POWER AND PROFITEERING: HOW CERTAIN INDUSTRIES HIKED PRICES, FLEECED CONSUMERS, AND DROVE INFLATION

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POWER AND PROFITEERING: HOW CERTAIN INDUSTRIES HIKED PRICES, FLEECED CONSUMERS, AND DROVE INFLATION

Thursday, September 22, 2022

HOUSE OF REPRESENTATIVES,
COMMITTEE ON OVERSIGHT AND REFORM,
SUBCOMMITTEE ON ECONOMIC AND CONSUMER POLICY,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:08 a.m., in room 2154, Rayburn House Office Building, and via Zoom; Hon. Raja Krishnamoorthi (chairman of the subcommittee) presiding.

Present: Representatives Krishnamoorthi, Porter, Bush, DeSaulnier, Brown, Cloud, Keller, Clyde, and Donalds.

Mr. KRISHNAMOORTHI. The committee will come to order.

Without objection, the chair is authorized to declare a recess of the committee at any time.

I welcome everyone to today's hearing, which explores the important topic of excess corporate price hikes and their role in helping to drive inflation.

I now recognize myself for an opening statement.

As CBS News reported earlier this year, Selina Flores, a resident of southwest Florida, used to be able to provide her family of four with balanced meals that included meat at most dinners. But when grocery prices nearly doubled, the Flores' diet then transitioned to meat only 2 or 3 days a week.

At the same time the Flores family was struggling to keep up with record meat prices, America's four largest meat processing companies saw their profits surge 134 percent from nearly $4 billion in 2019 to nearly $9 billion in 2021.

In the first half of 2022 alone, their combined profits totaled $2.5 billion, almost a 100 percent increase over the first half of 2019.

Ms. Flores' story and the stories of others like her who are struggling to feed their families, afford insulin, or purchase gas is why we are here.

Since early 2021, Americans have been suffering from rising prices caused primarily by global supply chain disruptions and changing demand patterns due to the pandemic. Even combined with traditional supply and demand factors, however, these elements are insufficient to totally explain why inflation remains elevated.

Some would have you believe the American Rescue Plan is the primary factor driving inflation. Those critics, however, cannot explain how the ARP somehow caused inflation to soar in other countries around the world.

For example, the U.K. is currently experiencing 20 percent more inflation than the United States, but the ARP did not exist there. The EU is collectively experiencing 22 percent more inflation than the United States, but the ARP did not exist in any of the Eurozone countries. And Turkey is experiencing over 900 percent more inflation than the U.S., but the ARP did not exist there either.

Additionally, nonpartisan economists at Moody's Analytics and elsewhere have credited the ARP with preventing another recession that occurred during the Trump years and, instead, created as many as 4 million jobs in 2021.

There are, however, other factors that contribute to inflation that have not received enough attention. One of those factors is extreme price hikes; in other words, companies raising prices far more than required to offset higher costs, even when accounting for shifts in supply and demand, resulting in the highest profit margins we have ever seen in the last 70 years.

Americans outside the Halls of Congress recognize the importance of this issue. In a poll that Navigator Research released in late July, a whopping 80 percent majority of Americans, including many Republicans, viewed corporations raising prices to make record profits as a, quote, "cause of inflation."

Although Democrats in Congress and President Biden have adopted a long-term plan to fight inflation that will reduce prescription drug prices and save the average family $500 per year on energy costs, certain companies instead dramatically hiked up their prices under the smokescreen of inflation.

That is why, under my chairmanship, this subcommittee launched investigations this year into industries that implemented price hikes far in excess of the cost increases, all under the cover of inflation.

In January, we sent letters to meat processing giants. In March, our subcommittee and the Select Subcommittee on COVID jointly sent letters to three of the largest shipping companies in the world. The shipping companies had 2021 profits 200 times greater than in 2019—let me repeat that, 200 times greater than in 2019—but their average operating costs only increased by 18 percent. And across our entire economy, corporate net profit margins continue to hover at historic highs.

We have convened this hearing so that our distinguished panel of experts can help us understand how certain companies are engaged in excessive price hikes, the economics behind these practices, and their harmful effects on American consumers.

We are not here today to vilify corporations. As a former small businessman, I know that American innovation is the backbone of our economy. And many corporate leaders deserve praise for creating jobs and growth.

The Inflation Reduction Act is already drawing huge new investments in American manufacturing, and the CHIPS and Science Act has led to immediate plans for new semiconductor plants.

We are also not here to suggest that excessive price hikes are the sole cause of inflation, but we cannot ignore the reality that American companies today are reporting higher profit margins than ever, while increasing prices more than necessary to cover costs, all at the expense of the American consumer. And we must do everything in our power to shine a light on these practices.

With that, I'd like to recognize my distinguished ranking member, Mr. Cloud, for his opening statement.

Mr. CLOUD. Thank you, Chairman.

First, inflation was because of Putin. Then it wasn't. Then it was transitory. And then it wasn't. Then it was at zero percent just a couple of days before jamming the Inflation Reduction Act through Congress, which actually doesn't reduce inflation, but it does hire 87,000 new IRS agents to go after Americans.

And so after trying to redefine what recession means with an all-too-complicit media willing to carry their water, we find out Sunday in a bizarre interview that the White House is now measuring inflation in inches per month and that Biden seems content with the inflation that Americans are dealing with.

The problem for this administration is that, for all the denials, the American people know that they're not being told the truth.

What this administration doesn't seem to get is that most families across America don't get their economic news from some report or a White House press conference.

They get their economic news when they go to the grocery store to find that ground beef prices have gone up 24 percent and bacon prices have gone up 26 percent, chicken breast prices have gone up 45 percent; or when they fill up at the pump to find out that gas prices have almost doubled in the last two years, in spite of Biden releasing, from our strategic oil reserves, oil in an effort to drive down prices artificially in the lead-up to an election.

Then, when the family arrives at home, they find the cost to power their homes has risen 16 percent in electricity in the last year, 33 percent for gas, and rent's gone up 25 percent since Biden took office.

This is, of course, extremely difficult for the vast majority of Americans, but especially for those in low-income and those on a fixed income whose dollar doesn't make it through the month anymore, those whose life savings isn't worth what it used to be. For them, this is just completely devastating.

The purchasing power for families in America is diminishing. And for all practical purposes, because of inflation, they've lost one month's income a year.

And I'm thankful that we're having a hearing today on inflation. This is certainly better than our last hearing, which was on dog collars. In some ways it's a recognition of what the White House has been denying all along, that inflation in this country is real and having a real impact on the American people.

But I'm concerned that this hearing may be another effort to shift blame from the policies of this administration and the reckless spending of this Congress, which have been the major contributors of inflation we're experiencing, and scapegoat businesses with the blame.

In fact, today's panel of witnesses doesn't include any officials from the Biden administration, a theme we've seen throughout this term in this committee and the full committee.

For the purpose of this hearing, it was stated in the memo to examine how certain industries have used their market power to drive inflation. Nowhere in the memo does it discuss the nearly $4 trillion we have spent since President Biden took office.

The reality is that inflation spiked after the passage of the new, nearly $2 trillion American Rescue Plan Act. Inflation was at 2.6 percent in March 2021 when it was passed. And by May 2021, inflation had nearly doubled to five percent.

Even liberal economists warned the President that the American Rescue Plan would overheat the economy on February 4 before it was passed.

Harvard Professor Larry Summers, a top economic adviser to both President Clinton and President Obama, warned that the almost $2 trillion stimulus plan was three times as large as the projected shortfall. He said, quote, "Policymakers need to ensure that they have plans in place to address the possible and quite serious problem of inflation."

Instead of taking time to analyze the impact that additional government spending might have on inflation, the Biden administration continued to pump money into the economy and inflation has continued to worsen.

On September 13 in 2022, when the August numbers were released showing 8.3 percent inflation, Biden hosted a party to celebrate the passage of a half trillion dollars of additional spending, ironically called the Inflation Reduction Act, which, as we've already mentioned, does not reduce inflation.

And just a few days later, on CBS, President Biden told the American people that inflation was increased by just an inch. And if the White House thinks that this is what is we need to measure inflation by——

[Mr. Cloud holds up ruler.]

Mr. CLOUD [continuing]. I can assure you the American people are thinking that this is what we need to use to measure inflation by.

[Mr. Cloud holds up tape measure.]

Mr. CLOUD. President Biden's flippant attitude toward the American people's suffering has been unacceptable. We are working to conduct real oversight. And the House Republicans on this committee, we've written multiple letters to the Biden administration to request information on the plan to acknowledge and address lower inflation.

Last year, June 2, 2021, we wrote to Brian Deese, the Director of the National Economic Council, requesting information on the administration's plan to combat inflation. We have not received a response.

More recently, on August 24, 2022, we wrote to President Biden requesting a briefing on his response to inflation and received no response. Today we're sending another letter to Brian Deese requesting a briefing on the solution to address the economic crisis.

I hope, for the sake of the American people, the members of this committee, that we can conduct real oversight into the cause of this historic inflation and work to ensure that the American people are better taken care of and get through this crisis.

Thank you very much, and I yield back.

Mr. KRISHNAMOORTHI. Thank you, Mr. Cloud.

I'd now like to introduce our witnesses.

Our first witness is Mr. Mike Konczal, director of macroeconomic analysis at the Roosevelt Institute.

Our second witness is the Honorable Robert Reich, former Secretary of Labor and current Carmel Friesen Professor of Public Policy at the Goldman School of Public Policy at UC Berkeley.

Our third witness is Ms. Rakeen Mabud, Ph.D., chief economist and managing director of policy and research at Groundwork Collaborative.

And, finally, the minority witness is Dr. Tyler Goodspeed, Kleinheinz Fellow at the Hoover Institution.

The witnesses appearing remotely will be unmuted so that we can swear everyone in.

I will now swear in the witnesses. Please raise your right hands.

Do you swear or affirm that the testimony you're about to give is the truth, the whole truth, and nothing but the truth, so help you God?

Let the record show that the witnesses answered in the affirmative. Thank you.

Without objection, each of your written statements will be made part of the record.

With that, Mr. Konczal, you are now recognized to provide your testimony.

STATEMENT OF MIKE KONCZAL, DIRECTOR, MACROECONOMIC ANALYSIS, ROOSEVELT INSTITUTE

Mr. KONCZAL. Chairman Krishnamoorthi, Ranking Member Cloud, and distinguished members of the committee, thank you for inviting me to testify.

My name is Mike Konczal. I'm the director of macroeconomic analysis at the Roosevelt Institute, an economic think tank.

This has been a remarkable recovery for workers. There are now between 2.7 and 3 million more jobs, with unemployment 1.2 percent lower and labor force participation a third of a percent higher than what the CBO projected without the American Rescue Plan. Estimates of labor market dynamism, depressed for decades before the COVID–19 pandemic, have skyrocketed, enabling workers to move up the career ladder and quit their jobs to seek better and more productive ones.

We are also recovering to the pre-COVID macroeconomic trend for consumption, something we never did after the Great Recession, which represented a loss of trillions of dollars. Yet this recovery has also featured higher-than-expected inflation. This has occurred alongside record high corporate profit margins.

The relationship between these two trends has been one of the central debates of this recovery. According to the national accounts, corporate profit margins are at their highest rate since 1950. And since 2020, 40 percent of the increases in prices for nonfinancial corporate businesses is reflected in higher corporate profits, compared to just 22 percent from employee wages. This is in stark contrast to the previous 40 years where these values were 11 percent for corporate profits and 62 percent for wages.

Researchers at the Federal Reserve Bank of New York have found a connection between higher prices and gross profit margins, a connection that's especially high in this recovery. There's also a growing disconnect between the prices paid for input to businesses and the comparatively larger increases in prices of goods that consumers pay, especially for goods like automobiles.

However, without firm-level data, it's difficult to determine the exact relationship between the increases in markups, the difference between revenues and the marginal costs of production, and inflation.

Research I have conducted with my Roosevelt Institute colleague Niko Lusiani was among the first since the pandemic to explore the size and distribution of markups across 3,700 firms with public data operating in the United States in 2021 against 270,000 observations going back to 1955.

We reproduced the analysis of De Loecker, Eeckhout, and Gabriel Unger, who found that markups have increased in a steady and dramatic fashion from 1980 through the 2010's, driven by firms from the top of the markup distribution.

Our paper updated this work through 2021, relying on Compustat, the research standard for publicly traded firm-level data, which pulls and standardizes publicly disclosed data from a variety of sources.

We found that markups and profits skyrocketed in 2021 to their highest recorded level since the 1950's. Further, firms in the U.S. increased their markups and profits in 2021 at the fastest annual pace since 1955.

This was also driven largely by firms at the very top of the distribution. Markups increased the most at the very top.

More importantly, we found that markups from before the pandemic were a strong predictor of the increasing markups during 2021, suggesting that market power had a role in driving inflation.

More specifically, a 10 percent higher level of size-adjusted markups before the pandemic was associated with an increase of markups between 1.6 and 2.7 percent in 2021.

Now, inflation has broadened since these 2021 results. In 2022, inflation is slightly more driven by services, especially housing. Though goods inflation still remains high, it has also not seen any real deflation back to prior prices.

If corporate power allows margins and goods inflation to continue to be this elevated, then there's no real path back to pre-pandemic levels of inflation without severely driving down demand for services, harming our economy.

Now, inflation is a global phenomenon. It's true, even if you look at core inflation, excluding volatile energy and food prices. It's true that it's grown faster in other countries than here toward the end of 2021, even before the invasion of Ukraine by Russia.

But even though inflation's a global phenomenon, corporate profits are just one reason it remains high. But since corporate profit margins have become so unusually high, there is room for reversing them with little economic harm and huge societal benefit, including lower prices in the short term and less inequality and more innovation in the medium term. This is true no matter their origins.

Such high profit margin also means there's room for wages to increase, not necessarily raising prices, an important dynamic in the strong labor market that we have.

We believe the evidence presented by our analysis points to tackling inflation with an all-of-government administrative, regulatory, and legislative approach.

I look forward to taking your questions.

Mr. KRISHNAMOORTHI. Thank you, Mr. Konczal.

Now I recognize Secretary Reich.

You may provide your testimony, sir.

STATEMENT OF ROBERT B. REICH, CARMEL P. FRIESEN PROFESSOR OF PUBLIC POLICY, THE GOLDMAN SCHOOL OF PUBLIC POLICY, UNIVERSITY OF CALIFORNIA, BERKELEY, FORMER U.S. SECRETARY OF LABOR

Mr. REICH. Mr. Chairman, members of the committee, my name is Robert Reich.

Yesterday, Fed policymakers continued their battle against inflation with a third straight supersized rate increase, warning that they will continue to raise borrowing costs. They assume that the underlying economic problem is a tight labor market, causing wages to rise and prices to rise in response. So,interest rates and interest rate increases are necessary to slow wage growth.

With due respect, this assumption is wrong. Recent wage hikes have not kept up with inflation. Most workers' paychecks are shrinking in terms of real purchasing power. Rather than causing inflation, wages are reducing inflationary pressures.

The underlying economic problem, in addition to global problems, is not wage price inflation. It's profit price inflation, that is, corporations raising their prices above increases in their costs, using those cost increases as excuses to raise their prices and profits.

Corporate profits are close to levels not seen in over a half century. Corporations have the power to raise prices, without losing customers, because they face so little competition.

Since the 1980's, two-thirds of all American industries have become more concentrated. Grocery prices are through the roof, for example, largely because just four companies control 85 percent of meat and poultry processing and four giants control 70 percent of grain. One corporation sets the price for most of the Nation's seed corn. Two firms dominate consumer staples. All are raising prices and increasing profits because they can.

Meanwhile, Big Pharma is increasing drug prices like mad. The airline industry has gone from 12 carriers in 1980 to just four today, which are rapidly raising ticket prices. Wall Street has consolidated into five giant banks, raking in record profits of higher spreads. Broadband is dominated by three giant cable companies that are raising their fees. And so on.

With inflation driven by these conglomerates raising prices to increase their profit margins, the major effect of interest rate hikes is just to depress wages and limit jobs. As the economy slows, workers are even less likely to get wage increases that keep up with inflation.

And unemployment is going to rise. The Fed now sees the unemployment rate rising to 4.4 percent next year, up from 3.7 percent now. That would mean the loss of 1.2 million jobs.

I urge Congress and the administration to take direct action against this profit price inflation, rather than rely solely on the Fed to raise interest rates and put the burden of fighting inflation on average working people who are not responsible for it.

First, a windfall profits tax would help, a temporary tax on price increases exceeding the Producer Price Index's costs of producing customer goods. Congress should also direct the Federal Trade Commission to investigate whether price increases reflect added costs or opportunistic price gouging.

Second, bold antitrust enforcement is essential. Even the credible threat of antitrust enforcement can deter corporations from raising prices higher than their costs.

And third, as a backstop, price controls should be considered.

Now, it's true they have many disadvantages in terms of distorting markets. But the current inflation emerging from the pandemic is analogous to the inflation that occurred right after World War II when economists argued for temporary price controls on important goods to buy time to overcome supply bottlenecks and prevent corporate profiteering. They should be considered now for the same reasons.

In sum, the inflation we are now experiencing is not due to wage gains. It is due to increases in corporate profits. And it's excessive profits, not wages, that need to be controlled.

Thank you.

Mr. KRISHNAMOORTHI. Thank you, Secretary Reich. And I appreciate you getting up so early to testify in California. So thank you.

Next, I will recognize Dr. Mabud.

You may provide your testimony.

STATEMENT OF RAKEEN MABUD, PH.D., CHIEF ECONOMIST AND MANAGING DIRECTOR OF POLICY AND RESEARCH, GROUNDWORK COLLABORATIVE

Ms. MABUD. Chairman Krishnamoorthi, Ranking Member Cloud, thank you for inviting me to testify today.

My name is Rakeen Mabud, and I am the chief economist and managing director of policy and research at the Groundwork Collaborative.

My testimony today will focus on three key points.

First, mega-corporations are choosing to keep prices sky high, even as input costs begin to come down.

Second, these price hikes are not falling evenly across the economy. The most marginalized groups are paying the highest price.

Finally, the inflation crisis we're facing today is due to decades of deregulation and privatization, resulting in brittle supply chains that can't handle shifts in our economy without supply shortages and bottlenecks.

While families have struggled to navigate a deadly pandemic and rising costs, corporations saw the highest quarterly profit margins in over 70 years in Q2 2022. And we know why. For over a year now, Groundwork has combed through hundreds of corporate earnings calls to better understand how these mega-corporations are taking advantage of recent crises to make record profits for themselves and their shareholders.

Executives are forthright that these crises have been very good for business. In fact, even as input costs come down, corporate executives are gleefully reporting on how they plan on keeping prices high.

On one recent earnings call, the car repair company AutoZone said it had increased pricing due to inflation and that, quote, "Following periods of higher inflation, our industry has historically not reduced pricing to reflect lower ultimate costs," end quote.

H.B. Fuller, an adhesive manufacturing company, told analysts in June that the company expected "sizable margin expansion" as costs decline because of "extremely sticky" prices and said that the company would "push harder" on price increases.

H.B. Fuller's CEO put it even more bluntly. Quote, "We don't reduce prices on the back end of these increases," end quote. He even went as far to say, quote, "A nice light recession would be perfect for us," end quote, because it would bring raw material costs down even more.

These mega-corporations are acutely aware of how their market power affords them the ability to keep prices high, even as their costs go down.

Procter & Gamble, a massive conglomerate that encompasses major diaper brands such as Luvs and Pampers and detergent brands Tide, Downy, Bounce, and Gain, said in July that they plan to raise prices "across most categories" in the coming months and despite paying shareholders $3.5 billion last quarter.

Executives also told analysts that consumers were responding well to price hikes, noting that they, quote, unquote, "don't deselect" their "daily use" products.

In other words, big companies like Procter & Gamble know that they can take advantage of consumers' basic needs because they make necessities like diapers and laundry supplies. Even if the price of these goods rises, people will continue to buy them. And because of their significant market share, they know consumers don't have a choice except to accept these price increases because there are few, if any, available alternatives.

And these price hikes are hitting the poorest families the hardest because essentials like food and shelter, the major drivers of higher costs right now, take up a bigger proportion of household budgets.

However, the sway that these companies hold over pricing was not inevitable. It is the result of decades of deregulation and privatization and a ruthless pursuit of efficiency and short-term profits that left us vulnerable to profiteering.

These choices hollowed out and nearly eliminated diversity in our supply chains, leaving us without fail-safes to withstand significant shifts in demand without shortages. Without competition to undercut companies that are charging excess prices, those companies with market power are able to raise prices with impunity.

But it's not too late. We have many policy tools at our disposal.

Congress should tax excess and windfall profits to encourage productive investment instead of profiteering.

Congress should also strengthen the laws already on the books to make markets more competitive and prevent collusion and price-fixing.

Congress should pursue a Federal price-gouging standard to protect against excessive price hikes during periods of economic crisis.

And Congress should continue to make the long overdue investments in our supply chain and tackle costs like healthcare and housing that have too long put pressure on family budgets.

Importantly, interest rate hikes, which slow inflation by tamping down demand and making people poorer, will do nothing to address the underlying causes, such as supply shortages, and will do nothing to address profiteering.

Giant corporations' control over our supply chains has supplanted the functioning resilient system we could have built through robust public investment and free and fair competition. Big corporations are getting away with pushing up prices to fatten their profit margins, and families are quite literally paying the price. It's time to rein them in.

Thank you, and I look forward to your questions.

Mr. KRISHNAMOORTHI. Thank you, Dr. Mabud.

Now I'm like to recognize Dr. Goodspeed.

You may provide your testimony.

STATEMENT OF TYLER GOODSPEED, MINORITY WITNESS, KLEINHEINZ FELLOW, HOOVER INSTITUTION

Mr. GOODSPEED. Thank you, Chairman Krishnamoorthi, Ranking Member Cloud, members of the subcommittee.

I am the Kleinheinz Fellow at Stanford University at the Hoover Institution. And from 2017 to 2021, I was senior economist, chief economist for macroeconomic policy, vice chairman, and ultimately acting chairman of the Council of Economic Advisers, in which capacity I advised the U.S. Government on its response to the coronavirus pandemic.

Thank you for the opportunity to speak with you today about a macroeconomic issue of utmost concern to the U.S. economy, namely the fact that inflation in the United States has recently hit levels not observed since 1981. And, indeed, if we look at measures of core or underlying inflation, they suggest that underlying inflationary pressure in the United States today is higher than it was 3, 6, or even 12 months ago.

I submit to you today that the primary cause of the inflation we have observed over the past 18 months cannot be a factor that is global in nature—supply chain disruptions, port closures, corporate profiteering—because the timing and the magnitude of the initial surge in inflation in the United States was so much earlier and greater than that observed in other major economies.

So,of the 46 major economies tracked by the OECD to which the chairman earlier referred, the increase in the average rate of inflation in the United States in 2021 over its pre-pandemic level was greater than in all 45 other countries, with the exceptions of Brazil, Turkey, and the Kingdom of Saudi Arabia, countries which I do not typically think of as paragons of fiscal virtue.

If we look at the Euro area and take a harmonized index of core customer prices, so that we are comparing apples to apples, in the

12 months through February 2021, core inflation in the Euro area was 1.1 percent versus 1.0 percent in the United States.

In the 12 months since February 2021, which takes us right up to the invasion of Ukraine by the Russian Federation, the increase in the rate of inflation in the United States was four times that in the Euro area.

What happened in March 2021? Well, 11 months into an economic expansion we had a deficit-financed fiscal stimulus equal to almost 10 percent of the entire annual output of the U.S. economy. I repeat, a deficit-financed fiscal stimulus equal to 10 percent of the annual output of the entire U.S. economy.

The immediate impact of that was that demand for goods in the United States surged 11 percent month over month. That is a 240 percent annualized rate of growth in demand for goods. That's a lot. That is a lot.

And we poured this demand onto a supply side of the U.S. economy that was still recovering from the pandemic, with 3.7 million Americans still reporting that they didn't look for work in the past month because of the pandemic.

Worse than that, provisions in the American Rescue Plan in March 2021 exacerbated that supply side recovery by raising implicit marginal tax rates on the return to work.

So we have this big increase in demand, a further impairment to the recovery and supply. That gap between supply and demand has to go somewhere. And in 2021, it went into prices.

And one of the lessons of the 1970's is that, once you get a big inflation shock like we saw in 2021, it can quickly become self-sustaining as households and businesses and workers begin to incorporate that inflationary shock into their price expectations.

Now, what we've heard here today is that this is, instead, this four-decade high inflation is, instead, the result not of supply and demand, but of what would appear to be unprecedented corporate profiteering. For that hypothesis to be true, four questions must be answered.

One, why did we only observe this in 2021 and 2022 and not in the decade preceding?

Two, why until the invasion of Ukraine was this only observed to such a level in the United States versus in the Euro area, for example?

Three, why would this cause an increase in the overall price level rather than an increase in relative prices in specific, more concentrated sectors?

Four, why should corporate profiteering in 2021 have resulted in an increase in inflation, the rate of change in prices, rather than a one-off increase in the price level?

I have not heard answers to those four questions here today.

Thank you.

Mr. KRISHNAMOORTHI. Thank you, Dr. Goodspeed.

OK. First of all, let me recognize myself for five minutes of questions. And I'd like to start with Dr. Mabud.

Dr. Mabud, one of the slides that you presented in your work was the contribution of profits versus other costs to the growth of prices.

Are you familiar with that?

Ms. MABUD. Yes.

Mr. KRISHNAMOORTHI. And can you talk to us about the factors that go into why there would be such a huge increase in the contribution of profits to total prices versus the contribution of profits to prices in the preceding decades?

As you can see here, from 1979 to 2019, profits accounted for about 11.4 percent of the growth of unit prices, whereas in just the last one year, it contributes to more than 55 percent.

Can you comment on that?

Ms. MABUD. Yes. Thank you for that question.

You know, every crime requires means, motive, and opportunity, and that's exactly what we're seeing here. Companies, because of endemic concentration in our economy, have long had the means to push up prices or go for market share. They've also long had a profit motive.

But what's changed in this current period is opportunity. The cover of inflation, the cover——

Mr. KRISHNAMOORTHI. What does that mean, cover of inflation?

Ms. MABUD. Yes. When prices go up generally, companies are able to raise prices without the consumers understanding how much of that price increase is coming from factors that are happening in the economy and how much of that price increase is coming from them just gilding the lily.

And at Groundwork Collaborative we've combed through hundreds of earnings calls, and what we see is, in sector after sector, corporation after corporation, CEOs are very forthright that these crises have been really, really good for business.

Mr. KRISHNAMOORTHI. Mr. Konczal, Dr. Goodspeed presents an analysis within his statement. He compares 2021 to 2019, but he omits all of 2022. That looks like a rather odd analysis.

Why would someone omit all of 2022 in their analysis of the comparison of an inflation? And how would that affect the analysis?

Mr. KONCZAL. Well, one is that we see inflation, both overall inflation but also core inflation, so excluding the energy and food prices that we know are particularly volatile in the aftermath of geopolitical events this year, inflation in Europe catches up quite a bit and year-over-year inflation starts to level out, which is not necessarily the best metric for looking at inflation right now but it's the metric that's being discussed here.

So while U.S. inflation basically levels out in 2022 at a very high and elevated rate, other countries catch up to us.

The other thing about looking at just 2021 is that we had a really robust recovery. Our GDP growth is far above peer nations. The upgrade to our estimates for GDP by such places as the IMF were much higher. We had a much faster, stronger, and robust recovery than peer nations.

So,it does not surprise me that it took a while for their supply chains and their ability to address complicated global problems didn't really catch up, because they had not yet recovered to the extent we have.

Mr. KRISHNAMOORTHI. So, Dr. Goodspeed, in your statement you say, "the magnitude of the increase in the rate of inflation in 2021 was so much greater in the United States . . . and coincided precisely with an unprecedented demand shock in March 2021."

Now, sir, I should just point out to you a couple things. One, are you contending that the ARP stimulus package of $1.9 trillion was all spent in March 2021?

Mr. GOODSPEED. I am contending that it was spent largely throughout 2021.

Mr. KRISHNAMOORTHI. But was it spent in March 2021?

Mr. GOODSPEED. The vast majority of the checks went out in March 2021.

Mr. KRISHNAMOORTHI. That's incorrect. By April 19, 2021, only $485 billion of the $1.9 trillion had been spent.

Mr. GOODSPEED. The checks——

Mr. KRISHNAMOORTHI. Instead, instead, by April 19, $686 billion of the Consolidated Appropriations Act had been spent, $50 billion of the PPP program had been spent by April 19, 2021, and $10 billion of Families First Coronavirus Act was spent in 2021.

However, you didn't mention any of those other potential recovery programs. And it that appears that you cherry-picked one program which only comprised a minority of the spending by March 2021 in your analysis. So,that undermines the integrity of your entire analysis.

Dr. Mabud, let me just point out a couple of the quotations from AutoZone, as well as H.B. Fuller, that you had presented to us. They're very disturbing.

You said, "Following periods of higher inflation, our industry has historically not reduced pricing to reflect lower ultimate costs."

What does that mean?

Ms. MABUD. It means that, even as prices, input prices, start to come down, they're keeping prices high because they know that they can.

Mr. KRISHNAMOORTHI. Why?

Ms. MABUD. Because it's really, really good for business. They're making record profits and issuing massive stock buybacks to enrich their shareholders.

Mr. KRISHNAMOORTHI. Thank you.

I'll now recognize Mr. Cloud for his questions.

Mr. CLOUD. Thank you, Chairman.

First of all, would you like to finish what you were saying before the chairman cut you off?

Mr. GOODSPEED. Sure. I would just like to specify that the economic impact payments were disbursed quickly in March and April 2021, and that is the direct stimulus to personal consumption expenditure on goods.

Mr. CLOUD. OK. One of the major drivers right now is the cost of energy, and that's U.S. energy policy affecting international markets as well.

Could you speak to the connection of that and how that affects the economy?

Mr. GOODSPEED. Certainly. I mean, energy passes through to prices throughout the economy. And in 2021, we did see a large global shock to energy and that was—there was another leg up in early 2021 with the Russian Federation invasion of Ukraine. That disproportionately affected Europe, and that is why we have seen convergence in inflation rates in 2022 between Europe and the United States.

Mr. CLOUD. Now, it seems to me that the supposition being made is that a company makes a profit and that the solution is—I think it was all-of-government approach, higher regulations, higher business.

Does that actually help these major corporations, or does that hurt these major corporations when there's a regulatory burden put on, in contrast to other companies trying to enter the market?

Mr. GOODSPEED. Generally speaking, an increased regulatory burden is going to raise barriers to entry and is also going to raise the break-even rate of return on an investment project in order for that to be viable.

Mr. CLOUD. As a matter of fact, what we see up here in Washington, DC, is, OK, there's a consolidation going on among corporations. The corporations are actually usually the ones writing the regulations, giving them to the government, getting them passed through Congress, because they give them a competitive advantage over smaller companies trying to enter the market that would provide competition and to help drive down prices. Is that——

Mr. GOODSPEED. That observation would be consistent with an observation going back all the way to Adam Smith.

Mr. CLOUD. OK. That's kind of what I was thinking.

You mentioned in your testimony the two major drivers of the economy: major government spending, supply chain disruption. Could you speak a little more to that?

Mr. GOODSPEED. Well, I think that a simple analysis in 2020 would have helped one to predict inflation quite accurately, which would be to simply add up the productive potential of the U.S. economy, the supply side components.

What is the potential output? And then what is the expected increase in nominal demand, given a fiscal stimulus of the magnitude we observed in 2021? What is the difference between that increase in nominal demand and the potential output of the United States economy? That difference is going to go into the price level.

Mr. CLOUD. Roger.

Increased prices for shelter, food, and medical care were the largest and most relevant factors contributing to the higher CPI in August. Do you think we'll continue to see those indexes rise under the Biden administration's economic policies?

Mr. GOODSPEED. I do. Those tend to be what we call the more inertial components of inflation, a lot of these services, particularly shelter, rent, and owner-equivalent rent.

And rent right now, the cost of shelter, has risen thus far this year at an annualized rate of 6.6 percent. It rose at an annualized rate in August of 8.6 percent.

And insofar as one thinks that the inflation we're observing is a consequence of collusion or corporate power, then evidently 80 million homeowners are somehow colluding to increase the implicit rent that they pay to themselves.

Mr. CLOUD. Right. Now, historically, recession's been defined as two consecutive quarters of negative GDP growth.

Have we had that?

Mr. GOODSPEED. We have had two consecutive quarters of negative GDP growth, yes.

Mr. CLOUD. OK. So, are we in a recession? Or why is the White House denying we're in a recession?

Mr. GOODSPEED. Well, typically we think of three "D's" when it comes to defining a recession: depth, duration, and diffusion.

So, we have the duration with two quarters.

We have depth. If you look at the depth of the contraction in output in the first quarter, first half of this year, it was deeper than the recession in the early 2000's. It was deeper than the recession in 1969 and 1970. It was deeper than the recession in the early 1960's.

And when you look at diffusion, we had a decline in inventory investment. We had a decline in business investment. We had a decline in nonresidential investment. We had a decline in consumer spending on goods. The only thing that was positive was customer spending on services.

Mr. CLOUD. Now, one of the major things when I talk to every single industry throughout my district, every single business owner, the biggest issue that they're facing is the employment market. They can't find people to fill positions. And it's making it difficult for them to thrive and to grow their companies right now.

Now, just a couple years ago we had the same issue, but it was for very different reasons. We had a thriving economy. Wages across every demographic were growing. It was amazing to see what was happening really in our economy.

Could you speak to the labor issues and how they're connected to what's going on, how our policies are driving the labor crisis?

Mr. GOODSPEED. Yes. I think when you have good, sound tax and regulatory policy you see an economy such as we observed in 2018–2019, wherein three-quarters of the flows into employment were people coming in from out of the labor force. We had positive real wage growth, and we had declining wage, income, and wealth inequality.

Mr. CLOUD. Thank you.

Mr. GOODSPEED. Thank you.

Mr. CLOUD. Yield back.

Mr. KRISHNAMOORTHI. Thank you.

And before I move to Mr. DeSaulnier, I ask unanimous consent to enter into the record this June 14, 2022, Pew Research Center study showing that the U.S. has had lower comparative inflation, core inflation among OECD peers from Q1 2020 to Q1 2022. If we can enter that into the record.

Mr. KRISHNAMOORTHI. Now I'd like to recognize Mr. DeSaulnier for five minutes of questions.

Mr. KRISHNAMOORTHI. I'm sorry. We're going to recognize Congresswoman Brown for five minutes of questions.

Ms. BROWN. Thank you, Chairman Krishnamoorthi and Ranking Member Cloud, for holding this hearing.

This week, JBS, one of the largest meat producers in the world, agreed to pay $20 million to settle a lawsuit with consumers who have accused them of intentionally eliminating competition to inflate the price of their pork products.

And this is not the first settlement of its kind. Meat producers of all kinds have entered into settlements after being accused of price fixing.

And, although these settlements are not an admission of wrongdoing, they do open the conversation of how the concentration of power at the top can trickle down to store shelves across the country.

Dr. Mabud, can you explain how large-scale consolidation within industries can drive up prices for consumers?

Mr. MABUD. Absolutely. I mean, to take beef, for example, four companies in the meatpacking industry, Tyson, Cargill, JBS, and National Beef Packing, control 85 percent of the industry. That means two things.

One, if one of those companies goes down for any reason, the whole supply chain for meat is disrupted, which drives up prices.

It also means that they have an enormous amount of pricing power because of the market share that they hold, and consumers are paying really high prices at the checkout counter as a result.

Ms. BROWN. Thank you very much for that.

Following up on your response, it is important to acknowledge that these price hikes do not land equally across the country. Low-income and marginalized communities, like mine in the 11th congressional District, seem to always be hit the hardest.

So, Doctor, can you talk about how these disenfranchised communities are uniquely affected when our economy is struggling and what we can do here in Congress to reverse this?

Mr. MABUD. Yes. That's a really, really important question.

Low-income families, especially families of color, are disproportionately impacted by higher prices, especially when those higher prices are being driven by essentials, such as food and shelter. Low-income families spend about 75 percent of their income on necessities, such as food, gas, and shelter, more than double the 31 percent for high-income households. So, when these prices go up, it eats up family budgets, and their dollar just doesn't go as far.

To address this, we have to address the rampant corporate profiteering that is endemic in our economy. We've seen examples. I've cited examples in my testimony earlier today. We also must continue to invest in these working families who keep our economy going.

Ms. BROWN. Well, with that, I thank you for that response. And it's clear that we need to have these conversations so that we can fully understand the economic imbalance that affects our working and middle-class families.

So, thank you again, Doctor.

And with that, I yield back. Thank you, Mr. Chairman.

Mr. KRISHNAMOORTHI. Thank you, Congresswoman Brown.

I will use your remaining time.

So, I'm going to ask Dr. Reich this.

Dr. Reich, in Dr. Goodspeed's analysis he claims that $1.9 trillion ARP stimulus package is what caused a spike in inflation in March 2021. However, it was a clear minority of the spending that had happened by April 2021.

Why would you just focus on the ARP as opposed to the Family First Act, the CARES Act, the Consolidated Appropriations Act, which disbursed far more money than what had happened with the ARP by April 2021?

Mr. REICH. Mr. Chairman, there is no reason to focus on the ARP.

I want to add, though, and this is an important consideration, the ARP did a lot of good. It kept Americans afloat. It made sure that a lot of Americans did not fall into poverty at one of the most critical and difficult periods of time we have had in this country over the last century in terms of a public health crisis. It did a lot of good.

And the other thing is that we've seen that, after all of the CARES Act, the ARP, all of the other structures that we put into place, a lot of that is now gone. A lot of American families are now back to where they were before.

Although jobs are plentiful, note that employers are not raising wages as high as inflation. Wages and wage gains continue to trail inflation, which means that most families, particularly low-income families, but even middle-class families, are falling further and further behind.

Mr. KRISHNAMOORTHI. Thank you, Dr. Reich.

Let me just direct a question to Dr. Mabud.

Constellation Brands, Dr. Mabud, said the following: "We continue to think that inflation is going to be a big factor for us next year, and we still intend to take a significant amount of pricing. We'll take as much pricing as we think the consumer can absorb." That's what Constellation Brands said.

What does that mean, "We'll take as much pricing as we think the consumer can absorb"?

Mr. MABUD. It means that they'll keep prices as high as they possibly can to rake in record profits, as long as they don't start losing consumers.

Mr. KRISHNAMOORTHI. Mr. Konczal, I want to go back to the comparative inflation that we saw in other countries versus the United States.

The Pew Research study shows that, again, America is, quote/unquote, "middle of the pack" when it comes to the comparative growth in inflation in 2022 versus 2020.

Axios said the same thing.

What is your comment on that?

Mr. KONCZAL. I'd have to see the specific analysis, but it strikes me as broadly correct and accurate and concluded by many other impartial analysts, such as the IMF.

I would also add that our employment recovery has been significantly better than peers, and our growth recovery has been way better than peers.

So, though we're all dealing with this challenge of inflation, we have a lot of other things going for our country that are very important.

Mr. KRISHNAMOORTHI. Thank you.

I now recognize Mr. Keller for five minutes of questions.

Mr. KELLER. Thank you.

I've just been listening to what's going on here. And I just have a question.

Mr. Goodspeed, I'll just start out with this. I heard that wages had not increased as much as inflation.

How would a person that's running a business know how much inflation is going to be until we see what that is? Wouldn't wages normally be increased after we see what the inflation number is?

Mr. GOODSPEED. Historically, wages have tended to lag inflation, yes.

Mr. KELLER. Yes, because you don't think, oh, my gosh, President Biden is going to go and have an assault on American energy and he's going to do all these things. Oh, my gosh, I better raise my wages before gas prices go up.

I mean, usually the prices increase, and then the answer to that is businesses, taking care of their employees, raise their employees' wages. So, it would be a natural thing for wages to increase after we see what the inflation numbers are.

Mr. GOODSPEED. Yes. Also, wage contracts tend to be negotiated at a lower frequency than a lot of price contracts.

Mr. KELLER. OK. Thank you. Because I hear a lot of things that my colleagues on the other side and some experts, that I don't know whether they ever ran a business or not, have been saying. And one of the things they're saying is, oh, we're less worse than someone else.

In America, that's not good. I don't measure that I'm less worse than some other country's economy. We want to be the best. I don't want to settle for second for anybody in America. And I think it's really sad that we have people that try to say, oh, we're not so bad off because we're less worse.

And my favorite President, the first President for which I could vote, Ronald Reagan, said: "Government's view of the economy could be summed up in a few short phrases. If it moves, tax it. If it keeps moving, regulate it. And if it stops moving, subsidize it."

You know, I've heard mention of all these corporations, and some of them were from Dr. Mabud, AutoZone, Proctor & Gamble, General Motors, and Ford. I hear all these corporations mentioned in the testimony. And the title of our hearing is, "Power and Profiteering: How Certain Industries Hiked Prices, Fleeced Consumers, and Drove Inflation."

So I don't know. It's these companies who have shareholders, right, that have to be profitable. I mean, I don't know when in America it became a bad thing to be profitable. I mean, that's not the America I grew up in.

But let's talk about who owns these companies. And I would like to submit for the record, with unanimous consent, to submit for the record two reports, one from CalPERS, which is California's retirement system, and one from the Pennsylvania State Employees' Retirement System. I'd like to submit these for the record, if I may.

Mr. KRISHNAMOORTHI. Sure.

Mr. KELLER. It proves that our teachers, our highway workers, our police officers, our firefighters are the people that own these companies right there. That's who it is. And the company has a fiduciary responsibility, which means they're supposed to look out for their shareholders. And if companies aren't profitable, then we don't have retirement plans for all these people. So, where are we going to get that money?

I think we probably—Mr. Goodspeed, if CalPERS can't afford—doesn't have enough income on their retirement system, they would probably have to raise taxes or something to make those retirement payments, wouldn't they?

Mr. GOODSPEED. Yes.

Mr. KELLER. OK. And then who would pay for these taxes?

Mr. GOODSPEED. The American tax base.

Mr. KELLER. Yes. Yes. Exactly.

So, I don't know why we're having a hearing demonizing—of course, that's the thing to do now, demonize Americans. President Biden did it in front of Independence Hall and said half of us are terrible people. And now we're having a hearing saying that our factory workers and our highway workers and our police officers are bad people because they own stocks in these corporations to pay for their retirement. And all of a sudden this is a bad thing.

You know what? Everybody talks about poor people. I grew up poor. It's not fun OK? It is not fun. We lived in a shack for a period of time with no running water, no electricity.

And in 1973, that summer, we moved into a tent. We walked the highways picking up aluminum cans and soda bottles in southern Arizona. It's not fun, but we did it.

And you know what? My dad could have taught us to be envious. He never did. You respected the fact that in America, if you worked hard, you could own things and you could do well and you could succeed.

That's what all the people that own these retirement plans want to do, and they want to have a better future for their kids. They don't want to be taxed to death. They don't want to be regulated to death.

American people care and have done more for humanity than anybody around the world. And I think it is pretty pathetic that Members of Congress are demonizing the American people because they own shares in these companies and because they're reacting to the policies of their government on energy, on supply chain, and all the other things taking their dollars.

So, I just say that I think we need to realize who really pays the bills around here. It's the people who get up to work every day. I've done it, and I think some people in this room have not. And if they did, they'd have a lot more respect for the person that works every day and owns these funds.

I yield back.

Mr. CLOUD. Mr. Chairman, I ask unanimous consent to submit this letter for the record to Director Neese, Director of the National Economic Council, again requesting information from the Biden administration's plans to address the ongoing economic crisis.

Mr. KRISHNAMOORTHI. So entered.

Mr. KRISHNAMOORTHI. And now, as I recognize Congresswoman Porter for her questions, I'll just point out, in the first year of Ronald Reagan's Presidency, inflation was 10.32 percent. I don't blame him for it, but it was 10.32 percent.

Mr. KELLER. We were coming out of Jimmy Carter's disaster.

Mr. KRISHNAMOORTHI. Congresswoman Katie Porter, please begin your questions.

Ms. PORTER. Good morning.

Mr. Konczal, you published a paper, "Profits, Prices, and Power: An Analysis of 2021 Firm-Level Markups."

This is a chart from your paper. This chart is about markups. What is a markup?

Mr. KONCZAL. A markup is the increase in sales over the price of production, the marginal cost of production.

Ms. PORTER. Over the price of production?

Mr. KONCZAL. Yes.

Ms. PORTER. So, let's break down for people what this means. If it costs $10 to make the item, the product, and you sell it for $12, you have a $2 markup, right?

Mr. KONCZAL. Correct. A 20 percent markup.

Ms. PORTER. So, this is showing that markups have gone up beginning about 40 years ago. But what is this top gun kind of trajectory that's basically vertical here? What is this?

Mr. KONCZAL. That is the level of markups in aggregate across the publicly traded companies starting in 2020, particularly in 2021, the highest increase—highest one-year increase on record.

Ms. PORTER. So, this is after they pay their expenses, after they deal with supply chain, after they pay their labor. This is what the corporation is adding to the cost of the product in order to pad its bottom line.

Mr. KONCZAL. Absolutely. That is after the cost of goods sold, which they record as part of their accounting.

Ms. PORTER. So, this chart shows that corporations are adding to the cost to boost their profits beyond their costs?

Mr. KONCZAL. Correct.

Ms. PORTER. Mr. Konczal, did you also see in this period a rise in corporate profit margins?

Mr. KONCZAL. Yes. Undoubtedly, that is at the highest level since the 1950's.

Ms. PORTER. OK. So, I want to show another one, another chart.

All right. So, this is a really important point when we talk about inflation, what consumers are experiencing. Prices are not going up just because of supply chain or labor or some other invisible market forces. They are going up because powerful executives are making deliberate choices to maximize their profits at the expense of the rest of us.

According to this chart, what is the biggest driver of inflation during the pandemic? The blue is the—the dark blue is the recent period.

Mr. KONCZAL. It would be corporate profits.

Ms. PORTER. And what is that percentage?

Mr. KONCZAL. It is 54 percent. And that number does stay that level of high if you update that number to more recent numbers as well.

Ms. PORTER. So, over half of the increased prices people are paying are coming from increases in corporate profits.

Mr. KONCZAL. Yes. The unit price index is reflected in corporate profits as opposed to other costs.

Ms. PORTER. And how does that compare historically to other periods of inflation or over other periods of economic time?

Mr. KONCZAL. As reflected there and in other analysis, it is significantly higher in this recovery, 11.5 percent.

Ms. PORTER. And what is it today?

Mr. KONCZAL. Fifty-three percent.

Ms. PORTER. So, I want to make sure everyone in America understands this chart.

What is a unit labor cost?

Mr. KONCZAL. Wages and associated worker costs.

Ms. PORTER. So, we can adjust wages.

What is a nonlabor input cost?

Mr. KONCZAL. A variety of things, including maintenance and investments.

Ms. PORTER. OK. So, I have to buy the stuff to make the widget. I have to have a factory. I have to keep the lights on. I have to hire someone to make the widget. That's this stuff.

Mr. KONCZAL. Uh-huh.

Ms. PORTER. And this is what I add on——

Mr. KONCZAL. Yes.

Ms. PORTER [continuing]. On top.

Mr. KONCZAL. Yes.

Ms. PORTER. So, your research shows that, in some industries, this 50 percent, this more than half of inflation driven by corporate profits, was driven by some industries that increased significantly their prices during the pandemic, but other industries didn't.

When you analyze the different industries, one of the things you found that I thought was really interesting was that the companies that have the highest profits, that are driving those markups straight up, are the same companies that had the highest profits before the pandemic.

Why?

Mr. KONCZAL. We believe those high markups from before the pandemic reflected a severe market power problem that we had even before COVID, and those companies were able to increase their prices at an even higher pace as a result of the reopening.

Ms. PORTER. So, I want to be clear with my colleagues on the other side of the aisle and 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.

And that, that anticompetitive nature of the market, is what's permitting markups that are soaring upward, what's permitting corporate profits to drive inflation rather than unit costs and labor. That's what's permitting the price gouging.

So, we need to pass my Competitive Prices Act to give consumers the tools they need to create a competitive marketplace and to hold corporations accountable when they abuse market power to gouge Americans.

I yield back.

Mr. KRISHNAMOORTHI. Thank you, Congresswoman.

Now I'd like to recognize Mr. Clyde for five minutes of questions.

Mr. CLYDE. Thank you, Chairman.

And I was elated to hear that our subcommittee, the Subcommittee on Economic and Consumer Policy, was actually holding a hearing on inflation. Thank you.

Today is September the 22nd, meaning that, after nearly nine full months, this is only the second hearing that we have had this calendar year. So, I am very glad that Democrats are actually holding a hearing on a relevant topic. Let's not forget that the only other hearing that this subcommittee has had was on pet flea and tick collars.

This year, the United States has experienced the highest inflation in decades, and it is deeply troubling to me that Democrats on this committee seem to have decided to turn a blind eye to the painful price hikes their policies have inflicted on the American people.

Now Democrats are desperately trying to deflect the blame, largely toward capitalism and so-called corporate greed, rather than admitting that their runaway spending and big government socialist agenda has caused and continues to fuel the inflation crisis.

Last week, the CPI report revealed that, during the month of August, inflation hit a whopping 8.3 percent, exceeding all expectations. The average price of gas is still 25 percent higher than last year, and groceries have surged almost 14 percent.

Groceries, the price of groceries continues to rise, hitting the lowest-income Americans the hardest. Eggs are up nearly 40 percent compared to August 2021. Milk is up 17 percent, chicken is up 17 percent, and bread is up over 16 percent.

Now Americans are struggling to buy groceries and to afford gas, and it simply did not have to be like this.

Mr. Reich, I believe you served in the Clinton Administration. Is that correct?

Mr. REICH. That's correct, Congressman.

Mr. CLYDE. All right. I believe Mr. Larry Summers, who served as the 71st United States Treasury Secretary, also served in the Clinton Administration. Is that correct?

Mr. REICH. Yes. I was there. We overlapped, same time.

Mr. CLYDE. OK. Great.

Do you think he is a qualified and knowledgeable individual?

Mr. REICH. I do. He's a friend, and I respect him.

Mr. CLYDE. Thank you.

Well, Harvard professor Mr. Larry Summers was a top economic adviser to both President Clinton and President Obama, and I think that's pretty impressive. And, yet the Biden administration seems to have refused to heed economists' warnings of growing inflation.

On February 4, 2021, Professor Summers, who, again, served in both the Clinton and the Obama Administrations, warned that President Biden's almost 2 trillion, quote, "stimulus plan," known as the American Rescue Plan, was three times as large as the output shortfall and that, quote, "Policymakers need to ensure that they have plans in place to address the possible and quite serious problem of inflation."

And I want to point out that I voted against this disastrous piece of Democrat legislation last year.

Yet again, on May the 18th of this year, Mr. Summers reiterated his concern, but the concern apparently, again, fell on deaf ears. He said that Democrat policymakers are—and I quote—"taking very substantial risks on the inflation side."

Given that even top Democrat economic advisers, economists, like Mr. Summers, warned of this inflation because of the left's policies, it seems hypocritical that now Democrats are blaming companies for rising prices.

Dr. Mabud, I would like to ask you a pretty simple question. A "yes" or "no" will suffice.

Are the Biden administration and congressional Democrats to blame at all for the crippling inflation burdening hardworking American families?

Mr. MABUD. The critical investments the administration and Congress made over the course of the pandemic is the reason that we're in the middle of a jobful recovery rather than a jobless recovery.

Mr. CLYDE. I didn't ask you about that. I asked you about inflation. Could you please answer the question?

Mr. MABUD. It's really important to address the fact that working people are the people who keep this economy going.

Mr. CLYDE. OK. So, you're not going to answer the question. You're not going to answer whether or not Democrats and the Biden administration are to blame at all for crippling inflation burdening hardworking families.

Mr. MABUD. You know, I'm here today to talk about corporate profiteering, which has been hiking prices for American families.

Mr. CLYDE. OK. All right. So, we're not going to get anywhere here.

Over the weekend, President Biden stated in a "60 Minutes" interview that inflation had hardly risen. Quote, "The inflation rate month-to-month was just—just an inch, hardly at all."

So, Mr. Goodspeed, is inflation just up an inch, hardly at all?

Mr. GOODSPEED. No. You can look at the year-over-year figure, which is 8.3 percent headline. You can look at the core or underlying measures of inflation, median inflation, to which everyone was pointing a year ago saying: This is evidence that we don't have an inflation problem.

In August, that rose at an annualized rate of 9.2 percent.

Mr. CLYDE. So, we have a problem with inflation.

Mr. GOODSPEED. Yes.

Mr. CLYDE. Thank you. Do you——

Mr. KRISHNAMOORTHI. Thank you, Mr. Clyde. Your time has expired. And Democrats aren't the ones blaming corporations. Eighty percent of Americans, including many Republicans, are.

I'd like to now recognize Congresswoman Bush.

Mr. CLYDE. I believe it's excess Federal spending there, Mr. Chairman.

Mr. KRISHNAMOORTHI. Congresswoman Bush, you are recognized for questions.

Ms. BUSH. Thank you. And thank you, Chairman Krishnamoorthi, for convening this deeply important and timely hearing.

The unprecedented severity of corporate profiteering and its negative impact on workers, consumers, and our small businesses within communities cannot be overstated.

In my hometown of St. Louis and every corner of this country, rising costs of rent, food, healthcare, transportation, and childcare means more people are working harder than ever, but coming home with less money to show for it.

The gap between depressed wages and increased worker productivity leaves family scrambling to afford basic goods and services, despite producing more profit than ever for these same corporations.

Consumers are forced to rely on banks to extend lines of credit when their paychecks aren't enough, racking up billions in credit card debt, auto loans, student loans, and medical debt.

We have over 40 years of data that proves Reagan-era policies encouraged monopolies and concentrated markets into increasingly fewer hands. When one company controls daily essentials, such as Proctor & Gamble, consumers are forced to accept prices set by one corporation with no competitors.

The price for basic human needs, like toothpaste, detergent, toilet paper, continues to rise well above previous profit margins, with no end in sight.

The power and influence of corporations has increased exponentially while labor union participation has significantly declined. Unionization was responsible for historic gains, such as wage increases, eight-hour days, sick leave, paid time off, child labor laws, and more.

Without strong unions, lawmakers and regulators are the last line of defense for workers in the bitter fight between labor and big business. It's time for us to reconsider the tremendous influence a select few corporations have over our economic and political systems.

Do 150 million Americans have to live paycheck to paycheck so a group of 500 CEOs can get richer? Shouldn't we champion monetary policies that encourage unemployment to rise so that markets can thrive? These questions are equal parts economic, political, and moral, and they deserve our careful consideration.

So, Secretary Reich, it's been nearly a decade since you released the documentary "Inequality for All," in which you sounded the alarm about harmful corporate practices.

How has the relationship between worker productivity and wages changed since then?

Mr. REICH. So, Congresswoman, I wish I could say that there was a dramatic difference in the relationship. But actually we've seen that worker productivity has continued to rise, but wages have continued to stay relatively flat adjusted for inflation.

In fact, what we've seen recently is that, even though inflation continues to rise, those worker wages are relatively—are still relatively flat.

Employers are complaining they can't find workers. Well, there is a way to find the workers: raise pay. They won't do it. They'll raise the prices of their goods, but they're not raising their wages.

Ms. BUSH. So, as a followup, Secretary Reich, given the historical disparities between Black and White unemployment levels, can you estimate how the Federal Reserve's policies will impact Black workers?

Mr. REICH. Yes. Undoubtedly, the Fed's continuing rate increases are not only flirting with a recession, but they are making it harder for workers, particularly Black workers who are disproportionately low-wage, to get income increases, to get wage increases.

And one of my biggest fears is, because Black workers are disproportionately low wage, they are also disproportionately going to be the first fired when we head into an economic slowdown.

This is a problem for Black workers. It's a problem for the working poor. It's a problem for the lower middle class. These are the people who are drafted into the fight against inflation when we rely solely on the Fed and on interest rate hikes to control inflation.

Ms. BUSH. Thank you for your explanation and for being so clear and concise in speaking the truth.

While we are here to discuss corporate accountability, I must also emphasize lawmakers set the rules of engagement. If corporations are acting in bad faith, it is incumbent upon regulators to close legal loopholes before consumers and workers are negatively impacted. It's time to change the rules that implement price gaps, strengthen antitrust laws, increase minimum wage, bolster the power of our unions, and reinvest in people, not profits.

Thank you, and I yield back.

Mr. KRISHNAMOORTHI. Thank you.

I'll use that to ask Dr. Mabud, are we demonizing shareholders, are we demonizing someone else, or are we questioning the judgment of executives when they raise prices far beyond costs?

Mr. MABUD. We live in a system where corporate executives are really beholden to their shareholders, and what we're seeing is that shareholders are demanding higher and higher profits.

This is essentially a story of a financialized economy. When it's really effective for a company to raise prices and that company can offer its shareholders a lot of money, those shareholders go to other sectors in the economy and demand higher prices there, too.

Mr. KRISHNAMOORTHI. OK. Thank you.

Mr. Donalds, you are recognized for five minutes.

Mr. DONALDS. Thank you, Mr. Chairman.

Couple things. Let's level set here for a moment.

We are in a recession. We have had two quarters of negative GDP growth. I don't know in what world we decided we wanted to change the definition that not only government, but financial markets have been using for 80 years now. We've called two negative quarters of GDP growth a recession.

Why are we trying to change language now? Because of the economic policies by Joe Biden and Democrats in Congress that have brought forward a couple of things.

No. 1, an artificial labor shortage coming out of the pandemic. Doctor—I don't want to mispronounce your name since I wasn't here for the opening remarks, Mabud, is that correct?

Dr. MABUD. Mabud

Donalds. My apologies. Dr. Mabud, why was there a labor shortage coming out of the COVID–19 pandemic?

Mr. MABUD. We're actually back to——

Mr. DONALDS. No, no. Dr. Mabud, there was a labor shortage that was coming out of the COVID–19 pandemic. Do you acknowledge that?

Mr. MABUD. I don't think we had a labor shortage. I think we had a shortage of good jobs.

Mr. DONALDS. Mr. Goodspeed, did we have a labor shortage coming out of the COVID–19 pandemic?

Mr. GOODSPEED. Yes. We had 1.5 million early retirements, we had 3.7 million Americans indicating that they didn't look for work for the past month because of the pandemic, and we had an extension of—expansion of the child tax credit and an extension of Federal supplemental unemployment insurance benefits that exacerbated the labor supply shortage

Mr. DONALDS. Dr. Mabud, let's get out of the statistical world. Let's go into real world America.

You buy goods and services like any other American does. I'm quite sure you went to stores where the signs were in the windows about how they were basically paying people to come for an interview, let alone for the job itself.

Do you acknowledge that to be a reality of what was happening?

Mr. MABUD. Yes. I also want to acknowledge that low job quality and low wages are a huge liability in our economy. I mean, last week's recently averted rail strike is an example of this, right? When you don't have workers who can come to work because they literally can't take a routine doctor's appointment, that's not the fault of that worker. That's the fault of the company that is driving down the job market.

Mr. DONALDS. Dr. Mabud, do you acknowledge that, if somebody is giving dollars, if they're given revenue, if they're given cash, and they don't have to exchange their labor for money in order to pay for goods and services, that that lowers the productivity or the desire to actually go get working hours at a company or firm or shop or whatever the case may be?

Mr. MABUD. I believe that people should be treated with dignity at work.

Mr. DONALDS. Oh, I believe everybody should be treated with dignity, but that's not what we're talking about. When it comes to labor shortages, what we're trying to surmise is that, if you go down the pathway of providing dollars to people and they don't have to exchange labor, which is the way our economy functions, for money to pay for their goods and services, do you think that leads to a labor shortage? Yes or no?

Mr. MABUD. Like I said, I believe we are experiencing a shortage of good jobs, not a shortage of labor. And I think it's really critical not to blame working people for higher prices.

Mr. DONALDS. I'm not blaming working people. What I would say is I'm blaming government policy, because if you're given money without having to exchange it with labor, having to take your talents and abilities, and you're getting money as a result, it depends on the industriousness of the individual at that point. I'm not blaming anybody.

If you're giving out free money, shoot, OK, cool. Most people are just going to go ahead and take it. We know this.

But if have you a legitimate economic choice to make at your kitchen table—I can go work 40 hours, or I can go work 20 hours, and our living does not change—people have their own decision to make about what they're going to do.

The point I'm making is that labor shortage, which was created by the, quote/unquote, American Rescue Plan, led to a labor shortage, and that labor shortage has led to price increases because you had people who had the revenue and the disposable cash-flow to buy goods, but not enough goods in circulation to purchase.

Mr. Goodspeed, is that an accurate assessment of what's happened in America since Joe Biden became President of the United States?

Mr. GOODSPEED. Yes, I think that's a fair description.

Mr. DONALDS. So, let's establish a couple things.

Are prices up? Yes, they are. Electricity prices are up. Good prices are up. The only reason why fuel—gasoline prices are down is because the President's been basically buying down the price with releases from the Strategic Petroleum Reserve—which, by the way, that's coming to an end as well. We are in a recession. I think we've covered a lot here.

Look, I understand the majority party's desire to try to put this on corporate America for raising prices. But if you do not have enough workers working, there is not enough goods produced. If there is not enough goods produced but everybody still has money to go buy goods, the price of each unit actually goes up. That's how inflation is always created. More policies of the same is only going to lead us further down the road to perdition, which we are already on.

With that, I yield back

Mr. KRISHNAMOORTHI. Thank you, Mr. Donalds.

Now I'd like to recognize Ranking Member Cloud for a closing.

Mr. CLOUD. Thank you, Chairman.

I appreciate the fact that we've been able to have a robust discussion. Certainly the economy is something that affects so many people. We've discussed that today.

Families are suffering because of the policies of this administration. We've seen energy prices go through the roof. They're causing fertilizer prices to go up. They're causing pesticide prices to go down. That's making our yields be lower while our food prices are going higher. The cost of goods are going up. We have a work force that's not incentivized to return to work, causing the supplies to go down, leading to rising prices.

And the solution that's being presented today is more government intervention, which intervention by the government has only, in the past, worked to create—and, as a matter of fact, in the last couple of years, what we've seen.

You know, just a few years ago, we had an economy that was thriving. Virtually every single demographic, wages were rising, and people were flourishing, families were flourishing.

And now what we have is a massive wage shortage—or employment shortage—and an economy that's struggling to keep going. And the solution of more government intervention being the solution is just not what's going to work.

What that will continue to do is to create the disparity that we see happening now between the rich and the poor. Where we had a thriving middle class that was beginning to grow and that gap diminishing just 2 and 3 years ago, now that gap is extremely growing.

As those who are well connected and people who can come here and have access to help write these regulations toward their favor, create a less competitive environment, that means prices go up, versus what needs to happen in the reverse, where we create a more competitive environment to lead prices to go down.

And so we have a lot of work to do to return our economy to a thriving economy where families can flourish in all demographics. And I appreciate the conversation today. We certainly have to go back to sound fiscal policy.

Thank you. I yield back.

Mr. KRISHNAMOORTHI. Thank you, Mr. Cloud.

Thank you all. Thank you to all the witnesses for coming in today. Thank you to the audience for tuning in. Thank you to Dr. Reich for—I finally see some sunlight coming through that window, so it's starting to get later in the morning there.

I think that this hearing is really not about denying that supply chain disruptions occurred or that there were changing patterns in demand, but rather to acknowledge something that the American people themselves have been saying very strongly, which is that 80 percent of Americans say corporations raising prices to make record profits is a cause of inflation. That's it. Eighty percent of Americans.

We're not talking about just Democrats. We're talking about a large majority of Americans know in their bones something that we are finally acknowledging here in this hearing, which, unfortunately, some of my colleagues on the other side do not want to acknowledge.

What we've heard from the testimony of our witnesses is that we're seeing record profits. But more than that, record profit margins, huge increases in those profit margins year over year, unprecedented level of market concentration, and corporations even stating that they are increasing prices and don't intend to let them fall even as their costs fall.

So that is a problem. And when we see corporations—and not all corporations, but certain corporations—do this, especially in the meat-processing industry, which we've talked about, which affects average, ordinary people every day, where they saw their profits surge 134 percent from nearly $4 billion in 2019 to nearly $9 billion in 2021, it has real effects. People cannot eat meat. People cannot do the things that they would ordinarily do to feed their families. And that, unfortunately, has repeated itself in other industries as well.

Now, some of my colleagues on the other side say that Democrats are blaming corporations or Democrats are blaming shareholders. No. What we're saying is that corporations raising profits excessively is a cause of inflation. It may not be necessarily illegal, but it's probably, in some cases, unethical. And to say that increasing wages is the cause of inflation when they could have reduced profits to allow for lower prices is also disingenuous

Now, Dr. Goodspeed presents an analysis whose integrity has been undermined. He says that the ARP is what caused the sudden rise in inflation because of a, quote/unquote, "unprecedented demand shock in March 2021."

But when he was asked does he believe that $1.9 trillion went out in April—sorry, March 2021—he says the majority did, when actually a small sliver of that $1.9 trillion went out in March 2021.

That is a problem with his analysis, and it has not been rebutted even once during this hearing.

And so I just want to say thank you for everyone's participation. Thank you for your interest in this very important topic.

And in closing, I express my gratitude again——

Mr. CLOUD. Mr. Chairman?

Mr. KRISHNAMOORTHI [continuing]. For the witnesses who testified——

Mr. CLOUD. Mr. Chairman, if you're going to challenge someone's integrity in your closing statement, you should give him a chance to respond.

Mr. KRISHNAMOORTHI. That was up to you guys to ask him the question about his analysis, and you failed to do so.

Mr. CLOUD. You are disparaging a man's integrity——

Mr. KRISHNAMOORTHI. I did not——

Mr. CLOUD [continuing]. In your closing argument——

Mr. KRISHNAMOORTHI. No.

Mr. CLOUD. It's a very cowardly thing to do——

Mr. KRISHNAMOORTHI. No.

Mr. CLOUD [continuing]. Not to give him a chance to respond.

Mr. KRISHNAMOORTHI. I actually criticized the integrity of the analysis, Mr. Cloud.

Mr. CLOUD. You mentioned his integrity.

Mr. KRISHNAMOORTHI. No. I said the integrity of the analysis. And I think that's a very desperate move to try to hold up the analysis in the last seconds of this hearing.

All members will have five legislative days within which to submit additional written questions to the chair for the witnesses, including any of the witnesses present today. These questions will be forwarded to the respective individual for his or her response.

I ask our witnesses to please respond as promptly as you are able.

The hearing is now adjourned.

[Whereupon, at 10:36 a.m., the subcommittee was adjourned.]

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