

SPACs should indicate the end of an economic era

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You know capitalism is rotten when the best thing that people can think of investing in is SPACs. These are [defined by Investopedia](#) as:

A special purpose acquisition company (SPAC) is a company with no commercial operations that is formed strictly to raise capital through an initial public offering (IPO) for the purpose of acquiring an existing company. Also known as "blank check companies," SPACs have been around for decades. In recent years, they've become more popular, attracting big-name underwriters and investors and raising a record amount of IPO money in 2019. In 2020, as of the beginning of August, more than 50 SPACs have been formed in the U.S. which have raised some \$21.5 billion.

The definition seems fair. I will use it.

There are at least three obvious problems with this. The first comes from writing blank cheques, which is what is going on here. As far as I know throwing money at anything has never been much of an investment policy. So this either says some people have too much money (which is true). Or it says that they have literally no idea what to do with their money (they don't). And it suggests that markets are so clueless as to what to do with available money that they would rather pay roulette instead (they would). To put it another way, this system capitalism is almost out of ideas.

The second issue relates to the first. I said 'almost out of ideas' deliberately. That is because there is one idea still left in use, and that is rentierism, asset stripping, or turning a fast buck, whichever you wish to call it. The idea behind a SPAC is that a new owner in a quoted entity can both buy a private company and strip value out of it before then selling it on. Much of the gain will simply come from being quoted. The rest will be old style asset stripping. Sales and leasebacks will be in vogue. Leverage will be increased to fund dividend stripping of retained reserves, whilst accounting tricks will be used to push profit upwards. [Hollowed out firm creation](#), I call it. The result is quick bucks from financial engineering with no net gain to society.

Third, the question is why markets needs any tax incentives when they are so obviously

awash with cash that they can waste it in such deeply unproductive activity as this? Why then has Rishi Sunak felt it necessary to give tax incentives for investment for the next two years when there is so obviously no idea what to use money for? And why hasn't corporation tax already gone up when markets clearly have excess cash? Tax policy is very obviously wrong.

SPACs are clear indication of three things. They are a wealthy elite with too much cash, a form of capitalism that has clearly run out of ideas and a government not willing or able to tax appropriately to correct these market failures. Together these should indicate the end of an economic era. But will they?