

Judge Approves Detroit Bankruptcy Plan

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The more than yearlong bankruptcy case in Detroit concluded Friday with US judge Steven Rhodes sanctioning a savage restructuring plan for the city, which creates a new precedent for an assault on public workers throughout the country.

Rhodes' 90-minute ruling was the culmination of a duplicitous attempt to put a legal veneer on an illegitimate and illegal process. This has included the state government's use of an antidemocratic law to install an unelected emergency manager, essentially a financial dictator, to throw the city into bankruptcy and slash pensions in violation of state constitutional protections.

The so-called Plan of Adjustment approved by the judge will rob the pensions and health benefits of 32,000 current and retired city workers. At the same time it will pay hundreds of millions to the Wall Street banks, hedge funds and bond insurers involved in interest rate swaps and other financial schemes, which Judge Rhodes acknowledged were likely illegal. In other words, the same financial forces responsible for the impoverishment of Detroit—after decades of plant closings, corporate tax cuts and financial swindles—are being paid off at the expense of workers and retirees.

The plan includes the transfer of the Detroit Institute of Arts to the control of private foundations. It also paves the way for the privatization of the Detroit Water and Sewerage Department. In preparation for this move, the city has been carrying out a systematic and brutal policy of water shutoffs.

With the ending of the bankruptcy process, Rhodes said, "It is now time to restore democracy to the people of the City of Detroit." At a press conference called to celebrate Rhode's decision, Emergency Manager Kevyn Orr repeated this statement, saying that he "looked forward to returning the city to elected officials and its residents."

At the press conference, a WSWS reporter asked Orr and Michigan Governor Rick Snyder to elaborate on their "novel conception of democracy, which could be granted or taken away by the beneficence of judges and governors," and how they compared that with the Founding Fathers' conception of democracy as an inalienable right and expression of the sovereignty of the people.

Barely concealing his indifference to such concerns, Snyder, a billionaire technology mogul, declared that he took a "less philosophical and more pragmatic approach" to democracy. "[I]t was not a normal situation," he said, but a "financial emergency... The city was on the path of continuing decline. Bankruptcy is always a last resort, not to be taken lightly. But now we are emerging from it and I'm pleased we're going back to traditional governance."

In other words, “emergency” situations create the necessity for abolishing “traditional government,” in order to force through the dictates of the corporate and financial elite over mass opposition. As for “restoring democracy,” in fact the powers of Orr will now be transferred to a new financial review commission, with the power to veto labor contracts and city expenditures for the next 20 years.

This political conspiracy against the social and democratic rights of the working class in Detroit has had the full backing of every institution of the capitalist state. This included the Obama administration, which supported the bankruptcy from the beginning, Democrats and Republicans on the state and local level, the courts, the media and the trade unions. All of these forces signed on to the “grand bargain” approved by Rhodes.

As he announced his decision on Friday, Rhodes strained credulity in trying to explain how the restructuring plan was “fair and equitable” and had been reached in “good faith,” two of the requirements necessary to confirm it.

In reality, the vast majority of \$7 billion in debt being wiped out comes from slashing benefits owed to active and retired city workers. Most brutal is the elimination of health care and death benefits to 23,500 retirees and dependents, which Rhodes said were the “city’s largest single liability,” estimated to be between 3.8 and 5 billion dollars.

Also included in the restructuring plan are a 4.5 percent pension cut and the elimination of cost-of-living adjustments for general retirees who live on \$19,000 a year. Active workers will be dumped into what Judge Rhodes called “hybrid pension plans,” whose benefits are “less generous than those in current plans.”

Even further pension cuts are all but inevitable since the city’s suspended payments to the general retiree and fire and police pension funds will not resume until 2023 and will not be fully restored until 2053.

Rhodes said the deal “borders on miraculous,” insisting that pensioners faced little more than “minor reductions.” If some suffered “severe hardship,” the judge said, that was only part of the “shared sacrifice” needed to revive the city.

Rhodes reiterated Friday that the “court stands by” the decision that the federal court could impair pension obligations like any other contract despite explicit prohibitions in the Michigan state constitution. This ruling has opened the floodgates for municipalities throughout the United States to gut pensions.

In making his ruling, Rhodes specifically praised the American Federation of State, County and Municipal Employees (AFSCME), the United Auto Workers, the firefighters and police unions and retiree associations for backing the deal.

As part of the settlement, the unions agreed to drop lawsuits against the emergency manager law and the violation of the constitution’s pension clause in exchange for a \$195 million payment to the pension funds. In addition, the unions were given two Voluntary Employees’ Beneficiary Association (VEBA) funds worth \$524 million.

Along with their Wall Street advisors, the union executives will have a financial incentive to dispense inferior health care with impossibly high premiums and copays to maintain the solvency of their investment vehicles.

The role of the unions in suppressing mass opposition to the bankruptcy was highlighted in remarks by Kevyn Orr to local news media on Friday. Orr said that he had been concerned about “civil unrest” after his installation in March 2013. Aware of deep popular anger to both the bankruptcy and the city’s plan to shut tens of thousands off from running water, Rhodes made a conscious decision over the summer to bring the unions on board.

At the post-ruling press conference, the judges and politicians exuded a sense of relief that they had actually gotten away with the bankruptcy. They celebrated and thanked each other for pushing through the bankruptcy in record time.

The political and judicial representatives of the ruling class are well aware that they are setting a national precedent with the Detroit bankruptcy. Rhodes himself warned that the biggest risk of future default in other cities came from “pension funding.” What happened in Detroit, he continued, “must never happen again and not be repeated anywhere in the state.”

Making clear that pension funding was no longer protected by state constitutions in Michigan or anywhere else, Rhodes said, “the goal of protecting municipal pensions in Detroit and in this country, requires municipal labor to enhance its vigilance of municipal pension funding.” This goal required that “labor should take a much longer and broader view of the best interests of its members and retirees.”

In other words, unions in California and throughout the US needed to collaborate, as they had done in Detroit, in slashing health care benefits and other rights. Only in this way could the budding capitalists in the union bureaucracy maintain their pension investment funds.

As a final thought, Rhodes pontificated,

“We have used the phrase, the grand bargain, to describe the group of agreements that will fix the City’s pension problem. That description is entirely fitting. In our nation, we join together in the promise and in the ideal of a much grander bargain. It is the bargain by which we interact with each other and with our government, all for the common good. That grander bargain, enshrined in our constitution, is democracy.”

In fact, this entire process has been a travesty of democracy, in which the working class has faced a gang-up of forces all determined to make workers pay for a crisis that they did not create.

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