The corporate buyout surge and economic parasitism

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This month has seen a surge in corporate mergers and acquisitions on a scale not seen since before the 2008 financial meltdown. Last Thursday, Berkshire Hathaway, led by multi-billionaire Warren Buffett, announced plans to buy H. J. Heinz, the food condiment maker, for $23 billion. The same day, American Airlines and US Airways announced plans for an $11 billion merger.

The previous week Michael S. Dell and a group of private equity backers announced plans to buy out computer maker Dell Inc. for $24 billion, and Liberty Global agreed to a $16 billion deal to buy British cable television provider Virgin Media.

The list goes on. This week, CVC Capital Partners, a British private equity company, announced it is preparing the largest leveraged buyout in continental Europe since the 2008 crash.

So far this year, US mergers and acquisitions have totaled $158.7 billion, double the figure for the same period last year.

These buyouts, despite coming amidst a string of indices showing a further weakening of the real economy, have prompted much talk in the media of an economic turnaround. “Mergers Make Comeback: Market Rises and Economy Strengthens,” declared a front page headline of the *New York Times* last Friday. The claim was rendered particularly absurd by the fact that on the previous day the euro zone had reported its worst quarterly economic contraction since 2009.

Far from heralding a genuine economic recovery, these mergers and acquisitions are entirely parasitic. They do not add one iota of real value to the economy; they do not expand the productive capacity of society; they do not provide new jobs. They are purely financial operations enabling speculators to grow richer through an expansion of paper values that only add to the already existing mountain of debt.

The actual economic and social impact of these types of mergers and buyouts is destructive. They are the prelude to downsizing and cost-cutting involving the closure of facilities and elimination of jobs, inevitably accompanied by new demands for wage cuts and speedups.

These financial manipulations are the means by which the ruling class redistributes wealth from the bottom to the top of society. The ballooning debt that sustains the obscene personal fortunes of the financial aristocrats must, in the end, be paid back. And it is the working class that is to be made to do the paying—through brutal austerity policies backed up by state violence and repression.

The renewed surge in the most predatory forms of speculation is not simply the result of impersonal economic forces. It is, rather, the intended outcome of definite policies pursued by governments and central banks throughout the world, led by the Obama administration and the Federal Reserve in the US. They are seeking to inflate the prices of financial assets—stocks, bonds, derivatives—while they prosecute an economic war against working people.

The first step in this process was the bailout of the banks following the 2008 financial crash. Then came the turn to austerity to make the working class pay the bill for the debts that had been shifted from the banks to the public treasury. This has been supplemented by a policy of monetary stimulus—the printing of trillions of dollars—to pump virtually unlimited funds into the banks and financial markets. These institutions are being subsidized with virtually free credit, which they can use as they see fit to reap super profits.

One of the means of leveraging this cheap credit into mega-profits is to buy up corporations, banks, etc., get

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control of their cash hoards, load the merged company up with debt, and ruthlessly slash the jobs and wages of the workers.

The souped-up prices on global stock markets facilitate such deal-making, which, in turn, tends to propel stock prices even higher. Global equities hit a new record Wednesday, and the NASDAQ, having fully recovered its losses from 2008, has hit highs not seen since the dot-com bubble at the beginning of the 2000s.

Further contributing to the wave of buyouts is the vast hoard of cash sitting unused on corporate balance sheets. In the third quarter of 2012, corporations held $1.7 trillion in cash, according to the Federal Reserve. But investment in productive activity is contracting. Last quarter, the US economy shrank and business investment seized up even further.

The very fact that four-and-a-half years after the crash, under conditions where there has been no recovery in the real economy, the speculative frenzy is reaching new heights, not just in one or another country, but all over the world, points to the fact that this type of parasitism is integral to the capitalist system, and not a mere blemish on an otherwise healthy organism.

One might add the fact that not a single executive of any major financial institution responsible for plunging the world into the economic abyss has been held accountable. Why? Because this parasitic financial elite exerts a de facto dictatorship over governments and official institutions, and is, in practice, above the law.

All talk of reining in financial speculation while retaining the framework of capitalism, or reforming the system to make it more rational and just, is the product either of naivety, self-delusion or deliberate deception. The system cannot be reformed. It must be replaced.

The current financial boom cannot last. It rests on foundations of sand. A vast edifice of speculative and financial manipulation, sustained by constant injections of central bank cash, bestrides a stricken economy that is sinking further into the abyss. The house-of-cards character of the situation is seen in the panicky response of the markets this week to the publication of Federal Reserve minutes reflecting concerns over the massive expansion of the central bank's balance sheet. Any hint of a slowdown in the mainline injections of cash sends shudders throughout the financial system.

The most basic social needs of the working class, whose labor is the real source of all wealth, are incompatible with a continuation of this system and the rule of financial parasites. This fact is increasingly making itself felt in the consciousness of the working class.

In the great class battles ahead, the program of socialist revolution—breaking the dictatorship of the financial elite and reorganizing economic life on the basis of social equality and the common good—must become the guiding principle of the struggle of working people all over the world.

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