



**PUBLIC SERVICES
INTERNATIONAL**

The global union federation of workers in public services

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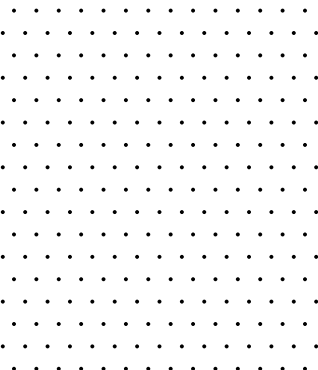
ENGLISH



Care Givers and Takers

How finance extracts wealth from the care sector and harms us all

CASE STUDIES AND STRATEGIES FOR CHANGE



Public Services International (PSI) is the Global Union Federation (GUF) that represents the whole of the Care Sector. Our affiliates represent care workers in the global north and the global south. We fight for the rights and voice of care workers in the private, public and not for profit care sectors and across local and regional government, national government and in the health sector.

We work with global norm setting bodies to fight for the rights of care workers and the provision of care as a public good - not a profit making activity. We are the only Global Union Federation with representative status at the World Health Organisation (WHO). We fight for the social re-organisation of care, care as a human right, and with our affiliates we organise care workers to build their power and voice. We have a strong focus on the women and migrant workers that make up the majority of the care workforce.

PSI is a global trade union federation whose affiliates represent 30 million working women and men who deliver vital public services in 163 countries in both the public and private sector. PSI champions human rights, advocates for social justice and promotes universal access to quality public services. PSI works with the United Nations system and in partnership with labour, civil society and other organisations.

This publication was made possible through the generous support of Friedrich Ebert Stiftung.

Note: to find out more about the types of methods used in financialisation, please refer to PSI's companion document, [Ten Tricks: a short handbook of financial engineering](#).

By Nicholas Shaxson, for Public Services International, with collaboration from Vivek Kotecha

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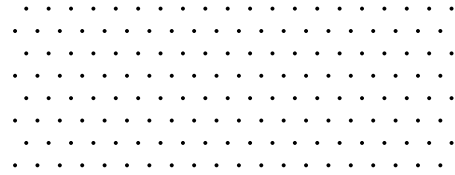


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The Covid crisis has cut a deadly swathe across the social care sector - while reminding us of the importance of quality care services for our societies.

Yet long before Covid hit, another deadly trend has been wreaking havoc in care. This has two parts. The first, better-known part, is the privatisation of a sector once largely provided by the state. This has been problematic and widely criticised, for the profit motive does not sit comfortably with the care imperative, but this privatisation juggernaut has pushed steadily forwards for decades. In 1979, for instance, nearly [two](#) out of three residential and nursing home beds in the UK were provided by the State; by 2017 this had [fallen](#) to one in twenty. At the same time, austerity in many countries has meant that government spending on the sector has [stagnated or fallen](#).

This report focuses on a second, more hidden trend. Few employed in the care sector are aware of it, let



Introduction

alone understand how it works or how it should be confronted. Academics call it “**financialisation**”. Some have spoken of it as ‘capitalism on steroids.’

What this means is that financial actors, such as private equity firms, hedge funds or banks, have become increasingly active in this sector as financial investors. They often deploy tools, techniques and tricks – each quite legal, many highly acquisitive, often involving large-scale borrowing - to syphon wealth out of this sector for themselves, instead of investing for better care.

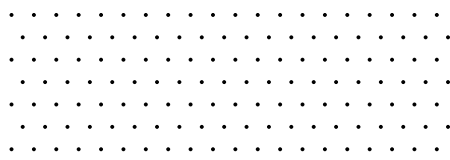
This report focuses quite heavily on private equity, which has pioneered the most problematic approaches and is a poster child for this capitalism on steroids. Like any regular businesses, private equity firms do many useful things – such as providing care, investing in better IT systems, and more. But these would generally be provided by any investors in the care sector, or by non-profits or state providers. The core problem this report focuses on is the financial tools and techniques and tricks that this under-regulated sector has pioneered over decades, which extract wealth from the underlying economy, rather than contribute to it.

Private equity’s techniques have spread and are now widely used across the economy, far beyond private equity firms, and far beyond the care sector. So this should not be understood as a problem of individual bad actors, but of an economic and financial system that has run out of control.

In the care sector, it is true that government austerity and spending cuts have hit hard, and that more funding is required, raised in equitable ways. But if someone has a tapeworm and is getting thinner and sicker, there is little point feeding them more without first removing the offending body. Similarly, if more government money is pumped into private care, extractive financial tricks may be deployed to Hoover some or even all of it up, before it can reach patients and care staff. For example, a new [US study](#) found that some \$5.3 billion in pandemic relief went to 113 private equity-owned companies, which had a collective \$908 billion in cash reserves or “dry powder” available in 2020. Many used their cash reserves to pursue aggressive new buyouts, and in many cases shed workers.

The costs of these techniques are effectively absorbed by millions of carers and cared-for people, who may experience reduced care or employment conditions; tax authorities that have been short-changed; and wider societies that may have to bail out high-risk financial activities. Workers ultimately create most of the value in care, so the best way to make the care system work well is to treat them well. These problematic parts of finance are hurting them, and their socio-economic status, in many countries.

One simple and effective way to end financialisation in the social care sector is to make care public. Another approach is to regulate financialisation out of the care sector, and impose much greater levels of accountability and transparency. Even then, though,



it is likely that the pressure for financialisation to creep back in will be omnipresent. Ultimately, financialisation is a curse on all sectors and in the long term should be eliminated from the entire economy.

This report, though it focuses on social care, is a resource for all workers. To protect themselves from financialisation, and fight back against it, they must understand what to look out for, and what to do when they see it.

The **first part** of this report explains in simple terms what financialisation is and how it works. It outlines a few simple tricks that are often used in care and other sectors, gives an insight into monopolisation underway, and provides a detailed overview of private equity firms; a key financial player in the care sector.

The **second part** of the report uses three case studies - from the UK, Australia and Lesotho - to show how some of these tricks are used in the social care sector and the effects they have on patients, workers and the community. We are not including the case studies to highlight particular bad actors, but to illustrate a problem that is economy-wide, growing, and global.

Understanding financialisation allows workers to:

- Identify and expose the problems as they arise in our workplaces;
- Demand that financialisation be removed from the care sector, for the sake of patients and care staff
- Create global alliances to build the power to tackle financialisation at its source, and not just in the care sector.

In this fight against financialisation, care workers and their representatives can count on millions of potential allies elsewhere.

CAPITALISM ON STEROIDS

Privatisation, borrowing, limited liability, tax deductions, acquisitions, shareholder dividends and other aspects of corporate finance that we describe are, individually, standard features of modern capitalism. This report focuses on a growing trend towards what one might call “capitalism on steroids”: the combination of these normal features into aggressive new alchemies such as “dividend recapitalisations” or “Opco-Propco” structures, explained below. None are illegal, but we explain that they serve no genuine productive purpose other than to “maximise shareholder value” or, in plain language, extract wealth from workers, taxpayers and others, to enrich owners and managers.

This destructive financial engineering can now be found everywhere. From the infamous failed British outsourcing firm Carillion, to the collapse of Toys “R” Us, to [Boeing](#), to water utilities, food companies, airlines, funeral parlours, social media, agriculture, cheerleading, military procurement, music, electronics, newspapers pharmaceuticals: these dangerous alchemies of financial engineering are there, [surrounding us all in webs of finance](#) that are very often visible only to the most diligent investigators, or hidden entirely.

This report demonstrates the possibility for massive organising, by making connections beyond care to many other sectors, across constituencies, and across borders, to help build a global movement to take on the same, shape-shifting financial adversary. Its conclusions support many traditional trade union remedies, such as minimum wages; more public funding for the care sector; an end to tax loopholes, and the reversal of widespread privatisation.

Finally this report overturns a common misconception about finance. Many people in finance-dominated countries, like Britain, Switzerland or Ireland, think their financial sector is the goose

laying the golden eggs: creating jobs, wealth, investment and tax revenues that will benefit them. Many people in countries looking for economic development see these finance-dominated countries as success stories to emulate.

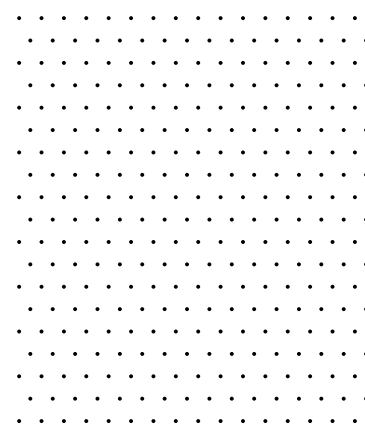
We're told that policies such as higher taxes on billionaires or tighter regulation of bank risk-taking will threaten jobs, investment and prosperity, and damage the supposed 'engine' of the economy, or that "the investment will dry up" or "the money will run away to Geneva or the Cayman Islands." This pro-finance idea is a key blockage to many urgently needed progressive reforms.

This report shows that the exact opposite is true: allowing an oversized financial sector to grow too big does not only redistribute wealth upwards and damage the economy: it shrinks the pie overall.

This "[finance curse](#)" - a concept supported by widespread research from some of the world's top academic institutions, shows how "too much finance makes us poorer." The core reason for this apparent paradox is that once a financial sector grows beyond its useful roles, it turns increasingly to wealth extraction, as opposed to supporting wealth creation. This report lays out some of the extractive techniques at work in the care sector.

In reality, using progressive policies to shrink the financial sector will not only redistribute the pie more fairly: it will discourage damaging extractive behaviour and help us grow the pie. This positive, liberating narrative potentially opens up political space for a range of economic policies.

The best way to tackle the dangerous effects of financialisation is clear: we must "shrink finance, for prosperity." We must work with other unions, patient groups, the community, and build alliances across the economy, to expose, understand and fight the finance curse; and at the same time restore social care as a public good.



Section One

1. A - UNDERSTANDING FINANCIALISATION: THE FINANCE CURSE

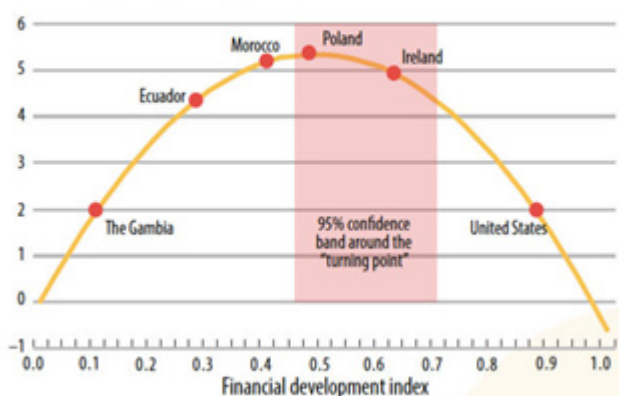
One of the most popular academic buzzwords these days is “financialisation”. This means the increasing penetration of financial techniques, institutions and financial markets into all parts of the economy.

In many countries the finance sector’s share of national income has exploded since the 1970s, while wages and prosperity for ordinary people have gone backwards. In most rich countries, banking sector assets have more than doubled since the early 1990s, to the equivalent of over 200 percent of GDP in many European countries and the United States, and around 400 percent in Japan or the United Kingdom. Even in some lower-income countries, such as Chile, China and South Africa, banking assets have reached 200 percent of GDP.

Every country needs a financial sector, but only up to an optimal point where it provides the services an economy needs. A large swathe of academic research now shows that beyond that optimal point -- and many western economies passed that point years, even decades, ago - it [starts to harm](#) the country that hosts it. Graph 1 illustrates the finance curse in action.

Too much finance?

Most advanced economies, including the United States, are past the point at which financial sector growth is beneficial.
(effect on GDP growth rate, percentage points)



Source: Sahay and others (2015). Data updated in July 2019.

For those countries on the right hand side of this curve, cutting back the financial sector will likely increase prosperity, not reduce it. Once again: too much finance makes us poorer.

REASONS FOR THE FINANCE CURSE

The finance curse happens for several reasons, many of which are similar to the causes of a “resource curse,” which afflicts countries rich in minerals like oil. These countries are not only unable to harness these resources for national development: their minerals often seem to make them even poorer than countries without these minerals, in a “paradox of poverty from plenty.” The reasons are similar with oil, and with finance.



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Why? First, high pay in the dominant sector – whether oil, or finance - sucks the brightest and best people out of other economic sectors like tourism or agriculture, weakening them. Second, it raises price levels, in a “Dutch Disease” that makes other locally produced goods and services uncompetitive with imports. Third, higher pay in the dominant sectors, plus lower pay in squeezed sectors, worsens inequality, which in itself hurts prosperity. Fourth, the dominant sector becomes politically powerful and ‘captures’ policy making, so that governments tilt the playing field further in its favour, against the interests of other parts of the economy. The fifth reason -- the main focus of this report, and probably the biggest component of the finance curse -- is extraction by financial players from other parts of the economy.

According to one [paper](#) by three academic finance experts, “oversized finance” cost the UK some £4.5 trillion in lost economic growth potential from 1995-2015.

FRAMING THE FINANCE CURSE

To fight the finance curse we need to be able to explain it simply. One way to understand it is via the tax haven comparison. A tax haven is a country hosting a financial centre that transmits harm outwards to other countries. For example, the British Virgin Islands secrecy regime helps criminals and dictators in Nigeria, Venezuela or the United States hide their loot. By contrast, the finance curse says

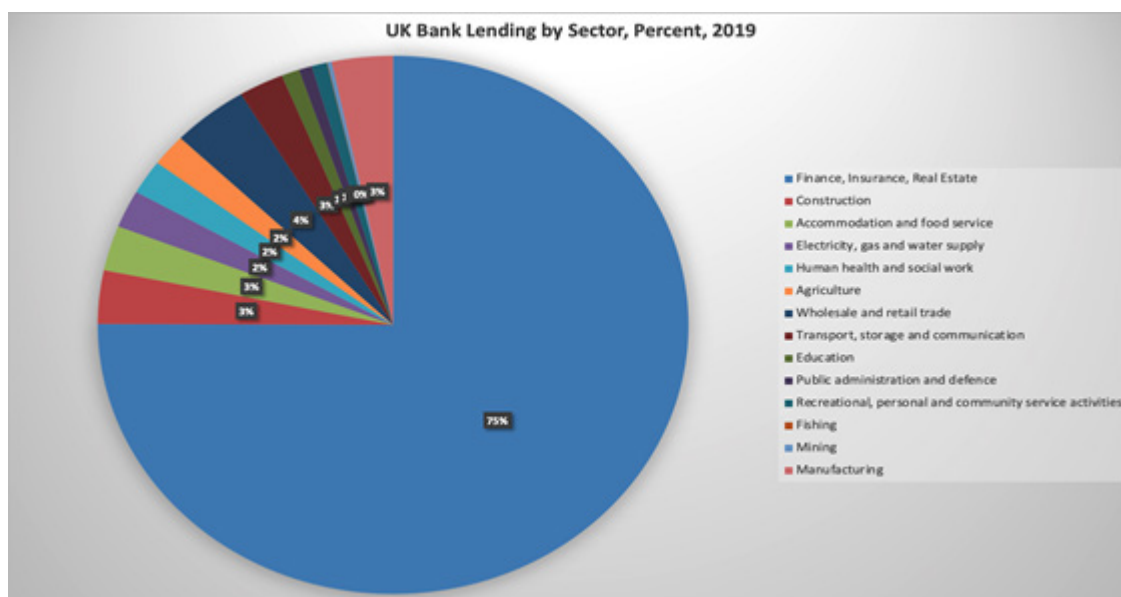
that an oversized financial centre transmits harm inwards, to the country that hosts it.

A good example of the skew towards finance is Britain, where the large parts of the financial sector have turned away from providing useful services like helping us save for retirement, or providing ATM machines, and towards extracting wealth from the economy. Finance exerts a growing gravitational pull, so that business starts to orbit around it, rather than merely using finance as a useful service.

Graph 2 illustrates this. Just 3.3 percent of UK business lending by UK banks in 2019 went to manufacturing, on this data: 1.9 percent went to agriculture, 1.4 to human health and social work – while 75 percent goes back into the financial sector or into (heavily financialised) real estate.

Since 1997, the data shows, lending to manufacturing has declined at around 1 percent a year - while “auxiliary finance” -- fund management and other less well known activities -- rose over 100-fold, and total UK lending has risen by 250 percent.

Graph 2 Bank of England Lending Data



Source: author's graphic, based on Bank of England lending data

Alongside this huge growth in finance, wages in the UK have stagnated or worsened for large sections of the population, and Britain's labour productivity is now [15-20 percent below that of France, Germany and Sweden, and over 40 percent below Norway's](#). It is a central point of the finance curse, and of this report, that these two facts are related: more finance has weakened the economy overall, and worsened inequality too.

Finance should be a useful service but it has become an end in itself. Imagine if mobile phone companies suddenly started churning out vast profits, and the mobile telephony sector grew to outshine all the others – yet our telephone services remained shoddy. We would soon see that the sector was oversized and a burden on the economy, and that all those phone billionaires were not wealth creators, but predators. In the care sector, as in other sectors, billionaires are a sign of an economy-wide economic sickness, not dynamism.

GEOGRAPHY OF THE FINANCE CURSE: TO LEVEL UP THE REGIONS, WE MUST LEVEL FINANCE DOWN

As mentioned, many British believe that the City of London financial centre is the engine of the British economy, showering wealth on other poorer parts of the country.

The real geographical story is that a large part of London-based finance [is an extractive machine](#), which alongside the normal functions of lending and borrowing is unproductively redistributing wealth out of poorer regions, to shareholders and investors in wealthy parts of London, overseas and offshore, in what the economic geographer Doreen Massey [called](#) a “colonial relationship.” These flows are hard to discern or hidden: either buried in complex company accounts, or veiled by secretive corporate structures running through tax havens like Jersey, the Cayman Islands or Luxembourg.

UK politicians talk about “levelling up” the rest of the country to the level of London: the finance curse tells us that the rest of the UK is poorer because the City of London extracts wealth from it. For poorer regions of the country to prosper, then [the City of London will have to be reined in, and reduced in size](#).

1. B - HOW FINANCE TOOK OVER

THE CARE SECTOR: TRICKS OF THE TRADE

Around the world, care for our elderly and vulnerable has been transformed into a lucrative market - a *financial* market. Theirs is the language of - to use real quotes - “favourable demographics;” “strong organic growth;” “high multiples;” “market maturity;” “exit,” or, as one put it, “a move up the acuity curve in the provision of more complex care requirements.”

Such language being used to describe a system designed to care for our grandparents or loved ones may seem unsettling.

However, across the world, politicians in thrall to financial ideologies (and, of course, to lobbyists) are increasingly outsourcing health and care to large companies or privately held providers - with disastrous outcomes for service users and the general public.

In the United States, [a study](#) of New Jersey nursing homes found that residents in homes owned by private equity had contracted Coronavirus at a rate nearly 60 percent higher than at public facilities. It concluded:

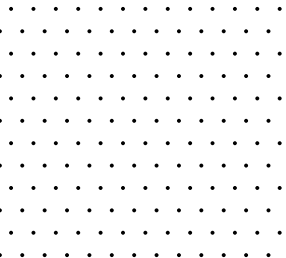
“Many peer-reviewed academic studies, government reports, and media exposés have demonstrated that private equity owned nursing homes have lower staffing levels, lower quality ratings, more violations, and worse health outcomes for residents. The structure of private equity nursing home deals insulates the firms from responsibility for repaying the often-heavy debt loads, financial mismanagement, or even legal liability for negligence or failing to provide adequate care.”

As in the UK, the relatively few winners in the US are disproportionately powerful, usually white, men located in or near financial centres, either in the US, or overseas or offshore. The losers are disproportionately workers, women, people of colour, and vulnerable people, based in poorer areas. If you oppose discrimination, the fight against economic discrimination may be the most important battleground.

FINANCIAL TRICKS: A BRIEF OVERVIEW

While the following tricks often used in the care sector may appear complex in their details, they are all, in their essence, extremely simple. You won't need a PhD in Derivative Trading or expertise in the repo market to understand them. (For a more detailed analysis of these tricks, please refer to the PSI Companion Document: [Ten Tricks: a short handbook of financial engineering](#))

- A financial player buys a healthy company – for example, a company running a bunch of care homes - then financially engineers it to extract maximum profit. They do this by identifying all of that company's stakeholders - workers, patients, suppliers, local authorities and tax authorities - then putting each group through a financial wringer, one by one.
- Once the financiers have bought the company, they force it to borrow large amounts of money - then channel some or all of the cash proceeds of this borrowing directly back to themselves, instead of investing in pay or better care facilities. Crucially, it is the care companies, not the owners, who are left on the hook for repaying that debt plus interest. The owners basically cannot lose from this formula: if the care company goes bust, other people are on the hook for the debts. The flip side is that workers and other stakeholders cannot win: collectively, they are now responsible for paying back those debts.
- These tricks leave care companies more indebted and more fragile: so-called “[hollow firms](#).” To repay the debts, company bosses have to tighten the screws on workers, sacking them or slashing their benefits, or replacing them with workers on precarious contracts, while shortchanging care patients too. If the highly indebted company goes bankrupt, as many do, state unemployment benefits or pension funds will have to pick up the pieces. To put it crudely, “throwaway workers” in “throwaway firms” care for “throwaway patients.”



- Debt is also used for other tricks, such as tax avoidance (which is legal, as opposed to tax evasion, which is not. We do not document any cases of tax evasion in this report.) While some tax justice campaigners view the financial engineering and corporate complexity as being largely tax-driven, in fact tax is often or even usually a minority part of the extraction.
- Another trick - which requires much more focus in progressive politics, including in the trade union movement - concerns consolidation, **monopolies and excess corporate power**. This power is increasingly present in the health and care sectors, as large groups of companies wield power to obtain more wealth.
- Many of these same tricks are found across most other economic sectors. This demonstrates the potential for building long term alliances in a range of other, often unfamiliar sectors, to push together for common goals. The union movement, writ large, is well placed to help catalyse such alliances. For example, linking trade unions to tax and trade justice campaigners, people engaged on racial or gender justice, small businesses, development NGOs, local authorities, or people fighting to save their high streets or “uplift” poor regions. Indeed, many such alliances are already starting to form, demonstrating that a global front against the finance curse is very achievable.

1. C MONOPOLIES AND MARKET POWER

Monopoly power is a big existential threat to all our societies - trade unions and our allies must take it more seriously. Tommaso Valletti, the European Commission's chief economist for competition from 2016-2019, in an interview lamenting his frontline view of the immense corporate and financial powers pushing forwards mergers of giant corporations almost unopposed, and the tremendous impacts this has on workers specifically, said:

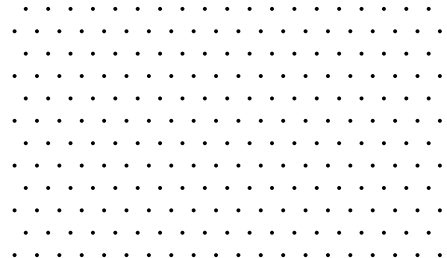
“I was never, not a single time, invited to discuss the outcomes of potential mergers or antitrust investigations with representatives of the unions. These people are completely missing.”

A brief summary of the problem is as follows. From the 1970s, a group of well-funded Chicago-School thinkers popularised a new paradigm on monopolies, urging regulators to stop worrying about political and economic power, or about impacts on citizens and workers, and to narrow the focus down to just two metrics: the internal economic “efficiency” of corporations, and the interests of consumers. Big companies enjoyed economies of scale and were

thus ‘efficient’, and these efficiencies would be passed onto consumers, this simplistic formulation said.

This neoliberal “competition consensus” was embraced first in the United States, both by Republicans and “Third Way” Democrats, then spread to Europe, pushed as part of the European economic integration project, and further afield to lower-income countries, pushed by bodies such as the IMF and World Bank.

A wave of mega-mergers has ensued and is still ongoing: these changes are driving rising inequality around the world. The share of global income accruing to labour fell by 8-9 percentage points globally from 1980-2013, and will have fallen further since then: if labour received the same share of income as in 1980, workers would have \$6-8 trillion more in income each year, worth some \$2,500 per worker, globally, on average. In rich countries, it is more: research has estimated that the US median annual wage of \$30,500 would be well above \$40,000 - a third higher - if it weren't for monopolisation.



This fall in the labour share is due to a range of reasons - offshoring, globalisation, the rise of technology platforms, and the financialisation described in this report. All those reasons are closely intertwined with monopolisation. Finance is [at the heart of](#) much of this power.

A new broad anti monopoly movement has been active and influential in the United States since

the mid-2010s, but in Europe and elsewhere, including lower-income countries, this movement is in its earliest infancy. Unions can and must start to grapple with this issue: especially given increased consolidation in the care sector, driven by the financialisation trend.

1. D - WHAT WORKERS NEED TO KNOW ABOUT PRIVATE EQUITY (BUT ARE NEVER TOLD)

When Toys “R” Us fell into bankruptcy in 2017, with the loss of 30,000 jobs in the U.S. alone, it blamed Amazon and others, saying it “could not compete” with such low prices. They had a point. But investigators digging through the financial rubble found another killer reason for its death too: a millstone of private equity-originated debt. Most companies borrow, but this was ‘capitalism on steroids’. Toys “R” Us’ debt jumped from \$1.9 billion before a private equity buyout to \$5 billion immediately afterwards, with the borrowing contributing to a bonanza for the owners, top managers and private equity investors. With interest payments then [taking up](#) 97 percent of its operating profits, the company was in no position to invest to face up to the gale-force headwinds emanating from monopolising firms such as Walmart and later Amazon and it collapsed. It was a classic case of private equity financial engineering.

SO WHAT IS PRIVATE EQUITY (PE)?

A PE firm is typically owned and controlled by a few rich people, often billionaires. They invite other investors (like a trade union’s pension fund) to invest into a PE fund or funds, with the promise of high returns. The moguls put very little of their own money into these pots: typically only [1-2 percent of the total](#).

The moguls then take that pot of investors’ cash and use it to buy a company, perhaps a chain of pizza

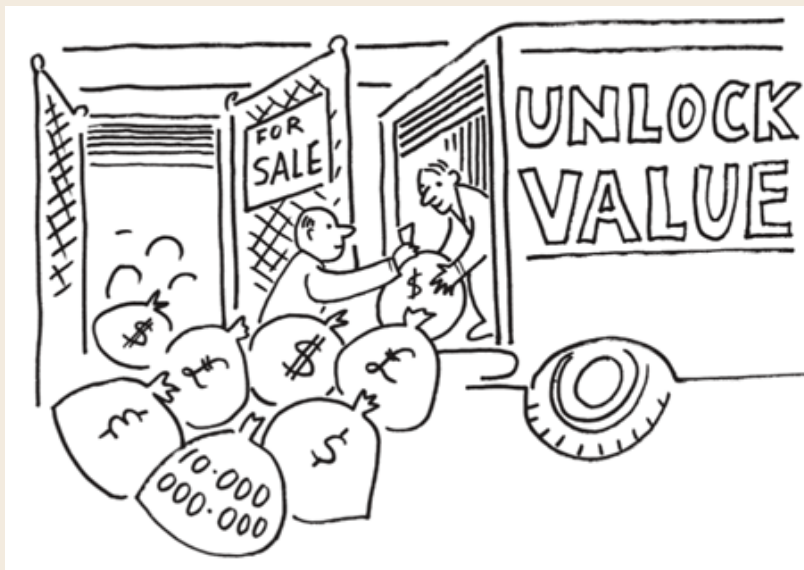
restaurants, a company exploring for oil and gas, a chain of funeral parlours . . . or a company providing social care.

The myth is that the moguls are “wealth creators” who buy up failing companies, then fix them up, “unlocking value” by turning them into roaring engines of capitalism. That does happen. But far more commonly, PE firms buy *perfectly healthy* companies, like Toys R Us, then use financial engineering to extract wealth from all those companies’ stakeholders: workers, taxpayers, suppliers, the pension fund, and others. This financial engineering can leave the moguls, very rich - leaving in their wake heavily indebted “[hollow firms](#).”

Trade unions warned about private equity long before the global financial crisis. “Virtually no company in which our members work is immune from takeover by private equity funds,” a hard-hitting [report](#) from the IUF Global Union said in 2007. The problems have since become worse, and accelerated as we emerge from the Covid pandemic. Not only has private equity expanded far beyond its origins in the United States, to Europe, Africa, Asia, Latin America and elsewhere: but many techniques pioneered by PE have spread to a range of non-private equity firms outside this sector.

WHAT IS PRIVATE EQUITY? THE MYTH

Private Equity is a part of the finance sector which organises private investments (not made through public trading) into existing companies. These financiers claim to be “wealth creators” injecting money to buy up struggling companies and turn them around to “unlock value” and make large profits, thus rewarding their investors with large returns and re-invigorating capitalism. In reality their main activity is to buy up perfectly healthy companies, then saddle them with debt and other financial engineering techniques to extract wealth from all the various stakeholders of those companies - from workers, patients, taxpayers, suppliers, creditors and others.



(For a more detailed explanation, see the companion document [“Ten Tricks: A short handbook of financial engineering”](#))

ANATOMY OF A PE DEAL

A private equity firm might, say, buy up GizmoCo, a profitable company that makes widgets. In some cases, they might shake up the firm and fire sleepy managers. However the main event - the most profitable package of strategies - is this: identify GizmoCo's stakeholders, and put each through a financial wringer. Here are some general examples of the techniques, which are common in many economic sectors:

1. They run GizmoCo's financial affairs through tax havens, and use other tricks to slash the tax bill.
2. They hire consultants resulting in GizmoCo firing workers, smashing the workplace union, and cutting pay and benefits.
3. They tell GizmoCo to treat its small-business suppliers harshly. They lengthen payment terms, sue them at the drop of a hat, underpay, and so on. This extracts from GizmoCo's suppliers.
4. They buy up all the other companies in GizmoCo's market niche, creating a monopoly. They

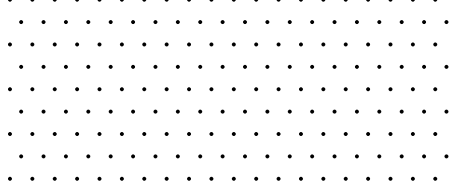
can then raise prices to customers, cut wages and conditions for skilled workers further, and treat suppliers yet more harshly.

5. There are others. But among them there is one toolbox in particular, which is so important that it is worth its own section: debt.

DEBT, DEBT AND MORE DEBT

Borrowing, leading to debt, is the PE lifeblood. The main debt strategies involve a few basic steps.

1. The PE fund buys a company. (Let's call it OldCareCo.) The moguls now control OldCareCo and can tell its bosses to do what they want.
2. They force OldCareCo to borrow a lot of money. The moguls are experts in global finance, and there is a “wall of money” out there ready to lend - see below - so this is easy for them.
3. The moguls order OldCareCo's bosses to take the cash proceeds of that borrowing, and instead of investing it in better IT systems or better



conditions for workers, they pay it - sometimes, all of it - straight to the owners and investors, with big bonuses to the top managers. The moguls spend it on yachts, parties and Gulfstream jets.

4. Meanwhile, the corporate structure linking OldCareCo to the moguls is set up so that OldCareCo, not the PE firm or the moguls, is saddled with paying back the debt plus interest. Read that again, if you haven't taken it in yet. That is the big trick.
5. Bankers lend on the basis of profits and cash-flows, so they will lend more to more profitable companies. The more that OldCareCo's stakeholders are squeezed - via tax havens, crushing unions or likewise - the more cash-flow is released, and the more they may be able to borrow. This extra debt will add even more pressure in the long term.
6. OldCareCo is now saddled with big debts and high interest payments. It must resort to the sorts of tricks and techniques that GizmoCo used, to cover the new burden.

The sector is lightly regulated so there are few curbs on these tricks. The tricks may be legal – but many should not be, in our opinion.

For the people at the sharp end - nurses and care workers and the care home residents - this formula *hurts*. They must now work harder to pay back that extra debt. Anxiety levels rise. The firm may go bust. A US [analysis](#) found that *more than two thirds* of retail bankruptcies in 2016 and 2017, for instance, involved companies owned or controlled by private equity.

Worse, PE firms are “super-spreaders” for these techniques, which have been copied by many other types of firms. This also means that PE provides a good entry point for understanding - and undoing the damage of the finance curse.

It is now worth exploring some of the core features of private equity, which will help explain a lot of what has gone wrong in the modern global economy.

OPM: OTHER PEOPLE'S MONEY

Typically 98-99 percent of the money in a PE fund comes from outside investors, not from the moguls. They get rich by taking fees from “OPM”, or Other People's Money. That is also the title of [one of the best-known \(and one of the best\) books](#) about the last Global Financial Crisis, because the OPM principle is at the heart of so much that happens in modern finance. When things go well, financiers profit; when things go badly, those Other People are usually on the hook. “In many cases, there's not much of a basis for saying they're taking the risk of an investor; they're not,” [said Jon Moulton](#), one of the UK's best-known PE executives. Or, as a (male) MIT professor explained:

“The private equity business is like sex. When it's good, it's really good. And when it's bad, it's still pretty good.”

PROFITING FROM BANKRUPTCY

A common question about private equity goes like this:

If a PE firm buys up a company that then goes bankrupt, how can it profit from that? Haven't they lost their investment?

The short answer is that the company often goes bankrupt *because* the PE firm has already extracted so much wealth out of it, emerging free from debts and leaving others to pay the clean-up costs. Also, the moguls did not invest *their* money: they invested with OPM and took a hefty slice of the winnings.

The OPM principle is like a biased coin flip, where you win a lot on heads, but lose nothing on tails. This encourages great irresponsibility and recklessness. It also encourages the players to buy everything in sight. The more coins you flip, the more money you are likely to make.

THE “WALL OF MONEY”

Why do bankers lend to such a reckless sector, with a high risk of bankruptcy? There are a couple of answers.

First, there is a growing “wall of money” sloshing around global financial markets, looking for “investment opportunities.” With some government bonds now paying negative interest rates, anything that promises a positive return looks like a good deal. PE debt pays relatively high interest rates.

Second, PE firms are finance experts, tailoring their complex corporate structures to offer debt investors a smorgasbord of attractive lending niches. If, for example, the whole company is not profitable enough for a big loan, they can create a subsidiary company, that is in fact still part of the whole group, but that by itself looks profitable enough to get the loan. So they can invest (or lend) at the level of the whole company, or just in one part of that company.

Third, the bankers lending to PE-owned firms can usually parcel these loans up into new financial vehicles (such as “collateralised loan obligations,” or CLOs) and sell them off to other global investors, taking the risk off their own hands. If the PE-owned firm that borrowed goes bust, the bankers already got their bonus for that “deal,” and someone else will pick up the tab. (It’s the OPM principle, again.)

It is the individuals at the end of the chain - usually the most unsophisticated investors - who ultimately pay the price if OldCareCo goes bust. If it is your union’s private pension fund at the end of that chain, or your local authority that has invested in one of these fancy financial instruments - then the individual is you. You may lose a slice of your hard-earned pension, or your taxes will end up funding the next bailout of the financial system.

This helps explain why this rising global “Wall of Money,” has not made us all rich with investment *into* our economies. The opposite has happened: this kind of money increasingly acts like a vacuum cleaner, sucking money *out of* our economies, forcing ordinary folk to work ever harder.

And with so much lending firepower chasing few good lending opportunities, prudence evaporates. Private equity firms know this, and exploit it ruthlessly. As a *Financial Times* [analysis](#) in 2020 quoted an expert as saying:

“There used to be a sense that private equity firms needed to take care of the lenders that funded their LBOs,” . . . “Now, they don’t seem to care at all and they have no qualms about burning their lenders really badly.”

WHY DO FIRMS HAVE SUCH COMPLEX CORPORATE STRUCTURES?

Dig into who owns a large care company, and you will often find the care homes inserted at the bottom of a convoluted corporate structure, containing tens or even hundreds of other companies, often festooned across different countries and tax havens. This is not illegal. The complexity has several explanations.

- The **coin flip** mentality; financiers often buy as many companies as they can, because the OPM principle means they can only win: they can’t lose.
- Setting up subsidiaries in tax havens can help companies shift profits offshore to **avoid tax** and scrutiny.
- It can help a company create more attractive lending niches to enable **more borrowing**, as explained in the “Wall of Money” section above.

THE FINANCIAL FOCUS OF PRIVATE EQUITY

Private equity actors (and those that use their methods) portray themselves as specialists in the companies they buy, injecting know-how and business savvy to make them perform better. This does happen, of course, as with all businesses. However, in reality, when it comes to making the big money in the care sector, PE bosses’ most important skills are often i) knowing how best to tap the global wall of money for debt; and ii) financial engineering for profit. [As one retail expert put it:](#)

“They’re running an investment firm, not a retail business. The retailer becomes the collateral rather than the actual business you’re in.”

SECRECY

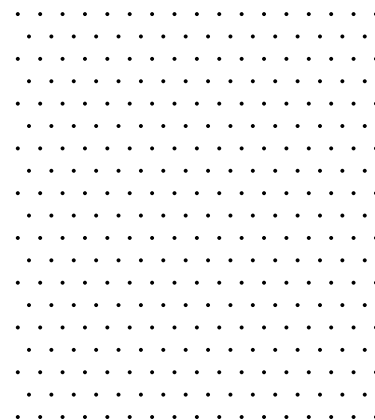
It is hardly surprising that PE firms love secrecy and shun publicity. Stephen Feinberg, a co-founder of the PE firm Cerberus Capital Management, [was quoted in the Wall Street Journal as saying](#):

“We try to hide religiously. If anyone at Cerberus has his picture in the paper and a picture of his apartment, we will do more than fire that person . . . We will kill him. The jail sentence will be worth it.”

Why do private equity firms, in general terms, enjoy secrecy? For some of them, it is not only about exploiting loopholes in the law, but about pushing hard and profitably against the boundaries of the law and often beyond. Whatever the legality, the core tactics, if exposed, will drive popular anger and perhaps pushback from regulators.

Another reason for secrecy is a dirty secret of PE: those pension funds and other outside investors in PE do not really get to share in the financial fruits of the extraction from workers, taxpayers and other stakeholders, because the moguls often take much of the winnings for themselves before the investors get their returns. [Research](#) shows that those moguls [help themselves](#), on average, to an astonishing seven percent of the value of the investment, *per year* – compared to just 0.2-1.5 percent you will typically pay if you invest in a typical fund holding stocks and shares. If those outside investors could see how they were getting screwed, far fewer would invest.

(For more details on the types of financial tricks used by private equity firms and other players, check out the PSI companion document: [“Ten Tricks: a short handbook of financial engineering”](#))



Section Two:

Case studies

2.A - UK ELDERLY CARE

The British care sector was already in crisis long before Covid struck. As a [research paper](#) put it:

“Few jobs are more wearying than that of a carer, whether it’s rushing from one 15-minute home visit to another, being constantly on-call as a live-in assistant, or lifting and washing residents in a care home. . . . For this, the average care worker in England earns £14,000, below the real living wage. . . . Almost all of the people doing this work are women, many of them in late middle age. More are people of colour than in the US and UK economies as a whole.”

Large care companies in the UK seem to be more adept at or willing to use financial engineering than small ones. A [2019 study](#) found that financial “leakages” in the forms of profit before tax, rent payments, directors’ remuneration and net interest consumed just £7 out of every 100 received in care payments for 784 small and medium-sized care home companies, while for the 18 largest for-profit providers the leakages were more than double, at £15 for every £100. (As a share of non-staff costs, those numbers would be more than doubled.)

According to the *Financial Times* in 2019, Britain’s four largest privately owned care home operators had racked up debts of £40,000 *per bed* and collectively were paying an overall average rate of almost 12 per cent interest on total debts of £2.2bn. In other terms, interest costs were averaging [£4,800 per bed](#)!

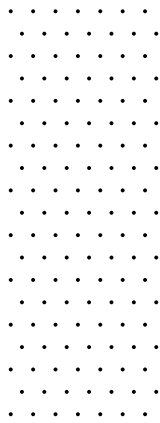
Private equity seems particularly problematic. Studies in the United States, France, Germany, and the UK, for instance, have found higher rates of mortality and lower staffing levels in care homes owned by private equity firms, and lower quality of care in for-profit homes, compared to public or their non-profit peers.

This section looks at two large companies in the UK care sector, **Barchester** and **HC-One**. Nothing described here is remotely illegal or even unusual in the UK care sector: this is merely an illustration of broad practices and trends.

BARCHESTER AND HC-ONE

Barchester is one of the four largest providers of long term care in Britain, mostly in private long-time elderly care, home care and hospitals. The company has around 12,000 registered beds across 200 care homes and other facilities, and employs nearly 16,000 people, mostly as carers. Barchester is not a private equity firm (or owned by one).

From published accounts, only limited information is available about who owns Barchester Healthcare Limited, the main operating company. It lists its immediate parent as a Jersey company, Barchester Holdco (Jersey) Ltd., and its ultimate parent company as **Grove Limited**. Both are based in Jersey, a tax haven.



A share document purchased from the Jersey public registry listed 193 names, mostly named individuals, often managers or past managers who have received share-based compensation.

But this list contains ten bigger chunks, each holding from 1-7 million shares. These larger chunks were

not owned by named individuals but by companies, mostly resident in the British Virgin Islands (BVI). Together, these ten owned over 90 percent of the shareholdings in Grove Ltd.

Company	Registered Address
Acomita Investments Ltd.	Geneva, Switzerland
Falkon Overseas Group S.A.	90 Main Street, Tortola, BVI
Bocage Holdings Limited	Vanterpool Plaza, Road Town, BVI
Bottin (International) Investments	IFSC House, Dublin, Ireland
Fairwood Equities Limited	Vanterpool Plaza, Road Town, BVI
Newhudson Limited	Vanterpool Plaza, Road Town, BVI
The Brumoy Partnership	Castlehyde Stud, Cork, Ireland
Silvergate Group Limited	Vanterpool Plaza, Road Town, BVI
Unisafe SA (BVI)	c/ Lenz & Staehelin, Geneva, Switzerland
Windtraders Finance Corp.	Vanterpool Plaza, Road Town, BVI

Table Source: Grove Limited Annual Return, made up to Jan 1 2020. There were different classes of shares, so we included companies with over 1 million ordinary and/or redeemable shares each. These ten companies in aggregate held 90 percent of each class.

Because of financial secrecy in the BVI and to a lesser extent in Jersey, Switzerland and Ireland, the full human shareholdings of Barchester are not available. Widespread media reports name the main owners of Barchester as a trio of billionaires: **Dermot Desmond**, **JP McManus** and **John Magnier**, who have been described collectively as “the biggest names in Irish business”. A [separate story](#) in 2011 involving a different care company in which the three businessmen had reportedly invested quoted a source close to the company as saying that:

“This is a consortium of investors, they are very much hands off. They are very rich and remote people who invest in a range of things.

To reiterate: nothing here is remotely illegal, and neither Grove Limited nor its shareholders are legally required to provide more detailed information. Governments have manifestly failed to require meaningful transparency here.

Barchester’s corporate structure, at the time we researched it, involved over 70 companies including **finance companies** (known as Fincos), **real-estate companies** (Propcos), and a main **operating company** employing the main staff, Barchester Healthcare Ltd (BHL, based in the UK.) This complexity is significantly the fruit of its purchase of a previous healthcare company which had a complex corporate structure, and it is in the process of being rationalised.

In 2006, while under a previous management team, Barchester was restructured and a property company was set up to own the real estate, separate from its operating companies that run the business, employ staff and so on.) Barchester said the transaction allowed it to borrow more money (Barchester Healthcare Limited Financial Statements, 31 Dec 2009, p40) and to pass a large chunk of cash - £364 million - up to the shareholders ([Barchester Healthcare Limited Financial Statements](#), 31st December 2006, p4 and p51.)

The move eventually left the properties in the hands of a company called Limecay Limited, whose ownership overlaps with that of Grove Ltd. Barchester is now making over £100 million in annual lease/rental payments to Limecay, with their accounts for 2018 stating the latter is “owned by common controlling shareholders” of Grove Limited.” ([Limecay Limited Annual Report, Dec 31 2018](#), p25.)

Limecay Limited is a wholly owned subsidiary of the (similarly named) Limecay International Limited (LIL) in the BVI (Limecay Limited Annual report, Dec 31 2019, p25). The latter company has lent over £1 billion to Barchester at high annual interest rates from 5 – 13 percent.

Before assessing the significance of these transactions, it is useful to look at another company, **HC-One**, another large care home operator in the UK with over 8,000 residents, this time owned by a private equity firm. The investigative and satirical magazine Private Eye in September 2021, reporting on what HC-One Chair Sir David Behan described as “horrendous levels of turnover” among care workers and nurses, noted:

“Almost all the £63m [operating] profits [before exceptional items] made last year by the group of which HC-One is the largest part – headed in the UK by a company called [FC Skyfall Holdco 3 Ltd.](#) – disappeared in interest [and similar] costs, totalling £58m, on the hundreds of millions of pounds of debt with which the group has been financially engineered.”

Here, we need to distinguish between potentially large internal *economic* profits generated from the care system, and *accounting profits*, to which tax payments and pay awards and levels of care are linked – which are far smaller. (Some costs were disallowed, possibly because interest costs were above allowable limits.)

These trends and techniques are not peculiar to Barchester or HC-One: far from it. They are found all across the UK elderly care sector, and in other countries too. Indeed, Barchester seems to have a low external interest cost, relative to other players.)

DISCUSSION: PROFITS AND TAXES ARE ONLY PART OF THE STORY

When it comes to financial results, people often fixate on profits, and the corporate tax bill. These are important, but too much emphasis on these numbers risks missing other, potentially larger financial flows, which may also potentially have a greater impact on care.

For example, Barchester Healthcare declared a £22 million profit before tax in 2019, and a total tax charge of £6 million (Barchester Healthcare Limited accounts for 2019, p32). Yet these numbers are significantly smaller than another outflow: the over £100 million in rental payments to Limecay Limited (Barchester Healthcare Limited accounts for 2019, p43.)

Remember: those rental payments are the consequence of the 2006 financial restructuring (under a different previous management team) which saw the transfer of the care home properties to a related company, and the payment of £364 million to its shareholders in that year. Had Barchester not sold its care homes, Barchester Healthcare Limited would not be having to make those large million rental payments each year. To put it another way, no matter how diligent and care-focused Barchester’s current management team may be, and we have no reason at all to doubt their probity in these respects, they are carrying that £100+ million annual rental burden,

significantly a legacy of that 2006 restructuring that they had no part in, and which they might otherwise have had available to spend on care.

It is in the public interest, and certainly crucial for unions, to understand this broader picture beyond tax and profits – and to understand the distinction between *economic* profits and *accounting* profits – because these often less visible transactions and flows and leakages can reduce accountability and also mask people’s ability to assess true potential underlying economic profitability of a care company. This could impact negotiations over workers’ rights and pay, for example, or the amounts demanded or paid by local authorities, as the headline profit figure may well understate the headroom that could potentially have been available, had the dividends, interest, rents and other payments not needed to be paid out.

Paying proper attention to what is going on under the hood may open up many fruitful campaigning avenues.

HUMAN EFFECTS

How do these financial techniques show up in human terms?

The harm comes in several forms, in the care sector and far beyond. First, increased debt and interest payments, for example, or rental payments ensuing from separating real estate from the operating company, ultimately must come from somewhere. They may show up as additional costs paid by local authorities, or by residents or carers in terms of extra workload or reduced care quality.

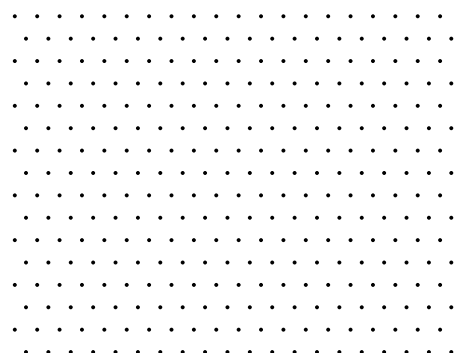
It is important to note that these rental and debt interest payments are not costs that necessarily would have been incurred anyway. If additional borrowing enabled by these techniques were used to fund better care and facilities, that may be a price worth paying (and plenty of this does happen: for

instance from 2015-2020 Barchester invested some £56 million in Capital Expenditure on property and improving its services.) However, frequently some or all of the proceeds of borrowing, or the high rental payments, do not flow into improving care, but instead into payouts to the owners.

What is more, especially when it comes to external borrowing, many of the potential real world costs are still hidden because they are in the form of debts that will only need to be repaid at some point in the future, perhaps if interest rates go up, or payment into care go down through government austerity. Until then, the dangers may be latent, unnoticed. Neither HC-One nor Barchester appear to us to be in any financial danger. However, high-profile collapses and disasters have happened in the care sector, including Southern Cross and Four Seasons Healthcare. In essential industries like care, the costs of any collapse have been borne not just by creditors but also by taxpayers, government, residents, carers, suppliers and others.

To repeat: there is nothing illegal or even unusual about these testimonies, structures and techniques outlined above: they are littered across the private care landscape. The root causes of many of these issues are in reality linked to the wider privatisation and insertion of financialisation across the entire UK care sector.

We find related stories going on in other countries.



2B - THE LESOTHO HOSPITAL

PUBLIC PRIVATE PARTNERSHIP (PPP)

How development aid is financialised

INTRODUCTION

This is a story about how finance has inserted itself into a public-private partnership in Africa. Oxfam summarised a key finding on this case in 2014:

“the Ministry of Health in one of the poorest and most unequal countries in the world is locked into an 18-year contract that is already using more than half of its health budget.”

A huge “wall of money” roams the globe, seeking “investment opportunities” with high returns. Many sectors in rich countries are rather saturated with finance, so intrepid financial actors are searching farther afield, for rich pickings in poorer countries.

From private equity firms to hedge funds to derivatives specialists and more, different financial actors are busy extending finance, financialisation, bonds, securitisation and “shadow banking” into low-income countries, squeezing out traditional development aid and loans. This wall of money is now playing a big role in shaping the development agenda of many countries, including via the United Nations’ Financing For Development initiatives.

Finance-friendly governments, like the United Kingdom, and finance-friendly institutions, like the World Bank, are cheerleading and facilitating this trend, under the catch-all banner of “Maximising Finance for Development”. Its detractors refer to this as the “[Wall Street Development Consensus](#).”

The core ideology involves a “de-risking state”, whose job is to make “development” safe for finance to invest - rather than ensuring that the financial sector serves development. We have seen how financialisation and rent extraction can lead to outflows from companies (and countries) that are far greater than inflows plus any reasonable return, and if this gets out of hand it may make more sense to see this as ‘negative investment.’

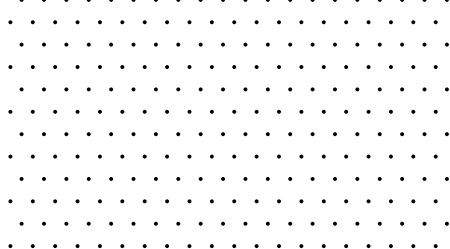
In reality countries would be better off keeping this kind of investment out.

This Lesotho case study looks at a Public Private Partnership (PPP) to build and operate a hospital in the small, landlocked African nation of Lesotho, a mountainous country of about 2 million people entirely surrounded by South Africa. This project might have delivered some tangible benefits - but at an enormous financial cost.

PUBLIC PRIVATE PARTNERSHIPS (PPPS)

PPPs are long-term contracts between governments and the private sector. Normally, when a government wants to build a school or a hospital, say, it raises taxes or borrows money to pay for it. With PPPs, the private borrower is not the government, but the private sector. They borrow to design and build public buildings, and may also be responsible for its maintenance and operation afterwards. The government pays the private consortium annual “unitary” fees to cover the cost of borrowing, building, maintenance, and any services provided, and to cover the debt interest and repayments. The contracts are long-term, often for over 20 or 25 years.

PPPs provide an attractive up-front boost of infrastructure – but also, especially because the debt is private rather than public, which tends to be more expensive, experience shows that it tends to help private parties reap windfalls while heaping risks and losses onto the “de-risking state,” its workers and citizens. Ultimately government assumes large risks and a debt burden, but because it has outsourced the borrowing to the private sector, it does not appear on the government’s books as part of its official debt burden. The risk-shifting is often hidden in complex documents, and costs often materialise only years after contract signature - so is hard to see. PPPs have been a key tool for finance and financialised corporations to enter markets of countries with small and ‘unsophisticated’ financial sectors.



EXPERIENCE OF PPPS ACROSS THE WORLD

When it comes to PPPs, reality has fallen far short of the promise. A 2018 [report](#), involving Public Services International (PSI), Eurodad and a consortium of allies, studied 10 PPPs in mostly lower-income countries, including the Lesotho example alongside Liberia, Peru, Colombia, India, Indonesia, Spain, France and Sweden. It found that:

- All 10 projects came with a high public cost and risk for the public sector.
- All were riskier for the state than for the private companies: the public sector had to assume costs when things went wrong.
- Five of 10 harmed the poor and worsened inequality. Three had serious social and environmental impacts.
- Nine of 10 lacked transparency, failed to consult with affected communities, and/or undermined democratic accountability.
- Three were cancelled. One, the Castor Project to create Spain's biggest offshore gas storage plant, was halted after gas injections caused over 1,000 earthquakes. Despite never being used, the project had cost the public €3.28 billion, paid via higher gas bills.

THE LESOTHO HOSPITAL PPP

In 2007, Lesotho's Government put out a tender for a PPP to replace the ageing main hospital, Queen Elizabeth II, with the new 425-bed *Queen Mamohato Memorial Hospital*, and a few accompanying clinics, to be made free for patients. A private consortium, **Tsepong (Pty) Ltd**, won the tender to design, build, staff, and operate the project. Construction began in 2009, with the main hospital opening from 2011, followed by an operating period of 18 years. The "unitary fee" from the government would start at M255m (\$18.4m) a year, rising annually.

Tsepong was led by the South African hospital operator Netcare, with a 40 percent stake, with the

rest held by four locally-based companies created to enable local economic empowerment. The World Bank's **International Finance Corporation** (IFC, which helped write the PPP contracts and arranged private financing) called the Lesotho project a test case which could then "be scaled up across populous countries such as Nigeria, where there could conceivably be scope for 20 or more such hospitals."

THE CLAIMED ADVANTAGES FOR THE PPP MODEL

The project backers claimed a number of standard advantages for the PPP model:

- Predictable Government budget costs over the contract.
- The private loans were held off the Government's books, making public debt levels look lower.
- Competition between rival bidders was supposed to keep costs down.
- The contract should ensure high quality clinical services, under threat of penalties.
- Lesotho could tap into new sources of finance.

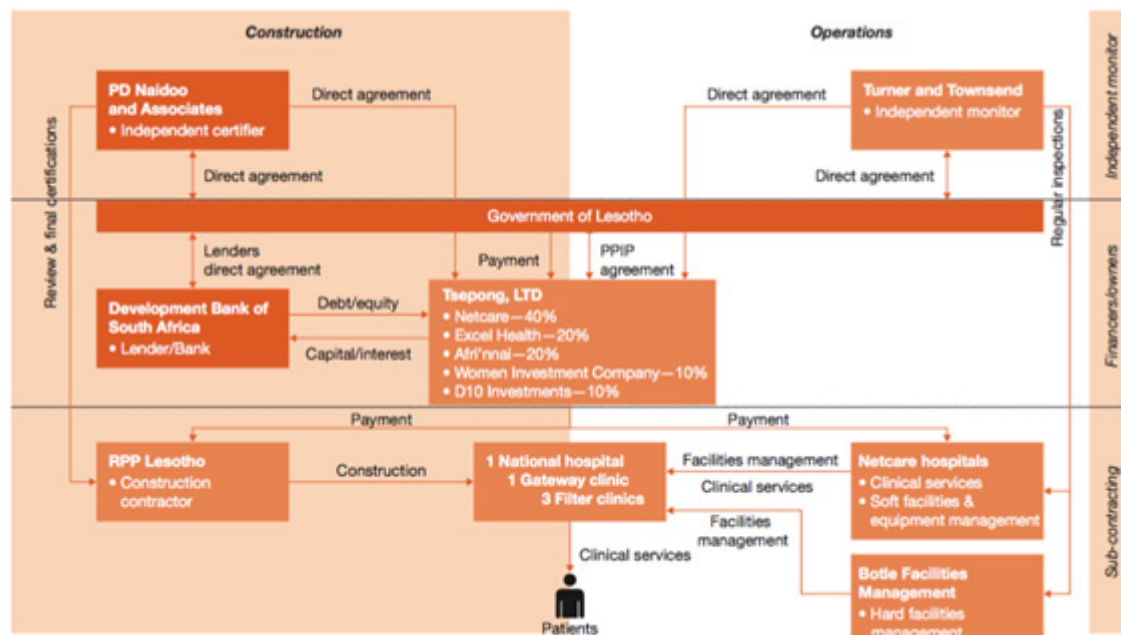
DID IT WORK?

The results have so far been, to put it politely, mixed.

On the benefits side, the hospital itself was built on time, and seems to have provided a high quality of clinical services. Patients have generally enjoyed its services free of charge.

However, the cost side tells a very different story. In summary, the competitive bidding did not deliver as promised; the government didn't remotely have the capacity to monitor the contract; constantly rising costs were built into the contract; risks were not transferred to the private players as expected; overall costs have placed an enormous burden on Lesotho's health budget, and the debt was merely shifted from

This image gives a quick visual sense of the complexity: the full picture is vastly more complex.



Source: PwC and The Regents of the University of California

the public to the (more expensive) private realm. In March 2021, following the consortium's decision to fire 345 striking nurses, the Lesotho government terminated the contract early, and at the time of writing was in dispute with the consortium over money.

The downsides appear to have overwhelmed the positive aspects outlined above.

Lesotho could have instead upgraded its existing hospital and clinics, [whose annual running costs were just M135 million, less than half of the \\$256m initial 'unitary fee' under the PPP](#). Or it could have borrowed the money directly, or used tax revenues, to build the hospital. Instead the government turned to a highly complex financialised package that it hardly understood, but which the private parties understood well.

The main problems are familiar from PPPs elsewhere.

1. Competitive bidding does not seem to have delivered

Competitive bidding did not deliver lower costs.

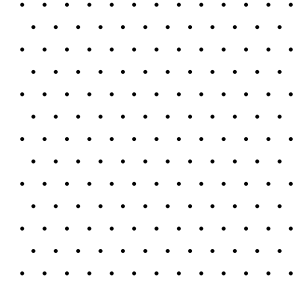
Only two consortia put in a bid. Once Tsepong was selected as the ['preferred bidder'](#) the annual unitary fee inflated rapidly upwards, from an initial M180 million, to M255 million on signature. This

[seems partly](#) to have been because after the tender, the government then added further clinics and embellishments, without competitive bidding. The government also negotiated itself into a position where it had to guarantee the private loans to Tsepong, putting a heavy risk on Lesotho's taxpayers. This is consistent with other PPPs elsewhere.

2. Outsourcing and the "stupidification" of governments

The more that governments outsource core functions through PPPs, the more they lose capacity to monitor or understand the sectors involved. This is true even in "sophisticated" rich countries, like the UK, that have pioneered the PPP model. [In the words of Abby Innes](#) of the London School of Economics, this outsourcing wave including through PPPs in the UK has resulted in "the enforced stupidification of the civil service and a profound loss of institutional memory, strategic oversight and coherence." According to [research](#) by the Center for Health and the Public Interest, over a fifth of 81 PPP hospitals in the English National Health Service could not access key performance information that would allow them to monitor and enforce contracts.

If rich-country governments struggle to monitor and oversee contracts and finance-savvy private players, then lower-income countries face far bigger



hurdles. Lesotho, for instance, [had only two full-time public employees in 2015](#) overseeing all outsourced services, collectively accounting for 52% of the total health budget that year. This made Lesotho “unable to impose deductions and penalties.”

3. Geography of financialisation

[Tsepong employed almost half the doctors in the country](#), pulling resources to the hospital in the capital Maseru, thus denuding primary and secondary healthcare services which serve the predominantly rural population. Many people cannot even afford transport to the hospital. As an analysis in the British Medical Journal said: “In Lesotho, the effect of such costs have been to channel resources towards hospital services in the capital and away from primary care settings in rural areas.” This geographical transfer of resources from poorer to richer areas is a common feature of financialisation, not to mention the transfer of resources overseas to owners and shareholders in wealthy parts of South Africa and elsewhere.

4. Rising contract costs and indexation

PPP contracts often rise with “indexation”, often a fixed amount related to inflation. [The fee rose from \\$30m \(M256m\) in 2008/09 to \\$52m \(M439m\) in 2015/16, a rise of 68 percent](#). (This, in finance-speak, represents a transfer of inflation risk from the private parties to the Government.)

Indexation can generate big costs: English PPP hospitals, for instance, [spend an estimated \\$260m \(£200m\) a year on inflation costs, representing over 10% of their annual payments](#).

5. Questions about price gouging by the monopoly PPP supplier

PPP contracts effectively make the private sector consortium a long-term monopoly supplier, which can easily lead to price-gouging and little control over their behaviour.

The original Lesotho PPP included an agreed minimum and maximum number of patients to be treated each year, and the government would pay extra for every excess patient treated. The number of patients has since exceeded the maximum by several thousand, causing higher than anticipated

costs for the government. This helps explain why, in the 2015/16 year Tsepong invoiced the government for M642 million (of which M432 million was for the agreed unitary fee.) This was [far higher](#) than the original (nominal) M180m envisaged during the bidding.

According to a subsequent [investigation](#) by the Bhekisisa Center for Health Journalism and the Lesotho Times:

“When Bhekisisa/Lesotho Times put the Lesotho government’s allegations of price-gouging to the Tsepong board, the board issued a statement saying that it had been unaware of these fees until the government complained several months ago. The board maintained: “We were shocked. That is an unethical practice.”

The report added that Netcare (the largest shareholder in Tsepong) was also accused of having a “monopoly to transfer patients to [the Netcare hospital in] Bloemfontein without the Ministry’s [of Health in Lesotho] verification.” Netcare denied the allegations.

In 2019 Lesotho’s Health Minister, Nkaku Kabi, [accused](#) Tsepong of prioritising profits over its contractual obligations to hire doctors to provide specialist services:

“This is probably because those specialists are expensive and Tsepong is being cost effective; trying to make high returns instead of paying for services (hiring specialists) that they are supposed to offer. To cover this shortcoming, they are referring patients to South Africa.”

The Government appears, on this evidence, to be struggling to enforce the contract terms.

Internationally, market power is known to boost private profits and public costs. A UK [review](#) of the Private Finance Initiative (PFI, a form of PPP) found that “deal structures make it challenging to achieve savings”, since there is “little incentive for investors to cooperate” on reducing costs. Even where costs were benchmarked to ensure fairer pricing, [the private sector often “provides the benchmarking data”](#).

[Oxfam estimated](#) the weighted cost of capital for this PPP at a very high 13.6 percent annually – higher than the government’s bond issuance at 10 percent, and [far higher than concessional finance rates of below 1 percent](#), direct from multilateral institutions.

6. Risk transfer has not worked as the theories says it should

Although Tsepong provided 62 percent of the roughly \$153m building costs (the rest provided by the Lesotho government) it actually contributed less than \$0.5 million of its *own* money, with the rest (\$94.9m) coming from a loan from the Development Bank of South Africa. Though Tsepong was responsible for servicing the loan, Lesotho’s government had to guarantee it: so for this and further reasons, [less financial risk was actually transferred](#). Tsepong also subcontracted out the construction of the hospital and clinics to a third-party firm, thus reducing its risks further still.

Beyond this, private players can shift other costs and risks back onto the government, due to a lack of monitoring or enforcement capacity, or monopoly power.

“The financial risk was taken only by the Government of Lesotho.” - Molotse Manyamane, former Lesotho Minister of Health.

In the Lesotho PPP, as an example, the government gave public health workers a pay rise, [opening up a pay gap with the private hospitals](#), with the PPP hospital reportedly paying nurses 30 percent less than their government-employed counterparts. Tsepong struggled to retain staff, and had to pay its own staff more. The government reportedly faced an unexpected \$6.6m request to top up the wages of workers in the PPP hospital. This became mired in dispute.

By 2014 Lesotho’s government already felt that the hospital PPP was costing so much that [it considered it more cost effective to build a brand-new hospital](#) itself to handle excess patients, rather than send them to the already running PPP hospital, and the

project’s early termination in 2021 underlined the high risks and costs that the government had assumed.

[Former Lesotho Health Minister Molotse Manyamane said](#) “the financial risk was taken only by the government of Lesotho.”

CURRENT SITUATION

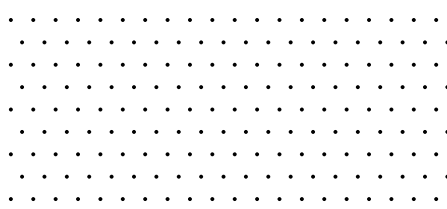
The Lesotho government terminated the PPP project in 2021, and the Tsepong consortium accepted the termination in May, although it said it was seeking higher compensation for early termination than the M3 billion the government was offering. Health Minister Semano Sekatle was quoted as saying that a [government sub-committee had resolved to sever Lesotho’s ties with the consortium](#) due to the “toxic nature” of the relationship.

This came in the context of earlier disputes with the consortium over alleged unpaid fees, [late tax payments](#), and [disputes between Netcare and other shareholders](#) in the Tsepong consortium, and [an unsuccessful application by Netcare to the High Court](#) in Lesotho to have the project placed under judicial management. Netcare denied allegations of any wrongdoing, and [said](#) it had brought a range of specialised and unprecedented high-quality services to Lesotho, and that hardships had mainly been caused by late or unpaid fees by the Lesotho government.

It [added](#) in March 2021, just before the divorce, that “Tsepong is a thinly capitalised entity without access to working capital [a common practice in financialised corporate structures] and therefore unable to meet financial obligations when monthly payments by GoL are delayed” and that Netcare had had to step in to cover financial losses when they occurred.

SUMMARY: THE FINANCIALISATION OF LESOTHO’S HEALTHCARE SYSTEM

This particular PPP deal in Lesotho carries many of the hallmarks not just with PPPs in other countries, but with many other aspects of “too much finance” and financialisation. The logic used to promote the project is a finance logic, which may appear sensible (to some) on the surface but which rapidly unravels



upon contact with reality. From finance's perspective this unravelling is a feature, not a bug.

To recap: the project was supposed to:

1. Make budget costs predictable
2. Help Lesotho tap into new sources of finance
3. Ensure cost control through competitive bidding
4. Ensure high quality of clinical services
5. Shift risks onto the private sector which is best placed to absorb them

It delivered on point two, though one might easily argue that it helped Lesotho tap into new sources of predatory and harmful finance, and it also partly delivered on point four – some good services were provided.

But on the all-important and more fundamental questions of whether those services were worth the costs, and at what cost they were obtained, the PPP has been a spectacular failure.

In short, the same principles of modern global finance emerged that we saw earlier in this report.

First, this is substantially another story of OPM being deployed, from which to extract high returns through fees and other mechanisms. As explained above, Netcare and the other minority shareholders provided only 0.4% and 0.5% respectively of the main project financing as an equity contribution, with the rest coming from the Lesotho government (34 percent) and commercial lenders (65 percent, substantially derisked by government backing.)

This high leverage and low equity contribution means that the private investors are heavily insulated from downsides and risks. [This is typical for PPPs](#), and is similar to many of the private equity games explained in Section One.

Second, when the contract was signed, [the forecast internal rate of return on shareholder capital was 25% annually](#): very high compared to other PPPs. Even if it runs into difficulties down the line, a project with an annual rate of return of 25% [will make investors money very early on in the life of the project](#). These super-sized returns for investors are, as seen in other countries, substantially extracted from workers, patients, taxpayers and others. In Lesotho's case, the costs were paid by government through very high unitary fees and additional charges which became

intolerable, and at the subsequent cost of severely reduced funding for the health budget, which affected poorer Lesotho citizens especially.

Third, there have also been accusations that Netcare, Tsepong's largest shareholder, has been [engaging in hidden profit extraction](#). For example, Netcare reportedly [lent money](#) to the consortium at a reported interest rate of 12-13%.

According to some shareholders, Tsepong SPV had not paid dividends since the hospital opened in 2011, because Netcare said not enough profits have been made. [The shareholders allege](#) that Netcare had extracted profits using management fees. (Netcare has disputed the allegations.)

This is reminiscent of common private equity techniques to reduce declared profits by extracting wealth before profits are made - not just from taxable profits, but also profits declared for dividend purposes.

Fourth, Netcare's website listed its top shareholder as the Public Investment Corporation (South Africa,) with a 19.1 percent stake, with lesser stakes for the Governments (or state pension funds) of Norway, Canada, Netherlands, Abu Dhabi and Namibia. The known remainder of shares are held mainly by funds and asset management companies, many South African, but also including [major global players](#), such as Vanguard, Blackrock, Goldman Sachs, Schroders, JP Morgan, Barclays and State Street.

This is another example of [a growing tendency](#) for state pension funds, chasing higher returns for their portfolios, to engage in potentially 'destructive financialisation'.

THE WORLD BANK, A GLOBAL 'PUSHER' OF FINANCIALISATION

Alongside the usual finance story of private actors using complex methods to maximise their rewards while shifting risks and costs onto others, lies a separate story about the World Bank Group.

The World Bank, mostly through its International Finance Corporation (IFC,) has been a key enabler of PPP deals in developing countries, and more broadly of the ['Wall Street Development Consensus'](#). This is despite the fact that there are almost no

examples where these financial strategies have ever resulted in successful industrialisation or long-term development. [Daniela Gabor notes](#): “Historically, the only country that has successfully grown with a financial system organised around securities markets was the US in the 19th century, in a unique set of circumstances that are unlikely to occur in developing/poor countries.”

By contrast, most countries that have successfully industrialised have [used development banking](#) to invest money in industrial strategies to improve performance.

The IFC pushes this financial consensus in several ways:

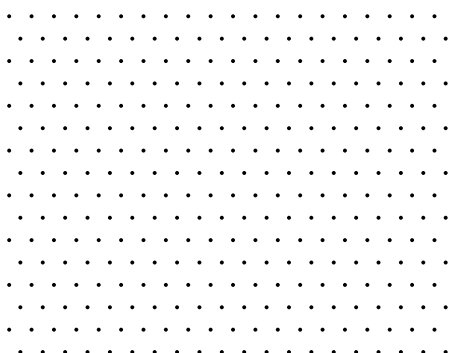
1. providing loans and equity investments in infrastructure and businesses - then securitising and selling these loans on to other investors.
2. advising and helping countries make their financial markets more hospitable to securitisation and other finance-friendly techniques.
3. Helping private financial institutions tap ‘frontier markets’. The IFC even boasts of helping financial investors to, among other things, “develop the private equity industry in frontier markets” and helping get some investors “exempted from exchange controls,” thus setting up new exchange-rate risks for those countries.
4. De-risking projects for financial sector players.

In a sense, the IFC helps identify and create new return-generating niches in the world economy for the wall of money to flow to, then facilitates financialisation to occur.

The IFC is owned by 185 shareholders comprising governments of member countries. It raises money principally via bonds and loans and works with governments to promote certain programmes. For example, [it says](#), “Germany and the United Kingdom contributed to IFC’s public-private partnerships advisory to create a pipeline of bankable infrastructure projects to mobilise private investment.”

It seems a bit hypocritical of the UK government to promote PPP deals abroad, given the scandals that have erupted in the UK over PPP projects. In 2018 the government even [announced](#) that it will no longer use PF2 (the most modern version of the PPP contracts used in the UK).

This case study from Lesotho merely reinforces more general findings about the financialisation of development: while such strategies can potentially mobilise capital to flow *into* poorer countries, that capital is often predatory and, on balance, harmful to the broad populations of the recipient country in the long term. Very often, much larger sums ultimately flow *out*.



2.C AUSTRALIA AGED CARE IS IN CRISIS

Sharp practices pioneered in private equity and the for-profit sectors seem to have found their way into the large non-profit care organisations too, delivering large and opaque financial flows upwards through complex corporate structures, often to enrich a relatively small group of people.

These flows come substantially at the expense of carers, residents and families.

Three reports by the Center for International Corporate Tax Accountability and Research (CICTAR) and Tax Justice Network - Australia from 2018-2020 gained wide media coverage and triggered public inquiries, finding that the largest for-profit and not-for-profit actors in Australian care “dominate peak bodies and influence government policy and regulation [then] demand more funding which they are better positioned to capture.”

Many of the problems outlined in these reports are similar to those mentioned in PSI’s “Ten [Tricks](#)” document or the Barchester case study above, highlighting that the problem is not related to individual bad actors, but is rather *systemic* at heart. Those actors most adept at financial engineering grow the fastest, and others feel pressured to adopt these practices or lose market share, in another example of financial ‘contagion.’

In general, the reports found that Australia’s largest **for-profit** aged care companies are not accountable for the billions in public funding they receive, and instead prioritise financial returns above elderly care.

They found that [the six largest for-profit providers](#) were running more than a fifth of all residential aged care beds and were getting nearly A\$2.2 billion in annual government subsidies, but then used complex corporate structures, often via tax havens, combined with internal transactions to lower reported profits, to reduce their tax bills.

One company, Opal, paid \$2.4 million in tax over two years while paying out an estimated \$62 million in dividends. Another company, Allity, told a [Senate hearing](#) in 2018 that a loan from shareholders charged at 15% annually was “market rate.” Two other companies, Regis and Japara, faced shareholder protests, with nearly 25% of

shareholders in each case [voting against](#) their remuneration reports. The founders and two largest shareholders of Regis, the largest of the listed aged care operators, received \$33 million in annual dividends.

Another investment firm that bought a small aged-care company in 2017, using the same kind of ‘finance’ language highlighted earlier, promised to “provide investors with exposure to the attractive fundamentals of the Australian aged care sector” and boasted of “a total return to third party co-investors of 20%+ per annum over a 4 year term”. This statement contrasts powerfully with investors’ claims that the crisis in care is not the result of sharp practice by financialised operators, but simply the result of government underfunding.

It is possible to see in this (simplified) diagram the same kinds of names encountered earlier: PropCos, FinCos, HoldCos, Midcos and so on, as seen in the Barchester Case Study (2.A) but which are also encountered in a wide array and countries and economic sectors beyond social care. What the (company-supplied) chart does not show is the partial ownership through a Jersey-based entity managed by an Australian private equity firm, and shareholder loans – at an interest rate of 15% - that have been used to shift profits to the investors (global pension funds.)

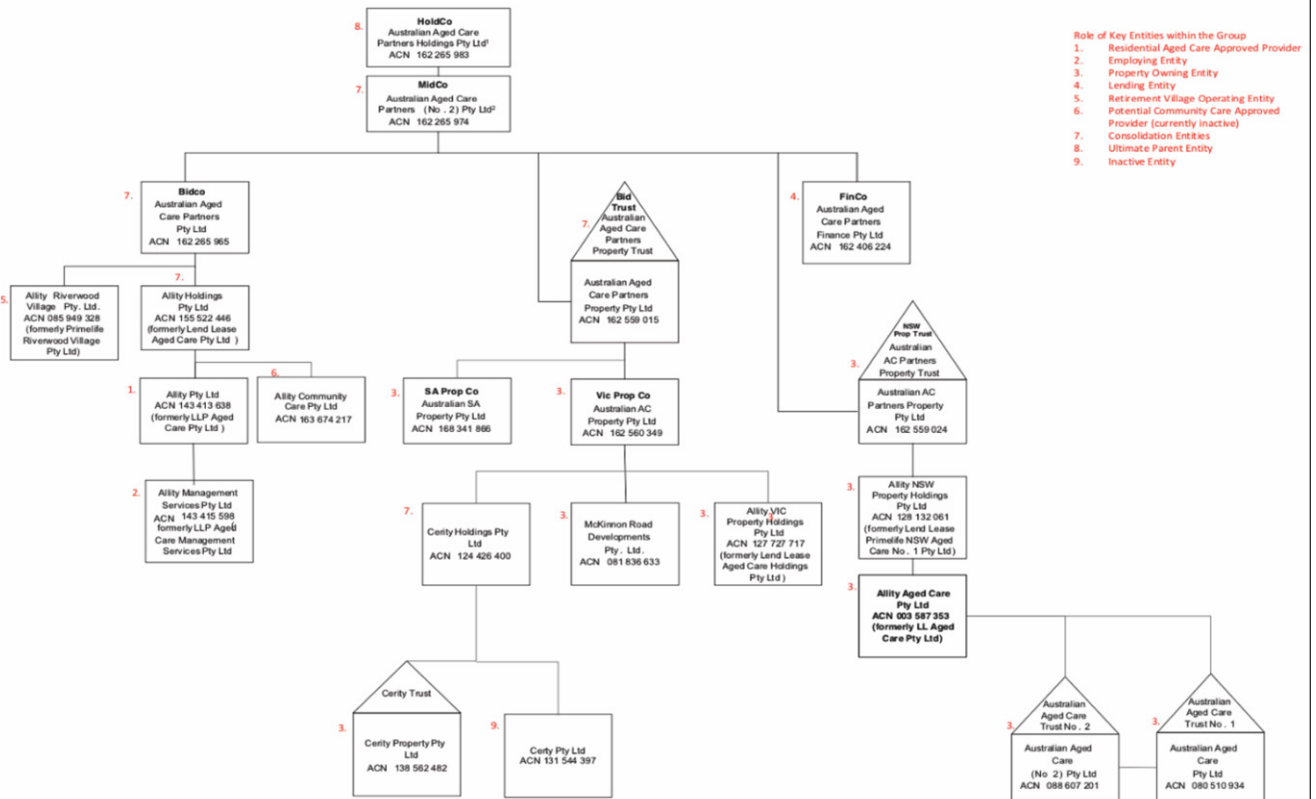
The private equity owner, Archer Capital, looks like another finance-specialist platform investor that has at various times also been active in data registries; in aviation ground handling; in tax and business software; in fuel distribution; in quick-service restaurants, in pharmaceuticals, and more. Such structures warrant further investigation, especially to trace the financial flows.

The reports also found transparency problems with **family-owned** care companies, which provided little public information about their financial operations and performance.

More surprisingly, perhaps, were the findings in the non-profit sector, where an analysis by CICTAR of nine large non-profits operators revealed a pattern of extracting revenue from government subsidised residential aged care to fund property investments, and a number of red flags. More recently, despite the

This image shows the same sort of corporate structure and component as have been found elsewhere - there is no need to try and understand this structure: a quick visual skim is sufficient.

AACPH Group Structure Chart – 30 June 2016



Source: Ality submission to Australian Senate, 2018.

industry continuing to cry poverty and demanding more funding, a non-profit Catholic aged care operator Calvary made an unexpected A\$288 million [takeover bid for Japara](#), one of three large listed aged care companies mentioned above. The Japara board accepted the takeover in July 2021, and Calvary [said](#) this was “another step to further establish our integrated care model across residential, community and hospital services. Calvary is in an exciting phase of growth which includes playing our part in the future delivery of health, aged and community care services across Australia.”

The nine received A\$4.4 billion in gross income in 2019 from government funding, residents’ fees and other sources, and received an average A\$66,000 in government subsidies per care place. Many reported losses were driven not so much by spending on care but by continued property purchases to expand the businesses.

All the non-profits had limited financial disclosure, and government funding data did not match government funding as reported by each entity (one of them, Catholic Healthcare, under-reported

government revenue by \$170 million.) Many had board members drawn from the Big Four accounting firms, which have a global track record facilitating tax avoidance and other socially destructive practices.

Because of reduced disclosure, it was not possible to investigate the range of techniques that may have been used to shift profits across borders or around the corporate structure. However, the reports found suggestions of similarities. For example, losses were recorded as stemming from overseas operations including in China, where disclosure is weak. And, as [one investigation](#) put it: “The related party transactions between entities, including trusts, appear similar to those in the large for-profit aged care companies.”

DETERIORATING CONDITIONS

As money has been funnelled away from patients, conditions have been deteriorating. The Australian Federal Health Ministry received over 5,200 notifications of assaults in aged care homes in

2019, including rape and even murder. A KPMG [analysis](#) for the Federal government outlined a dire situation with an estimated 52,000 assaults: 1,000 a week. Residents were restrained with straps or feeding trays, and a study from Macquarie University found that a third of aged care residents were, as a newspaper [report](#) put it, “zoned out on antipsychotics, a form of chemical restraint,” with many physically restrained with straps or feeding trays.

Cost-cutting has been severe, even as a wealth of taxpayer money has flowed into the aged care system. Aged Care Crisis, a pressure group, [added that](#) “over the years, aged care residents in nursing homes have been raped, robbed, bathed in kerosene, attacked by rodents, suffered injuries or death from other residents, burnt to death, strangled, cooked, melted, sedated to death, overmedicated or choked to death.”

Newspapers tell of nursing homes having to call in paramedics to change a catheter in the night, because there was no nurse on duty, and a registered nurse caring desperately for 150 patients in “profoundly unsafe” conditions.

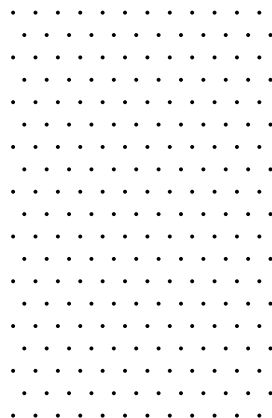
And in the Covid-19 era, public sector facilities seem to have been much safer than those run by private organisations. The *Australian Financial Review* [reported](#) in July that of the 35 Covid-19 deaths in care homes in the state of Victoria, for instance, 100 percent had occurred in privately-run care homes - even though Victoria has over 180 publicly run care homes. Another [study](#), in Canada, found similar trends, with 82 percent of deaths occurring in for-profit facilities, even though there were slightly more beds in the municipal and non-profit sectors.

Outsourcing of government responsibility has had ramifications beyond the care sector. A government inquiry in Victoria found that 99 percent of the more than 18,000 cases of Covid-19 and 750 deaths in the state after May 2020 could be traced to outbreaks transmitted by returned travellers at two quarantine hotels. Instead of tasking Victoria Police or the Australian Defence Force with enforcing the quarantine, the State spent nearly half its \$130m quarantine funds on outsourcing the task to private security firms, which cut costs and botched it. At

least [one security guard continued to turn up to work with Covid-19 symptoms](#), with low wages leading him to work as a delivery driver as well as his security guard shifts. The Victorian Health Minister Jenny Mikakos [subsequently resigned](#) over the fiasco.

An interesting aspect of the newspaper coverage of the story of wealthy people using financial tricks to extract large sums from often impoverished care home residents is that it was carried not by left-wing newspapers but by a stable of newspapers and television outlets owned by Rupert Murdoch's News Corporation, which mounted a special investigation to uncover the horrors and the economic underpinnings of this giant social failure.

In the [words of Sue Dunlevy](#), a News Corp. reporter, “we spend \$44 billion a year but we don't know where this money is going.” The fact that the most enthusiastic pursuer of this story was News Corp., owned by the billionaire who also controls the Donald Trump-supporting Fox News in the United States, clearly shows that actions to tackle this kind of financial engineering can gain supporters across the political spectrum, from left to right.



Section 3 -

Fighting Financialisation and reclaiming care as a public good

3. A CARE AND GENERAL RECOMMENDATIONS

This section provides a series of policy goals and recommendations to address many of the problems outlined within this report.

This section has two overlapping parts: **care-specific and general recommendations**, aimed at directly benefiting patients, those using care and the workers who provide it; and **finance-specific recommendations**, more focused on finance issues that affect the care sector. Nearly all of the recommendations in these two categories can be generalised beyond the health & care sectors.

TAKE PROFIT OUT OF CARE

Aside from the issue of financialisation there is a strong case that health and social care should be in public, rather than private, hands for reasons of quality, efficiency, equity and accountability. There is also a moral argument that nobody should profit from caring for the most vulnerable people in our community.

However, as this report shows, allowing private providers into social care creates strong forces for financialisation that are difficult to control, precisely because for-profit providers do just that - find ways to chase profit. The only guaranteed way to stop financialization of social care is to make it public. Where this is not possible then other ways must be found to take profit out of care.

The moment a care facility is absorbed into a larger corporate structure, and the bigger this structure becomes, the potential for financialisation rises. Competition between chains will inevitably pressure this company to adopt private equity-style techniques. Health and social care companies should never be owned by large chains. They should never, ever be owned by private equity firms, or by those that use their techniques. As has been recommended by [others](#):

REGULATE FOR QUALITY OF CARE, STAFFING LEVELS AND TRANSPARENCY

In a mixed care system there will always be incentives for the private part of the sector to cut costs to boost profit and market share. Universal standards that ensure staffing ratios, training levels and quality protocols are essential to ensure quality provision of care.

Because care is fundamentally provided by people, it is impossible to sustain a quality care system without a well trained, valued and stable workforce. Ensuring that staff terms and conditions are decent and driving out precarious work creates the conditions for long term investment in carers and a quality, patient focussed ethos.

Transparency of the financing, governance, operations, staffing and quality of care needs to be compulsory and be built into the system with adequate enforcement mechanisms. The vulnerability of those being cared for and the nature of the workforce, when combined with profit motives and financial engineering may lead to pressure for poor practices to be hidden. Transparency needs to be built into all aspects and be patient focussed.

Workers are the frontline of transparency and quality. They must have their trade union rights respected, whistleblower protections freely available and never be demonised for systems failures if they are to play the essential role of ensuring patient focus and quality in the workplace.

All three areas establish minimum quality standards, but also remove some of the worst incentives for bad practice and poor business models in mixed systems.

ESTABLISH A PUBLIC ALTERNATIVE

Where private social care operates there should always be a significant presence of a public provider to ensure that monopoly concentration is not possible and that a non-financialised benchmark exists in the industry.

TACKLING AUSTERITY

Not all problems in care stem from finance. Short staffing and underfunding are also the result of government cutbacks and austerity. The pandemic has shown that, when the chips are down, public borrowing to spend on improving the lives of citizens and workers is quite possible, and desirable. Yet without fixing finance, any additional public funding

risks being diverted to financialised players, before it can benefit patients or carers. We must make arguments for increased public funding for care services - but with the provision that these funds are not simply handed over to financialised players.

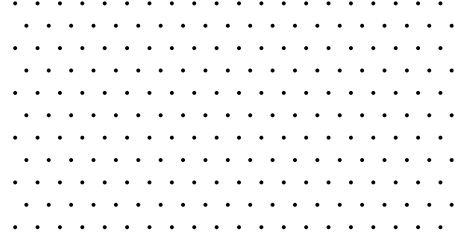
DEFEND AND REBUILD NATIONAL TAX SYSTEMS

Especially since the 1980s, tax authorities around the world have been under attack from vested interests seeking to, as lobbyist [Grover Norquist put it](#), reduce government “to the size where I can drag it into the bathroom and drown it in the bathtub.”

Hundreds of billions of dollars of potential revenue are lost annually, due to these attacks on revenue services and consequent understaffing. According to a [2020 study](#) by the European Public Services Union, almost 100,000 jobs were lost in tax authorities in 28 European countries alone from 2008 to 2018, with pay being heavily restricted, and in one case tax authority office buildings being sold off to tax-haven-based companies. The UK’s PCS union [estimated](#) that each tax inspector dedicated to compliance brings in some £650,000 a year net of staff costs, while a “special investigations unit” that tackles complex tax cases [has yielded 450 times its cost](#). Meanwhile, a [study](#) by the Natural Resource Governance Institute found that an international tax unit with ten staff in Tanzania at a staff cost of about US\$130,000 a year, had raised about US\$110 million since 2012.

In the European Union, the Big Four – PWC, EY, KPMG and Deloitte - employ over 900,000 people: nearly twice the number of all tax department employees in the EU. For lower-income countries, the power imbalance is greater still. The amount of tax raised is partly a question of what the relevant laws are, but partly a question of the human and financial resources that tax authorities have to police and enforce those laws.

If tax authorities remain weak then tax authorities feel obliged to levy taxes that are easiest to collect – notably, raising taxes on lower-income and middle-class people through VAT and other measures. This generates new public opposition to the welfare state,



which in turn makes it easier for politicians to sell a message of austerity.

Extending funding for quality public care services requires revaluing our tax departments.

CLOSE TAX LOOPHOLES, MAKE TAXES MORE PROGRESSIVE

Work is underway to fix the international system, and a large and [influential](#) 'tax justice' movement has emerged to articulate the necessary changes, which includes workers and others in rich and poor countries alike. According to research by the IMF and the Tax Justice Network, public authorities lose some [\\$5-600 billion in taxes each year](#), of which \$200 billion is lost from developing countries – just through multinational firms using tax havens.

Solutions include unitary taxation, excess profits taxes, wealth taxes and [financial transactions taxes](#). More information can be found in PSIs [Fixing Corporate Tax: Union Demands](#) and ICRICT websites.

REFORM CORPORATE GOVERNANCE

We need a fundamental rethink of the nature and purpose of a corporation operating in the health & care sectors. Existing proposals are worth supporting, including; putting workers' representatives on company boards; de-prioritising the legal rights of company shareholders in favour of other company stakeholders; making private operators in the health and care sectors hold their assets for a minimum of 25 years; weakening limited liability protections for financiers acting in the health & care sectors so they are accountable for debts and losses.

TACKLE MONOPOLIES DIRECTLY

Trade unions have only weakly engaged with the issue of large concentrations of financialised corporate power, having sometimes reached

accommodations with large firms. There is a clear, fairly inexpensive approach now that would serve workers, our communities and the wider trade union movement well.

Specifically, private equity enjoys a [massive, finance-fueled market distortion](#). Its superior access to finance, and their greater willingness to undertake extractive financial engineering compared to other more traditional companies, enables them to outbid other firms in the care sector (and elsewhere), on factors (finance and financial engineering) that negatively impacts the sector. The most important governmental bodies tasked with tackling market distortions are competition (or "antitrust") authorities, which in theory could block private equity takeovers, but in practice [lack the mandate](#) or even pressure from civil society to do so. Potentially powerful antitrust tools, which could stop the current wave of post-pandemic private equity takeovers, thus lie unused. Trade unions should urgently start to engage in this arena.

More generally, there is an urgent need to create networks with expertise to address explicitly concentrated economic power. These would be staffed with energetic people with accounting, economics and media expertise, and with a good grasp of financialisation. The core tasks would be to build a new story around which a global movement or movements can be assembled, using a finance curse frame, and wielding new tools and analyses.

3. B FINANCE RECOMMENDATIONS

FINANCE-FACING SOLUTION

In terms of the policies and principles that such a movement can fight for, here are a few key pointers. **First**, our document ["Ten Tricks: a short handbook of financial engineering"](#) provides a diagnosis of

the techniques commonly used by private equity firms, to the detriment of workers in the health & care sectors and beyond. Each trick can suggest a solution. These might include, for instance:

- i) abolish tax relief on interest payments (This proposal already has quite widespread support across the political spectrum);
- ii) prohibit “shareholder loans” by insiders to portfolio companies (if owners want to inject money, they can inject it via equity);
- iii) strongly limit overall debt levels inside companies, especially in the health & care sectors;
- iv) unpick limited-liability protections so that moguls share in losses;
- v) make bankruptcy fairer so that moguls stand near the back of the queue for recovering assets;
- vi) make PE firms directly responsible for worker pensions;
- vii) curb fees and insider dealing;
- viii) improve transparency, including over investor returns.

A good resource with specific recommendations is Elizabeth Warren’s [Stop Wall Street Looting Act](#). Though never enacted, the draft contains numerous effective and powerful lessons, including taking direct aim at a core feature of the finance tricks: namely the ability of firms to take risks with OPM. Its preamble is effectively a statement of the finance curse thesis: that outside of a useful core, too much finance makes an economy poorer.

“Wall Street’s success hasn’t helped the broader economy — it’s come at the expense of the rest of the economy.” Elizabeth Warren’s [Stop Wall Street Looting Act](#)

DISINVEST FROM PRIVATE EQUITY AND HEDGE FUNDS

Globally, around [\\$4.7 trillion dollars](#)’ worth of assets are held by private equity firms. A sizable chunk of that money is the result of investments into private equity funds by pension funds linked to trade unions. Curbing private equity’s “dry powder” ready to be invested could generate significant social advances. Although pension fund investment strategies tend to be independent of trade unions, we must find new ways to ensure that these investments of workers’ money are not used to invest in such predatory sectors.

This is of strategic importance, for two main reasons:

- a) These investments lead to predation in other areas, which hurts workers. (Hedge fund predation is harder to discern, given that they trade in more arcane areas, but similar incentives generate similarly socially harmful outcomes, often via debt-based strategies.)
- b) investors in private equity and hedge funds are promised high returns (as a result of predatory actions at the sharp end), but independent [research](#) shows [regularly](#) that the fruits of the predation are in aggregate obtained by the moguls and not enjoyed by their co-investors, so returns to investors are low in any case.

SMART CAPITAL CONTROLS

After the Second World War, governments set up the co-operative international “Bretton Woods” architecture, which imposed strong “capital controls,” tightly curbing the ability of financial capital to flow across borders. The quarter-century when these controls held firm and were effective is now known as the “Golden Age,” with nearly all countries enjoying the highest, most broad-based economic growth in world history, before or since. The era of tax-cutting and deregulation after those controls collapsed in the 1970s saw growth fall, inequality soar, worker wages stagnate, and financial crises abound.

It is currently unimaginable to return to those stringent capital controls. Another kind of [“smart” capital control is possible](#). This is the recognition that our economies should not be bowing and scraping to mobile global capital, offering tax-cutting and deregulation and other lures to try to attract mobile capital from the wall of money roaming the world. Instead, recognising the finance curse and the role of inflows of this money not as a source of incoming wealth but as a crowbar inserted into the national safe to get the money out, the aim should be to keep such money *out*.

The way to keep this money out does not need to involve hard barriers at the border to prevent capital inflows, but instead the normal kind of policies advocated here and elsewhere to protect democracy and curb inequality: progressive taxes, minimum wages and worker protections, strong financial regulations, corporate breakups and other antimonopoly tools, and more. With the new finance story we can move away from fears that such progressive policies will ‘chill investment’ or that “the money will run away to Geneva or Hong Kong,” to realise instead that they will increase our prosperity. Crucially, countries can and should act unilaterally, in their own national self-interest, to enact such controls.

Internationally, these measures mean rolling back the “Wall Street Development Consensus” of pushing private finance and shadow banking practices into lower-income countries, via “public private partnerships” and “Private Finance Initiatives”. The aim should not be for a “de-risking state” to make life comfortable for finance, but for a developmental state to ensure that where private finance exists, it is properly accountable for risks and losses.

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RADICAL TRANSPARENCY

The finance sector in every country, especially where large care companies are involved, needs radical transparency to allow citizens to uncover and understand what is happening. Movements to promote this, worth supporting, include

- Standards as set by the [Global Reporting Initiative](#)
- Detailed [public registers of beneficial ownership](#).
- Public [Country-by-country reporting](#) of financial and tax affairs.



BUILDING A NEW GLOBAL MOVEMENT TO TACKLE FINANCIALISATION

In his book *How to Fight Inequality*, the historian Ben Phillips [identifies](#) a trio of key ingredients for all successful social movements in the past:

- i) **End Deference** – don't pander to power;
- ii) tell a resonant **new story** (especially true in the current '[age of narrative](#)'); and
- iii) **build a movement**.

A fourth element might include: **offer solutions**. In the context of high public anger at corporate elites, ending deference is already underway. The finance curse provides a resonant new story, backed by a rich expert and academic literature about financialisation, covering most major economic sectors.

The potential for movement-building is also immense: from employees of large multinationals to gig economy workers labouring for tech platforms; to care workers; to employees of hollowed-out retail firms, and far beyond, many of the same kinds of financial techniques are apparent.

Workers and their representatives must build new alliances with non-traditional partners such as [small businesses](#), development NGOs, human rights activists, privacy and data specialists, and a wide range of others across economic sectors.

Only then will we have the power to ensure that finance is serving our economies and societies, rather than extracting wealth from us all.



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