Financial parasitism and the war drive against China

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A recent publication on the *Institute for New Economic Thinking* web site has provided some important information on how financial parasitism in the high-tech sector of the US economy is a key driving force for the developing war of US imperialism against China.

The political establishment, both the Democrat and Republican parties, as well as state intelligence agencies and numerous imperialist think tanks have made it clear that high-tech development in China is an existential threat to the position of the US and must be countered by all means necessary, including war.

The question which immediately arises is why the US is in danger of falling behind?

The article by Marie Carpenter and William Lazonik on the history of the major US corporation, Cisco Systems, described by the authors as "once the global leader in telecommunications systems and the Internet," provides some answers to this question.

They note that the US has fallen behind global competitors in mobile communication infrastructure and what they call this "national failure" has created socio-economic and geopolitical tensions.

Lazonick has long carried out research into the way in which giant US corporations have engaged in financial operations to boost the profits of shareholders and investors, starving their industries of the necessary funds for research and development.

His basic perspective is that if this process can be slowed or even reversed, then US industry can resume the dominant economic position it held in the past. However, notwithstanding this outlook, based on the conception that the wheel of capitalism development can be turned back so that the US recovers its glory days, the article provides significant information.

The authors maintain the key reason the US has fallen behind is the "dereliction of key US-based corporations to take the lead in making the investments in organizational learning required to generate cutting edge communication-infrastructure products."

No company in the US "exemplifies this deficiency more than Cisco Systems, founded in 1984 and which had explosive growth in the 1990s" to become "the foremost global enterprise networking vendor in the Internet revolution."

In the last 20 years, however, the modus operandi of the company has changed significantly.

"Since 2001, Cisco's top management has chosen to allocate corporate cash to open-market share repurchases—aka stock buybacks—for the purpose of giving manipulative boosts to the company's stock price rather than make the investments in organizational learning required to become a world leader in communication equipment for the era of 5G and IoT (Internet of Things)."

From October 2001 to October 2022, Cisco spent \$152 billion, some 95 percent of its net income over the period, on stock buybacks to prop up its share price.

In addition to the funds spent on "maximizing shareholder value," Cisco paid out \$55.5 billion in dividends to shareholders, representing another 35 percent of net income. Such were the extent of these operations that the company had to sometimes go into debt to finance them.

The boosting of the company's stock price after 2001 became an important means through which it could take over other companies and pay its top employees and executives.

The article noted that Cisco has not been the only communication-based technology company to go down the road of financialization. Lucent Technologies, at one time an industry leader, went in that direction but failed and was acquired by the French-based firm Alcatel in 2006.

There was a significant incident in the development of high-tech financial parasitism in March 2018 when president Trump issued an executive order on the grounds of "national security" that banned the takeover of the tech giant Qualcomm by Broadcom.

The objection to Broadcom was not that it was a foreign company—it had started operations in Singapore but then relocated to the US—but its record showed that it would further "financialise" Qualcomm operations and drastically reduce spending on research and development.

The authors conclude that "the impact of financialization in the sector has left the United States without the capacity to innovate in the development of a communication infrastructure network." US policymakers "have chosen to respond to the US loss of competitiveness with aggressive protectionist measures against Chinese competitors."

These measures started under Trump but have been considerably accelerated under the Biden administration The strategy centres on the banning of vital chip technologies aimed at crippling companies such as Huawei as well as seeking to impose global industry standards favouring US, Japanese and Korean companies.

The authors maintain, however, that this mounting confrontation could have been avoided, saying: "Given its trajectory at the turn of the century, Cisco could have played a central role in an industry policy aimed at maintaining and enhancing US global strength in this critical sector."

US policymakers "could have recognised the need to develop these innovative capabilities in an era that one might now call America's 'lost decades.' A company such as Huawei did not impose this loss of global leadership on the United States. Hundreds of billions of dollars wasted on stock buybacks did."

The basic flaw in this analysis, which presents the issue of share buybacks as the result of bad "choices" made by top company officials, is that it ignores the dynamic forces operating in the US economy and its financial system as a whole.

As Lazonick in particular knows well, because he has documented it, the type of parasitic operations carried by Cisco go across broad sections of the US corporate world. This cannot be put down to choices, just as a cancer cluster in any area cannot be ascribed to the health problems of individuals.

Parasitism is the outcome of the domination of finance capital over all sections of the US economy. Corporations are faced with the "choice" that unless they meet its demands for increased shareholder value, they will be the subject of hostile takeovers or restructuring operations.

These parasitic activities express at the highest level the essential logic of the capitalist system which, as Marx drew out, is the transformation of money into still greater quantities of money, not the development of the productive forces or new technologies per se.

This predatory activity, lodged within the very DNA of the capitalist system and the drive for private profit, has consequences as can be seen in the further erosion of the economic position of the US—a decline which it seeks to overcome through military means against what it sees as potentially its greatest rival, China.

It underscores the fact that world war, the essential logic of this process, can only be prevented through the fight for an anti-war program grounded on a socialist program aimed at the overthrow of the capitalist profit system which now threatens the very destruction of civilisation.

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