“More Detroits are on their way”

Top Democratic advisor calls for nationwide pension cuts and financial restructuring

Thomas Gaist
21 May 2014

In an article for the *Wall Street Journal* last week, “More Detroits Are on the Way,” Richard Ravitch, co-chair with former Obama economic advisor Paul Volcker of the State Budget Crisis Task Force (SBCTF), warned of ticking “pension bombs.”

A lifelong Democrat, Ravitch argued that too many states and cities are living “beyond their means,” and called for sweeping measures by the federal government to force through major spending cuts at the state and local level.

Ravitch, a former Wall Street investment banker who helped impose deep social cuts during the near bankruptcy of New York City in the mid-1970s, is emerging as the leading mouthpiece for the bipartisan assault on the rights and social conditions of the working class. Last month, Ravitch was appointed by US Bankruptcy Judge Steven Rhodes to advise Detroit on its restructuring plan.

Writing in the *Journal* May 15, Ravitch argued that Washington must threaten to withdraw federal funds from states that refuse to balance their budgets through cuts to pensions and health care. Pointing to the findings of his state budget task force, Ravitch said, “The report's main finding is that in most states and cities the problems are structural and the crisis is deepening. The most critical piece of the states’ fiscal dilemma is that they are borrowing to cover their operating deficits.”

By allowing states and cities to continue on this course, “we can expect to see more Detroits,” Ravitch declared.

“It is time for the federal government to take the steps needed to avoid the social and financial crisis that must be expected if nothing changes…The federal government could condition its continued financial support on states and local governments adopting budget systems that would require recurring expenses to be matched by current revenues,” Ravitch wrote.

Ravitch’s entire career makes him ideally suited to serve as point man for the reactionary social agenda being pursued collectively by the financial elite, the union bureaucracy, the Democratic Party establishment and the Obama administration. Heir to a substantial real estate fortune, Ravitch was appointed by President Lyndon Johnson to the US Commission on Urban Problems in 1966.

As a key advisor to former New York Governor Hugh Carey, Ravitch helped impose harsh austerity measures during New York City’s financial crisis in 1975-76 collaborating with the unions to destroy some 50,000 city worker jobs, slash wages and unwind past reforms, including ending tuition-free education for students in the City University of New York system. He was chairman of the Metropolitan Transit Authority where he helped break the 11-day strike of more than 30,000 New York City transit workers in 1980.

He has since occupied top posts inside and out of government, serving as chairman of the Bowery Savings Bank, and chairman of the AFL-CIO Housing Investment Board of Trustees.

During the 2008 election, Ravitch was a delegate for Barack Obama. While serving as Lieutenant Governor of New York beginning in 2010, Ravitch worked closely with the Nelson Rockefeller Institute of Government to craft proposals for sweeping budget cuts.

Ravitch’s editorial for the *Journal* sums up positions developed in two SBCTF reports, published in 2012 and 2014. These reports argued that state and municipal spending on pensions and health care are crowding out other necessary investments and pushing local governments toward fiscal ruin.

In their 2014 “Final Report to the State Budget Crisis Task Force,” Ravitch and Volcker wrote that “Retirement and health care expenditures continue to rise at a rate faster than state and local revenues, and many state and local governments have not addressed serious pension funding shortfalls,” thus undermining the ability of state and local economies to “compete in the global marketplace.”

“The 2013 Chapter 9 bankruptcy filing of Detroit, and like filings in California and elsewhere, suggests that some states and localities are overextended in terms of retirement promises and other commitments,” they wrote.

Under the heading “Pensions Enjoy Significant Legal Protection,” the report lamented that, “Pensions have enjoyed significant protection under constitutions and statutory frameworks in many states.”

The report then noted optimistically that these protections were being challenged as state and federal courts “consider the relationship of pension payments to other obligations such as bond payments. In Detroit, for example, the court determined that federal bankruptcy laws can be used to preempt the Michigan Constitution. While states cannot file under the bankruptcy laws, the practical issues of crowding out will likely lead to addressing the nature of legal protection of pensions.”

In other words, legal protections guaranteeing pensions can be overturned, with sufficient creativity on the part of state governments and their legal hired guns. As noted in a 2014 Rockefeller study on pensions cited by Ravitch and Volcker, “Many of the assumptions that fueled previous political and judicial decisions have changed, are weakened, or are wrong…Courts do not change, but judges do. The same is true of legislatures. Previous decisions may be revisited, especially as political forces realign.”

The measures advocated by the SBCTF are incompatible with democracy, even the entirely hollow and formal variant that exists in the US today. In order to carry through the cuts against the democratic will of the population, Ravitch and Volcker called for “statutory mechanisms that allow states to provide strong oversight of local governments in advance of financial emergencies.” In other words, they advocated for new instruments of financial dictatorship, which would empower states to enforce financial restructuring on local governments.

Moves to impose such mechanisms in Michigan are already far advanced. As part of Detroit’s Plan of Adjustment, the Michigan State legislature is seeking to establish a “financial control board” for a period 20 years, which will exercise de facto bankers’ rule over the city.

Ravitch and Volcker present these measures as an unavoidable response to economic processes beyond anyone’s control. They also make the specious claim that money stolen from pensions will be redirected to other critical services.

In reality, the crisis of the cities and the states is the direct result of the financial manipulation and criminality of the Wall Street banks and the disastrous consequences of the 2008 crash they caused. The financial institutions were bailed out and showered with trillions in virtually free money from the Federal Reserve, allowing the super-rich to reap even greater profits.

Far from bailing out cities like Detroit and the countless victims of the economic crash, the Obama administration has utilized this crisis to destroy hundreds of thousands of public sector jobs, privatize public education and roll back the conditions of the working class to the 19th century. As the case of Detroit illustrates, the looting of public employee pensions—long planned in elite think tanks and spearheaded by veteran establishment operatives like Ravitch—will be used to hand trillions more to the financial criminals.