

The Locusts Plead For 'Fair Treatment'

by Mike Billington

Franz Müntefering, the former chairman of the German Social Democratic Party (SPD), told a party conference in April that private equity funds and hedge funds had descended upon German industry like “swarms of locusts,” draining corporations of their productive wealth and labor for short term gain, with great harm to the nation’s interests. “Some financial investors don’t waste any thoughts on the people whose jobs they destroy,” said Müntefering. “They remain anonymous, have no face, fall like a plague of locusts over our companies, devour everything, then fly on to the next one.”

On Dec. 7, David Rubinstein, the founder of one of the leading “locusts,” the Carlyle Group, spoke before the prestigious Institute for International Economics (IIE) in Washington, D.C., calling upon the great powers of Wall Street and the U.S. government to join forces to demand “fair play” for these multi-billion dollar speculators, against foes such as Müntefering. None of the assembled financiers and investors appeared to appreciate the irony of Rubinstein’s protestations.

‘We’re Taking Over the World’

Rubinstein was not shy about extolling the incredible power of the private equity funds he was speaking for. He bragged that the funds are “taking over the world,” that “equity funds now dominate Wall Street,” and that “mergers and acquisitions are now almost entirely done by private equity funds.”

The combined private funds now manage over \$770 billion, provided by the world’s richest people, leveraging that amount five-fold, by borrowing about 80% of the money used for their corporate buyouts. They provide returns of 30% a year and more to their clients, while reaping huge fortunes for themselves.

Rubinstein honestly recounted how the system used to determine the funds’ cut of the loot comes straight from Venice—the same Venice which still today serves as the model for financial-oligarchical interests against those of sovereign nation states. The “fondi” of Venice, in sending out their ships to trade in silks, gold, and slaves, would charge only 1-2% as a fee, but would take 20% of the profits. And such is the practice of the funds still today, as they subvert the sovereignty of nation states in order to bring wealth—and power—to the modern-day doges they represent.

But, explained Rubinstein, these funds are running into opposition, as some national leaders seem to believe that they have the right to defend their industries and their nations against the “shareholder value” of the funds’ clients. Rubinstein complained that he had been picketed at a speech he gave recently in Germany, where posters portrayed him as the “head locust.” “They complain that we are shutting down factories and eliminating jobs,” he said, but they don’t appreciate that “we are bringing the concept of shareholder value to Europe’s inefficient social state policies,” and thus helping them become more efficient. He added that Japan is also causing problems, by imposing a 20% “withholding tax” on foreign equity funds which come to buy out their industries. Rubinstein noted that this “withholding” is effectively a real tax, since “none of the equity funds want to file the disclosures required to retrieve the withheld funds.”

“The U.S. government must do something to make sure U.S. capital is treated fairly overseas,” Rubinstein said, without so much as a titter in the audience. One problem, he added, is that, “with all the lobbies in D.C., there is no lobby representing the interests of the private equity funds on The Hill.” This is particularly humorous since it is well known that private equity funds in general, and the Carlyle Group in particular, are virtually synonymous with “The Hill.” Rubinstein himself was in the Carter Administration, and Carlyle has had on its payroll the likes of former President George H.W. Bush and former Secretary of Defense Frank Carlucci. Nor is it the U.S. government alone which runs a revolving door at Carlyle, as former British Prime Minister John Major once headed Carlyle Europe, and similarly around the world. What lobbyists could be found with greater inside influence than these?

Dinosaurs

Of course, it is not Franz Müntefering alone rallying against the cancerous growth of the private funds. Even Jochen Sanio, president of Germany’s Federal Financial Supervisory Authority, warned earlier this year that the funds “posed a risk to the stability of the financial system,” calling them a “black hole” that needed to be brought under proper regulation.

Rubinstein was asked by an *EIR* representative to respond to recent published reports by Standard and Poor’s and the *Wall Street Journal*, expressing the concern of corporate leaders that private equity and hedge funds have used their mounting strength on corporate boards to divert profits needed for development as payouts to stockholders.

On hearing the name *EIR*, IIE director C. Fred Bergsten ran up to the podium to whisper in Rubinstein’s ear that he should be careful, LaRouche is here! Rubinstein dodged the question, claiming that he knew nothing of such matters, and falsely asserted that private equity funds are nothing like hedge funds.