

Financial parasitism and the decline of US industry

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US President Joe Biden's October 5 Michigan speech in support of his administration's infrastructure spending program consisted in large part of a chronicle of the decline of American capitalism.

Repeating his assertion that the US was now at an "inflection point," Biden began by noting that for the better part of the 20th century the US led the world by a significant margin through investment in infrastructure such as roads, highways, bridges, ports and airports.

"We invested to win the space race. We led the world in research and development, which led to the creation of the Internet, but then something happened. We slowed up, we stopped investing in ourselves."

American infrastructure used to be the best in the world, he continued, but now the World Economic Forum ranks the US as 13th. The situation was even worse in early childhood education with the Organisation for Economic Cooperation and Development ranking the US 35th out of 37 countries.

"All those investments that fuelled the strong economy, we've taken the foot off the gas," he said. And then came an astonishing remark from the leader of the world's most powerful economy: "I don't know what's happened."

As the *World Socialist Web Site* reported yesterday, Biden's speech was framed in terms of competition with China as he noted significant areas of the economy where China is outstripping the US.

But Biden left unanswered the question of the underlying reason for the historic decline of the industrial capacity of US capitalism.

The answer is to be found in another "inflection point"—the end of the post war economic boom and the transition in the US economy from the beginning of the 1980s.

The decline in profit rates that ended the boom refuted the myth of so-called Keynesian economics that skilful demand management by governments could regulate the contradictions of capitalism.

The rise in profits and living standards that had marked the 1950s and 1960s was replaced in the 1970s by the phenomenon of stagflation—the combination of low growth, significant unemployment and rising prices—something which had never previously occurred.

The crisis of profitability drove the American ruling class to launch a violent restructuring of the economy and class relations—a process that was followed, with national variations, by its counterparts around the world.

The spearhead for the US and global offensive was the high interest rate regime initiated by the Federal Reserve under the chairmanship of Carter appointee Paul Volcker.

Whole swathes of US industry were destroyed, and a massive offensive was launched against the working class, starting with the smashing of the air traffic controllers' strike in 1981 and the destruction of their union, PATCO—an operation carried out with the complete collaboration of the AFL-CIO trade union bureaucracy.

The US economy eventually emerged from the Volcker-induced recession—the deepest to that point since the Great Depression of the 1930s—but it was undergoing a vast transformation.

This involved the development of globalised methods of production through which major corporations outsourced manufacturing activities, very often to other firms and other countries including China, to take advantage of cheaper sources of labour.

At home, the profits derived from these operations were deployed to the financial markets with the result that increasingly the dominant form of corporate wealth accumulation was not investment in new plant and equipment—the growth of industrial capacity leading to the expansion of jobs as it had been in the period of the boom—but the securing of profits through financial manipulation. That is, parasitism, not productive activity, was now front and centre of the US economy.

This process, aided and abetted by the policies of the US Federal Reserve, began under Reagan in the 1980s and then rose to ever greater heights in the 1990s under the Clinton administration which dismantled the last remaining vestiges of the regulations imposed on finance as a result of the Depression.

The internal rot and decay at the heart of this new mode of accumulation was laid bare in the financial crisis of 2008. A Senate report of 2011 into the crisis found it was not a "natural disaster, but the result of high-risk complex financial products; undisclosed conflicts of interest; and the failure of credit rating agencies, and the market itself to rein in the excesses of Wall Street."

In the words of Democrat Senator Carl Levin, who chaired the subcommittee that carried it out, the investigation found a "financial snake pit rife with greed, conflicts of interest, and wrongdoing."

However, in the aftermath of this devastating report, nothing was done to address the cause of the crisis. Rather, Wall Street was

bailed out by the government to the tune of hundreds of billions of dollars. The Fed instituted the policy of quantitative easing through which trillions of dollars were injected into the financial markets, not only to continue the speculation that had led to the crisis, but enabling it to reach new heights.

Not one of those responsible was charged for the criminal offences they had committed. In fact, such action was explicitly ruled out by Obama's attorney-general Eric Holder in 2013 when he said it could destabilise both the US and world economy. The banks and finance houses were not only "too big to fail," those in charge of their operations were "too big to jail."

The period since the global financial crisis has seen speculative parasitism escalate to ever-greater heights. The rise and rise of the stock market and the emergence of ever more arcane forms of speculation was fuelled by the ever-greater injections of money from the Fed—more than \$4 trillion since the near total financial meltdown in March 2020 at the start of the pandemic.

The development of high-tech and the production of ever-more sophisticated computer chips is one of the key areas for the economy of the future. It is here that some of the most egregious expressions of parasitism are to be found, as a recent report by economist William O Lazonick, published on the New Economic Thinking web site, makes clear.

Lazonick has for some time been documenting the growth of share buybacks by major corporations, to boost the value of their stocks, at the expense of productive investment. He holds out the reformist utopian prospect that if this could be halted then corporations could at least be turned in the direction of acting for the common good.

Nevertheless, his work has provided some valuable insights. In his latest analysis he focuses attention on the high-tech firms that are seeking billions of dollars from the Biden administration under the Creating Helpful Incentives to Produce Semiconductors (CHIPS) for America Act.

The Act, which provides \$52 billion, was passed by the Senate in June and now awaits approval by the House. The Semiconductor Industry Association (SIA) describes it as "bipartisan legislation that would invest tens of billions of dollars in semiconductor manufacturing incentives and research initiatives over the next 5–10 years to strengthen and sustain American leadership in chip technology, which is essential to our economy and national security."

But as Lazonick and his co-author Matt Hopkins report, most of the corporate members lobbying for the passage of the CHIPS for America Act have squandered the support they have received in the past.

They note that among the signatories on the SIA letter sent to Biden in February this year are five large stock repurchasers. Intel, IBM, Qualcomm, Texas Instruments and Broadcom did a combined total of \$249 billion in buybacks over the decade 2011–2020, equal to 71 percent of their profits and almost five times the subsidies they are now seeking over the next decade.

The extent of buybacks is even greater in another lobby group, the Semiconductors in America Coalition (SIAC) formed in May this year to push for passage of the legislation. This group includes Apple, Microsoft, Cisco and Google. These firms spent a

combined \$633 billion on share buybacks in the period 2011–2020, more than 12 times money under the Act.

In the period from October 2012 to June 2021, Apple alone spent \$444 billion on buybacks, equal to 87 percent of its net income. This is on top of the \$114 billion paid out as dividends, representing an additional 22 percent of net income.

The corporate lobbyists of the SIA have a clear sense of where the political winds are blowing, with the emphasis by the Biden administration on the need to combat China. They wrote in their February letter that the decline in the US share of global semiconductor chip manufacturing capacity from 37 percent in 1990 to 12 percent in 2020 was "largely because the governments of our global competitors offer significant incentives and subsidies to attract new semiconductor manufacturing facilities, while the US does not."

As for Biden's professed ignorance as to the reasons for the American decline, Lazonick and Hopkins make clear he is well aware of the role of share buybacks. They note that as vice-president in 2016 he wrote an opinion piece in the *Wall Street Journal* that "the government should take a look at regulations that promote share buybacks and tax laws that discourage long-term investment, saying "the future of the economy depends on it."

But this president from Delaware, the home of American tax avoidance companies, is a long ago bought-and-paid-for creature of Wall Street. Moreover, the growth of parasitism has become so entrenched within the financial system and the economy as a whole that attempts to curb it threaten to set off a financial and economic crisis. The US response to its manufacturing decline is not going to be a return to the past but rather, as the crippling of the Chinese telecoms giant Huawei demonstrates, an intensified attack on its rivals.

To the extent that industrial and manufacturing capacity is developed it will arise from the drive to war, rooted in objective logic of the strategy of the "strategic competition" with China that the Biden administration has made central to its agenda.



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