Opening Statement of Ranking Member Spencer Bachus at the Hearing on "Private Equity's Effects on Workers and Firms"

May 16, 2007

Let me begin by thanking Chairman Frank for holding this second hearing on the subject of alternative investment vehicles. Today, the Committee will review the private equity industry.

Private equity is not a new phenomenon; in fact, it has been a part of our capital markets since the 1960s. However, the industry has drawn increased attention in recent months because of several blockbuster transactions involving major U.S. companies, including Clear Channel, SallieMae, Equity Office Properties, and - just earlier this week - Chrysler. In 2006 alone, U.S. private equity transactions totaled $406 billion and accounted for 27% of U.S. merger and acquisition activity. One telling barometer of the industry's growth is that in 2001, private equity firms purchased 324 companies. By 2006, that number had more than tripled, to over one thousand acquisitions.

Several factors appear to be driving the explosive growth in private equity. Institutional investors -including public and union pension funds, university endowments and foundations - are turning to private equity investments to generate higher returns for their stakeholders. In addition, publicly traded companies face an environment in which overly burdensome regulation, the specter of frivolous shareholder lawsuits, and the demands of activist shareholder groups have made "going private" an increasingly attractive option. If ultimately enacted into law, the executive compensation legislation that the House passed last month would, in my view, further accelerate this trend toward private financing.

Private equity can be a valuable tool for providing capital and expertise to underperforming companies or companies struggling to generate quarterly growth and meet Wall Street expectations. The overwhelming majority of publicly-traded companies are single-mindedly focused on one day right now - June 30, the end of the second quarter. Are they going to meet or beat estimates? Has the market already accounted for the company's possible growth?

Additionally, taking a struggling public company private gives its managers the opportunity to address strategic concerns free of day-to-day competitive pressures. To improve corporate performance, private equity firms typically recruit top managers - often drawn from the ranks of senior management at publicly traded companies - and directly tie their compensation to long-term performance and growth, not to short-term stock price gyrations. Indeed, former Treasury Secretary John Snow, now chairman of Cerberus, verified this trend when he described his firm's acquisition of Chrysler as providing "management with the opportunity to focus on their long-term plans rather than the pressures of short-term earnings expectations."

We must support the continued growth of private equity and other alternative investments in our marketplace.   An overly prescriptive, rules-based approach to the regulation of private pools of capital could stifle the industry and drive private equity firms and their capital offshore, potentially compromising the competitive standing of our capital markets.

Concerns have been expressed about the treatment of workers at companies that are taken private. While I intend to listen carefully to the testimony at today's hearing on this point, it is not yet clear that privately managed companies act any differently with respect to worker retention or compensation than publicly-traded companies.

We have heard anecdotal accounts of differences in workers' wages at private versus public companies, but we have yet to see any definitive empirical evidence in this area. Further, we should not automatically concede the premise that taking action to increase efficiencies in a privately-held company is always unfair or unwarranted. The actions of new management may restore a company to competitive health, preserving workers' jobs that would otherwise be lost, maintaining pensions, and providing other benefits. We must also not lose sight of the fact that, according to a recent study, private equity created about 600,000 jobs in the United States from 2000 to 2003. Given the increasingly competitive nature of the global economy, our policy should be to ensure that American public and private companies can survive.

# # #