BANKRUPTCY LOOMS

As Detroit Goes, So Goes the Nation

by Bill Roberts

June 22—The looming bankruptcy of the City of Detroit marks an inflection point in a process of deliberate destruction of a city which once served as the hub of the American System of Political Economy. On June 14, state-appointed emergency financial manager Kevyn Orr announced a default on a $34 million payment to creditors, and said there would be a moratorium on principal and interest payments on $2.5 billion in unsecured debt, proposing a 10 cents on the dollar write-down. The city's total debt is nearly $17 billion.

Orr's "Proposal for Creditors" includes the outright theft of the pensions and health care of the city's 30,000 retired employees, on the basis that the means of existence earned by these workers over years of work is mere "unsecured" debt. This baldly violates Michigan's Constitution, which specifies that "the accrued financial benefits of each pension plan and retirement system of the state and its political subdivisions shall be a contractual obligation thereof which shall not be diminished or impaired thereby" (Sec. 24). Orr's proposal asserts that some $3.5 billion of contractual pension benefits and 99.6% of the city's health care, life insurance, and death benefit plans are unfunded. Therefore, "there must be significant cuts in accrued, vested pension amounts for both active and currently retired persons."

On June 17, Orr's spokeman, Bill Nowling, announced that the emergency manager would meet with representatives of retirees and unions to discuss Orr's blackmail that either they "voluntarily" accept cuts, or Orr will file for bankruptcy in Federal court, which Orr believes will "trump state law." Nowling's chilling formulation: "The goal is to come up with a number in the pension fund that we think is correct and that the city can afford to pay and to adjust the benefits accordingly."

Origins of the Collapse

The collapse of Detroit, the once great industrial engine for the nation, is the fruit of a general decades-long policy, not started but certainly accelerated under the Obama Administration. In the 1950s, during its peak, Detroit was the fourth-largest city in the United States, with a population of 1.8 million people, 300,000 of whom were employed in manufacturing. The post-World War II policy shift away from the FDR legacy of large-scale investment in internal improvements and productive machine-tool capacity culminated in a net decline by 1967-68 in basic economic infrastructure for the nation.

As the former engine of what had been that process of continual economic growth during the FDR years, Detroit has experienced decade after decade of population loss, on the order of hundreds of thousands per decade. By the 2010 census, the population had collapsed to 714,000, with only about 28,000 employed in manufacturing, an official unemployment rate of 25%, and a poverty rate of nearly twice that.

The Economic Recovery Act, proposed in 2005 by

SaraRemington.blogspot.com

All that remains of Detroit's Fisher Body 21 plant—a name that once evoked top-of-the-line auto-body construction. There are now 70,000 abandoned buildings in Detroit, and about one third of the city's 140 square miles is vacant or derelict.

LaRouchePAC, with support by labor and civic leaders, would have retooled unused plant floor space and equipment of the auto sector for the production of critically needed domestic economic infrastructure. Congress and the Bush White House, under pressure from Wall Street, rejected this proposal, to the detriment of the entire nation. Michigan subsequently became the only state in the union to actually lose population during the 2000-10 interval.

The 2009 bailout of the Big 3 automakers, set into motion with the blessing of President Obama, mostly bailed out the creditors and auto loan financing operations of the auto companies, while replacing well-paid autoworkers (many of whom took buyouts) with a smaller workforce earning only half the hourly wages of the previous workers. While the Big 3 were financially propped up, largely at taxpayer expense, the ability to generate wealth, the productive capacity of the auto companies, was largely dismantled and sold for scrap metal. This further collapse in wages and employment in a city with already staggering poverty, led to further population flight and revenue collapse. The city's current $1.1 billion a year in tax revenue is less than half of Boston's $2.4 billion, with the same population.

Budget cuts to police and fire departments, made to meet debt payments, have increasingly left Detroit residents for dead. The police force has been cut back to such an extent that now 90% of all reported crimes go unsolved. A recent study of violent crime revealed that Detroit is home to 3 out of the 10 most violent neighborhoods in the country. The murder rate is 11 times higher than in New York City.

What Detroit is now facing is emblematic of what virtually every major American city now faces: a downward spiral of joblessness, impossible debt obligations, and murderous austerity. Detroit is only a more dramatic example of what other regions can soon expect, if a top-down *national* economic recovery plan, beginning with the re-implementation of the 1933 Glass-Steagall Law and a return to a system of Hamiltonian credit, is not soon implemented.

As with the "Troika's" (European Commission, IMF, European Central Bank) financial dictatorship over Greece, bone-crushing austerity measures such as wage reductions to public workers and contracted health and emergency services only lead to further contraction of the economy, leading to larger deficits. The realization of this obvious fact will not deter these emergency financial managers or their masters in Wall Street and London, whose insistence on fatal budget cuts comes from an allegiance to an ancient monetary-imperial system, in opposition to the Preamble of the United States Constitution which values the general welfare, the creative development of the human species.

What Detroit needs is what the nation needs: a full-scale recovery organized through a return to a system of National Banking, modeled on the first and second National Banks of the United States. Under a revival of the Glass-Steagall standard and a system of Federal credit, the issuance of credit will be tied to activities necessary for meeting the long-term physical needs of the nation. At the top of that list is infrastructure for expanded food production and abundant water supply for the entire population, such as would be made possible by the NAWAPA XXI project. An industrial expansion including virtually every key sector must be organized to meet the vast material and equipment requirements for such a massive undertaking.