Federal Reserve Chairman Paul Volcker, complained that more aggressive action had been hindered by pension guarantees in dozens of state constitutions and other legal obstacles.

Chicago Mayor Emanuel and Illinois Governor Quinn are both Democrats. This underscores the bipartisan unity of the two corporate-controlled parties in attacking the working class and the reactionary nature of the trade unions' alliance with the Democrats.

The Detroit ruling threatens millions of retired public workers across the country with destitution. Subsisting on meager pension checks, which average $19,000 a year in Detroit, many do not qualify for Social Security because they made contributions directly from their paychecks into pension plans rather than pay Social Security taxes.

Orr has threatened to pay as little as 10 cents on the dollar of the city's debt to the pension funds, robbing retirees of the benefits they earned and partially paid for during a lifetime of labor. Following the ruling, Orr called on his "labor partners" (that is, the trade unions) to join him in negotiating the cuts.

The unions have already offered to impose a new round of concessions on their members, including cuts in retirement benefits. They have done nothing to oppose Orr or the bankruptcy, seeking instead to use legal maneuvers to secure a bigger cut for themselves from the financial looting of the city. The largest Detroit public employee union, Council 25 of the American Federation of State, County and Municipal Employees (AFSCME), filed a joint suit with banks and bond insurers to demand that the city sell off the masterpieces from the Detroit Institute of Arts (DIA) in order to repay it and its fellow "creditors." (See: The unions and the Detroit bankruptcy).

In response to Rhodes's ruling, the Socialist Equality Party held a press conference in front of the DIA to call for support for the February 15 Workers Inquiry into the Attack on the DIA and the Bankruptcy of Detroit (detroitinquiry.org).

SEP Assistant National Secretary Larry Porter denounced the ruling, saying it "signifies the fact that the courts have joined the political conspiracy to throw the city into bankruptcy, rob pensioners of their livelihoods, and loot public assets, including the cultural treasures of the Detroit Institute of Arts."

Porter compared Rhodes's ruling to Reagan's firing of the PATCO air traffic controllers in 1981, saying it was a turning point in class relations and would be used by the ruling class to escalate its war against workers across the country. "There are trillions of dollars in pension funds," he said. "The wealthy see these assets, and they want them. The precedent set here will be extended to federal entitlements such as Medicare and Social Security. Nothing is off limits."

The Workers Inquiry, Porter said, "will reveal the political conspiracy behind these attacks. It will be a genuinely democratic forum, organized by the workers of Detroit to counter the lies of the media and the political establishment."

He stressed that the SEP rejected the entire framework being used by the two parties of big business, the media and the unions to destroy all of the past social gains of the working class. The claim that there was no money for jobs, decent wages, pensions or schools was a lie, he said, "under conditions where corporate profits—including in the auto industry—are at record highs, the stock market is soaring, and social inequality is at historically unprecedented levels."

He urged city workers, auto workers, service employees, retirees, unemployed workers, professionals and students throughout the metropolitan area to testify at the Workers Inquiry about the real state of the city and the consequences of the cuts that are being implemented. "Working people in Detroit oppose the dictates of Orr and the bankruptcy process," he said, "but they lack the vital information needed to counter the bankers' lies and the means through which *our* questions are answered and *our* interests defended." That was the purpose of the inquiry, he concluded.

For more information on the Workers Inquiry into the Attack on the DIA and the Bankruptcy of Detroit, visit detroitinquiry.org.

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site