Common Error No. 30 [1]

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30. "Private equity firms do nothing but make excess profits at the expense of jobs."

Private equity firms specialize in making more efficient use of resources than is currently being made. They look for opportunities where a firm is under-performing. Typically they might consider that not enough use is being made of the firm's resources, and that better management and organization might get more out of them. These are in no sense "excess profits," though they are higher profits; that is the point of the exercise.

Very often the private equity bidders will put their own money into a venture as well as borrowed money. They calculate that the return they can get a company to yield will be sufficiently greater than the interest on the loan to make it worthwhile, and that their own funds will see a significant return in the process.

It is not true to say that private equity takeovers result in job losses. They can in the short term, but most often their effect is to improve the company's performance, to secure its market position, and to expand the areas in which it succeeds. The net result is more jobs, not less, and more secure long-term jobs at that.

The shareholders benefit, too, from the higher than market price the private equity group pays for their shares. In cases where some shareholders opt to retain minority holdings in the restructured firm, they gain, too, from the enhanced performance achieved by the new owners.

The economy as a whole gains by having its resources used more efficiently and contribute more to the economic growth of the nation. The firms taken over by private equity nearly always become more competitive as well as more successful, able to bring business to the country that might otherwise have gone to foreign competitors.

The rise of private equity groups has brought benefits throughout the economy, turning under-performing firms into success stories.

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