

Statement from the chairman of the Workers Inquiry

Cancel Detroit's debt!

Lawrence Porter
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The following is a statement from Lawrence Porter, the assistant national secretary of the Socialist Equality Party and chairman of the Workers Inquiry into the Attack on the DIA and the Bankruptcy of Detroit.

While tens of thousands of retired workers in Detroit spent an anxious Christmas worrying about the fate of their hard-earned pensions, they were greeted with the news that a deal had been reached to pay Bank of America-Merrill Lynch and Swiss bank UBS \$165 million. If approved, as expected, by the bankruptcy court, Detroit will pay the money to the banks to “unwind” a complex financial scheme that has already drained hundreds of millions of dollars from the city.

The US bankruptcy judge and the news media have presented the deal as an example of “equal sacrifice” because the original agreement signed by Emergency Manager Kevyn Orr would have given the banks \$230 million. The truth is, not a penny should be paid to the Wall Street speculators whose semi-legal, if not outright criminal, activities are largely responsible for the crisis of the city.

In his report for the liberal think tank Demos (The Detroit bankruptcy), Wallace Turbeville, a former Goldman Sachs banker, noted that Detroit officials were essentially swindled into signing credit default swap deals in 2005-06 by bankers who claimed they would protect the city from future interest rate hikes on its municipal bonds. As with the teaser rates promoted by the banks in the subprime mortgage fraud, these institutions were well aware that the precarious state of the city's finances and almost certain credit downgrade would cost the city hundreds of millions in increased debt service payments.

Since 2009, Detroit has been paying \$45.2 million a year to the two banks. According to an investigative report by the *Detroit Free Press*, “How Detroit Went

Broke,” the swap agreement “represents one-fifth of the city's debts and stands as the key reason the city filed for chapter 9 bankruptcy on July 18.”

The original settlement with Bank of America and UBS signed by Orr—whose former law firm Jones Day counts both financial firms among its clients—was a blatant handout to the banks, providing 72 cents on the dollar. In his testimony last week, Orr refused to release details of the supposed negotiations with the banks or answer why he did not challenge the legality of the swaps. In order to maintain at least the appearance that the court is impartial, US Bankruptcy Judge Stephen Rhodes ordered Orr to renegotiate the terms of the deal.

The new settlement reached by a federal mediator appointed by Rhodes will give the two banks 56 cents on the dollar. In contrast, Orr has said he will pay as little as 16 cents on the dollar towards pension obligations owed to 23,500 retired city workers.

The deal will involve a new \$285 million loan—this time from Barclays Bank of England—which will load even more debt onto the city. This means even deeper cuts in the future to pay Barclays, which was fined for fixing international lending rates (LIBOR), impacting trillions of dollars in mortgages, student loans and financial derivatives.

The settlement exposes the charade of the whole bankruptcy proceeding. When it comes to the interests of the financial aristocracy, the courts insist that the banks have “absolute priority” over workers' pensions no matter how criminal their financial manipulation. *The New York Times* noted that Congress specifically introduced “safe harbor” provisions in the bankruptcy law to guarantee full payment to traders in derivatives such as swaps, even when a city is broke and paying pennies to other creditors.

Judge Rhodes has made it clear there is no “absolute

priority” or “safe haven” for the working class in the bankruptcy court. On December 3, he ruled that pensions could be slashed even though the Michigan state Constitution explicitly protects them. This is the brutal reality of the capitalist justice system!

It is the position of the Socialist Equality Party that society’s priority must be the jobs, living standards, pensions and other social needs of the working class—not the profits of the super-wealthy. We say cancel the debt and impound the ill-gotten gains of the banks and big corporations, which crashed the economy and have gotten even richer ever since. Instead of paying billions to these financial parasites, the money should go to hire hundreds of thousands of unemployed workers in the Detroit area at good wages to rebuild the city and guarantee high quality services to all residents.

From the beginning, the bankruptcy proceeding has been a conspiracy against the working class. It has been organized by state and local politicians from both big business parties, the Obama administration, and big financial and legal institutions to loot pensions and other city assets, including the priceless collection at the Detroit Institute of Arts. If successful in Detroit, it will become the model for a nationwide attack to destroy all the past gains won by workers, including Social Security, Medicare and Medicaid.

To stop this, workers need the facts that have been concealed by the media and all the defenders of big business, including the unions. The exposure of the predatory role of the banks will be a major aspect of the Workers Inquiry on February 15 at Wayne State University. I urge workers, students, the unemployed, retirees, artists, professionals and all those who defend the social and democratic rights of working people to attend. (Register today at detroitinquiry.org)



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