

The Alibaba IPO frenzy: Symptom of a diseased economic order

Nick Beams
22 September 2014

The initial public offering (IPO) of shares in the Chinese Internet trading company Alibaba, which led to a frenzy on Wall Street last Friday, is the latest, and one of the most spectacular, expressions of the parasitism that is now the dominant feature of the global financial system and the world economy more broadly.

Initially priced at \$68 per share, the stock began trading on the New York exchange at \$92.70, with 100 million shares changing hands in the first ten minutes, before closing at \$93.89. The 38 percent rise took the market value of the fifteen-year-old company to \$231 billion, more than Amazon, Proctor & Gamble and JP Morgan.

The IPO reportedly made Jack Ma, the company's founder, China's richest man, with a net worth of \$26.5 billion. It is hard to ascertain what is more repugnant: the scale of the plunder or the extent of the hypocrisy that accompanied it. Ma told the CNBC business TV channel that the issue was not money, but getting "trust from the people."

Silver Lake Management, which focuses on trading in technology firms, reaped five times its initial outlay on Alibaba. Silver Lake bought into the company in October 2011 in a series of deals that put Alibaba's market value at around \$30 billion. At the end of Friday's trading, it had reaped profits of \$4.6 billion. Likewise, Yahoo stands to gain about \$5.1 billion after selling its 121.7 million shares in the company.

The 35 underwriters of the deal collectively raked in around \$300 million in fees, with five major banks securing about \$45 million each.

The entire operation was a graphic demonstration of the putrefaction of the profit system. The IPO itself was an exercise in insider trading, with some 25 institutions securing more than 50 percent of the shares and the

biggest portion of the profits on offer.

Fabulous fortunes were made in a matter of minutes as a result of share trading in a company that produces nothing, but is engaged in e-commerce, that is, facilitating buying and selling through the Internet. The naked display of avarice occurred under conditions of stagnation and slump in the real economy and relentless attacks on the conditions of workers, justified by the claim that "there is no money" for jobs, decent wages or basic social services.

The overall indebtedness of the city of Detroit, now in bankruptcy and at the centre of the assault on the working class, including the shutoff of water to thousands of households, is put at around \$18 billion—less than the profits raked in during the first hour of trading in Alibaba shares.

The parasitism involved in the IPO is underscored by a consideration of why the "market value" of Alibaba is so inflated. It is not because it has developed some new form of technology, facilitated an important innovation, or brought forward a more advanced production technique.

Its attractiveness flows from its monopolisation of Internet services in China. It dominates operations that in other countries are run by different companies. It owns Chinese firms that are the equivalent of Amazon and eBay and earns money from transaction fees flowing from the Chinese equivalent of PayPal.

This monopoly position has been facilitated by the company's close connections to the Chinese Stalinist regime. An article in the *Australian Financial Review* noted that Jack Ma had fostered "warm relations" with Chinese President Xi Jinping. "Truth be told," the newspaper reported, "Alibaba couldn't have reached the heights it already has without the support of the upper echelons of the Communist Party."

This is a striking revelation of the role played by the Chinese regime in propping up world capitalism, with all its socially destructive consequences, and the global character of the international financial aristocracy.

The Alibaba IPO came at the end of a week in which a report by Wealth-X and UBS showed that the world's billionaires had an accumulated wealth of \$7.3 trillion, an increase of 12 percent in the last year. This increase of wealth at the very top is accompanied by worsening social conditions for the working class in all of the major capitalist centres. These are not parallel processes, but causally connected.

Since the eruption of the global financial crisis in 2008, the economic policies of the ruling elites have proceeded on two main lines: the supply of ultra-cheap money to the banks and financial institutions to finance speculation, and the driving down of the social position of the working class.

The connection between the two has again been illustrated. Within a day of the Alibaba IPO orgy on Wall Street, halfway round the world at a meeting of G-20 finance ministers and central bankers in Cairns, Australia, International Monetary Fund Managing Director Christine Lagarde insisted on the necessity for so-called "labour market" reforms—code words for the destruction of what remains of legal protections for workers.

The frenzy on the financial markets, the surge in corporate stock buybacks, IPOs and takeovers, and the return of the same practices that led to the crisis of 2008 are themselves expressions of the deep and ongoing crisis of the world capitalist system.

The euro zone economies are either stagnating or in outright recession, with production levels still below where they were in 2007. The Japanese economy has experienced no growth this year, despite the massive financial stimulus package carried out under "Abenomics." Chinese growth is slowing, with mounting questions arising over the stability of the country's financial system. The American economy has failed to return to anywhere near the growth levels reached before the financial crash.

In other words, money is pouring into the financial system because it has nowhere else to go. The rise of speculation, parasitism and the monopolisation of socially produced wealth by a money-crazed and semi-criminal elite are manifestations of the deep-going

historical crisis of the capitalist economic order.

The Alibaba IPO exemplifies the manner in which the capitalist market and monopoly domination turn the Internet, a technological advance that potentially opens up vast prospects for social advancement, into a means for generating fabulous wealth for a mere handful. It is another demonstration of the necessity for the complete overturn of the profit system and the reconstruction of the global economic order on socialist foundations.



To contact the WSWS and the
Socialist Equality Party visit:

wsws.org/contact