Private Equity, Public Vice

It's time to put the hedge and private-equity funds out of business, before they do any more damage.

Politicians are careful about taking money from the mob, because it looks bad for elected officials to participate in the proceeds of organized crime. However, as recent news reports show, some of our leading candidates, including a few Presidential hopefuls, have received significant amounts of money from the operators of hedge funds and private-equity funds. Since the leading issue of the day, whether openly admitted or not, is the collapse of the existing financial system and the nature of its replacement, and since these funds are a major part of the disease which is destroying us, this puts these politicians in a highly compromised position. When the solution begins with a flea dip, having leaders in bed with the fleas is a critical problem.

Much has been written about hedge funds, most of it either disinformation or nonsense. The hedge and private-equity funds—which for our purposes here are basically the same thing—were created by the investment banks for two main purposes. First, to hide the bankruptcy of the financial system by sweeping the growing mountain of unpayable debts and worthless assets off the books of the banking system, the financial equivalent of sweeping dirt under the rug. Second, to use the liquidity of the bubble to increase the financial oligarchy's control over the necessities of life, as part of the transition to their brave new post-crash feudal fantasy. There are differences in the way they operate, with some involved more in gambling and others more in buying companies and assets, but when your house is infested with cockroaches, it doesn't much matter which specific kind of roach it is, you just need to eradicate them. A roach is a roach.

According to recent statistics, there are about 9,000 hedge funds in the world, managing a combined $2.1 trillion. Most of these funds are relatively small, with just 29 managing more than $10 billion in assets, but the big funds are growing rapidly. The largest of them all is J.P. Morgan Chase's hedge-fund unit, which saw its assets under management rise 75% to $34 billion in 2006, knocking Goldman Sachs off the top, even though Goldman's hedge-fund unit rose by 48% during the year, to $33 billion. Bridgewater Associates was third, up 47% to $30 billion; followed by D.E. Shaw, up 40% to $26 billion; and Farallon Capital Management, up 59% to $26 billion.

The private-equity business is smaller, with a combined $1.4 trillion in assets under management. Private-equity funds raised an estimated $173 billion in 2006, up from $113 billion in 2005 and $59 billion in 2004, according to data included in a recent Blackstone Securities and Exchange Commission filing. Private-equity firms spent some $907 billion buying companies last year, compared to $536 billion in 2005 and $298 billion in 2004. The top tier of private equity firms includes KKR, Blackstone, Bain Capital, Texas Pacific and the Carlyle Group, among others.

Private-equity funds, and some hedge funds, buy companies, taking either controlling stakes or buying companies outright. These funds have become major employers, owning a surprising number of "brand-name" companies. For example, Carlyle, which has some $56 billion under management, owns 185 companies which employ over 200,000 people. In Britain, according to press reports, an astonishing one in every five workers in the private sector is employed by companies owned by private-equity funds.

The funds' share of ownership is increasing with their size, as well. Blackstone's $39 billion takeover of Equity Office Properties was the largest deal ever, until a group led by KKR offered $45 billion for the Texas electric utility TXU. People are already taking bets on who will do the first $100 billion deal.

Fund managers are hardly industrialists, and buying companies is merely a way to make money. They buy a public company, take it private, restructure it, and then flip it, selling it to another fund or taking it public again. They use a combination of their investors' money and short-term bank loans to buy a company, then they load the company up with debt, recouping their "investment," and then making a killing when they flip it. The companies are left to pay off the debts, which they do by slashing payrolls and raising prices. The funds, their investors, and the banks make a killing, and the public gets killed. It's a sweet deal, if you don't mind being a roach.

The hedge funds are also being used to ram through consolidation in the financial system, to create ever larger and more global banks. A British fund called The Children's Fund helped pave the way for the merger talks between Barclays Bank and ABN Amro by taking a stake in the Dutch bank and demanding that it put itself up for sale.

It is time to shut these funds down, before they do any more damage. More regulation isn't enough—they must be outlawed. Stop them before they kill again.