Reports to the Workers Inquiry

The rape of Detroit: Deindustrialization, financialization and parasitism

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The Workers Inquiry into the Bankruptcy of Detroit and the Attack on the DIA & Pensions was held Saturday, February 15 at Wayne State University. The World Socialist Web Site *published an initial report on the meeting on February 17. Today we publish an edited version of the report to the Inquiry delivered by Barry Grey,* World Socialist Web Site *US national editor.*

The report to the Inquiry by WSWS Labor Editor and Socialist Equality Party 2012 presidential candidate Jerry White can be accessed here. *The report by Larry Porter, assistant national secretary of the SEP and chairman of the Workers Inquiry, can be accessed* here. *The report by Tom Carter, WSWS legal correspondent, can be accessed* here. *The report by WSWS Arts Editor David Walsh can be accessed* here.

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In this report I will first discuss the process of deindustrialization and financialization of the US economy which underlies the decline and bankruptcy of Detroit. I will then review in greater detail the impoverishment of former industrial cities at the hands of the corporations and banks. Next, I will focus on Detroit and examine the real reasons for the city's financial crisis and the social consequences of that crisis. Finally, I will provide examples of the stratospheric levels of social inequality in Detroit.

The bankruptcy of Detroit is the outcome of a process that spans many decades. Over the past 35 years, the American ruling class, represented by Democratic as well as Republican governments, has dismantled much of the industrial infrastructure of the country. It has shifted its money-making activities increasingly to parasitic and non-productive forms of financial speculation.

We use the term "financialization" to characterize this process. We mean by it the increasing weight of financial operations carried out by banks, hedge funds and other financial firms in the overall economic life of both the US and the world.

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The financialization of the US economy—its increasing domination by a handful of Wall Street banks and hedge funds—has been dramatic. In 1980, the financial industry accounted for only 6 percent of corporate profits. Today it accounts for close to 50 percent.

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The other side of the coin is the collapse of manufacturing. Manufacturing today accounts for just 12 percent of the US economy, down from a peak of 28 percent in 1953 and on a par with France and Britain as the least industrialized of major economies. I will deal with the dismantling of industry in the US in greater detail later in this report.

First, however, it is important to stress that deindustrialization and financialization are not simply impersonal economic processes. They are bound up with the class struggle. They have played a central role in the offensive of the ruling class against the social conditions and basic rights of the working class. These processes accelerated in the 1980s, 1990s and 2000s, and sharply intensified following the Wall Street crash of September 2008.

In Detroit and other industrial cities, the capitalists have discarded workers, whose labor they have come to rely on less than previously as the direct source of their profits, as they shifted production to cheap-labor havens in Asia, Eastern Europe, Latin America and elsewhere. They came to rely more on other ways of making money off of the backs of workers in cities such as Detroit, including forcing them into debt and extracting tribute in the form of interest on loans.

The result has been the devastation of former industrial cities all across the United States. Detroit has been transformed from the most prosperous city, per capita, in the country in 1950 to the poorest big city in the US, but it is only the most graphic example of a broader process.

Allow me to quote from a *New York Times* article that appeared last November, headlined "Many Cities Opt to Clear Faded Areas."

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The article makes clear that the downsizing and restructuring of Detroit is part of a nationwide phenomenon. It quotes Sandra Pianalto, chief executive of the Federal Reserve Bank of Cleveland, as saying: "[T]he best policy to stabilize neighborhoods may not always be rehabilitation. It may be demolition."

The article continues: "Large-scale destruction is well known in Detroit, but it is also underway in Baltimore, Philadelphia, Cleveland, Cincinnati, Buffalo and other cities… Officials are tearing down tens of thousands of vacant buildings, many perfectly habitable…"

The article points out that more than half of the nation's 20 largest cities in 1950 have lost at least one-third of their populations. Since 2000, Baltimore, St. Louis, Pittsburgh, Cincinnati and Buffalo have lost around 10 percent; Cleveland has lost more than 17 percent; and more than 25 percent of residents have left Detroit.

Cleveland, whose population has shrunk by about 80,000 during the past decade, "zones for urban farms and allows people to keep pigs, sheep and goats in residential areas."

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In the rise and fall of American manufacturing and growth of financial parasitism one sees the historical trajectory of the rise and decline of American capitalism. It is no accident that this process of decay finds its sharpest expression in the rise and decline of Detroit.

In the first three quarters of the 20th century, the United States became the dominant economic power in the world. It did so on the basis of the scale, power, efficiency and technological supremacy of its industry. The auto industry was at the center of the industrial might of American capitalism, and the center of the auto industry—both in the US and internationally—was Detroit.

The mass production methods that transformed the world were developed and perfected in the United States. Henry Ford set up the first operational auto assembly line in 1913 in Highland Park. His innovation reduced the time it took to build a car from more than 12 hours to two hours and 30 minutes.

Detroit's population rose from less than 500,000 in 1910 to over 1.5 million in 1930. When World War II ended, Detroit was the fourth largest city in the US. In 1950, its population was close to 2 million.

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In the early 1950s, the US produced nearly three-quarters of all cars made around the world. In 1952, nearly 60 percent of all industrial production in the advanced capitalist countries was located in the US.

The global dominance of US industry could not be sustained forever. Industrial production, like all other facets of social life, was subordinated to the accumulation of personal wealth by the elite social layer that owned and controlled the factories, the means of transportation, the natural resources, the technology and the finance, i.e., the means of production.

And the world economy, increasingly integrated on a global scale, remained hemmed in and held back by the division of the world into rival nation states.

The basic contradictions of capitalism—between social production and private ownership of the means of production, between the growth of the productive forces and the irrationality and anarchy of the capitalist market, between world economy and the national state system—increasingly asserted themselves internationally. This mounting world crisis was centered in the decline in the global economic position of the United States.

As Europe and Japan recovered from the devastation of World War II, American industry, including the Detroit-based Big Three automakers, was increasingly challenged by German and Japanese corporations. US manufacturers lost market share, including within the US itself, to their overseas rivals.

Moreover, the rate of profit for US manufacturing began to decline. A major factor in this process was the militant resistance of the working class, which carried out mass strikes to press for higher wages, pensions, health benefits and better working conditions.

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The response of the American ruling class was to shift away from production to financial speculation. The capitalists found they could make more money through financial wheeling and dealing than they could through the production of useful things—autos, steel, homes, schools. And by downsizing industry, they could use layoffs and the threat of layoffs to undermine the militancy of the working class and take back what they had been forced to concede to the workers in previous decades.

With the assistance of the treacherous leadership of the United Auto Workers and the other unions, they could use plant closures and layoffs to blackmail workers into accepting cuts in wages and benefits, as well as speedup.

As manufacturing was dismantled and economic activity shifted more and more to financial manipulation, the enrichment of the financial-corporate elite was increasingly separated from the creation of real value through the process of production.

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Here are some indices of the decline of manufacturing in the US in general, and Detroit in particular:

* The United States lost approximately 42,400 factories between 2001 and 2010.

* The United States lost 32 percent of its manufacturing jobs between 2000 and 2010.

* Since 1979, 267 of the 447 auto manufacturing plants in the US have been closed, or 60 percent. Of those that closed, 42 percent shut down between 2004 and 2010.

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* The number of manufacturing jobs in Detroit proper fell from 296,000 in 1950 to 27,000 in 2011.

* In 1960, there were 35 major auto plants in and around Detroit, including the Ford Rouge complex, GM's Cadillac plant and Dodge Main, employing over 110,000 workers. Today, there are 14, employing less than 22,000 workers.

* Since 1989, auto-related employment in Michigan has declined by 70 percent.

* 61 auto plants, large and small, have been closed in the Detroit metro area since 1979.

* From 2000 to 2008, metro Detroit lost 150,000 jobs due to downsizing in the auto industry.

Corporate America laid waste to industrial cities across the US. The epidemic of plant closures and mass layoffs undermined the financial position of the cities. Mass unemployment and declining population depleted income and sales tax revenues. The shutting of plants and urban decay sapped property tax revenues.

At the same time, both federal and state aid to cities was repeatedly cut.

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Corporations took advantage of the crisis of the cities to blackmail them into giving ever more massive tax breaks and incentives as the price for keeping existing plants open or choosing to locate new facilities within their borders. According to the *New York Times*, states, counties and cities hand out $80 billion a year to corporations in the form of tax abatements and other incentives.

Among the firms on the receiving end:

* Walmart, the world's most profitable corporation, which gets $1.2 billion in taxpayer assistance

* Alcoa, which has a 30-year discounted electricity deal worth $5.6 billion

* Boeing, which receives tax breaks and subsidies estimated at $3.2 billion

* Nike--$2.02 billion

* Intel--$2 billion

* Google--$255 million (to locate a facility with 250 jobs)

* Apple—$321 million to set up shop in North Carolina (50 jobs)

* Goldman Sachs--$164 million to move operations from Manhattan to Jersey City

A simple calculation shows that Google received $1,020,000 for each job at the facility in question. But compared to Apple, it is a piker. Apple was handed $6,420,000 in tax givebacks per job at its North Carolina shop.

Overall national incentives for the Big Three auto companies since 1985 are estimated at $13.9 billion.

The state of Michigan spends $6.65 billion every year on business incentives. That represents 30 cents out of every dollar in the state budget.

Desperate for cash, cities have increasingly placed themselves in hock to the banks and hedge funds. The financial industry, vampire-like, has exploited the crisis of the cities to entrap them in predatory loans and financial arrangements that have further bankrupted the cities, while providing huge profits for the banks and bondholders.

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A measure of the increasing hold of the financial industry over US cities is the fact that the US municipal bond market has almost doubled since 2005, growing from $1.9 trillion to $3.7 trillion.

State and municipal pension funds have been looted by state and local officials to cover lost revenues and pay off debts to the banks. Politicians of both parties have systematically underfunded them, placing at risk the pension benefits that legally belong to retired state and city workers.

The pension funds have increasingly entered into highly risky and exotic borrowing arrangements with financial firms, which end up funneling hundreds of millions and billions of dollars from the pension funds to banks, hedge funds and private equity companies.

There is $2.6 trillion in state pension money under management in the US. Wall Street wants that cash. It sees no reason why it should be squandered on retired workers who no longer produce profit for American business.

Particularly since the Wall Street crash and onset of the Great Recession, a virtual conspiracy between billionaire capitalists, think tanks, foundations and trust funds (such as the venerable Pew Charitable Trust) and politicians, backed by the corporate-controlled media, has been at work to brainwash the public into believing that overly generous pension benefits are bankrupting the country.

The basic aim is to end defined benefit pensions for public-sector workers and replace them with 401(k) plans, just as corporations in the private sector have done.

In 2011, the town of Central Falls, Rhode Island filed for bankruptcy protection in a small-scale trial run for the bankruptcy of Detroit. Under the court-supervised “rescue” plan, retiree pensions were cut by up to 55 percent.

The state government, which had disastrously underfunded the state pension system, contracted hedge funds to secure financing for the pension plan. With the hedge funds charging exorbitant fees, far higher than those charged by a typical bank, it is estimated that the state will pay $2.1 billion in fees over the next 20 years. This nearly matches the $2.3 billion the state will take from workers over the same period by freezing their cost-of-living adjustments.

All of the above-noted factors—population loss, loss of tax revenues, federal and state funding cuts, corporate blackmail and financial gouging—have intensified greatly since the onset of the global slump in 2008.

All of these processes are involved in the financial crisis and bankruptcy of Detroit.

The official narrative promoted by Emergency Manager Orr, city and state politicians of both parties, the bankruptcy judge and the media is that the bankruptcy is the result of overly generous benefits for city workers and retirees.

The people of Detroit have simply been living beyond their means. Now it is necessary to make “hard choices” and “bite the bullet,” i.e., accept a massive reduction in pensions, health benefits and overall living standards for working people and youth.

An examination of the facts shows that this narrative is a lie.

There has been a sustained and ruthless attack on social services in Detroit and the jobs, wages and benefits of city workers for decades. That assault was intensified in the 2000s. Three thousand city workers were laid off between 2003 and 2005.

But the Wall Street crash of 2008 and ensuing recession marked a huge escalation both in the economic crisis of the city and the attack on Detroit workers. It was not rising pension and health care costs that turned the decline into a collapse, but rather the consequences of the orgy of speculation and profiteering on Wall Street.

In Detroit, 2008 was the beginning not of a recession, but a Depression. The number of employed city residents fell by 53 percent from 2000 through 2012. *Half of that decline occurred in one year—2008!* In that one year, the official unemployment rate in Detroit *doubled* —from 14 percent to 28 percent.

There were 75,000 home foreclosures in Detroit in 2008. Property tax valuations have declined 12 percent since 2008.

As a result of job losses, foreclosures and other effects of the national and global economic crisis, city revenues fell sharply. Since 2008, they have decreased by more than 20 percent, declining $277.5 million.

The collapse of city revenues has been exacerbated by cuts in aid from both the federal and state governments. Twenty four percent of the decrease was from cuts in state revenue sharing. Twenty three percent was from cuts in “other revenue,” including federal aid.

In the critical years 2011 through 2013, when the city’s revenues fell by $200 million, 29 percent of the decrease was from cuts in state revenue sharing, 30 percent from cuts in “other” funds and 25 percent from a fall in property taxes. Over these years, the state cut $67 million in revenue sharing.

Another factor in the revenue decline was tax abatements handed out by the city to private interests. Over $20 million a year was awarded to companies such as the Detroit Medical Center, DTE Energy, Comerica Bank, Rock Ventures/Garbsman, Compuware and Quicken Loans.

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The response of city officials to the fall in revenues was to escalate the attack on the working class. This is reflected in the decline in the city’s outlays between 2008 and the present. Over that period, the city’s total expenses decreased by $356.3 million.

This is the result of a $419 million decline (a massive 38 percent) in operating expenses, partly offset by a $63 million increase in so-called “legacy” costs.

How was the $419 million cut in operating expenses achieved? By laying off more than 2,350 workers, cutting workers’ pay, and reducing future health care and pension benefits for workers.

The city reduced salary expenses by 30 percent and cut its workforce by 20 percent between fiscal year 2008 and fiscal year 2013.

Legacy costs, which grew by $63 million, consist of funding for pensions, health benefits and debt payments to banks and investors. Here one sees clearly the predatory role of the financial industry.

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Despite the talk of workers’ pensions bankrupting Detroit, the city’s pension expenses between 2008 and 2013 rose by only $2 million!

The city’s health care expenses increased by $24.3 million, an annual increase of 3.25 percent, less than the average national yearly increase in health care costs of 4 percent.

The biggest single factor in the increase in legacy costs was the city’s financial expenses, which increased by $38.5 million between FY 2008 and FY 2013, accounting for more than 60 percent of the total increase in legacy expenses.

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The actual sums paid by the city to bankers, bondholders and major investors are staggering. According to Emergency Manager Orr, the city has a cash flow shortfall of $198 million. Yet during 2011 and 2012 alone, the city paid $547 million in termination payments on financial deals that had been terminated because of a credit rating downgrade of the city. The total outlay in 2013 for financial obligations was $247.4 million.

One set of financial deals in particular has tipped the city into financial ruin. In 2005 and 2006, then-Mayor Kwame Kilpatrick entered into an agreement with the Swiss-based bank UBS and the Wall Street investment bank Merrill Lynch, since then taken over the Bank of America, to borrow $1.4 billion to cover the city’s pension obligations. The deal was in the form of so-called “certificates of participation,” or COPs, a complex type of financial transaction designed to enable the city to evade legal restrictions on taking on debt.

The city tied about half of the loan to an interest rate swap agreement, a so-called “derivative,” by which a borrower hedges against a rise in interest rates. These financial instruments are highly complex, exotic and murky, but the city’s deal with UBS and Merrill Lynch amounted to a bet on the city’s part that interest rates would not decline.

The banks pushed the deal, knowing that it was ill-suited for a city like Detroit that was already hovering on the brink of default. But because it was high-risk for Detroit, it promised to provide a windfall profit for the banks.

When Wall Street crashed in September 2008, the US central bank lowered interest rates to near zero and Detroit lost its bet in disastrous fashion. It then found itself facing demands from the banks for hundreds of millions of dollars in immediate payments.

For the past five years, Detroit has been paying UBS and Merrill Lynch/Bank of America a minimum of $50 million a year on its COPs and swaps deal. Last year, the city paid $106 million.

Of the increase in legacy expenses between 2008 and 2013, nearly half (49 percent) was from the COPs and swaps deal originally signed by Kilpatrick in 2005.

Both Orr and the bankruptcy judge have acknowledged that the COPs and swaps deals were in all likelihood illegal.

This brief review of the facts shows that the city's financial crisis is the result of the crisis of American capitalism and the vampire-like role of the banks and investment firms that prey on the city and its population.

The claim that "there is no money" for pensions, wages, health care, jobs, schools, etc. is another big lie.

As the Detroit crisis demonstrates, the real problem is the staggering concentration of wealth in the hands of a parasitic financial-corporate elite that comprises a tiny percentage of the population.

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Per capita income in Detroit as of 2010 was $15,062, about 58 percent of the national average. Median household income in the city in 2011 was $25,193, less than half the national average. Some 35.5 percent of Detroit families were living in poverty, more than three times the national rate. The percentage of Detroit children in poverty was 57.3. That is more than two-and-a-half times the percentage nationally.

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On the other hand, the Big Three auto companies reported this month a combined profit for 2013 of $13.8 billion. Ford, which reported $7.2 billion for the year, has amassed $42 billion in profit over the past five years. The staggering rebound in auto profits is the direct result of the destruction of workers' wages and benefits imposed as part of the Obama administration's forced bankruptcy of GM and Chrysler in 2009. Autoworkers' wages in the US have declined 10 percent since then.

Ford's five-year profit is more than twice the size of Detroit's long-term debt, which, according to Emergency Manager Orr, is $18 billion.

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Dan Gilbert, the CEO of Quicken Loans and co-chair of the Detroit Blight Removal Task Force, is worth $3.9 billion. His wealth has quadrupled since the Wall Street crash of September 2008.

Gilbert has bought some 40 properties in the downtown area and is set to profit massively from the eviction of low-income tenants and the upscale development of a part of the city center. His appointment as co-chair of the panel overseeing the demolition of sections of the city is a flagrant conflict of interest since he stands to make millions from the decisions taken by the blight removal board.

Mike Ilitch, owner of Little Caesar's Pizza and Olympia Development, is worth $2.4 billion. He is another prime mover in the restructuring and downsizing of Detroit. Earlier this month, the City Council approved the handover virtually free of charge of 39 parcels of land to Ilitch to build a new stadium for his Detroit Red Wings professional ice hockey team. Some $285 million in state funds, plus $12.8-$15 million per year in city funds, will be used to cover most of the construction costs. Ilitch will pay no rent and no property taxes on the stadium and pocket all revenues. The $285 million in direct subsidies, it should be pointed out, is more than the cash shortfall of Detroit.

This past Monday, GM announced that its new CEO, Mary Barra, will be paid $14.4 million this year, 60 percent more than her predecessor. Her compensation is 5,760 times the median household income in Detroit.

Social inequality in America has reached levels never before seen. Where is the money? It is in the bank accounts, stock portfolios and investment trusts of the richest 1 percent of the population. And the bulk of that wealth is in the hands of the richest 0.1 percent.