Federal judge opens door to the shredding of California public worker pensions

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On Wednesday, federal bankruptcy judge Christopher Klein ruled that the city of Stockton, California was free to reduce, or entirely eliminate, the pensions of its city workers.

In his decision, which ruled in favor of investment bank Franklin Templeton Investments, Klein argued that the California constitution, which guarantees workers' pensions against reduction through bankruptcy, "is simply invalid" in face of federal bankruptcy law. Although Klein has yet to order the city to do anything, Stockton is now allowed to entirely renege on its constitutional obligation to pay into the California Public Employee Retirement System (CalPERS).

The decision accompanies a similar ruling in the Detroit bankruptcy last year, both of which invalidate unambiguous state constitutional law protecting pensions from impairment. Both rulings are a part of a larger, bipartisan campaign to reduce and eliminate workers' pensions, medical benefits and pay in order to channel even more money to the powerful financial interests that profit from the indebtedness of state and local governments.

The city of Stockton has roughly 2,400 retired workers and 1,300 current full-time employees. Retired workers, on average, receive a mere $24,000 a year. According to the *Los Angeles Times*, if Stockton stops payments to the California's Public Employee Retirement System (CalPERS), pensions "would have to be cut by 60%, leaving the average retiree with $9,600 a year."

These workers have already been brutalized by the bankruptcy. The city's public services have been severely diminished, with 43 percent of its non-uniformed workforce fired as well as 30 percent of the firefighting force. City workers' pay has been reduced by 23 percent. Most harmful to retired workers is that the entirety of their medical benefits has been liquidated. No retiree now receives medical benefits. Workers were given only one percent of the cash value of the plans as reimbursement for insurance termination.

It took decades of struggle for workers to obtain the right to a pension and medical care. Mass industrial struggles during the early 20th century, when American capitalism was in its ascent, won workers a series of gains, allowing for a definite increase in living standards and life expectancy. Now, in Stockton, a worker could soon be forced into a retirement with a pension of $9,600 a year and with no medical insurance, amounting to a virtual death sentence.

The mood on Wall Street is, of course, different. According to the *Sacramento Bee*, Moody's Investor Service called Klein's decision "a positive sign for investors that pension obligations will not be given preferential treatment over debt in a municipal bankruptcy."

What is most exciting for Wall Street is that the ruling in Stockton has opened a floodgate. Moody's writes that the ruling will encourage municipalities throughout California to "consider bankruptcy as a way of trimming unaffordable and growing pension burdens." Indeed, huge metropolises, such as Los Angeles and San Jose, remain financially unstable chiefly due to the 2008 financial crisis, corporate tax cuts and the drying up of federal and state funding. For several years their city financial officers have flirted with the idea of bankruptcy to reduce their debts.

Now that pensions can be destroyed in bankruptcy, city officials from both big business parties will look to use this weapon against the working class far more often. With the ruling, municipalities will be able to get rid of large swathes of their pension obligations and reduce the benefits of their current workers. The bankers and big investors who dominate the municipal bond market—and, who, in many cases, entangled cities in dubious if not outright illegal financial swindles—will now get a far greater return from their outlays. This is why Moody's calls it "a positive sign for investors."

What is underway is a social counter-revolution aimed at turning the clock back to the days when workers died in poverty after laboring all their lives. The same politicians who claim there is no money for pensions, however, find trillions to bail out Wall Street and fund the Pentagon military machine.

In an article for the *Wall Street Journal* in May, Richard Ravitch, co-chair with former Obama economic advisor Paul Volcker of the State Budget Crisis Task Force (SBCTF), warned that throughout the country there were ticking "pension bombs." Ravitch, a long-time Democratic Party politician and financier who recently served as Lieutenant Governor of New York, is currently advising US judge Steven Rhodes in the Detroit bankruptcy case. The article, "More Detroits Are on the Way," suggests that retired city workers are living beyond their means and conveys how Ravitch and his co-thinkers anticipate that cities will increasingly resort to bankruptcy to unload their pension "burdens."

Judge Christopher Klein is expected to rule on October 30 whether Stockton can emerge from bankruptcy under its current plan of adjustment. Given the ruling on pensions, it is expected that Klein may demand that the city reduce pensions and award more money to Franklin Templeton Investors and other large banks and hedge funds who own the city's debt.

Klein told the city that it had essentially free rein to do whatever it wanted with its workers' pensions. In court he stated, "There are lots of permutations and combinations out there with respect to the art of the possible." He concluded, "The whole world is out there."

Stockton's lawyer, Marc Levinson, has stated that the city seeks to continue its relationship with CalPERS. The ruling, however, will give the city leverage to cut the pensions and its payment to CalPERS by some soon-to-be-negotiated amount. However, Klein's statement that "The whole world is out there" is an open invitation to other municipalities to entirely stop payments to CalPERS. Klein explained that once a city enacts bankruptcy, "Those conditions are the opening of the gate."

Municipal and county budgets rely on tax income, often from property under their jurisdiction. A few days ago the 16th annual Geneva Report made clear that the world economy is on the brink of a new financial crisis or else faces long-term stagnation. If the economy implodes as it did in 2008, municipalities around the country would see their tax bases, especially in real estate taxes, dry up. Such a financial disaster would lead to a wave of new bankruptcies around the United States. With Detroit's and now Stockton's ruling, destroying workers' pensions through bankruptcy is being prepared as the big business alternative for cities across the country.