

Why do Labour believe in private equity?

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The logic of private equity capitalists is contrary to everything that it seems that sound government, good governance, sensible pension fund planning, and long-term thinking should stand for. So why is Labour besotted with it?

<https://www.youtube.com/watch?v=R4YNFMhNiB4?si=PBKuCsFWHonEHach>

The audio version is:

https://www.podbean.com/player-v2/?i=39jay-174b8b4-pb&from=pb6admin&share=1&download=1&rtl=0&font=Arial&skin=c73a3a&font-color=auto&logo_link=episode_page&btn-skin=ff6d00

This is the transcript:

What is the obsession with private equity all about? I have to ask the question because it is very clear that the UK government, amongst many other governments, is completely obsessed with the use of private equity capital to somehow transform the economy of the UK. And I'm here to tell you that that is a very dangerous idea.

Private equity capital has been around for a long time. Back in the 60s and 70s, when I first became aware of it, private equity capitalists were called asset strippers. And let's be totally blunt, nothing really very much has changed since then, except they have managed to invest a great deal in their public relations activity and put on a veneer of respectability that now affords them the opportunity to influence government and persuade government ministers that they are our future, plus the future for our energy

transition and the future for our national wealth fund and most especially the future for our pensions. And all of that is complete nonsense.

Let's explain what private equity does. It identifies a company that exists, because it does not create new companies or ideas. It identifies a company that exists that does need more funding, in the opinion of the private equity fund, to realise its potential. It persuades the management that this is the case.

It takes a stake. In other words, it buys a share of that company and might well loan it additional money that has conditions attached to it. And as a result of its investment, it will require that the management of the company in question go for maximum growth. That is the object of private equity. And the reason why they want to go for maximum growth is that they want to create assets that they can sell.

Now let's be blunt about this. Private equity is not a long-term player in the vast majority of the businesses in which it invests. It is instead a short-term manipulative and speculative activity, the sole purpose of which is to create assets in a form that can be sold and traded in financial markets.

Let me be clear then that the value that private equity creates is not necessarily of the sort that society wants.

Nor is it of the sort that the original owners of the company in which private equity invested might want.

It isn't also necessarily of the sort that the employees of that company might want because many of them might have discovered that private equity has resulted in them losing their jobs during the period in which it is involved with the company in question, because outsourcing is one of the favourite activities of private equity operators, because that makes it easier to sell on the assets that they are creating.

No, private equity creates a return, which is solely for the benefit of the private equity operator, and they don't care about anybody else.

I have to be honest, they are honest about that fact. And I suppose we should welcome that. They are at least candid that they are in this game purely to advance their own interests. But, despite that, we have seen people like Rachel Reeves fall for their charms. Why has she done that?

I have to be honest and say that I believe that's simply because private equity has decided to align itself with Labour because they see the opportunity to secure influence to advance their cause.

And have they done that? Yes, we know they have. How do we know that? Because we have seen them win some arguments that we expected the government to pursue. For example, we were expecting Labour to be extremely harsh on the taxation treatment of

private equity funds, and it's actually been pretty generous.

So, private equity has already won from supporting Labour, and has no doubt rewarded Labour as a consequence, which is why politicians fall for these people. They have pots of money, which are firstly used to subvert the political process and secondly used to undermine democracy in their best interests.

But let me also be clear why this is so dangerous. Rachel Reeves has said that we are creating a National Wealth Fund in the UK. This is complete nonsense. What she's doing is giving about eight billion pounds as a bung to the private equity business. And she is claiming that this will, to use her phrases, 'catalyse' £70 billion of investment in the UK economy.

Now, what that means is that she will become, as a government minister, a member of a syndicate that is investing in private business in the UK, and she hopes that the private equity operators will pay the government a decent return as a result.

Frankly, if that £8 billion wasn't provided by government, the remaining £62 billion, which is what she thinks is going to be available, would be available anyway if the opportunity for the private equity operator existed out there in the market in any event. So, all she is doing is buying a stake in a private equity syndicate.

And the same is exactly true of GB Energy. GB Energy is not going to be producing energy. It is not going to be creating a sustainable future for us. GB Energy is another private equity fund that is going to invest alongside others in the creation of supposedly sustainable businesses in the UK, but with a very short-term horizon in use because all private equity operators have very short-term horizons and that short-term thinking is, of course, exactly contrary to what is required by both our National Wealth Fund and by GB Energy because both should be long term investors.

The Labour Party has fallen for the con and they now also want private pension funds to fall for the con as well and that to me is disastrous because private equity does not make a return for pensioners. It makes a financial return for private equity operators. Now, it is entirely true that pension funds can invest in private equity operators and therefore make money. But in the process of creating that return, private equity normally destroys value.

Many of the companies in which it invests cease to exist. The whole point of private equity investment is to groom a company for sale, having stripped out the value within it in as many ways as possible before that final sale takes place, precisely so that the return is maximised to the private equity investor. That is what asset stripping means. The business and the company is stripped down into as many component parts as possible, each of which is considered saleable in its own right. And the fact that at the end of this there is nothing of value left from the original idea doesn't matter. In other words, the potential that existed in that company, which was the reason why

investment took place in the first place, is actually dispersed in most cases by private equity and value is destroyed.

But so too, over many years of history, have employment opportunities been destroyed. I've already mentioned the likelihood is that in many private equity invested companies there will be a reduction in employment because those employees will be outsourced, because something as messy as employing people is not the type of financial operation in which a private equity investor wishes to be involved.

And we've seen this, for example, in the case of care homes, or we've seen it with regard to transport, where agencies might be used instead of employees. All of this is typical private equity activity. The only thing they're interested in is the asset. How it is serviced by people doesn't worry them because they can hire those people in as expendable resources.

That is how they treat people. So, the very idea that pension funds should invest in these private equity operations to provide value for pensioners, whose jobs are actually undermined by the private equity operation is absurd.

Private equity is a force for destruction within our economy. Why does Rachel Reeves believe otherwise? I wish I knew because there is no logical explanation, except for the funds that private equity has provided to the Labour Party.