

# The Politics of the Paycheck Protection Program

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## Abstract

We study the incidence of special interests in the allocation of loans through the Paycheck Protection Program (PPP).

We find that lobbying at the firm and industry levels helps businesses obtain larger PPP loans during the pandemic.

Lobbying firms have experience in navigating administrative and policy complexity, which has consequences for the efficient allocation of government aid programs.

## Motivation

*“The only industry that hasn’t been slowed down by the virus is the lobbying industry.”*

– Rep. Ro Khanna, California’s 17<sup>th</sup> congressional district

The COVID-19 outbreak triggered an unprecedented economic freeze that left millions of businesses in various industries in dire need of liquidity. The government aid response (PPP) was immediate and also unprecedented.

⇒ **Did the funds flow to businesses where the needs were greatest?**

⇒ **We answer this question from the lens of special interest politics.**

Our study complements a few recent studies documenting the (mis)allocation of PPP lending across the US economy:

- Granja et al. (2020) show that funds flowed to small private firms in areas that were less hard-hit by COVID-19.
- Duchin and Hackney (2020) find that politically important areas saw higher levels of PPP lending.
- Li and Strahan (2020) show that prior bank relationship helped smaller firms to access PPP funds.
- Balyuk et al. (2020) report that large and healthy firms that received funds eventually returned them after public backlash.

## Data Description

Two main sources of data:



Small Business Administration (SBA): first two rounds (\$669 billion)

- Number and amount of PPP loans disbursed
- Business characteristics

LobbyView:

- Lobbying status of the business and the amount of their lobbying spending
- Size of industry lobbying and size distribution of lobbying firms in an industry

	Compustat				Orbis			
	Obs.	Mean	Median	Std. Dev.	Obs.	Mean	Median	Std. Dev.
<i>PPP recipients that lobby</i>								
Loan amount (\$, thousands)	32,527	1,552.03	675.00	1,771.39	32,527	1,552.03	675.00	1,771.39
Total assets (\$, millions)	340	1,292.92	218.31	3,783.60	1,324	48.52	4.61	109.92
Total employees (number)	340	5,381.25	162.50	19,662.69	1,163	3,045.79	550.00	4,363.06
Total sales (\$, millions)	340	919.13	31.43	3,239.26	1,324	42.42	1.66	84.79
Return on assets (percent)	340	-25.05	-9.80	36.59	1,189	-6.00	0.64	19.65
Interest coverage ratio (percent)	340	9.90	0.10	78.40	864	3.18	1.81	13.00
Working capital (percent)	323	2.19	1.50	2.33	1,324	2.19	1.33	2.24
<i>PPP recipients that do not lobby</i>								
Loan amount (\$, thousands)	655,973	647.72	250.00	881.72	655,973	647.72	250.00	881.72
Total assets (\$, millions)	182	276.00	25.65	1,624.17	837	4.68	0.21	19.94
Total employees (number)	182	369.31	50.50	1,740.26	536	1,018.56	131.85	3,462.25
Total sales (\$, millions)	182	144.89	12.50	721.98	831	2.67	0.14	10.36
Return on assets (percent)	179	-22.84	-6.25	37.41	756	-3.00	1.89	21.94
Interest coverage ratio (percent)	182	5.07	0.00	35.14	617	8.33	2.26	41.77
Working capital (percent)	164	2.41	1.28	5.25	836	2.81	1.70	6.42

## Results

### 1. Descriptive result #1:

Lobbying firms are five to ten times larger than non-lobbying firms, while they also receive larger PPP loans: the mean loan amount is about \$650,000 for non-lobbying firms compared to \$1,550,000 for lobbying firms.

### 2. Regression result #1:

$$Loan_{f,i,c} = \alpha + \beta Lobby_f + \gamma X_f + s_i + v_c + \varepsilon_{f,i,c}$$

	Amount of PPP loan (log)			
	(1)	(2)	(3)	(4)
Lobbying status (since 2016)	0.6340*** (0.006)			
Lobbying expenditures (since 2016, log)		0.0593*** (0.001)		
Lobbying status (in 2020Q1)			0.6307*** (0.029)	
Lobbying expenditures (in 2020Q1, log)				0.0674*** (0.003)
Industry fixed effects	Y	Y	Y	Y
City fixed effects	Y	Y	Y	Y
Listing status	Y	Y	Y	Y
Observations	676,883	676,883	646,739	646,739
R-squared	0.137	0.131	0.095	0.095

⇒ PPP loans are approximately 60% larger on average for lobbying businesses relative to their non-lobbying counterparts.

⇒ We also corroborate this result with industry-level evidence: PPP loan size is on average larger for lobbying firms in industries with a greater lobbying presence.

### 3. Regression result #2:

To better understand the relation between firm lobbying and PPP lending, we examine variation across regions and industries:

- In areas with stronger conservative presence, PPP loans are less responsive to lobbying pressure.
- In areas with more electoral competition (“battleground” districts), the relation between lobbying and PPP lending is weaker.
- In industries in which firms are less hard-hit by the crisis, PPP lending is more responsive to lobbying. In particular, firms in industries with higher share of teleworkable jobs obtained larger PPP loans.

⇒ Together, our evidence appears to be consistent with a view that firms lobby for influence (“private-interest” view put forward by Stigler 1971), but it is hard to firmly establish that “public-interest” considerations do not drive the lobbying process under PPP as well.

## Conclusion

This paper is a first attempt to systematically examine whether special interests affected the allocation of PPP aid.

The findings indicate the importance of navigating administrative and policy complexity in the allocation of PPP loans, consistent with private-interest motives behind lobbying activities.

In particular, the regional differences suggest that lobbying firms received more funds if they were operating in less-harder-hit industries, and in more liberal areas—the latter arguably indicating they had a more sympathetic audience to listen to their troubles and take action to provide relief.

We cannot, however, establish a causal link or conclusively rule out public-interest motives of lobbying. Further research in this direction is needed.

## Contact

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## Reference

Igan, Deniz, Thomas Lambert, and Prachi Mishra (2021). The Politics of the Paycheck Protection Program, *CEPR Discussion Paper No. 16842*.

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