



The Daily Dish

The Assault on Private Equity

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Eakinomics: The Assault on Private Equity

Let's suppose that, like me, your dream has always been to own and operate a Twizzler stand at Heinz Field. You scout locations and find a ridiculous operation selling Iron City Beer and pierogi. You think, "I can make a lot more money than that underperforming nightmare." Unfortunately, the asking price is well above what you've saved up. You mention the idea to your friends who pool their resources with you and buy out the beer guy (but keep him on to run the stand). Your dream is launched.

You are also squarely in the sights of presidential candidate, Senator Elizabeth Warren.

Private equity (PE) firms pool the funds from other investors (your friends) and use them to make long-term, equity investments in firms that will — or can with some shake-up — grow rapidly in the future. Your Twizzler launch is essentially the same activity as PE firms, and Senator Warren is out to cripple the PE industry with her "[Stop Wall Street Looting Act](#)." Specifically, the Act would "reach through" the investment structure to hold private equity firms (and sometimes the individual investors in their funds) liable for all debts, legal judgements, and pension obligations of companies in which they invest. It would also impose arbitrary caps on PE borrowing, raise taxes on their capital gains, and provide a rifle-shot rewrite of bankruptcy law to put workers' financial claims above others in the bankruptcy process.

A recent [analysis](#) by the Center for Capital Markets at the U.S. Chamber of Commerce estimates that the Act:

- "Would result in a loss in the range of 6.2 million to 26.3 million jobs across the United States;
- Would result in federal, state, and local governments losing a combined \$109 billion

annually in tax revenues in a modest-case scenario or \$475 billion annually in a worst-case scenario;

- Public pension funds, which support retirees, would lose at least \$329 million (and possibly \$1.65 billion) annually since they would need to switch some (or all) of their investments into lower-yielding investments;
- Investors could lose anywhere from \$671 million to \$3.36 billion per year (about half of which would be lost to pension fund retirees);
- Imposition of increased risk, taxes, and restrictions contained in S.2155/H.R. 3848 would likely cause some (and potentially all) of the private equity industry to cease to exist;
- Many firms which normally seek PE financing would be unable to find financing and fail (or downsize);
- If even 1% of the industry exited, and an equivalent percent of PE portfolio companies failed, the federal governments would lose money.”

The House Financial Services Committee will hold a [hearing](#) today entitled “America for Sale? An Examination of the Practices of Private Funds” which will feature discussion of the House version (H.R. 3848) of the Stop Wall Street Looting Act. Yet the bill is so punitive and the estimated impacts so grave that one can only assume that this is not a “real” hearing, but simply a piece of political messaging for the election.