



To: U.S. House Financial Services Committee

Re Committee Hearing: “America for Sale? An Examination of the Practices of Private Funds”

Hearing Date: November 19, 2019

Written Testimony Submitted by: Center for Popular Democracy

Thank you Chairwoman Maxine Waters and members of the U.S. House Financial Services Committee for holding this timely and important hearing. This written testimony is being submitted by the Center for Popular Democracy (CPD), a national network of 53 grassroots community organizations in 131 cities across 34 states, Puerto Rico, and Washington, DC. Our network reflects hundreds of communities around the country at the frontlines of the fight for economic and racial justice.

Today we submit written testimony in support of the “Stop Wall Street Looting Act,” which would address the problems currently being created by private equity firms and hedge funds while preventing these problems in the future.

This is an urgent issue for low-income communities and communities of color organizing in our network, who are directly impacted by Wall Street’s predatory and risky financial practices. Every day, people are faced with the harsh realities of corporations that exert more and more power in our economy and their lives. From the moment they wake up, people are increasingly subject to the whims of unregulated corporate power that determines where people live, how they work, and even their ability to access life-saving healthcare.

At the center of this shift is private equity, a business model that puts profit over people's lives and puts unprecedented power in the hands of corporations. This business model has gone unregulated for too long, and too many lives have suffered as a result, for it to continue. Congress has the power to stop these predatory practices and define an alternative vision for a properly regulated financial sector.

The Rapid Expansion of Private Equity

Private equity firms have forced a seismic shift in how American businesses are run, as they reshape companies and industries to fit their need to extract large profits quickly.

From retail to healthcare to manufacturing, private equity (PE) firms own, control, and manage an increasingly large number of companies. Prior to the global financial crisis, private equity firms managed around \$1 trillion in assets, with investors ranging from public pension funds to

university endowments.¹ Today, these firms manage more than \$5 trillion in assets and own almost 8,000 U.S. companies.²

Private equity industry proponents often claim that fund managers find companies that are either struggling or prime for growth, make improvements in the company, and sell the company for a profit.

But in reality, private equity firms make sweeping changes to acquired companies, imposing pay freezes, layoffs, business closures, price increases for consumers, and rent hikes for families.

When these companies go bankrupt, the PE firm is insulated from risk -- while the struggling or bankrupt company's workers, vendors, and creditors face unemployment and financial ruin. Wall Street owners have repeatedly used the bankruptcy process to dump their obligations to current and future retirees.³

Hedge Funds Expand, Despite Poor Returns

Hedge funds currently have \$3.18 trillion in assets under management.⁴ This is despite studies showing that fees given to fund managers outweigh returns to investors,⁵ that hedge fund fees contribute to pension shortfalls,⁶ and that hedge funds don't adjust for risk when they advertise.⁷

The Hedge Clippers campaign, which includes the Center for Popular Democracy and CPD affiliates, has issued 70 separate reports⁸ explaining how hedge funds have destroyed the

¹ Danielle Ivory, Ben Protess and Kitty Bennett, "When you dial 911 and Wall Street answers," *New York Times*, June 25, 2016, <https://www.nytimes.com/2016/06/26/business/dealbook/when-you-dial-911-and-wall-street-answers.html>.

² "The rise and rise of private markets," McKinsey Global Private Markets Review 2018, McKinsey & Company, February 2018, <https://www.mckinsey.com/~media/McKinsey/Industries/Private%20Equity%20and%20Principal%20Investors/Our%20Insights/The%20rise%20and%20of%20private%20equity/The-rise-and-rise-of-private-markets-McKinsey-Global-Private-Markets-Review-2018.ashx>;

"PwC Deals: US Private Equity Deals insights Q2 2018" 2018, PwC, <https://www.pwc.com/us/en/private-equity/publications-overview/assets/pwc-private-equity-q2-2018-deals-insights.pdf>

³ Eileen Appelbaum and Rosemary Batt, "Private Equity at Work: When Wall Street Manages Main Street," New York, Russell Sage Foundation, May 2014.

⁴ Rob Kozlowski, "Hedge fund AUM rises in Q1 despite continued outflows," *Pensions & Investments*, April 17, 2019, <https://www.pionline.com/article/20190417/ONLINE/190419859/hedge-fund-aum-rises-in-q1-despite-continued-outflows>.

⁵ "All That Glitters Is Not Gold: An Analysis of U.S. Public Pension Investments in Hedge Funds," American Federation of Teachers, Haas Institute, ReFund America Project, Roosevelt Institute, November 6, 2015, <https://rooseveltinstitute.org/all-glitters-not-gold-analysis-u-s-public-pension-investments-hedge-funds/>.

⁶ "The Big Squeeze How Money Managers' Fees Crush State Budgets and Workers' Retirement Hopes" American Federation of Teachers, May 2017, <http://hedgeclippers.org/partner-report-no-6-with-aft-the-big-squeeze-how-money-managers-fees-crush-state-budgets-and-workers-retirement-hopes/>.

⁷ James B. Stewart, "Hedge Funds Should Be Thriving Right Now. They Aren't," *New York Times*, July 12, 2018, <https://www.nytimes.com/2018/07/12/business/hedge-funds.html>.

⁸ For more information see: <http://hedgeclippers.org>.

economy, rigged the political system, hurt families and communities, exploded inequality, and supported the politics of hate and division.

Our reports demonstrate how hedge fund managers have secured enormous management fees while cutting jobs,⁹ driving up the price of prescription drugs, profiting from the opioid and overdose epidemic, contributing to climate crisis¹⁰ and environmental damage,¹¹ and forcing austerity on the people of Puerto Rico.¹²

Wall Street's Growing Dominance is Hurting Our Communities

Wall Street's rapid expansion in every key sector of our economy poses an enormous risk to communities across the country.

The following section discusses private equity and hedge funds numerous and far-reaching negative impacts, as well as the human cost of Wall Street profiteering. This section specifically highlights several key sectors where Wall Street firms are amassing enormous profits at the expense of workers, renters, retirees, and people engaged in the criminal and immigration legal systems.

Wall Street's gamble on retail led to more than 1.3 million job losses in the last ten years

Private equity firms and hedge funds have rapidly expanded into retail, acquiring over 80 major retailers in the last decade.¹³ These risky deals have led to bankruptcies and significant job losses which have had far-ranging impacts on working families and local economies.

In July 2019, the Center for Popular Democracy, along with the Private Equity Stakeholder Project, United for Respect, Americans for Financial Reform, and Hedge Clippers, published the report "Pirate Equity: How Wall Street Firms are Pillaging American Retail."¹⁴ [This original analysis revealed Wall Street-driven retail bankruptcies have led to more than 1.3 million job losses in the last ten years.](#)

Nearly 600,000 people working at retail companies owned by Wall Street have lost their jobs during a period where the total retail industry *added* over one million additional jobs.¹⁵

⁹ "Hedge Papers No. 42, Billionaires Leon Black and Stephen Schwarzman Attack Momentive and Upstate New York," Hedge Clippers, January 2017, hedgeclippers.org/wp-content/uploads/2017/01/520160913_HedgeClippers_Report_37_Final_V4-1.pdf.

¹⁰ "Hedge Papers No. 67, Vulture Hedge Funds Attack California," American Federation of Teachers, Hedge Clippers, June 2019, hedgeclippers.org/wp-content/uploads/2019/06/HP67_PGandE-Wildfires-CA_final.pdf.

¹¹ "Hedge Papers No. 12, Cancerous Cash: How Hedge Funds Destroy American Health," hedgeclippers.org/wp-content/uploads/2015/05/HP12.pdf.

¹² "Hedge Papers No. 68: Pain And Profit Rosselló Is Gone But Vultures Still Prey On Puerto Rico," August 13, 2019, hedgeclippers.org/hedge-papers-no-68-pain-and-profit-rossello-is-gone-but-vultures-still-prey-on-puerto-rico/.

¹³ Private Equity Stakeholder Project analysis of PitchBook data related to private equity acquisitions.

¹⁴ Maggie Corser, Jim Baker, and Eli Vitulli, "Pirate Equity: How Wall Street Firms are Pillaging American Retail," Center for Popular Democracy, Private Equity Stakeholder Project, United for Respect, Americans for Financial Reform, Hedge Clippers, July 23, 2019, <https://populardemocracy.org/pirateequity>.

¹⁵ U.S. Bureau of Labor Statistics, "Employment, Hours, and Earnings from the Current Employment Statistics survey," Accessed May 1, 2019

Bankruptcies and store closures at retailers have also spurred layoffs at suppliers, affecting an estimated additional 728,000 indirect jobs.

These layoffs were concentrated in retail sub-sectors that employ larger numbers of women and people of color.¹⁶ As a result, Wall Street-driven retail job losses are disproportionately impacting women and people of color. In the coming years, the stakes remain high for the one million additional people who currently work at private equity and hedge fund-owned retailers and how may be at increased risk of losing their jobs in the future.

Job cuts and stock buybacks at GM and AT&T

General Motors recently announced large-scale plant closures and layoffs, with top executives claiming the company needs \$4.5 billion in savings to stay afloat, including closing the legendary Lordstown manufacturing plant in Ohio.¹⁷ However, GM has given over five times as much money -- \$25 billion -- to Wall Street hedge funds and other investors in the past four years, including over \$10 billion in controversial stock buybacks.¹⁸

For economists and long-term investors, stock buybacks are problematic moves that divert profits away from innovation and investments in workers.¹⁹

Stock buybacks also exacerbate racial wealth gaps. Share ownership mirrors broader inequality in this country, with shareholders being more likely to be wealthy and white. As a result, stock buybacks are significantly less likely to benefit low-income communities and communities of color.²⁰

Unfortunately, hedge fund managers often use stock buybacks to demand cash from companies they fund. If the company doesn't agree to pay, the hedge fund "activists" often start agitating, threatening to mount costly proxy battles and sometimes waging negative PR campaigns.²¹

https://data.bls.gov/timeseries/CES420000001?amp%253bdata_tool=XGtable&output_view=data&include_graphs=true.

¹⁶ U.S. Bureau of Labor Statistics, "Household Data Annual Averages 18. Employed persons by detailed industry, sex, race, and Hispanic or Latino ethnicity," Current Population Survey, January 18, 2019, <https://www.bls.gov/cps/cpsaat18.htm>. U.S. Bureau of Labor Statistics, "Household Data Annual Averages 18. Employed persons by detailed industry, sex, race, and Hispanic or Latino ethnicity," Current Population Survey, January 18, 2019, <https://www.bls.gov/cps/cpsaat18.htm>.

¹⁷ "Hedge Papers No. 66, Hedge Funds Attack General Motors and American Jobs," American Federation of Teachers, Hedge Clippers, March 8, 2018, hedgeclippers.org/hedge-funds-attack-general-motors-and-american-jobs/.

¹⁸ "Hedge Papers No. 66, Hedge Funds Attack General Motors and American Jobs," American Federation of Teachers, Hedge Clippers, March 8, 2018, hedgeclippers.org/hedge-funds-attack-general-motors-and-american-jobs/.

¹⁹ Irene Tung and Katy Milani, "Curbing Stock Buybacks: A Crucial Step To Raising Worker Pay And Reducing Inequality: An Analysis of Three Industries—Restaurant, Retail, and Food Manufacturing," National Employment Law Project, Roosevelt Institute, July 2018, http://rooseveltinstitute.org/wp-content/uploads/2018/07/The-Big-Tradeoff-Report_072618.pdf, 6.

²⁰ Susan R. Holmberg, "Who Are the Shareholders?" Roosevelt Institute, June 2018, <http://rooseveltinstitute.org/wp-content/uploads/2018/06/The-Shareholder-Myth.pdf>, 8-9.

²¹ William Lazonick, "The Curse of Stock Buybacks," *The American Prospect*, June 25, 2018, <https://prospect.org/power/curse-stock-buybacks/>.

Companies like GM often divert their profits to stock buybacks in order to fend off the possibility of hostile proposals from hedge funds and other short-term profit seekers.

Recently, Elliott Management, the hedge fund controlled by billionaire Paul Singer, made a similar “activist” attack on AT&T, the communications and media conglomerate in which Singer had amassed a \$3 billion stake.²² The hedge fund attack on AT&T threatened an estimated 30,000 jobs at the company²³ and, predictably, resulted in a large-scale corporate plan for \$30 billion in stock buybacks.²⁴

The Communications Workers of America called the plan “something only a hedge fund manager could love.”²⁵

Hedge fund demands--and the billion-dollar stock buybacks that come in the wake of hedge fund “activism”--are hollowing out American companies and destroying good jobs across the country, with devastating impacts on local communities and local economies. The “short-termism” promoted by aggressive hedge funds should be sharply limited by new laws and regulations designed to promote investments, productivity, and broad prosperity for all of us.

Puerto Rico’s current debt crisis was fueled by years of Wall Street’s risky and predatory practices, and now those same investors stand to gain.

Even before 2017’s Hurricane Maria caused thousands of deaths and an estimated more than \$100 billion in damages, millions of Puerto Ricans were already burdened by damage to the island’s social services and economy due to its \$72 billion in public debt.²⁶ While the Puerto Rican debt crisis is often framed as a result of financial mismanagement and reckless borrowing by the Puerto Rican government, Wall Street played a key role in pushing the unsustainable levels of debt.

Wall Street investors--attracted by federal and state tax exemptions, high rates, and legal guarantees they would be repaid regardless of PR’s financial outlook--aggressively pushed

Kai Haakon Liekefett and Sidley Austin, "The Hypocrisy of Hedge Fund Activists," Harvard Law School Forum on Corporate Governance and Financial Regulation, June 4, 2018

<https://corpgov.law.harvard.edu/2018/06/04/the-hypocrisy-of-hedge-fund-activists/>.

²² Aaron Pressman, "AT&T’s CEO Appeased Activist Investor Elliott Management," *Fortune*, October 28, 2019, <https://fortune.com/2019/10/28/at-t-ceo-appeased-activist-investor-elliott-management/>.

²³ Olga Kharif, "AT&T Union Says Elliott’s Proposals Could Affect 30,000 Jobs," *Bloomberg*, October 16, 2019, <https://www.bloomberg.com/news/articles/2019-10-16/at-t-union-says-elliott-s-proposals-could-affect-30-000-jobs>.

²⁴ Aaron Pressman, "AT&T’s CEO Appeased Activist Investor Elliott Management," *Fortune*, October 28, 2019, <https://fortune.com/2019/10/28/at-t-ceo-appeased-activist-investor-elliott-management/>.

²⁵ "AT&T’s New Financial Plan Caters to Wall Street and Leaves Customers and Employees Behind," Communication Workers of America, October 28, 2019, <https://cwa-union.org/news/releases/at-t-new-financial-plan-caters-wall-street-and-leaves-customers-and-employees-behind>.

²⁶ Mary Williams Walsh, "How Puerto Rico Is Grappling With a Debt Crisis," *New York Times*, May 16, 2017, <https://www.nytimes.com/interactive/2017/business/dealbook/puerto-rico-debt-bankruptcy.html> "Puerto Rico lost \$43 billion after Hurricane Maria, according to govt. report," *Associated Press*, December 4, 2018, <https://www.nbcnews.com/news/latino/puerto-rico-lost-43-billion-after-hurricane-maria-according-govt-n943441>.

predatory financial deals like capital appreciation bonds and toxic swaps.²⁷ Over the past six years, hedge funds like GoldenTree Asset Management bought Puerto Rico government bonds for cents on the dollar as the Puerto Rican economy dove ever deeper into an economic crisis.²⁸

Now, those same hedge funds are poised to profit as the island goes through bankruptcy and restructures its enormous debt. Puerto Rico's debt restructuring process is overseen by an unelected federal control board, the Financial Oversight and Management Board for Puerto Rico (FOMB) that is itself rife with conflicts of interest.²⁹

The FOMB is currently pushing a second debt restructuring deal through federal court, brokered with a coalition of hedge funds led by GoldenTree Asset Management, that offers to pay bondholders for bonds previously deemed illegal and null. In January 2019, the oversight board questioned the legality of \$6 billion of Commonwealth bonds on the grounds that they violated the constitutional debt limit (that total illegal debt later increased to over \$9 billion).³⁰

As they did with \$17 billion worth of sales tax-backed bonds (COFINA) in 2018, the FOMB is now proposing to pay this additional \$6 billion of illegal debt, and gloss over the question of the debt's legality.³¹ Other debt adjustment plans, covering the embattled water and power utilities' bonds, propose highly regressive rate hikes for Puerto Rico's residents and businesses, which would burden already struggling families.³²

Throughout this process, Wall Street firms have attempted to secure lucrative deals that maximize their profits at the expense of Puerto Rican families and retirees. For example, private equity firm the Blackstone Group has been fueling a foreclosure crisis on the elderly with

²⁷ Saqib Bhatti And Carrie Sloan, "Broken Promises: PROMESA is a Model for Undermining Democracy and Pushing Austerity Elsewhere in the U.S.," Action Center on Race and the Economy, ReFund America Project, Hedge Clippers, et al, <https://static1.squarespace.com/static/58d8a1bb3a041137d463d64f/t/5c41f2522b6a28e6c0cdf940/1547825771189/Broken+Promises+-+August+2017.pdf>, 4.

²⁸"Hedge Papers No. 68: Pain And Profit Rosselló Is Gone But Vultures Still Prey On Puerto Rico," Hedge Clippers, August 13, 2019, hedgeclippers.org/hedge-papers-no-68-pain-and-profit-rossello-is-gone-but-vultures-still-prey-on-puerto-rico/.

²⁹ "Hedge Papers No. 65 Insured To Profit: Conflicts Of Interests In The Career Of José Carrión III," Hedge Clippers, October 2018, hedgeclippers.org/wp-content/uploads/2018/11/HedgePaper_65_Insured-for-Profit_CarrionReport.pdf; "Pirates of the Caribbean: How Santander's Revolving Door with Puerto Rico's Development Bank Exacerbated a Fiscal Catastrophe for the Puerto Rican People," Hedge Clippers, December 13, 2016, <http://hedgeclippers.org/pirates-of-the-caribbean-how-santanders-revolving-door-with-puerto-ricos-development-bank-exacerbated-a-fiscal-catastrophe-for-the-puerto-rican-people/>.

³⁰ Abner Dennis and Kevin Connor, "Six Billion Reasons to Go After the Banks," Public Accountability Initiative, February 20, 2019, <https://public-accountability.org/report/six-billion-reasons-to-go-after-the-banks/>; Mary Williams Walsh, "Puerto Rico Seeks to Have \$9 Billion in Debt Ruled Unconstitutional," *New York Times*, May 2, 2019, <https://www.nytimes.com/2019/05/02/business/puerto-rico-debt-banks.html>.

³¹ "Hedge Papers No. 68: Pain And Profit Rosselló Is Gone But Vultures Still Prey On Puerto Rico," Hedge Clippers, August 13, 2019, hedgeclippers.org/hedge-papers-no-68-pain-and-profit-rossello-is-gone-but-vultures-still-prey-on-puerto-rico/.

³² "Hedge Papers No. 68: Pain And Profit Rosselló Is Gone But Vultures Still Prey On Puerto Rico," Hedge Clippers, August 13, 2019, hedgeclippers.org/hedge-papers-no-68-pain-and-profit-rossello-is-gone-but-vultures-still-prey-on-puerto-rico/.

reverse mortgages.³³ Blackstone went so far as to foreclose on these families in the aftermath of Hurricane María.³⁴

Wave after wave of austerity measures have crippled Puerto Rico's economy and quality of life, including the closing of over 400 public schools, slashing half of the budget of the University of Puerto Rico, drastically cutting the budgets of local government municipalities tasked with providing essential services, and impending pension cuts that affect over 65,000 Puerto Rican retirees and 158,000 working families on the island.³⁵

Private Equity firms cash in on the prison and immigrant detention industries

Private equity firms have seen enormous profits through rapid expansion into the criminal justice and immigrant detention industries--industries that are booming as a result of laws unfairly targeting and criminalizing Black and Latinx communities.³⁶ Hundreds of thousands of people are currently being held in prisons, jails, and detention facilities where private equity-run companies receive lucrative government contracts.³⁷ Private equity firms like H.I.G. Capital, Platinum Equity, Endeavour, and American Services run companies that provide health services, phone services, commissary services, and bail bonds within public and private prisons.

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³³ Matthew Goldstein, "The Next Crisis for Puerto Rico: A Crush of Foreclosures," *New York Times*, December 16, 2017, <https://www.nytimes.com/2017/12/16/business/puerto-rico-housing-foreclosures.html>.

³⁴ "TPG Capital and Blackstone affiliates at center of Puerto Rico foreclosure crisis," Private Equity Stakeholder Project, January 26, 2018, <https://pestakeholder.org/tpg-capital-and-blackstone-affiliates-at-center-of-puerto-rico-foreclosure-crisis/>.

³⁵ Patricia Mazzei, "Puerto Rico's Schools Are in Tumult, and Not Just Because of Hurricane Maria," *New York Times*, June 1, 2018, <https://www.nytimes.com/2018/06/01/us/puerto-rico-school-closings.html>.

Vann R. Newkirk II, "The Situation in Puerto Rico Is Untenable," *The Atlantic*, September 20, 2018, <https://www.theatlantic.com/politics/archive/2018/09/hurricane-maria-anniversary-puerto-rico-trump/570928/>.

Elizabeth Redden, "Deep Cuts in Puerto Rico," *Inside Higher Ed*, July 11, 2019, <https://www.insidehighered.com/news/2019/07/11/university-puerto-rico-faces-deep-cuts-appropriations>.

Abner Dennis, "A Guide to Puerto Rico's Debt Adjustment Plan: Cuts for Pensioners and Payments on Allegedly Illegal Debt," Little Sis, October 16, 2019, <https://news.littlesis.org/2019/10/16/a-guide-to-puerto-ricos-debt-adjustment-plan-cuts-for-pensioners-and-payments-on-allegedly-illegal-debt/>.

³⁶ U.S. Bureau of Justice Statistics data for 2017, analyzed by The Sentencing Project, "State-by-state Data," Accessed November 15, 2019, <https://www.sentencingproject.org/the-facts/#map?dataset-option=SIR>; Mayra Rodriguez Valladares, "Private Equity Should Stop Profiting From Immigration Detention Centers And Private Prisons," *Forbes*, July 27, 2019, <https://www.forbes.com/sites/mayrarodriguezvalladares/2019/07/27/private-equity-should-stop-profiting-from-immigration-detention-centers-and-private-prisons/#7fbec6df6dd3>.

³⁷ "Private Equity-owned Firms Dominate Prison And Detention Services," Private Equity Stakeholder Project, December 2018, <https://pestakeholder.org/wp-content/uploads/2018/09/PE-Incarceration-Detention-PESP-122018.pdf>. "The Prison Industrial Complex: Mapping Private Sector Players," Worth Rises, April 2019, <https://static1.squarespace.com/static/58e127cb1b10e31ed45b20f4/t/5cc7c27b9e3a8d00018649c5/1556595324791/The+Prison+Industrial+Complex+-+Mapping+Private+Sector+Players+-+2019.pdf>.

³⁸ "Private Equity-owned Firms Dominate Prison And Detention Services," Private Equity Stakeholder Project, December 2018, <https://pestakeholder.org/wp-content/uploads/2018/09/PE-Incarceration-Detention-PESP-122018.pdf>.

These prison and detention facilities are rife with human rights abuses, including sub-par medical treatment, unsafe conditions, and even death.³⁹ In addition, these Wall Street firms have been criticized for predatory financial practices in correctional facilities. For instance, the prison phone provider Securus Technologies, owned by Platinum reportedly charged as much as \$25 for a 15-minute phone call from local jails, in addition to extensive fees.⁴⁰

Against a backdrop of Trump's "zero tolerance" and family separation policies, the private immigrant detention industry is booming. Over 60% of immigrants in detention are held in private facilities that private equity firms either run or provide contracted services to.⁴¹ As of April 2019, one in six immigrant children being held by the government were in a shelter owned by a single private equity owner, Thomas Campbell from DC Capital Partners.⁴² DC Capital Partners owns Comprehensive Health Services (CHS), the only for-profit youth migrant shelter operator in the country.⁴³ In 2018 alone CHS received more than \$210 million from the federal government to run immigrant shelters.⁴⁴

Until recently, up to 3,000 immigrant children and youth were held at the Homestead, Florida-based shelter, including some who had been separated from their families as a result of Trump's immigration policies.⁴⁵ Following public outcry and intense scrutiny, the federal

³⁹ Jim Baker, "Hig Capital's And Wellpath's Correctional Healthcare Investment Risks," Private Equity Stakeholder Project, July 2019, <https://pestakeholder.org/wp-content/uploads/2019/07/HIG-Capitals-Correctional-Healthcare-Investment-Risks-PESP-070819.pdf>;

Marsha McLeod, "The Private Option," *The Atlantic*, September 12, 2019,

<https://www.theatlantic.com/politics/archive/2019/09/private-equitys-grip-on-jail-health-care/597871/>.

⁴⁰ Laura Davison, "Warren, Ocasio-Cortez Probe Private Equity Firms With Prison Ties," *Bloomberg*, October 1, 2019,

<https://www.bloomberg.com/news/articles/2019-10-01/warren-ocasio-cortez-probe-private-equity-with-prison-ties>.

⁴¹ "Private Equity-owned Firms Dominate Prison And Detention Services," Private Equity Stakeholder Project, December 2018,

<https://pestakeholder.org/wp-content/uploads/2018/09/PE-Incarceration-Detention-PESP-122018.pdf>;

Livia Luan, "Profiting from Enforcement: The Role of Private Prisons in U.S. Immigration Detention," Migration Policy Institute, May 2, 2018,

<https://www.migrationpolicy.org/article/profitting-enforcement-role-private-prisons-us-immigration-detention>; "Detention by the numbers," Freedom for Immigrants, <https://www.freedomforimmigrants.org/detention-statistics>.

⁴² Deniz Cam, "One In Six Migrant Children In The U.S. Are Staying At A Shelter Operated By A Private Equity Tycoon," *Forbes*, April 10, 2019,

<https://www.forbes.com/sites/denizcam/2019/04/10/one-in-six-migrant-children-in-the-us-are-staying-at-a-shelter-operated-by-a-private-equity-tycoon/#7f788fc4687e>.

⁴³ United States Securities And Exchange Commission, "Caliburn International Corporation: Form 2-1 Registration Statement," October 19, 2018,

https://www.sec.gov/Archives/edgar/data/1750690/000119312518303218/d632104ds1.htm#toc632104_2, 31; Deniz Cam, "One In Six Migrant Children In The U.S. Are Staying At A Shelter Operated By A Private Equity Tycoon,"

Forbes, April 10, 2019,

<https://www.forbes.com/sites/denizcam/2019/04/10/one-in-six-migrant-children-in-the-us-are-staying-at-a-shelter-operated-by-a-private-equity-tycoon/#7f788fc4687e>.

⁴⁴ Deniz Cam, "One In Six Migrant Children In The U.S. Are Staying At A Shelter Operated By A Private Equity Tycoon," *Forbes*, April 10, 2019,

<https://www.forbes.com/sites/denizcam/2019/04/10/one-in-six-migrant-children-in-the-us-are-staying-at-a-shelter-operated-by-a-private-equity-tycoon/#7f788fc4687e>.

⁴⁵ U.S. House of Representatives, "Child Separations by the Trump Administration Prepared for Chairman Elijah E. Cummings Staff Report Committee on Oversight and Reform U.S. House of Representatives," July 2019, cdn.cnn.com/cnn/2019/images/07/12/staff.report.-immigrant.child.separations.pdf.

government announced in August 2019 that Homestead would be closed.⁴⁶ However, as of October 2019, CHS was seeking permission to expand its Texas-based migrant detention operations.⁴⁷

Private equity has played a particularly pernicious role in the affordable housing crisis

The private equity industry began targeting the housing market in the wake of the 2008 housing crisis (a crisis which was caused by risky Wall Street deals and financial engineering schemes). As millions of American families lost their homes to foreclosure, firms like the Blackstone Group, which owns the single family rental subsidiary Invitation Homes, began buying houses by the thousands, at a fraction of their value.⁴⁸

Today, Blackstone is the world's largest landlord.⁴⁹ Blackstone's business model relies on driving rents up as high as possible.⁵⁰ On average, Blackstone raises rents by 5%, which is double the national average of about 2.7%.⁵¹

Rent-burdened households struggling with rising rents, have little money for necessities and little ability to contribute to local economies by patronizing local businesses. Across the rental market, tenants at private equity-owned rental properties also face a higher eviction rate than those with traditional landlords.⁵²

Graham Kates, "Migrant children facility in Homestead, Florida, to close," *CBS News*, October 29, 2019, <https://www.cbsnews.com/news/migrant-children-holding-facility-in-homestead-florida-to-close/>.

⁴⁶ Graham Kates, "Migrant children facility in Homestead, Florida, to close," *CBS News*, October 29, 2019, <https://www.cbsnews.com/news/migrant-children-holding-facility-in-homestead-florida-to-close/>.

⁴⁷ Edgar Walters, Ryan Murphy, and Darla Cameron, "Thousands of migrant kids are living in Texas shelters," *The Texas Tribune*, October 4, 2019, <https://apps.texastribune.org/features/2018/texas-migrant-children-shelters/>.

⁴⁸ Janet Morrissey, "Big Money Bets on a Housing Rebound," *New York Times*, December 8, 2012

<http://www.nytimes.com/2012/12/09/business/financiers-bet-on-rental-housing.html?mtrref=undefined&mtrref=www.nytimes.com&gwh=67C0602261D30FDE18EFC5340CB18156&gwt=pay>; Motoko Rich, "Investors are Looking to Buy Homes by the Thousands," *New York Times*, April 2, 2012

<http://www.nytimes.com/2012/04/03/business/investors-are-looking-to-buy-homes-by-the-thousands.html?mtrref=undefined&mtrref=www.nytimes.com&gwh=B6B9B2B7615959AF77CE8A85142CD946&gwt=pay>.

⁴⁹ Stephen Gandel, "Private Equity Likes the Look of Blackstone's Real Estate Model," *Bloomberg*, February 13, 2019,

<https://www.bloomberg.com/news/articles/2019-02-13/private-equity-likes-the-look-of-blackstone-s-real-estate-model>.

⁵⁰ See Invitation Homes SEC filing 10-K, Year Ending December 2016 *listing inability to increase rents among the company's risk factors*,

<https://www.invh.com/Cache/391435636.PDF?O=PDF&T=&Y=&D=&FID=391435636&iid=4426247>, 15; Invitation Homes, Earnings Release and Supplemental Information Third Quarter 2017, *boasting of "another quarter of 5% renewal rate growth" or rent increases*,

<https://www.invh.com/Cache/1001229447.PDF?O=PDF&T=&Y=&D=&FID=1001229447&iid=4426247>, 2.

⁵¹ U.S. Census Bureau, American Community Survey, Housing: Financial Characteristics 2005-2016.

Invitation Homes, 10-K, Year Ending December 31, 2016.

<https://www.sec.gov/Archives/edgar/data/1687229/000168722917000005/a123116ihalls10k.htm#s3240a6ba23cf48f1bd498bc1530e9431>.

⁵² Federal Reserve Bank of Atlanta, "Corporate Landlords, Institutional Investors and Displacement: Eviction Rates in Single Family Rentals," December 2016,

<https://www.frbatlanta.org/community-development/publications/discussion-papers/2016/04-corporate-landlords-institutional-investors-and-displacement-2016-12-21>.

High eviction rates, or ever-increasing rents that force families to keep moving, disrupt community ties, decrease job security,⁵³ complicate healthcare access,⁵⁴ and interfere with children's schooling.⁵⁵ Rising rents not only displace long-term residents of "hot markets," but prevent low and middle income residents from moving to those cities that may offer them the greatest opportunity for gainful employment or quality education for their children, contributing to income inequality.⁵⁶

The affordable housing crisis is particularly acute in low-income communities, who overwhelmingly pay a large portion of their already-small income on housing,⁵⁷ and communities of color, who have faced decades of legal and extra-legal residential segregation, housing discrimination, predatory lending, and exclusionary lending practices, such as redlining.⁵⁸

Private funds are driving economic inequality

The 2019 Forbes 400 list of the very richest Americans includes 19 private equity billionaires (18 white men and one African-American man) with total fortunes of \$82.8 billion and 22 hedge fund billionaires (all white men) with total fortunes of \$158.6 billion.⁵⁹

That's 41 billionaires who made *\$244.5 billion* in wealth from private funds -- all while Wall Street-owned companies were evicting tenants, driving austerity in Puerto Rico, killing jobs and extracting resources from communities of color.

Despite being some of the wealthiest people in the country, private equity and hedge fund managers use a number of tax avoidance schemes, including the carried interest loophole, all of which allow them to pay taxes at a lower rate than many working Americans.⁶⁰

⁵³ Matthew Desmond and Carl Gershenson, "Housing and Employment Insecurity Among the Working Poor," *Social Problems*, 2016, 0, 1–22.

<http://scholar.harvard.edu/files/mdesmond/files/desmondgershenson.sp2016.pdf?m=1452638824>.

⁵⁴ Megan Sandel, et al. "Unstable Housing and Caregiver and Child Health in Renter Families," *Pediatrics*, January 2018. <http://pediatrics.aappublications.org/content/early/2018/01/18/peds.2017-2199>.

⁵⁵ Martha Galvez and Jessica Luna, "Homelessness and Housing Instability: The Impact on Education Outcomes," Urban Institute, December 2014, https://tacomahousing.net/sites/default/files/print_pdf/Education/Urban%20Institute%20THA%20Homelessness%20and%20Education%202014-12-22.pdf.

⁵⁶ Peter Ganong and Daniel Shoag, "Why has Regional Income Convergence in the US Declined?" Harvard University, https://scholar.harvard.edu/files/shoag/files/why_has_regional_income_convergence_in_the_us_declined_01.pdf.

⁵⁷ "The Gap: A Shortage of Affordable Homes," The National Low Income Housing Coalition, March 2019, https://reports.nlihc.org/sites/default/files/gap/Gap-Report_2019.pdf.

⁵⁸ John A. Powell and Kaloma Cardwell, "Homeownership, Wealth, and the Production of Racialized Space," Joint Center for Housing Studies of Harvard University, October 2013, <https://www.jchs.harvard.edu/sites/default/files/hbtl-07.pdf>; Sarah Burd-Sharps and Rebecca Rasch, *Impact of the US Housing Crisis on the Racial Wealth Gap Across Generations*, Social Science Research Council and the American Civil Liberties Union, June 2015, https://www.aclu.org/sites/default/files/field_document/discrimlend_final.pdf.

⁵⁹ Luisa Kroll and Kerry A. Dolan, "The Forbes 400: The Definitive Ranking Of The Wealthiest Americans," *Forbes*, October 2, 2019, <https://www.forbes.com/forbes-400/#445e0b357e2f>.

⁶⁰ "The Buffett Rule: A Basic Principle of Tax Fairness," The National Economic Council, April 2012, https://obamawhitehouse.archives.gov/sites/default/files/Buffett_Rule_Report_Final.pdf, 6. U.S. Bureau of Labor Statistics, "Occupational Employment and Wages, 29-1141 Registered Nurses," May 2017, <https://www.bls.gov/oes/2017/may/oes291141.htm>; US Bureau of Labor Statistics, "Occupational Outlook Handbook: Firefighters," April 12, 2019, <https://www.bls.gov/ooh/protective-service/firefighters.htm>; U.S. Bureau of Labor Statistics, "Occupational Outlook Handbook, High School Teachers," April 23, 2019, <https://www.bls.gov/ooh/education-training-and-library/high-school-teachers.htm>.

Straightforward and forceful reform and regulation of private funds is necessary to reverse runaway inequality and restore basic fairness in our economy, with an eye towards facilitating broader prosperity for all Americans.

How do private equity firms and hedge funds get away with these businesses practices?

The private equity industry claims it amasses huge profits by using investor capital to buy “undervalued” or inefficient companies, using their management expertise to make the companies’ operations more efficient, and then selling the companies at a profit.

In reality, private equity funds often load massive and unsustainable amounts of debt onto the companies they buy, strip them of their assets, shrink worker pay and benefits, and extract exorbitant fees, guaranteeing payouts for themselves with little regard for how the company performs long term. They can walk away from workers, consumers, communities, and investors if their bet goes bad and the company fails.⁶¹

Private funds follow a playbook to insulate financial firms from risk and secure enormous profits at the expense of working people

First, they often exploit a range of lucrative tax loopholes and bankruptcy code manipulations to boost profits and avoid regulations.

And second, they protect themselves from sharp scrutiny and appropriate oversight by rigging the system with huge campaign contributions, multi-million dollar lobbying campaigns and other dark-money efforts.⁶²

Last year’s debacle at Toys “R” Us was the last straw: it marked the beginning of a strong fightback effort by workers, communities and principled elected officials against the greed and self-dealing of private funds.

In a nationwide grassroots effort, Toys “R” Us workers fought the private equity funds that destroyed their company, shining a bright spotlight on the damage suffered by their families and communities while a small number of fund managers, lawyers and corporate executives got huge payoffs.

⁶¹ Eileen Appelbaum and Rosemary Batt, “Private Equity at Work: When Wall Street Manages Main Street,” New York, Russell Sage Foundation, May 2014.

⁶² Ben Protess, Jessica Silver-Greenberg and Rachel Abrams, “How Private Equity Found Power and Profit in State Capitols,” *New York Times*, July 14, 2016, <https://www.nytimes.com/2016/07/15/business/dealbook/private-equity-influence-fortress-investment-group.html>; “Industry Profile: Private Equity & Investment Firms,” Open Secrets - Center for Responsive Politics, Accessed November 15, 2019, <https://www.opensecrets.org/federal-lobbying/industries/summary?cycle=2018&id=F2600>; Alan Rappeport, “Trump Promised to Kill Carried Interest Deduction. Lobbyist Kept It Alive,” *New York Times*, December 23, 2017, <https://www.nytimes.com/2017/12/22/business/trump-carried-interest-lobbyists.html>.

Organized as United For Respect, these workers won a landmark \$20 million hardship fund for themselves and their families⁶³ -- but they didn't stop there.

They kept working with allies at CPD, Americans for Financial Reform and others to help inform and push for the first comprehensive legislation in decades aimed at reforming private funds and reining in Wall Street greed.

The “Stop Wall Street Looting Act” is designed to strengthen the regulatory oversight of private equity firms and hedge funds, while closing key loopholes -- it would essentially make what happened at Toys “R” Us illegal. This bill represents a new popular push by regular Americans to fight financialization and demand an economy that works for the many, not just the billionaires.

The “Stop Wall Street Looting” Act will:

Require Private Investment Firms to Take Real Responsibility for Their Deals. Firms will share responsibility for the liabilities of companies under their control including debt, legal judgments and pension-related obligations, to better align the incentives of private equity firms and the companies they own. In order to discourage irresponsible leverage, the bill ends the tax loophole for excessive leverage and closes the carried interest loophole.

End Looting of Companies They Own. To give private equity owned companies a shot at success, the proposal bans dividends to investors for two years after a firm is acquired and ends the extraction of value from acquired companies through excessive fees.

Protect Communities, Workers, and Customers. This proposal prevents private equity firms from walking away when a company fails and protects stakeholders by:

- Prioritizing worker pay in the bankruptcy process and improving rules so workers are more likely to receive severance, their promised pensions, and other payments they earned.
- Creating incentives for job retention so that workers who are always the hardest hit can benefit from a company's second chance.
- Ending the immunity of private equity firms from legal liability when their companies break the law, including the WARN Act. When people are abused at private prisons or children are hurt at child care facilities because private equity firms force portfolio companies to cut corners, the firm should be liable.
- Ensuring consumers are not left with worthless gift cards from failed companies by giving them higher priority in bankruptcy proceedings.

Empower Investors by Increasing Transparency. Private equity managers will be required to clearly disclose fees and returns so that investors can monitor their investments and shop

⁶³ Erin Corbett, "Former Toys 'R' Us Workers Will Receive \$20 Million via a Hardship Fund," *Fortune*, November 20, 2018, <https://fortune.com/2018/11/20/toys-r-us-workers-20-million-hardship-fund/>.

around. The bill will also prevent firms from forcing investors to waive their fiduciary duties and end secret side deals that privilege some investors over others.

Require Risk Retention. Reinstates the Dodd-Frank provision that requires arrangers of corporate debt securitization to retain some of the risk.

Hedge fund reforms are also needed

Leading lawmakers have also introduced legislation to limit hedge fund “wolf packs” and to crack down on hedge fund abuses.⁶⁴

However, there is a solid case to outlaw hedge funds altogether. Hedge funds, which were accidentally created by a loophole in the “1940 Investment Company Act,” were later enormously expanded in the “1996 National Securities Market Improvement Act.”⁶⁵

Legislation that amends the “1940 Investment Company Act” to push highly speculative hedge fund managers back into limited business lines and the “1996 National Securities Market Improvement Act” to limit investment from pension funds, endowments and other institutional investors could end the hedge funds’ disastrous impacts and sweeping power over the economy, workers and communities.

Conclusion

It’s time to level the playing field, protect workers, consumers and investors, and force private funds to take responsibility for the success of companies they control. This can be achieved by closing the key loopholes that allow them to capture all the rewards of their investments while insulating themselves from risk. As detailed in this written testimony, the Center for Popular Democracy enthusiastically supports the “Stop Wall Street Looting Act.” Our national network of 53 grassroots community organizations in 131 cities urges the House Financial Services Committee to continue its timely and important discussions on the key policy solutions that will ensure greater Wall Street accountability.

⁶⁴ Liz Moyer, “2 Senate Democrats Introduce Bill to Curb Activist Hedge Funds,” *New York Times*, March 17, 2016, <https://www.nytimes.com/2016/03/18/business/dealbook/2-senate-democrats-introduce-bill-to-curb-activist-hedge-funds.html>.

⁶⁵ David Dayen, “End Hedge Funds,” January 25, 2019, <https://tinyletter.com/DavidDayen/letters/end-hedge-funds>.