

Report to the Workers Inquiry

The Social and Historical Context of the Detroit Bankruptcy

Jerry White
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The Workers Inquiry into the Bankruptcy of Detroit and the Attack on the DIA & Pensions was held on Saturday February 15 at Wayne State University. The WSWS published an initial report on the meeting here. Today we publish an edited version of the first report to the Inquiry, delivered by Jerry White, a writer for the WSWS and the Socialist Equality Party's candidate in the 2012 US presidential elections.

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The purpose of this inquiry is to cut through the lies, to reveal the class interests behind the bankruptcy of Detroit and outline a political program on the basis of which the working class can conduct a struggle. The most essential starting point is to understand that what is going on in Detroit is part of a process that is taking place throughout the country and, in fact, the world.

The ruling classes and governments in country after country are carrying out what we call a social counterrevolution to overturn gains established by the working class over a century of struggle, to carry out an enormous redistribution of wealth to those at the top at the expense of masses of working people.

The bankruptcy of Detroit is a major turning point in class relations. It sets a precedent for an escalation of the war against the working class in the same way that Reagan's firing of 13,000 striking air traffic controllers did in 1981.

In the next few days, the city's unelected emergency manager, Kevyn Orr, essentially a dictator for the most powerful financial interests, will release his "plan of adjustment." The word "adjustment" is a euphemism. It will be a slash-and-burn plan.

The basic outlines are clear. The working class is to pay for the financial crisis it did not create. There will be deep cuts in the hard-earned pensions and health care benefits of 23,500 retired city workers. Workers will be sent to purchase private insurance on the Obama administration's new health care exchanges and forced to pay impossible expenses out of their meager pension checks.

Many of the nearly 10,000 current city workers will lose their jobs or see their wages and benefits slashed as sanitation, transit and other essential services are privatized.

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The century-long city ownership of the Detroit Institute of Arts will be ended, and the control of the museum's priceless collection will be handed over to wealthy private foundations, which will further restrict access to culture.

The public lighting system will go to DTE Energy. New entrance fees are being charged at Belle Isle, which has been taken over by the state, opening the way for the construction of a new luxury hotel on the public island park. The city has announced plans to eliminate nearly half of the

jobs in the water and sewerage system to make it more attractive for a takeover by private equity firms. And low-income residents are being evicted to make room for state subsidized stadiums and upscale housing that will further enrich billionaires like Mike Ilitch and Dan Gilbert.

Discussions are underway to reach a "grand bargain" with the city's main unions that will transfer control of a half-billion-dollar retiree health care fund to the union executives, in a plan modeled after what was done in the auto industry. In exchange for getting access to this slush fund, the union executives will dutifully announce their support for the deal and declare it was the "best they could get."

A national and international social counterrevolution

It is important to stress that the bankruptcy of Detroit is supported by the Obama administration, which filed a brief in the courts last year backing the actions of the emergency manager. Rejecting any Wall Street-style bailout for the city—which White House economic advisor Gene Sperling reiterated again last week—Obama is using the crisis in Detroit as a test case for a nationwide attack on public employee pensions.

Meanwhile, the White House and Congress have cut off benefits for the long-term unemployed, agreed to slash another \$9 billion from the food stamp program, and passed a budget that will impose \$1 trillion in cuts over the next decade. Obama's health care scheme is already gutting health insurance for millions and serving as a stepping-stone to the privatization of Medicare and Social Security.

The social counterrevolution is not limited to the United States. All over the world, the operative word of every government, whether ostensibly left or right, is "austerity." Savage budget cuts and so-called structural adjustments are being imposed to pay for the financial crash of 2008 created by the global banks.

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In **Greece**, public workers have already seen 35 percent wage cuts, and two-thirds of the youth and young workers are jobless.

In **Spain**, a new system started in January will tie pensions to a so-called "sustainability factor." This means if average life expectancy in the country rises, social security payments will be cut.

A report last month by the Council of Europe's human rights commissioner pointed to depression-level unemployment, falling food consumption, the "pauperization" of pensioners and a return of child labor throughout the continent.

In **Australia**, Toyota has joined Ford and General Motors in announcing the shutdown of the entire car industry, threatening the jobs of some

quarter of a million workers. The global auto giants insist that job security, safety and pensions are simply unaffordable when they can get cheaper labor in other parts of the globe, including the United States.

In other words, what is happening here is part of an international process. Whether in Athens, Madrid, Melbourne or Detroit, the working class is facing an enormous historical retrogression, with no end in sight. Meanwhile, a tiny corporate and financial elite that controls every lever of political power is enriching itself almost beyond comprehension.

One figure captures the staggering social inequality produced by the capitalist system and reveals why it must be abolished if mankind is to progress. According to a new report from the world hunger organization Oxfam, the world's 85 richest individuals now have a net worth equal to that of the poorest 3.5 billion people on the planet.

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In fact, the wealth of the world's billionaires has increased from about \$1 trillion in 1996 to about \$5.5 trillion today. The lower line in this graph shows the rise in the number of the world's billionaires since 1987, with the scale on the right. The top line shows the rise in total wealth of the billionaires, which took a tumble in the 2008 crash. This wealth has not only fully recovered, but has set new records.

Detroit and the class struggle

In this context, the attack on Detroit is particularly significant. The ruling class is proceeding with such vengeance precisely because it has never reconciled itself to the achievements won by workers in the mass industrial and social struggles from the 1930s to the 1970s. Detroit was a major battleground of these struggles, which reverberated throughout the country and changed class relations throughout American society.

Orr expressed his contempt for the working class when he told the *Wall Street Journal* last August, "For a long time the city was dumb, lazy, happy and rich." He complained that in the post-World War II period there was a "covenant that held if you had an eighth grade education, you'll get 30 years of a good job and a pension and great health care, but you don't have to worry about what's going to come."

To this millionaire hatchet man—who makes \$275,000 a year to loot an American city—the very idea that workers should have the right to secure and good-paying jobs, health care, pensions and decent schools and museums for their families is utterly absurd. He speaks for the American ruling class, which wants a return to the days when it held unchallenged sway as masters and workers were little more than industrial slaves, living in degradation and without the slightest rights.

But pensions, public education and access to culture were never handed to the working class. They were won only through bitter struggle, often against the violent resistance of the industrialists and financiers who ruled American society with an iron fist.

The explosive growth of American capitalism in the decades following the Civil War was dependent on an ample supply of cheap labor and the brutal exploitation of millions of workers who flooded into the factories, steel mills and coal mines from throughout the world.

The introduction of the assembly line at Ford's Highland Park Model T factory in 1913 maximized the amount of surplus value extracted from the working class, making Henry Ford the richest man in the world. It would take a worker 20 years of labor to equal what Ford was making *every day*.

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In January 1914, when Ford announced his much-vaunted \$5 a day wage, 10,000 job seekers lined up, hungry and cold, outside the plant. When they demanded jobs, management turned water hoses on them.

What were conditions for workers at this time? Conditions that the

American ruling class wants to reestablish today. According to contemporary accounts, Detroit workers slept in slum boardinghouses, four men to a bed, with no indoor plumbing. They suffered from an epidemic of inflamed gums, swollen jaws and toothless mouths, with watery and infected eyes. Hospitals and churches took in hundreds of so-called "foundlings," that is, babies abandoned by parents who were too poor to feed them.

The auto barons controlled the police, the judges and the politicians. They hired spies and gun thugs to beat up workers and break their strikes. Particular venom was directed towards socialists and left-wing militants who led the fight to organize industrial workers. After the 1917 Russian Revolution, thousands of suspected Communists were rounded up and deported. In Detroit, scores of radical labor leaders were incarcerated by the army at Fort Wayne and held indefinitely, while their families were reduced to beggary. The employers utilized gangsters and fascistic organizations like the KKK and the Black Legion, and used racism and anti-immigrant chauvinism to divide and weaken the working class.

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The 1929 Wall Street Crash and Great Depression radicalized millions of workers against the capitalist system and convinced them that only collective resistance could change their conditions. In a rebellion against the old labor leaders in the American Federation of Labor, an explosion of mass struggles, led by socialists and left-wing workers, erupted, including general strikes in Toledo, Minneapolis and San Francisco in 1934.

In 1936-37, the Flint sit-down strike against General Motors—then the largest company in the world—won recognition for the UAW and inspired a wave of strikes and sit-downs across the country. There was a growing conviction within the ruling class, as one author stated, that "America's 1917 was coming," a reference to the October Revolution.

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Well aware of the dangers of trying to violently suppress this movement—as Hitler and Mussolini had done in Europe—Franklin Roosevelt initiated his "New Deal" to save the capitalist system from revolution. FDR could do this because he enjoyed the luxury of being in a country, as Leon Trotsky said, "where the bourgeoisie succeeded in accumulating incalculable wealth."

Against the opposition of many in his own class, FDR gave legal recognition to the unions and enacted several reforms, including Social Security, the minimum wage, overtime pay and child labor laws. His administration also initiated a national public works program. Taxes on the wealthy were increased sharply.

It is perhaps hard to imagine that the word "reform" at one time actually meant an improvement for the working class, and "concessions" referred to concessions made by the capitalists to workers. But the semi-insurrectional struggles of the 1930s forced the American ruling class into a temporary retreat.

Over the next four decades, militant strikes and mass struggles would be a central feature of American life. Workers in the US, like their counterparts throughout the world, were determined not to go back to the conditions of the Hungry Thirties. Some figures highlight the change in the social position of the working class that were the result of mass struggles.

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* In 1930, the average life expectancy for males was 58.1 years; by 1979 it was 70 years.

* In 1930, the high school graduation rate was around 25 percent. It nearly doubled by the end of the decade, and by 1970 was 78 percent.

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* Inflation-adjusted per capita income more than tripled, from \$6,096 in 1935 to \$19,915 in 1975.

* Taxes on the top income bracket rose from 25 percent in 1929 to nearly 90 percent in 1965.

In the 1940s and 50s, strikes by tens of millions of industrial workers secured the right to old-age pensions and employer-paid health care benefits, in addition to higher wages and living standards.

This change was epitomized by Detroit. By 1960, the Motor City had the highest per capita income of any city in the US. It also had the highest home ownership rate and among the best public schools in the country.

I do not want to romanticize conditions. Even in the most prosperous period of American capitalism, nearly 20 percent of all Americans remained mired in poverty. Roosevelt's claim that the profit system could guarantee workers the "right" to economic security never materialized. Nevertheless, through these struggles the working class managed to increase its share of the wealth produced by its own labor.

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A shift in class policy

Historically speaking, however, the period of rising living standards was short-lived. By the late 1960s, American capitalism had begun an historic economic decline. It faced increasing challenges from Japan, Germany and other competitors.

The American ruling class responded by decisively shifting from a policy of class compromise to a policy of class war. It was determined to claw back everything workers had won since the 1930s.

The first efforts to attack the working class provoked a wave of militant strikes, including the two-month strike by 400,000 GM workers in 1970 and the 110-day strike by 160,000 coal miners in 1977-78.

In 1979, Federal Reserve Chairman Paul Volcker, a former Wall Street banker appointed by Democratic President Jimmy Carter, raised interest rates and deliberately provoked the worst economic crisis since the Great Depression. The aim was to use mass unemployment as a hammer to beat back the resistance of the working class.

One of the first targets of this policy was Detroit, which was described in a congressional report on the first Chrysler bailout in 1980 as a city "known to have some of the most inefficient and troublesome workforces available."

The answer of the Carter administration was to wipe out 30,000 Chrysler jobs and impose a quarter of a billion dollars in wage and benefit concessions on auto workers. A year later, this was followed by Reagan's firing of 13,000 PATCO air traffic controllers. Chrysler and PATCO were the opening shots of a wave of plant closings and mass layoffs, government-backed union-busting and cuts in social programs. Combined with deep tax cuts for the rich, the aim of this counter-offensive was to reverse the gains won by workers over the previous half-century.

The response of the unions

In the face of these attacks, the UAW and other unions proved utterly incapable of defending the working class. The officials who controlled these organizations, which were thoroughly wedded to the capitalist system and hostile to socialism, responded to the crisis of American capitalism by embracing a corporatist program of "labor-management partnership."

As UAW Vice President Marc Stepp said, "I believe the company will have to trim operations down. But what can we do about it? We have free enterprise in this country. The corporations have the right to make a profit."

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The UAW and other unions suppressed strikes and isolated and betrayed struggles when they did break out. They sought to channel the anger of workers away from the corporations and the government with anti-Japanese racism and "Buy American" chauvinism.

The globalization of capitalist production had fatally undermined nationally based unions, not only in the US but all over the world. By the 1980s, the unions shifted from pressuring the employers for concessions to demanding that workers accept ever-lower wages and ever-poorer conditions.

Allied to the Democratic Party, the UAW and AFL-CIO blocked any struggle by the working class against this big business party, which shifted further and further to the right and abandoned its previous policy of liberal reform. The suppression of the working class by the unions resulted in a huge transfer of wealth to the corporate and financial elite.

The virtual disappearance of strikes was correlated with the rise in the wealth of the richest 1 percent of the population.

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During this period, the bankruptcy courts were used to destroy the jobs and pensions of millions of workers in the steel, airline and auto parts industries. In October 2005, Steve Miller, the CEO of Delphi, GM's former parts division, made clear the purpose of his decision to throw the company into bankruptcy.

Miller, a former executive at Bethlehem Steel and board member at United Airlines, said that what all three industries he worked in had in common was a "social contract, worked out over the past half-century with strong centralized labor unions, to elevate their workforces with elaborate defined-benefit retirement programs. Back in the days when you worked for one employer till age 65 and then died at age 70, and when health care was unsophisticated and inexpensive, the social contract inherent in defined-benefit programs perhaps made some economic sense.

"Today, defined-benefit programs are an anachronism... People are living longer these days. And medical science is rapidly expanding the capability to spend vast amounts of money keeping you alive for decades. Of course, that is a good thing. But the question is, how can we afford it?"

There you have it: workers are living too long! Pensions have to go and workers must be reduced to a life that is "brutish and short." Why? Because the billionaires hoarding all of the wealth of society want to steal the trillions of dollars in pension benefits owed to workers.

The impact of the 2008 crisis

The Obama administration came to power in January 2009, determined to carry out what the corporate and financial elite considered the unfinished business of the social counterrevolution begun in the 1980s. After continuing the bailout of Wall Street started by his Republican predecessor, Obama's next major act was to destroy the so-called "middle class" living standards of Detroit auto workers.

The 2009 forced bankruptcy and restructuring of GM and Chrysler, carried out with the collaboration of the UAW, led to a staggering lowering of wages. To say that the clock has been turned back a century is no exaggeration. A young auto worker today, making \$14-\$15 an hour, is making the same wage, in real terms, as a Ford worker at the Highland Park Model T plant in 1914. Based on these wage cuts, along with abolishing the eight-hour day, the auto companies made nearly \$14 billion in profits last year.

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The auto restructuring was used as a model to drive down wages and benefits throughout the economy and boost corporate profits to record levels. Corporate profits have grown by more than 170 percent under Obama, more than any president since World War II. Profits are now at their highest level since World War II, while the share of the gross domestic product that goes to labor is at its lowest level since 1947.

Along with the escalation of wars and spying on the world's people, the Obama administration has overseen the greatest transfer of wealth from the bottom to the top in history. The wealth of the richest 1 percent, or 0.1 percent, is mind boggling, increasing over the past five years at a faster rate than at any time in history. A report earlier this year showed that the richest 1 percent control almost 50 percent of global wealth.

This is the result of definite policies pursued by the Obama administration. What have they been? Bank bailouts and "quantitative easing," no restraints on executive compensation; no one held accountable for the financial crisis of 2008-09, and no public works programs to create jobs for the unemployed.

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What is this quantitative easing? Since 2008, the US Federal Reserve has purchased toxic mortgage-backed securities, taking worthless assets off of the banks' books. The amount essentially handed over to the banks in this operation has reached \$1.6 trillion. This money, combined with the influx of funds used to purchase US Treasuries, has chiefly been invested in the stock markets, fueling a new speculative bubble.

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In addition, corporations are flush with cash, holding onto record reserves estimated to be \$1.5 trillion. This money is not being used to build factories or hire workers, let alone raise wages. Instead, corporations are using it for stock buybacks to drive up their share values and pay dividends to their wealthy investors.

Whom has the Federal Reserve policy benefited?

Marc Faber, from gloomboomdoom.com, an investment opportunity web site that is far from left-wing, wrote, "In fact, it would seem to me that with their monetary inflation the professors at the Fed are pursuing a policy of deliberately shifting the wealth from the majority of US households to the one percent."

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Since the Crash of 2008, the stock market has reached record levels based on the virtually free money pumped into the banks by the Fed. The Dow Jones Industrial Average has more than doubled since 2009.

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What of the conditions of the working class? Unemployment in America is at disastrous levels. The civilian labor force participation rate has fallen to a record low, as some 7 million jobless workers have given up looking for work since the so-called economic recovery began in June 2009. Their numbers are not reflected in the official unemployment rate.

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Workers' wages have plummeted. Between 2000-2012, the wages of the bottom 20 percent fell 4.5 percent. Wages for the intermediary segments have declined or stagnated, while the income of the richest 5 percent has skyrocketed.

This takes place under conditions of a steady increase in productivity. Workers are producing more wealth than at any time in human history. Far fewer workers are producing far more output, but wages have stagnated or declined.

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That is the basis of the enormous redistribution of wealth that has occurred. Under the Obama administration, 95 percent of all income gains have gone to the richest 1 percent. In fact, the bulk has gone to the richest one-tenth and one-hundredth of a percent of the population. The sharpest rise in income share has gone to the richest 30,000 Americans.

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The ruling class—which controls the Democrats, the Republicans, all levers of government, the courts, the media, the trade unions—is drunk with wealth. Everything must go in their relentless drive for their wealth accumulation. The ruling class looks at our pensions and says, "We want that." It looks at the art in the Detroit Institution of Arts and says, "We want that." It looks at money that is going to pay for wages and benefits and insists, "We want that."

This is the social and historical context of the Detroit bankruptcy which defines the political struggle that workers in the US and around the world confront today.



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