

Private equity ownership 'increases jobs'

By James Politi in New York

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Companies owned by US private equity groups experienced an increase in employment of 8.4 per cent between 2002 and 2005, according to a new study to be published on Thursday by the industry's main lobbying organisation in Washington.

The analysis by the Private Equity Council is the first in which US buy-out groups provided their own data on employment at their portfolio companies. Similar studies have been conducted in Europe, however.

The results of the study will be used by the PEC - whose members include large firms such as Blackstone, TPG, KKR and Carlyle - to bolster its claim that private equity groups create jobs and are healthy for the US economy.

Critics of buy-out firms believe that cost cutting through aggressive lay-offs and restructuring is a common tactic used by private equity financiers in their highly leveraged deals and is damaging to the economy and employment levels.

The buy-out industry and its critics have been waging a battle in Washington for almost a year now, mainly focused on whether the preferential tax treatment enjoyed by private equity groups should be scaled back or not.

Buy-out firms won a big victory before the holiday recess when a provision that would have increased taxes on private equity profits - or carried interest - was withdrawn, at least for now, from broader tax legislation.

The PEC study was conducted by Robert Shapiro, former undersecretary of commerce for economic affairs during the Clinton administration. Mr Shapiro is now chairman of Sonecon, a private advisory firm. Nam Pham, president of NDP, an economics consulting group, co-authored the report.

The study only considers data from 60 per cent of large portfolio companies between 2002 and 2005, potentially exposing it to criticism that the private equity firms were selective in offering the information. It finds that overall employment at 42 private equity-owned companies rose from 310,420 to 336,634 in that period, or 8.4 per cent.

More detailed analysis resulted in claims that US employment at private equity-owned companies jumped 13.3 per cent compared with 5.5 per cent for the US economy overall, and that US manufacturing jobs at private equity-owned companies rose 1.4 per cent, compared with job losses of 7.7 per cent in the US manufacturing sector overall.

Mr Shapiro said: "These findings reflect the role that private equity funds play in the economy: acquiring underperforming companies and reforming their operations."

"This study is part of a multi-million dollar lobbying plan by an industry on the defensive," said Stephen Lerner, director of the Private Equity Project at the Service Employees International Union - one of the private equity industry's most vociferous opponents. "There is little reason to trust and no way to verify self-reported claims by the super-secretive buyout industry."

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