

Wall Street buybacks: Another expression of parasitism

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In the biological world, a parasite lives at the expense of the host, sucking out its nutrients and life forces, and sometimes killing it. Analogies of course have their limits, but nonetheless they can be suggestive. And this is certainly so in the case of the rampant financial parasitism that has become the dominant feature of the American economy and, by extension, the world economy as a whole.

An article published in the *Wall Street Journal* this week details some of the impact of hedge funds on the operations of major US corporations, and the way in which their insatiable drive for profit through financial manipulations is sucking the lifeblood out of the economy and contributing to its deepening breakdown.

The article is based on a study conducted for the newspaper by S&P Capital IQ. It found that companies in the S&P 500 index had “sharply increased their spending on dividends and [share] buybacks to a median 36 percent of operating cash flow in 2013, from 18 percent in 2003.” The doubling of this rate was accompanied by a fall in spending by those companies on plant and equipment, from 33 percent to 29 percent over the same period.

The study found that in companies targeted by so-called “activist investors”—that is, hedge funds that hold hundreds of millions and sometimes billions of dollars on behalf of their wealthy investors—the figures were even higher. Targeted companies reduced capital spending from 42 per cent to 29 percent of operating cash flow and increased spending on dividends and share buybacks to 37 percent of operating cash flow from 22 percent.

One of the main factors facilitating these operations has been the provision of ultra-cheap money by the US Federal Reserve, which has kept official interest rates at almost zero, leading to historically low interest rates in

financial markets. Hedge funds are able to use borrowed money to acquire major share holdings in corporations and then push for share buybacks and the payment of increased dividends. The buybacks, in turn, can be financed through borrowed funds at low interest rates.

The aim is to produce a rise in the share price of the company or generate an increased dividend flow returning large profits for the “activists,” often accompanied by job cuts or the outright closure of parts of the targeted company deemed not to be making a sufficient contribution to “shareholders’ funds.” At the end of the process, vast profits have been pocketed, without a single atom of new wealth being created, while productive capacity has been curtailed.

The consequences of these vampire-like operations are most prominent in major industries. The US energy giants, which have splurged billions on buybacks, dividends and mergers, have refused for decades to invest in infrastructure, leading to a situation where workers are subjected to 16-hour days and increasingly unsafe working conditions. Likewise, the auto industry firms and telecoms are notorious for their resistance to wage increases, while engaging in the same financial manipulation.

The deeper the economic crisis, the more frenzied the speculation. The article noted that since 2010 the number of activist campaigns directed at securing buybacks and increased dividends had risen by 60 percent. Last year there were 348 such campaigns, the most since 2008, and a further 108 in the first quarter of this year. Hedge funds now control \$130 billion in assets, more than double the amount they held in 2011. This means that once they leverage these funds through borrowing at ultra-low rates, they can target virtually any corporation.

Would-be reformers of the capitalist economy will no doubt argue that these dangers can be overcome through the development of mechanisms or increased regulations to promote the “good” side of corporate activity—research and development and real investment—while taking action to control the “bad” side—parasitism. But the question remains: Why has it emerged now?

Underlying tendencies at the very center of the capitalist economy are at work. The long-term downward pressure on the rate of profit, which has led to the continuous restructuring of the American and global capitalist economy over the past four decades, is the driving force behind the rise of speculation and parasitism.

Well-known voracious hedge-fund investor Carl Icahn, cited in the *Wall Street Journal* article, pointed to these trends saying the economy was “being dragged down by too many mediocre CEOs, and it’s dangerous if profitability is going down despite interest rates being at zero.”

However, his resort to a “bad man” theory of economics does not pass even a preliminary examination. The same tendencies are also clearly visible in Europe and throughout the world’s major capitalist economies where, despite ultra-low interest rates, investment remains at historically depressed levels, reflecting a lack of profitable outlets.

Furthermore, any attempt to separate out the “good” and the “bad” sides of corporations runs up against the fact, as Marx explained at the time of the emergence of joint stock companies in the middle of the 19th century, that the origin of parasitism is lodged in their very structure. The formation of such companies, he wrote, “reproduces a new financial aristocracy, a new kind of parasite in the guise of company promoters, speculators and merely nominal directors: an entire system of swindling and cheating with respect to the promotion of companies, issuing of shares and share dealing.”

For a whole period of capitalist development, notwithstanding swindling and cheating, the corporation or joint-stock company facilitated the development of the productive forces through the aggregation of capital to finance large-scale developments, which sustained the living standards of the mass of the population. Those days have long gone.

The elevation of parasitism to the basic mechanism of

profit accumulation is bound up with the objective crisis of capitalism and, connected to this, the absolute stranglehold of the financial aristocracy over every aspect of economic and political life. Swindling, cheating and the destruction of the productive forces—above all through the impoverishment of the most important productive force of all, the working class—is a symptom of the rot and decay of the entire socioeconomic order.

It establishes the unanswerable case for the taking into public ownership of the major corporations, the banks and the entire finance industry as part of the socialist restructuring of economic life. This is the prerequisite for establishing a society where the productive forces, created by the labor of the working class, can be used for social advancement.



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