

The Political Consequences of Private Equity: Evidence from U.S. Leveraged Buyouts*

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Abstract

Private equity (PE) firms have quickly become some of the largest financiers in US politics. In this paper, we examine the role of coordinated corporate political activity in the private equity playbook for managing and retooling portfolio company acquisitions. First, we assemble a unique dataset of leveraged buyouts of US companies from 2008-2019. Using a difference-in-differences estimator on matched sets of firms, we show that portfolio companies acquired by private equity subsequently increased their federal lobbying efforts. These effects are particularly large for companies working in the health care industry as well as for firms that had stayed out of politics before the acquisition. Taken together, these results suggest that the PE industry's financial performance owes not just to the financial and operational engineering, but also an optimization of political strategies in order to increase firm value.

Key Words: Lobbying, private equity, business-government interests, American politics, interest groups, non-market strategy

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1 Introduction

Over the last 30 years, the private equity (PE) industry has carved out an impressive foothold in the US economy. With over \$4 trillion in assets under management in 2020, the sector's value-added now accounts for roughly 5% of US GDP. Through its portfolio companies, their subsidiaries, and affiliates, private equity now employs over 9 million workers. Moreover, its growth prospects are not dimming, with over \$2 trillion available in dry powder as of 2021, i.e. available funds to purchase new companies.¹

Much of that rise is owed to the financial returns the industry touts to investors, which now include countless pension funds and other institutional investors. Upon acquiring companies, private equity firms apply expertise in financial, governance, and operational engineering in the hopes of increasing efficiency and adding value for their shareholders (Gompers, Kaplan, and Mukharlyamov, 2016). Though the set of management strategies both varies and comes with considerable controversy (Appelbaum and Batt, 2014), the industry argues its risk-heavy business model of turning around and selling undervalued portfolio companies generates pays off for its investors.

In this paper, we investigate the role of corporate political activity in private equity's playbook for generating profit from its portfolio companies. Politics has become big business for private equity, as employees at large firms such as the Blackstone Group and Bain Capital consistently rank among the largest sources of money in US politics.² Since corporate political activity can help both private and public companies achieve sizable financial returns (Richter, Samphantharak, and Timmons, 2009; Kang, 2016), we might expect private equity firms to be instrumentally using these strategies as part of their takeover plans. Indeed, anecdotal evidence has linked private equity's charm offensive in Washington to the lax regulatory and tax policies that in large part are core to its business model.³ What effects do private equity owners have on the political strategies of acquired portfolio companies, and what are the consequences for these companies'

¹Wigglesworth, Robin. "Private capital industry soars beyond \$7tn" *Financial Times*, June 11, 2021.

²Shieber, Jonathan and Mohammed Aly Sergie. "Private Equity Dives Into Politics With Record Contributions." *The Private Equity Analyst*, August 2012

³McElhaney, Alicia. "Inside the Private Equity Lobby" *Institutional Investor*, November 8, 2017.

performance?

To answer these questions, we collect data on leveraged buyouts over 2008-2019 from Preqin, a leading third-party aggregator of data on alternative asset investments. Using the LobbyView dataset (Kim, 2018), we then link portfolio companies to disclosures of lobbyists hired to contact and/or influence US congresspeople and their staff members. Because corporate political activity is often a function of firm size and sector, we also bring in annual financial data and other firm indicators.

To estimate the treatment effect of private equity deals on lobbying behavior, we estimate difference-in-difference models using the doubly robust estimator introduced by (Callaway and Sant'Anna, 2021b). Our results show that portfolio companies acquired by PE funds subsequently expanded their federal lobbying efforts in the first four quarters after the deal was completed. We observe a significant increases both whether companies lobbied at all and the amount of money they spent. We show that these effects are more precisely estimated for firms that had not previously lobbied before the private equity takeover as well as those acquired by politically active PE firms. We discuss future directions for our empirical analysis in the conclusion, including further investigating mechanisms, heterogeneity, and downstream outcomes to fill out the picture of private equity's push into politics through their portfolio companies.

The growing political power of PE firms has profound consequences for the privileged representation of corporate interests. Related work has shown how shareholders can use acquired companies to push for their political goals, oftentimes circumventing the law. For example, a federal ban on foreign campaign contributions restricts sovereign wealth funds registered abroad (SWF). To get around this ban, some SWF take stakes in publicly traded US-based firms that face no such constraints, which then increase their campaign contributions threefold (Calluzzo, Dong, and Godsell, 2017). Similarly, wealthy individuals may circumvent monetary limits on their political contributions by acquiring equity in large companies and influencing the donations of their Political Action Committees (PACs) (Bertrand et al., 2020).

Our research builds on and extends these findings in several new directions. Whereas previous research has looked at campaign contributions by publicly traded companies

(through their PACs), we are the first to study privately held companies' corporate political activity, particularly those backed by private equity firms. We also focus on firm-level lobbying expenditures, which significantly outnumber total campaign donations in key industries (Wouters, 2020; Chung, 2021). We link corporate political activity directly to the interest of private equity managers seeking to improve their firms' financial returns rather than pursue political goals. As the paper progresses, we expect to bring in data to examine how such lobbying affects the taxes paid by portfolio companies and the government contracts they win, both critical areas of interest for companies building presences in Washington.

In doing so, we contribute to the small but growing body of work connecting private equity and politics. To date, research has shown that institutional context, and in particular partisan leadership, can influence which types of portfolio companies are acquired by PE firms (Pe'Er and Gottschalg, 2011). Politically connected PE-backed portfolio companies may also increase employment in order to exchange quid pro quo favors with politicians (Faccio and HSU, 2017). Our research similarly highlights how private equity constructs its political ties by prioritizing political giving within its management strategy.

2 How the Private Equity Model Operates

Broadly defined, private equity is "risk capital provided outside the public markets," meaning private investment channeled into companies (Gilligan and Wright, 2020, 14). Private equity, an umbrella term, can also include venture capital investments, e.g. investments early in a company's development, such as in start-up companies. For the purposes of this paper, however, we focus on private equity defined as later-stage investments into mature businesses, such as the leveraged buyout of an established business, the infusion of growth capital, or even taking publicly traded firms private.

Private equity deals begin with the Fund Manager (e.g., PE firm), which assumes responsibility for the most important operations surrounding the investment. PE firms first raise money from private and institutional investors (limited partners, or LPs) into 'closed-end' investment vehicles called *funds*, which generally have a limited life span of

roughly 10 years (Kaplan and Stromberg, 2009).⁴ Funds are used to acquire individual companies, often using significant amounts of leverage; these acquisition targets are known as *portfolio companies*. PE firms actively manage portfolio companies and realize returns for LPs, who expect higher than market returns given the riskier, less liquid nature of most PE investments (Jenkinson, Kim, and Weisbach, 2021).⁵

The guiding motivation behind the private equity model is that PE firms better align the incentives of portfolio company managers and ultimate owners, particularly through the use of stock-based compensation (Jensen, 1997; Kaplan, 1989). PE firms frequently install a new management team while dangling significant equity stakes to incentivize strong financial performance. Managers then apply a wealth of sophisticated expertise into developing strategies related to financial and operational engineering (Kaplan and Stromberg, 2009). These changes can lead to significant changes in management and operational practices (Bernstein and Sheen, 2016; Bloom, Sadun, and Van Reenen, 2015), such as reducing waste to free up cash flow, expanding or consolidating firm operations, or privatizing certain government services (Jenkinson, Kim, and Weisbach, 2021). By using large amounts of leverage to acquire portfolio companies, PE firms also place pressure on managers to eliminate waste and increase revenue (Kaplan and Stromberg, 2009).

The economic consequences of this type of leveraged buyout have generated significant debate among economists. One body of academic work argues that private equity improves operating performance, on average, and generates revenue growth (Cohn, Hotchkiss, and Towery, 2020; Kaplan and Stromberg, 2009). In particular, Morris and Phalippou (2020) found private equity takeovers to increase excess returns for investors, often significantly above those delivered by public markets. Operationally, Cohn, Nestoriak, and Wardlaw (2021) finds that workplace safety may improve after buyouts, though more recently (Davis et al., 2021) suggest that the positive effects of private equity buyouts on outcomes such as employment and productivity depend on whether the target

⁴PE firms also act as a General Partner by contributing a small portion of their own money to the funds they create, giving them a direct stake in the fund's performance.

⁵Financial returns can take the form of dividend recapitalizations, management fees, as well as 20% of gains ('carried interest') from the sale or IPO of portfolio companies.

firm is publicly or privately held.

In contrast, other research has found more negative outcomes associated with private equity, which has led to strident criticism of the industry for its pursuit of aggressive cost-cutting strategies, such as shedding workers (Davis et al., 2014), reduction in employee salaries (Antoni, Maug, and Obernberger, 2019), and exploitation of tax loopholes, in particular the carried interest rule. Such tactics can hurt human welfare, particularly when buyouts target the health care industry, where short-term mortality rates have risen in PE-backed nursing homes (Gupta et al., 2021). Moreover, tax avoidance strategies have helped private equity-backed firms reduce their tax rates by up to 15%, depriving governments of much-needed revenue (Olbert and Severin, 2020). PE-backed firms also have come under criticism for their higher default rates (Tykvová and Borell, 2012), though there is evidence that they manage such financial distress better than other types of companies (Hotchkiss, Smith, and Strömberg, 2012).

2.1 Corporate Political Activity by Private Equity Firms

Lost in the discussion about how leveraged buyouts affect firm performance has been the role of politics. As the volume of assets under private equity management has ballooned over the past several decades, so has evidence of the industry's growing presence in Washington. According to data from OpenSecrets, overall campaign contributions from the industry have increased five-fold throughout 2010-2020, as new PACs funded by private equity managers have entered the political scene. The private equity industry now trails only insurance companies as the largest source of contributions to congressional campaigns and lobbying on the Hill. These sums hit a new high in 2020, as employees of investment firms donated over \$132 million to political races, whether in the form of direct contributions to candidates or to PACs representing either an individual firm or industry interests.⁶

Though difficult to connect directly to the industry's lobbying efforts, it is hard to deny the favorable regulatory treatment that private equity currently enjoys. Leading observers have labeled private equity funds as "among the least transparent legal enti-

⁶Cumming, Chris. "Private equity smashes its campaign-spending record with 2020 race." *Wall Street Journal*, October 26, 2020.

ties" (Appelbaum, 2014). The Securities and Exchange Commission has imposed minimal reporting requirements. In contrast to publicly traded firms, the public has little to no visibility into either the acquisitive behavior or the performance of the PE industry. Beyond opacity, the PE industry benefits from its revenue being taxed as carried interest rather than normal capital gains. This loophole, together with their aggressive tax avoidance strategies, contributes to the markedly lower effective tax rate paid by PE-backed portfolio companies (Badertscher, Katz, and Rego, 2009). The industry – trade groups, PE firms, and portfolio companies – also successfully lobbied for inclusion in many of the most extensive pandemic relief programs under the CARES Act, winning access to billions in public funds (ACDC, 2021).

When policymakers have pushed for more regulation, large PE firms, both individually or through its trade association, the American Investment Council, have coordinated industry-wide efforts to protect their tax shelter and favorable rates.⁷ Targeted advertising campaigns have tried to counter negative rhetoric by telling a story of an industry creating jobs and economic growth.⁸ As Congress attempted to increase patient protections against surprise medical bills, private equity firms spent more than \$53 million on an advertising blitz through an organization called Doctor Patient Unity and providing large donations to influential lawmakers.⁹ Ultimately, the push weakened provisions and required that arbitration be used for resolving payment disputes, a clear win for private equity-backed healthcare providers.¹⁰

The stories presented above describe lobbying and donation activity both by fund managers and their portfolio companies to protect their market advantages and limit regulation. PE managers may be deeply familiar with the benefits of political activity, and then transfer expertise to portfolio companies, leading them to quickly heighten their focus on lobbying and campaign contributions after acquisition. Nevertheless, there

⁷McElhaney, Alicia. "Inside the Private Equity Lobby" *InstitNovemberinvestor*, November 8, 2017.

⁸Cumming, Chris. "Private Equity Lobby Group Mounts Campaign to Counter Critics." *Wall Street Journal*, October 21, 2019.

⁹Spratt, Alexandra. "Part 3: As Purveyors of Surprise Medical Billing, Private Equity Has Fought Lawmakers' Attempts to Protect Patients." *Arnold Ventures*, September 9, 2020.

¹⁰Perlberg, Heather and Melissa Karsh "Private Equity Dodges Worst From Surprise-Billing Crack-down." *Bloomberg*, December 22, 2020.

has been no systematic research about how private equity firms develop and deploy political strategies to achieve such influence despite this anecdotal evidence. In the next section, we investigate whether corporate political activity forms part of the private equity playbook by examining the political effects of leveraged buyouts.

3 Data

3.1 Private Equity Deals

We begin our investigation by collecting data on all private equity deals occurring in the United States from 2008-2019. We restrict to this period for two reasons. First, our primary outcome variables derive from lobbying disclosures for the US Congress, which moved from a biannual to a quarterly reporting system starting in 2008 (more in the next section). Quarterly data allow us to more cleanly measure the immediate effects of leveraged buyouts on lobbying activity. Secondly, data from OpenSecrets suggest that private equity firms were not actively involved in corporate political activity before the 2008 financial crisis. With a full view of the scope conditions this decision implies, we focus on the more recent decade to achieve more precision in this already somewhat rare outcome.

Our primary data source is Preqin, one of the leading third-party aggregators of data on private equity, venture capital, and other alternate asset investments.¹¹ We remove all deals classified as venture capital to include only deals (leveraged buyouts, growth, etc.) orchestrated by private equity firms.¹² Because we are interested in the effect of private equity investments, we also exclude all deals where both the buyer and the seller are classified as private equity firms.¹³ For each company in our data set, we focus on the first instance they appear in Preqin as being acquired in a private equity deal. This leaves us with 20,508 PE buyouts over this period.

Private equity firms pursue acquisitions of portfolio companies at all stages of their

¹¹<http://www.preqin.com>

¹²Preqin provides an indicator for the type of buyer involved in the deal. Venture capital deals generally occur much earlier in a company's life cycle, before they reach a size where federal lobbying might become important for their business interests.

¹³In future version of this paper, we will analyze PE to PE deals as a placebo check for our main results.

development, from small family-owned businesses to larger publicly traded companies with complex corporate ownership structures. A wealth of research has shown, however, that company size is a strong predictor of interest in corporate political activity at the national level (Hillman, Keim, and Schuler, 2004; Hart, 2001). Hence, we want to focus on companies with the financial resources and policy needs to expend resources on national politics. Although Preqin does contain data on the size of portfolio companies at the time of acquisition, this variable is only available for 14% of the deals in our sample. Moreover, as proxied by deal size, company value is only captured as a snapshot rather than annually. To measure the effects of buyouts over time and adequately control for other factors affecting political activity, we require panel financial data on the companies in our deal data set.

Privately-held companies are not legally required to disclose financial data publicly, though two third-party aggregators – Dun and Bradstreet (DnB) and Bureau Van Dijk (Orbis) source proprietary data on revenue and employees for a select number of US companies.¹⁴ We selected a random sample of 50 companies from the Preqin deal data and compared the annual financial data coverage for both DnB and Orbis. Ultimately, DnB provided revenue and employees data for nearly 80% of our sample, whereas Orbis barely reached 40%.

We then collected all annual DnB entries for US-based companies from 2000-2020. Since many of the acquired companies have subsidiaries, we first use parent information in the Dun and Bradstreet database to build a corporate grouping indicator for related companies.¹⁵ We merge the DnB data with the Preqin portfolio companies using a fuzzy matching algorithm on standardized names and headquarters addresses.¹⁶

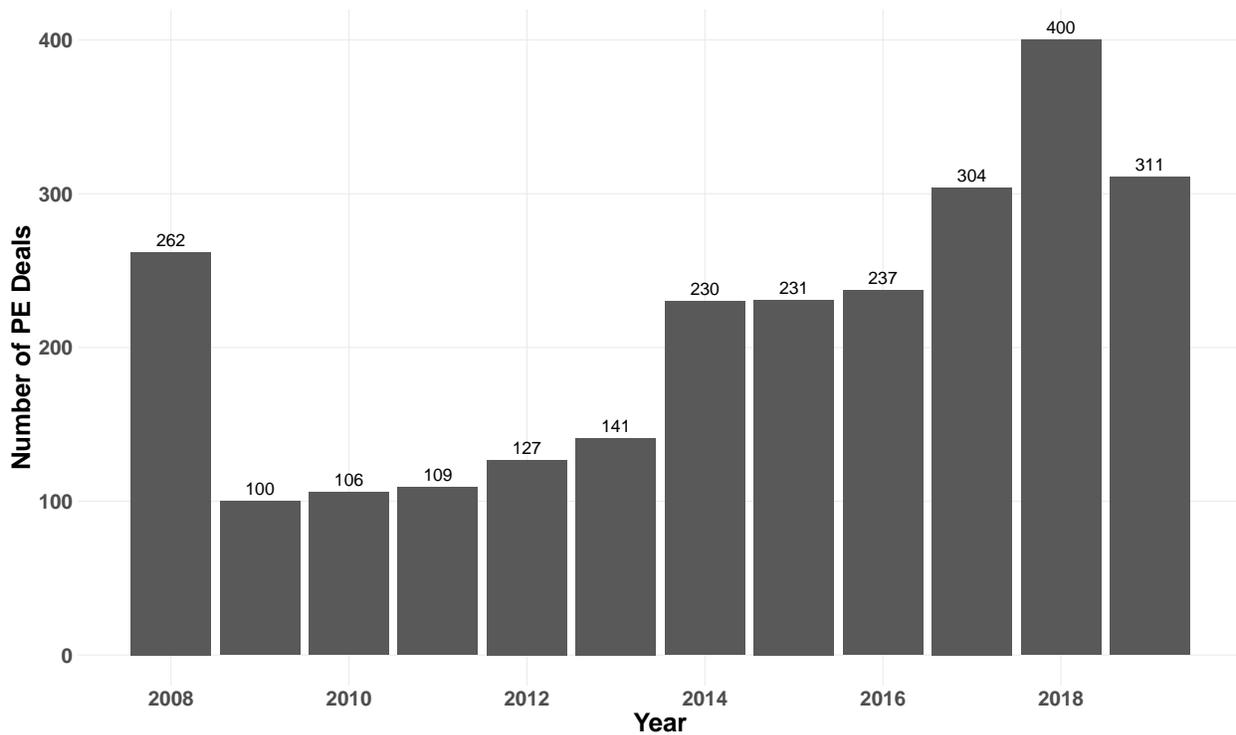
For our primary sample, we further subset the data for our analysis to only include deals involving portfolio companies that have at least \$10 million in revenue prior to the buyout for every year they appear in the Dun and Bradstreet data. This threshold

¹⁴A small number of scholars have secured access to financial data from the Internal Revenue Service, though a connection or co-author working for the federal government appears to be required to access this confidential data source (Cohn, Hotchkiss, and Towery, 2020).

¹⁵In the process of generating this indicator, we also create a count of the number of subsidiaries per portfolio company. We include this variable as a control in specifications.

¹⁶All matches were manually reviewed by research assistants and the authors.

Figure 1: Number of Deals Per Year

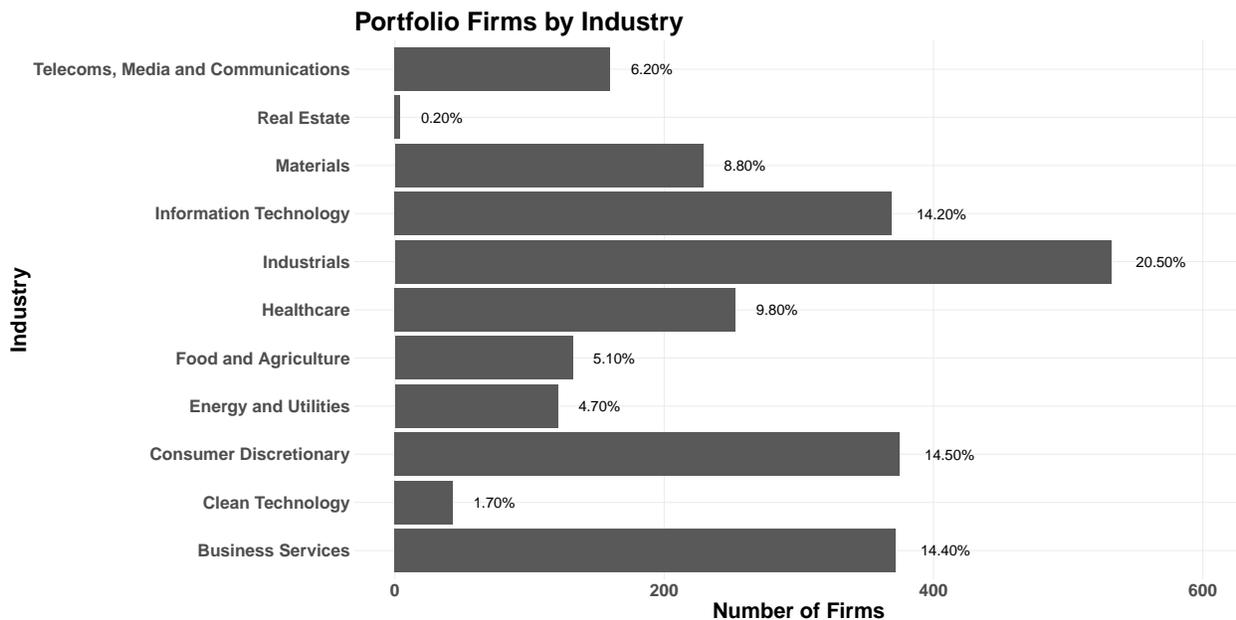


Note: This figure plots the number of private equity buyouts of portfolio companies with more than \$10 million in pre-buyout revenue. We can see that in our sample private equity buyouts become more frequent between 2014 and 2018.

balances the competing aims of including firms large enough to potentially need national political access while also retaining sufficient sample size to precisely estimate treatment effects. In addition, we also present results at a larger sample with different revenue thresholds. In our main sample, we have 2,558 unique private equity buyouts in our data set that meet the above criteria.

Figure 1 plots the number of PE deals per year for companies surpassing the \$10 million threshold. We see a steady increase over time that maps onto other analytical coverage of the rise in private equity over the 2010s. Preqin also provides an indicator of the sector for each portfolio company, which we plot in Figure 2. Industrial companies were most commonly targeted by private equity, following by IT firms, consumer products, and business services. Overall, private equity is active across most sectors.

Figure 2: Number of Deals Per Industry



Note: This figure plots the number of private equity buyouts of portfolio companies in each of the industries as assigned by Preqin and the share of each industry in targeted portfolio companies. Industrial companies were bought out most frequently, followed by portfolio firms in information technology, consumer products, and business services.

3.2 Measuring Corporate Political Activity

Our primary outcome data comes from the LobbyView dataset, which contains the universe of lobbying reports filed under the Lobbying Disclosure Act of 1995 (Kim, 2018). We focus on lobbying efforts, as most US companies spend more on lobbying the US Congress and influencing regulatory agencies than they do on campaign contributions in a given year.¹⁷ We explore the political consequences of PE deals by looking at the incidence and volume of lobbying behavior by companies before and after they are bought out by PE firms.

The LobbyView data not only standardizes disclosures about when and how firms lobby, but it also includes unique Bureau Van Dijk (BvD) firm identifiers for 68% of those that lobby. We begin by adding a standardized name and address variable to the identifier and then match to our portfolio company data set on these two fields using

¹⁷In future versions of this paper, we will add outcome variables based on donation activity by Political Action Committees connected to both PE firms and their portfolio companies.

the same fuzzy matching algorithm as above. For all portfolio companies that we could not match to a BvD number through this process, we had a research assistant query the LobbyView clients missing BvDs.¹⁸

Because firms have filed lobbying disclosures quarterly since 2008, our unit of analysis is the company-quarter for all companies that had active Dun and Bradstreet entries (with data on revenue and employees). This results in 52,173 company-quarters from 2008-2019. Portfolio companies meeting the size threshold above had active lobbying registrants in 1,702 of these quarters, or a rate of 3.3%. For comparison, companies with revenue below the \$10 million threshold lobbied in just 1% of quarters.

Table 1 shows descriptive statistics across all firms in our primary data set. Over this period, the average firm in our sample has roughly \$423 million in revenue and over 1,700 employees. The average quarterly lobbying expenditure is roughly \$7,700.¹⁹ When only quarters with active registrants are included, the average lobbying expenditure increases to \$237,976 per quarter, a sizeable amount of money being spent to cultivate influence in Washington. In the next section, we describe how we operationalize these lobbying outcomes within our empirical framework.

	All Firms	Pre-Deal	Post-Deal
Yearly Data			
Num. of Subsidiaries (mean)	1.4	1.4	1.4
Mean Sales (mean, million)	423	384	468
Num. Employees (mean)	1,783	1,645	1,933
Quarterly Data			
Has Registered Lobbyist(s)	0.033	0.029	0.036
Number of Registered Lobbyists	0.063	0.058	0.069
Mean Lobbying Expenditures	7,776	6,962	8,653
Mean Lobbying Expenditures (IHS)	0.39	0.35	0.43
Number of Firms	2,590		

This table gives summary statistics at both the year level (top panel) and quarter level (bottom panel). The middle column show values averaged in all pre-treatment (pre-buyout deal) time periods, while the rightmost columns those averaged in all post-treatment (post-buyout deal) time periods.

Table 1: Descriptive Statistics

¹⁸All matches, both those completed using the algorithm and those hand-matched, were reviewed by the authors.

¹⁹It is important to note that for any expenditure under \$5,000, the expenditure does not have to be specified and is coded as zero in the *LobbyView* data. Since expenditure is unlikely to be zero, we code lobbying expenditure to \$5,000 for those firms with active registrants but no declared expenses.

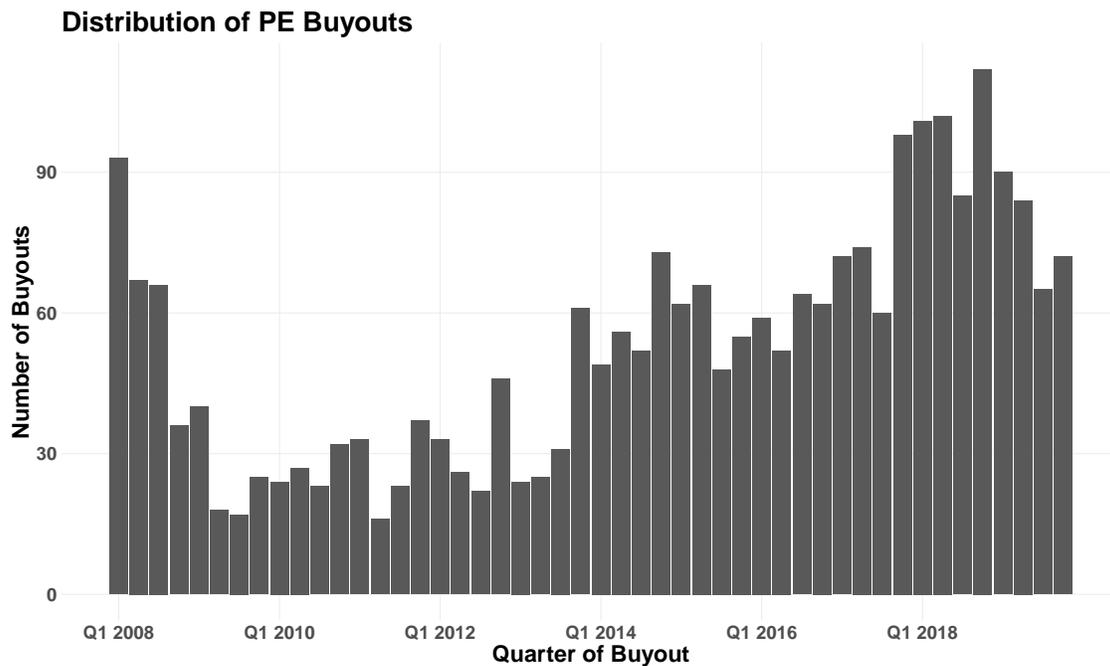
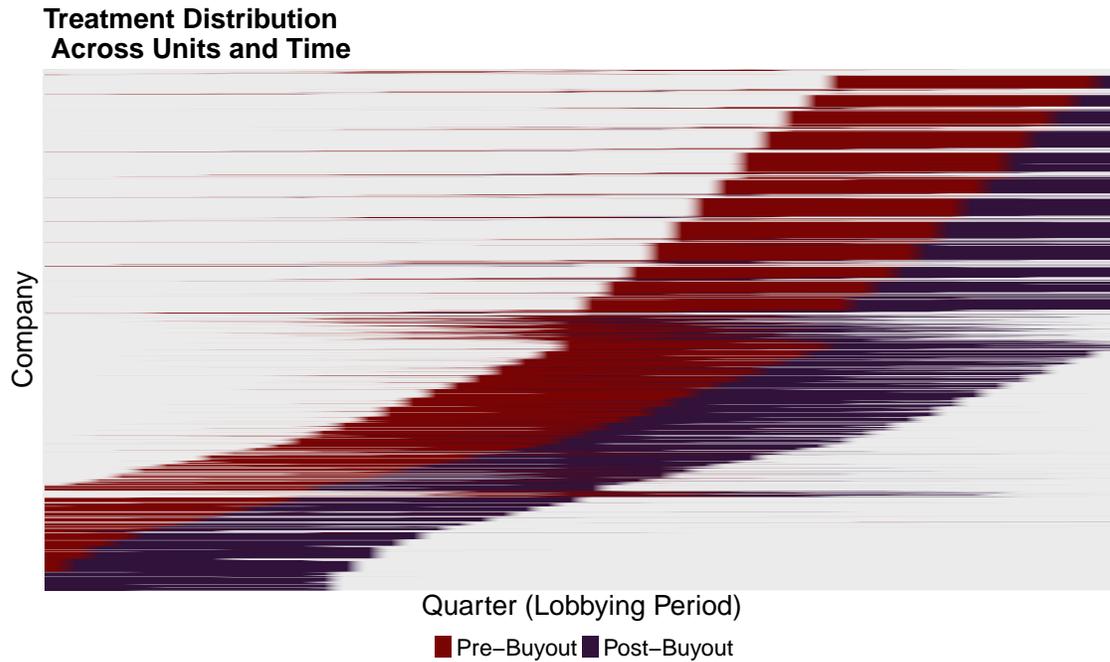
4 Empirical Framework

Our data exhibits several characteristics that make empirical analysis difficult. As detailed above, our initial sample includes the universe of portfolio company deals as collected by Preqin. Of course, these firms exhibit massive variation in their size, industry, profitability, etc. Many of these firms will never be involved in lobbying. Firms bought out by private equity are also likely very different from the rest of the universe of firms. In our view, it, therefore, makes sense to start constructing our sample by only including those portfolio companies that are eventually bought out in private equity deals. As noted above, we further trim our sample to portfolio companies with at least \$10 million in yearly revenue.

Restricting our sample to *eventually treated* firms with larger revenues also helps with an additional problem. To identify the treatment effect of private equity deals requires that portfolio companies are *untreated* – not owned by private equity – before the deal. Unfortunately, given the private ownership of these firms, we have almost no information on ownership status outside of identified participants in the private equity deals listed in Preqin. While we can identify more than 20,508 private equity deals to build our sample (with information on both the buyers and sellers involved in the transaction), we cannot guarantee that these data cover all private equity transactions executed during the period. For example, we might observe a portfolio company being purchased by Blackstone in 2002 but not be aware of a sale of that same company by Blackstone in 2004. There is no public record of private equity transactions, and we are entirely reliant on aggregators such as Preqin for visibility into the industry.

To minimize the risk of missing deals affecting the precision of our results, we trim each firm's time series to only include three years (12 quarters) before and after the first private equity deal for a given portfolio company where we know parties to the transaction (sellers). Though there still may be some missing transactions that occur during this window, we can be more confident that our sample includes only companies being purchased for the first time by a PE firm. We then investigate the immediate effects of private equity ownership.

**Figure 3: Distribution of Deals (Treatment)
Over Companies and Quarters**



Notes: The figure displays the distribution of treatment timing in our sample of firms. As noted above, all firms in our sample are eventually bought out by private equity. We can see a large variation in treatment timing. The bottom plot shows the same information in a different manner, plotting the distribution of the number PE buyouts (treatments) per quarter in our data. We see that most buyouts occur later in the period covered.

This creates a severely unbalanced panel. That imbalance alongside the staggered nature of the treatment means that estimation with standard regression methods, e.g., two-way fixed effects, is likely biased. Moreover, private equity deals are carefully planned and executed strategic moves, where managers apply their playbook to what they view as undervalued or attractive companies. Characteristics such as age, industry, operating performance, and dependence on external financing strongly predict private equity interest (Cohn, Hotchkiss, and Towery, 2020).

Given the complicated nature of the data, the unbalancedness of the panel, and missingness due to our time-period adjustments, we first start with some simple panel regression models with period (quarter) and industry fixed effects. Due to the unclear ownership status, all portfolio firms drop out 12 quarters after the PE takeover. Moreover, given that our sample only includes *ever treated* firms, i.e., portfolio firms that are eventually bought out, the comparison group consists only of portfolio firms pre-buyout.

Table 2 shows the results from the simple panel models with (quarter) and industry fixed effects for both our preferred outcomes. Columns 1 & 2 show the results for the binary outcome of whether firms had any active registrants. Column 3 & 4 show the models with the *ihs* transformed lobbying expenditure as the dependent variable. For all four models, we find substantively large and statistically significant effect of PE buyout on lobbying. Being bought out by a PE firm is associated with a nine percentage point increase in the probability of a firm having an active registrant. Similarly, a PE buyout is associated with an approximate increase of 8.4 in lobbying expenditure.

Figure 4 shows the event study plots for the same models as in columns 2 and 3 above but with pre- and post-buyout period dummies. In models with industry and period fixed effects, we see an immediate effect of PE buyouts on the probability of having active registrants, as well as lobbying expenditure. For both dependent variables, the over-time ATT increases until the fourth quarter after the buyout and then slightly decreases.

Table 2: Simple OLS Models

	Any Active Registrant		Total Lobby Exp (IHS)	
PE Buyout	0.009*	0.009*	0.100*	0.101*
	(0.004)	(0.004)	(0.040)	(0.040)
Sales (IHS)		0.006***		0.080***
		(0.001)		(0.018)
Num. Employees (IHS)		0.020***		0.227***
		(0.003)		(0.039)
Num. Subsidiaries (ln)		0.036*		0.574**
		(0.016)		(0.213)
Industry FE	Yes	Yes	Yes	Yes
Quarter FE	Yes	Yes	Yes	Yes
N	52173	52173	52173	52173
R ²	0.01	0.09	0.01	0.10

+ p < 0.1, * p < 0.05, ** p < 0.01, *** p < 0.001

Note:

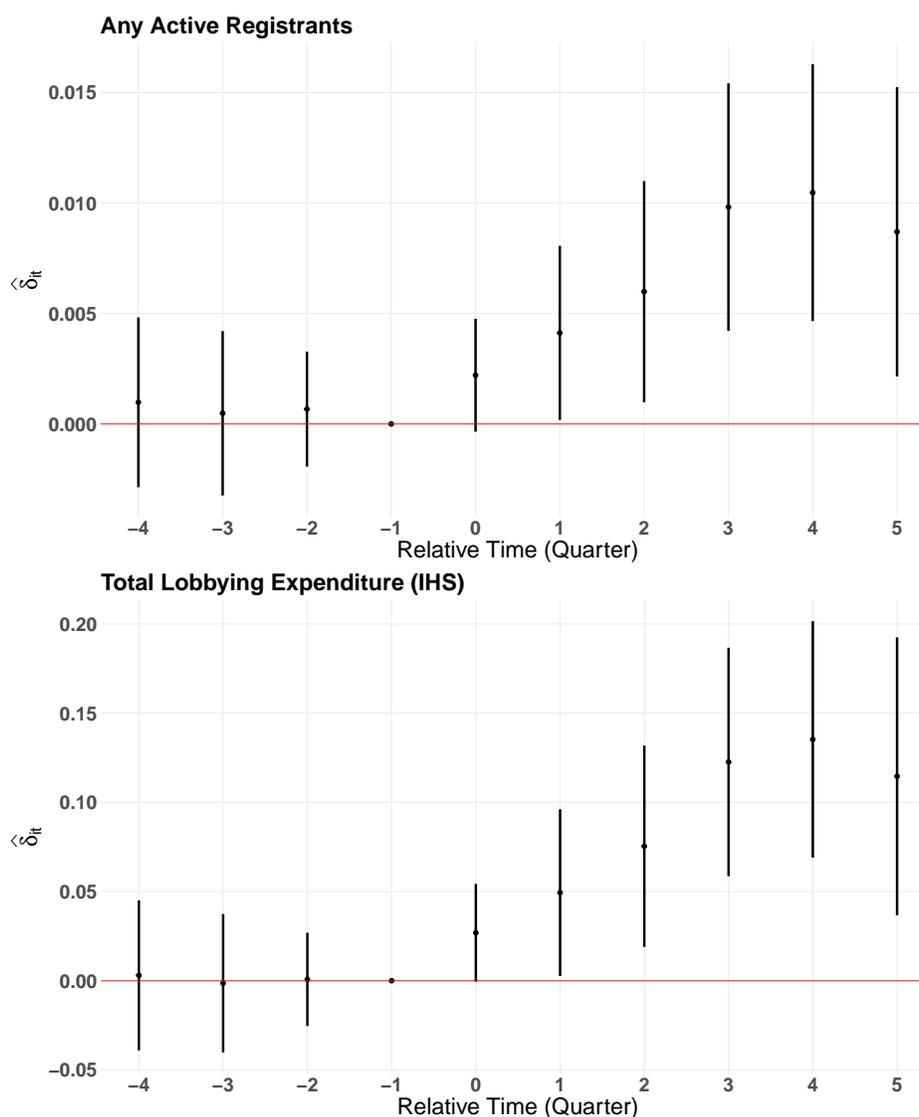
Models estimated using the fixest package in R. Unit of analysis is the portfolio firm-quarter. Standard errors are clustered at the firm level.

4.1 Staggered Difference-in-Differences Estimation

To better identify the causal effect of the PE buyouts on lobbying activity, we estimate difference-in-differences models as our primary specification. Given the structure of our panel data, estimating two-way fixed effects (twfe) models is highly problematic. The twfe estimator is known to be biased under staggered treatments and heterogeneous dynamic treatment effects (Sun and Abraham, 2021; Goodman-Bacon, 2020; Callaway and Sant’Anna, 2021b; Baker, Larcker, and Wang, 2021). In our case, we have treatments in all quarters in our sample, a short time-series, and, thus, a highly unbalanced panel.

To account for these concerns, we primarily adopt the doubly robust estimation method introduced by Callaway and Sant’Anna (2021b) and implemented in the *did* package in R (Callaway and Sant’Anna, 2021a). One advantage of the Callaway and Sant’Anna (2021b) method (henceforth CSA) is that it allows for the inclusion of covariates and “covariate-specific trends across groups” (Callaway and Sant’Anna, 2021b). We estimate our main models without controls, as well as adjusting for the same covariates

Figure 4: Simple Panel Model Results



Notes: Figures show the estimated dynamic effects from the simple panel models. Both the probability of having active registrants and lobbying expenditure (ihs transformed) increase in the period after PE takeovers.

as above: the portfolio company's sales (ihs transformed), number of employees (ihs transformed), and number of subsidiaries (log transformed).

As with the standard difference-in-differences design, the most fundamental assumption required for unbiased estimation is parallel trends, and in our case this extends to all PE buyouts in each of the quarters. Recall that our data consists only of ever-treated firms, thus the comparison group are always the *not-yet-treated* firms, i.e., firms that will

be bought out at later in the sample. In the Appendix, we additionally present results from the same models estimated using the *PanelMatch* method introduced by Imai, Kim, and Wang (Forthcoming). Here we first match on treatment history in the last six quarters, i.e., the last one and a half years before a deal. We then further refine the set of pre-treatment comparison units using propensity score weighting based on firms' sales (ihs), firms' employees (ihs), and the number of subsidiaries (ln). In our view, however, the panel match estimation is too restrictive due to the unbalancedness of the panel and short firm time series.

We first present the overall group average ATTs for both outcomes. Table 3 shows the average effect on the treated (ATT) averaged across all buyout timings, i.e., Θ_{Sel}^O in Callaway and Sant'Anna (2021b). We restrict the post-treatment period to six quarters after the take-over. Across both dependent variables, PE takeovers of portfolio firms lead to a significant increase in lobbying. First, PE buyouts are estimated to increase the probability of having active registrants by about 1 percentage point, specifically by 0.5 and 1.5 percentage points in the model without (1) and with covariates (2), respectively. Given the very low baseline of lobbying in the sample overall, this is a substantively important effect. For the second outcome, lobbying expenditure, we see an even more substantive effect. In both models, with and without covariates PE buyouts significantly increase lobbying expenditures. Given the IHS transformation of the dependent variable, we approximate the percentage change in total lobbying expenditure in the post-buyout period following Bellermaire and Wichman (2019). When including covariates, being bought out by a PE firm is estimated to increase lobbying expenditure by approximately 21.1 percent (six percent in the model without controls).

In Figure 5 we show the dynamic ATTs based on the models with covariates. The first plot shows how private equity deals affect the probability of firms having any active lobbying registrant. As one can see, the event time ATT is positive and increasing in the period after a private equity takeover. The second plot shows the estimated quarterly effect of private equity deals on the ihs transformed total lobbying expenditure. The results again show that portfolio firms increase lobbying after a private equity deal. The dynamic effect estimates increase for the first four quarters. These results show that

Table 3: Main Results - Group Average ATT

	Any Active Registrants		Lobbying Exp. (IHS)	
Average	0.005 [0.000, 0.009]	0.015 [0.005, 0.025]	0.057 [0.005, 0.108]	0.050 [-0.009, 0.109]
Covariates	No	Yes	No	Yes
No. Firms	2497	2497	2497	2497

Note:

Models estimated using the did package in R. Unit of analysis is the portfolio firm-quarter. Standard errors are clustered at the firm level. Control group: not-yet-treated. Columns 2 and 4 include pre-treatment covariates for firm sales (ihs), number of employees (ihs), and number of subsidiaries (log). Group ATTs calculated based on 6 post-treatment quarters.

companies are expanding their corporate political activity after PE buyouts.²⁰

In the Appendix, we show the results for each both dependent variables when we using the panel match method and including covariates (Figure A.1). Overall, the results are quite similar, though weaker and the uncertainty is larger.

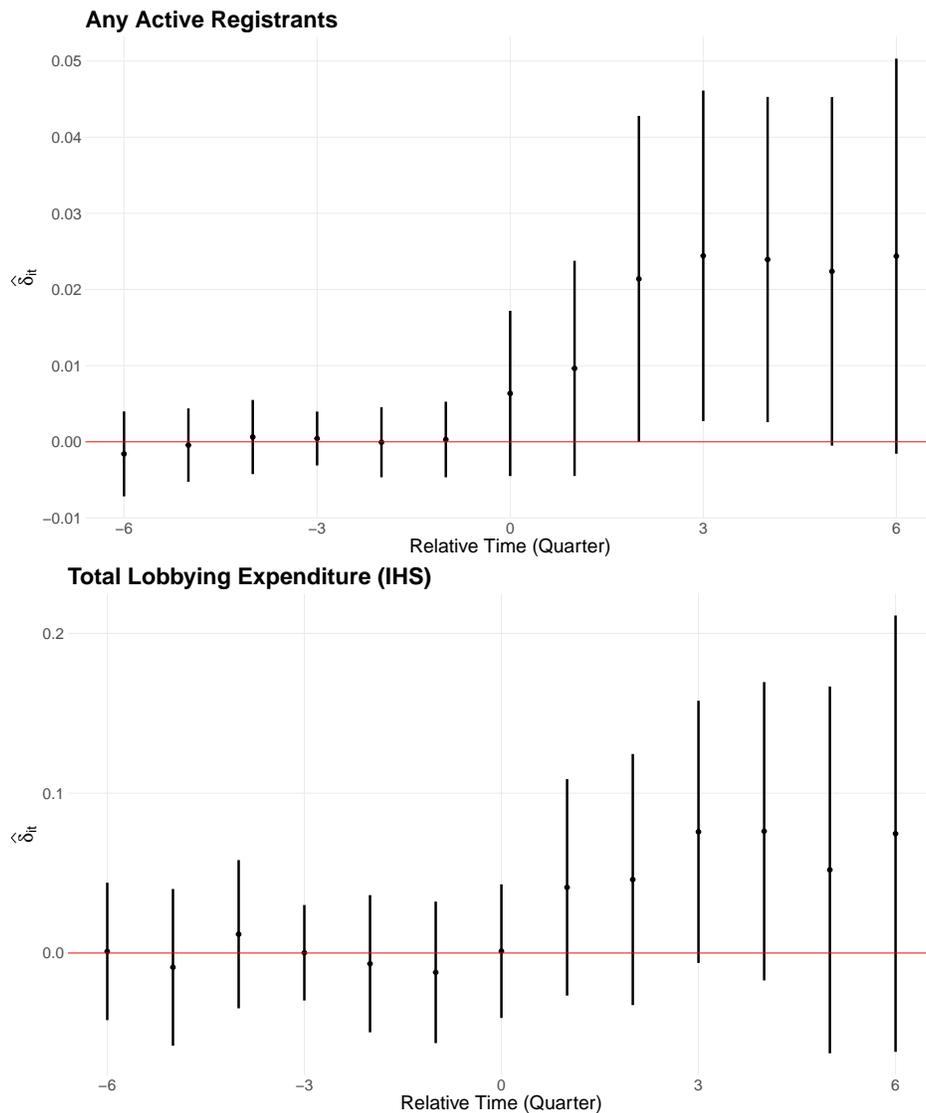
4.2 Heterogeneous Effects

Firms that lobby are significantly different from those who do not, and lobbying behavior is highly path-dependent (Kerr, Lincoln, and Mishra, 2014; Egerod and Aaskoven, 2021). In addition, relatively few firms lobby at all, especially those of the sufficiently large size that comprises our sample. In fact, in our main sample, only 5.7% of firms ever lobby. Even more so, prior to PE buyouts, i.e., the pre-treatment period, only 4.4% of firms lobby. Given the importance of path dependence and differences in behavior for firms who lobby regularly, we first split our sample into portfolio firms that lobby prior to any private equity deal and those that do not. For these models using split samples, we cannot include covariates, due to the limited samples in the subgroups.

Table 4 shows the overall group average ATTs for both samples and the two lobbying

²⁰One concern might be that the increase in lobbying is caused by an effect of PE takeovers on revenue. We do not find evidence for this possibility, however. When we estimate the same models with firm revenue as the dependent variable, we do not see any positive effect.

Figure 5: Main Results: All Deals



Notes: This figure shows the over time ATT for private equity takeovers on our two dependent variables: (1) a binary indicator for whether a firm had any active registrants and (2) total lobbying expenditures (IHS transformed). Independent of how it is measured, portfolio firms increase lobbying activity in the period after a private equity takeover.

outcomes. The first two columns show the average ATT for models with the binary indicator for active registrants as the dependent variable, whereas columns three and four show the results for lobbying expenditure. The results in the first and third column are based on portfolio firms who lobbied prior to PE buyouts. The results in columns two and four are for the vast majority of firms that did not lobby before the PE investment.

Table 4: Pre-Buyout Lobbying - Group Average ATT

Pre-Buyout Lobbying	Any Active Registrants		Lobbying Exp. (IHS)	
	Yes	No	Yes	No
Average	-0.021 [-0.097, 0.054]	0.005 [0.003, 0.007]	-0.272 [-1.067, 0.522]	0.059 [0.032, 0.087]
Covariates	No	No	No	No
No. Firms	109	2388	109	2388

Note:

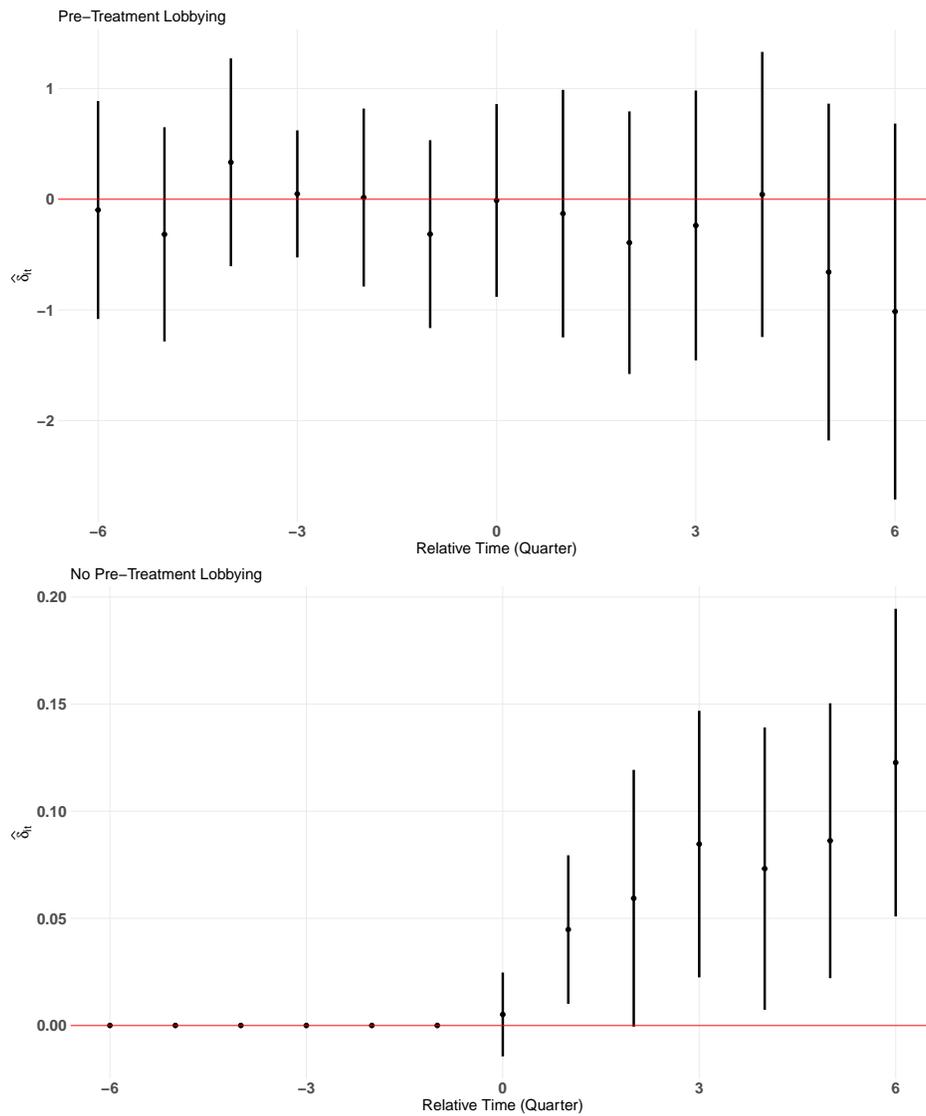
Models estimated using the did package in R. Unit of analysis is the portfolio firm-quarter. Standard errors are clustered at the firm level. Control group: not-yet-treated. Columns 2 and 4 include pre-treatment covariates for firm sales (ihs), number of employees (ihs), and number of subsidiaries (log). Group ATTs calculated based on 6 post-treatment quarters.

For both lobbying outcomes, we find that PE takeovers significantly increase lobbying for those firms that did not engage in lobbying prior to being bought out by private equity. In contrast, for portfolio firms that had lobbied before, we do not see any significant effect of the PE buyout on subsequent lobbying activity.

Figure 6 shows the dynamic overtime ATTs for the lobbying expenditure models. The top panel shows the ATT firms that do not engage in lobbying before private equity buyouts (top panel) and those firms that do engage in lobbying before the PE deal (bottom panel). As the first plot in Figure 6 shows, we do not find evidence that private equity takeovers increase lobbying behavior in firms that did lobby previously. For firms that did not lobby prior to a PE buyout, on the other hand, we find a strong and increasing effect of the private equity buyout. Figure A.2 show the dynamic ATTs for both groups for the binary outcome variable. Again, we see a strong positive effect for firms that did not lobby prior to the takeover.

These results suggest that private equity managers are introducing a new emphasis on political strategy into acquired firms. Transferring knowledge of the importance of federal lobbying, PE firms immediately deploy portfolio company financial resources towards Washington. One empirical implication of this ‘politics from above’ interpreta-

Figure 6: Heterogeneous effects by pre-buyout lobbying



Notes: This figure shows the over time ATT for private equity takeovers on total lobbying expenditures (IHS transformed) for firms that had lobbied pre buyout (top) and those that had not lobbied before (bottom). We see that lobbying increases significantly for firms that have not lobbied before. We do not find a significant effect for firms that had lobbied previously.

tion is that PE firms that have longer experience with lobbying should be more likely to introduce corporate political activity into acquisitions. Their familiarity with Washington, whether it be pre-existing networks with lobbyists or an understanding of the types of inroads that could pay off financially, drives their focus on lobbying as part of their management strategy.

To test this second mechanism, we coded whether the PE firms had any history of making campaign contributions or lobbying themselves at the federal level. First, we identified whether a PE firm had set up a dedicated Political Action Committee (PAC) in its own name to direct its campaign contribution activity. PAC data is collected by the Federal Election Commission (FEC); we conducted our matching using the online tools created by Code for Democracy.²¹ Altogether, 12 of the largest PE firms, including near household names such as Bain Capital and Carlyle Group, had their own PACs; these firms executed 72 deals in our analysis sample. A considerable larger number of PE firms – 80 in total – were listed as a client of a registered lobbyist over the same period (2008-2020) according to the LobbyView dataset.

We combine these two measures into a binary measure of political activity by PE firms. In all, 332 deals were completed by PE firms that had experience in Washington (13% of the analysis sample). We then run the same DID models but split our sample based on this binary indicator. Table 5 shows the average group ATTs for both outcomes and the two groups of PE firms, politically active and not. The vast majority of PE deals are done by private equity firms that are not politically active (columns 2 & 4 in Table 5). Interestingly, we do not find a significant effect of PE takeovers on lobbying expenditures by portfolio companies purchased by PE firms that are not politically active themselves. The point estimates are small and not statistically different from zero.

In contrast, we find a large and significant effect for those buyouts where the PE firms themselves are politically active (columns 1 & 3 in Table 5). Figure 7 shows the dynamic ATT for both groups for the *ihs* transformed lobbying expenditure variable outcome. As the figure shows, lobbying expenditure increases significantly for portfolio companies that are bought out by politically active PE firms, but not so for companies bought out by PE firms without such political activity. Figure A.3 in the Appendix shows the same over time ATTs by PE firm political activity for the binary dependent variable of firms having any active registrants.

Lastly, we investigate whether our main results differ depending on the types of portfolio firms that are included in the analysis. Although the \$10 million threshold we

²¹<https://tools.codefordemocracy.org/>

Table 5: Pol. Active PE Firm - Group Average ATT

PE firm pol. active	Any Active Registrants		Lobbying Exp. (IHS)	
	Yes	No	Yes	No
Average	0.015 [0.002, 0.028]	0.003 [-0.003, 0.008]	0.183 [0.022, 0.344]	0.033 [-0.025, 0.091]
Covariates	No	No	No	No
No. Firms	332	2165	332	2165

Note:

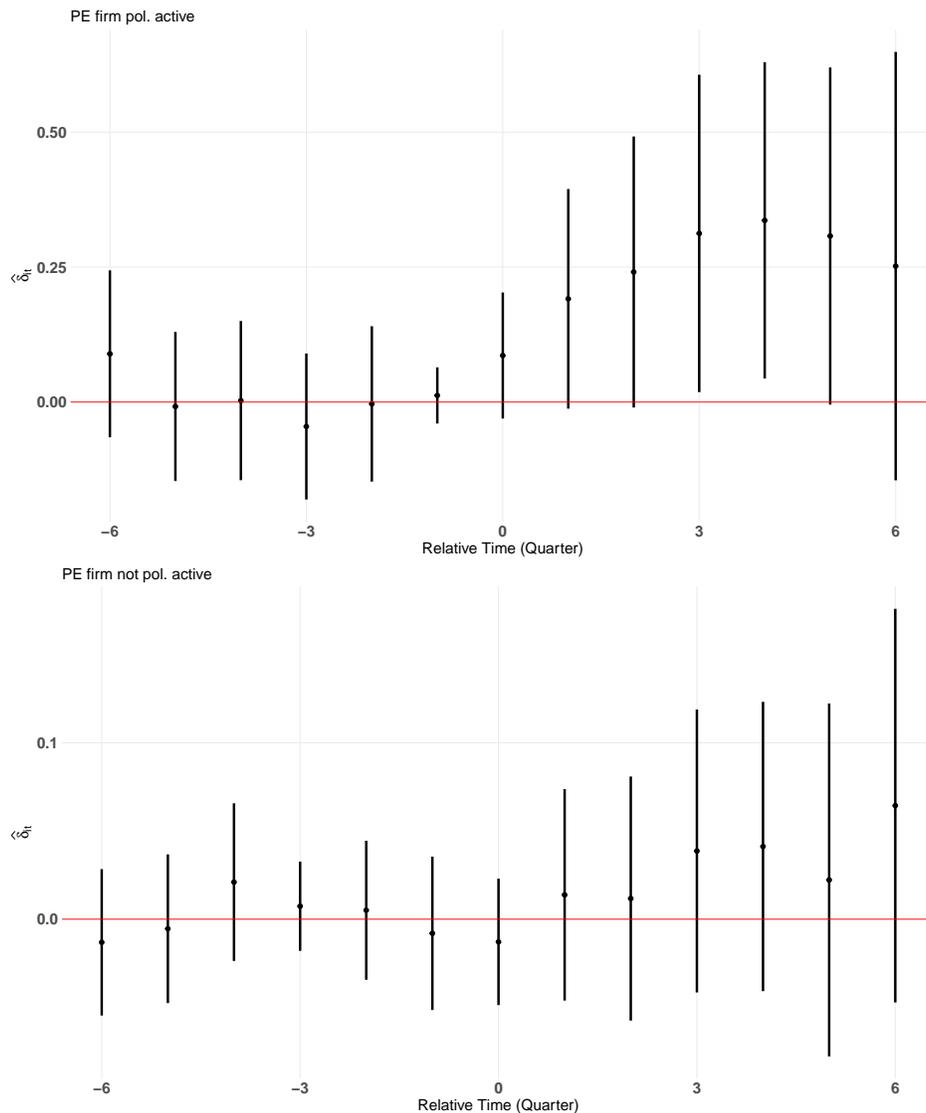
Models estimated using the did package in R. Unit of analysis is the portfolio firm-quarter. Standard errors are clustered at the firm level. Control group: not-yet-treated. Columns 2 and 4 include pre-treatment covariates for firm sales (ihs), number of employees (ihs), and number of subsidiaries (log). Group ATTs calculated based on 6 post-treatment quarters.

apply above is useful for honing in on only firms interested in federal lobbying, some smaller firms still express interest in national-level politics. We therefore estimate our main models on three separate samples, depending on the minimum volume of pre-buyout sales:

1. all portfolio firms in the sample
2. portfolio firms with under \$ 10 million in pre-buyout sales
3. portfolio firms with at least \$ 10 million in pre-buyout sales

Figure 8 shows the dynamic ATTs for both outcomes estimated on the different samples. The top plot compares estimates for the models with ihs transformed lobbying expenditure as the dependent variable. The bottom plot shows the dynamic event ATTs for the binary indicator of having any active registrants as the outcome. Estimates in black show results for portfolio firms with pre-buyout sales under \$10 million, whereas green points depicts estimates for firms with sales of at least \$10 million in all pre-buyout quarters. Lastly, estimates for all firms (including those with missing revenue data) are shown in brown. As the figure shows, the point estimates are quite similar across the different samples, though the 95% confidence intervals vary slightly. Overall, as expected,

Figure 7: Heterogeneous effects by PE firm political activity



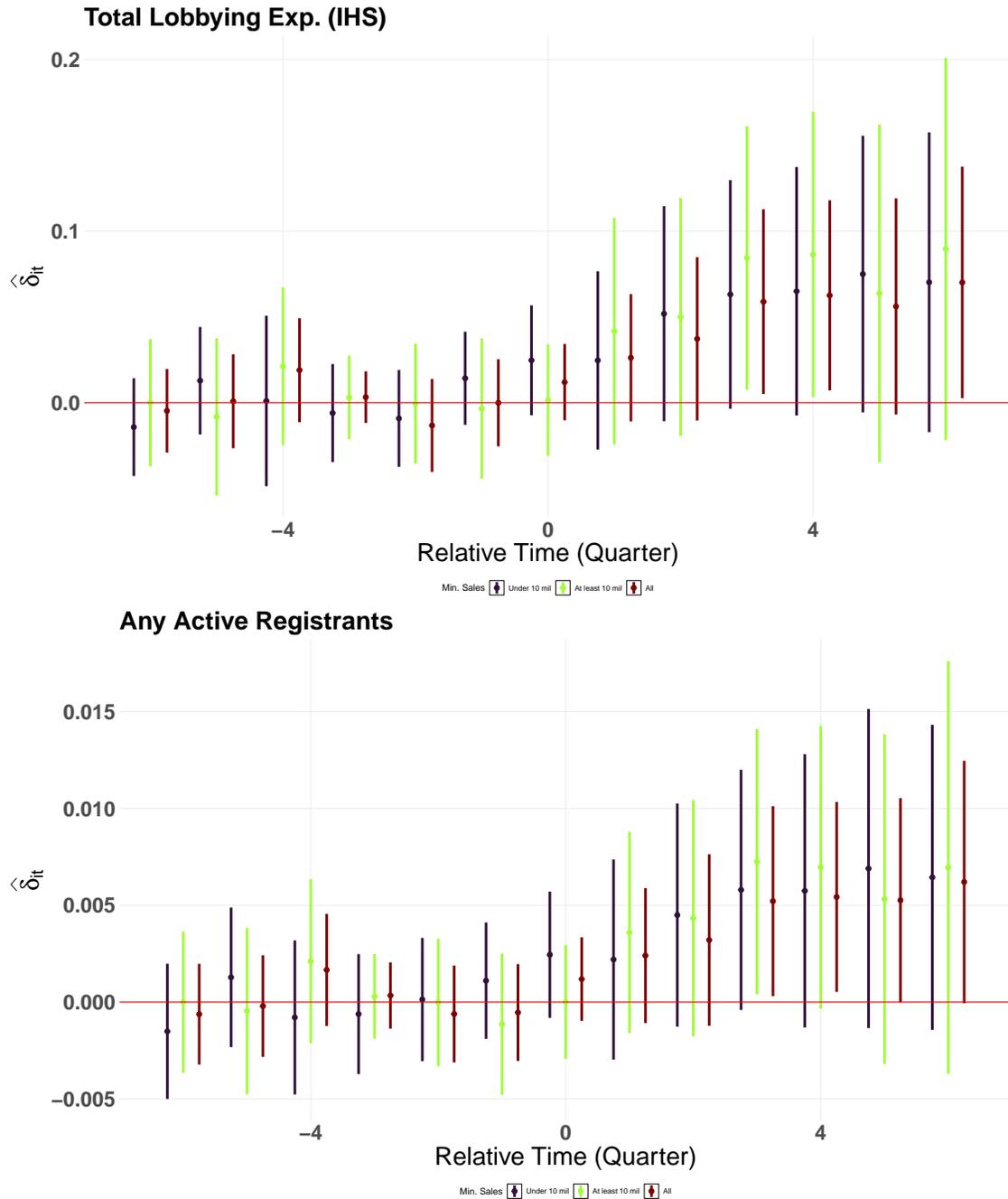
Notes: This figure shows the over time ATT for private equity takeovers on total lobbying expenditures (IHS transformed) for firms that were bought out by PE firms with their own political activity (top) and those that were bought out by PE firms that are not politically active themselves (bottom). We see that lobbying increases significantly only for firms that are bought out by PE firms that are themselves politically active.

the effects are stronger for firms with higher sales.

4.3 Political Contributions & Federal Contracts

Lobbying may be the primary form of political activity for most corporations, but some companies do make campaign contributions to individual candidates as well as party

Figure 8: Lobbying conditional on pre-buyout sales



Notes: This plot shows the event time ATTs of private equity takeovers on total lobbying expenditure across different samples based on portfolio firm pre-buyout sales. Estimates in black show results for portfolio firms with pre-buyout sales under \$10 million, whereas green points depicts estimates for firms with sales of at least \$10 million in all pre-buyout quarters. Lastly, estimates for all firms (including those with missing revenue data) are shown in brown.

structures. Investor-owned companies that finance presidential campaigns can, for example, enjoy significant and positive abnormal returns if the supported candidate wins election (Huber and Kirchler, 2013). Roll-call vote analysis also shows that the sugar industry was able target contributions and maintain price supports and subsidies (Grier, Grier, and Mkrtchian, 2022). However, at the state level, evidence suggests that campaign contributions may not be the most effective route for insurance companies to secure desired policy (Fourinaies and Fowler, 2022). In this section, we test how PE firms see this alternate political strategy as a potential compliment to their heightened focus on lobbying expenditures.

Corporations are banned from directly financing candidates and campaigns, but they can set up PACs to channel their spending. We ran the names of each of the portfolio companies in our sample through the online database of FEC spending data hosted by Code for Democracy. Our fuzzy matching procedure identified just 20 portfolio companies with affiliated PACs. We coded a binary outcome for whether a PAC connected to these companies made campaign contributions in a given quarter. Due to the relative absence of affiliated PACs in our sample, portfolio companies were linked to contributions in just 0.8% of all quarters from 2008-2020.

We use the same DiD model specifications as above to calculate the average ATT of PE deals on campaign contribution activity. Columns 1 and 2 in Table 6 show the results with and without covariates. Although the point estimates are positive and substantively significant, they are not precise. In future versions of this paper, we will explore further potential heterogeneity in these results in line with the discussion above

Finally, we test for one potential objective behind the increased lobbying activity: accessing federal public procurement. Previous work has identified strong correlations between the amount that companies spend on various types of political activity and the volume of federal contracts they are able to secure (Witko, 2011; Dusso, Holyoke, and Schatzinger, 2019; Fazekas, Ferrali, and Wachs, 2022). Using the DUNS number of each portfolio company in the sample, we collected data on any and all contracts awarded by the US federal government as reported in the Federal Procurement Data

Table 6: Political Contributions & Federal Contracts - Group Average ATT

	Any Political Contributions		Any Federal Contracts	
Average	0.001 [-0.001, 0.003]	0.002 [-0.001, 0.004]	-0.004 [-0.015, 0.007]	-0.005 [-0.018, 0.008]
Covariates	No	Yes	No	Yes
No. Firms	2497	2497	2497	2497

Note:

Models estimated using the did package in R. Unit of analysis is the portfolio firm-quarter. Standard errors are clustered at the firm level. Control group: not-yet-treated. Columns 2 and 4 include pre-treatment covariates for firm sales (ihs), number of employees (ihs), and number of subsidiaries (log). Group ATTs calculated based on 6 post-treatment quarters.

System (FPDS).²² We then coded another binary indicator if a portfolio company won either a primary award or a sub-award in each quarter from 2008-2020. Nearly one-fifth of all portfolio companies in our sample (18%) had some kind of federal contract each quarter.

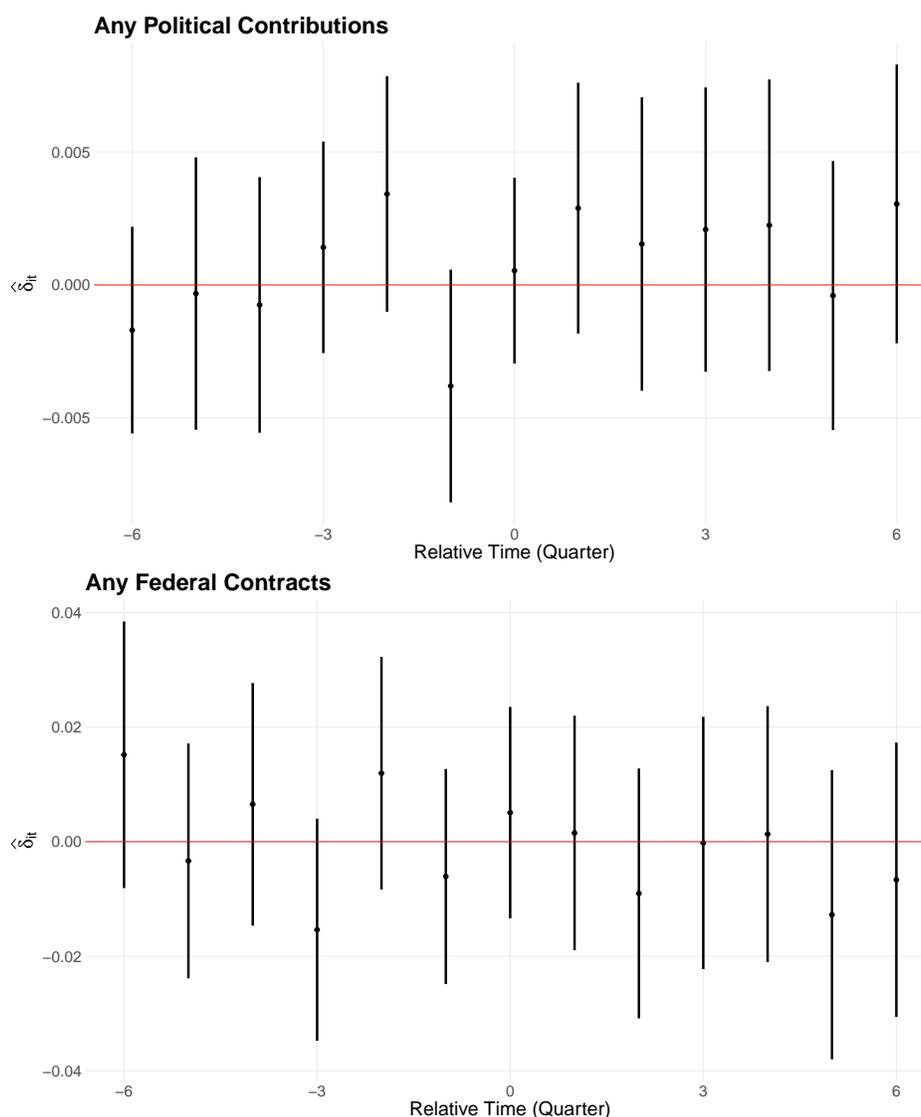
Using the same model specifications as above, we find there is no effect of a PE buyout on the probability that a portfolio company wins any federal contracts. Columns 3 and 4 show a small but statistically significant negative effect on this binary indicator. Portfolio companies appear to actively pursue public procurement opportunities regardless of their private equity ownership.

5 Discussion and Next Steps

Taken together, our results show that portfolio companies are more likely to lobby the federal government following a takeover by private equity. Analyzing heterogeneity, we uncover two possible mechanisms driving the effect. On one hand, the increase in lobbying activity is highly concentrated among portfolio companies that had no presence in Washington before their PE buyout. This finding suggests that PE firms are introducing a new political dimension to the management of their acquired companies, with

²²<http://www.usaspending.gov>

Figure 9: Political Contributions & Federal Contracts



Notes: The top plot shows the event time ATTs of private equity takeovers on whether portfolio firms have made any political contributions. The bottom figure shows the over-time effect of PE buyouts on the likelihood of firms receiving federal contracts.

lobbying (and not necessarily campaign contributions) taking central stage.

In support of this interpretation, we also show that the treatment effects on lobbying are concentrated among companies bought out by already politically active PE firms. Many PE firms invest their own resources to create dedicated PACs and engage lobbyists on issues key to their wider financial interests. Portfolio companies acquired by the subset of politically active PE firms appear to most closely mimic the political strategies of

their investors, suggesting a knowledge transfer is occurring from manager/investor to companies. Private equity has been successful developing multi-pronged approaches to doing business in Washington and appears to be harnessing the full array of companies within their corporate structures towards this end.

These results raise several unresolved questions to be addressed as this research project progresses. First, how does lobbying benefit companies acquired by private equity investors? Our above analysis showed that PE-backed portfolio companies are not more likely to win federal contracts. Instead, building on work detailing the use of aggressive tax avoidance strategies by PE managers (Badertscher, Katz, and Rego, 2009; Cohn, Hotchkiss, and Towery, 2020), we might expect that the pursuit of tax-friendly policies, such as access to preferential investment programs or credits, may loom large in the strategic political calculus of portfolio companies. On average, portfolio companies that lobby may pay lower effective tax rates than those that do not. Finally, firms loaded with excessive debt burdens may be especially inclined to seek political favors as ways to reduce operating costs and find new sources of revenue. By collecting data on each of these outcomes, we hope to understand better both the mechanisms and rationale behind the main treatment effect in the next version of this paper.

Second, it is still unclear whether the decision to have portfolio companies engage lobbyists is being made with those companies' best interests in mind. Is lobbying being pursued to push for policies beneficial for the portfolio companies or rather the PE firms and investors? A related line of research suggests that corporate political activity often originates at the top, as senior management pursue their personal political objectives at the helm of companies (Chin, Hambrick, and Treviño, 2013; Faisal and Tutz, 2021). By collecting more detailed data on which lobbyists are being hired and which topics being raised in meetings, we aim to draw a more complete picture about how the transmission of political activity operates within a PE firm's holding structure. Given the relatively small number of politically active companies in our sample, we expect that some of this explication of mechanisms may be best achieved through a qualitative investigation of several of the top PE firms pushing politics as part of their management strategy.

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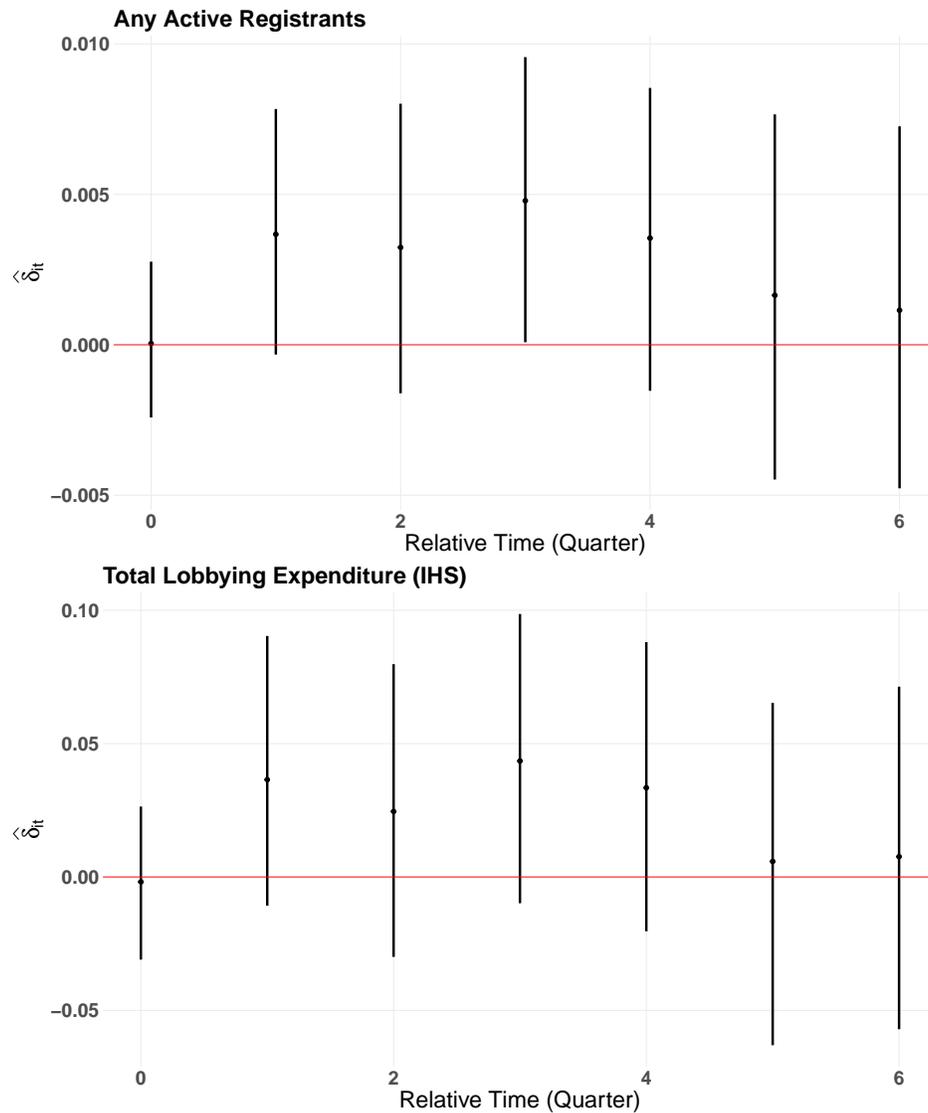
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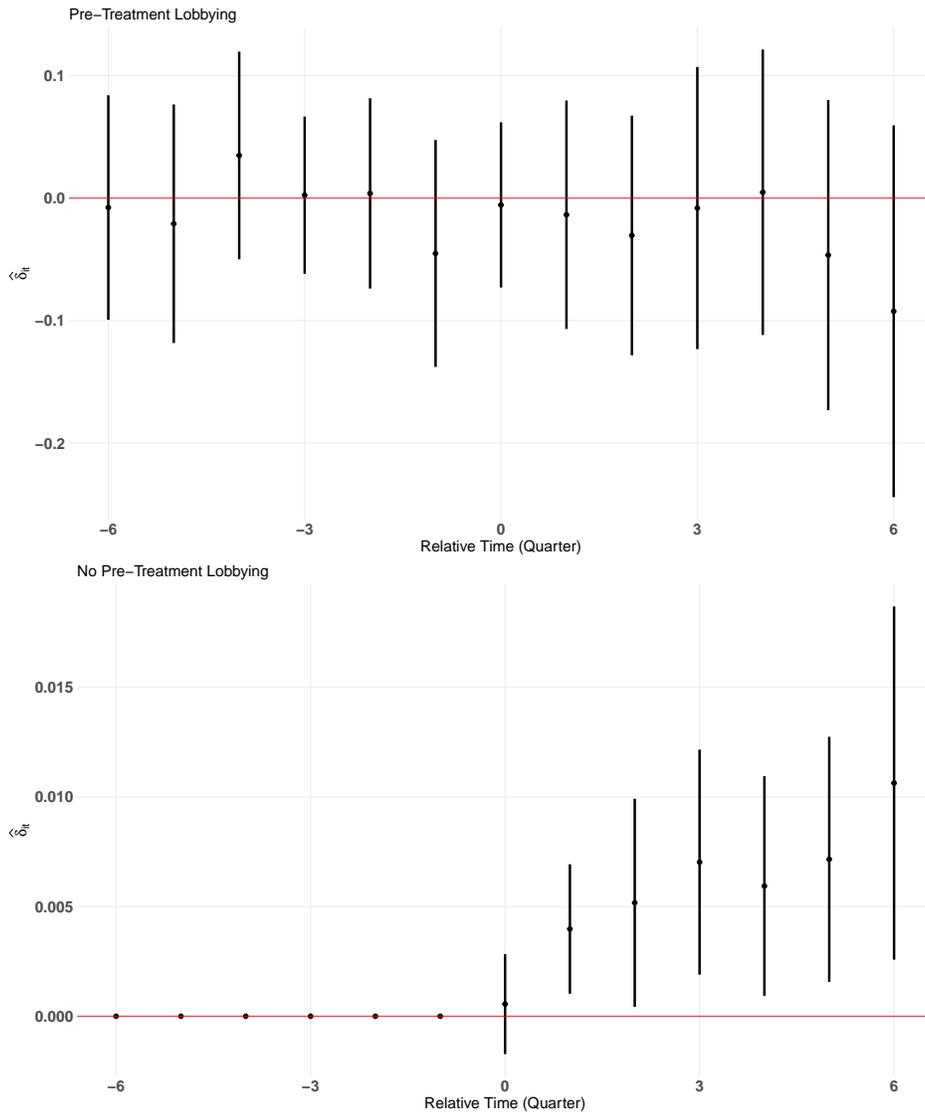
A Appendix

Figure A.1: Main Results: All Deals



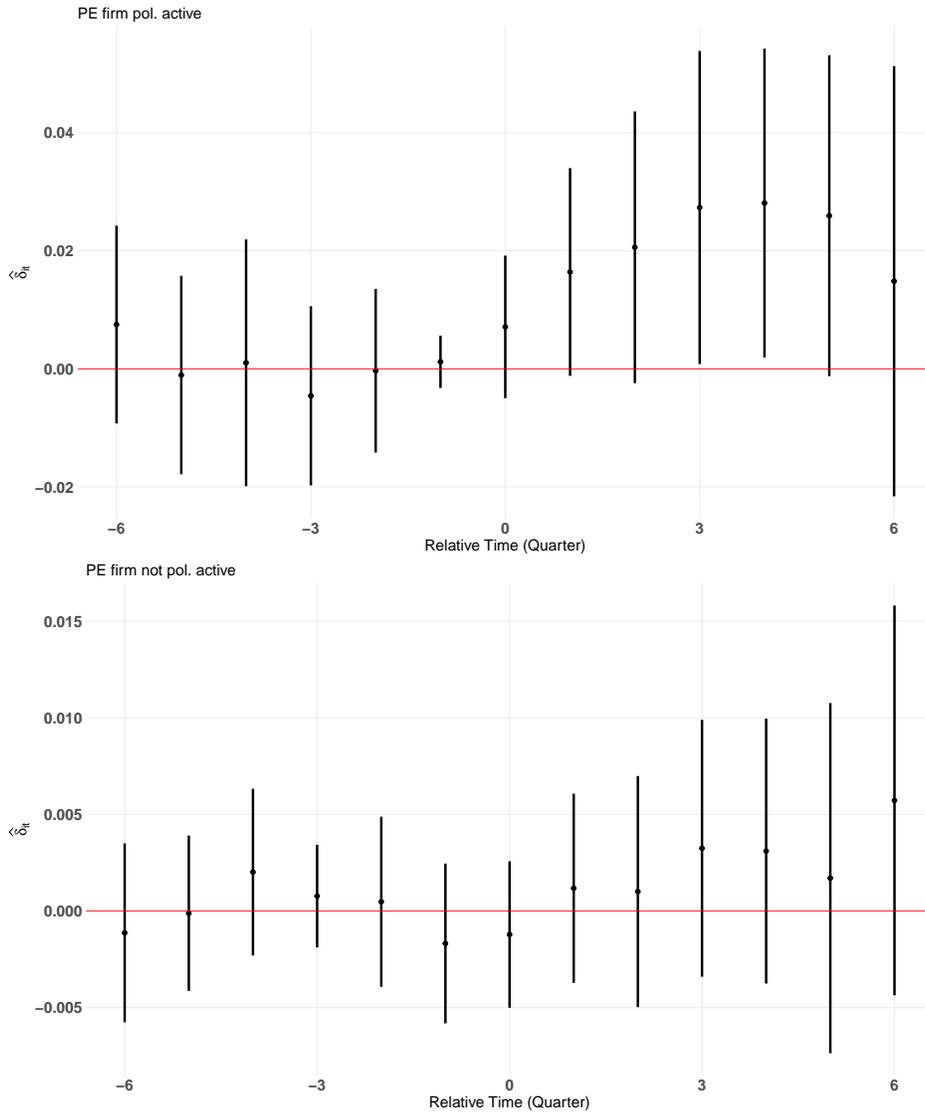
Notes: This figure shows the over time ATT for private equity takeovers estimated using panel match. The top plot shows the ATT on a binary indicator for whether a firm had any active registrants. The bottom plot shows the results for total lobbying expenditures (IHS transformed). Again, lobbying is estimated to increase after the first quarter but the estimates are smaller and are associated with more uncertainty than in the CSA method estimations.

Figure A.2: Heterogeneous effects by pre-buyout lobbying: Any Active Registrants



Notes: This figure shows the over time ATT for private equity takeovers on total lobbying expenditures (IHS transformed) for firms that had lobbied pre buyout (top) and those that had not lobbied before (bottom). We see that lobbying increases significantly for firms that have not lobbied before. We do not find a significant effect for firms that had lobbied previously.

Figure A.3: Heterogeneous effects by PE firm pol. activity: Any Active Registrant



Notes: This figure shows the over time ATT for private equity takeovers on whether firms have any active registrants for firms that were bought out by PE firms with their own political activity (top) and those that were bought out by PE firms that are not politically active themselves (bottom). We see that lobbying increases significantly only for firms that are bought out by PE firms that are themselves politically active.