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The collapse of Detroit: An indictment of American capitalism

7 March 2013

Wall Street's financial elite celebrated a new record Dow Jones Industrial Average this week, even as the city of Detroit plunged towards bankruptcy and state and local politicians began outlining plans for expanding a Greek-style austerity program.

On March 1, Michigan's Republican governor, Rick Snyder, a multimillionaire former venture capitalist, declared a "financial emergency" in Detroit. The action paves the way for the imminent appointment of an emergency manager with sweeping powers to tear up labor agreements, dump pension obligations, shut down essential services and carry out a fire sale of publicly owned assets, including the water and sewerage system, zoo and art museum.

The move has been hailed by the corporate media, which sees the looting of the city as the model for the ruling class in the US and internationally. "Only radical—and unpopular—action will reverse Detroit's vicious spiral," declared the London-based *Financial Times* Monday in an editorial hailing the plan to impose an emergency manager.

For the banks and their bought-and-paid-for representatives in both political parties, no democratic formalities must stand in the way of the ever-greater accumulation of personal wealth. In particular, the human misery inflicted in Detroit is necessary to ensure maximum returns on the tax-free municipal bonds held by the billionaire hedge fund managers.

Every dime ever won by the working class—in the form of pensions, health care benefits, public schools, street lighting, sanitation—must be clawed back and converted into a new source of profit.

The fate of Detroit is a concentrated expression of the evolution of American capitalism as a whole. In the heyday of the postwar boom—when the city’s auto factories were producing the vast majority of the world’s cars—the mass struggles of auto workers gave Detroit one of the highest rates of per capita income and home ownership in the US.

Now, Detroit’s streets are littered with the rusting shells of abandoned factories, some 79,000 abandoned homes and lots—and houses selling for less than the price of a new car.

In the decay of Detroit, the American ruling class sees its own image, the wreckage upon which it has built up unimaginable sums of wealth. The decline of US industry and the shift of the ruling class to ever more parasitic forms of financial speculation over the last three decades coincided with an unrelenting attack, backed by both big-business parties, on the jobs, living standards and social position of the working class.

The city is not unique. The financial crash of 2008 exposed the long-rotting foundations of American capitalism. It also revealed the enormous economic and political power of a new financial aristocracy.

When the subprime mortgage bubble burst, President Obama, like his Republican predecessors, poured trillions of dollars in direct cash infusions, guarantees and virtually interest-free credit into Wall Street. Over the last four-and-half years, the financial aristocracy that produced the crisis has not only fully recovered its losses, but is doing better than ever, while embarking on a new speculative binge.

This has been accomplished through an immense transfer of wealth from working people to the richest one percent of the population, which took in 121 percent of all income gains in the first two years of the supposed “economic recovery,” while the overwhelming majority of the population saw its income continue to decline.

The precedent for this was set in the 2009 restructuring of General Motors and Chrysler by the Obama administration, which demanded a 50 percent pay cut for new workers, the elimination of the eight-hour day and brutal speedup in the factories. As a result, the auto companies made \$11 billion in profits in 2012 and paid off their top auto execs with multimillion-dollar bonuses, all approved by Obama’s “pay czar.”

Meanwhile, the purchasing power of a new auto worker’s wages has fallen to the level of the 1930s and thousands of newly hired workers in the auto plants are unable to buy the cars they

produce. While profits have now hit their highest level as a share of the Gross Domestic Product in history, total wages have fallen to a record low of 43.5 percent of GDP.

At the same time, the Obama administration has spearheaded a ruthless policy of budget cutting on the federal, state and local levels. Since 2009, some 700,000 public sector workers, including 300,000 teachers, have lost their jobs, and school districts have shut down an estimated 4,000 public schools. In Philadelphia, Washington, DC, Chicago, New York and other cities, officials are demanding a new round of school closings, targeting hundreds of schools for closure and the expansion of for-profit charter schools.

On the national level, the Obama administration and congressional Republicans have used the “sequestration” crisis to implement \$1.2 trillion in federal budget cuts, including to aid for K-12 education, Head Start, child nutrition, homelessness prevention programs and unemployment benefits for the long-term jobless. This is only a down payment on plans for sweeping attacks on Medicare, Medicaid and Social Security, upon which tens of millions of retired workers and poor people depend.

In Detroit, the refrain is the same as throughout the US and internationally: there is no money to guarantee the most essential necessities of modern society, even as the stock markets soar and corporate profits hit record levels.

In its orgy of celebration and speculation, Wall Street and the American ruling class only demonstrates its own parasitic relationship to the rest of society, and the historical bankruptcy of the social system, capitalism, that it defends.