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# Private Equity and Public Good

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DISSENT

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By Stephen F. Diamond

THE collapse of the credit markets over the last year has hit more than just the homebuilding and mortgage sectors of the economy. As interest rates increased, private equity, or "PE," an important new form of financial capital, was also rocked on its heels.

PE funds have grown substantially in size as well as political and financial significance in the last decade. The Blackstone Group, for example, one of a handful of top-tier PE funds, recently announced a takeover of the Hilton Hotels Corporation for $26 billion. Cerberus Capital, another major PE player, surprised many when it announced plans to buy the troubled Chrysler Group from DaimlerChrysler—a pioneering venture into the top ranks of industrial America. Kohlberg Kravis Roberts & Co. (KKR), one of the oldest PE funds, currently owns such a large number of independent businesses that it is, indirectly, the second largest employer in America, with 560,000 employees, twice as many as General Motors, ahead of McDonald's and just behind Wal-Mart. Today's PE fund managers have been hailed widely in the business press as the new "masters of the universe," pushing aside bond traders and investment bankers, not to mention lowly chief executive officers. The managers of the largest funds are billionaires. Henry Kravis, the second "K" in KKR, has a wing named after him at New York's Metropolitan Museum of Art.

But as liquidity dried up last summer, the major banks that had made billions of dollars in loans to PE funds to finance the buyouts of companies like Chrysler, Clear Channel, or the United Kingdom's Alliance Boots retail pharmacy giant, were unable to resell those loans into the wider capital markets. In turn this caused the critical flow of capital to PE funds to seize up, leading some to predict a quick end to the recent leveraged buyout boom. Within a few months, however, evidence emerged that the PE sector was already shaking off the summer crisis. At the summer's end, according to the *Wall Street Journal*, Blackstone announced it had closed the largest buyout fund in history "despite the recent red flags in the debt markets," raising a total of $21.7 billion. This included a $1 billion commitment from the California State Teachers' Retirement System "along with a host of other big public pension funds." The Carlyle Group in early September announced that it had successfully raised 5.3 billion euros for its European-based buyout operations.

**The PE Worldview**

PE fund managers argue that they offer a potential solution to what many have long argued is the core problem of the modern corporation: the ability of insiders of public companies to take advantage of outside shareholders. This tension between corporate managers and public investors has become a key factor in post-Enron debates about corporate governance and finance on Wall Street and in Washington, D.C. The labor movement is playing a crucial role in these debates through traditional lobbying but also through its newly established shareholder activist programs at the AFL-CIO and Change to Win and at several major affiliates, such as the American Federation of State, County and Municipal Employees, the Teamsters, and the Service Employees International Union. These and other critics of corporate behavior argue that the "financialization" of the modern economy lies behind the distorted behavior of corporations. But this is a misguided view of modern capitalism and largely irrelevant to an assessment of PE funds. For the new corporate responsibility movement to reach its full potential, a new approach is required.

PE funds take companies private by buying up the publicly traded stock of a target firm and, arguably, because of their complete control of the company, more effectively deploy firm assets to productive and profitable uses. The senior inside managers now have one boss, the PE fund, to whom they must respond rather than thousands of dispersed public shareholders. This appears to allow firms to act more decisively. For example, Robert Nardelli, the controversial new CEO of the auto giant Chrysler, which was recently taken over by Cerberus Capital, told the *New York Times* that the company has "become more nimble" and that a new slogan at the company is being used to describe decision-making: "Either a yes or a no but not a slow maybe." Thus, a recent decision on cutting production by 85,000 vehicles was made in "seven minutes," he said, while it would have taken three months at publicly traded Toyota.

Once a firm's managers have generated the benefits from this new decisiveness and flexibility, the PE fund will eventually resell the target firm to another private owner or back to the public in an initial public offering (IPO). These resales can generate huge profits for the PE funds' professional staff and outside investors. In a recent, albeit extreme, example, the $4.3 billion buyout of British company Travelport, owner of the online travel Web site Orbitz, returned 100 percent of the $1 billion in equity invested in the company by its new PE owners, Blackstone and Technology Crossover Ventures, in less than a year. The firm used a new technique called a "dividend recapitalization"—it borrowed more money once taken over and issued that borrowed money as a dividend to the PE funds.

Whether the restructuring put in place at such companies is rational or destructive is a hotly debated issue. Travelport laid off hundreds of workers in its first year under new private ownership but contends it has hired hundreds of new workers, no doubt at much lower wages, as well as invested heavily in new technology. At Chrysler such decisiveness was used to pressure the United Auto Workers union into unprecedented concessions that will lead to a dramatic downsizing of the work force as well as huge wage cuts. The ratification vote by union members was very close, with opposition led by one of the UAW's own lead negotiators, Bill Parker, head of a large Chrysler union local. CEO Nardelli, however, called the agreement "revolutionary," claiming it is "a major step forward" to restoring the company's competitiveness. What is not at issue, however, is that PE funds mark a potentially dramatic change in the ownership structure of American businesses, with important implications for labor and society as a whole. Yet the reaction to this development varies widely across the left and the trade union movement. Some view the emergence of PE funds as a source of new profitability for labor-managed pension funds, while others argue that the funds represent another step in the dominance of "financial" capital that undermines job security and union power.

THE ARRIVAL of a potentially new stage in the history of capitalism is, without doubt, an unusual and perhaps perplexing event. The last such moment was marked seventy-five years ago by the publication of *The Modern Corporation and Private Property* in 1932 by legal scholar Adolf Berle and economist Gardiner Means. Their book is now recognized as a critical, if flawed, study of the publicly traded corporation, which was then still a relatively new and little understood institution. Their analysis of the potential tension between inside managers and outside investors remains relevant to the dysfunction that, to this day, often can plague the public corporation. Berle and Means argued that when corporations sell shares to the wider public it enables the firm's inside managers to control the day-to-day operations of the business, often taking advantage of that privileged position to enrich themselves at the expense of outside investors. Anecdotally, that would appear to be self-evident in the wake of the collapse of Enron, WorldCom, Global Crossing, and a myriad of other firms over the last few years. PE funds appear to offer a different approach to managing businesses, definitely still capitalist but distinct from the Berle-Means paradigm firm with its separation between ownership and control. Because PE funds close the gap between ownership and control they presumably eliminate the damage that gap can generate. Thus, PE funds mobilize hundreds of billions of dollars in the capital markets with the purpose, it is argued, of resolving the failings of public corporations that Berle and Means first identified.

Although PE funds may respond to a genuine and deep problem inherent in the nature of the public corporation, however, they bring with them their own peculiar set of problems some of which may be more destabilizing and socially destructive than any wrought by Enron and its progeny. And while many on the left and in the labor movement may appear to comprehend the nature of these new funds, their perspective is limited by the intellectual impact today of the framework put in place by Berle and Means in the 1930s. Does the story that PE funds tell about insider mismanagement make sense? Should we welcome the PE buyout strategy as a necessary pill to swallow? An effective response to the new capitalism requires a reconsideration of the dominant Berle-Means paradigm.

**The "Problem" with the Public Corporation**

Berle and Means had two aims with their 1932 study: To explore what they thought was the central governance problem of the public corporation as described here but also to situate a solution to that problem within their social democratic vision of governance. The former has lived on, even in the mainstream law and economics scholarship that dominates much of the academic and policy debate about corporate behavior. But the latter has gone down the memory hole.

Berle and Means argued that although the public corporation solved one problem for capitalism it created yet another for society at large. The demands of the rapid industrial growth of the late-nineteenth and early-twentieth centuries required massive amounts of capital that individual businessmen, even if they were as wealthy as J.P. Morgan or Andrew Carnegie, could not provide. Sometimes this was a "push" process: family-controlled firms began to sell off ever-larger portions of their firms to outside investors. Sometimes it was a "pull" process: Wall Street firms engineered the roll up of small family-owned entities into larger, more efficient and, thus, profitable entities, earning sizable fees in the process. The food retail giant known today as Safeway began its life this way, when Charles Merrill (the founder of banking giant Merrill Lynch) engineered the merger of thousands of smaller local stores into a new entity that he then "took public" through the issuance of shares on the New York Stock Exchange. For the first time in U.S. history, the business of America was genuinely a public endeavor. Whereas 4.4 million Americans owned shares in 1900, by 1928 the number had risen to 18 million.

The growing weight of publicly traded companies raised an alarm for Berle and Means. They argued that the modern corporation "has brought a concentration of economic power which can compete on equal terms with the modern state." The potential social damage that could be done by the new institution was sharply highlighted by the collapse of the capital markets in 1929. For these New Deal intellectuals this triggered the need for a "constitutional" approach to the governance of the corporation that would regenerate legitimacy to the decision-making processes of what was to them as much a sociopolitical institution as an economic one.

Driving this political approach was their insight into the inherent problem of the corporation: that it was plagued as suggested here by a fundamental separation of ownership and control. Smith and Marx, among others, had mentioned this issue in passing, but in eras when the "joint stock" company, as it was largely known in the nineteenth century, had nowhere near the importance it took on by the early twentieth. Because Berle and Means viewed that separation as a permanent and serious disability, it required a new doctrinal approach to corporate law. In fact, their argument presented a deep challenge to then-dominant free-market liberalism: if the corporate form contained within it *two* competing interest groups, managers and investors, then this tore asunder the notion of a civil society of competing individual businesspersons with clear and unambiguous property rights to their business assets generating efficient, and sociopolitically legitimate, outcomes through arms-length trading in the marketplace. The emergence of the modern publicly traded corporation, then, arguably triggered a larger crisis in political theory.

To help solve this problem—and to do so within the boundaries of some form of "capitalism"—the authors looked to the already established law of trusts to argue that corporate managers, those who "controlled" the corporation, had to behave with as much rectitude on behalf of outside shareholders, the "owners" of the corporation, as the trustees of a trust fund did for the beneficiaries of the trust. As then Judge, and later Justice, Benjamin Cardozo wrote in a widely cited 1928 opinion issued just as Berle and Means were conducting their initial research, "A trustee is held to something stricter than the morals of the marketplace. Not honesty alone, but the punctilio of an honor the most sensitive is the standard of behavior." This approach proved too much for most New Deal-era politicians, who backed away from the most radical proposals coming out of Franklin Roosevelt's brain trust. But the federal securities laws, including the Investment Company Act that regulates private equity funds, did create new forms of oversight of corporations and financial institutions that remain in place today, if in muted form.

**Today's Agency School**

While Berle and Means's more radical vision did not survive, their imago of the conflict between insider managers and outside investors is imprinted in the psyche of every business and law school graduate in the country. It is widely believed that most of our corporate law and financial structures are aimed at solving the problems that result from this conflict. Today, they are know as agency problems—with inside managers of the public corporation cast as "agents" of the outside shareholders or "principals." There are costs associated with this principal-agency relationship known as "agency costs."

These include the time and money that principals must spend to negotiate contractual protections with agents and to monitor the agents during the life of the contract. If the contractual terms are violated or the contract proves, as is often the case, incomplete, further costs will be incurred by the need to engage in ex post gap filling through dispute resolution or judicial or legislative intervention. Some theorists of the agency school go so far as to suggest that the corporation itself is merely a “nexus of contracts” between all of the suppliers and purchasers of corporate inputs and outputs, right up to the CEO’s office, where a “labor market” sets the price and terms under which senior corporate personnel will work. The advantage of this view is that it appears to solve the legitimacy problem that the Berle and Means argument highlighted because it finds a way to insert the market mechanism back into the corporate structure.

Together, these agency costs add to the cost of capital and thus to the cost of “doing business.” But, agency theorists argue, if laws and contracts are efficiently designed, these costs can be minimized, and, in fact, the resulting predictability can make investing in such an environment more attractive. Thus, in today’s debate about competition between national financial markets such as London and New York, some argue that the higher cost of regulation in the American markets is worth paying. Others argue that the mix of legal intervention and private ordering through contractual arrangements has gone awry with post-Enron reforms such as the Sarbanes-Oxley Act, raising the costs of managing a public corporation in the United States to an intolerable level.

But what if you could design a corporate or financial structure that would eliminate so-called “agency costs”? The result would be truly revolutionary: potentially, at least, it could mean the elimination, or at least dramatic minimization, of costly contractual negotiations over the complex relationships that exist today among senior corporate management, boards of directors, Wall Street financial analysts, individual and institutional investors, and government regulators. Enron, WorldCom, Tyco—all are considered examples of the problems that arise when agency problems are not adequately resolved. This is, in part, the justification used to form private equity funds—they hold out the promise of eliminating the modern corporation’s agency problems by concentrating ownership and control in a single institution. Voilà! A problem that has plagued Anglo-American capitalism for more than a century might just disappear. Interestingly, continental European and Asian capital has largely avoided this issue by continuing to rely on state, family, or closely networked ownership forms. However, they have also, it can be argued, lost the opportunity to take the kinds of risks that the use of “other people’s money” allows one to take with the public corporate form. Nonetheless, private equity is aggressively entering those markets as well with an agenda that is similar to that found in the United States and the United Kingdom.

**The Labor-Left Counterattack**

Trade unions have an ambivalent attitude toward the rise of private equity. On the one hand, many American labor unions have representatives on the boards of the same pension funds that are largely responsible for the steady flow of capital into PE funds, and, of course, that means some union members have benefited handsomely from the funds’ above-average returns. On the other hand, over the last decade, organized labor has developed a relatively sophisticated program of investor activism through the Office of Investment at the AFL-CIO, the Capital Strategies Group of Change to Win, and similar groups at key affiliates. This effort relies on labor's pension-fund investments in public companies to raise concerns about corporate social responsibility, excessive CEO pay, workers' rights, and internal corporate governance.

But labor does not seem to have made up its mind whether or not PE funds raise or lower corporate standards of behavior. When it was clear last spring that German auto giant Daimler was looking to sell off its troubled Chrysler division, United Auto Workers union president Ron Gettelfinger said he would oppose a PE bid for the company because such an investor would "strip and flip" the company. A few weeks later, after a meeting with Cerberus Capital, which had by then announced a deal with Daimler, Gettelfinger sang a completely new tune. Without any internal discussion, debate, or vote by the UAW membership at Chrysler, he announced that the takeover bid by Cerberus Capital for the car company "was in the best interests of UAW members." Reacting to Gettelfinger's endorsement of the deal, Canadian Auto Workers union leader Buzz Hargrove initially told the *New York Times* that "the history of private equity has been to buy, then slash and burn a lot of jobs, and then get out with a lot of money for a handful of people." But in very short order, after a meeting with Cerberus Capital's CEO, Hargrove, too, reversed course, telling reporters, according to *Edwards Auto Observer*, "he was convinced Cerberus was 'not about slice and dice . . . they're in it for the long term.' " Some Canadian labor groups have gone even further than verbal endorsements of PE deals. The Ontario Teachers Pension Fund has its own PE arm and recently engineered a successful bid to buy out Bell Canada.

The leaders of UNITE HERE! were effusive in their praise for the multibillion-dollar bid by Blackstone for Hilton Hotels, stating in a press release issued as soon as the deal was announced that it "welcomed" the transaction contending "Blackstone has demonstrated its commitment to fair treatment for thousands of hotel workers." But when Blackstone announced its intention to sell shares to public investors in an IPO, the AFL-CIO and SEIU, though not working together, each criticized the transaction. The AFL-CIO wrote the Securities and Exchange Commission in a call for the enforcement of the governance requirements of the Investment Company Act against Blackstone. [1] Both labor groups began campaigning to raise tax rates on PE partners' income from the carried interest in their funds.

Unlike North American unions, European labor has been largely united in a campaign against private equity. In a 2007 report entitled "Private Equity's Broken Promises," the Central Executive Committee of the UK's GMB, the century-old general workers union with more than 600,000 members, blasted PE funds. The report lists dozens of examples of British companies taken over by PE funds using debt to replace equity followed by layoffs and then exit transactions that led to huge paydays for the partners and investors in the funds. In 2004 the AA, the British automobile insurance and roadside protection association, was bought from its corporate parent by buyout funds CVC Capital and Permira. The GMB had voted AA Employer of the Year in 2003, but under PE ownership one-third of its work force was laid off, with disabled workers apparently a particular target, wages were cut, the workday at call centers was increased from 8 to 11.75 hours, and the GMB was forced out and replaced by a company union. Meanwhile, the company took on close to $2 billion of new debt and paid Permira and CVC a special dividend of nearly $1 billion.

A second report issued by the Geneva-based IUF, the international trade union body that represents 12 million workers in 336 unions in the food, farm, and hotel sectors around the world, highlighted the impact of debt financing by PE groups. The report noted that although public companies may have a debt to equity ratio of 1:10, once bought out by a PE fund that ratio is often reversed. Frequently, PE funds then cause the companies they take over to take on additional debt in order to pay out a dividend to their investors because an exit opportunity seems too far away. In a presentation to UK Labour Party MPs, the IUF's Peter Rossman noted that KKR and Carlyle shared in a $250 million dividend only a month after closing on the $4 billion debt-financed buyout of satellite operator PanAmSat. The Trade Union Advisory Committee (TUAC) to the Organization for Economic Co-operation and Development joined in the European campaign, noting in a report last spring that "the high rates of return required to finance private equity debt-driven buyouts can jeopardize target companies' long-term interests and provision of decent employment conditions and security for employees." TUAC called for regulatory reform of tax rates, corporate governance, transparency, risk management, and workers' rights.

**"Financialization" or Pluralism Redux?**

The focus by unions on the role of debt in PE-led deals is critical, but the impact of debt on the governance of a firm is not well understood. For several years, labor and left-wing critics of globalization have promoted the concept of "financialization" as a leading symptom of the post–cold war capitalist economy. The late Paul Sweezy argued in *Monthly Review* that by the end of the 1980s the world economy "had given way to a new structure in which a greatly expanded financial sector had achieved a high degree of independence and sat on *top of the underlying production system*." (Emphasis added.) Robin Blackburn took a similar approach recently in the *New Left Review*, where he wrote, "It is not household names like Nike or Coca-Cola that are the capstones of contemporary capitalism, but finance houses, hedge funds, and private equity concerns, many of which are unknown to the general public. In the end even the largest and most famous of corporations have only a precarious and provisional autonomy within the new world of business—ultimately they are *playthings of the capital markets*." (Emphasis added.) The IUF's Rossman calls "financialized capital" "extremely impatient," "volatile, highly mobile, and linked to a variety of new financial instruments based on debt." In an article for the ILO's journal *Labour Education*, Rossman and his IUF colleague Gerard Greenfield defined "financialization" as "both the enhanced importance of *financial versus real capital* in determining the rhythm and returns expected from investments, and the increased subordination of that investment to the demands of global financial markets." (Emphasis added.)

As should be clear, each of these analysts, though coming from different political traditions, defines the current capitalist period as one in which finance dominates the so-called "real economy." This appears to be a relatively simple reprise of the long-standing populist view that what all too often plagues what would be an otherwise healthy capitalism is a tension between the interests of "real," "productive" capitalists who roll up their sleeves and build companies and those who merely "speculate" using financial assets as so many chips in a casino. As such, this view is, in fact, a restatement of the original Berle-Means paradigm of the separation of ownership and control, only in reverse.

Berle and Means were working in a period when it was widely believed that corporate managers had triumphed over the financial markets. Keynes famously spoke favorably in his *General Theory*, published in 1936, of the potential for the "euthanasia of the rentier." In

Stalin's Russia, that policy was in fact carried out with unparalleled brutality. Berle and Means's book was followed in 1941 by James Burnham's hugely popular *The Managerial Revolution*, which caught the mood of the day when it argued that the United States, Germany, and Russia were all suffering from the imminent global triumph of a new, bureaucratic postcapitalist class. In this intellectual and political milieu, it was no surprise that Berle and Means compared the new boards of directors of public corporations to "a communist committee of commissars" and cast the corporate director as someone who "more nearly resembles the communist in mode of thought than he does the protagonist of private property." Nor was it shocking for Gardiner Means to write of a new "collective" capitalism emerging in the United States. Berle and Means's work was critical because it described a method by which these managers appeared to have triumphed from within capitalism itself, aided by a newly expanded Wall Street apparatus of bankers and brokers, leaving the corporate entity in the hands of technocrats.

AS IT TURNED OUT, of course, Berle and Means were wrong, as were Burnham and Keynes. Capitalism was not morphing somehow into a Stalinist postcapitalist nightmare. It was true that the capital markets took many years to recover from the trauma of 1929 and to learn how to function within the regulatory framework that New Deal legislation imposed on the economy. But the capital markets never disappeared. As legal scholar Henry Manne suggested to me, recent research concludes that Berle and Means, in fact, radically overstated the number of companies with powerless dispersed shareholders. Many publicly held American businesses retain sizable shareholders with "control blocks" that enable them to influence managerial decision-making. Thus, most takeovers of public companies are friendly transactions, with existing management induced in various ways to agree to the acquisition. Indeed, today's PE funds often are able to engage in soft-landing takeovers with handsome premiums paid to shareholders as well, who are then free to redeploy their capital in other parts of the economy.

In other words, it may have looked as if outside investors had no weight inside the corporate boardroom, but to have written off that possibility altogether would have meant to argue that competition itself was no longer operating inside the U.S. economy. No matter how much influence government regulation or spending may have had at the height of the cold war, American corporations continued to compete with each other, often bitterly, in capital, labor, and product markets. New companies financed by Wall Street were formed and prospered; other older companies faltered, lost support in the financial markets, and went out of business. Workers fought for and organized unions, engaged in collective actions, and pushed for higher wages, sometimes successfully, in other cases unsuccessfully.

But if Berle and Means failed on the ideological front, they succeeded in helping to redraw the framework within which American capitalism was understood. An emerging real world battleground in the 1930s where, on the one hand, managerial and financial capitalists together were pitted against, on the other hand, a militant new labor movement with ideas about the radical reorganization of economic activity, was recast as a need to (social) democratize the principles that governed the behavior of the new managerial class. This technocratic analysis became the basis of the dominant postwar ideology of industrial pluralism, with interest groups competing in the "space" left open between giant business and labor organizations. It is a similar cold war pluralist ideology that is used by some in American labor and business groups today to promote "constructive engagement" with the authoritarian regime in China, arguing that a new "space" is being opened up by the regime's market reforms. In fact, there is even less space there for a genuine labor movement than there was, or is, in a United States dominated by the ever-evolving alliance of managerial and financial capitalists.

Thus, still transfixed by liberal pluralist ideology from the years of the late–New Deal-era rollbacks of labor militancy, the left, from socialist to social democratic, was completely unprepared intellectually for the restructuring of American capitalism that has been underway for the last twenty years. The attempt to cast today's developments as the "financialization" of capitalism is a non sequitur. This view ignores what capitalists actually do. Instead, whether or not consciously, it gives credence to a popularized argument that focuses on apparent power shifts within the economy—and, of course, a focus on "power" is part and parcel of a pluralist worldview. We are not in a corporatist world of interest groups competing for power, but in a world where owners of capital employ highly specialized managers, who also have an opportunity to become owners of capital, to generate and appropriate value in production. Where workers organize, economically and politically, they must do so in opposition to the organizational intent of those managers and financiers. This is the very heart of the capitalist process—in China as well as in the United States, as true in 1932 as in 2007.

**The Real Nature of Private Equity**

It is particularly inapt to cast private equity funds as a form of "financialization" of capitalism. Private equity actually concentrates in a new institutional form the resources and abilities of investors together *with* the on-the-ground knowledge of managers. Although it is true that PE funds rely heavily on debt and other financial instruments to engage in ever larger deals and magnify their returns, their success in this effort depends on very careful attention to the details of how to operate the targeted businesses so that the financial instruments used to take over control are appropriate to the task. Thus, some may properly criticize the new CEO of Chrysler, Robert Nardelli, for his outsize pay packages while overseeing a decline in profitability at Home Depot. But to ignore his deep understanding of the production process would be foolish. Prior to joining Home Depot, where, of course, he picked up a first-class education in the consumer goods segment of the economy, he ran the highly respected locomotive production operations of GE.

The debt instruments used in PE-led deals, for example, actually embody in a detailed set of heavily negotiated contracts the terms of a complex new social relationship between investors, PE fund managers, investment bankers, and managers of the target companies. The PE fund must have within it a concentration of very specialized talent to coordinate the takeover process. The partners of PE funds tend to have backgrounds in the financial markets and are very sensitive to the concerns of the professionals who invest on behalf of large institutions such as pension funds. In turn—and this is crucial— today's buyouts, as I suggested, are largely friendly transactions where the buyout fund plans to work closely with existing management because the PE fund partners know these executives have crucial inside knowledge about the target firm. A clear example of this is the Cerberus buyout of Chrysler: the new owners announced their intention to keep Thomas LaSorda on board as president because he was thought to have a good relationship with the leaders of the UAW. Because significant concessions from the UAW were and will continue to be a major goal of the buyout, that relationship would be highly valued both by Cerberus and by the investors in the billions of dollars in debt needed to carry out the transaction. In addition, the buyouts are friendly with respect to the major shareholders who dominate U.S. corporations. Rather than riding to the rescue of helpless dispersed shareholders, then, PE funds must engage skillfully the complex alliance between managerial and operational employees, on the one hand, and the large institutional investors like pension funds and hedge funds that together own today's public corporations.

We are not witnessing in the early twenty-first century some kind of coup d'état by "finance" against the "real" economy, any more than the agency problems of the publicly traded corporation meant that a new class of managers took power in the mid-twentieth century. The rise of some widely traded public corporations in the era of Berle and Means should, instead, have been seen as a successful effort to marry financial resources with managerial talent in a new capitalist form. But even then many large companies retained concentrated ownership among a few large shareholders. Today, we might be witnessing what Harvard Business School's Michael Jensen predicted in 1989 would be the "eclipse of the public corporation." But perhaps that should read the "eclipse of those still remaining widely traded public corporations." Private-equity-led buyouts represent an evolution in the effort by a significant fraction of sophisticated players in the economy to forge new methods of managing and controlling the process of creating and appropriating value from the labor force on behalf of investors. It is possible that the concentration of expertise in finance with operational know-how, may enhance the ability of capital to engineer greater returns. To recognize the magnitude of the accomplishment of PE funds is not to support the result. Instead, it helps to highlight the challenge for labor and the left. Private equity funds are doing what capital has always done and will continue to do unless an alternative form of organizing economic activity is established. A misguided fear of "financialization" does not bring us any closer to exploring that alternative.

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FOOTNOTES:

[1] This author advised the AFL-CIO on the Blackstone IPO.