Detroit's bankruptcy ruling paves way for new attacks on California workers

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The recent Detroit bankruptcy ruling has set a precedent of national and international significance. The annulment of state constitutional protections for public employee pensions and the pursuit of privatizing or liquidating public assets are a clear signal for an attack on the working class throughout the country.

California stands as the next battleground for such attacks, which will in turn serve as a further example to other states and countries. The *Sacramento Bee* has described the Detroit ruling as the "shot heard around the pension world." On December 3, US Bankruptcy Judge Steven Rhodes ruled that Detroit city managers could dismantle the retirements of tens of thousands of city workers—despite the state constitution's prohibition against the "diminishing or impairing" of such pensions—in order to pay back banks.

Nowhere is this "shot" heard more than in California. With seven municipal bankruptcies, the state has the highest number in the United States, accounting for nearly half of all recent Chapter 9 cases. The bursting of the sub-prime mortgage bubble and the financial crash of 2008 led to a wave of insolvencies in America's most populous state.

Since 2006, there has been a particularly sharp rise in foreclosures and relatively steep fall in housing prices in California. Some cities, such as Stockton, saw their median home price decrease by as much as 44 percent between September 2006 and 2007. This fall led to the erosion of tax bases, particularly in suburban, rural and economically-depressed industrial areas.

To weather the storm, city officials borrowed money. They hoped in a few years an economic recovery would restore their tax base. This recovery, however, has never come, quite the contrary.

In some poor agricultural parts of the state, the official unemployment rate is as high as 26.1 percent, with the real rate far higher. According to the Supplemental Standard of Poverty, California has the highest rate of poverty in the nation, at 23.8 percent, or 8.9 million people. While improving in certain wealthy-epicenters, real estate prices have not recovered from their fall. Thus, throughout much of the state, as in many other places in the world, tax revenues remain low, and cities find themselves increasingly in debt to the large banks that spawned the economic crisis.

The corporate and political establishment in the state has pursued austerity, like their national and international cohorts, to deal with this crisis; to these ends, bankruptcy is the next tool of class warfare.

The Detroit ruling is critical in this policy because it establishes a precedent for attacks not just on future workers' pensions but also on pre-existing obligations to workers. Previously, clauses in state constitutions, of Michigan, California, and other states, prevented workers' earned pensions from being taken away from them through bankruptcy.

In California, the cities of Stockton and San Bernardino are still in bankruptcy proceedings and many more could follow. In May, *USA Today* ran a piece that warned that ten other California cities were close to bankruptcy, including large metropolises like San Jose and Oakland. A renewed outbreak of the financial crisis would leave fragile city budgets deep in the red and encourage the widespread use of bankruptcy to remedy this.

In Stockton, city workers, regardless of their medical condition, age, or time worked, have lost all of their retirement medical benefits. Stockton's city budget has been picked to the bones. Stockton has fired 30 percent of its firefighters, 25 percent of its police force and 43 percent of its non-uniformed workers. It has reduced city workers' pay by 23 percent. Fire and police response times have risen five-fold in some areas of the city. Libraries have been shuttered and public buildings like the city hall are being sold off.

Most of Stockton's creditors have settled with the city. However, one creditor, Franklin Templeton Investments, holds two funds of city bonds that add up to $35 million. This creditor has held out precisely for the opportunity afforded by Detroit's ruling. The investment firm argues that CalPERS, the California public employment retirement system, the second largest pension fund in the country, has not been dealt with like the other creditors of the system. This 'unfair' treatment has been the result of the fact that, as in Detroit, pensions are constitutionally protected from being cut in bankruptcy.

Franklin Templeton's lawyers had already begun legal action on this matter before Detroit's ruling came out. Now with the Detroit ruling, they will be strengthened in their case to persuade the judge that pensions are just like any other business contract, and that the money that Stockton owes to CalPERS should be reduced, just like the rest of the bonds. City workers could therefore still lose large parts of their pensions.

In San Bernardino, the effects could be even more devastating. The city was allowed to enter bankruptcy this fall. The decision has not yet been made by the bankruptcy judge on whether pensions will be allowed to be touched. San Bernardino wishes to rescind its pension obligations and seems willing to take up a fight in the courts to do so. For about a year the city refused to pay into their pension fund. With the bankruptcy ruling in Detroit, there will be new wind behind the citys threats to cut pensions. The judge, following Detroit's precedent, will more likely declare pensions fair game for dismantlement.

The ground is being consciously prepared for a historic assault. Last Saturday, in a speech made in the town of Thousand Oaks, California Treasurer Bill Lockyer warned that the California State Teachers' Retirement System (CalSTRS), the largest teachers' retirement fund in the US and the 8th largest in the world, is set to "implode" in 30 years unless half a billion dollars for each of several years is paid toward unfunded liabilities, money the ruling class seeks to extract from workers.

In addition to the Detroit ruling's effect on current and future bankruptcy cases, the decision will generally sharpen the attack on all public, and private, workers in California. A chief component of this intensification of attacks on workers will be the collaboration of the unions, which have repeatedly demonstrated their willingness to force workers to accept the financial crisis not of their own making. In each case, the unions have operated as another creditor, seeking not to defend the livelihood of their members, but the multi-billion investment funds they control.

San Jose's *Mercury News* ran an op-ed titled "Detroit ruling should wake up California unions." The piece argues that bankruptcy, though a "terrible prospect," should be used when unions fail to "adjust future accrual rates" as needed by the employer. In order to avoid this fate, the author advocates San Jose Mayor Chuck Reed's pension reform plan that will allow current workers' future pension accruals to be negotiated in collective bargaining.

The unions have already played a critical role in passing Democratic Governor Jerry Brown's pension "reform" last year. The measure increased the retirement age from 55 to 67 in order for most new employees to get full benefits, and from age 50 to 57 for new public safety employees. It also increased the share workers contribute toward their pensions. California's largest state employee union, the Service Employees International Union (SEIU), described the reform as a "good starting point for a new conversation about retirement security."