UNITED for RESPECT

AFR Americans for Financial Reform

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The Stop Wall Street Looting Act:

End Private Equity's Predatory Practices

The private equity industry has grown massively over the past decade. Assets held by private equity (PE) firms have grown from $1 trillion prior to the 2008 financial crisis to nearly $4.5 trillion today.[1] In the wake of the COVID-19 pandemic, private equity firms are positioned to take advantage of widespread economic distress and have embarked on a historic spending spree, buying up assets in every sector of our economy.

Huge swaths of the retail sector, storied media companies, grocery chains, important elements of health care, and manufactured housing have all come under the control of Wall Street, bringing disaster to the working communities that depend on them. Millions of people who depend on fair and functioning markets have been thrown in jeopardy, including investors, pensioners, and small businesses. Today, private equity-owned companies claim to employ 11.7 million workers,[2] and across sectors, PE owned firms are responsible for some of the most abusive business practices in the nation.

The human consequences of this unbridled corporate greed were drawn into sharp relief as the pandemic forced millions of people to become "essential workers" to make ends meet. Suddenly, working people were navigating staying safe and healthy as they were tasked with providing essentials to the public in the midst of a deadly public health crisis, while their employers offered meager, if any, support. Meanwhile, these same Wall Street investors made billions on their backs. Private equity firms have rigged the system to create a "heads I win, tails you lose" situation.

These executives can gain control of companies while risking nearly none of their own money, use a multitude of tactics to extract money from those companies, and then leave workers and communities saddled with the losses and devastated if those companies fail or are downsized.

Loopholes and exceptions in law and regulation create incentives for private equity firms (and other big Wall Street players, notably hedge funds) to load the companies they acquire with excessive debt, and drain money to enrich themselves. In other words, the current system allows private equity firms to buy companies, weaken or destroy those same companies, and still make money for the Wall Street executives. PE firms too often also mislead their own investors, such as pension funds, about actual returns in order to keep attracting dollars, and keep growing their own fortunes.

New federal policies are needed to address the predatory elements of the private equity business model that harm workers, investors, and communities.

The Stop Wall Street Looting Act would:

Make private equity executives legally liable for the damage they cause. The private equity model provides unique advantages that allow its executives to avoid responsibility for the financial and legal liabilities incurred by the companies they control. This lack of accountability creates incentives for activities that harm workers and communities. There is no plausible public policy reason to allow it to continue.

[1] Pensions and Investments. "Big jump in private equity AUM expected over next 5 years," November 09, 2020.

[2] https://www.investmentcouncil.org/economicimpact/

Stop looting that enriches PE executives at the expense of workers, communities, and businesses. PE executives take money for themselves out of the businesses they own. Their tactics include paying themselves fees for nonexistent services and quickly converting the assets of the companies they have bought into dividends for the private equity firm. This leaves the companies without resources to invest in sustaining and growing their businesses, or paying workers fairly. The bill stops specific kinds of looting, and its accountability measures sharply reduce incentives to pursue a broader range of extractive practices.

Close tax loopholes and change rules that encourage predatory financial activities. The tax rules, as currently written, create incentives that make it more profitable for PE executives to burden the businesses they buy with debt. The carried interest loophole also allows them to avoid their fair share of taxes on the money they take in, and to pay lower rates than teachers or firefighters or other working people. The bill ends these unfair advantages. It also addresses the problem of debt-driven takeovers. Wall Street players that arrange corporate loan securitizations, which frequently fund leveraged buyouts, would have to retain a share of the risks, to make it harder for them to leave others to pay the consequences if things go wrong.

Protect workers if employers go bankrupt. The bill revises bankruptcy laws so that workers get paid severance and pension contributions they were promised, and so that worker wages and benefits owed are a higher priority. It also prevents bonuses and special payouts to executives when workers are left high and dry. If the assets in the bankruptcy estate are insufficient to ensure that workers are treated fairly, it allows courts to pursue the wealth of PE general partners who actually controlled the company.

Require PE firms to be fair and transparent to investors in disclosing costs and returns. Too often, PE fund managers use incomplete or inaccurate information to attract investment from outside investors like pension funds. The bill updates securities laws to require PE firms to be clear and honest about the fees and expenses they charge and to disclose much more financial information about the firms they buy and own. And it strengthens requirements that PE executives put the interests of the investors whose money they manage ahead of their own. By creating accountability for the Wall Street tycoons who lead private equity takeovers and reversing the policies that enable wealth extraction, this set of policies can protect workers, families, and communities.

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