Huang reinstatement points to developing crisis at the heart of the AI bubble

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The extraordinary return of Jensen Huang as CEO of Nvidia, after he was forced to resign less than two weeks ago, is an expression of the extreme instability of the AI "boom" and the threat it poses to the entire US financial system.

His reinstatement came after what was described as a "bloodbath" on Wall Street last Friday with some of the biggest falls since the onset of the COVID-19 pandemic.

After the announcement Nvidia's shares soared, adding almost $1 trillion in market value as the tech-heavy NASDAQ index closed 6.5 percent higher. The upsurge, however, is not the expression of the health of the financial system but rather a fever chart of its crisis.

His reinstatement, which had not been discussed by leading company officials, was at least in part the result of the intervention of US president Trump whose overriding concern is the protection of the interests of the financial and high-tech oligarchs and who was clearly concerned about the implications of last week's events.

Last Thursday there were hopes that the initial public offering (IPO) of Anthropic was going to provide a boost to the AI boom after weeks of growing concerns that it might soon come to a juddering halt.

Anthropic made what was described as a "blockbuster" debut and raised $81.3 billion from the sale of shares giving the company a market value of around $1.5 trillion. Its shares closed the day 17 percent above the issue price. But the euphoria lasted barely 24 hours when it lost most of that on Friday as the market plunged.

The stock market, it is said, is driven by two outlooks: greed and fear. Up until the SpaceX IPO in June, it appeared that greed was the predominant force but in the months since then fear has increasingly taken over.

Of course, while the outlook of the traders and speculators has an effect, on occasions over a considerable period of time, it is not in the final analysis the fundamental driving force. Broader processes, rooted in the financial foundations, are at work.

And here there are mounting concerns about the stability of those foundations.

The issues involve: whether the use of AI will generate enough revenue to return a sufficient rate of profit on the trillions of dollars laid out in capital spending; the financing of deals through the increase in debt much of it off-balance sheet via a series of complex arrangements; the effect of rising interest rates; circularity in which one AI firm provides finance for another which is then used to buy its products; and whether massive amounts of electricity to power AI will be available.

In addition, there is the fear that in the frenzied race to the top and the attempt to secure monopoly domination some AI firms will miss out on the pool of profit, having laid out hundreds of billions of dollars to try to secure their share, and go bankrupt.

All these fears predominated last Friday as the tech-heavy NASDAQ index fell 5.6 percent to complete its worst week since the outbreak of COVID-19 in 2020. It lost 10 percent for the week and was down around 20 percent from its intraday high on October 6. The S&P 500 lost 3.7 percent taking its decline from its peak in October to more than 10 percent.

The *Financial Times* (FT) described the trading as "frantic" with one hedge fund chief executive saying: "It looks like Armageddon out there."

Some of the biggest falls were in the stocks of Nvidia whose chips have been at the heart of the AI boom. Nvidia is significant not only due to its advanced technology but because of its role in providing finance to a myriad of AI firms and startups. In the wake of the ousting of Huang, who was the chief dealmaker—sometimes through handshake agreements without a written contract—the question was whether such financing would continue.

Nvidia shares fell 14 percent on Friday amid reports that

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the Securities and Exchange Commission is to probe its accounting methods and it faced Congressional hearings over Huang's affair with Alice Huang, who has been accused of being a Chinese spy, and whether Megaspeed, the company for which she worked, supplied chips to China in defiance of US restrictions.

In its rise Nvidia broke all records reaching a market value of $5.7 trillion on October 6. Last Friday its market value was just over $3 trillion. The stock had fallen almost 50 percent since its peak and around $2.7 trillion in market value had been wiped out in just over six weeks.

The importance of Nvidia was underscored in a comment by Mike O'Rourke at Jones Trading reported in the FT.

"Jensen and Nvidia are the embodiment of the AI buildout. To see that things were less than forthright has shaken everyone's confidence."

And it is more than confidence that is being shaken. In a recent article FT columnist Gillian Tett, who was heavily involved in reporting and analysis of the 2008 crisis, drew a parallel between the present role of Nvidia and that of the insurance giant AIG in 2008.

She began by noting that in its latest financial stability report issued on Wednesday the European Central Bank warned that the AI frenzy had "historical parallels with the dotcom and subprime bubbles."

The events of 2008 are usually most directly associated with the collapse of the investment bank Lehman Brothers. But in fact, AIG was much more central to the crisis. It had provided insurance via credit default swaps to those firms engaged in rampant speculation, of which subprime was the most graphic expression.

AIG, Tett wrote, "became a linchpin of the system, at the centre of a hairball of tightly interconnected, circular, half-concealed trades."

"By 2008, the insurance company had become the ground zero of the credit crisis, and the government was forced to bail it out, since those interconnected flows threatened to create a systemic implosion."

There were differences between AIG and Nvidia, she wrote, but "like AIG, Nvidia is a pillar of an ecosystem" with "$100 billion in equity investments and over $530 billion in off-balance sheet guarantees and lease backstops to its customers."

While these connections are known at least to some extent, and Nvidia has been able to function in this way because of its high credit rating, the question arises as to what happens if that is lost or it pulls back from financing the AI buildout.

In a report issued in June the Bank for International Settlements noted that more than half of recent investments in AI came from other tech companies and half of AI-to-AI deals involved circular supply chain agreements.

"If that unwinds," Tett wrote, " it will hurt just as the unwind of AIG's CDS trades two decades ago did. After all, AI-linked companies have driven much of the recent stock market boom—and tech investment has driven two-thirds of all US growth so far this year, according to Apollo private capital group."

The 2008 crisis did not just bring "hurt."

It was a devastating blow to wide sections of the working class. In the US nearly 10 million homes went into foreclosure between 2006 and 2014, and the unemployment rate went over 10 percent. In 2010 some 23 percent of all homes were worth less than the mortgages that had been taken out on them.

Now a potentially even bigger crisis is in the making with even more devastating consequences. As a result of the 2008 crisis not one financial executive was charged let alone jailed for their criminal activity documented in a 2011 Senate report. The working class was made to pay.

As a new crisis looms, lessons must be drawn. There is no solution within the framework of the capitalist system. AI has an enormous potential for increasing the productivity of human labour and providing the basis for real social advances. But within the framework of the capitalist market and financial system, the function of which is to promote speculation and parasitism, it becomes the breeding ground for a social and economic crisis.

The case for a socialist program based on the expropriation of the AI giants and the entire banking system is overwhelming.



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