

# Unprecedented “circular deals” inflate AI bubble

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Warnings that a major AI bubble has formed, or is rapidly in the process of formation, as OpenAI announces a series of deals with chip suppliers to build its computing power, are coming thick and fast.

The alarms are being sounded because the deals involve a high degree of circularity whereby, in one form or another, the supplier of the chips and technology provides financial assistance to OpenAI to enable it to purchase its products.

According to calculations by the *Financial Times* (FT), the results of which have been widely circulated, deals done by OpenAI, the maker of ChatGPT, with AMD, Nvidia, Oracle CoreWeave, and other smaller companies amount to about \$1 trillion in cost. The company will need more than 20 gigawatts of computing power over the next decade, with the electricity needed to power it equivalent to the output of 20 nuclear reactors.

As the FT reported: “OpenAI is burning through cash on infrastructure, chips, and talent, with nowhere near the capital required to fund these grand plans.”

The company has yet to make a profit, and its founder and CEO Sam Altman has said that profit-making is not really on his horizon at present. Speaking earlier this week, he said becoming profitable was “not in my top-10 concerns.”

“Obviously,” he continued, “someday we have to be very profitable,” and the company would get there, but “right now” it was in a “phase of investment.” In other words, it is taking a trillion-dollar gamble that the massive investments will eventually pay off.

But others say a different dynamic is at work. As Gil Luria, an analyst at the investment bank and financial services firm DA Davidson told the FT: “OpenAI is in no position to make any of these commitments.” It was expected to make a loss of around \$10 billion this year.

“Part of Silicon Valley’s ‘fake it until you make it’ ethos is to get people to have skin in the game. Now a lot of big companies have a lot of skin in the game on OpenAI.”

Their connection has been established through the circular deals through which OpenAI is being financed.

Under the \$100 billion deal with Nvidia, the leading maker of the graphic processing units (GPUs) which form the basis for the development of AI, the money it supplies to OpenAI will be used to buy more Nvidia chips.

While Altman has said the deal with Nvidia is a “new financing model,” it is very much a repeat of the kind of circular deals which were made in the dot-com bubble at the start of the century before it collapsed with billions of dollars in losses.

And the deal with the chipmaker AMD has added a new twist to the circularity. Under the agreement, AMD will provide OpenAI with warrants to buy up 10 percent of the company’s shares for just one cent a share provided certain targets are met. As the price of AMD shares rises, OpenAI will be able to cash in and use the money to buy AMD chips.

AMD chief executive Lisa Su described the deal as a “pretty innovative structure, which didn’t come lightly.”

In essence, the agreement means that the whole operation is being financed on the expectation that the surge in high-tech and AI stocks will continue indefinitely.

Long-time Wall Street short seller Jim Chanos, who described financial markets as having entered “the golden age of fraud” back in 2020 and who commented recently that this phenomenon had “done nothing but gallop even higher” since then, pointed to one of the key contradictions in the circularity deals.

In a social media post on the AMD deal, he wrote: “Don’t you think it’s a bit odd that when the narrative is ‘demand for compute is infinite,’ the sellers keep subsidizing the buyers?”

There is a clear recognition that an AI bubble—a situation characterized by the complete divorce of market valuations from underlying real economy—is fast developing. As well-known financial journalist Andrew Ross Sorkin noted in the *New York Times* this week, he was asked about this issue multiple times a day at a meeting in San Francisco.

His answer was that “we are—we just don’t know when it will end. When the dot-com bubble popped, it wasn’t the end of the Internet. It just meant that the weakest companies didn’t survive. And that’s probably what will happen again.”

A similar position has been advanced by ultra-billionaire Jeff Bezos, the founder, and chairman of Amazon, who has acknowledged there is a bubble, but this is “good” because it is “a kind of industrial bubble.”

The basis of his claim and that of Sorkin is that, like the internet, the development of AI will ultimately be a positive economic development. And indeed, it would if it were being advanced in a rationally organized society with conscious planning.

But it is being developed within the framework of capitalist social relations and a financial system increasingly dependent on speculation and parasitism in which the mechanisms being used to finance AI are more akin to a Bernie Madoff Ponzi scheme than anything else.

Moreover, the blithe reference to the collapse of the dot-com bubble as just some kind of shakeout of weaker elements and that the collapse of the AI bubble will be just a repeat of that earlier experience ignores both what happened then and the changes that have taken place since.

As an article by Ian Harnett in the FT noted, the bursting of the internet bubble saw Microsoft lose 65 percent in market value, Apple 80 percent, Oracle 88 percent, and Amazon 94 percent. Under present conditions in which high-tech stocks comprise an even greater proportion of market capitalization than they did at the start of the century—up to 40 percent of the S&P 500 index—any repeat would be devastating. AI companies have accounted for 80 percent of the gains

in US stocks so far this year.

And in the quarter-century since the dot-com bubble burst, the financial system as a whole has become ever more dependent on debt.

Furthermore, AI investment is playing a central role in the growth of the economy. According to calculations by Harvard economist Jason Furman, investment in information processing equipment and software was responsible for 92 percent of all GDP growth in the first half of this year, meaning that the rest of the economy was essentially flat.

Commenting on the AI surge in the FT, Ruchir Sharma, the chair of Rockefeller International said that “America has become one big bet on AI” and the US and its markets could “lose the one leg they are standing on.”

The Bank of England has added its voice to the growing warnings. In its latest quarterly financial stability update, it said “stretched valuations” for equities and, in particular, AI companies, together with the loss of independence by the Federal Reserve and increased corporate failures, had fueled the risk of a “sharp market correction.”



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