Profit only for the Horizon and only for Ambition

While profit is now the only horizon for finance and financialization which has contaminated everything in its path and which now only considers businesses as a lever for profit, a slot machine in the global casino which would buy and sell businesses, hire and lay off employees, according to the expected benefits. The dichotomy between industry and finance has in fact disappeared. Whereas it was still possible some twenty years ago to draw an unequivocal distinction between Renault and General Motors on the one hand and financial institutions like Société Générale or Goldman Sachs on the other hand. We are now witnesses to comical arrangements where a business like General Motors calls for help because its financial sector, the provider of credit, is in disarray. It is as if the production of vehicles was a side business, just good enough to justify and feed a financial sector which had proved far more lucrative than its traditional activities. Should we be surprised, in such a context, that Goldman Sachs rushes to buy up wheat stocks to leverage this other bubble? Mixing genres has therefore become global, completely in favor of finance and in defiance of any commercial interest and industrial strategy. It is the whole spectrum which is today contaminated by financialization: energy, real estate, foods. Even the functioning of the state and collectivities is also marked by the seal of this hyper financialization: whereas it was enough for them, in the very recent past, to issue bonds to finance their lifestyle, our leaders today are calling on banks to create scholarly arrangements for them based on “interest rate swaps”… Of the rest, nearly half of the derivatives in the world are interest rate swaps, coincidentally directly related to the Libor, whose scandal and manipulations were mentioned above… Would the next bubble to burst be these famous interest rate swaps? To which case our states and its taxpayers – i.e. us – would be the first to pay the price of this umpteenth speculative tribulation, potentially devastating for the world economy. Indeed, it has been estimated that the four largest U.S. financial institutions had on their books approximately $170,000 billion in derivatives in favor of the economic actors of that country. Knowing that the international outstanding amount in derivatives represents twelve times the global GDP! All the facets of economic activity are thus entangled in a complex web woven by financialization. Of the rest, the sectors of activities do not matter at all in this financialization able to
prevail today in the machine tools sector (for example) to abandon it completely for investments in the agricultural sector, if it proves to be more profitable. The single only objective being to generate profits in cold cash: indeed, such is the ultimate expertise to the exclusion of all others. Hence for example Goldman Sachs which in 2012 invested $10 million in the prisons of the State of New York, with the following perspectives: recover their money if recidivism drops by 10%, earn 2 more if this rate improves more, or lose 2.4 if the New York criminals do not change! Our societies have today attained such a degree of decadence that they have delegated such responsibilities to the financial sector, and their most elementary homework vis-à-vis citizens in need. The moral obligation of the collectivity is therefore vanishing in the face of “corporate bonds” – “social impact bonds” – issued by financial institutions which raise funds to generate profit while replacing the state. Organize the understaffed, to neglect working conditions, modernize reluctantly the tools of production, such have therefore become – amongst other things – the guidelines for managers of modern businesses, completely under the yoke of the financiers. How can we be surprised in such a context of the wave of suicides in a number of businesses confronted with the coldness of the juggernaut of money? These restraints imposed by the shareholders actually require the working ants to perform like world-class athletes. Without equivalent salaries, of course... Thus is the employee called upon to adapt instantly, even agree to lose his job, if such is the price to be paid for progress – or to maintain – profits? The ideals and energies of our politicians, financiers and even our intellectuals unanimously tend toward this singular objective of profit, elevated to the rank of pragmatic religion, which defined new codes which all of society must soak up and be inspired. That is why Anglo-Saxon countries and Germany are entirely focused on the gains of productivity as the single and only means to exit the crisis and reduce deficits. While categorically rejecting to pass through the exit door consisting of investing in business and training, understandably much more expensive for them. As the only improvements tolerated are those which affect productivity, all the criteria, optimization and research for solutions are scrutinized and shelled in terms of productivity. The only credo is therefore improvement in sacrosanct productivity – whose only priority is to find savings in both the production processes and salaries – whereas the gains in productivity which truly enrich a business over the long-term instead tend toward strategies for products sold, their range, their quality, and conquering new markets... so many determining factors obviously impacting on the success of any business and which can only succeed by adhesion and motivation of all of its employees. This supreme contempt for the value of work that we all accept in the interest of swollen speculative revenues – therefore on the
short-term – is it not the hallmark of decadence in our civilization? In fact, the life and management of businesses have been contaminated by the ills inherent in finance. With the assistance of always more sophisticated products, it raided both management and the working tool, considered therefore as a crude commodity negotiable upward or downward, depending on the needs and profit of the hour. Work has become a “commodity” – a crude raw material – deprived of any moral, and even, human regard. In fact, businesses which lay off are very often rewarded by the markets through an increase in their shares while, at the same time, those which hire run the risk of being judged with great caution by the armada of financial analysts comfortably seated in their armchair. Our financial system has thus forced our businesses to learn how to have only 100 employees do the work of 200 to maximize its profits. It is absolutely unlikely that no financial guru or an astute Wall Street observer” has ever, up to now, conducted the relation between this policy of the optimal spin of the employee and the very bad statistics of unemployment which defeat growth. When will the guardians of the temple finally understand that workers and employees contribute just as much as the shareholder to their wealth and winning “deals”? Let us acknowledge that it is clearly easier for a camel to pass through the eye of the needle that it is for the capitalism of today to be self-critical...

The iconic case in this regard is the British pharmaceutical giant GlaxoSmithKline, which all too recently pleaded guilty to federal crimes *vis-à-vis* the U.S. authorities by agreeing to pay fines in the amount of $1 billion for circulating two medications not approved by the U.S. health regulatory authority (the FDA) and without having passed basic safety tests required by U.S. law for a third medication. GlaxoSmithKline was also forced to pay an additional $2 billion to settle a class action lawsuit accusing it of having circumvented doctors to establish false certificates, all with the objective of accelerating the distribution of these relevant medications. According to the U.S. Department of Justice, the total amount of $3 billion represents restitution for the biggest fraud in the entire pharmaceutical industry, bigger than the $2 billion paid by Pfizer, the $1.4 billion paid by Eli Lilly and the billion dollars by Johnson & Johnson. Of the rest, the fines paid in 2012 to U.S. regulatory authorities by financial and industrial actors achieved a record $8 billion. It is, for example, the $37 million paid by the military construction company ATK Launch Systems for having sold defective materials, or the 200 million paid by Oracle accused of having overbilled the U.S. government. From the intense pressure exerted on their employees (at all levels of the hierarchy) to achieve and exceed the objectives, to the permanent stress to which management is subjected as to the development in the stock price of the company that employs them. Returns on investments, figures related to their domestic and interna-
tional sales for their operating efficiencies. The violations of the law and the corruption now seem to be part of the rules of the game for businesses and the financial world, only concerned with producing good figures, exceeding the competition, conquering new markets and clients… until a few are mistakenly made to feel the “pinch”. Blithely trampled upon, ethics and morality are being eclipsed by promotions, bonuses and falsified accounts and reports. In this regard, Glaxo is only one more turn of events in a long path of corruption and scandals having affected (for a good fifteen years now) Worldcom, News Corp or Wal Mart… It is therefore the whole spectrum of the working world (and not only finance) which is infected by the conflict in interest, fraudulent accounting, false declarations and attacks on private life. Is modern capitalism therefore condemned to create monsters? Milton Friedman asserted that capitalism is freedom. Indeed, unless this freedom remains the preserve of a tiny minority who co-exist apart from and on top of an ocean of serfs.

The historically low level of interest in rates, against all odds, decisively inhibits any investment in the medium and long term by businesses. By trying to save the system through the lever of cash injections and quantitative rate cuts, central banks have actually contributed unwittingly to the swelling of a new speculative bubble. In fact, the really tiny interest rates, even negative, in some countries designed to encourage investment and boost economies have created a monster! While the stock market traditionally offered profitability and growth over the long term for investors, the bond market generated income. Quantitative rate cuts have indeed shaken this given because global liquidities have been therefore gradually clumped to international equity markets which had a big advantage in these times of depressed rates: dividends. As investors in search of profitability realized that the distribution of dividends on equity portfolios responded honorably to their search for yield. So they turned the stock market away from its original vocation of financing business into a machine to produce yield by proxy dividends. Unprecedented phenomenon for fifty years, the stock market has become an alternative bond market. This molting of global stock markets as a till for investors, fond of regular and substantial income, is clear evidence of consequences for the world of business, for workers, and of course for central banks as for politico-economic leaders. Whereas the primary purpose of the stock markets was to put the providers of capital in touch with businesses in need of their cash. Whereas investors are supposed to receive a share in the development of the business in return for the risk assumed by putting their capital at its disposal. The low interest rate environment sterilizes de facto the full range of investments. And the increased dependence of these businesses on the holders of cash – concerned about getting a return on the short term – redistributes thor-
oughly the resources. While forcing companies to change their strategy or the way they lead and manage their working tool. The same applies to central banks that find that their policy, often aggressive, of interest rate close to zero – far from forcing the hand of businesses to invest over the long term – leads them to opt instead for instruments favoring liquidity in the short or very short term. As the distribution of dividends or redemption of a portion of their own shares. Like Ford, which recently decided to double (from 5 to 10 cents) its dividend; this transaction will cost $762.5 million but also authorized the soaring of its security by 35% in the last three months! As always, the world of money has found the solution to overcome – or circumvent – the pitfall of zero rates and cash injections by managing to find a new “cash cow”. Its greed has indeed inflated another bubble and, incidentally, distorted and perverted the whole economic theory that interest rates at such levels and dynamic money creation should logically benefit economic actors. Instead, the monetary transmission mechanisms were diverted to transform the capital markets into arm bandits systematically spitting out currency. In addition, the concept of risk management – designed to favor bond markets safer than the much more speculative stock markets – has faded. Conversely, the escalation of the risk premium – i.e., the compensation offered to the shareholder in exchange for the risk assumed – reached such levels that holders of cash (pension funds, big investors, sovereign wealth funds, etc.) do swear by the stock markets, with the considerable advantage of paying dividends, while the economy is somewhat depressed. The context of near absolute zero interest rates has only exacerbated this relentless quest for profits of global investment with, once again, disastrous consequences for the real economy. Entrepreneurs prefer to be able to devote their cash flow to pay dividends instead of investing in the medium and long-term in the interest of their company and its employees. Did central banks know that their hyper lax monetary policy would only exacerbate the war between labor and capital? In 2011, U.S. companies indeed spent $650 billion in dividend payments and share repurchases compared to $580 billion in investment and development. Given that the trend for 2012, the best year for stock markets in 10 years, should be even more damaging to jobs traditionally benefiting the tool of work. Worse yet, since the corporate bond issuance activity which planned to use these funds to invest in production facilities were heavily shunned in favor of those who had announced their intention from the start to recycle these sums into dividends and redemptions of their own title! The dominant influence of ownership on the strategies of companies listed on the stock exchange distorts therefore the business of the entrepreneur. To yield to temptation – sometimes warnings – holders who took their cash as hostage, the business manager and CFO have gradually become purveyors of regular income.
at the expense of investment and of course employment. That political, economic and monetary officials finally deign to look closely at the stock theater and behind the scenes, if their concern is to restore economic growth and reduce unemployment. Because the big bosses of companies whose shares are listed have now completed their molt in central bankers, and play the game of financialization in the background. That is why it is no longer possible today to rely on them, or on their businesses, to boost our economies.