

OPINION

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OPEN FORUM *On Municipal Bankruptcies*

There are no winners in Stockton or Detroit

By Michelle Wilde Anderson

There were bittersweet tears Friday in Detroit, and last month in Stockton, after bankruptcy judges approved both cities' plans to restructure their debts. What should we learn from the two largest city bankruptcies in U.S. history?

First, contrary to some reports, there are no easy villains when poor cities go broke. It is true that investment banks sold loans to Detroit that were risky and expensive, and the city suffered heavy losses on those debts. Stockton became mired in debt on downtown improvement projects. It is also true that both cities competed for good public employees by enhancing retirement benefits instead of increasing wages, then failed to fund those benefits.

But in both cases, scapegoat narratives describing predatory lenders, greedy unions or dysfunctional politicians are distorted oversimplifications. At their core, Detroit and Stockton were deteriorating cities that became vulnerable, fiscally marginal borrowers. Revenues in Detroit had been declining so long that the city was living at the edge of fiscal insolvency, forcing it to choose between more loans or more cuts to needed public services. Stockton had long struggled, like Detroit, to cope with widespread job losses in private and military industries, and to find a new economic niche for the city's low-skilled workforce.

These cities' problems cannot be chalked up to party politics either. Stockton's modern mayoral leadership has been Republican; Detroit's has been Democratic. Neither cities' leaders had a magic cure



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Stockton emerged from bankruptcy last month after a judge approved a plan that retained city employee pensions but cut retiree health benefits.

for concentrated poverty, which the foreclosure crisis made acutely worse. By 2012, more than 1 in 3 residents in Detroit, and nearly 1 in 4 in Stockton, lived below the federal poverty line of about \$23,500 a year for a household of four.

Also contrary to some claims, the cases had no winners either. Retirees in both cities lost all health care coverage, and many retirees in Detroit sustained losses on pensions averaging just \$19,000 per year before cuts. Those city employees who were able to keep their jobs at all took deep cuts to their wages, benefits and future retirement. Residents also paid dearly through devastating cuts to basic services such as police, fire, emergency medical and public works. In one round of layoffs after another, libraries, parks, buses and streetlights were treated as though they were amenities that a city with hundreds of thousands of people could afford to live without. Meanwhile, the investors in these cities' loans absorbed significant losses in the bankruptcies.

It turns out that the only saviors for these cities, and the

many others in fiscal trouble, are the people who work at the front lines of poverty. Systemic problems require networks of effective, mission-driven people. Therein lies a glimmer of good news, because Detroit and Stockton have some devoted hands on deck. The cities have nonprofits that counsel families recovering from the trauma of violent crime. They have small businesses, whose success is as much in the public interest as the private one. Teachers, parents, churches and coaches struggle daily to protect poor children in a tug-of-war with illiteracy and crime. Working in some of the busiest and most dangerous stations in the country, we ask these cities' police and firefighters for the highest level of duty and battle-tested compassion.

Now these cities return to that difficult work. As outsiders, our charge is to help rebuild the public, charitable and small-business sectors that our increasingly unequal economy has made so necessary.

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