Before Detroit bankruptcy Democratic Party-led task force demanded huge pension cuts

Thomas Gaist
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Last week's sanctioning of the Detroit bankruptcy by US Judge Steven Rhodes and his ruling that public employee pensions can be slashed despite state constitutional protections has provided a green light to escalate the attack on the working class across the country.

While Republican Governor Rick Snyder has played a pivotal role, the Detroit bankruptcy has chiefly been a Democratic Party operation, led by former State Treasurer Andy Dillon, Detroit Mayor David Bing and Emergency Manager Kevyn Orr, the unelected dictator who threw the city into bankruptcy.

On the federal level, President Obama intervened to support the bankruptcy with a Justice Department motion aimed at quashing legal challenges by Detroit retirees. This was not a tangential or arbitrary action. The Obama administration is using Detroit as a test case to destroy social and democratic rights long sought by Wall Street and both big business parties.

The president's domestic agenda was largely outlined in a report published by the State Budget Crisis Task Force (SBCTF), a special body led by Democratic party stalwarts, almost exactly a year before the July 18, 2013 Detroit bankruptcy filing and just months before Obama's reelection.

The July 17, 2012 report essentially argues for social counter-revolution, demanding massive cuts to pensions, Medicaid, and public education in order to "un-build" state and local governments. It places much of the blame for the fiscal crises facing states and cities on supposedly unsustainable pension and medical costs, declaring that these "structural" costs will not go away even after the economy recovers and must be dealt with.

The recommendations are not surprising given that the task force is headed by Paul Volcker and Richard Ravitch. As a previous article from the *World Socialist Web Site* on the report noted, Volcker, a life-long Democrat and former Chase Manhattan Bank executive, served as Chairman of the Federal Reserve under Presidents Carter and Reagan. In 1981, he drove interest rates to a record 20 percent, precipitating what was up to then the worst downturn since the Great Depression. Mass unemployment, factory closings and union busting were used to batter down the resistance of the American working class, which had repeatedly defied attacks on living standards through militant strikes by coal miners, auto workers and other sections of workers in the 1970s. Volcker praised Reagan's smashing of the 1981 PATCO strike as the most important action "the administration took in helping the anti-inflation fight." The firing of 13,000 air traffic controllers, Volcker gushed, transformed "the climate of labor-management relations" both "profoundly" and "constructively." He most recently was appointed by President Obama to Chair the Economic Recovery Advisory Board, a post that he held from 2009 to 2011.

Richard Ravitch's past is similarly unambiguous. A former unelected Lt. Governor of New York, Ravitch served as an adviser to former New York Governor Hugh Carey during the "bailout" of New York City in 1975-76. Using the threat of municipal bankruptcy Ravitch helped design a plan that mandated draconian cuts to social services, eliminated tens of thousands of city workers' jobs and slashed wages for remaining employees. It also led to the first-ever tuition fees for the City University of New York students, along with a sharp increase in transportation fares.

Ravitch worked closely with then teachers' union chief Albert Shanker and other labor officials to use workers' pension funds to purchase $2.7 billion in city debt. The plan also created the Financial Control Board, which gave banks the power to veto city spending measures and labor contracts.

During the 11-day New York City transit worker

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walkout Ravitch served as strikebreaker in chief as Chairman of the Metropolitan Transit Authority. Before his stint as Lt. Governor, Ravitch—a wealthy real estate developer—sat on the Executive Committee of the AFL-CIO Housing Investment Trust's Board of Trustees, a joint business venture of the trade unions.

The additional nine members of the task force include Nicholas F. Brady, former Secretary of the Treasury under Presidents Reagan and Bush; Peter Goldmark, the former budget director of New York State; Alice Rivlin, former Vice Chairman of the Federal Reserve under the Clinton administration; and former Secretary of Labor, Treasury, and State, George P. Shultz.

The main premise of the report is that states across the country face enormous structural budget deficits, which have been hugely amplified by the crash of 2008, necessitating a complete restructuring of state and local finances and spending practices. The report points to worker pensions, Medicaid, and public education as the main areas where large spending reductions are necessary and warns that there will be dire consequences to "continuing to postpone actions to achieve structural balance."

According to the report, states have not adjusted to the post-2008 "new reality," which the report says, consists of "the aging of the population, rising health care costs, unfunded promises, increasingly volatile and eroding revenues, and impending federal budget cuts." The existing trajectory of state spending, taxation, and administrative practices, they say, "cannot be sustained," adding, "The basic problem is not cyclical. It is structural."

The report notes, approvingly, states have proven ready to roll back their contributions to benefit and retirement programs. "Between 2009 and 2011, 43 states either increased employee contributions or cut benefits or both," the report states. This, they say, "appears to signal a willingness to 'unbuild' state government in a way that has not been done before."

In a key section titled "The Legal Nature of the Pension Promise," the report raises issues that have been at the center of the Detroit bankruptcy case, stating, "In the private sector, defined pension plans are disappearing rapidly. The commercial and legal systems accommodate wholesale change to pension regimes through such vehicles as acquisitions, mergers, or buyouts and Chapters 7 and 11 of the US Bankruptcy Code. In the public sector no such structures exist to promote changes to pension laws. Under certain conditions local governments (though not state governments) can apply for Chapter 9 bankruptcy; but the extent to which they can modify pension obligations in these proceedings, if at all, is unsettled."

The Detroit ruling has chiefly lifted these legal barriers.

In addition to reductions in pensions and Medicaid, the report calls for new efforts to cut state spending on public education, claiming that the "large size of education budgets makes them a tempting 'cash cow,'" and that "there is no clear, measurable relationship between levels of education spending and educational attainment." In a section titled "Technology and Efficiency in Education," the report highlights the possibility of reducing teaching staff through a shift to online classes.

"Education systems have not learned to use inexpensive digital techniques to replace traditional labor-intensive, expensive teaching methods," the report states. "Few suggest that teachers can be wholly replaced by computers, but the potential for more effective and less expensive learning is tantalizing…Digital instruction may hold out hope for long-term relief from the huge burden of costly benefits for instructional staff, particularly in higher education."

The report never suggests that the financial aristocracy, which was responsible for the 2008 crash that threw the state and cities into crisis, should be made to pay. On the contrary, it supports the further transfer of billions if not trillions of dollars into the hands of the financial criminals through the looting of pensions, public education and other essential social needs of the broad masses of working people.

The Obama administration refused to provide a Wall Street-style bailout of the states and cities. Instead it has used the crisis as a justification for federal, state and local cuts aimed at destroying every social gain won by the working class over the course of more than a century of struggle.

The Socialist Equality Party and International Youth and Students for Social Equality are holding a Workers Inquiry into the Attack on the DIA and the Bankruptcy of Detroit on February 15. For more information on the Inquiry, visit detroitinquiry.org.

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