To: Members of the Committee on Oversight and Reform – Subcommittee on Economic and Consumer Policy
2157 Rayburn House Office Building, Washington, D.C. 20515

Attn: Amy Stratton, Deputy Chief Clerk

From: Dr. Tyler Goodspeed, Kleinheinz Fellow, Hoover Institution, Stanford University

Date: November 1st, 2022

Subject: Responses to Questions from Ranking Member Michael Cloud Concerning September 22, 2022, Hearing: "Power and Profiteering: How Certain Industries Hiked Prices, Fleeced Consumers, and Drove Inflation"

Questions for Mr. Tyler Goodspeed
Kleinheinz Fellow, Hoover Institution

Questions from Ranking Member Michael Cloud

September 22, 2022, Hearing: "Power and Profiteering: How Certain Industries Hiked Prices, Fleeced Consumers, and Drove Inflation"

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1. **In the hearing, Chairman Raja Krishnamoorthi (D-IL) stated: "Dr. Goodspeed presents an analysis whose integrity has been undermined. He says that the [American Rescue Plan] is what caused the sudden rise in inflation because of the unprecedented demand shock in March 2021, but when he was asked 'does he believe $1.9 trillion dollars went out in March of 2021,' he says the majority did when only a small sliver of that $1.9 trillion dollars went out in March 2021. That is a problem of his analysis, and it has not been rebutted even once during this hearing." Dr. Goodspeed, how do you respond?**

   The Chairman's characterization of my testimony is inaccurate. Neither in my written nor my oral testimony did I contend that the majority of the $1.9 trillion of the American Rescue Plan was expended in March 2021. What I specifically asserted was that in March 2021 "Congress passed and President Biden signed into law the American Rescue Plan Act of 2021, which introduced stimulus spending equal to approximately 9% of the annual output of the entire U.S. economy."

   When specifically asked by Chairman Krishnamoorthi whether I believed that the majority of the $1.9 trillion in the American Rescue Plan was disbursed in March 2021, I answered that it was spent largely throughout 2021, and that the vast majority of "the checks" were sent in March 2021. Both responses were completely correct.

   The March 2021 Monthly Treasury Statement confirms that of the estimated $410.632 billion in stimulus checks ("recovery rebates" or "economic impact payments") in the American Rescue Plan, $339 billion, or 82.6%, were disbursed in March 2021.

   This is further confirmed in the Personal Income and Outlays accounts from the Bureau of Economic Analysis (BEA), which report current transfers to households from government in the form of Economic Impact Payments. According to the BEA, these payments rose from

$95.9 billion at a seasonally adjusted annual rate in February 2021 (approximately $8 billion at a seasonally adjusted monthly rate) to $4.0 trillion at a seasonally adjusted annual rate in March 2021 (approximately $337 billion at a seasonally adjusted monthly rate). This figure then fell sharply in April 2021, and totaled just $85.8 billion from April through December 2021. By the end of 2021, stimulus check disbursements had dropped to $0.0 billion.

Therefore, my statement that the vast majority of "the checks" were disbursed in March 2021 was entirely accurate.

Table 2.6 of the BEA's Personal Income and Outlays accounts also reveals that overall personal current transfer receipts rose from $4.2 trillion at a seasonally adjusted annual rate in February 2021 to $8.2 trillion in March 2021, before declining to $4.8 trillion in April 2021 and averaging $4.1 trillion for the remainder of the calendar year, consistent with a large fiscal shock frontloaded in March 2021.

Data compiled by the Committee for a Responsible Federal Budget indicates that at least 70% of the funds committed in the American Rescue Plan were disbursed by the end of the 2021 calendar year. This is consistent with the official Congressional Budget Office estimate of the budgetary effects of the American Rescue Plan, which projected that more than 60% of the budgetary cost would be incurred in fiscal year 2021 (ending September 30, 2021) and more than 70% in calendar year 2021. Therefore, my statement that most of the funds were disbursed in 2021 was entirely accurate.

Moreover, even funds authorized by the American Rescue Plan but not yet disbursed in March 2021 would have had a stimulative effect on personal consumption expenditures in March 2021 as rational, forward-looking households looked ahead to forthcoming transfer payments newly authorized by that legislation. For example, for married couples earning up to $150,000, from July 15th, 2021 through December 31st, 2021 the American Rescue Plan increased the Child Tax Credit from $2,000 per child to $3,000 per child for children over the age of six and from $2,000 to $3,600 for children under the age of six, and raised the eligible age limit from 16 to 17. There is a large empirical economic literature on the anticipation effects of increased government spending. Anticipatory consumption effects of pending transfers under the American Rescue Plan would therefore have further amplified the direct demand effects of ARP funds actually disbursed in March 2021.

In my written testimony, I also explicitly acknowledged that the American Rescue Plan was particularly ill-timed in that it "immediately followed $900 billion in additional pandemic-related spending already introduced under the Consolidated Appropriations Act, 2021." Therefore, I was not selectively criticizing particular spending programs or pandemic relief packages, but rather placing the American Rescue Plan in appropriate context.

2. **In the hearing, Chairman Krishnamoorthi stated: "…to say that increasing wages is the cause of inflation when they could have reduced profits to allow for lower prices is also disingenuous." Dr. Goodspeed, what is your reaction?**

I am not aware that I or any of the other witnesses suggested that wages were the cause of the inflation we have observed over the past two years. The central thesis of my testimony was that the proximate cause of the high inflation observed since early 2021 was an excess of demand over supply that was severely exacerbated by excessive fiscal stimulus. This demand-driven surge in inflation in turn contributed to a sharp rise in inflation expectations that has persisted into 2022. I also explicitly noted that nominal wage growth has generally failed to keep pace with inflation over the past two years, with the result that real wages have declined.

Relative changes in the Producer Price Index (PPI) versus the Consumer Price Index (CPI) since 2020 are generally inconsistent with the view that high inflation in the past two years is primarily attributable to abnormal profit-seeking by firms. In 2021, whereas consumer price inflation rose 7.0% in the 12 months through December, producer price inflation rose 10.0%. In the first nine months of 2022, producer price inflation continued to outstrip consumer price inflation, rising 9.0% at an annualized rate, compared to 8.7% for the CPI.

Similarly, increases in unit labor costs in 2021-22 are generally inconsistent with the view that high inflation has been primarily attributable to excess profit-seeking. Unit labor costs have risen 10.1% since 2020:Q4, and are up at an annualized pace of 11.4% as of 2022:Q2, which indicates that growth in the average cost of labor has generally been outpacing labor productivity growth over the past two years.

3. In the hearing, Rep. Katie Porter (D-CA) stated: "…I want to be clear with my colleagues on the other side of the aisle on the American people. It's not bad for corporations to be profitable in a market economy, but it is bad for markets to be anticompetitive. That anticompetitive nature of the market is what is permitting markups that are soaring upward, what's permitting corporate profits to drive inflation rather than unit cost and labor. That's what's permitting the price gouging…" Dr. Goodspeed, are anticompetitive markets causing price gouging? What is causing high prices for consumers?

As noted in my testimony, anticompetitive markets cannot explain the large increase in the rate of inflation in the United States in 2021 and 2022 because anticompetitive markets cannot explain the following:

1) Why core inflation rose by so much more in the United States in 2021 than in other major advanced economies, such as the Euro area.

2) Why inflation rose substantially and persistently in 2021 and 2022, but not in the four preceding decades.

3) Why inflation rose broadly across expenditure categories in 2021 and 2022, rather than specifically just in more concentrated sectors.

4) Why we observed a persistent increase in inflation (the rate of change in the price level) in 2021 and 2022, rather than just a one-off increase in the price level.

Concerning (1), in response to my testimony it was noted during the hearing that a June 2022 Pew Research Center analysis suggested that the United States had comparatively lower inflation among OECD economies from 2020:Q1 to 2022:Q1. This is misleading for three reasons. First, the cited analysis indicates that the increase in inflation in the United States during that period was roughly in line with or slightly above the median OECD country, not lower, with the absolute level of U.S. inflation in 2022:Q1 of 8.0% being the 13th-highest rate among the broader set of 44 countries examined.

Second, the cited analysis appears to examine overall inflation, rather than core inflation, which excludes volatile food and energy components. Other large advanced economies, particularly in Europe, were more adversely impacted by the exogenous effect of the Russian Federation's invasion of Ukraine in 2022:Q1 on energy prices.

Third, the choice of base (2020:Q1) and end (2022:Q1) periods in the Pew analysis complicates any apples-to-apples comparison across countries, as other major advanced economies entered pandemic lockdowns and recession earlier than the United States in 2020, and were more adversely impacted by the energy-price shock of the Russian Federation's invasion of Ukraine in 2022.

For these reasons, in my testimony I compared a consistent, harmonized index of core consumer price inflation in the United States and Euro area over multiple decades, and compared the change in average inflation in the United States versus other major advanced economies from the final full year before the pandemic (2019) to the first full year with widespread availability of effective COVID vaccines (2021).

Moreover, evidence from the oil-price shock of the 1970s indicates that, consistent with economic theory, the price response of firms in more concentrated industries to a cost increase was smaller than that of firms in more competitive industries. Relatedly, more recent empirical research finds that market power decreases during periods of rising commodity prices.

Rather than anticompetitive markets, the primary cause of high inflation in the United States in 2021 and 2022 was an excess of demand over supply that was exacerbated by policy mistakes that both overstimulated demand and, at the margin, further impaired supply-side challenges as the U.S. and global economies emerged from the pandemic in 2021. As a result, inflation expectations rose substantially throughout 2021 and early 2022, with median one-year ahead inflation expectations already at 6% on the eve of the invasion of Ukraine, thereby adding to the inertia of underlying inflationary pressure. An historically strong U.S. dollar in 2022 has in fact mitigated overall inflation in the United States, while exporting higher inflation to the rest of the world.