Apple: A case study in financial parasitism

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18 August 2020

As a result of the crisis in mid-March when financial markets essentially froze, the US Fed stepped in with a massive asset purchasing program of around $3 trillion, including for the first time the buying of corporate bonds.

This set off a frenzy of borrowing with the result that the issuance of corporate bonds so far this year already exceeds that of 2019.

The ostensible reason for the Fed's unprecedented intervention, the major factor in sending Wall Street indexes to within a whisker of the record highs reached in February, was to provide a prop for corporations strapped for cash and threatened with bankruptcy due to the COVID-19 pandemic.

But as with all the measures undertaken by the Fed, the intervention has taken to ever greater levels the parasitism that forms modus operandi of the US economy and financial system as wealth is siphoned into the coffers of the financial elite.

Apple faces no cash flow problem. It has hundreds of billions of dollars of cash on hand and announced revenue for the June quarter of $59.7 billion, with a profit of $11.25 billion. But it was one of the first in line to take advantage of the new conditions created by the Fed.

In May it raised $8 billion through a new bond issue and last week followed this up with a return to financial markets to raise a further $5.5 billion.

The effect of the Fed intervention, the cutting of its base rate to effectively zero, its purchase of both Treasury and corporate bonds, has enabled corporations to obtain money from the financial markets at the cheapest rates in history.

According to a report in Bloomberg, the latest Apple bond issue comes in four parts, with the longest maturity of 40 years yielding just 1.18 percentage points (118 basis points) above US Treasuries. This means that on its longest-term debt Apple will pay a little more than 2.5 percent interest, with the payments on shorter-term debt even lower. Apple managed to achieve an even cheaper rate than Amazon, which had to pay 130 basis points above the rate on Treasuries as it issued new debt.

None of the money raised in this way is to be used by Apple to expand production and investment or to fund new research, let alone create jobs. It is being devoted to funding share buybacks and to pay dividends and for other "general corporate purposes."

No doubt part of those "corporate purposes" will be the development of financial engineering measures and the payments of accountants and lawyers to devise new methods of avoiding taxes.

The aim of these measures is a transfer of wealth into the hands of shareholders and company executives—benefitting major investors such as the multi-billionaire Warren Buffet, and the company's executives.

Share buybacks and increased dividends, financed by debt, made available at ultra-low rates, increase the stock price of the company by taking shares out of the market. The remaining shareholders make a capital gain and company executives are rewarded through a system in which their remuneration is based on the performance of the company in the stock market. Apple CEO Tim Cook has already become a billionaire and will reap still further benefits.

This process received a major boost from the intervention of the Fed after the crisis of 2008, keeping interest rates at ultra-low levels through its program of quantitative easing, and Apple took full advantage. Through its program of share buybacks, it became the first company in the world to reach a market valuation of $1 trillion in August 2018, an increase of $300 billion over the previous three years.

But the escalation of the past five months, in the wake of the Fed's response to the COVID-19 pandemic, puts this in the shade. Apple's current market capitalization is now around $1.9 trillion and is expected to soon reach $2 trillion, a doubling in just two years.

Its market valuation is now larger than the GDP of Canada, the world's tenth largest economy, as well as those of Russia and Spain.

The rise of its market valuation is only one aspect of the parasitism that characterises Apple's mode of profit accumulation. Unlike the giant corporations of the past, it does not employ a large industrial work force. Crucial component and assembly operations are carried out by Foxconn in China and other companies around the world.

The latest calculations show that the cost of the components for the most expensive iPhone, retailing for between $1100 and $1450, is just under $500. The labour cost of assembly is negligible with a worker at Foxconn in China taking home $300 a month.

The mass of surplus value, which is created by the labour of workers in the manufacture of the components and their assembly, is then siphoned off by Apple essentially in the form of a monopoly rent—protected by a series of laws covering intellectual property.

Apple and other high tech companies maintain that the elevated prices are the result of the costs associated with research and innovation. In fact, they are result of the monopolisation of knowledge, often developed in the public domain. The basic technology in an iPhone—the batteries, the touch screen, voice recognition, the Internet—was the outcome of publicly funded research.

There is a cost associated with the development of new algorithms etc. but this is dwarfed by what the high-tech companies obtain for free as a result of basic scientific research.

The same applies to the innovation and new drugs developed and then marketed by pharmaceutical companies at exorbitant levels.

The "Apple model" of wealth accumulation is just one of the more egregious expressions of what is a general process.

According to calculations by the economist William Lazonick, in the decade 2010-019 companies in the S&P 500 index, which comprise 80 percent of the market capitalization of US stock markets, spent $5.3 trillion, 54 percent of their profits, on share buybacks. A further $3.8 trillion, or 39 percent of profits, was distributed as dividends. This meant that over that period just 7 percent of profits were used for investment in the real economy.

And as the latest ventures by Apple and other corporate giants into the bond markets show, laying their hands on ultra-cheap money made available by the Fed amid the death and economic devastation caused by the pandemic, this systematic looting of resources is only increasing.