Barclays loan deal would use Detroit income tax revenue, city assets as collateral

Thomas Gaist, Usman Clemens
12 March 2014

The city of Detroit will borrow $120 million from Barclays as part of a deal reached last Thursday. While the deal is pending approval by US Bankruptcy Judge Steven Rhodes, Detroit has already paid some $2 million to Barclays as a "transaction fee," with another $1 million to follow.

As collateral for the loan, Detroit will offer up unnamed city assets and income tax revenue. According to the *Detroit Free Press*, "the city is pledging its income tax revenue and the proceeds of future asset sales, except for Detroit Institute of Arts property." While reports have not specified which city assets will be put up as collateral, numerous assets are either in the process of being privatized or otherwise eyed for "monetization," including the Detroit Water and Sewerage Department (DWSD), as well as the city's public lighting, public transportation, and trash collection infrastructure.

In any case, it is clear that the loan will transfer control over more of Detroit's precious assets to the hands of the financial oligarchs. The actual outcome of the bankruptcy procedure—which is supposedly pulling the city out of insolvency—will be to further entangle Detroit's finances with one of the most rapacious banks on the planet.

The Barclays deal is a key component of the plans and preparations being made to ram through Detroit Emergency Manager Kevyn Orr's Plan of Adjustment as quickly as possible. According to Emergency Manager spokesman Bill Nowling, Detroit will use the cash to cover operating expenses while the Chapter 9 bankruptcy process continues.

In other words, Orr is seeking sufficient funding to continue running city services at bare-bones levels, while moving forward with an unprecedented assault on pensions and retiree health benefits. Once the cuts have been railroaded through, the banks will be paid back the $120 million plus a hefty interest payment.

A previous loan deal, which was rejected by the bankruptcy court, would have seen the city borrow $350 million from Barclays, with two-thirds of the loan going directly to pay off the swaps deal signed with UBS and Bank of America in 2005-2006. This deal, which has cost the city some $50 million per year since the 2008 crash, was renegotiated in 2008-2009 to give UBS and Bank of America control over the city's casino revenues as collateral. Orr has proposed to end this deal by paying the same banks an additional fee of $85 million, a move which is pending approval by Judge Rhodes.

For Barclays the deal represents a massive windfall, given that it guarantees payment regardless of the city's financial situation. If the city cannot repay, Barclays is guaranteed the right to extract funds from taxes paid by the population of Detroit, the poorest city in the country.

It is worth nothing that Barclays was a primary player in the LIBOR scandal, in which a crucial global interest rate was systematically manipulated by numerous large banks. The scandal exposed the rampant criminality of the corporate cartels and ultra-wealthy speculators who dominate the world economy under capitalism. Barclays, whose 2013 profits of $8.5 billion were down one quarter over the previous year, paid a fine of several hundred million for its illegal activities spanning 2005-2009.

After the restructuring of the auto industry, which cut wages in half and transferred retiree obligations to a Voluntary Employees' Benefit Association overseen by the UAW, the auto companies became a very attractive investment. Just as what transpired with the auto companies, the restructuring of Detroit is intended

© World Socialist Web Site

to make the city into a lucrative investment location for banks like Barclays. Above all, this entails ridding the city of liabilities owed to workers along the lines of Orr's adjustment plan, which calls for cuts to general pensions of 34 percent and terminates retiree health benefits. This restructuring ensures that the city will produce a constant cash flow, a major portion of which can be diverted to the banks in the form of interest.

The approval of the Detroit City Council is also ostensibly required to green light the loan. Under the terms of Public Act 436, if the council rejects the loan it is required to submit an alternative plan that would be submitted to the state's Emergency Loan Board (ELB). The board would then decide between the original proposal by Orr and the council's counterproposal. The ELB, however, consists of three people who were all appointed by Michigan Governor Rick Snyder, who himself appointed Orr as emergency manager.

In Detroit, the reality of capitalist "democracy" is being exposed once again. The latest Barclays loan deal comes as yet another step in the complete subordination of the city of Detroit to the dictatorship of the banks. Through their political servants—Snyder, Orr, and others—the large financial institutions wield a stranglehold over the life of the city, determining whether the city can operate its basic social infrastructure and to what extent it can fund liabilities owed to its workers.

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site