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# Financialisation in health care: An analysis of private equity fund investments in Turkey

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ABSTRACT

The 2007–2008 global financial crisis revived interest in the impacts of financial markets and actors on our social and economic life. Nevertheless, research on health care financialisation remains scant. This article presents findings from research on one modality of financial investments in health care: global private equity funds' investments in private hospitals. Adopting a political economy approach, it analyses the drivers and impacts of the upsurge of global private equity investments in the Turkish private hospital sector amid the global financial crisis. The analysis derives from review of research and archival literature, as well as six in-depth interviews held with owners/executive board directors/general managers of the largest private hospital chains in Turkey and the general partners of their PE investors. The interviewing process took place between January and November 2016. All interviews were conducted by the author in Istanbul. The findings point to a mutually reinforcing relationship between neoliberal policies and financialisation processes in health care. The article shows that neoliberal healthcare reforms, introduced under consecutive Justice and Development Party (JDP) governments in Turkey, have been important precursors of private equity investments in healthcare services. These private equity investments, in turn, intensified and broadened the process of marketisation in health care services. Four impacts are identified, through which private equity investments hasten the marketisation of health care services. These relate to the impacts of private equity investments on a) advancing the process of chain formation by large hospital groups, b) spreading financial imperatives into the operations of private hospitals c) fostering internationalisation of capital, and d) augmenting inequities in access to health care services and standards.



The 2007–2008 global financial crisis revived both popular and scholarly interest in the significance of financial markets and actors on our social, economic and daily life. Little of this interest, however, resonates in the sphere of health care research. This is despite the fact that a novel process of financialisation is spreading across health care systems in both the developed and developing world. It can be observed in the greater reliance of health care providers on financial markets, as well as the increasing penetration of financial actors and institutions into health care provision and funding (c.f. Epstein, 2005). Financial markets and actors did not have this much significance in health care provision and financing some two decades ago, even in investor owned healthcare systems such as the one found in the United States (Stewart and Smith, 2011). Financialisation in health care is an extension of financialisation of contemporary capitalism. Still, although there is now extensive literature on financialisation of capitalism, financialisation in health care services is largely under researched.

This article aims to contribute towards filling this gap. It does so in two ways. First, it reviews the modalities of financial investments in healthcare and emphasises their significance. Second, it analyses global private equity **(PE)** funds' investments in the private hospital sector as a specific modality of financialisation through which financial actors are incorporated into health care provision. The analysis is carried out in Turkey, a developing country which experienced significant neoliberal health care reforms throughout the 2000s. The article points to the mutually reinforcing relationship between these neoliberal reforms and health care financialisation. It shows that neoliberal reforms, which initiated a process of marketisation in healthcare, have been important precursors of global PE funds' investments in the Turkish private hospital sector. Neoliberal elements in these reforms, such as the public procurement of health care services from the private sector, the upsurge in public health care expenditures, and the lenient provisions for extra

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billing by private health care providers, as well as investment subsidies, spurred a phenomenal growth in the private hospital sector. This turned private hospitals into attractive investment assets for global PE funds. The article also argues that PE funds' investments further intensified and broadened the scope of marketisation in healthcare and identifies four impacts to that effect. First, PE investments bolstered the on-going process of chain formation by some large hospital groups, thus reinforcing existing trends for concentration in the private health care sector. Second, PE investments spread financial imperatives or financial ways of calculating in the operations of private hospitals. Third, PE investments played a powerful role in the internationalisation of local capital. Fourth, both PE investments and the 2007–2008 global financial crisis intensified inequities in access to health care.

The rest of the paper is organised as follows. The second section elaborates on financialisation and discusses the modalities and consequences of the growth of the financial sector in social reproduction, including health care. The third section provides an overview of the neoliberal reforms within the Turkish health care system over the 2000s. The fourth section presents findings from research on the drivers and impacts of PE investments on the health care system. The final section discuses the implications of these findings in a comparative perspective and highlights areas for further research.

## 1. Financialisation and social reproduction

The increasing penetration of financial actors and markets into health care provision and funding systems is an extension of the financialisation of contemporary capitalism. The latter concept has been used to refer to the extraordinary expansion in the scale and scope of finance or the money form of capital and the epochal transformations this generated in the global political economy since the crisis of capitalism during the 1970s (Epstein, 2005; Krippner, 2005; FESSUD, 2017). Although not uniform across economies and within sectors, the expansion in the scale of the financial sector can be seen not only in the U.S. and Europe, but also across the developing economies (Stockhammer, 2010). It entails the increased turnover in financial markets, the growth of financial assets within total assets, the upsurge of financial profits, the increased value of financial sector vis –à –vis national GDPs, and the rising financial operations of firms and households (Epstein and Crotty, 2013). The growth in the scale of finance is also related to the significant change in the relationship between financial and real sectors of the economy, characterized by a much larger role for the former (Stockhammer, 2010). The growing prominence of institutional investors in global markets, such as the PE funds analysed in this article, alongside others such as pension funds, hedge funds, and insurance companies (Froud et al., 2006) has been central to the process of financialisation. A related salient feature of financialisation is the phenomenal growth in fictitious capital, as manifested by the upsurge of new financial instruments, such as securitisation and derivatives (Bryan and Rafferty, 2014; Fine, 2012).

More phenomenal than the scale of this growth, what is distinctive about contemporary finance today is its expansion into spheres related to social reproduction, such as social security, education, and healthcare, all of which traditionally remained beyond its reach (Fine, 2012; Bryan and Rafferty, 2014). This expansion resulted from the global integration of capital markets, the spread of neoliberal policies, the retreat of the state from public provision, as well as the proliferation of new financial instruments, such as derivatives and securitization, which articulated financial markets with the social spheres (Fine, 2012; Dumenil and Levy, 2005; Iriart, 2005).

## 2. Modalities of financialisation in social reproduction and their impacts

Several outcomes stem from the financialisation of social reproduction. One obvious outcome is the opening of new profit opportunities for the financial sector in spheres such as social security, health, housing, labour, and credit markets. The privatisation of social security regimes in Latin America, the U.S. and then in Europe, for example, expanded the growth of the insurance industry, and spurred pension funds as new financial actors in the global market (Naczyk and Palier, 2014). An analysis of modalities through which financial actors penetrate social reproduction can reveal further and wider effects on both the provider and user ends of social provision. For one, financial actors supply finance for public and private providers of services. Short-term financial investors, such as portfolio investors or hedge funds invest into the stakes of private and/or public companies providing services in health, housing, or insurance. Private Equity Funds (PE), analysed in this article, raise investment funds and/or debt from other financial actors (such as the pension funds, banks, life insurance companies, corporations, and private individuals with large assets) to acquire stakes in companies (Robertson, 2009). They are medium term financial investors that buy to sell stakes typically between 3 and 7 years, before the returns earned on equity are distributed back to the original investors (Wilton, 2012). There are contending views on how financial investors in corporate and social service sectors affect employment relations, corporate behaviour, and management. Regarding the impacts of PE investments, for example, research from mainstream accounts emphasise that PE investments increase productivity, employment, operating efficiency, and financial returns (Davis et al., 2014). Critical accounts, on the other hand, emphasise that the presence of financial investors reinforce short–term profit making at the expense of longer–term production and investment plans and induce poorer performance (Fine et al., 2016; Froud et al., 2006. Erturk et al., 2010). From this perspective, PE investments, for example, are found to generate unsustainable debt levels for enterprises, extract value for the benefit of their principals, and increase equity prices at the expense of reducing investments, and employment (Lazonick and O'Sullivan, 2000; Froud and Williams, 2007).

Public and private service providers' growing use of financial instruments, and their greater reliance on debt markets are also avenues through which the financial sector penetrates social reproduction. This is common especially in the health care sector although research on its impacts is scarce. The U.S. non-profit hospital sector, for example, relies heavily on the issuance of tax exempt, long-term variable rate debt, and/or auction rate debt and also uses financial derivatives, such as interest rate swaps, as hedging instruments (Stewart and Smith, 2011). Health care receivables markets, where public or quasi–public health care providers' debt are sold as securitised assets, are also widespread in European countries such as Italy, Spain, Greece, and Portugal (Messina, 2010). These markets also trade asset-backed securities underpinned by health insurance receivables, which originate from private health insurance companies (Bryan & Rafferty, 2014). The latter are longstanding financial actors in health care and grew significantly since the health care reforms implemented across the OECD countries in the 1990s (Leys, 2010). Besides the direct provision of services, private health insurance companies complete the financialisation cycle by investing their funds into equities, stocks, bonds, and derivatives in financial markets (NAIC & the Center for Insurance Policy and Research, 2011). Financial investors, such as commercial banks, insurance companies, or pension funds, also invest in so-called “Private Finance