

EXHIBIT 6



MAGAZINE

Q & A

'The Investment Firms Leave Behind a Barren Wasteland'

A journalism professor blames Wall Street for the newspaper industry's collapse.



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By JACK SHAFER
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Jack Shafer is POLITICO's senior media writer. He has written commentary about the media industry and politics for decades and was previously a columnist for Reuters and Slate.

The great American newspaper ain't what it used to be. At practically every newspaper in the country except for a fortunate few, hard times have reduced page count, eliminated news beats and resulted in the layoffs of thousands of journalists.

The hardest hit, Margot Susca reports in her new book, *Hedged: How Private Investment Funds Helped Destroy American Newspapers and Undermine Democracy*, have been the chain newspapers — Gannett, GateHouse, Lee Enterprises, et al. — purchased and squeezed by private equity firms like Alden Global Capital. Nationwide, the [percentage of newspapers](#) owned by private equity rose from 5 percent in 2001 to 23 percent in 2019; they include such storied titles as the *Chicago Tribune*, the *Orange County Register* and *USA Today*, as well as scores of [smaller papers](#). Some papers have been reduced to zombie versions of their former selves as the new owners have shaved them down to minimize costs, depriving readers of the comprehensive coverage they enjoyed in the golden age of newspapers.

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Susca, an American University professor of journalism and a former newspaper journalist, writes that these new owners have turned their backs on what she thinks is the true purpose of newspapers — to serve democracy — in their pursuit of greed. For a taste of the book, see this [excerpt in Neiman Reports](#).

As someone who's covered the [industry's growing travails](#) for some time, you can detect a bit of skepticism from my questions. Is Wall Street really to blame for the fall of newspapers? By the end of our conversation, she was asking me, "Did you just brush up on your Milton Friedman?"

This interview was conducted in person and via email and has been edited for length and clarity.

Without using the dust jacket, give us the dust jacket pitch for *Hedged*.

The book investigates the last 20 years of ownership and investment in the American chain newspaper industry. Through entities like hedge funds and private equity firms, this investor class continues to dismantle the one institution meant to give voice to average citizens in our democracy. I ultimately reveal an industry rocked less by external forces like lost ad revenue and more by ownership and management obsessed with profit and beholden to private fund interests that feel no responsibility toward journalism or the public it is meant to serve.

How and why did newspapers become distressed properties?

Newspaper executives pressured by private equity investors chose mergers and acquisitions as the strategy to face the digital future. It stacked debt as advertising losses also mounted. But before and after the recession, investment firms and the private equity divisions of Wall Street banks created conditions that left newspaper chains hamstrung and in debt for billions of dollars after a wave of acquisitions and consolidations. Different private firms then profited off newspaper bankruptcies or debt financing.

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What encouraged the private equity firms to acquire distressed newspaper chains? Why didn't the equity crowd buy and strip newspapers before the mid-2000s financial crisis?

In the 1990s, newspaper stocks were the golden goose of any portfolio. Newspapers were steadily profitable earning margins of up to 30 percent. Why fix what isn't broken? But that also hurt innovation, as those who could read the tea leaves wanted investment but were thwarted by those who wanted to stay sailing those calm seas. A former editor from the *St. Louis Post-Dispatch* told me that in 2003, he went to editors at a time they were earning 25 percent profit margins and said they would need to cut into that profit to dedicate a team to the digital transition. They refused.

This period is what UMass scholar Gerald Epstein calls "financialization," alongside the rise of the hedge fund and private equity class. Consider between 2006 and 2016, investment in the hedge fund industry globally skyrocketed from \$1 trillion to \$5 trillion.

If newspapers are as commercially viable as you seem to imply, why haven't we seen moves by investors to preserve and improve them?

I hope you didn't come away from the book thinking my core takeaway is that newspapers are in great financial shape. The point of the book is that if private

investment funds kept their paws off these papers, our local newspaper ecosystem would be better off. In 2021, the U.S. newspaper industry generated \$20.9 billion in revenue with profit margins just below 4 percent. That's down from its wonder years, but it's hardly a knockout.

We *have* seen moves to protect newspapers, but this investor class is not the group taking the initiative. Advocates, philanthropists, and researchers are working diligently to find solutions and new business models to preserve newspapers, understanding after this period of overharvesting how damaging this investor class has been to the chain newspaper marketplace. The *Portland Press Herald* has just been purchased by the Maine Trust for Local News, an offshoot of the nonprofit National Trust for Local News. Almost a year before, the [Chicago Sun-Times newspaper](#) switched to nonprofit status and became a subsidiary of Chicago Public Media. The *Salt Lake Tribune* was a trailblazer when it switched to [nonprofit status in October 2019](#). We have the *Philadelphia Inquirer* and the [Lenfest Institute](#). None of these initiatives were made possible because a group of Wall Street investors sat around a boardroom table before dinner at Cipriani and said, "Let's create better local journalism."

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Non-private equity firms like Newhouse have made similar cuts in their newspapers. Does that indicate that private equity isn't that much of an outlier?

Calling private equity an outlier oversimplifies the role both private equity and hedge funds have played in the chain newspaper market over the last two decades, and it plays into the same tired conventional wisdom that ad losses alone are responsible for all of the newspaper industry's problems. I also think it lets private investment funds off the hook for the severe damage they have done to the local newspaper marketplace.

Private equity investors in the early to mid-2000s pressured newspaper managers at publicly traded chains, including Tribune, Journal Register and Knight Ridder, to make disastrous decisions. Rather than choosing innovation

or investing in digital or even trying to compete head on with Craigslist, newspaper chains chose mergers and acquisitions as a strategy to stave off revenue losses. As the ad losses mounted and the Great Recession hit, servicing the debt from those mergers and acquisitions was like taking a sprinkler to a raging wildfire. Then, hedge funds that specialize in distressed debt or in financing targeted the newspaper chains that were forced to declare bankruptcy. Alden Global Capital stayed on as an owner. Alden owns two chains, MediaNews Group and Tribune, which spiraled after its 2008 bankruptcy after just a year of ownership from private equity billionaire Sam Zell. Cerberus and Apollo are in the market as lenders. Chatham Asset Management bought the McClatchy chain in 2020.

Explain the concept of “overharvesting” by the equity owners of chains that you describe in your book.

Overharvesting is my tinkering with harvesting, which is a term coined by the late data journalism pioneer [Phil Meyer](#). Overharvesting suggests that a news organization or newspaper chain exists solely to maximize shareholder profits or line private investment funds’ pockets rather than to keep citizens informed, and in the process of reaping the profits, the investment firms leave behind a barren wasteland. I certainly recognize that profit has been part of American newspapers as long as we’ve been a country, but profit in the name of democracy looks much different than profit made in spite of it.

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Is the private equity purchase of newspaper chains the cause of their ruination or the effect?

Private investment funds are directly responsible for major problems at the newspaper chains I studied for the book. That includes GateHouse, Gannett, Journal Register, Knight Ridder, McClatchy, MediaNews Group and Tribune. These funds played different roles in these chains, but the roles they played when taken together over a 20-year period proved disastrous. Private investment firms have exerted various levels of influence over corporate newspaper firms as institutional investors or managers or as part of other

complex financing and debt restructuring after blockbuster mergers and acquisitions.

Conventional wisdom notes basically a two-step process as it relates to newspapers. There was a loss of internet advertising, and then newspapers fell apart. What I did with my research was use 20 years of SEC records and bankruptcy documents to map more about what was happening in the boardrooms, calling the shots before, during and after that loss of advertising revenue crunch hit the newspaper industry. It was a relatively unknown part of the equation, and it is crucial to understand how these firms' business practices played a role.

New York City private equity powerhouse Fortress Investment Group was the longtime owner and major shareholder of GateHouse, which was, for a time, America's largest chain. In 2019, GateHouse merged with Gannett. Despite its failed innovations, Fortress in 2020 [took from Gannett \\$1 million in dividends plus a one-time payment of \\$30.4 million](#). Gannett CEO Michael Reed, a former GateHouse executive, in 2022 claimed the business was so bad that hundreds of reporters who covered community news needed to be let go. The year before, [Reed earned \\$7.7 million](#) in compensation, which was a direct pat-on-the-back from Gannett's board. Those fees and executives' payouts are signs of a failed system that is tainted by the ultrawealthy that uses layoffs as the ball in its pinball machine.

Investors have started treating most newspapers like they were houses built on the Cape Hatteras beach, doomed to be worth zero as market forces (like a hurricane) drove their value down. Operating from such a playbook, isn't it rational to extract as much value out of the property as possible, making only minimal investments until the disaster finally arrives?

Did you just brush up on your Milton Friedman? I think like a scholar and practitioner of journalism and democracy, not a peddler of stocks and bonds, because once we view constitutionally protected news organizations like any other widget in a capitalist economy, then our democracy is doomed. But look around, we're already feeling the effects of that extraction as the investor class gets richer and misinformation spreads like a virus in the void left by a weakened local newspaper system.

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The Secretive Industry Devouring the U.S. Economy

Private equity has made one-fifth of the market effectively invisible to investors, the media, and regulators.

By Rogé Karma



Illustration by The Atlantic. Sources: Shutterstock; Getty.

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THE PUBLICLY TRADED COMPANY is disappearing. In 1996, about 8,000 firms were listed in the U.S. stock market. Since then, the national economy has grown by nearly \$20 trillion. The population has increased by 70 million people. And yet, today, the number of American public companies stands at fewer than 4,000. How can that be?

One answer is that the private-equity industry is devouring them. When a private-equity fund buys a publicly traded company, it takes the company private—hence the name. (If the company has not yet gone public, the acquisition keeps that from happening.) This gives the fund total control, which in theory allows it to find ways to boost profits so that it can sell the company for a big payday a few years later. In practice, going private can have more troubling consequences. The thing about public companies is that they're, well, public. By law, they have to disclose information about their finances, operations, business risks, and legal liabilities. Taking a company private exempts it from those requirements.

That may not have been such a big deal when private equity was a niche industry. Today, however, it's anything but. In 2000, private-equity firms managed about 4 percent of total U.S. corporate equity. By 2021, that number was closer to 20 percent. In other words, private equity has been growing nearly five times faster than the U.S. economy as a whole.

James Surowiecki: The method in the market's madness

Elisabeth de Fontenay, a law professor at Duke University who studies corporate finance, told me that if current trends continue, “we could end up with a completely opaque economy.”

This should alarm you even if you’ve never bought a stock in your life. One-fifth of the market has been made effectively invisible to investors, the media, and regulators. Information as basic as who actually owns a company, how it makes its money, or whether it is profitable is “disappearing indefinitely into private equity darkness,” as the Harvard Law professor John Coates writes in his book *The Problem of Twelve*. This is not a recipe for corporate responsibility or economic stability. A private economy is one in which companies can more easily get away with wrongdoing and an economic crisis can take everyone by surprise. And to a startling degree, a private economy is what we already have.

AMERICA LEARNED the hard way what happens when corporations operate in the dark. Before the Great Depression, the whole U.S. economy functioned sort of like the crypto market in 2021. Companies could raise however much money they wanted from whomever they wanted. They could claim almost anything about their finances or business model. Investors often had no good way of knowing whether they were being defrauded, let alone whether to expect a good return.

Then came the worst economic crisis in U.S. history. From October to December of 1929, the stock market lost 50 percent of its value, with more losses to come. Thousands of banks collapsed, wiping out the savings of millions of Americans. Unemployment spiked to 25 percent. The Great Depression generated a crisis of confidence for American capitalism. Public hearings revealed just how rampant corporate fraud had become before the crash. In response, Congress passed the Securities Act of 1933 and the Securities Exchange Act of 1934. These laws launched a regime of “full and fair disclosure” and created a new government agency, the Securities and Exchange Commission, to enforce it. Now if companies wanted to raise money from the public, they would have to disclose a wide array of information to the public. This would include basic details about the company’s operations and finances, plus a comprehensive list of major risks facing the company, plans for

complying with current and future regulations, and documentation of outstanding legal liabilities. All of these disclosures would be reviewed for accuracy by the SEC.

This regime created a new social contract for American capitalism: scale in exchange for transparency. Private companies were limited to 100 investors, putting a hard limit on how quickly they could grow. Any business that wanted to raise serious capital from the public had to submit itself to the new reporting laws. Over the next half century, this disclosure regime would underwrite the longest period of economic growth and prosperity in U.S. history. But it didn't last. Beginning in the "Greed Is Good" 1980s, a wave of deregulatory reforms made it easier for private companies to raise capital. Most important was the National Securities Markets

Improvement Act of 1996, which allowed private funds to raise an unlimited amount of money from an unlimited number of institutional investors. The law created a loophole that effectively broke the scale-for-transparency bargain. Tellingly, 1997 was the year the number of public companies in America peaked.

From the November 2018 issue: The death of the IPO

"Suddenly, private companies could raise all the money they want without even thinking about an IPO," De Fontenay said. "That completely undermined the incentives companies had to go public." Indeed, from 1980 to 2000, an average of 310 companies went public every year; from 2001 to 2022, only 118 did. The number briefly shot up during the coronavirus pandemic but has since fallen. (Over

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the same time period, the rate of mergers and acquisitions soared, which also helps explain the decline in public companies.)

Meanwhile, private equity has matured into a multitrillion-dollar industry, devoted to making short-term profits from highly leveraged transactions, operating with almost no regulatory or public scrutiny. Not all private-equity deals end in calamity, of course, and not all public companies are paragons of civic virtue. But the secrecy in which private-equity firms operate emboldens them to act more recklessly—and makes it much harder to hold them accountable when they do. Private-equity investment in nursing homes, to take just one example, has grown from about \$5 billion at the turn of the century to more than \$100 billion today. The results have not been pretty. The industry seems to have recognized that it could improve profit margins by cutting back on staffing while relying more on psychoactive medication. Stories abound of patients being rushed to the hospital after being overprescribed opioids, of bedside call buttons so poorly attended that residents suffer in silence while waiting for help, of nurses being pressured to work while sick with COVID. A 2021 study concluded that private-equity ownership was associated with about 22,500 premature nursing-home deaths from 2005 to 2017—*before* the wave of death and misery wrought by the pandemic.

Eventually, the public got wind of what was happening. The pandemic death count focused attention on the industry. Journalists and watchdog groups exposed the worst of the behaviors. Policy makers and regulators, at long last, began to take action. But by then, much of the damage had been done. “If we had some form of disclosure, we probably would have seen regulatory action a decade earlier,” Coates told me. “But instead, we’ve had 10-plus years of experimentation and abuse without anyone knowing.”

Something similar could be said about any number of industries, including higher education, newspapers, retail, and grocery stores. Across the economy, private-equity firms are known for laying off workers, evading regulations, reducing the quality of services, and bankrupting companies while ensuring that their own partners are paid handsomely. The veil of secrecy makes all of this easier to execute and harder to stop.

Private-equity funds dispute much of the criticism of the industry. They argue that the horror stories are exaggerated and that a handful of problematic firms shouldn't tarnish the rest of the industry, which is doing great work. Freed from onerous disclosure requirements, they claim, private companies can build more dynamic, flexible businesses that generate greater returns for shareholders. But the lack of public information makes verifying these claims difficult. Most careful academic studies find that although private-equity funds slightly outperformed the stock market on average prior to the early 2000s, they no longer do so. When you take into account their high fees, they appear to be a worse investment than a simple index fund.

“These companies basically get to write their own stories,” says Alyssa Giachino, the research director at the Private Equity Stakeholder Project. “They produce their own reports. They come up with their own numbers. And there's no one making sure they are telling the truth.”

IN THE ROARING '20S, the lack of corporate disclosure allowed a massive financial crisis to build up without anyone noticing. A century later, the growth of a new shadow economy could pose similar risks.

The hallmark of a private-equity deal is the so-called leveraged buyout. Funds take on massive amounts of debt to buy companies, with the goal of reselling in a few years at a profit. If all of that debt becomes hard to pay back—because of, say, an economic downturn or rising interest rates—a wave of defaults could ripple through the financial system. In fact, this has happened before: The original leveraged buyout mania of the 1980s helped spark the 1989 stock-market crash. Since then, private equity has grown into a \$12 trillion industry and has begun raising much of its money from unregulated, nonbank lenders, many of which are owned by the same private-equity funds taking out loans in the first place.

Meanwhile, interest rates have reached a 20-year high, posing a direct threat to private equity's debt-heavy business model. In response, many private-equity funds have migrated toward even riskier forms of backroom financing. Many of these involve taking on even more debt on the assumption that market conditions will soon

improve enough to restore profitability. If that doesn't happen—and many of these big deals fail—the implications could be massive.

Joe Nocera and Bethany McLean: What financial engineering does to hospitals

The industry counters that private markets are a better place for risky deals precisely because they have fewer ties to the real economy. A traditional bank has a bunch of ordinary depositors, whereas if a private-equity firm goes bust, the losers are institutional investors: pension funds, university endowments, wealthy fund managers. Bad, but not catastrophic. The problem, once again, is that no one knows how true that story is. Banks have to disclose information to regulators about how much they're lending, how much capital they're holding, and how their loans are performing. Private lenders sidestep all of that, meaning that regulators can't know what risks exist in the system or how tied they are to the real economy.

“Everything could be just fine,” says Ana Arsov, a managing director at Moody's Investors Service who leads research on private lending. “But the point is that we don't have the information we need to assess risk. Who is making these loans? How big are they? What are the terms? We just don't know. So the worry is that the leverage in the system might grow and grow and grow without anyone noticing. And we really don't know what the effects could be if something goes wrong.”

The government appears to be at least somewhat aware of this problem. In August, the SEC proposed a new rule requiring private-equity fund advisers to give more information to their investors. That's better than nothing, but it hardly addresses the bad behavior or systemic risk. Nearly a century ago, Congress concluded that the nation's economic system could not survive as long as its most powerful companies were left to operate in the shadows. It took the worst economic cataclysm in American history to learn that lesson. The question now is what it will take to learn it again.

This article originally stated that Ana Arsov works for Moody's Analytics. In fact, she works for Moody's Investors Service.

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The long read

Slash and burn: is private equity out of control?

From football clubs to water companies, music catalogues to care homes, private equity has infiltrated almost every facet of modern life in its endless search to maximise profits

By [Alex Blasdel](#)

Illustration: Pig Meat/The Guardian

Thu 10 Oct 2024 00.00 EDT

Whenever I ponder the enormity of the multitrillion-dollar industry known as private equity, I picture the lavish parties thrown by Stephen Schwarzman - and then I think of the root canals. Schwarzman is the billionaire impresario of Blackstone, the world's most colossal private equity firm. In August, he hosted a 200-person housewarming party at his \$27m (£21m) French neoclassical mansion in Newport, Rhode Island. It was a modest affair compared to the grand soiree he threw himself at his Palm Beach, Florida, estate for his 70th birthday, in 2017. That black-tie bash was itself a sequel to his multimillion-dollar 60th, in 2007, which became a symbol of the sort of Wall Street excess that led to the global financial crisis. The Palm Beach party, which some reports say **cost more than \$10m**, featured Venetian gondolas, Arabian camels, Mongolian acrobats and a giant cake in the shape of a Chinese temple. "Brilliantly stimulating" was the billionaire industrialist [David Koch's review](#). Gwen Stefani serenaded Schwarzman as Jared Kushner, Ivanka Trump and several members of her father's cabinet looked on. It was a world in miniature, ruled over by a modern Croesus - the perfect symbol for a form of money-making that has infiltrated almost every facet of modern life.

Preschools and funeral homes, car washes and copper mines, dermatologists and datacentres - private equity is anywhere and everywhere that money changes hands. If it can in any way be marketed or monetised, private equity firms have bought it - from [municipal water supplies](#) to [European football clubs](#) to the music catalogue of the rock group [Queen](#). By some estimates, these firms now control more than \$13tn invested in more than 50,000 companies worldwide. "We cannot overestimate the reach of private equity across the global economy," Sachin Khajuria, a former partner at Apollo Global Management, which manages half a trillion dollars in assets, wrote in 2022.

It's not just that hundreds of millions of us interact with at least one private equity-owned business every day. More and more people, especially the relatively poor, may live almost their entire lives in systems owned by one or another private equity firm: financiers are their landlords, their electricity providers, their ride to work, their employers, their doctors, their debt collectors. Private equity firms and related asset managers "increasingly own

the physical as well as financial world around us,” the scholar Brett Christophers **writes**. “All of our lives are now part of their investment portfolios.” This is true not only in the US, where private equity has been on a spree since the late 1970s, but increasingly in the rest of the world, too. In recent years, private equity firms have spent hundreds of billions of dollars snaffling up businesses from Canada to Cambodia, Australia to the UK.

As private equity has spread, so have dire warnings about its effects. The **vultures** and **vampires** of the industry have been decried **almost everywhere** in the media that isn’t **already owned by private equity**. In the span of a single week last year, two major and almost identically titled books were published in the US - Plunder: Private Equity’s Plan to Pillage America and These Are the Plunderers: How Private Equity Runs - and Wrecks - America. Private equity is “greed wrapped in the American flag of efficiency, looting justified by solid investment returns”, the authors of Plunderers write. “The marauders answer to almost no one.”

This is where the baby root canals come in, as a grotesque epitome of the industry’s modus operandi. According to multiple media investigations and a US Senate inquiry, in order to **drive up profits**, private equity-controlled dental chains have induced children to undergo **multiple unnecessary root canals**. “I have watched them drilling perfectly healthy teeth multiple times a day every day,” a dental assistant in a private equity-owned practice told reporters. One child **even died as a result**. To its many critics, private equity is a shining example of “asshole capitalism”, but baby root canals make one feel even that label is a touch too kind.

Unsurprisingly, practitioners of private equity see their industry differently. Yes, they admit, there have been a few bad actors, and yes, a handful of bad deals, but by and large private equity firms are not full of profiteering sociopaths merrily making the world a crappier place. Rather, they’re the necessary fertilisers of growth and innovation, using their superior talents to rid companies of bad management, rejuvenate sluggish businesses and grow the economic pie so we can all continue to enjoy the relative prosperity of our developed societies. It’s just capitalism doing what capitalism does best. They call it “value creation”.



Stephen Schwarzman, the Blackstone Group CEO in 2014. Photograph: Richard Drew/AP

What's more, they say they're providing amazing returns to their investors, who might well include you, dear reader, if you happen to have a pension. "Hopefully we can get the news out there that, actually, private equity's been a great thing for America," Stephen Pagliuca, the billionaire co-chairman of Bain Capital, said at [Davos in 2020](#). David Rubenstein, the billionaire founder of the Carlyle Group, another of the world's largest private equity firms, goes further. "Private equity," he [likes to say](#), "is the highest calling of mankind."

Whatever good or ill there is in private equity is not just about greedy sinners or enterprising saints. Whether acquiring a bakery that makes chocolate chip cookies or the nursing home where your grandmother is living out her days, private equity relies on the same basic business model: the leveraged buyout. These transactions - which account for roughly three out of every four dollars of all private equity deals - are frequently compared to house flipping: you buy a business using a ton of debt, or leverage, the way you buy a house with a mortgage; then you try to sell it for a tidy profit after you replace the carpets (or, better still, the market goes up). Unlike buying a house, however, the debt isn't the responsibility of the buyer; it sits on the balance sheet of the

acquired company. As strange as it sounds, it's sort of like the company is forced to take out a loan to buy itself.

"Private equity creates value by growing great companies," [Pagliuca has said](#), offering a picture of the industry as a green-thumbed gardener turning mere seedlings into fruit-bearing trees. But over the past several months, as I combed through the recent trove of books on private equity, trawled through the memoirs of industry titans such as Schwarzman and Guy Hands, spoke with people who have worked inside Wall Street and City firms and interviewed scholars who study this species of finance, I came to see private equity in more virological terms, like a pandemic.

A coronavirus replicates by injecting its RNA into the cells of a target organism. Once inside, the RNA hijacks its host's resources to build more copies of the virus, weakening and sometimes destroying the host in the process. Private equity's business model is similar. A private equity firm pools cash from investors, then uses those funds, along with an extraordinary amount of money borrowed from other sources (the "leverage"), to take over a target company. Having acquired its target, a private equity firm may fire the management team, install new executives and decimate the workforce, or move it offshore. It can also liquidate the company's own assets to pay back investors and line the pockets of the firm's partners before selling the company to a new set of investors, a tactic sometimes known as a "buy, strip and flip".

Even when a private equity takeover tries to turn a target company into a more valuable enterprise, the logic is still viral: private equity exists to replicate and enlarge itself, not to build anything in particular. "Attention is not directed towards the common wealth, but enriching the management, buyout partners and their institutional backers," Luke Johnson, the cofounder of British private equity firm Risk Capital Partners, [wrote in 2012](#). "That is the nature of the game. To argue otherwise is bogus."

Private equity's patient zero was arguably Houdaille Industries, the takeover of which set the pattern for the rest of industry. A thriving manufacturing conglomerate, Houdaille was acquired in 1979 by a firm called Kohlberg Kravis Roberts & Co, or KKR. To do the deal, KKR saddled the maker of auto parts, industrial tools and construction supplies with more than \$300m in debt. It was by several multiples the largest leveraged buyout in history up to that point, and the first of a major public company. "You can't have a trace of sentimentality," Bryan Burrough, the co-author of *Barbarians at the Gate*, about KKR's subsequent takeover of the tobacco and food giant RJR Nabisco, [has said of private equity](#). "You have to be able to slash and burn."

KKR soon shifted Houdaille's focus from making high-end products to generating cash to pay the firm's partners and investors. Within a couple of years, the company's reputation for quality had **eroded**. The combination of debt and deteriorating reputation meant Houdaille was not resilient enough to survive the recession that hit in 1981 and a steady onslaught of Japanese competitors. To continue extracting money from the company, KKR carved it up and laid off more than 2,000 workers. In 1987, the private equity firm sold the remains of the manufacturer for less than a third of what it had paid.

The truly remarkable thing was that, despite buying Houdaille with hundreds of millions of dollars of debt, KKR was able to use various financial engineering strategies to reap almost the entire proceeds from the sale for itself and its investors. From the point of view of the firm and the rest of Wall Street, the hollowing out of Houdaille was a roaring success. Schwarzman called it "the Rosetta Stone" of deals.

In the annals of private equity, there are now many familiar horror stories. Firms have snatched up popular retailers, then **gutted and destroyed** them, along with the livelihoods of hundreds of thousands of working-class people. Private equity-owned nursing homes have been stripped of resources and staff, abandoning elderly residents to **sit in their own excrement**. A Blackstone-owned company that cleans abattoirs across the US has been fined for employing **more than 100 children**. Some of the most heinous accounts have come from private equity-owned treatment centres for young people with behavioural problems, where children have been **physically abused, raped and killed**. These cases are extreme, but they are not isolated. When it comes to private equity, you don't need to cherry-pick the horror stories - you have to wade through them.

It's true that all sorts of companies mistreat workers, fleece customers and put profit above people, but the deluge of private equity heinousness is not just plain old capitalism run amok. According to its critics, the industry's business model is what makes it particularly ruinous. Financing buyouts with huge amounts of debt not only leaves acquired companies far less able to weather downturns but also incentivises firms to prioritise paying back creditors over more useful long-term investments. "The predatory practices of private equity exacerbate inequality and eviscerate our economy by taking money from productive businesses" - retailers, hospital chains, manufacturing companies - "and giving it to largely unproductive ones," Brendan Ballou, a US Department of Justice antitrust lawyer, writes in *Plunder*. Chief among these largely unproductive businesses are private

equity firms themselves. Worse still, the private equity owners can make ludicrous amounts of money whether or not the companies themselves succeed - a decoupling of financial and commercial success that makes a mockery of the basic premise of capitalism.

In the years since the Houdaille deal, private equity firms - they like to call themselves “shops”, as if they machined little widgets or sold soda pop - have conjured up all kinds of techniques for extracting returns from target companies. Among the most common and innocuous-sounding are “management fees”, which can be charged to target companies by their private equity owners for a whole range of not particularly beneficial services. For example, KKR, Bain Capital and another private equity firm extracted **more than \$470m** in fees from Toys R Us between 2005, when they bought the retailer, and 2018, when they drove it into bankruptcy. Using another common tactic called a “sale-leaseback agreement”, private equity firms pocket the proceeds from forcing companies to sell off their real estate assets, which the companies are then required to rent back.



Customers leaving a Toys R Us store in March 2018 in Emeryville, California. The company filed for liquidation that month, leading to 33,000 people in the US losing their jobs. Photograph: Justin Sullivan/Getty Images

The use of significant debt and sale-leasebacks is not unheard of outside private equity, but the industry has also created more lethal ways of sluicing profits out of once-healthy businesses. In a practice called “dividend recapitalisation”, private equity firms load companies with round after round of debt with the sole purpose of financing payouts to themselves and

their investors, a form of capitalism so distasteful that even some private equity shops refuse to practise it. The billion-dollar dividend that Clayton, Dubilier & Rice, one of the world's oldest private equity firms, **extracted from Hertz**, for example, was one of the debts that contributed to the rental car company's eventual bankruptcy.

Private equity takeovers have been blamed for the terminal declines of dozens of well-known businesses, and the associated job losses, including J Crew, Kmart, Sears and BHS. According to one **frequently cited analysis**, one in five private equity-owned companies go bankrupt within 10 years of acquisition - a rate 10 times higher than that of publicly owned companies. And it's not because private equity tends to target companies that are already weak; often these businesses were thriving before being consumed. ("No one wants to buy a company that is shrinking," Pagliuca has said.)

Ultimately, making companies more "efficient" often means little more than raising prices and lowering quality. In his book *Plunder*, Ballou focuses on the example of US trailer parks, which major private equity firms have been amassing with the avidity of an eight-year-old playing Monopoly. Once they own these low-income residential communities, the firms jack up ground rents, transfer utility costs to residents and **cut back** on maintaining vital infrastructure **such as sewers**.

Private equity firms have learned that if they want to charge more for less, it's smart business to target poor and vulnerable people, who can't afford to just up sticks and move. Residents of trailer parks and nursing homes fit the bill nicely. So do people in jail, where private equity firms like HIG Capital own the companies that provide **mouldy meals** and deliver **substandard healthcare**. Best of all, these vulnerable people are the least likely to be able to fight back. And if that doesn't sound fair? As Khajuria, the former Apollo partner, has written: "Success, defined as making money on deals, always comes first."

If you want to know how the practitioners of private equity see themselves, it's edifying to spend a few hours on the message boards of Wall Street Oasis, an online community for the finance industry. On a recent Sunday, one of the **trending discussion threads** was titled "How Do You Live With Yourself?"

The replies were a revealing mix of industry talking points, law-of-the-jungle ideology, evanescent soul-searching and unvarnished honesty. Many respondents claimed that private equity's rapacious image is a hangover

from earlier decades; others admitted that loading businesses with debt was often catastrophic. “That unfortunately is inherent in the business model,” a managing director at a buyout shop said. A few embraced the stereotype. “I’m a strong free-market believer, so in the cases where jobs are cut ... the strongest players and hardest workers survive,” a principal in a software-focused private equity firm argued. “I disagree,” another asset manager countered. “I find these [layoffs] some of the most soul-crushing decisions to make.” But he apparently makes them anyway. A vice-president in a firm that specialises in leveraged buyouts offered one of the most popular answers: “How do I live with myself? In a big house in the suburbs, with my wife and kids.”

For many leaders in the industry, it is not enough to make a lot of money. They must be lauded for it. “Traditionally, we are taught to judge the success of a society by how it deals with the **least able, most vulnerable members** of that society,” Marc Rowan, a cofounder and now the CEO of Apollo, wrote in 2012. Endorsing the argument of a fellow financier, he proposed an alternative philosophy. “Shouldn’t we judge a society by how they treat the most successful? Do we vilify, tax, expropriate and condemn those who have succeeded, or do we celebrate economic success as the engine that propels our society toward greater collective well-being?”

Top-tier private equity firms almost exclusively recruit the top-tier talent from top-tier investment banks such as JP Morgan and Goldman Sachs. Those people are the 1% of the 1% of wealth-obsessed, hyperambitious people. As one industry insider put it to me: if you want to succeed in private equity you need to ask yourself if you are willing “to go fucking turbo”, working relentlessly day after day, week after week, in order to make more money in five to 10 years than you could have made in an entire career at almost any other job.

“As a master of private equity, you must win ... This culture - this attitude - promotes a trail of personal hunger trickling down from the Gulfstream private jets to the juniors’ bullpens.” That icky description of the ethos of private equity comes from Khajuria’s book *Two and Twenty: How the Masters of Private Equity Always Win*. Of the people who work in the industry, he writes: “They are eager to achieve life-changing money and power.”



An anti-Blackstone protest in London in 2011. Photograph: Linda Nylind/The Guardian

Khajuria's book is an astonishing document - a record of an industry populated by people so convinced of their own intelligence and enamoured of their own success that they cannot appreciate the extent to which the larger apparatuses of law and government have been tweaked to ensure they come out on top. These are people with billions of dollars of incentive to see their industry through the rosier of rose-coloured custom sunglasses.

The reality is slightly different. Take, for example, the lightly fictionalised story of "Plastix", a chemicals company that Khajuria's firm took over some time in the 00s. "Within three months, the investment has soured irretrievably," Khajuria writes. The new executives running the business on behalf of the private equity firm have "gone too hard and too fast in slashing headcount" - that is, firing workers - and the company's plants "are crippled by rolling strikes" protesting, among other things, "overly harsh severance terms" for the laid-off employees. So what does the private equity firm do? It fires even more workers, and uses some crafty financial engineering to ensure that if and when Plastix goes bankrupt, the firm and its investors will not only get their money back before anybody else but still be in a position to sell off the company's assets and make double what they put into the deal in the first place. It's failing upward gone "fucking turbo".

According to Khajuria's account, the deal was rescued through savvy and doggedness. There's zero consideration of how a decades-long campaign to

weaken labour protections and implement friendly regulation and bankruptcy laws created the conditions in which private equity could succeed by running a business into the ground and firing a huge chunk of its workforce. “The masters of private equity move deftly,” Khajuria writes.

In virology there is often a trade-off between virulence and transmissibility. A pathogen that tends to kill its hosts too quickly and too reliably has fewer opportunities to spread: the host is confined to their bed, and then their grave, before they can sneeze on fellow commuters. Sometimes, variants that are less deadly can exist alongside, or even outcompete, their more aggressive cousins.

Something similar is often said to have happened among the strains of private equity, particularly in the new millennium. After the leveraged-buyout bloodbath of the 80s and 90s subsided, there thrived more benign mutations that looked to make money not by stripping a company of its assets but by increasing its profitability and selling it on.

This was especially practicable in small and medium-sized private companies that were still owned or operated by the founders or their families. In such cases, private equity firms could help them grow by installing top-flight management teams or by merging them with similar companies. Once the businesses were scaled up, they could be sold to other investors or taken public for a healthy profit.

The scholars Eileen Appelbaum and Rosemary Batt, fierce critics of private equity’s worst practices, nevertheless **point out** that private equity firms probably saved the US steel industry from total collapse by buying up a number of mills in the early 00s. It has also **frequently been claimed** by industry spokespersons that private equity-owned businesses create more jobs than they destroy, though the academic **research paints** a much more **ambiguous picture**.

Even when private equity is good capitalism, it isn’t necessarily good for society. While family owned and local businesses were run for profit, many also had a connection to the communities in which they operated. They weren’t exactly jobs programmes, but they liked to employ local people and pay them a living wage. There was a virtuous circle in which local workers spent their money at local businesses, which hired more workers who had more money to spend in their communities, where the business owners also lived, spent money and paid taxes.

By contrast, when private equity took over, profits and tax receipts were funnelled away, wages went down and workers had less money to spend, which harmed local businesses, which could then afford to hire fewer workers. Private equity firms could do this in part because they were busy pursuing “roll-up” strategies: creating regional monopolies by buying up, say, all the nursery schools or grocery stores in a particular area. This not only gave the firms economies of scale - it’s much less expensive to do the back-office accounting and HR for a dozen gastroenterology practices together than for 12 individually - it also meant that consumers and workers didn’t have anywhere else to go.

The human genome is about 8% viral DNA, which is to say that nearly one 10th of the genetic code from which we are built consists of instructions from ancient viruses that once successfully infected and colonised our ancestors. Who we are is inextricable from some of the viruses that have infected the human lineage in the past. Similarly, private equity is now not only written into the way that the broader economy functions, or into the character of our cities and towns - it is also intimately bound up with our own financial futures. That is because many of us, whether we realise it or not, are directly or indirectly invested in private equity through our pension plans or, if we’re wealthy enough to have them, stock portfolios and mutual funds. Many governments - autocracies and democracies alike - also rely on private equity to help grow the pot of reserves in their sovereign wealth funds.

The largest investor in private equity in the world as of 2023 was the Canadian public pension system, which had a private equity exposure of nearly \$135bn. This was followed by two Singaporean state-owned investment companies, and two from Abu Dhabi. Rounding out the top 10 were public pension funds from Quebec, the Netherlands and California. “Teachers, firefighters, healthcare workers, and other employees who are part of retirement systems depend on private equity to make the math of their pensions work,” Khajuria asserts in *Two and Twenty*. The virus isn’t just consuming us - in a very real sense it *is* us.

In some parts of the world, private equity firms may do some good by investing a portion of the money of, say, California teachers, Canadian nurses and Dutch police officers in green technologies or rural hospitals or local manufacturing. But many of the investments made on behalf of pensioners operate with the same logic of the Houdaille deal. The pension funds are investing in deals that destroy companies, threaten working-class jobs and weaken communities in order to fund the pensions of other regular people.

On top of this, in the US, the UK and many other countries, private equity firms can exploit something called the “carried-interest” loophole, which means that many of their profits are taxed as capital gains or investment returns, not income. This is a boon to the owners of private equity firms because capital gains taxes are a lot lower than income taxes.

This whole crazy system has been able to hold together in part because private equity has always promised outsized returns not only to themselves but also to university endowments, pensioners and now other retirees. But in recent years, a growing number of commentators, and even insiders, have started to question whether those returns are just another form of private equity’s financial sleight of hand. What if the maths on private equity itself don’t even cash out?

Whatever else private equity is good for, it seems to be excellent at making some people fantastically rich. Typically, private equity firms make 2% of the money under management plus 20% of the profits from each fund they run. That means a \$100m fund that makes a “triple” - three times its investment - will net the private equity firm at least \$2m in fees a year and \$40m in profits. As a comparison, you can buy shares in an index fund that invests in a broad sample of publicly traded stocks and bonds for almost no management fee at all and zero profit sharing. What justifies the private equity firm’s price, its social status and its smugness is the proposition that it is able to make you a far greater return per unit of risk than almost any other investment on the planet.

But what if that’s not the case? According to [data](#) from the industry’s own lobbying group, in the decade between 2010 and 2020, private equity as an asset class only outperformed the S&P 500, a basket of some of the largest stocks in the US, by half a percentage point annually, and public pension funds’ private equity investments did even worse than the benchmark. Although the strip-and-flip days of the late 80s and early 90s did produce massive returns on average, that performance hasn’t been matched for roughly 20 years.

“The emperor has no clothes,” Jeffrey Hooke told me. Hooke is a senior lecturer at the Carey school of business at Johns Hopkins University and the author of *The Myth of Private Equity*. Before he became a professor, Hooke worked for decades on Wall Street and in the private equity industry.

“There’s no independent verification of private equity’s returns, and there’s

no scientific basis that private equity beats a simple index fund of stocks and bonds. These guys do not provide returns, they're totally unregulated, they hide their fees, and they've mastered the art of keeping their taxes low and pulling the wool over everybody's eyes."



David Rubenstein, co-founder and co-chair of private equity firm The Carlyle Group at Davos earlier this year. Photograph: Markus Schreiber/AP

One of the problems Hooke points to is the opacity of the industry. The best databases tracking the industry only contain about 60% of private equity funds. What's in the other 40% remains open to speculation, but it's probably safe to assume it's not the amazing investments that would make the industry look even more stellar than it already claims. It seems likelier to be the "dogs" and "doughnuts" - the failed investments and poorly performing funds - that drag overall returns down.

What's more, a lot of the "value" that private equity firms report in their funds simply comes from their hand-on-heart, honest-to-goodness estimates of the price they could get from the unsold companies in their portfolios. But these are precisely the companies that firms haven't been able to get rid of at sufficiently high valuations. In fact, as Hooke points out in *The Myth of Private Equity*, more than half of all private equity investments over the past 15 years have not been exited and therefore have not realised their actual returns. In May, a [Financial Times analysis](#) showed that over the previous six years, private equity had hoovered up from investors \$1.5tn more than it had paid back - a worrying sign that there may not be enough returns to go around.

The arguments around private equity **returns are complicated**, but there seems to be **an emerging consensus** among **scholars that private equity** is at best neutral when compared to other investments and possibly negative. And it's not just academics and the financial press that are worried about the state of the industry. On the same day that the "How Do You Live With Yourself?" thread was trending on Wall Street Oasis, the other most popular thread was "Which Funds Are Ticking Time Bombs?"

Even the firms that do have top-performing funds are subject to the inalienable law of Wall Street: past performance is no guarantee of future results. Rather than picking private equity funds based on their historical record, investors "could have earned more money by throwing darts blindfolded at a list of buyout managers", Hooke writes. Even in the good times, most private equity returns come not from making companies more efficient but because the market as a whole **goes up**.

If all of this is the case, it radically undermines one of the putative moral pillars of private equity's existence - the argument that it is necessary to secure the retirements of millions of ordinary workers. If the net returns are effectively the same as, or even worse than, a traditional 60/40 portfolio of stocks and bonds, then there is no social value at all to offset the damage that private equity has done to lives around the world. It is simply a cynical means for the affluent to transfer ever more wealth from the rest of society to themselves.

So why does this massive wealth transfer from society to private equity persist? A handful of politicians, scholars and civil society groups have been pushing governments to develop ways to inoculate society against private equity's worst effects. Among the many medicines prescribed are ending preferential tax treatments and holding private equity firms liable for their portfolio companies' debts.

But, as ever, the playing field is tilted in private equity's favour. Dozens of politicians, civil servants and public administrators in the US, the UK and other countries have gone on to work or consult for private equity firms. Georges Bush senior and junior both had roles within David Rubenstein's Carlyle Group or its portfolio companies. Obama's treasury secretary, Timothy Geithner, is the chairman and president of Warburg Pincus. For his services as an "advisory director", Richard Fuller, the Tories' interim chairman, has been paid **at least £300,000** by the Bahrain-based private equity firm Investcorp. "On both sides of the Atlantic, private equity's

relationships with lawmakers haven't just been cozy, but in some cases symbiotic," the industry-focused website [PitchBook has written](#). "Many a firm's employee rosters read like a who's who of Capitol Hill and Whitehall heavyweights." Even politicians who aren't at the kissing gate with private equity still treat the industry with kid gloves because they pray it can help provide the growth their economies sorely need - witness the UK chancellor Rachel Reeves's recent climbdown - sorry, "[compromise](#)" - on closing the carried-interest loophole.

Over time, some viruses achieve such a perfect balance between virulence and transmissibility that they become ubiquitous and can basically never be eradicated. Like the common cold or seasonal flu, they cause plenty of misery but not too much death. Perhaps private equity's recent mutations are pushing it in the same direction. Many large firms have now evolved into complex organisms pursuing a range of business strategies, of which traditional leveraged buyouts are only a part. Much of Apollo's revenue, for example, now comes from the life insurance company Athene and its European counterpart, Athora. But even in these more sprawling businesses, the self-replicating logic of private equity is [still at work](#): the steady revenues of some parts of the business are underwriting the continuing risks of buyout investments.

In private equity, there is a saying that goes: "Every day you're not selling, you're buying." It means that as long as you hold on to a company or some other asset without profiting from it, you're betting on its longer term success. Behind it is a principle that is widespread on Wall Street: that there are only two sides to every trade - the winner and the loser. The same might be said about society's relationship to private equity: every day we're not regulating it, we're letting it regulate us. We're letting it take over our cells and replicate aggressively. It's clear who's on the winning side of that bargain.

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How private equity firms are widening the income gap in the U.S.

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Terry Gross

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Financial journalist Gretchen Morgenson explains how private equity firms buy out companies, then lay off employees and cut costs in order to expand profits. Her new book is *These are the Plunderers*. [Transcript](#)

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TERRY GROSS, HOST:

This is FRESH AIR. I'm Terry Gross. The place where you buy your coffee and doughnut, your child's pre-K learning center, your loved one's nursing home, your dentist or dermatologist's office, the ER and the ambulance that took you there and your pet care provider may be owned or overseen by plunderers. That's what my guest Gretchen Morgenson writes in her new book. The plunderers she's referring to are private equity firms, PEFs, which typically buy companies, then lay off employees and cut costs, services, benefits in order to expand profits. The ultimate goal is to sell off the newly acquired company in a few years, scoring a big profit for the PEF. But it's hard to know whether a company is owned by a private equity firm because PEFs are shrouded in secrecy. Their business model, Morgenson says, widens the income gap by extracting wealth from the many to enrich the few.

She's the senior financial reporter for the NBC News investigations unit. She previously was a New York Times columnist and a senior writer in the investigations unit at the Wall Street Journal. She won a Pulitzer Prize in 2002 for her reporting on Wall Street. Morgenson's new book is called "These Are the Plunderers: How Private Equity Runs - And Wrecks - America." Her co-author, Joshua Rosner, is a financial policy analyst.

Gretchen Morgenson, welcome back to FRESH AIR. It's been a while. It is a pleasure to have you back.

GRETCHEN MORGENSON: Thank you, Terry.

GROSS: So before we get to things like why so much of the health care industry is now owned by private equity firms, let's start with a little more background about how a private equity firm works. How does it make money?

MORGENSON: Private equity firms are what used to be called leveraged buyout funds and firms. You remember these maybe from the '80s and the '90s, but they changed their name. They basically buy companies, load them up with debt, and then they have to meet those debt obligations, and they strip assets. They often lay off employees to do so. They cut costs to try to improve profitability, and then they hope to sell the company to another buyer in, say, five years or so. So it's sort

of the idea of capitalism on steroids, as one of my sources told me. It's kind of an amped-up capitalism where the results, where the returns to these firms have to be immediate. And what that means is there are a lot of people on the other side of these transactions that get hurt.

GROSS: You know, so the takeover of these companies by private equity firms is often at the expense of the acquired company's health. And you say the acquired company is loaded up with debt. What does that mean? How does the acquired company get loaded up with debt? They've just been purchased.

MORGENSON: These private equity firms don't use all of their own money to buy the company outright. What they do is they have the company raise debt in the public markets. OK? So they will issue debt to cover the expense of the buyout, and so...

GROSS: In other words, to sell bonds.

MORGENSON: Correct. And so it's not like the private equity firm pays 100% of the transaction to buy the company. What they end up doing is putting down a very small amount, but raising debt on the back of that company to pay for the transaction.

GROSS: So for people who don't understand how bonds work, can you explain a little bit more...

MORGENSON: Sure.

GROSS: ...How the acquired company has bonds issued in its name and why that leads to debt?

MORGENSON: So the company issues debt - bonds, notes, any kind of fixed income - security. Institutions buy that debt. The debt usually carries a pretty hefty interest rate. And so the company who issued the debt - in this case, the taken-over company - now has an enormous debt expense. It now has to pay interest on the bonds that it issued to cover the transaction. So right away, there's an enormous cost associated with these transactions that does not necessarily harm the private equity firm. It goes directly to the bottom line of the company that they have just taken over.

GROSS: Why would a company agree to this?

MORGENSON: Oftentimes, Terry, the executives of the companies get rich when a transaction like this happens. It is often a series of transactions where the directors approve the sale because they're getting a high price for the shareholders. So there are reasons for these transactions that don't involve the workers, the pensioners, the customers. Those stakeholders in these transactions have no voice in them. And so that's where the problems begin.

GROSS: And as you point out, it's really hard to know what companies are owned by PEFs because they're shrouded in secrecy. And, you know, I should mention that the names of some of the biggest PEFs are names that most people aren't familiar with. You want to name some of them?

MORGENSON: Well, of course, we have Apollo Global Management, which was founded by Leon Black. We have the Blackstone Group, founded by Steve Schwarzman. We have the Carlyle Group, which was founded by David Rubenstein. And we have KKR, which is probably the most well known. They were the private equity firm behind the huge RJR Nabisco buyout back in the late 1980s.

GROSS: So what are some of the fields that are the biggest targets of PEFs?

MORGENSON: Private equity firms have savaged the retailing industry in recent years. You may remember the bankruptcy of Toys"R"Us. That was a perfect example. But there are many, many cases. And in this - in these kinds of transactions, what the private equity firms were after was perhaps more about the real estate under the stores than they were about the operations themselves. See, these firms always look for assets that a company owns that they can strip, that they can peel off and sell and generate revenues that way. So retailing was an enormous focus of private equity firms. And in fact, over two decades, ending in 2020, there were 542,000 jobs lost among retail workers because of private equity firms buying them.

GROSS: Health care is huge for private equity firms. How much of the health care sector is now owned by private equity firms?

MORGENSON: This, again, is one of those mysteries that are difficult to solve because we don't have ownership figures, ownership stakes. An estimate of 11% of nursing homes are owned and operated by private equity firms. And that is probably a low number, Terry, because, again, of these shrouded ownership. We have 40% of the nation's emergency departments are operated - run by private

equity firms. And by the way, these were the firms that created the surprise billing problems. You go into your emergency department, and you think it's your local hospital. You don't know.

GROSS: Yes. That's what I was going to ask. I always think it's my local hospital.

MORGENSON: And you think your insurance covers it, but it's actually possibly run by KKR or could be run by Blackstone, and it could be a situation where your insurance actually doesn't cover. That's what the surprise billings were all about. A recent study found that 30% of private hospitals in the country are owned by private equity. So you are talking immense numbers. Now, we just don't know how many dermatologists, anesthesiology firms, but they have been taking over doctors' practices and amassing them into, you know, large groups. So the takeover has been stealth, but it has been dramatic.

GROSS: When you choose a doctor, is there any way of knowing whether that doctor's practice has been taken over by a PEF? We've talked about how shrouded in secrecy the private equity funds are. But still, is there any way of finding out?

MORGENSON: Very difficult. Very hard.

GROSS: Can you ask the doctor?

MORGENSON: You can ask the doctor, yes.

GROSS: Would the doctor tell you?

MORGENSON: Yeah, you would hope that the doctor would be honest with you - certainly somebody that you've known and gone to for years, yes. Doctors are well aware of this. It's really making this - these takeovers are really making their lives more difficult because with every private equity takeover of a doctor's practice, the push is more efficiency, more patients, less time with the existing patient, more, you know, likely that the patient's going to be seen by a nurse practitioner rather than the MD. You know, it's - the push for profits is absolutely immense. And so I've spoken to many people who have been in the middle of these situations and they just find it to be intolerable and ultimately leave.

GROSS: So let's focus on nursing homes for a minute, because you said - what? - 10 or 11% of nursing homes...

MORGENSON: Yes.

GROSS: ...Are owned by private equity firms, and that might be underestimating it.

MORGENSON: Yes.

GROSS: So why are nursing homes such a big target? Where is the money in nursing homes?

MORGENSON: Well, we talk in the book about a case in point, which was the Carlyle Group's takeover of ManorCare. And that was an enormous nursing home company. And again, as with retailers, these private equity firms look at the properties, the land on which the nursing home sits, and that is a potential asset that can be sold, can be stripped. So in the case of ManorCare - perfect example of what happened after private equity took over - and drove it into bankruptcy, by the way. After the deal, all of the ManorCare nursing homes were sitting on properties that ManorCare had owned. But after the deal, those properties were sold and now the new owner of the properties billed ManorCare nursing homes for rent.

So suddenly the expenses, the costs of doing business for all of those nursing homes, went up. Now, who received the proceeds from the sale of those assets? The private equity firm. So they cashed out the hard asset, the real estate, the land that had been part of the company. They siphoned that off and made the company, the nursing homes, pay rent, which was part of the problem that drove them into bankruptcy.

GROSS: Are there certain patterns in complaints that you heard both from the caregivers at nursing homes and the patients in nursing homes that were taken over by PEFs?

MORGENSON: What I heard consistently was that costs were always an issue, that hiring was always supposed to be limited. I had one example of a nursing home in California where the ceiling wasn't fixed. It was - there was a hole in the ceiling for, you know, months, if not years, that was never repaired. The heating system was not working properly and was not repaired. It's all about the costs, Terry, because the lower the costs, the higher the profits to the entities that are running these nursing homes.

But yes, I spoke to many patients and loved ones of patients who talked about how they felt that in the nursing homes owned by private equity, their loved ones were just a dollar sign. And the moment that dollar sign was under threat, the care would go downhill. One example was that the nursing home in question had accepted COVID patients as a way to generate revenues. And this was during the height of COVID when we were really unsure about it, and - you know, in 2020. And so it really seemed that the acceptance of these patients was a way to generate income for the nursing home, but it really threatened the existing residents of that home.

GROSS: Well, let's take a break here and then we'll talk some more. If you're just joining us, my guest is Gretchen Morgenson, co-author of the new book "These Are The Plunderers: How Private Equity Runs - And Wrecks - America." We'll be right back after a short break. This is FRESH AIR.

(SOUNDBITE OF BOMBINO'S "AZAMANE (MY BROTHERS UNITED)")

GROSS: This is FRESH AIR. Let's get back to my interview with Gretchen Morgenson, co-author of the new book, "These Are The Plunderers." It's about private equity firms, or PEFs, which buy companies, then lay off employees and cut costs and benefits in order to expand profits. The ultimate goal is to sell off the newly acquired company in a few years, scoring a big profit for the private equity firms.

Not only do private equity firms acquire companies, but there are public pension plans, you know, pension plans for public employees that invest in private equity firms. How are private equity firms affecting public funds and 401(k)s?

MORGENSON: Private equity has been a big investment opportunity for public pension funds for decades, really starting in the '90s. California - the Public Employees Retirement System, CalPERS has been a big investor in private equity. They actually took a stake in Apollo as a company, but they're not the only ones. Public pensions across the country have made enormous investments in this business model, this private equity business model, which really ends up hurting so many people, workers, pensioners, taxpayers. So it's a fascinating case where public pensions, who really have to generate a return for their former employees, are investing in a type of business model that hurts employees.

So right off the bat, that's an interesting, I think, paradox. But these pension funds have invested trillions of dollars with private equity in the hopes of generating the returns that they need so that they can supply the pensioners who are relying on them with their monthly check, OK? So pension funds invest in stocks. They invest in bonds. They invest in real estate. They also invest in private equity.

And for years they were doing that, Terry, because private equity did have better investment returns than some of the other options. So that worked for a while. But since 2006, roughly, private equity returns have reverted back to the stock market's overall returns. Initially, it made sense because private equity was generating higher returns for pensions, but it no longer makes that kind of sense because the returns have dropped to reflect more of what you might get in a Standard & Poor's 500 stock index.

GROSS: So you have public employee money being invested in private equity firms, which are cutting jobs, cutting benefits for other employees.

MORGENSON: That's right. That's right. Now, you also have - private equity firms are really trying hard to get your 401(k) money, OK? They understand that that's an enormous pot of gold for them. And if they can get access to, you know, the vast majority of people's 401(k)s, then they will be very happy because their fees are very high, and they can actually extract from the 401(k) holder the fees. They also had very high fees in the pension funds.

And this was something that was quite troubling to people who did investigations into these pension funds' investments in private equity, that the fees were high. There were actual cases where the SEC brought enforcement actions against private equity firms for, basically, not telling their pension funds the truth about what they were charging the companies that they bought and sold. So there have been real questions raised about the benefits of private equity in public pensions, but they're still very, very deeply involved.

GROSS: Can you talk about how investment in private equity firms backfired for teachers in Ohio?

MORGENSON: Yes. There's a great example of a case in Ohio, and this was the state teachers' retirement called STRS, Ohio STRS. And this was a situation very typical for a public pension where it had invested significantly in private equity. And, you know, a lot of public pensions, Terry, don't have employees who are

especially sophisticated as far as financial instruments are concerned. And so this was a situation where the fund ended up - and the teachers who were relying on it - ended up paying enormous amounts to the private equity firms that were, you know, investing on their behalf, even as the pensioners themselves had to take a hit on their cost of living increases.

The Ohio teachers' pension fund stopped giving beneficiaries a cost-of-living increase, called a COLA. And so this became an issue. And there were complaints. The teachers went to the meetings. I mean, it was a kind of an interesting battle that raged between the beneficiaries, i.e., the retired teachers who had spent their life, you know, teaching children and assuming that their - at the end of the line, they would have enough money to live - where they ended up paying private equity firms very generous amounts, even as they took a hit to their benefits.

GROSS: Well, let's take a short break here, and then we'll talk some more. If you're just joining us, my guest is Gretchen Morgenson, a Pulitzer Prize-winning journalist and co-author of the new book "These Are The Plunderers: How Private Equity Runs - And Wrecks - America." She's the senior financial reporter for the NBC News investigations unit. We'll be right back after a short break. I'm Terry Gross, and this is FRESH AIR.

(SOUNDBITE OF MUSIC)

GROSS: This is FRESH AIR. I'm Terry Gross. Let's get back to my interview with Gretchen Morgenson, co-author of the new book "These Are The Plunderers." It's about private equity firms - PEFs - which buy companies, then lay off employees and cut costs in order to expand profits. The ultimate goal is to sell off the newly acquired company in a few years, scoring a big profit for the private equity firms. Morgenson says these PEFs are having an adverse effect on just about every sector of the economy - from health care to pension funds and retail - and it's affecting our lives, as consumers. Morgenson is senior financial reporter for the NBC News investigations unit. She's also been a New York Times financial columnist and a senior writer in the investigations unit at The Wall Street Journal. She won a Pulitzer Prize in 2002 for her reporting on Wall Street.

So let's talk about Donald Trump when he was president and his connection to private equity firms. First of all, he appointed Jay Powell to head the Federal Reserve. What's Jay Powell's connection to PEFs?

MORGENSON: Jay Powell was an executive - a high-ranking executive at the Carlyle Group in Washington for several years. So he definitely has, you know, the mindset of private equity. Donald Trump also had, as a very high-level adviser to him, Steve Schwarzman, who is the co-founder of the Blackstone Group. You would often see Steve at Donald Trump's, you know, right or left hand when they were having meetings about business. So, you know, these firms do have a lot of clout and power in Washington.

And unfortunately, regardless of who's in power - obviously, Donald Trump was certainly more interested in furthering what the private equity firms want to do. For example, he made it easier for private equity firms to be able to get into your 401(k), to be able to be an option. And under Donald Trump, the Department of Labor changed a guideline that it had about private equity. Previously, it had been sort of off limits for 401(k). It was too risky, too costly, too opaque. You know, it's too difficult to know what they're buying. And so it was off limits. You couldn't invest in it in your 401(k). But that was changed when the Department of Labor, under Donald Trump, put out a letter basically sort of opening up the door.

GROSS: So did the Federal Reserve - under Jay Powell, who was a Trump appointee and is still the chair of the Fed, did the Fed create any policies that intentionally or inadvertently benefited private equity funds?

MORGENSON: Absolutely, Terry. There was a really interesting change that the Fed made. They had never done this before. When COVID just struck and everybody was deeply uncertain and stock market was cratering - so this is March 2020 - Apollo went to Washington and had some talking points about how the government needed to make sure that the debt markets - i.e. the bond markets, corporate bonds, where they raise money for their portfolio company purchases, right? - they needed to have those markets continue to operate. And they were in sort of freefall because everybody was concerned and upset, and nobody knew what was - what COVID was and what it was going to do to the markets. And so what the Federal Reserve did in an incredibly unusual, never-before policy change, they decided to offer a backstop to offer to buy corporate bonds to sort of stabilize the very market where the private equity firms operate. That was an enormous change, and it was a big gift to the industry.

GROSS: So do you think the Biden administration has done anything on behalf of consumers and workers when it comes to private equity firms?

MORGENSON: Well, actually, the Federal Trade Commission and the DOJ both have announced that they are going to be giving much more scrutiny to private equity acquisitions. So companies that are bought by private equity, these government entities want to look at them to make sure that they are not anti-competitive, that they're not monopolistic. So that is a change. And that is an excellent change because, as I said earlier, these buyouts have been sort of stealth. Because they're not sort of announced and they're not under the umbrella of a company name that you recognize, you don't really know the degree to which private equity controls an industry, OK? And so finally, the government, in the form of the FTC and the DOJ, is watching for these kinds of, you know, acquisitions, watching these deals to make sure that they are not resulting in a monopoly or anti-competitive activity. That's big, and that's a change for the better.

GROSS: Your book is - in case this isn't already clear - very critical of private equity firms. I mean, just look at the title. "These Are The Plunderers: How Private Equity Runs - And Wrecks - America." So were you able to get any kind of response from the firms that you were writing about so that they could defend themselves?

MORGENSON: Well, for starters, they don't agree. Let's just start there. They disagree that their business model is unsustainable, that their business model harms the vast majority of people it touches and helps the small number of people who are operating these firms. But what was interesting was their response on a particular question. So one of the academic studies that we cite in the book is the number of bankruptcies that private equity-owned companies go through. So that is actually 10 times the number that non-private equity-owned companies file for bankruptcy. So you have a vast number of, you know, greater likelihood that you're going to have a bankruptcy situation with a private equity company. And so, also, they maintain that they create jobs, that they don't slash jobs, that they are job creators and, you know, innovators.

So Blackstone in particular told me that the firm over the past 15 years has created 200,000 new jobs and that its bankruptcy rates are far, far, far lower than those numbers that we just discussed. They were saying a fraction of 1% of their companies go bankrupt. And so I was very intrigued, and I said I would really love to be able to report this. Please provide the data so that I can verify it. They refused. So I'm, you know, at a bit of a loss. I'm not simply going to report that

they say that without saying that they did not provide the background information that I needed to be able to verify it.

GROSS: Well, let's take another break here. If you're just joining us, my guest is Gretchen Morgenson, co-author of the new book "These Are The Plunderers: How Private Equity Runs - And Wrecks - America." We'll be right back. This is FRESH AIR.

(SOUNDBITE OF OF MONTREAL SONG, "GRONLANDIC EDIT")

GROSS: This is FRESH AIR. Let's get back to my interview with Gretchen Morgenson, co-author of the new book, "These Are The Plunderers." It's about private equity firms, PEFs, which buy companies, then lay off employees and cut costs and services in order to expand profits. The ultimate goal is to sell off the newly acquired company in a few years, scoring a big profit for the PEF. You write that private equity firms have bought public companies that have come under pressure to jettison businesses that strip-mine ecosystems or pollute the planet. You can regulate public companies, but private equity firms are harder to regulate. So what's the connection there between private equity firms buying public companies and then being more opaque and more difficult to regulate?

MORGENSON: This is a great example of how this happens in environmental damage done to the planet. So public companies have been pressured and/or have simply wanted to do this themselves, reduce their carbon footprint, reduce the damage of their operations to the planet. They have shuttered or sold pieces of their businesses that have come under sort of scrutiny by Environmental Protection Agency, people who care about the planet. Well, often these operations are bought by private equity firms who don't have the same responsibility to public shareholders that a public company does.

So a private equity firm that owns a sort of fossil fuel company, for example, would not probably feel the same pressure to divest that company from its portfolio than a public company who has shareholders who vote every year on issues related to the company. So again, it's a situation where it's sort of one step removed. The fact that it's private equity owned makes it one step removed from the ability to hold them accountable. And the other thing about the environmental issue is that private equity companies have a short-term horizon, five to seven years. And so if they can eke out the last bit of, you know, profit from a polluting entity, they will do so. So they're not sort of long-term stewards of the company

that others might be. And so that has been a source of irritation and scrutiny among people who care about what's happening to the planet.

GROSS: One example you write about shows how when a private equity firm takes over a certain company or a certain sector, that it can influence so many people in so many different ways. And the example I'm thinking of is when a private equity firm bought an aluminum smelting plant in a small town. Tell us about what happened in that instance.

MORGENSON: That was such a sorry situation. The thing about the Noranda case that is so interesting and telling is that the employees were not the only ones who were hurt. It was a company - aluminum smelter in New Madrid, Mo., which is in the, you know, southeastern part of the state, on the Mississippi River. This was a smelter that was a source of immense pride to the local population. It provided great jobs, good pension. And it was a, you know, solid member of the community.

Apollo stepped in and bought the smelter, immediately levied it up with debt, immediately took out cash from the company. And over a period of years, not many years, but over a period of, say, five years or so, it drove the company into the ground, partly because it was taking money out repeatedly. The company filed for bankruptcy. Because the company was such a big part of the community, it was a big taxpayer in New Madrid. And so you had a situation where the school district couldn't supply books to the students because Noranda didn't pay what it owed to the school district, as far as the taxes.

Then you had a situation where Noranda under Apollo, wanted to try to reduce its electrical rate, the rate of - that the local utility charged for electricity. Obviously, an aluminum smelter is going to use an awful lot of electricity. Well, when the company started on the downward slope, Apollo wanted lower electricity rates. So they had to go through the, you know, utility commission. There was a big battle. People were fighting about it because if Apollo got a lower utility rate, lower electricity rate, it would have to be made up by other ratepayers.

GROSS: Oh, I see. They wanted it just for themselves.

MORGENSON: That's right. They wanted it just for themselves. And it had to be made up by other ratepayers in Missouri. So you had a situation where Apollo wanted a lower rate and other people had to pay the freight. So it was kind of a

perfect example of what I call the 360 degrees of pain that can occur when a private equity company comes to town.

GROSS: Has doing all this research into private equity firms changed any of your behavior as a consumer?

MORGENSON: Well, I certainly do look and see who runs the hospital emergency department...

GROSS: (Laughter) Yeah.

MORGENSON: ...In a town that I might be in.

GROSS: How do you look and see? How do you look at it? What are you looking up?

MORGENSON: It's so crazy what you have to do. So they'll hire Envision, which is a KKR company, or they'll hire TeamHealth, which is a Blackstone company. And they'll say to those companies, OK, run my emergency department for me. The only way I can tell - and you're not going to want to air this because it's really boring. But the only way I can tell is by looking at the job listings for Envision and TeamHealth - those are the two big, you know, staffing companies - job listings at a hospital, right? If they have a job listing at that hospital, then I know they run the staffing at that hospital. That's the only way I can find out.

GROSS: And how do you get access to the job listings?

MORGENSON: You go on their website.

GROSS: I see.

MORGENSON: Envision - we're hiring.

GROSS: I see.

MORGENSON: Anyway, it's circuitous. They don't make it easy.

GROSS: No, no. Well, you had a hard job writing this book.

(LAUGHTER)

GROSS: And I want to thank you for telling us about what you've learned.

MORGENSON: Well, thank you for having me.

GROSS: Gretchen Morgenson's new book is called "These Are The Plunderers." She's senior financial reporter for the NBC News Investigative Unit. After we take a short break, jazz critic Kevin Whitehead will look back on the career of pianist Ahmad Jamal, who influenced many musicians, including Miles Davis, Herbie Hancock and Keith Jarrett. Jamal died last week at age 92. This is FRESH AIR.

(SOUNDBITE OF THE BAD PLUS' "THE BEAUTIFUL ONES")

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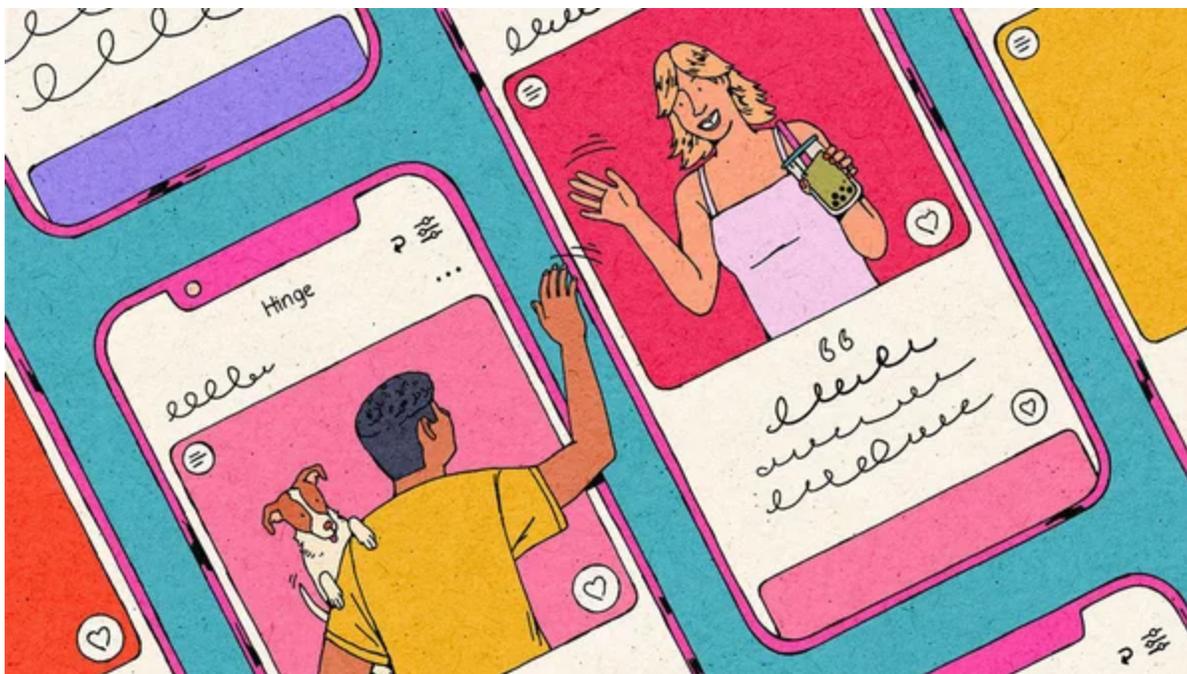


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