Blackstone Goes Public

The giant private equity firm's public offering is the equivalent of a canary in the mine.

Coal miners used to take canaries down into the mines as an early warning system; if the canary died, it was time for the miners to evacuate. Blackstone, the giant private equity group, undoubtedly would prefer a more testosterone-soaked metaphor, but in selling shares to the public, the firm is acting like the proverbial canary, signaling that changes are afoot.

Blackstone Group, founded in 1985 by Peter G. Peterson and Stephen Schwarzman, has some $88 billion in funds under management, and owns all or parts of companies which employ some 375,000 people. While predominately a private equity fund which uses its clients' money and borrowed funds to buy companies, Blackstone is also a major player in the real estate market and a hedge fund operator. The company went public, raising $4 billion in cash; its stock began trading on the New York Stock Exchange on June 22.

One of the mantras of the private equity and hedge fund sector in recent years has been that because they are private partnerships, they can respond more quickly and aggressively to market situations than can companies which have to answer to shareholders, and thus make money more effectively. However, if being private is the key to their success, why are they now going public? Wouldn't having shareholders make them less efficient, by their own claims?

This, of course, is where the story starts to get interesting. The IPOs by Fortress Investment and Blackstone, and the rumors that others such as KKR are considering the same, are signs that they know the game is over, and are hoping to cash out before it all blows up. By going public, they are spreading the risk among a larger number of stockholders—right before the blowout they anticipate.

Joseph Rice III, the chairman of buyout firm Clayton, Dubilier & Rice, made the same point when he told Bloomberg recently that private equity activity appeared to be"pretty close to the peak."Rice characterized the recent record levels of private equity deals as being at a "cyclical high," adding that "some event may cause us to tip over."

Another, far more significant signal came from the Bank for International Settlements (BIS), the Swiss-based institution which functions as a central bank of sorts for the global central banking system. In its annual report issued June 24, the BIS suggested that the "current rapid expansion" of monetary and credit growth will have to be ended to keep inflation under control.

Blackstone is an insider in this game. Peterson and Schwarzman were formerly with Lehman Brothers, and Peterson has an even longer connection to Lazard. Peterson was tapped by George Shultz to join the Nixon Administration in 1971, to head the team writing the justification for taking the dollar off the gold reserve standard, and was rewarded with a stint as Secretary of Commerce, after which he joined Lehman Brothers as deputy chairman and then, chairman. During his tour in Washington, his blind trust was managed by Lazard's Felix Rohatyn, who is now at Lehman himself.

Blackstone is an outgrowth of those connections. Its new board of directors includes Lord Jacob Rothschild, and its international advisory board includes David Verey, the former chairman of Lazard Brothers in London; Ivan Pictet of Pictet & Cie., one of the largest private banks in Switzerland; and Jacob Wallenberg, chairman of Skandinaviskia Enskilda Banken and head of the Wallenberg family investment firm. It also includes Niall FitzGerald, a Knight Commander of the British Empire who is a former chairman of the Anglo-Dutch Unilever and current head of Reuters; and Maurice Levy of the advertising giant Publicis, whose board includes Rohatyn, former Lazard chairman Michel David-Weill, and Rothschild et Cie.'s Gerard Worms.

The fantasy of the Anglo-Dutch imperial financiers is that they can gradually take down the bubble as they reorganize the world politically around their markets and their imperial cartels. Such a takedown would be brutal and bloody, the equivalent of cutting off heads to fit a declining number of hats. The financiers believe that they have virtualized the system to the point that they can control its disintegration, lopping limbs off here and there, and hiding much of the damage in the hedge fund/derivatives casino.

They are wrong, and their faith in mathematical formulae and market manipulation is misplaced. Their system cannot be fixed from within, as the solution to the crisis lies outside the realm of finance. The real problem is the way the productive sector of the U.S. economy has been systematically dismantled and replaced with financial speculation and paper-pushing.

Solving this problem requires using the power and credit of sovereign governments to rebuild our productive base. Physical economy, not finance, is the answer.