The Bankruptcy Games

Private equity cashes in on the Covid-19 slump.

BY BILL BARCLAY

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IN THE FIRST SIX MONTHS OF THE COVID-19 SLUMP, UNEMPLOYMENT levels in the retail trade and oil and gas extraction were some of the highest among all U.S. industries, eclipsed only by leisure and hospitality. Certainly, this was bad news for these two industries and their employees—but not for all of them. Despite what we have been repeatedly told, we are not all in this together. The strategic use of Chapter 11 bankruptcy filings has actually been good for some, especially executives, in these two industries (and elsewhere), as well as in the private equity firms that have invested in these industries. Even though these two groups—executives and private equity firms—have been largely responsible for driving companies like fracking pioneer Chesapeake Energy and century-plus-old luxury retailer Nieman Marcus, owner of Bergdorf Goodman and MyTheresa, into a financial ditch.

To understand why executives and private equity investors become richer destroying companies than by making investments to ensure that these businesses are financially sound, it is essential to understand the difference between personal bankruptcy and corporate bankruptcy. While personal bankruptcy can be devastating for individuals, businesses using Chapter 11 of the bankruptcy code can enjoy a number of benefits.

Bankruptcy: Personal and Corporate

The difference between personal and corporate bankruptcy is most clear in terms of what happens upon a declaration of bankruptcy. A person declaring bankruptcy immediately loses control of their assets under most declarations, and a bankruptcy court appoints a trustee to handle the assets of the bankrupt individual. The trustee acts whether the filing is under Chapter 7 or Chapter 13 of the bankruptcy code. Generally, the trustee has the power to dispose of any assets owned by the individual bankrupt filer. (Under Chapter 13, the individual retains some control over their assets during the bankruptcy proceedings.)

In contrast, most corporate bankruptcies, including those triggered by Covid-19, are filed under Chapter 11. In this case, the bankrupt company retains possession of the assets of the company (referred to as "debtor-in-possession" or "DIP"). Thus, the same management will usually continue to run the business and will seek to reduce the pre-existing debt. The bankruptcy court will automatically issue a stay that prevents most creditors from attempting to collect any debts owed by the filing company. Very importantly, a DIP may raise new money by issuing new debt.

Now, you may ask, why would anyone lend to a bankrupt company? Because, in the event of the actual liquidation of the business, DIP financing will be paid before any other outstanding debt or equity that the bankrupt company may have. Corporate debt is ranked in terms of seniority. Senior debt will be repaid first. Junior debt is repaid only if there are sufficient funds left over after covering all senior debt. Vulture capital funds are attracted to this kind of debt, precisely because it jumps the queue in seniority and also will pay a higher rate of interest. (I am not recommending that you buy such debt!)

With this understanding in mind, let's consider two companies in the retail industry (primarily clothing) and two in the oil and gas industry (both extraction and processing). Together, these two industries that, at least on the surface, are very different starkly illuminate some of the political economic dynamics that have become even more pronounced during the Covid-19 slump. ››

Retail: Reaping the Whirlwind of PE

Private equity (aka "PE") firms have been attracted to retail stores, especially clothing, for more than a decade. Between 2002 and 2019, private equity firms took over a range of clothing retailers, including household names like Nieman Marcus, J.Crew, Belk, Nine West, and Claire's, among others. But what attracted private equity to retail in the first place?

Retailers had traditionally carried only small amounts of debt but generated significant cash flows. Although the profit margins in retail, especially clothing, are often small, many retail stores, such as Sears and J.C. Penney, own the land on which a number of their stores are located. This real estate is an asset that can be used to secure the debt that private equity issues to finance the takeover. Following an acquisition, private equity firms—the new management—authorize the acquired firm to pay out a "special dividend" to the new owners, i.e., the private equity firm itself. This debt is then carried on the books of the acquired firm. Thus, when a private equity firm takes over a business, it behaves like a virus invading a healthy cell. The virus takes over the healthy function of the cell and forces the cell to deplete itself for the benefit of the virus or, in the financial world, the private equity firm.

In addition, until 2017, the tax code allowed private equity firms to write off the interest on debt incurred in the process of a leveraged buyout (LBO) against profits. A leveraged buyout is the acquisition of one company by another in which the acquiring company uses large amounts of borrowed money to pay for the acquisition (see sidebar). Thus, the acquirer commits a relatively small amount of their own capital, leaving them free to repeat the process. In essence, the private equity firm has an interest-free loan to undertake an LBO.

LBO targets are the prey; private equity firms are the predator.

J.Crew

In 2011 J.Crew was taken private in a $3 billion LBO led by TPG Capital and Leonard Green and Partners. When a firm is taken private, it is no longer listed on a stock exchange and thus not available for other investors to purchase shares. The debt raised to carry out the LBO became a

The "L" in LBOs: Leverage

The large returns to a private equity firm in a successful leveraged buyout (LBO) and subsequent resale are the result of the use of leverage in the initial acquisition. It is leverage that produces the high return on investment that private equity firms use as a marketing pitch for investors. The leverage in a leveraged buyout is the result of borrowing the bulk of the money needed to take over the target firm while committing a limited amount of capital on the part of the acquirer.

Until the 2007 LBO of TXU Energy, KKR's 1988 LBO of RJR Nabisco, the saga that was the basis for the 1993 film "Barbarians at the Gate," was the largest LBO. KKR was also involved in the TXU LBO, along with Goldman Sachs and Texas Pacific Group.

Although the details of financing any specific LBO can be complex, the basic math involved is simple. Consider these two different approaches to acquiring an imaginary company, Acme Industries, which demonstrate the importance of leverage in LBOs.

In both cases, Acme Industries is taken over at the price of $80 million, and Acme's earnings are $10 million prior to any payments of interest and taxes, depreciation, and any amortization (aka "EBITA").

The "Respectable" Approach

Stodgy, LLC pays $80 million of its own capital to acquire Acme Industries.

After one year, Stodgy sells Acme for $100 million. Stodgy's profit is $20 million, for a return on investment of 25%.

This is a *respectable* return on investment.

(By comparison, the average annual return on investment for bonds from 1926 to 2018 was about 5.3%; the average annual return on investment for stocks over the same period was about 10.1%.)

part of J.Crew's balance sheet, and J.Crew was responsible for interest on, and eventually principle repayment of, this debt. But the burden imposed by the private equity firms did not stop there. The two acquiring firms required J.Crew to borrow another $787 million for dividend payments to—you guessed it—TPG Capital and Leonard Green and Partners.

J.CREW

Even though cost-cutting moves, including layoffs, had reduced J.Crew's workforce by 10%, by 2020 J.Crew was floundering under a debt load of $1.7 billion. J.Crew then filed for Chapter 11 in early May, the first major clothing retailer to do so in the midst of the Covid-19 pandemic. This was a major comedown for a brand that Vogue called "a significant voice in the conversation on American style," in 2011.

Bankruptcy is bad news for many of the firm's 14,000 employees—but not for the private equity firms. In 2016, as the company was struggling under its debt load and declining revenues, the possibility of bankruptcy loomed on the horizon. The new management transferred J.Crew's intellectual property rights—its brands—to a Cayman Islands shell corporation, where they are now out of the reach of J.Crew's creditors but securely under the control of the private equity firms. Pioneered with J.Crew, this approach to asset stripping is now referred to as the "J.Crew trapdoor" (sometimes also called "J.Screwed"). The show continues on stage, but the valuable assets have fallen through the floor, into a shell corporation.

Meanwhile, some J.Crew stores are reopening, allowing an undetermined number of employees (or new hires) to come back to work. The firm had over 500 stores before the Covid-19 crisis; as of mid-August, the firm's website lists just 170 open stores. J.Crew is also seeking to cancel leases for at least 67 stores.

Of course, TPG Capital and Leonard Green and Partners walk away with control of the J.Crew brand, which they can now market to other retailers—after unloading the LBO debt onto J.Crew's books.

The "Outstanding" Approach

TurboCharged, LLC commits just $20 million of its own capital and borrows the remaining $60 million at an interest rate of 10%.

The $60 million becomes part of Acme's balance sheet. The result is a 6:1 ratio of debt to earnings, the guideline that was issued by the Fed in 2013—and then retracted.

After one year, TurboCharged sells Acme for $100 million. Similar to the "respectable" approach, TurboCharged has a profit of $20 million. But unlike Stodgy, TurboCharged has only committed $20 million of its own capital in the acquisition.

Once TurboCharged pays one year's interest ($6 million) and repays the loan ($60 million), TurboCharged now has $34 million in capital ($100 million – $60 million – $6 million = $34 million).

After TurboCharged subtracts their original investment of $20 million from their $34 million in capital, TurboCharged's profit is $14 million, for a return on investment of 70%.

This is an *outstanding* return on investment—leverage is the difference.

Summing Up

Leveraged buyouts are a core tool used in private equity deals. And, as the hypothetical example illustrates, the one that most of all accounts for the outsized profits claimed by private equity firms in their marketing pitch to your and my pension funds. As the new owners of companies they take over, the buyout firms have other strategies to boost their haul, as the cases of Neiman Marcus and J.Crew illustrate. These include additional borrowing by the acquired company to payout a large dividend to the private equity acquirer, mass layoffs in the name of "efficiency," assets stripping, raiding pensions, etc. But the use of leverage—using other people's money for the buyout itself—is the underlying strategy for these other looting tactics.

Neiman Marcus

J.Crew may have been a mass-market retailer, but Neiman Marcus never saw itself that way, nor did its customers. Founded in 1907 in Dallas, Texas, the stores sold Chanel handbags and Loro Piana cashmere. In the 1980s, the White Plains, N.Y., store offered smoked salmon and herring from Murray's Sturgeon Shop in Manhattan. One year the company's Christmas catalogue even offered a $20 million personal submarine.

Not for nothing did the store have the nickname "Needless Markup."

The store's philosophy was summed up by longtime CEO Burt Tansky when he said: "We work very hard to create a luxurious experience for our customers—whether it's the amazing merchandise, the fresh flowers, or the artwork."

The first time Neiman Marcus came (likely unwillingly) in the sights of private equity was in the 2005 LBO of the store by TPG Capital and Warburg Pincus. They took the firm private at a price of over $5 billion. At the time, Neiman Marcus was at the top of the retail pack. These two firms held onto Neiman Marcus for eight years, then sold it in 2013 to the private equity firm Ares Management, along with the Canada Pension Investment Board, for $6 billion. The new acquirers planned an initial public offering (IPO) in 2015, but that never happened. Despite carrying a debt load that exceeded its revenue, the company continued to expand. The high-water mark of this continued expansion occurred in March 2019, when Neiman Marcus opened its first store in Manhattan, a 188,000-square-foot Hudson Yards anchor store that occupied three floors. This came after a 2018 financial performance that produced profits smaller than their required interest payments.

Within a week of J.Crew's bankruptcy filing, Neiman Marcus also filed for Chapter 11 protection, threatening the livelihood and jobs of its more than 13,000 employees. There were a few in the company, however, who reaped millions. In February, Neiman Marcus paid a bonus of $4 million to its CEO, and a week before filing for Chapter 11, paid another $25 million to other executives. For a little perspective, the average apparel associate, the highest paid employee category at the store, would have to work for almost 70 years to earn $4 million.

But, as in the case with J.Crew, that is not the end of the story. In 2014 Neiman Marcus had acquired German-based MyTheresa, "an online shopping destination for children, men, and women's luxury clothing, bags, shoes, and accessories," where, for $450, you can buy a pink leather AirPods case from Bottega Veneta. In 2016, Neiman Marcus Group LTD LLC transferred ownership of MyTheresa to its parent company, the Neiman Marcus Group, Inc. at the direction of Neiman's private equity acquirers. This insulated MyTheresa from creditors in the recent bankruptcy proceedings because it is the LLC, not The Neiman Marcus Group, Inc. that filed Chapter 11. And, of course, the private equity firms retain control of the parent and the assets of the parent.

Neiman Marcus told the bankruptcy court that 21 locations, some full stores, and others the firm calls "Last Call" facilities, will close permanently. As in the case with J.Crew, the bankruptcy road is just beginning.

The Fracking Revolution

In 2006 the United States imported 60% of the oil we consumed. By late 2019, the United States became a net exporter of petroleum products, exporting 772,000 barrels per day, including both crude and refined petroleum. The United States also became the world's leading producer of oil, as domestic production almost tripled in those 14 years. Of course, the source of this huge increase in production and the much-lauded "energy independence" was the new technology for extracting oil from shale: hydraulic fracturing, or fracking. But, as I have argued elsewhere (see "A Rolling Loan Gathers No Loss: Fracking, Covid-19, and Zombie Finance," Chicago Political Economy Group, April 18, 2020, accessible via cpegonline.org), the Covid-19 slump has revealed that the foundation of that "energy independence" is nothing more than a financial house of cards.

Chesapeake Energy

If there is one company that embodied the fracking revolution in fossil fuels, it was Chesapeake Energy, often considered the poster child for that new extractive technology. Chesapeake was the brainchild of Aubrey McClendon who made it to #134 on Forbes magazine's richest 500 list in 2008. This was only 19 years after he co-founded Chesapeake; 15 years after Chesapeake's IPO; and only a decade after he adopted the hydraulic fracturing technology developed by George Mitchell. McClendon was not a technology pioneer, he simply believed—very strongly—that fracking would be the path to energy independence for the United States and riches for himself and his company. Under his leadership, Chesapeake bid aggressively for leases on land that gave it the rights to extract gas and oil from below the surface—as much as a mile or more underground.

At the apex of its success, Chesapeake had 175 operating rigs sprawling across the country, from Texas and Louisiana to Pennsylvania and Ohio. The company focused on natural gas more than petroleum. At one point, Chesapeake was the second largest producer of natural gas in the United States, eclipsed only by ExxonMobil. McClendon even surreptitiously financed a "Coal is Filthy" campaign and approached some environmental groups to argue for a joint effort to position natural gas as the clean energy bridge from coal and oil to green energy.

McClendon was betting that the price of natural gas would not fall below the $8–9/thousand cubic feet range; in fact, he believed it would only go up. President Vladimir Putin and a Goldman Sachs/KKR LBO of utility company TXU were making the same bet. That did not turn out to be the case.

McClendon was ousted from Chesapeake in 2013. He had already driven Chesapeake into a precarious financial position: from 2010 to 2012, Chesapeake spent $30 billion more on drilling and leasing than it took in as revenue.

While McClendon was profligate in both his corporate and personal life, that was not the basic problem for Chesapeake and other companies who built their business model around fracking. The fundamental problem is financial: The companies have never been able to achieve consistent profitability. Chesapeake's stock hit an all-time high in July 2018 at $1,080 per share, but by mid-2019 the company was reporting negative earnings per share.

Fracking wells have a relatively short life. Therefore, companies must constantly drill new ones. Drilling to depths of a mile or more doesn't come cheap, so Chesapeake borrowed billions over the last decade to continue drilling. Like other frackers, Chesapeake kept promising investors that they would get repaid out of future profits. Investors, including pension funds, bought Chesapeake's BBB-rated debt because it paid higher interest rates than better-quality debt. The ready market for its debt allowed Chesapeake (and others) to roll over old debt—as the saying goes, "a rolling loan gathers no loss." But the future of profitability never came.

The Covid-19 slump showed that fracking companies are a prime example of "zombies," companies that cannot meet interest payments on their debt, much less pay off the principal.

The Covid-19 slump upended—or maybe just awakened investors to—these calculations. Plunging prices and a glut of oil and natural gas have illuminated the reality: Fracking companies are a prime example of what the Bank for International Settlements calls "zombies," companies that cannot meet interest payments on their debt, much less pay off the principal.

On June 28, 2020, Chesapeake filed for bankruptcy, just after awarding $25 million to executives and other senior employees in May. Paying out bonuses while under Chapter 11 supervision would require a bankruptcy court's okay; paying them out a few days earlier got them around that obstacle.

From the early 2000s, the United States chased the Holy Grail of energy independence. But, instead of taking the renewable energy route, we chose the path of fossil capital, betting on a technology—fracking—that is environmentally destructive and financially unviable. Thus, we lost two decades of opportunity to begin the transition to an economy based on renewable energy.

California Resources Corporation (CRC): Occidental Death and Dismemberment?

In 2014 Occidental Petroleum (Oxy) decided to exit California fossil fuel production. Oxy had made very little investment in California for several years, and oil and gas production in the state had declined steadily since the 1980s. California, which had vied with Oklahoma for the number one spot in U.S. oil production during the 1920s and 1930s, was moving toward an energy future in which the role of oil and gas would be significantly reduced. So, Oxy created a new company called the California Resources Corporation (CRC). And Oxy gifted this new company with debt—a lot of debt, over $6 billion.

With oil at $100/barrel or more at the time, this debt may have seemed manageable, although there were doubters. Some thought that Oxy was simply dumping some assets in a political jurisdiction where they no longer wanted to play, an impression reinforced by Oxy's move of the company's headquarters from Los Angeles to Houston that same year.

CRC acquired all the production assets of Oxy in California and became the state's largest producer of natural gas and second-largest oil producer. Unlike Chesapeake or Whiting, the two largest fracking bankruptcies, CRC is a conventional driller. However, the company was dependent on the same debt roll-over financing to continue operating. CRC's share price initially reflected an optimistic outlook, achieving an all-time high of $51.50 in 2015 and almost matching that in 2018 at over $50 when crude prices topped $75/barrel.

But the Covid-19 pandemic drove crude below $60, $50, and even $40/barrel, not viable levels for CRC. The company's interest coverage in 2019 was already below 1.0. (Interest coverage refers to the ratio between a firm's revenue before interest and taxes are paid out and the required interest payments on the firm's debt.) A ratio of less than 1.0 means the firm is not generating enough revenue to meet required interest payments, much less any repayment of principle. In short, by 2019 CRC was an example of a zombie company—but not yet recognized by all. By mid-2020, in debt to JPMorgan Chase, Bank of America, and others, CRC filed for bankruptcy on June 14. The company immediately went into the DIP mode, raising about $1 billion in financing.

But now interesting issues and problems are emerging. These include idle wells, the status of CRC's drilling permits, and potential cleanup costs. Importantly, the latter issue raises the question of who will pay them if CRC doesn't have the resources—and it looks like it doesn't.

Let's take each issue in turn.

CRC has more than 11,000 wells in California. But almost half of them, about 5,000, are idle. And many of these idle wells have been inactive for a long time—on average, about two decades—strongly suggesting that they will never again be brought into production. And, of course, many thus date back to Oxy's time in California, a point to which I'll return.

Many of these idle wells—as well as many of the active wells—are less than 1,000 feet from residences, frequently near communities of color. (Full disclosure: In 2018 I worked on a Ventura City Council campaign for a candidate from the Latino West Side of Ventura, Calif., an area adjacent to both active and idle wells. One of the candidate's big issues was the need to expand the buffer zone between drilling sites and residences. In 2020, the Ventura County Board of Supervisors adopted the strongest buffer zone requirement in the United States—2,500 feet between an oil/gas well and any residences or schools. CRC is not happy.)

A large number of CRC's drilling permits are old, dating back to the 1940s–1970s. And many were granted with few if any restrictions on the number of wells that could be drilled in the defined area and without any sunset clauses. This largesse is now being called into question. In the recent Ventura County Board of Supervisors election, CRC spent over $800,000 to defeat a candidate committed to re-examining these permits and to protect an incumbent who has been a reliable pro-fossil fuel vote. At the time of this political expenditure, the largest ever for this kind of election, CRC had only about $22 million in free cash.

Environmentalists have known for decades that the impact of fossil fuel extraction does not end when the drilling stops: wells have to be plugged

and the damage to the surrounding environment mitigated. This cleanup is costly, perhaps running up to as much as $50,000 per idle well. CRC calculates that its potential cleanup liability is at least $500 million; the actual figure is likely much higher. While CRC has paid into California's fund for plugging idle wells, run by CalGEM, the fund contains only about $112 million. The most recent estimate for cleanup costs for all drilling sites across the state is more than $9 billion.

If CRC cannot cover the costs of cleanup, or manages to discharge this debt during Chapter 11 negotiations with creditors, there is one possible solution. Under California law, the state can seek restitution from the "immediate preceding owner"—that is, of course, Occidental Petroleum. In CRC's bankruptcy, as in too many other cases in the flood of bankruptcies that are now occurring, the corporate decision makers are not suffering. In late March 2020, only three months prior to the Chapter 11 filing, CRC management revised their bonus system. Under the amended plan, CEO Todd A. Stevens will get a payout double his annual compensation if he is forced out. That would equal $21 million. Not bad work, if you can get it.

What Should Be Done?

Economic downturns reveal structural problems in the political economy. And in sudden crises, such as the Covid-19 slump or the Great Financial Crisis, these problems are starkly highlighted. But a crisis is also an opportunity, and unlike the Obama administration, we should not let this one go to waste.

Many changes to our financial markets and their regulation are needed, including those specific to the bankruptcy game, as it is playing out in retail, fossil fuels, and other industries. The plan that Senator Elizabeth Warren released during her presidential campaign had some useful proposals for fixing the bankruptcy system. Much of what she proposed was to give individuals a better chance of coming out of bankruptcy in a financially secure position, but she did include some measures, such as reforms to the fraudulent transfer law, that could apply to corporate bankruptcies as well.

Separate from Warren's proposals and with a focus on the issues around Chapter 11 bankruptcy, here are a few interventions that would change both the bankruptcy game and the LBO practice. First, the Office of the United States Trustee (OUST), which is the division of the Department of Justice tasked with overseeing bankruptcy cases, should be charged with doing a one-year look back on all payouts to insiders. For example, in the year prior to J.Crew's Chapter 11 filing, the firm paid out over $17 million to various insiders. Some of these were probably reasonable, but others could be called into question, and the OUST could bring questionable payments to the attention of the bankruptcy court for potential reversal. The one-year look-back period for insider payments is identical to that applied to preferences in bankruptcy filings (actions that benefit one creditor to the detriment of another), but seeking to reverse questionable payments made to insiders during the lead-up to bankruptcy is not presently part of the OUST's mandate.

The enhanced ability to claw back payments to insiders would, itself, sharply curtail the widespread pattern of shoveling money to the very executives that guided a firm into bankruptcy in the first place. Now, the counter argument is that these payouts are needed or the executives may leave the firm in its hour of need. But that seems very doubtful; who is eager to hire a CEO, CFO, etc. of a firm that just filed Chapter 11?

In a slightly more reasonable world, we would probably prohibit LBOs because they are primarily predatory and because they often destroy value and jobs as they did to J.Crew and Neiman Marcus. If we can't yet prohibit LBOs, we can and should restrain the LBO market. The Federal Reserve made some small and inadequate steps in that direction when it issued "guidelines" on LBO financing in 2013. At that time the guidelines suggested—and it turns out it was only a suggestion—that leverage, which is debt assumed by the target company in an LBO compared to the company's earnings before interest, tax, depreciation, and amortization (EBITA), should not exceed 6.0. If this guideline (or preferably a lower ratio) had been made mandatory, it would have required acquiring firms to put up some additional equity, because the guideline would have limited the debt that could be loaded onto the target company. However, in 2018 the Fed backed down, clarifying that the 6.0 ratio was a not-to-be enforced guideline. In the same year, the ratio exceeded 7.0 for the first time since—you guessed it—the onset of the Great Financial Crisis in late 2007. ››

So, we have been going in the wrong direction. A new administration should require the Federal Reserve to revisit this guideline and exert pressure for a lower leverage ratio.

Or, perhaps even more useful: prohibit banks from financing any LBO where the private equity buyers are not willing to pony up at least 50% of the purchase price. Now there would be squeals of outrage from Wall Street that fewer deals will get done—but would that be bad? And, it is worth reminding ourselves that in 2009, in the midst of the Great Financial Crisis when credit markets were tight, private equity firms dug deeper into their pockets and provided an average of over 50% of their own capital in LBOs. Under this restriction, banks would have an incentive to make more loans to firms that are planning to expand business and create, rather than destroy, jobs.

As noted previously, it is common for the target in an LBO, once the takeover has occurred, to issue a large dividend to the acquiring firms. This usually piles additional debt on the acquired firm, above and beyond the debt used to leverage the takeover. A further restriction that should be imposed is a prohibition on any dividend payout for some period after the acquisition. The result might be investment in improving the operations of the acquired firm, which is the alleged reason for most LBOs.

As to fracking, as I have argued elsewhere (see "Empty shelves and zombie fracking firms," *Democratic Left*, Summer 2020, accessible via democraticleft.dsausa.org), I believe the market is going to take care of that line of business. But that does not mean that "the market" will solve the cleanup problem. What is needed immediately is more funding for the cleanup costs of fossil fuel extraction. A small first step would be to hire the more than 100,000 laid-off oil and gas workers to cleanup abandoned wells, a proposal for which presidential candidate Joe Biden has indicated support.

Of course, the overall and hardest-to-tackle problem is the financialization of the U.S. economy that allows LBOs, rolling BBB-rated debt, and the huge build-up of corporate debt. While the Great Financial Crisis of 2007–2008 offered a chance to reverse the ravages of financialization, it was a wasted crisis, and the financial sector has come back stronger than before. The largest banks now control a greater share of assets, financial sector profits have recaptured the 25–30% share of total profits they claimed prior to the crisis, and the ratio of corporate debt to GDP is now even greater than before the crisis. There is much to be done, but that is a topic for another time. D&S

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SOURCES: Center for Popular Democracy, *Pirate Equity: How Wall Street Firms are Pillaging American Retail*, July 2019 (populardemocracy.org); Emily Holt, "And at Long Last, It's Showtime: J.Crew's Runway Debut at NYFW," *Vogue*, Sept. 13, 2011 (vogue.com); Americans for Financial Reform, "Fact Sheet: J. Crew Succumbs to Bankruptcy after Private Equity Debt, Financial Looting," May 4, 2020 (ourfinancialsecurity.org); J.Crew Group, Inc., "J.Crew Group, Inc. Provides Update on Store Re-Opening Plans," PR Newswire, June 12, 2020 (prnewswire.com); Julie Dunn, "Responsible Party: Karen Katz; Submarines for Sale. One Size Fits All," *New York Times*, Oct. 29, 2000 (nytimes.com); Sapna Maheshwari and Vanessa Friedman, "The Pandemic Helped Topple Two Retailers. So Did Private Equity.," *New York Times*, May 14, 2020 (nytimes.com); mytheresa.com/en-us/; Bethany Biron, "Neiman Marcus is closing another department store, bringing its total closings to 22 locations. Here is the full list.," Business Insider, August 24, 2020 (businessinsider.com); U.S. Energy Information and Administration, "Despite the U.S. becoming a net petroleum exporter, most regions are still net importers," February 6, 2020 (eia.gov); William Barclay, "A Rolling Loan Gathers No Loss: Fracking, COIVD 19, and Zombie Finance," Chicago Political Economy Group, April 18, 2020 (cpegonline.org); U.S. Energy Information Administration, "Natural Gas," August 31, 2020 (eia.gov); Spin Doctor, "California Resources Corporation Faces Bankruptcy- Is It Occidental Death & Dismemberment?," Stock Spinoffs, June 29, 2020 (stockspinoffs.com); Dan Brekke, "Major California Oil Producer Falls Victim to Collapse in Crude Prices Amid Pandemic," KQED, July 16, 2020 (kqed.org); Mark Olalde, "Why is big oil pumping money into Ventura County's board of supervisor elections?," *The Desert Sun*, Feb. 19, 2020 (desertsun.com); Janet Wilson and Mark Olalde, "California Resources Corp., leading oil and gas producer, files for Chapter 11 bankruptcy," *The Desert Sun*, July 16, 2020 (desertsun.com); Kevin Crowley, Rachel Adams-Heard and David Wethe, "Bankruptcy Is a Jackpot for CEOs Helming Failed Oil Companies," Bloomberg News, June 4, 2020 (bloomberg.com); Elizabeth Warren, "Fixing Our Bankruptcy System to Give People a Second Chance," (elizabethwarren.com); United States Bankruptcy Court, Eastern District of Virginia Richmond Division, "Statement of Financial Affairs for J.Crew Operating Corp," Case No. 20-32186, June 12, 2020; Kristen Haunss, "US federal agencies open door to more aggressive buyout loans," Reuters, Sept. 6, 2018 (reuters.com); Jonathan Schwarzberg, Leela Parker Deo, "LPC: Private equity firms put more capital, less debt into LBOs," Reuters, August 26, 2020 (reuters.com); Bill Barclay, "Empty shelves and zombie fracking firms," *Democratic Left*, Summer 2020 (democraticleft.dsausa.org); Michael R. Bloomberg, "Let's Hire Laid-Off Oil and Gas Workers to Fight Climate Change," Bloomberg, August 3, 2020 (bloomberg.com).