Deflation drives job-cutting

Exxon-Mobil merger to form world's largest company

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The recently-announced merger between major oil companies Exxon and Mobil will create not only the world's biggest oil company but also the largest corporation in terms of revenue. Its combined income for the first nine months of 1998 would have been $119 billion compared to the $115 billion generated by the world's largest corporation, General Motors.

The deal, valued at over $75 billion by analysts, represents the biggest industrial merger in history. It is far larger than the previous record, which also took place in the petro-chemical industry. That union, between British Petroleum and the US-based Amoco, was worth $48.2 billion and created the world's third largest oil producer.

The coming together of Exxon and Mobil will forge a corporation of enormous size. Exxon-Mobil's crude oil production will outstrip that of Nigeria and several other members of the Organization of Petroleum Exporting Countries. Its revenue will be bigger than the gross domestic product of all but 23 countries. It will be the world's largest retailer of gasoline, with about 47,500 stations worldwide and an estimated annual profit of nearly $12 billion.

One of the major driving forces behind the recent mergers in the petro-chemical industry is the falling price of crude oil--a product of oversupply in the market and stagnant demand, resulting in particular from the deepening economic slump in Asia and the contraction of world growth.

The price of a barrel of crude oil has dropped to as low as $9.87 in London and $10.85 in the US--a decline in price of almost 50 percent in the last year.

One oil market analyst stated that oil prices, when adjusted for inflation, are at their lowest level since the Great Depression. Asia's economic slump, Iraq's partial return to oil markets, increased supplies from West Africa and increased natural gas use has knocked the bottom out of the world market. That has squeezed profit margins despite technology-driven reductions in production costs.

Another analyst, Roger Diwan of the Washington-based Petroleum Finance, commented that the wholesale cost of a gallon of gasoline from Saudi crude is now less in the US than a 12 ounce serving of Coca Cola, even with taxes and transport costs added on. Therefore, he said, oil industry costs have to be squeezed.

Thurry Desmarest, chairman of the French oil company Total, lamented the drop in the price of black gold. 'Oil prices have practically been cut in half over the past year,' he said. 'All companies are seeking to survive in this new situation. The business environment will be tougher than in the past years'.

On the same day as the Exxon-Mobil announcement, Total purchased Belgium's Petrofina in a deal worth $11.76 billion, which will create the world's fifth largest oil company.

With the price of oil not expected to rise in the near future, the major oil companies are seeking to consolidate their operations and develop economies of scale to produce huge savings, increased market share, combined resources in costly oil exploration and increase profitability.

As one retired Mobil executive, Herb Schmitz, put it: 'It's the way the industry and others have been going. The only way to find profits is by cutting costs.'

By amalgamation, Exxon and Mobil are aiming to cut $2.8 billion annually in costs, primarily by eliminating 9,000 jobs, approximately 7 percent of their combined worldwide workforce. The British Petroleum-Amoco merger earlier this year slashed 6,000 jobs for annual estimated savings of $2 billion.

Mergers and acquisitions have become an increasing trend in numerous industries, including oil, the motor industry, pharmaceuticals, chemicals, metal, telecommunications, banking, insurance and computers. The 'merger mania,' as some analysts describe it, in particular the huge cross-border mergers, points to the increasingly global character of world capitalist production.

Large corporations must create globally-based enterprises that can compete in all the major markets of the world. Under conditions of deflation, which has seen the prices of most commodities plummet, companies are being driven to merge or form alliances to create economies of scale that will ensure survival at the expense of their rivals.

An article published last month in the London *Financial Times*, entitled 'Mergers: Chain reaction,' pointed to the deflationary cycle as the major driving force behind the merger trend. 'One way of looking at this cross-border merger frenzy is to see it as part of globalisation. With the world now a single market for many basic products, a pattern of production and ownership that reflects traditional national boundaries no longer makes sense. So industries are settling down into new constellations of power and scale, crossing national boundaries as easily as they once crossed local ones.

'But the urgency with which these companies are coming together derives from something else. It's one of those invisible economic trends we all know is happening but find it hard to pin down: deflation'.

The takeovers and amalgamations are increasingly leading to a greater concentration in the hands of a few mega firms in each industry. The *Financial Times* commented on the pattern as follows: 'The globalisation of a number of industries for instance, has encouraged the emergence of a few big players in each. We have been seeing this in oils, pharmaceuticals, motors and information technology, and we will increasingly see it in sectors such as banking and telecoms as the national protection of these industries fades away'.

According to Securities Data, the leading provider of merger and financing information, acquisition activity hit historic levels in 1997 with deals totaling $1.6 trillion worldwide. This year has again seen records set with mergers totaling $1.2 trillion to September 30, well ahead of the $909 billion for the same months of 1997.

Recent weeks have seen a merger frenzy in a number of industries, accompanied by massive job destruction.

• The German Deutsche Bank's purchase of Bankers Trust, in a deal valued at $10.1 billion (creating the world's largest bank), will see the slashing of 5,500 jobs in New York and London alone.

• In preparation for a possible merger, Deutsche Telekom has announced plans to slash a further 20,000 jobs by the year 2000, on top of the 40,000 jobs it cut in response to the deregulation of the German telecommunications industry last January to meet European Union standards. Deutsche Telekom's chairman Ron Summer was quoted in the German press saying the company could not avoid acquisitions and mergers if it hoped to become a global player.

• Pharmaceutical companies Zeneca, which is UK-based, and Astra of Sweden will form a $67 billion mega firm called Astra Zeneca, which is set to axe 6,000 jobs over three years worldwide. The merger follows hot on the heels of a fusion between Germany's Hoechst and the French Rhone-Poulenc, producing one of the world's biggest pharmaceutical concerns with estimated potential sales of $20 billion. The merged companies are expecting to save $1.2 billion a year in costs, no doubt at the expense of thousands of jobs.

• In the auto industry, Nissan plans to reduce its workforce by incorporating its two California-based US units--Nissan North America and Nissan Motor Corp--at the cost of around 500 jobs. One auto industry analyst earlier this year commented at the time of the mega merger between Daimler Benz and Chrysler that by the year 2002, due to the overcapacity in the global auto industry, there will be 80 more assembly plants worldwide than the market demands. That is equivalent to the size of six Chrysler Corporations.

• Seagram, the Canadian beverage and entertainment firm, which owns Universal Studios, has taken control of the music firm Polygram in a $10.2 billion deal to create the biggest music company in the world. Estimated job losses will be 3,000 out of Universal's and Polygram's combined workforce of 15,500.

The merger trend will compel other competitors in every industry to carry out similar measures to become competitive or go to the wall, further concentrating production, wealth and market share in a handful of giant corporations, accompanied by continuing massive job destruction.

However, the very process of downsizing, restructuring and cost savings will deepen the crisis of the profit system as a whole by reducing the amount of labor employed--the only source of surplus value and profit. It will exacerbate the deflationary cycle now prominent in most industries.

As long as the enormous global productive forces and financial wealth created by human labour remains concentrated in the grip of the transnational corporations and the industrial and financial elites, it will mean ever more brutal attacks on the working class.

A striking paradox has emerged. The 'overcapacity' or surplus of productive capacity in many industries, whether it be oil, automobiles, pharmaceuticals, food production, steel, computers or any other, is only excess from the standpoint of the market and the extraction of private profit. The actual needs of millions of people have never been greater.

The productive capacity now exists to meet these needs, but it will never be put to use within the framework of the profit system. That will require a fundamental change in political, economic and social relations.

See Also:
Merger will lead to job cuts
British Petroleum acquiring US oil producer Amoco
[13 August 1998]
Globalization and the International Working Class:
A Marxist Assessment
[Statement of the International Committee of the Fourth International]