

A clarification on Detroit's plan of adjustment vote

The Socialist Equality Party
21 May 2014

Detroit “creditors,” including tens of thousands of city workers and retirees, began receiving informational packets last week as part of a vote on the plan of adjustment submitted by Emergency Manager Kevyn Orr. The plan is a declaration of war against the working class, including major cuts in pay and benefits for workers, the privatization of city services, and an end to public ownership of the Detroit Institute of Arts.

In a statement published last week, the Socialist Equality Party condemned the efforts by the bankruptcy courts and Orr to give the dictatorial process through which this plan is being imposed the cover of legitimacy through the “ballot” submitted to creditors. “Workers must reject these outrageous actions with the contempt they deserve,” the statement noted.

However, this statement was ambiguous insofar as it also urged workers to vote “no” on the plan, saying, a “resounding rejection would provide a lead to workers throughout the United States and around the world in the fight to defend the social and democratic rights of the working class.”

A further study of the terms of the vote and examination of the entire process make clear that there is no way the interests of workers can find expression through this process, and therefore a “no” vote could not deal a blow against the plan of adjustment. While many workers may choose to register their opposition by voting “no,” this by itself will not effect the plans of Orr and the ruling class.

The process for approving the plan of adjustment is a mockery of democratic procedures. Voters are broken up into 16 classes of creditors that are owed money. In order to give the appearance that all classes have equal footing, every class of creditors—big or small—must approve of the plan before it can be confirmed. To achieve ratification from each class a numerical

majority of voters in the grouping, which must also hold at least two-thirds of the combined debt of the class, must vote “yes.”

These include three classes of “secured” General Obligation Bonds—whose owners, generally large institutional investors, will be paid in full—as well as other classes of “unsecured” debt holders, including bondholders who will receive 74 cents on the dollar. Other “unsecured” debtors include three classes (Nos. 10, 11, and 12) of pension and “other post-employment benefit” claims owed to 32,500 retired and current city workers.

Under the plan, only 59-60 percent of the money owed for pensions and 10-13 percent for retiree health care benefits will be paid. Putting a gun to the heads of municipal workers and retirees, the plan states, “reductions in accrued pension benefits will be greater if the plan is not accepted by Classes 10 and 11,” with the estimated “recovery” of pension claims of uniformed workers falling to 39 percent and general retirees down to 48 percent. This would translate into devastating cuts that would throw retirees into destitution.

A “No” vote, the document says, would lead to the collapse of the so-called “grand bargain,” in which wealthy private foundations, the state government and the Detroit Institute of Arts have agreed to provide “outside funding” to lower pension cuts. Even with the deal, however, the document admits any disruptions to this funding would result in immediate reductions. The state legislature is currently debating a series of bills that are necessary for funding of the “grand bargain,” and if they fail the whole proposal could fall apart.

Adding to the thoroughly undemocratic character of the whole process, the “vote” is not secret. Every ballot must be signed for the court to consider it valid. This

opens workers up to victimization and firing if they vote “no” and make known their hostility to the plans of the emergency manager and the bankruptcy courts. The cuts contained in the plan of adjustment mean that many jobs are on the chopping block—and who is fired is left to the decision of city officials.

Moreover, regardless of how workers vote, the plan and details of outside funding arrangements state that workers will have no right to file legal challenges to the looting of their pensions.

Even if workers vote “no,” the bankruptcy judge has the power to ignore the vote and unilaterally impose the plan or even deeper austerity measures through what is known as a “cram-down.” All that is required for this judicial fiat is the approval of one class of debtors, which Judge Rhodes already secured with Bank of America and Swiss-based UBS. Earlier this year, the judge approved a \$85 million payoff to the banks to unwind what he acknowledged were likely illegal interest rate swap deals that BOA and UBS foisted on the city.

To add insult to injury, even if every class approves the plan, the city of Detroit—in the form of Emergency Manager Kevyn Orr—can unilaterally change the plan and impose even more onerous terms.

Finally, while the plan of adjustment will impact the living conditions of the working class of the entire Detroit Metropolitan Area, the vast majority of workers do not have even the pretense of a voice in whether or not it is implemented.

The “vote,” in short, is a farce. It is of a piece with the whole emergency manager and bankruptcy process—an anti-democratic fraud in which the interests of the vast majority of the population have been entirely excluded.

The intense behind-the-scenes negotiations have expressed the differences of competing business interests over how best to divvy up the city’s resources and suppress popular opposition. Indeed, some creditors are opposing the plan because they feel that there is more to be gotten out of the city and its assets—in particular, through the liquidation of the DIA’s art.

From the beginning, the entire bankruptcy process has been a political conspiracy spearheaded by powerful financial and corporate interests, with the full backing of the two big business parties, the Obama

administration, the news media and the unions. Its aim has been to run roughshod over the state constitution and create a precedent for gutting pensions and destroying services throughout the country.

Looking to the judge and the courts for a more favorable outcome would be a dire mistake. Every institution of the capitalist state, from the White House on down to the courts, the governor, the state legislature, the Detroit mayor and City Council, functions as a tool of the financial elite and is determined to make the working class pay for a crisis it did not create.

No other force outside of the working class can be relied on to defend the right to jobs, pensions, health care and access to culture. A powerful movement of the working class—organized independently of both big business parties and their servants in the trade unions—must be developed, which rejects the entire framework of the bankruptcy and fights for a socialist alternative to the profit system.



To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact