THE INFLATION EQUATION: CORPORATE PROFITEERING, SUPPLY CHAIN BOTTLENECKS, AND COVID-19

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CONTENTS

THE INFLATION EQUATION: CORPORATE PROFITEERING, SUPPLY CHAIN BOTTLENECKS, AND COVID-19

Tuesday, March 8, 2022

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 10:04 a.m., in room 2128, Rayburn House Office Building, Hon. Maxine Waters [chairwoman of the committee] presiding.

Members present: Representatives Waters, Sherman, Scott, Green, Cleaver, Himes, Foster, Beatty, Vargas, Gottheimer, Gonzalez of Texas, Lawson, San Nicolas, Axne, Casten, Pressley, Torres, Lynch, Adams, Tlaib, Dean, Ocasio-Cortez, Garcia of Illinois, Garcia of Texas, Williams of Georgia, Auchincloss; McHenry, Lucas, Posey, Luetkemeyer, Huizenga, Wagner, Barr, Williams of Texas, Hill, Emmer, Zeldin, Loudermilk, Mooney, Davidson, Budd, Kustoff, Hollingsworth, Gonzalez of Ohio, Rose, Steil, Gooden, Timmons, and Sessions.

Chairwoman WATERS. The Financial Services Committee will come to order.

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

I now recognize myself for 5 minutes to give an opening statement.

Today, we will continue the discussion we began with Federal Reserve Chair Pro Tempore Powell last week about the economy and the causes of inflation and its impact on families across the country. Last Friday, we received another strong Jobs Report which showed that 678,000 jobs were added to the economy in the month of February. The record-setting job creation we saw during the first year of the Biden Administration continues, indeed thanks to the American Rescue Plan, signed into law by President Biden. The U.S. has had a stronger economic recovery than any other advanced economy worldwide. Wages and salaries for workers grew 4.5 percent in 2021, which is the highest pay increase for workers since 1983. Importantly, these wage increases have been most significant for low-income workers.

We are still in the midst of the COVID-19 pandemic and its effects, including higher prices at the grocery store and higher monthly rents that are taking a toll on household budgets. Today, I expect we will hear some of our colleagues attempt to pin inflation on the successful American Rescue Plan, a bill that helped attack this deadly virus and get millions of people vaccinated, supported 6 million small businesses, and helped fuel the economic growth, while resulting in the first reduction of Federal debt seen since the Obama Administration. But this oversimplified narrative has been debunked by experts, including by Chair Pro Tempore Powell, who explained at last week's hearing that supply chain bottlenecks caused by the pandemic are one of the main drivers of inflation, and every American knows, whether they rent or own their home, that housing is also a key driver of inflation.

For too long, we have not addressed the shortfall in our housing supply. And this lack of supply is driving up costs. In 2021, the national median rent for an apartment jumped by almost 18 percent, and home prices rose by almost 17 percent. Additionally, as giant corporations have grown larger in a wide range of sectors across our economy over the last several decades, they have exercised greater power to set prices. Right now, we are seeing big corporations take advantage of economic conditions and a lack of real competition to pass higher prices on to consumers, simply because they can. Moreover, Russia's unprovoked invasion of Ukraine and the related strong response the United States and our allies have taken to defend democracy and support Ukraine have already begun to have ramifications on gas and other prices.

Congress has an important role to play in addressing the complex causes of inflation that is hurting consumers. The Senate can start by confirming President Biden's highly-qualified slate of nominees so that monetary policy decisions are made by public officials who are accountable to us. Congress has already enacted the bipartisan infrastructure bill that will improve the infrastructure we have, including at our nation's ports. They have addressed supply chain challenges, and Congress must finish the work of further bolstering supply chain resilience, supporting domestic manufacturing, reforming the shipping industry, and bringing down housing costs.

The House has passed the Build Back Better Act, which addresses labor and housing supply shortages through significant investments in housing and child care, and also includes investments in supply chain resilience and other sectors. Many economists, including 17 Nobel laureates, have expressed their view that investments have basically been expressed in very significant ways. I look forward to hearing from this panel on how to bring about a robust and stable recovery for all.

I now recognize the ranking member of the committee, the gentleman from North Carolina, Mr. McHenry, for 5 minutes.

Mr. MCHENRY. Thank you, Madam Chairwoman, and thank you for having this hearing. If Democrats are looking to crack the code on the inflation equation, I would suggest a little self-reflection. Today's hearing title shows that Democrats want to blame high prices on everything—corporate greed, broken supply chains, even the COVID-19 virus—but here is where it gets rich. It left out the one thing that economists of all political stripes have pointed to as the leading cause of record price increases: the massive injection of Federal spending that occurred over the past year.

The Biden Administration's American Rescue Plan plowed nearly $2 trillion into an already-strong economy, which caused consumer prices to rise more rapidly than the economy's productive capacity. This is basic economics. Widespread, out-of-control inflation is the natural consequence of dumping unnecessary cash into an economy already well into recovery from pandemic disruptions. And now, my constituents and yours are paying the full price for all of that free money. By the end of last year, the expenses for many working families exceeded their incomes, despite any wage gains. The outlook, at least in the short run, doesn't look any better. Until we have an honest conversation about the root cause of inflation, we are not going to get anywhere.

My colleagues across the aisle want to talk about so-called corporate profiteering, so let's talk about that. Profit is not synonymous with greed. You don't have to take my word for it. Former Democrat Treasury Secretary Larry Summers, and Jason Furman, a top economist in the Obama Administration, have been openly critical of the attempts to blame corporations for inflation.

According to Summers, "Business bashing is terrible economics and not very good politics." I agree. Businesses have certain fixed operational costs, just like we do at home, and things that make the cost of running a business more expensive, like taxes and regulations, get included in the final prices customers have to pay. So as wages remain stagnant, American families are finding it harder and harder to keep up. You hear it around the kitchen table across the country. Housing costs more, food costs more, even baby formula, if you can find it, because we have a national crisis around the shortage of baby food, is more expensive.

So, that leads me to the next so-called cause of inflation my Democrat colleagues talk about, and my friend just talked about: supply chain bottlenecks. Steve Rattner, who served as Counselor to the Treasury Secretary in the Obama Administration noted that, "Blaming inflation on supply lines is like complaining about your sweater keeping you too warm after you have already added several logs to the fireplace. The bulk of our supply problems are the product of an over-stimulated economy, not the cause of it."

In short, Democrats' reckless fiscal agenda fueled a spending spree right at the moment our supply logistics were under the most strain.

Supply issues are a product of excessive demand that happens by default after a huge government cash dump, like the American Rescue Plan. And then, there are the billions of dollars in new regulatory burdens and the ongoing impact of Democrats' mainstream shutdowns during the pandemic.

The House Small Business Committee, with Ranking Member Luetkemeyer, calculated that the Biden Administration has produced 283 new regulatory rules, and is on the way to more, with an estimated cost to businesses of $201 billion. The private sector has been forced to jump through hoops to meet local, State, and Federal regulations in their attempt to solve supply chain issues, thereby raising the cost of doing business and raising the cost of things for the consumer. Meanwhile, the previous Administration's incredible efforts to cut duplicative, overly burdensome regulations and support private-sector endeavors have been scrapped out of political expediency or out of a political agenda.

It is time to stop chasing what feels good politically and do what is right economically. We must restore fiscal discipline and promote policies that support energy independence and long-term economic prosperity. Until we do that, Democrats will keep throwing flimsy excuses at the wall to see what sticks politically, and Americans are, quite frankly, tired of cleaning up the mess.

With that, thank you, Madam Chairwoman, for holding this hearing. Thank you for allowing us to discuss this important subject matter. I yield back.

Chairwoman WATERS. Thank you, Ranking Member McHenry.

I want to welcome today's witnesses: Mr. Demond Drummer, the managing director for equitable economy at PolicyLink; Dr. Rakeen Mabud, the chief economist and managing director of policy and research with the Groundwork Collaborative; Mr. Sandeep Vaheesan, the legal director of the Open Markets Institute; Dr. Mark Zandi, the chief economist at Moody's Analytics; and Mr. Tyler Goodspeed, the Kleinheinz Fellow at the Hoover Institution.

You will each have 5 minutes to summarize your testimony. You should be able to see a timer that will indicate how much time you have left. I would ask you to be mindful of the timer, and quickly wrap up your testimony when your time has expired.

And without objection, your written statements will be made a part of the record.

Mr. Drummer, you are now recognized for 5 minutes to present your oral testimony.

STATEMENT OF DEMOND DRUMMER, MANAGING DIRECTOR, POLICYLINK

Mr. DRUMMER. Thank you, Chairwoman Waters, Ranking Member McHenry, and members of the committee for the opportunity to offer testimony on inflation and its impact on the 100 million economically-insecure Americans. My name is Demond Drummer, and I am a managing director at PolicyLink, a national research and action institute which works to ensure that all people in America participate in a just society, live in a healthy community of opportunity, and prosper in an equitable economy.

I would like to center my discussion of inflation on the nearly 100 million people in America living below 200 percent of the Federal poverty threshold.

The impact of higher prices falls disproportionately on the 100 million who must pay an even greater share of their income to meet their basic needs, but if we look closer, we see that inflation is not the problem. It is being made out to be, especially for that 100 million. The problem is an economy that suppresses wages and siphons wealth away from working people. In the time that remains, I will offer some perspectives on why the way we talk about inflation is simply wrong.

Next, I will discuss how inflation pales in comparison to the broader affordability crisis afflicting the 100 million. I will conclude with policy recommendations that can begin to bring balance to our economy.

So now, about inflation, the way we talk about inflation blames our government for price increases, but it is disingenuous to lay inflation solely or even primarily at the feet of Federal stimulus. There are many more factors at play, including the fragility of global supply chains, et cetera. Yes, our government stimulated demand. That was the point. It was absolutely necessary during the pandemic. The question is, who actually raised the prices? It was the companies choosing to take advantage of the pricing power that comes when buyers demand more goods than the companies have available to sell. These price increases were neither automatic nor inevitable. They were a conscious choice that disproportionately harmed the 100 million people in America living in or near poverty.

To be sure, there are exogenous factors that inform how companies set their price levels. War and weather can inform the price of inputs. However, if we are not clear that it is not government spending directly, but corporate pricing power that drives inflation, then we will always hesitate to make the necessary public investments to build a more sustainable and equitable economy in which the 100 million can truly prosper. This is the work of our time.

An intense program of economic policy designed to suppress wages and siphon wealth is a much bigger threat than inflation. Here are the numbers. Nearly 100 million people live in households with incomes of less than 200 percent of the Federal poverty threshold. That is one-third of the U.S. population. Households below the Federal poverty line spend 18 percent of their income on energy, nearly 10 times the energy burden of higher-income households. While productivity grew by nearly 60 percent over the last 4 decades, a typical worker's pay increased by less than 16 percent. Productivity grew 4 times faster than wages.

In housing, between 2001 and 2020, home production in the U.S. fell short of demand by 5.5 million units. The twin forces of a housing shortage and uneven wage growth have converged to create a national crisis that was only further exacerbated by the economic impact of the pandemic. Before the pandemic, half of all renters in America were paying more than they could afford on housing: half. In 2021, rents increased by at least 10 percent in 149 metropolitan areas. Today, 6 million renter households are currently behind on rent. That is double the pre-pandemic baseline. During the pandemic, meanwhile, the net worth of U.S. billionaires grew by $2.1 trillion, an increase of 70 percent.

The solution we recommend is to enact a bold program of expansionary economic policy that does the following: supports wage growth for the lowest-income workers; expands the labor force; ensures that the benefits of productivity gains are shared equitably; invests in affordable housing infrastructure; supports alternative pathways to homeownership; accelerates adoption of low-cost renewable energy; and promotes the development of high-wage sustainable industries.

This is our moment to enact practical policies and make public investments that will bring balance to our economy and deliver real results for the American people, especially the 100 million who are economically-insecure.

Thank you again for the opportunity to testify before you. It has been an honor.

[The prepared statement of Mr. Drummer can be found on page 74 of the appendix.]

Chairwoman WATERS. Thank you, Mr. Drummer.

Dr. Mabud, you are now recognized for 5 minutes to present your oral testimony.

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

Ms. MABUD. Chairwoman Waters, and Ranking Member McHenry, 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. Groundwork is an economic policy think tank dedicated to advancing a coherent economic worldview that produces broadly-shared prosperity and abundance for all.

My testimony today will focus on three key points. First, corporate profiteering is playing an important role in rising prices. Corporate executives and shareholders are enjoying the highest profit margins in 70 years, and consumers are paying the price.

Second, Wall Street's presence in every corner of our economy suggests a profit-price spiral to significant risk. In contrast, there is no evidence that wages are driving prices up.

Finally, today's price increases are the direct result of the outsized power that megacorporations hold over our supply chains and our economy more broadly.

There are a range of factors driving inflation right now, including increased and shifting demand, as well as supply chain disruptions and the resulting shortages. However, the 70-year record high corporate profit margins demonstrates that mega-corporations are taking advantage of this crisis to pad their profits, accelerating price hikes for consumers.

Groundwork has combed through hundreds of earnings calls to understand why profit margins are at a record high. In these calls, executives tell investors about the last quarter's performance and discuss what investors can expect going forward. Over and over, the message from corporate America is clear: CEOs are telling their investors that the current inflationary environment has created significant opportunities to extract more from consumers by raising prices and pocketing the extra profits.

Take Constellation Brands, the parent company of popular beers, Modelo and Corona. On its earnings call in January, Constellation's CFO said, "As you know, we have a consumer set that skews a bit more Hispanic than some of our competitors. And in times of economic downturn, they tend to get hit a little bit harder and they recover a little bit slower, so we want to make sure we are not leaving any pricing on the table. We want to take as much as we can."

Megacorporations are able to get away with this kind of aggressive and extractive pricing precisely because of the current inflationary environment. As Hostess' CEO said in an earning call this month, "We are also seeing consumers experience a lot of disruptions. They are losing benefits. They are moving to a normalized COVID environment. They haven't fully recognized they were absorbing pricing, and inflation is a helpful cover for these price hikes." The same CEO said, "Pricing by definition is a change model. It's temporary, consumers get used to it. When all prices goes up, it helps."

Wall Street's influence in every corner of our economy makes this period of inflation unique and puts us at risk for a profit-price spiral. As profits rise as a result of price hikes, so, too, does the investor demand for those profits, sending prices spiraling upwards.

Take Walmart and Target, whose executives wanted to pursue a strategy of increasing market share by keeping prices low. As a result, both companies experienced brutal sell-offs. Simply put, investors weren't having it. Having seen how successful price hikes were across the retail industry, they punished anyone who was not pursuing the same strategy. Within 3 months, both companies have raised their prices.

While investor demands for higher profits are sending prices up, there is no evidence that wages are playing a role. A recent analysis by the Economic Policy Institute looks at the relationship between price increases and wage increases across sectors. They find no correlation between these two factors since December 2020. In other words, there is absolutely no evidence to suggest that wage increases for workers are to blame for the price increases we are seeing today.

Corporate America's ruthless pursuit of efficiency has contributed to today's high prices in two important ways. First, it hollowed out and nearly eliminated diversity in our supply chain, leaving us without any failsafes to withstand significant shifts in demand without supply shortages.

Second, it has left us vulnerable to profiteering and price gouging. Without competition to undercut companies who are charging excess prices, or laws and regulations prohibiting this behavior, companies will continue unabated. Congress must do its part to bring down prices by taxing excess profits to encourage productive investment, and to encourage vigorous competition in key product markets and along the supply chain. It is also imperative that Congress makes long-overdue investments in our supply chain infrastructure and in sectors like housing, health care, and child care that have been putting strain on family budgets for decades.

Importantly, interest rate hikes, which slow inflation by tamping down demand and making people poorer, will do nothing to make our markets more competitive, nothing to help spur overdue investments in housing and infrastructure, and nothing to address profiteering. We should no longer delay the important work of reorienting our economy towards the people who keep it going: consumers, workers, and small businesses.

Thank you, and I look forward to your questions.

[The prepared statement of Dr. Mabud can be found on page 94 of the appendix.]

Chairwoman WATERS. Thank you, Dr. Mabud.

Mr. Vaheesan, you are now recognized for 5 minutes to present your oral testimony.

STATEMENT OF SANDEEP VAHEESAN, LEGAL DIRECTOR, OPEN MARKETS INSTITUTE

Mr. VAHEESAN. Thank you, Chairwoman Waters, Ranking Member McHenry, and members of the committee for this opportunity to participate in the hearing. My name is Sandeep Vaheesan. I am the legal director at the Open Markets Institute, an anti-monopoly research and advocacy group that works to build a fair economy.

Ongoing inflation in the United States is, in part, a story of corporate pricing power. In industries ranging from agricultural chemicals and seeds, to mattresses, to rental cars, and to restaurants, CEOs and CFOs have boasted that they've been able to raise prices and boost profit margins. The extraordinary pricing power of corporations in many sectors was not inevitable. It is a result of policy choices, most notably initiated by President Reagan's Administration in the 1980s that effectively reinterpreted and neutered the strong antitrust law that Congress enacted against corporate mergers. As the Supreme Court recognized in 1966, Congress decided to clamp down with vigor on mergers and arrest a trend toward concentration in its incipiency before that trend developed to the point that a market was left in the grip of a few big companies.

The Reagan Administration ignored this policy judgment of Congress and substituted its own pro-merger judgment that granted extraordinary power to executives and investment bankers to roll up markets through consolidation. As two scholars wrote in 1988, the Reagan Administration's policy statements and dearth of anti-merger enforcement served as an invitation to corporate America to merge with anyone. Every subsequent Administration up through President Trump's followed the Reagan Administration's permissive approach to merger enforcement. Indeed, they've often further loosened restrictions on merger activity on the assumption that mergers produce efficiencies and benefit consumers.

Democratic and Republican Administrations permitted consolidation despite the lack of evidence to support the twin assumptions that mergers resulted in efficiency and that powerful corporations willingly shared any of the benefits of efficiency with the public. If anything, the great bulk of evidence pointed in the opposite direction. As business school professor Melissa Schilling wrote, "A considerable body of research concludes that most mergers do not create value for anyone, except perhaps the investment bankers who negotiated the deal."

With the green light for consolidation, corporations have engaged in hundreds of thousands of mergers over the past 4 decades. Lax merger policies produce high levels of concentration in many markets. In such concentrated markets, corporations have more power to raise prices unilaterally and collude with rivals.

For example, in meatpacking, processors appear to have used their individual and collective power to raise beef and chicken prices to consumers. Critically, inflation has given executives cover to exercise pricing power, which at other times might provoke strong reactions from customers and the public. A CFO of a supplier to food companies told The Wall Street Journal, "Widespread inflation makes it easier to broach the topic of raising prices with customers." A permissive posture on mergers has also had deleterious effects on the productive capacity of the United States. Corporations often eliminate, "redundant" capacity following mergers, especially those involving competitors.

Consider the effects of hospital consolidation on health care capacity. In metropolitan areas and counties across the country, hospitals in the past few decades have gone on a merger frenzy, concentrating local health care markets and obtaining extraordinary power over patients and payers. They've also closed hospitals and clinics that they deemed superfluous. Due in part to consolidation, the United States had 1.5 million hospital beds in 1975, but only 900,000 beds in 2017, even though the population of the country had increased by more than 100 million during that time period. As a result, the nation was much less equipped to respond to the pandemic and the surge in Americans needing hospital care.

Further, in many instances, corporations have opted to grow through mergers and acquisitions instead of the more socially-beneficial method of investment and hiring. Two economists captured this cost of lax merger policy, writing, "Billions of dollars are spent on shuffling ownership shares are, and at the same time, billions of dollars are not being spent on productivity-enhancing plant equipment, and research and development." The millions of dollars absorbed in legal fees and investment banking commissions are, at the same time, millions of dollars not being plowed directly into the nation's industrial base. The opportunity costs of merger mania are real, and they bode ill for the reindustrialization of America.

The net result is permissive anti-merger policies, and an economy in which many corporations wield exceptional pricing power and have less slack capacity to meet even modest increases in demand for goods and services. These are not the only political economic harms of corporate consolidation and concentration, which include lower wages for workers, but just the one relevant to today's hearing. The pandemic has merely exposed the underlying structural problems in the American economy.

Thank you for the invitation to testify and participate in today's hearing. I look forward to your questions.

[The prepared statement of Mr. Vaheesan can be found on page 108 of the appendix.]

Chairwoman WATERS. Thank you, Mr. Vaheesan.

Dr. Zandi, you are now recognized for 5 minutes to present your oral testimony.

STATEMENT OF MARK ZANDI, CHIEF ECONOMIST, MOODY'S ANALYTICS

Mr. ZANDI. Thank you, Chairwoman Waters, Ranking Member McHenry, and members of the committee for the opportunity to speak and participate in today's important hearing on inflation. My name is Mark Zandi. I am the chief economist at Moody's Analytics, but the views I express today are my own. I am also on the board of directors of MGIC, one of the nation's largest mortgage insurers, and I am the lead director of the Reinvestment Fund, a national Community Development Financial Institution (CDFI) that makes investments in underserved communities across the country. We are headquartered in Philadelphia. That is my hometown.

I would like to make three points in my oral remarks. Point number one: clearly, Americans are feeling the acute financial pain of higher inflation for the first time in two generations, and they are rightly unhappy. The typical American household makes less than $70,000 a year, but the acceleration and inflation over the past year is costing an additional $3,300 a year to buy the same goods and services than it did a year ago, which is $275 a month in additional cost. Just to put that into some kind of context, the typical household spends about $200 a month on eating out, about $150 a month on their cell phones, and about $100 a month on clothes. Obviously, this is very frustrating, and it is undermining sentiment. Nothing is more disconcerting and debilitating than inflation on consumer business and investor psychology. And this is, I think at this point, a significant threat to the economic recovery. And the fate of the recovery does hinge on whether inflation will moderate meaningfully in the near future.

Point number two: the high inflation, the painfully high inflation has been, in my view, because of a number of causes obviously, but at the top of the list is the pandemic that has badly disrupted global supply chains, particularly the Delta wave of the variant that hit last fall, which was a big surprise after the vaccines that we received in the spring. The pandemic has badly disrupted the labor market and demand-supply dynamics and lots of markets including, most importantly, perhaps, the energy market.

And that gets us to Russia's invasion of Ukraine, which is obviously top of mind here, and it's causing prices, oil prices and other commodity prices to spike, which is exacerbating that already-high inflation. Let me just give you a sense of that. The increase in gasoline prices since the invasion began has added about $50 to the typical gasoline bill per month, so it just gives you a clear sense of how much damage that is.

Now, I do expect the pandemic to fade. What I mean by that is that each new wave of the virus will be less disruptive than the previous one. And I do expect that the severe disruptions to supplies related to Russia and Ukraine will be short-lived, in terms of weeks, not months. And if that is the case, I do expect that inflation will begin to moderate, but clearly there's a lot of risk around that.

And if the pandemic continues to intensify, if the Russian invasion of Ukraine is more disruptive, then I expect oil prices and other commodity prices to stay more elevated for longer and begin to infect inflation expectations. The Federal Reserve has a Hobson's choice, really no good choice: They will have to raise interest rates more aggressively and recession risks will rise very, very quickly. This is still a low-probability scenario, but it's a rising one and increasingly more uncomfortable.

Finally, point number three, is that some blame the high inflation on governments fiscal policies during the pandemic that have shored up the finances of pandemic-stricken households, particularly lower- to middle-income households. I view that as a misdiagnosis of the problem. And they also call for government to stand down, and I think that would be a mistake.

In my view, the policies put forward in the pandemic, beginning with the CARES Act, and continuing through the American Rescue

Plan, were critical to the economic recovery, ensuring that the economy got back as quickly as it did to close to full employment, and we will be there, roughly, by the end of the year, which is quite an achievement. And now that the economy is back to full employment, I think it is very important for lawmakers to focus on how to address the rising cost of living, child care, elder care, health care, and educational services. And I will call out the cost of housing. I think this is a critical element to high inflation going forward. Rent costs are rising very rapidly, and will continue to do so, and lawmakers can help in this regard.

So with that, I will stop and turn it back to you. I do want to thank you again for the opportunity to participate in today's hearing. Thank you.

[The prepared statement of Dr. Zandi can be found on page 117 of the appendix.]

Chairwoman WATERS. Thank you very much, Dr. Zandi.

Mr. Goodspeed, you are now recognized for 5 minutes to present your oral testimony.

STATEMENT OF TYLER GOODSPEED, KLEINHEINZ FELLOW, HOOVER INSTITUTION

Mr. GOODPSEED. Thank you, Chairwoman Waters, Ranking Member McHenry, and members of the committee for the opportunity to testify today on an issue of upmost importance and concern to the U.S. economy and U.S. households.

We have in the past year observed inflation at levels that we simply haven't observed since the end of The Great Inflation of the late 1960s to the early 1980s. And that inflationary pressure is no longer isolated to a few sectors. In fact, if we look at all of the measures of core or underlying inflation, to which those who doubted that there was an inflation problem 10 months ago pointed, those measures are actually now indicating an inflation problem as bad or worse than that implied by the headline numbers.

Now, I submit to the committee that the primary cause of the inflationary pressure that we are observing cannot be one that is global in nature—supply chains, pandemic-related labor market disruptions, corporate profit seeking—because the increase in U.S. inflation has been so much greater than that observed in other advanced and major economies.

In fact, of 46 advanced and major economies tracked by the Organization for Economic Cooperation and Development, the increase in average inflation in the United States in 2021, over 2019, was greater than in all but Brazil, Turkey, and the Kingdom of Saudi Arabia. And when we look at the timing of that divergence in U.S. inflation, it points unambiguously to March 2021. In the 12 months through February 2021, inflation in the United States and the Euro area have been roughly the same, 1 percent versus 1.1 percent.

However, in March 2021, we saw a big divergence, such that by the end of 2021, the increase in the rate of inflation in the United States was approximately 3 times that in the Euro area. And if we extend that series to January 2022, it increases to about 5 times. What happened in the United States in March 2021 that didn't happen elsewhere? We had a fiscal expansion, a fiscal stimulus that was the largest during an economic expansion in post-war U.S. history, equal to approximately 10 percent of the U.S. economy. This consisted predominantly of demand stimulus through transfer payments to households, with the immediate effect that demand for goods in the month of March increased 10.7 percent month-over-month, or about 240 percent at an annualized rate.

A stimulus of this magnitude likely raised aggregate demand in the United States to a level 5 percent above its pre-pandemic potential output. But that is not all of the story, because pre-pandemic estimates of the potential output of the U.S. economy are almost certainly overestimates of the potential of the U.S. economy in 2021. Because in the interim, we had had 1.5 million estimated early retirements. We still had in March 2021, 3.7 million Americans reporting that they didn't look for work in the past month because of the pandemic. We still had, by my estimations, a cumulative shortfall in business fixed investment of $1.8 trillion. Worse than that, in March 2021, the package pass likely exacerbated those existing supply side problems by raising implicit marginal tax rates on the return to work. And following that, we had throughout 2021 the prospect of higher tax rates on corporate income after 2021 that was unlikely to incentivize increased business investments in 2021, because it raises the option value of deferring that investment into 2022. So, we have a massive increase in demand, and impaired supply. That difference has to go into prices.

Now, we've heard a lot about supply chains' import capacity. I have to say that the volume of imports handled by U.S. ports in 2021 was about 20 percent above pre-pandemic levels. Our supply chains and our ports did a remarkable job handling and processing an unprecedented volume of goods shipments in 2021. Usually, when we see quantity and price increasing, that means it's an increase in demand, not a decrease in supply.

We have also heard a lot about market concentration and corporate power, to which I would ask the following questions. Why do we only observe this in 2021? Why only in the United States? If its concentration in some sectors, why are we observing general price inflation rather than relative price inflation? And finally, why are we observing an increase in the inflation rate and the inflation rate increasing at a faster and faster pace rather than a one-off increase in the price level?

Thank you.

[The prepared statement of Dr. Goodspeed can be found on page 89 of the appendix.]

Chairwoman WATERS. Thank you very much. I will now recognize myself for 5 minutes for questions.

I would like to ask each of you to describe for me who will get hit the hardest if the Fed raises interest rates too quickly? How might this affect low-income workers, especially in communities of color that are finally seeing employers offer bigger paychecks? And to just share with you, I am a little bit surprised that everybody accepts increasing interest rates as a surefire way to contain inflation. I have questions about that. And I would like to ask each of you to respond to the question about the interest rates. Thank you.

Mr. DRUMMER. Thank you, Chairwoman Waters. You raise a very important point. An increase in the interest rate is going to relax demand for workers. That will put downward pressure on workers' wages. So, what we are saying is we are going to manage inflation by lowering the wages of the lowest-wage workers who are already being hit by the structure of our economy. It is unjust, it is inappropriate, and, again, you are right: The interest rate increase is not a silver bullet. It is going to disproportionately harm the 100 million of our lowest earners in our economy.

Chairwoman WATERS. Thank you. Mr. Zandi, would you please respond to the question of, who will get hit the hardest if the Fed raises interest rates too quickly?

Mr. ZANDI. Thank you, Chairwoman Waters, for the question. I think the key thing for low- to middle-income households is to avoid recession, because if we go into recession, meaning the loss of jobs, higher unemployment, lower- to middle-income households would be hit much harder than higher-income households. So, that is the critical thing here. And to ensure that the economy continues to expand and avoid recession, I do think it is important to begin to normalize interest rates.

Interest rates are at zero or effectively zero currently, and the economy is strong. We are creating a half million jobs every month. We have been doing that for over a year, in large part because of the fiscal policies. Unemployment is falling very rapidly across all demographic groups, and we are approaching full employment. So, we do need to raise interest rates, normalize rates to ensure that the economy doesn't actually overheat and go into recession. It is calibration, it is difficult. It is a difficult needle to thread. But I think at this point, we need some normalization rates in the near-term to ensure that the economy does not overheat, and to avoid that recession, which would be very hard on low- to middle-income households.

Chairwoman WATERS. Thank you very much. I would like to ask another one of our witnesses about this particular question, Dr. Rakeen Mabud. Thank you.

Ms. MABUD. Thank you. Interest rate hikes slow inflation by tamping down demand and functionally making people poor. It does so by raising unemployment rates, by slowing down wage growth, and that is simply not the policy that we want to pursue right now, especially when we consider the plight of low-income people and communities of color who have been hit particularly hard by this period of inflation. The good news is that Congress has a lot of room to take on sort of the underlying conditions that are driving prices up, but Fed policy is really not the right tool right now.

Chairwoman WATERS. Thank you very much. At this point, I will yield to the ranking member, Dr. McHenry, for 5 minutes.

Mr. MCHENRY. "Dr. McHenry." Thank you, Madam Chairwoman.

Chairwoman WATERS. Everybody is a doctor today.

Mr. MCHENRY. Dr. Goodspeed, thank you for being here today. I think you said it very well. What I said in my opening statement is that the Democrats blame everything but their own fiscal policy for the inflation we are seeing, so that is fine. Let's just accept that. That is fine. Their explanation is corporate greed. What is your response?

Mr. GOODSPEED. Thank you, Ranking Member McHenry, Dr. McHenry. My response is, as I noted in my opening remarks, that if the causal explanation is corporate profit seeking, why do we only observe this emerging in 2021? Why do we observe this emerging only in the United States, when market concentration by some measures have been rising globally? If it is a matter of concentration, market concentration, why are we observing a general increase in the price level rather than relative price increases in more concentrated sectors?

Mr. MCHENRY. Okay. So along those lines, has there been an industry segment where you see collusion that has been driving the price of goods?

Mr. GOODSPEED. Not that I have observed, and when I look at the correlation between measures of market concentration and observed increases in the consumer price index in 2021, I see a negligible correlation.

Mr. MCHENRY. Okay. And there is no evidence of significant consolidation in Calendar Year 2020 or 2021 that would indicate something different than pre-pandemic?

Mr. GOODSPEED. Not that I have seen.

Mr. MCHENRY. Okay. So much for that scapegoat. Record prices get down to this general principle that we understand, which is too much money chasing too few things. And is that what is happening here?

Mr. GOODSPEED. Fundamentally, I think that is what is happening. And actually, when we look at the pattern of the increases in demand for goods, specifically in 2021, as I said, we had month-over-month a 10.7 percent increase in demand for goods in March 2021. That was a 240 percent annualized increase. Goods consumption had been already about 7 percent above trend heading into March. It then surged to 19 percent above trend, and ended 2021 at 22 percent above trend. As I said, our supply chains did a remarkable job handling that excess demand. I would not place the blame on the supply chains.

Mr. MCHENRY. Okay. So, the supply chains are then a representation of the underlying economic facts, right? It is not the prime mover here. It is a secondary effect of the economic policy?

Mr. GOODSPEED. I would say it is predominantly a symptom rather than a cause.

Mr. MCHENRY. Symptom rather than cause. Okay. So then, are we in a unique position compared to the rest of the world? How do we compare with the Europeans? COVID hit mainland Europe in a significant way, just like it did in the United States. How do we fare against the Europeans over the last year?

Mr. GOODSPEED. Right. As I noted in my opening remarks, the increase in the rate of inflation in the United States relative to the Euro area was about 3 times greater. If we try and extend the harmonized series into 2022, that rises to 5 times greater. As you noted, we were all exposed to some of the same global shocks in 2021. In the United States, in 2021, the magnitude of the increase in the demand stimulus was just orders of magnitude greater than in the rest of the advanced economy world. And at the same time, we engaged in active measures that further impaired some of those supply side constraints.

Mr. McHENRY. Okay. So, bad economics have driven this inflation question. Democrats control the House, the Senate, and the White House, sent a $2-trillion bill to juice the economy at the very time the economy is ripe to open, and that is why we have exacerbated the problems. You raised this question. You say to this, their actions, the Democrat policy actions of last year raised the implicit tax rate on returning to work. What does that mean? Can you simplify that for me? What does that mean for the average person? What do they experience as a result of these policies?

Mr. GOODSPEED. What that means is that when you have things like the extension of supplemental Federal unemployment insurance benefits into September, that is a year-and-a-half into the economic recovery, when you effectively eliminate work requirements for an expanded Child Tax Credit, that lowers the rate of return on working relative to not working.

Mr. McHENRY. And, therefore, we have a hangover effect from those bad policies.

Mr. GOODSPEED. That likely slowed the recovery in labor force participation in the United States in 2021.

Mr. McHENRY. Bad policy, bad economics, bad outcomes. I yield back.

Chairwoman WATERS. Thank you. The gentleman from California, Mr. Sherman, who is also the Chair of our Subcommittee on Investor Protection, Entrepreneurship, and Capital Markets, is now recognized for 5 minutes.

Mr. SHERMAN. Inflation has been a worldwide problem since COVID. It is maybe a third larger here in the United States than in most of the developed world. We had a lot of fiscal stimulus. We should remember that most of it was bipartisan. Most of it was signed into law by President Trump. Yes, there is one bill for $2 trillion, the Rescue Bill, that was Democratic. There was also a $2-trillion tax cut bill that was exclusively Republican during the Trump Administration. So, both parties have been solely responsible for $2 trillion in fiscal stimulus.

We kept people's incomes high during the COVID pandemic, but we closed down the bars, the restaurants, and all of the entertainment. People had money, but they couldn't spend it having fun at restaurants and bars, so they went shopping on Amazon. The ports in Los Angeles, as one of the witnesses pointed out, had a 20 percent increase in all-time volume, and, of course, there were delays. When it comes, those delays have led to more inflation. We have passed, pretty much with Democratic votes, an infrastructure bill. If we had passed it 5 years ago, we wouldn't have had the delays, particularly in the ports in Los Angeles. We have had many hearings in this committee on the cost of housing, and clearly, local governmental decisions raise the cost of creating new, particularly apartment rental units.

We are told, I believe, by Mr. Zandi, that this inflation is costing the average American family $275 a month. Keep in mind that under the American Rescue Plan, families were getting $250 per child, and $300 if the child was under 5-years-old. So, we insulated parents up until our failure to pass the Build Back Better bill. We have passed a Competitions bill to make sure that more of the chips are built here. Autos are a huge part of the inflation. I believe one-third is caused by auto costs, and that is a chip shortage.

I have talked about ports, and finally I would like to talk about oil. Keep in mind that Democratic policies for conservation have virtually doubled miles-per-gallon. Imagine what the cost would be worldwide per barrel if Americans were still driving the kind of car I was driving when I got my first car, which got 9 miles to a gallon. We have alternative energy. We have efficiency. Oil production in the United States is higher today than it was when Biden took office, were stated for 2023 will be the all-time record in U.S. oil production.

Mr. Zandi, what is the worldwide elasticity in the demand for oil? Will we see either here or in other countries, people using less oil because it is so expensive? And I will point out that I think there might be more elasticity of demand in other countries than here in the United States.

Mr. ZANDI. Yes, the elasticity of demand, the price elasticity of demand for oil is low compared to other products and services, obviously because it is a necessity; people need to get to work. But to give you a sense of it, before the Russian invasion of Ukraine and the run up in oil prices, oil was trading about $75 a barrel. We expect that global demand for oil this year to be about 6 million barrels a day.

Just for context, there are 100 million barrels a day of demand roughly. Now, with prices, let's say they average closer to $100 a barrel. Now, obviously, they are a lot higher today, given all the things that are going on, but for the year, they average $100 a barrel, and hopefully it is no more than that. And global demand will be something like 5.5 million barrels a day, so that gives you kind of a sense of the price elasticity of demand. That also reflects weaker global economic activity. So, there is some impact on demand in the near-term. There is more impact in the longer-run, because then people can change behavior.

Mr. SHERMAN. Okay. People can adjust.

Mr. ZANDI. Yes, it is relatively small.

Mr. SHERMAN. If I can just point out that supplemental unemployment insurance ended in early September, and we have seen by its sunsetting that it was not having a major effect on the availability of labor and the number of people in the workforce. I yield back.

Chairwoman WATERS. The gentlewoman from Missouri, Mrs. Wagner, is now recognized for 5 minutes.

Mrs. WAGNER. Thank you, Madam Chairwoman. Dr. Goodspeed, the United States is experiencing, as we have all talked about here time and time and time again, record high inflation that is broad-based and hitting the wallets of my constituents in Missouri's 2nd Congressional District. Current prices are at levels not seen in 40 years. It is not just the gas prices that are 40 percent higher, but meat, poultry, and fish are all 12 percent higher. Overall, groceries in general are up 7 percent. You have discussed the negative impact that the American Rescue Plan and its multi-trillion-dollar spending spree had on inflation and consumer prices. But could you explain how the Build Back Better Act, which is still discussed widely in this committee, and an expense of an additional $3.5 trillion, would impact our economy and rising inflation?

Mr. GOODSPEED. Thank you, Congresswoman. There are a number of provisions in the Build Back Better program that I believe would exacerbate some of the supply side challenges that we have talked about before. In particular, all of those new programs have income phase outs, which means, to use my previous term, they are going to raise implicit marginal tax rates on work as they phase out. And, furthermore, insofar as this is deficit finance, that is likely going to put upward pressure on interest rates, which is going to make borrowing costs greater for American households, and possibly necessitate further action on the part of—

Mrs. WAGNER. It doesn't pay for itself, does it, sir?

Mr. GOODSPEED. It certainly does not pay for itself.

Mrs. WAGNER. Dr. Goodspeed, I know that per usual, our colleagues across the aisle want to blame big corporations for inflation, particularly energy companies. But if we look back at history, it is global crises centered around energy that have driven up energy prices: the 1973 oil shortages; in 1979, the Iran hostage crisis; and in 1990, the Persian Gulf War. And now, it is the Biden Administration's refusal to reinstate America's energy independence by drilling in the Arctic National Wildlife Refuge (ANWR), opening up the Keystone Pipeline, ending the Federal freeze on all new oil and gas projects, and fast-tracking pending liquefied natural gas (LNG) export permits, to just name a few.

Dr. Goodspeed, how has the Biden Administration's energy policies or lack thereof, allowing us energy independence, impacted the prices Americans are paying in terms of gas, electricity, heating oil for their homes?

Mr. GOODSPEED. To put some perspective and quantitative perspective on this issue, at the Council of Economic Advisors, we estimated that the lower cost of energy in the United States, thanks to the Shale Revolution, was saving the average American household $2,500 per year on the eve of the COVID pandemic. And insofar as actions, such as those you just described, limit the output potential of the U.S. energy sector, that is likely to chip into that $2,500 per household. Sorry to be technical, but the elasticity of output in the United States with respect to the price of oil is about 0.02 percent, negative 0.02 percent. So, that means a 10-percent increase in the price of oil is going to decrease U.S. output by about two-tenths of a percent, and I think what we have seen in the past few months is something quite a bit larger than 10 percent.

Mrs. WAGNER. And how does a strong energy policy help our economy by lower prices and job security, to protect our country?

Mr. GOODSPEED. I think that we are seeing this today with the difficulty on the part of many European capitals in terms of responding aggressively to the Russian Federation. Having domestic production capacity, in effect, serves as insurance in the event that foreign supply becomes unavailable. And one thing that we have seen is that different sources of energy are not perfect substitutes in the event of a crisis, because we can't simply ship LNG to Germany in the event that Russian gas and oil becomes unavailable.

Mrs. WAGNER. But, boy, if we could, it would sure be a lot cleaner than the LNG they are getting from Russia, wouldn't it, sir?

Mr. GOODSPEED. That is quite true.

Mrs. WAGNER. Yes, it sure would be. We are going to hear from the President of the United States here shortly; he may be on right now. And, finally, I think he is going to agree with the vast majority of American people, and, frankly, the rest of the world, that we should not be importing Putin's oil into the United States of America. We have the ability to be energy-independent on our own, and we don't need this butcher's blood on our hands. Hopefully, we can open up our own energy independence with the drilling in ANWR, with the Keystone Pipeline, with the fracking, with the shale, all of the things that you talked about, to allow us to move forward towards energy independence on our own in a cleaner and greener way. So, I thank you for your input, and I yield back.

Mr. GOODSPEED. Thank you.

Chairwoman WATERS. Thank you. The gentleman from Georgia, Mr. Scott, who is also the Chair of the House Agriculture Committee, is now recognized for 5 minutes.

Mr. SCOTT. Thank you. Let me start with you, Mr. Drummer. You mentioned two things in your testimony that I have been fighting for ever since I have been in Congress: one, the need to raise wages for workers; and two, removing structural barriers to employment that have blocked many low-income Americans out of economic opportunities. So tell us, in your own words, how important is it for us and Congress to tackle these issues of income and equality and occupational segregation that we face today?

Mr. DRUMMER. Thank you, Representative. It is absolutely fundamental for the 100 million who are economically-insecure. Again, that is one-third of America. Just 48 percent of those are White people, and 52 percent are people of color. This is America. It is vitally important that we do everything we can to raise the floor of wages for the lowest earners. Again, I mentioned in my testimony that wages have stagnated for about 4 decades. Meanwhile, the productivity of workers has increased fourfold faster than the wages have increased. And the question is, why shouldn't the workers get the benefits of that increased productivity? Why should that increased productivity flow to the top earners and the top shareholders in our country?

To restore balance in our economy, it is incumbent upon Congress to not just engage in expansionary fiscal policy, not just encourage and coax the Fed into doing expansionary monetary policy, but to have expansionary regulatory policy. We have to raise the floor. The minimum wage has been lagging behind normal inflation for decades.

Mr. SCOTT. Right. Now, Dr. Zandi, let me go to you. This business going on in Russia and Ukraine right now has opened up so many areas that illustrate our nation's insufficiency, being so utterly dependent upon other nations for our energy and our growing need for food, that I raised in our last meeting. Can you tell us whether or not we need to move to do things like revisiting the Keystone Pipeline, for example? The reason I am saying that is it puts us, our nation, in a terrible position when we have to depend on Russia for our oil, or Iran, or Saudi Arabia, or Venezuela, these socialistic countries, several of whom are our worst enemies.

Do you agree with the growing feeling among both Democrats and Republicans that we have plenty of oil right here? We have plenty of resources here. Why do we have to depend upon Russia, when it might make sense to revisit the Keystone Pipeline and other areas that we are blessed with the natural resources here? And I would like for you to comment on that and give us your opinion.

Mr. ZANDI. Thank you for that, Congressman. I think we are energy-independent. We produce 10 million barrels of oil a day. We consume 10 million barrels of oil a day. We do import some Russian oil just because of the economics of it, but we export oil and petroleum products as well. So, the net of all that is we are energy-independent.

In terms of natural gas, similarly, we produce a lot of natural gas already. Natural gas prices remain low here because that is more of a local market. The problem with oil and oil prices is it is a global market, and so the issue is what is going on overseas. And Russia is a big producer. They produce 10 million barrels of oil a day. They export 5 million, making them the second-largest exporter in the world. If you take that offline, which is completely understandable given the situation and what is going on in Ukraine, you must get it, but it is going to be difficult to adjust to that.

So, I think we are there. We need to shepherd our resources, and we need to make sure that we can provide those resources in a cost-efficient way and evaluating pipelines and other things that are important. But at this point, I think we have done a pretty good job in terms of energy independence.

Mr. SCOTT. Thank you.

Chairwoman WATERS. Thank you very much. The gentleman from Oklahoma, Mr. Lucas, is now recognized for 5 minutes.

Mr. LUCAS. Thank you, Madam Chairwoman. And, Dr. Goodspeed, being an old ag econ guy from Oklahoma State, I was very pleased to hear you discuss the unique concept of the elasticity of demand, because that is really difficult for a lot of people to get a grip on: the concept that you either have enough or you have too much, and that price dramatically shifts from one perspective to the other. But back to the to the core issue. The Fed's balance sheet sits at just under $9 trillion, more than double the prepandemic amount. The total U.S. public debts increased nearly $7 trillion since late January of 2020. Dr. Goodspeed, can you discuss how this drives inflation and overstimulates the economy from a macroeconomic perspective?

Mr. GOODSPEED. Certainly. Thank you, Congressman Lucas. What we have observed in the past year is an almost unprecedented excess of demand over supply in the U.S. economy. And that has, to a large extent, been accommodated by the Federal Reserve. And if we look at a broad measure of the money supply in the United States, that has increased by about 40 percent since the start of the pandemic.

Mr. LUCAS. So as we would say in my town meetings, if you have dramatically increased the amount of money chasing the same or fewer goods and services, then you drive up the price of the goods and services, correct?

Mr. GOODSPEED. That is correct.

Mr. LUCAS. Thank you. Farmers across the country are experiencing higher costs for chemicals, seeds, fertilizer, equipment, fuel, and labor, among other increased input costs. The squeeze and uncertainty felt by farmers and ranchers right now will be felt for years to come. This means that the higher food prices we see now may be with us for some time. Dr. Goodspeed, can you discuss how persistent inflation, is it simply a supply chain, logistics, or a pandemic recovery issue, but spreads much deeper into the economy?

Mr. GOODSPEED. That is right. Sometimes, we see relative price increases where prices are increasing in one sector or another. But what we have seen in the past year is broad-based inflation that crosses multiple sectors, and it hurts working people very much because they don't have the same bargaining power that other workers have. Things like rent, food, energy, and utilities are much bigger shares of their disposable personal income. And many lower-income households don't have hedges against inflation, namely, housing.

Mr. LUCAS. So the little guys, we would say in town meetings, don't have flexibility. They are locked into their situation, on their income with their expenses ever increasing. This month, the national debt topped $30 trillion and the Congressional Budget Office predicts that the debt-to-GDP ratio, I should say, will double over the next 30 years. How troubling is this for the long-term, and I mean the long-term health of the U.S. economy?

Mr. GOODSPEED. In the short-term, it means that every 25-basis-point increase in interest rates is going to raise the cost of servicing that debt by $75 billion. In the long term—if we look over history when the U.S. has had debt-to-GDP ratios of this level, the way we got out of it is not especially encouraging. Some of it was from growth, but we do not have those growth tailwinds that we had in the aftermath of 1945. A lot of the rest of it was inflation and what we call financial repression, which is basically capital controls and implicit pressure on banks to hold Federal Government debt. Those are not good recipes.

Mr. LUCAS. I started out farming in 1977 as we slid into the inflationary period of the Carter years, and we went through Mr. Volcker's dramatic tightening of the money supply, and we saw the old 1930s interest rate caps come off. I borrowed caffeine money at 17 percent in 1981, and was so happy to get it. But I also watched a generation of young farmers and ranchers come home from the Vietnam War, who were absolutely exposed economically, be destroyed, and the last of those sheriff's sales were still taking place in the 1980s. So, I carry a few scars from watching my neighbors. We need to try to avoid that, don't we?

Mr. GOODSPEED. I think that is right. And when one looks at past episodes of the Federal Reserve having to play catch-up with inflation, they have to respond even more aggressively than had they responded earlier in order to ring that inflationary pressure out of all sectors. And that was what we saw in the early 1980s.

Mr. LUCAS. The longer the binge, the harder the hangover?

Mr. GOODSPEED. Yes.

Mr. LUCAS. I yield back.

Chairwoman WATERS. Thank you. The gentleman from Texas, Mr. Green, who is also the Chair of our Subcommittee on Oversight and Investigations, is now recognized for 5 minutes.

Mr. GREEN. Thank you, Madam Chairwoman, and I thank you for holding this hearing. I think it is exceedingly important. I was at the State of the Union Address, and I thought the President gave an excellent speech. I was very proud of him, to be very honest with you. And one of the things he said that really caught my attention was that, "Capitalism without competition is exploitation." My question to you, Mr. Zandi, is, who suffers most from the exploitation when you don't have the competition in a capitalistic society?

Mr. ZANDI. I think competition is a key element, Congressman, of a well-functioning capitalist system. Without that competition, we don't have innovation, we don't have entrepreneurs, and we don't have growth, and clearly, we will struggle with higher prices and inflation. So, it is a vital ingredient to a well-functioning economy.

Mr. GREEN. And we talk about persons within the society. How would minority people be impacted as a result of this? We know that minority unemployment, especially Black unemployment is usually about twice that of White unemployment. By the way, I am a capitalist. If you don't have that competition, does it have a greater impact on African Americans?

Mr. ZANDI. Yes, I think that is fair to say. If competition is impaired, it will result in higher prices for the goods and services produced by that business in that industry. That is uncompetitive for lower- to middle-income households who don't have savings, who don't have wealth, who really are struggling just to pay their bills paycheck to paycheck, and that becomes an incredibly difficult hardship. Hard choices have to be made very quickly, and that is obviously what is happening right now with inflation as high as it is.

People are having to make tough decisions about what they are spending their money on, because if they have to spend more to fill their gasoline tank, they are going to have less to spend on everything else. So, it is critical that we ensure that markets are competitive, that businesses are offering prices that are consistent with that competition, because if they don't, low- to middle-income households, African Americans, Hispanics, and Hispanic groups will be hurt more.

Mr. GREEN. Thank you. Mr. Drummer, would you care to weigh in on this, please?

Mr. DRUMMER. Yes. If you are talking about the structure of our economy in general, again, as I said in my testimony, it is about expansion. We are nowhere near the peak of what America can do. We are nowhere near the top of our productive capacity. And so, any claim that any investment into our economy will inherently be inflationary is just flawed.

Mr. GREEN. Let me come back to you again, Mr. Zandi. I always enjoy conversing with you. Your commentary is excellent. Let's talk for just a moment about indexing. There is a belief that we should index wages to possibly the CPI or even to the poverty, such that if you work full time, you don't live below the poverty line, by indexing. Give me your thoughts on indexing, please, and you have about a minute to do it. Sorry about that.

Mr. ZANDI. No worries, and thank you for the kind words. I would not be a fan of that, Congressman. We had experience with that back in the 1970s and 1980s. The last time we suffered very high inflation in the indexing, the so-called cost-of-living adjustments built into contracts exacerbated the wage price dynamics and ultimately resulted in a very severe recession that hurt all Americans, particularly lower- to middle-income Americans. I think it is much better to focus policy on trying to address the wage inequities and to make sure that we provide the resources necessary so that people can get better jobs and get better pay.

Obviously, this is happening, but very true. Education and training and helping with child care and elder care, things that allow people to go to work and get the skills that they need to get higher wages and to do better. And I think that would result in a more well-functioning economy. The indexing, I think, would be difficult, and clearly, I am not sure how lawmakers would be able to intervene or enter into that given that is a decision by private businesses.

Mr. GREEN. Thank you. My time has expired. Thank you, Madam Chairwoman. I yield back.

Chairwoman WATERS. Thank you. The gentleman from Kentucky, Mr. Barr, is now recognized for 5 minutes.

Mr. BARR. Dr. Goodspeed, as the title of this hearing suggests, my friends on the other side of the aisle want to blame higher prices on everything but their own policies. They blame it on supply chain bottlenecks, they blame it on COVID, and they even blame it on corporate greed, and I want to focus on that last narrative for a minute, corporate greed.

Let me tell you how it works in the real world, and I will give you an example from my own district where businesses are struggling with the cost of higher inflation. The Suffoletta Family in Georgetown, Kentucky, has been in the retail home furnishings business since the late 1940s. In a conversation last week, they informed me that in the last 18 months, the cost of goods from their manufacturers has increased 30 to 40 percent, and they are still receiving price increase letters every week. They are also experiencing price increases on sold orders that have not even been produced yet, but they aren't going back to their customers asking for more money than what they agreed to at the time of placing those orders. That is an important point.

They are not sitting around the table trying to figure out how to exploit their customers. They are struggling because their profit margins are down, because the costs of their inputs are going up. Instead, the Suffolettas are choosing to absorb those additional costs, contrary to Mr. Drummer's narrative. They are choosing to absorb them, and like most small businesses, their cost of labor and overhead has gone up over 25 percent. So now, they are having to determine how to operate without passing all those costs on to the end consumer, and still have some profit at the end of the year. This idea of businesses trying to exploit this and profit here is offensive to most small firms in America today.

Steven Rattner, a former Obama Treasury official, summed it up perfectly: "Blaming inflation on supply lines is like complaining about your sweater keeping you too warm after you have added several logs to the fireplace." The original sin was the $1.9-trillion American Rescue Plan that passed in March. The bill was almost completely unfunded, and sought to counter the effects of the pandemic by focusing on demand side stimulus rather than on investment, and that has contributed materially to today's inflation levels.

So, Dr. Goodspeed, you have focused on the increase in aggregate demand, but I want you to elaborate on your testimony about how the American Rescue Plan also constrained the supply side. Specifically talk about how the American Rescue Plan stifled the labor supply, which is contributing to the problem that the Suffoletta Family is having right now.

Mr. GOODSPEED. Thank you, Congressman. And to your observation about what you are hearing from businesses, we have, over the past year, seen the Producer Price Index outpaced by a considerable margin by the Consumer Price Index, which suggests or implies that firms have been taking that pressure out of margin rather than passing most of it on to prices. In terms of the supply side impacts that you mentioned, I have calculated that there has been a cumulative shortfall since the pandemic began in business investment of about $1.8 trillion. Throughout 2021, with the Build Back Better agenda, there was the prospect of substantially higher taxation on corporate income after 2021, which was unlikely to help facilitate a recovery in business investment.

Mr. BARR. So to the extent we have supply chain bottlenecks, part of that is because there has been less business investment?

Mr. GOODSPEED. That is correct.

Mr. BARR. Because of uncertainty of the potential of tax increases.

Mr. GOODSPEED. That is correct.

Mr. BARR. Then, explain how the American Rescue Plan discouraged labor supply?

Mr. GOODSPEED. It discouraged labor supply in two ways. One, the expansion of the Child Tax Credit, as designed under the American Rescue Plan, effectively eliminated work requirements. Relative to the 2017 expansion of the Child Tax Credit—remember, we doubled the Child Tax Credit in 2017. Relative to that expansion of the Child Tax Credit, we actually lowered the return on work. And in addition to that, we extended the $300-per-week supplemental Federal unemployment insurance benefit, which likely lowered employment by—

Mr. BARR. So, in addition to increasing aggregate demand and creating excess demand in the economy, the agenda from the Administration constrained supply. Let's talk about another area of constrained supply coming from this Administration. Is it more likely that oil executives are sitting around their board table trying to figure out how to stick it to their consumers; or is it the Administration canceling drilling leases, closing pipelines, or limiting production; or is it uncertainty and unease among exploration and production companies that new environmental crackdowns will come; or is it the financial regulators that are attempting to limit access to capital, making it illogical to invest in new oil wells—which is more likely?

Mr. GOODSPEED. I would say the unresponsiveness of supply in response to onerous regulation and crackdowns on domestic energy production, because if we look at the historical relationship between the price of West Texas Intermediate and rig counts, that relationship broke down in 2021.

Mr. BARR. Thanks. I yield back.

Chairwoman WATERS. Thank you. The gentleman from Missouri, Mr. Cleaver, who is also the Chair of our Subcommittee on Housing, Community Development, and Insurance, is now recognized for 5 minutes.

Mr. CLEAVER. Let me concentrate on Dr. Drummer and Dr. Mabud. I don't know if any of you drink Hint Water. It is advertised quite a bit on TV. Do either of you drink Hint—H–i–n–t—Water?

Mr. DRUMMER. No, sir.

Mr. CLEAVER. Oh, man. It is necessary. It is the best thing that has come along. I love Hint Water. It has a hint of peach or a hint of berry, whatever it is, but it is water, with no calories, no nothing. It is water. And so, I love it. And I also love it because I could go to the dollar store and get Hint at $1 a bottle, because at the dollar store, everything in there is $1, at least until about 3 weeks ago. And I guess, in an attempt to avoid false advertising on the doors, they have something taped up that says all items are now $1.25. So, the dollar store is now the $1.25 store, which means that Hint goes up from $1 to $1.25. I am not happy about that. Life is going down here when Hint costs 25 cents more.

So, Dr. Drummer and Dr. Mabud, do you agree with Dr. Zandi that no matter what happens to pricing across most goods, inflation will remain high as long as the cost of housing continues to rise? Do both of you or either of you agree with what Dr. Zandi has written?

Mr. DRUMMER. Thank you, Representative. Based on her testimony, I would like to defer to Dr. Mabud.

Ms. MABUD. Thank you. Thank you so much. I think the point that you are making is really critical, which is that low-income communities, particularly low-income communities of color, are dependent on these essentials like housing, and places to buy cheap goods, like the dollar store. And so, higher prices will inevitably disproportionately affect exactly those communities, especially when those prices are going up on essentials that people really need. If you need diapers, you need diapers. It doesn't matter if the box is $20 a box or $40 a box. And we know that low-income communities are particularly likely to see rent as a bigger proportion of their budgets and see food and other essentials as a bigger proportion of their budgets.

I think the other important thing to remember here is that these exact same workers and families are also more likely to face discrimination in the labor market because of occupational segregation and other barriers to entry into the labor market. Soc, low-income folks, particularly low-income folks of color, are really hit from all sides by these price hikes, with rising prices at the checkout line, and when they pay their rent, and have a harder time accessing good, well-paying jobs.

Mr. CLEAVER. Thank you very much. So, Hint goes up. Dr. Zandi, if you look at the cost of housing, the cost has increased a whopping 470 percent over the last 40 years. As long as that continues to rise like it is, is Hint Water going to come down?

Mr. ZANDI. Yes, that's a good point. Yes, we have a very severe shortage of housing, particularly for affordable housing, both on the rental side and on the homeownership side. This has been developing really since the housing bust in the wake of the financial crisis. Vacancy rates across the housing stock are at record lows, so this has resulted in surging housing values and surging rents. And rents, all in, account for one-third of the Consumer Price Index, and one-third of measured inflation is housing. So as long as we have this shortage, as long as we don't address the supply shortage—and here is where lawmakers can be critically important—rents are going to grow quickly. House prices are going to grow quickly, and the cost of living is going to continue to rise quickly.

Mr. CLEAVER. Thank you, Madam Chairwoman.

Chairwoman WATERS. You are welcome. The gentleman from Florida, Mr. Posey, is now recognized for 5 minutes.

Mr. POSEY. Thank you very much, Madam Chairwoman. Dr. Goodspeed, I feel like I have seen this movie before. To paraphrase a classic, we appear to be running up to usual scapegoats for inflation under the heading, "primary causes of inflation trends, majority hitting nonetheless supply chain bottlenecks and shortages, lack of housing supply, lack of competition." There is no mention of the Majority's deficit spending and the monetization of those deficits to dramatically increase money supply.

Last week, Chair Powell agreed that inflation is a monetary phenomenon. The way we ended up with this inflation is that the government dramatically increased the deficit in the Rescue Act and other legislation, and the Federal Reserve provided the lending to support the deficits at no charge and interest rates. The primary call to inflation is deficit spending financed by the Federal Reserve buying the debt and increasing the money supply.

One price increase that stands out from the rest is the skyrocketing increase in energy costs that has been mentioned by almost everybody here today, especially the price of gasoline. Even before the Ukraine invasion, the price of unleaded regular was closing in on $4 a gallon. This is a steep relative price increase, and most analysts understand that this increase was a result of supply restrictions that followed on the Administration's assault on the domestic energy production.

Please give us your assessment of how reversing the Administration's restrictions on domestic oil and gas would reduce gasoline prices, and how much would gas prices decline if we reset the clock back to January 19, 2021, and erased the Administration's impact on the domestic energy sector? Could we expect to restore energy independences as we had before?

Mr. GOODSPEED. Thank you, Congressman, and I think, as you noted, we have heard some of these stories before. In fact, in the 1960s and 1970s, there were a lot of allegations that the price pressures that we were observing were the result of oligopolistic or monopolistic competition, and, empirically, those claims were subsequently tested and rejected.

I would expand upon a remark I made in response to questions from Congressman Barr, namely that if we look at the historical relationship between the price of West Texas Intermediate Crude and Oil Rig Counts in the United States, those two series typically track each other very closely, meaning the price of oil goes up, rig counts go up, we get more supply. That relationship completely broke down in 2021, and I think that was a result of the regulatory crackdown on domestic energy production, and the looming prospect of more crackdowns. Now, it is hard to say where domestic oil prices and gasoline prices would go in the coming months simply because of so much international geopolitical uncertainty.

Mr. POSEY. Thank you. One of the favorite boogeymen of our friends on the other side of the aisle is the evil price-gouging firms. They are one of the usual scapegoats for unsound fiscal and monetary policy. I believe we can expect that businesses will respond to market forces, including inflation, like any other economic player, but it is more than a little naive to habitually resort to the price-gouging monster to explain 7.5 percent inflation. Is there any solid, convincing, credible, and peer-reviewed evidence that businesses with disproportionate market power have been a major cause of inflation through price gouging?

Mr. GOODSPEED. I have seen no serious academic study to that effect. And I would add that most empirical studies and, for that matter, theoretical papers on this suggest that in the short run, the passthrough from cost to price is actually lower in less-competitive markets than in competitive markets. In the long run, competitive markets have lower average inflation rates, but in the short run, the passthrough is actually higher in competitive markets.

Mr. POSEY. Thank you. And while I believe the role that housing has played in inflation is far more subtle than the other side suggests in listing it as a major call to inflation, I do have serious concerns about the cost of building housing. And I believe that the costs of building new housing, whether single or multifamily, determines the prices of houses and rents at the margin to the market. Adding demand to a housing market, in which the cost of new housing is continually being pushed up by regulations and restrictions on innovative building techniques, really serves mostly to just drive up even further the price of rent and all housing.

Do you agree that to make significant progress in providing affordable housing, we need to focus on bringing down the cost of building new housing?

Mr. GOODSPEED. I would say that we should be focused on increasing the supply of housing generally, and we have a problem in that it is very difficult to build, to construct new housing in the United States. And we should ask ourselves, why did the price of housing go up so much in 2021? Let's remember that housing and autos are the two most interest rate-sensitive sectors in the U.S. economy. Thank you.

Mr. POSEY. Thank you. Thank you, Madam Chairwoman.

Chairwoman WATERS. The gentleman from Illinois, Mr. Foster, who is also the Chair of our Task Force on Artificial Intelligence, is now recognized for 5 minutes.

Mr. FOSTER. Thank you, Madam Chairwoman. One of the recurrent themes on both sides of the aisle here has been inadequate business investment, and now we are being caught in a number of ways. So, I would like to explore the extent to which sort of the short-termism and the incentives that encourage short-termism in so much of our industry. We are obviously seeing underinvestment in resilient supply chains. That is kind of obvious in a number of areas. We have also seen inadequate investment in inventory for rainy days. For years, the best management procedures have been claimed to be this just-in-time delivery of everything with essentially no inventory of anything. And now, manufacturers are panicking and sort of switching from just-in-time, to just-in-case inventory policies.

So, there is a tremendous short-term spike in demand which leads to tremendous market inefficiency throughout. It is sort of reminiscent of the toilet paper shortage at the start of COVID, where, as far as people could tell, there was no increase in the rate of consumption of toilet paper, and yet, there was a huge shortage because of a malfunction of the market that I think we are seeing in many areas. We are also seeing the same thing in computer chips, where companies like Intel engaged in more than $100 billion in stock buybacks, lost the lead in advanced semiconductors, and now are asking the Federal taxpayer for a $50-billion bailout. And a similar thing in the airlines, where during the Obama expansion, they made very high profits but didn't leave enough resilience in their operations and had to ask again for the $50 billion, essentially a gift from the Federal taxpayer, not a loan like TARP, just a straight gift.

And there are a number of potential reasons for this underinvestment, but I was wondering, Mr. Drummer and Mr. Vaheesan, could you say a little bit about how the CEO compensation structures might encourage the short-termism, where keeping small inventories make you profitable this quarter, but leaving you in trouble when the tide goes out. Mr. Drummer, do you want—

Mr. DRUMMER. This is a very good question, Representative, because it is not just a question of law and policy. It is about the practices of some of the largest corporations. Yes, when CEOs are incentivized to make quarterly benchmark profits, they extract all the work they can from the lowest-paid workers. Let's compare Walmart and Costco, right? Costco pays double what Walmart or Sam's Club pays, but they make 7 times more per employee than Sam's Club. And so, the short-termism is cultural. And yes, we do need law and policy that forces and really pushes these companies to do the right thing, because it ought not be an option to treat your employees right.

Mr. FOSTER. Yes.

Mr. VAHEESAN. Thank you, Congressman. You raise a really important point. We have seen changes in law and policy over the past 40 years that have encouraged short-termism. You noted that CEO compensation is tied to short-term movements and stock prices. We have also had changes to antitrust policy and securities laws that have encouraged firms to engage in practices like stock buybacks, and mergers and acquisitions in lieu of the more socially-beneficial undertaking of investment and innovation. I think the chip industry nicely illustrates that point. It used to be the envy of the world, but now companies like Intel have been so focused on generating short-term cash flow that they have been leapfrogged by foreign rivals like TSMC and Samsung.

Mr. FOSTER. Go ahead. I will take a risk here and see what they are—

Mr. GOODSPEED. Sure. I would say that one of the reasons that we had weak investment throughout much of the expansion from 2009 to 2016 was that the relative cost of capital in the United States was much higher, so that the cost of domestic capital formation was quite considerably high. And that is why in the aftermath of tax reform in 2017, we actually saw the level of investment rise to about 10 percent above the pre-2017 expansion trend. And I think one of the reasons that we saw a weak recovery in investment in 2021 was because there was the prospect of higher corporate income taxation in 2022, which means that the value of stock—

Mr. FOSTER. Okay. I understand. There is never a bad time to lower taxes, no matter what it does to the national debt.

Mr. GOODSPEED. The value of—

Mr. FOSTER. And in my 23 seconds, Dr. Zandi, there are some things the Federal Reserve is clearly going to do to unwind the balance sheet. Will that be stimulative or contractive in terms of the demand? Will it reduce or increase?

Mr. ZANDI. At this point, yes, I think, Congressman, the Fed needs to normalize policy. That includes interest rates, short-term interest rates, allowing them to go up to zero lower bound. And at some point, not right away, we have to see how things go but allow the balance sheet to start to wind down, which is what they did after the financial crisis, and I think that worked well. So at some point this year that seems like a good policy to pursue. Again, you don't want the economy to overheat and then ultimately go into recession because that hurts the very people that we want to help.

Mr. FOSTER. So, they are doing the right thing. Thank you. And I yield back.

Mr. ZANDI. I think so. Yes, that would be—

Chairwoman WATERS. Thank you very much.

The gentleman from Missouri, Mr. Luetkemeyer, is now recognized for 5 minutes.

Mr. LUETKEMEYER. Thank you, Madam Chairwoman. Mr. Goodspeed, President Biden had one accomplishment last year, and that was the approximately 300 new regulations his Administration issued on businesses and workers. The cost of these regulations total about $201 billion. That is their cost, by the way, that they said they had. This is 3 times the regulatory cost imposed by the Obama Administration, and 40 times the cost imposed by President Trump in their first year in office, respectively. My question, I guess, begins with, how do these regulatory burdens impact inflation and the price of goods, their business' ability to hire workers, and their ability to have more resources to actually focus on more businesses?

Mr. GOODSPEED. Thank you, Congressman. These regulatory changes, at the end of the day, increase costs. They increase compliance costs. Compliance costs incur opportunity costs because workers working on compliance aren't working on other more productive activities. There is also a deadweight loss insofar as it prevents transactions that would otherwise have occurred, and there are also spillovers into unregulated industries. And I would just add that over the long run, an increased regulatory burden tends to decrease the flow of new firms into the market and decrease the exit of incumbent firms, so it lowers competition. So, insofar as one's hypothesis that insufficient competition was a cause for the inflation that we have observed, the regulatory burdens that we have seen increase in the past year likely exacerbated rather than attenuated that.

Mr. LUETKEMEYER. You just sort of made the case that—I know of the other side constantly talks about them doing things when you are concerned about low- and middle-income folks, and yet they continue to produce legislation, more rules that do the very thing that they are saying they want to try and minimize. As you just indicated, the hammer comes down on the low- and moderate-income people in the spectrum with inflation, with all sorts of rules, costs, rules and regulations. Is that not correct?

Mr. GOODSPEED. That is correct.

Mr. LUETKEMEYER. I also am the ranking member on the House Small Business Committee, and we had an economist come in for a briefing the other day, and I asked him to break down inflation. And I said, basically, I think it is composed of excess money supply, rules, and regulations, energy costs, and the supply chain/jobs problem. Would you agree that is kind of the main four main drivers of our inflation we have today?

Mr. GOODSPEED. I would agree with that.

Mr. LUETKEMEYER. I asked him to break it down percentage wise, and he said about 40 percent money supply, 20 percent regulations, 20 percent energy, and 20 percent supply chain. Would that be in the ballpark, do you think, or is one of them little bit low, or one a bit high? What would you estimate?

Mr. GOODSPEED. I would lower the estimated probability for supply chains. I would substitute for the regulatory costs. I would just say, generally speaking, it is excess demand relative to supply.

Mr. LUETKEMEYER. Okay. Again, we had the Chairman of the Federal Reserve in here, Jerome Powell, last week, and I read this off to him. And he was talking about being able to manipulate the economy through interest rates and all sort of stuff. And I told him that unless you are going to go with 10 percent, these type of costs, if you look at them, where do you, in this group, have that much influence? And so, if you look at supply chain, look at energy production regulations, almost all of those are under the direct ability of the Administration to impact those, or is it not, would you not say that?

Mr. GOODSPEED. It is.

Mr. LUETKEMEYER. And a lot of it is, quite frankly, without Congress even being able to intervene. The President, in his first week in office, the first thing he did was to close down the pipeline. He can open that back up. There we go. That fixes that 20 percent.

Supply chain—he can help with some of the threats of taxation. He can help the people get back into the workforce.

Rules and regulations—that is obviously falling all on him and his Administration. And then, you come to money supply, and you look at, I don't know, I am guessing at 50–50 the Fed, by the way they manipulated, and 50 percent by us, the Congress, those guys putting more money into the system. So it would look to me like the Fed will only have like 2, 2.5 percent out of the 7.5 percent, at most. The Administration can fix this thing, and, to me, it all lies at their feet. Would that be a fair analogy?

Mr. GOODSPEED. I think that is a fair analogy. I would add that the two sectors over which the Fed has the most control with respect to inflation are housing and auto prices, and we have seen some big increases there in the past year.

Mr. LUETKEMEYER. Very good. Is inflation going to go away, and do you think we have a recession coming shortly?

Mr. GOODSPEED. When I look at the underlying inflation measures, when I look at the change in inflation expectations, I think that this is going to be very persistent, and it is going to take some very aggressive action on the part of the Fed, and hopefully Congress. And that is disconcerting because that could mean some economic pain.

Mr. LUETKEMEYER. Thank you very much, Dr. Goodspeed.

Chairwoman WATERS. Thank you. The gentleman from California, Mr. Vargas, is now recognized for 5 minutes.

Mr. VARGAS. Thank you very much, Madam Chairwoman, and Mr. Ranking Member. I appreciate it.

It is interesting that when President Trump and the Republicans took office at the crest of the largest economic expansion in history, things were going well, and they were very happy about that. Then, of course, he presided over the worst labor market in the modern U.S. history, as did the Republicans. And the reality was, it was the pandemic. The truth of the matter is, you can't blame all those millions of job losses on Donald Trump and some of the crazy things he would say. It was the pandemic. But here, it is interesting, the Republicans blame everything except for the pandemic. It seems to me, Dr. Zandi, that you kind of nailed the thing down pretty well when you were talking about the pandemic. Am I wrong here? Is a lot of the inflation due to the pandemic?

Mr. ZANDI. Yes, Congressman, you are precisely right. It is the pandemic. And there is a long list of reasons for the high rates of inflation. At the very top is the supply disruptions created by the pandemic, particularly around the Delta wave. I will give you a poster child example. Chip plants in Malaysia shut down last August and September. They couldn't produce chips for U.S., and German, and Japanese vehicles. The F-150, the most popular vehicle in the United States, couldn't get the chips. They had to shut down. They couldn't produce, inventories collapsed, we had shortages, and prices have gone skyward. And roughly one-third of the acceleration and inflation that we have observed over the past year is simply related to that fact. That is directly related to supply chains. And I can give you other examples, but you are exactly right.

Mr. VARGAS. It seems to me—and again, I could be wrong—that is the case. Again, otherwise we can say, well, those damn Republicans, they lost millions and millions of jobs. What is wrong with

Joe Biden? Their policies are so terrible. It was the pandemic. It is the pandemic here, and that is why I think we should work together to figure this thing out instead of yelling at each other about these things. But I am—

Mr. ZANDI. Can I point out that just because there is a lot of discussion around inflation overseas, what matters is the acceleration of inflation over the past year, and they are very comparable in every advanced economy, including in the United States. It is the increase in inflation, and if there is any differences, they are related to measurement differences. So precisely what is happening here is happening in Canada, and in the U.K., and in Germany, all across the advanced world. So, it is very, very similar, and goes back to the point that this is the pandemic, as the pandemic has affected everyone equally.

Mr. VARGAS. Yes, it has happened all over the world. It is a little bit like this, just to be frank, reminds me of the old tobacco hearings, and you would have a group come in and say, "Oh no, those cigarettes are great. They are not unhealthy. Of course, not." And then, the other groups come in and say, "Of course, they are not healthy; they cause cancer."

The truth of the matter here is that we see inflation all over the world. We see these problems all over because of the pandemic, and that is the big deal here. And it seems like the Republicans want to place blame on somebody, and they want to place blame on the Democrats. They don't want to take a look at, well, really the blame is on the pandemic and how do we work together. Now we have the problem with Russia. How do we work together?

The two big things that I see are housing and cars, housing in particular. We do have to figure that out. In California, the prices have gone out of sight, and I don't see them coming back until we get more supply, and there are things that we need to do. But anyway, that is what I would like to say. I just want to say that sometimes it is kind of nutty listening to this stuff because, again, it is not realistic.

Mr. ZANDI. Can I say, Congressman, on housing, what was in Build Back Better around tax credits, light tax for low-income housing, neighborhood home tax credit for fixing, rehabilitating old housing stock and dilapidated parts of urban centers, the Housing Trust Fund, all of these things will go to quickly increase the supply of affordable housing, and goes directly to this very strong surge in rent growth and house prices that we are observing right now. So, there are things we can do, and what is in Build Back Better goes a long way to in fact doing that.

Mr. VARGAS. That is why I supported it. My time has ended. Thank you.

Mr. AUCHINCLOSS. [presiding]. The gentleman yields back.

The gentleman from Texas, Mr. Sessions, is now recognized for 5 minutes.

Mr. SESSIONS. Mr. Chairman, thank you very much. To our colleagues who are watching this, please know that I think that there is an equal participation here today for us to tout. And I appreciate Mr. Vargas and his comments very much, my dear friend.

I would like to go back to a statement that I believe Mr. Drummer made where he spoke directly about household incomes and how it has been flat when, in fact, if you go to the Bureau of Labor Statistics, you will see that household incomes rose 3 times higher under Reagan and Trump policies than under Obama and Biden. And that is because I believe that what is occurring in particular right now that we can directly relate to is that we have problems getting people to go to work.

As of this morning, the Office of Personnel Management (OPM) is still weighing their decision-making on whether we are going to have Federal workers go back to work. I know what that is like, because my office has been at work during this entire pandemic and we simply attempted to work with each other. But OPM still has people on what they call, "maximum telework." And if you have the Federal Government workers who are not reporting to work, if you have an Administration that is continuing with their onslaught at the free enterprise system, including workers of airlines, workers of transportation, how can people not go back to work when we have not encouraged it? We have to be leading-edge people to say as managers of our business, let us go back to work. If you have a reasonable reason, why not, then that flexibility should be given by OPM. But the way Republicans see it is that policy matters. In other words, elections matter. Policy matters. And in that circumstance, when you give people more take-home pay, when prices are reduced, when gasoline at the pump is a good deal rather than a jab deal, the free enterprise system really does really well by itself.

Mr. Drummer made a number of comments which I tend to want to agree with, with equitable prosperity, but that is what the free enterprise system is. And that is why under the policies of Republicans—I don't have to say Donald Trump, but Republicans and Donald Trump—more people worked than ever, more African Americans, more men, more women, more minorities, and people were at work.

And if you go back to an old book from the Dallas Fed, the myth of the rich and poor in America, the facts of the case are really simple. If you have a job, whether it be higher or lower pay, for 10 years, if you create a circumstance where you go to work, you will raise yourself from one segment, one, in essence, economic level to another. We need people back at work. We need our free enterprise system to work. We are a capitalist nation. Mr. Drummer, have I said anything that you want to help me with?

Mr. DRUMMER. Thank you, Representative. You said many things that I want to help you with, and I would love to engage this conversation even beyond this hearing. One, it is also a fact that wages have not kept up with productivity, and we have to examine what kind of economy allows a situation for workers to be more productive. But the wage growth is pretty flat, not numerically flat, but it is extremely unimpressive, and for the last 40 years has been uncharacteristic in the course of the whole of American history. So, we have to examine that.

Two, also in terms of the point of people wanting to go back to work, we don't have a shortage of people who want to work. We have a shortage of good jobs, and that is the problem. Listen, we don't have a benefit cliff. We have a wage—

Mr. SESSIONS. I appreciate the gentleman. I have hauled hay. I have climbed poles. I have done a lot of things that I had to do to help myself out. And I am sorry you don't think there are enough good jobs. We have—

Mr. DRUMMER. Good-paying jobs, Representative—

Mr. SESSIONS. I will just accept that as your answer, and I appreciate the time and thank you, sir. And I yield back my time.

Mr. AUCHINCLOSS. The gentleman yields back.

The gentlewoman from Ohio, Mrs. Beatty, who is also the Chair of our Subcommittee on Diversity and Inclusion, is now recognized for 5 minutes.

Mrs. BEATTY. Thank you, Mr. Chairman. I would also like to thank all of our witnesses for being here today, and for providing testimony.

I want to begin by acknowledging the pain and the frustration that Americans are feeling over this inflation. I don't think we can say stop. I have also said from the beginning of the pandemic that this is a global public health and economic crisis. And I know after 2 years of the shutdowns, looking at supply chains, and also the Omicron variant, this latest issue with inflation is the last thing that we want or that we need. Democrats in Congress and the Biden Administration are committed to doing everything we can to deal with the inflation and its impact on the lives of American families.

Mr. Drummer, let me thank you, because I do concur with you in your last statement. Inflation has historically reinforced economic disparities among minorities and people in rural America. When inflation costs hit the average American, it hits harder for Americans who have already had economic challenges and been disadvantaged, because for every dollar increase in inflation, this could equate to $5 for someone who is financially unstable. Can you speak to the inflationary challenges these Americans face, whether it is purchasing food for their families or buying gas for their daily commute? Can you talk about that briefly?

Mr. DRUMMER. We are in a bit of a quandary here, and I appreciate the question, Representative. The reality right now is that, yes, price increases disproportionately impact the household budgets of low-wage workers. That is a fact. But it is also a fact that a rate cut is going to do what? Depress demand for workers, and do what? Take money out of the pockets of these very same people. So, if we care so much about low-income households, I don't think the rate cut is our silver bullet to fix that situation. What we have to do is take a step back, and understand that inflation concerns is a red herring. There are larger structural problems that we have to address, and let us get to business and build this country and have an equitable economy where all can prosper and reach their full potential. And that is what we are here to talk about.

Mrs. BEATTY. Let me go to my next question, and thank you. Dr. Mabud, I am sure you are aware that the Federal Reserve Act mandates that the Federal Reserve must promote things like maximum employees, moderate long-term interest rates, and last, but not least, stable prices. I don't want this to be a quiz game, but do you know how many Governors that there are on the Federal Reserve Board? There are seven. And did you know there were three vacancies now? And I guess I am concerned about the vacancies because my Republican colleagues have literally walked out and not appointed these things. And I think the American people need to know that we are doing everything to help during these tough times.

Do you have any comments on how some will say it doesn't affect inflation, but the reason for having seven is to bring diverse people. What do you think about not filling those Federal Reserve spots? I think there is a reason that they are on there, for us to hear all the differences as we look at the effect of inflation. Dr. Mabud?

Ms. MABUD. Thank you for that question. Simply put, I think now is not the time for political games. As Mr. Drummer said, families are in crisis. So, now is really the time to have a full slate of folks on the Fed Board, and it is time for us to take on these issues.

I do want to note that the Fed has a dual mandate, right? It has the mandate to keep stable prices, but it also has a mandate to ensure full employment. And there are huge swaths of this country who have never experienced full employment. Even now, in the midst of what is arguably an historic recovery, the Black unemployment rate is still double that of the White unemployment rate. So, I am really eager to see a Fed that is taking that full employment piece of their mandate seriously.

Mrs. BEATTY. Okay. Thank you, and I yield back.

Mr. AUCHINCLOSS. The gentlewoman yields back.

The gentleman from Texas, Mr. Williams, is now recognized for 5 minutes.

Mr. WILLIAMS OF TEXAS. Thank you, Mr. Chairman, and in full disclosure, I am a small business owner. I am a defender of profits. Profits are good. Profits mean jobs. I have been in the car business for over 50 years, and we are in one of the strangest markets I have ever seen. If I had gone on TV 3 years ago, for example, and said in a commercial that if you buy a car today, it will go up in value over the next 3 years, the Federal Trade Commission (FTC) would have fined me for false advertising. But this is exactly what is happening in the industry today. We simply cannot get our hands on enough new cars to satisfy consumers' demands. And this, in turn, has caused us to pay a very high premium to obtain used cars so that we have any inventory to sell at all. If we don't have inventory, we won't be able to sell anything, and we couldn't maintain a payroll, in my case of hundreds of employees.

To put this into perspective, how much has changed because of the pandemic, we used to carry 800 units on the ground, and today, I called my daughter and I just checked in, and she said that we have 20 units on the ground. We talk about corporate greed, but corporate greed has not caused us to carry 90-percent less inventory. It is the result of strange supply chains, overspending, and the threat of taxes and minimum wage conversation.

There is no mass conspiracy, I have news for everybody, between every business in America to squeeze the consumers to raise their profits. That doesn't happen. Corporate greed is a buzzword. It is a buzzword from people who have never run a business. While the price for a good might be higher from week-to-week, it does not mean that profit margins are also proportionally increasing. If you are looking at gross sales dollars, you are looking at the wrong figures. If an $100-million company grows to a $200-million company, it is highly unlikely that the profit margins were also able to double, and it doesn't happen. So, what should we be talking about is government greed, not corporate greed.

We have seen many new regulations that are causing businesses to hire more compliance officers that are a net negative to their bottom line. We have heard many Democrats talking about companies paying their fair share, which means they see a profitable company as something that they can squeeze money from to fund their own pet projects. These public policy decisions are having a detrimental impact on prices, since businesses are having to dedicate more resources to comply and respond. It isn't this fake notion of corporate greed for companies that struggled through the pandemic creating higher prices; it is government greed.

So, Dr. Goodspeed, can you talk about the effects of higher taxes and more regulations on the price of consumer goods?

Mr. GOODSPEED. Certainly, Congressman. And if I may, first, just as a point of fact for the record, I would like to point out that when I say that inflation in the United States has risen more than in other advanced economies, I mean that on the eve of the American Rescue Plan, inflation in the Euro area and in the United States was 1 percent. The increase in that inflation rate using a harmonized measure of consumer price inflation, so that we are comparing apples to apples, the increase in that inflation rate in the United States has been 3 times that in the Euro area.

In terms of taxes and regulation, I think that there are both supply- and demand-side factors here. In terms of price pressures, one of the things about the tax measures in 2017 is that it incentivized higher labor force participation and it incentivized greater investment in domestic capital formation. That tends to increase the productive capacity of the United States economy, which lowers inflationary pressure.

Mr. WILLIAMS OF TEXAS. And creates competing wages.

Mr. GOODSPEED. And creates competing wages. And to put numbers on that, during the first 3 years of the preceding Administration, real wages, inflation-adjusted wages, grew 9.8 percent for the bottom 10th of the wage distribution. They grew 4.8 percent for the top 10 percent of the wage distribution. Real wealth inequality declined, real income inequality declined, and labor share of income rose during the 3 years to 2019.

Mr. WILLIAMS OF TEXAS. Yes, if you reduce regulations, you reduce taxes, you let Main Street compete, competition drives everything, everybody's saying about corporate greed.

Mr. GOODSPEED. Right.

Mr. WILLIAMS OF TEXAS. People get an even shot at rising and making good for their life.

Mr. GOODSPEED. Correct. And that is why we observed in 2019, 1 year alone, that the median American household experienced real inflation-adjusted income gains of $4,400. That was more in 1 year than in the preceding 16 years combined.

Mr. WILLIAMS OF TEXAS. Okay. Thank you, and I yield back.

Mr. AUCHINCLOSS. The gentleman yields back.

The gentleman from Florida, Mr. Lawson, is now recognized for 5 minutes.

Mr. LAWSON. Thank you, Mr. Chairman, and I welcome all of the witnesses to the committee.

One of the things that I wanted to have you all elaborate on is, Chairman Powell addressed the committee, maybe about a week ago, and he said that when the Fed seeks to bring inflation down, they raise interest rates, which puts restraints, raising overall borrowing costs for households, businesses, and consumers. If that is the case, and I think they probably know more about it than I do, what happens in inflation when interest rates are raised on houses and our cars, and everything else that you can think of, but the average consumer carries more credit card debt with higher interest rates than the interest rate that is going to probably be decided on by the Fed? How do you stabilize the interest rates that are being charged on credit card debt during this inflationary period as compared to trying to get the economy stable, because they are going to increase with more and more debt, with interest rates that exceed sometimes 30 percent? Would anyone care to talk about it on the panel?

Mr. DRUMMER. Yes, Representative.

Mr. ZANDI. I will take a crack at it, Congressman.

I think that there are a number of different channels through which higher interest rates will affect the economy. You mentioned one, through higher interest expense for households, particularly those that have debts and most specifically credit card debt, and home equity lines of credit.

But it works through other ways as well—one of the quickest and most significant ways is through lowering asset prices. So, one of the reasons why stock prices are down—obviously, there are many reasons, including Russia's invasion of Ukraine and higher oil prices—is that investors are now discounting a normalization of interest rates, and that has brought down stock prices. Of course, that hurts high-income Americans, high-net-worth Americans. So all Americans are going to feel the financial result of these higher interest rates. But we do need to see, as the economy comes into full employment, as unemployment gets close to 3 percent, we do need to see the rates of growth in the labor market and the economy more broadly kind of get back to a level that is consistent with the growth in the labor force. And we need that moderation to occur.

Zero interest rates, which is where we are today, is inconsistent with that outlook for where we are headed. So, we do need to see interest rates normalize. And all Americans from top to bottom are going to feel it. But obviously, middle-America Americans would desperately need to avoid going back into recession. And if we don't normalize rates, slow the economy as we come into full employment, the odds of that are going to rise and we are going to hurt the very same people we want to help.

Mr. LAWSON. Okay. And I am going to try to get in another question before my time runs out. The Administration puts forth a lot of funding for small and mid-sized corporate processes to assist with the processing capacity. Do you think we need to take the same approach for the timber industry, and invest in small and mid-sized timber processes? We know there have been a lot of processing issues with timber. Would it be beneficial to the housing supply market to invest in smaller processes to help increase the timber supply within housing? And that is for the whole panel.

Mr. GOODSPEED. Thank you, Congressman. I can't necessarily speak to the timber industry specifically, but what I can say is that it would certainly be good tax policy to expand the expensing for investment in new plants and equipment in the United States. That would include equipment of all sorts. And as I noted in some of my earlier remarks, one of the issues with the prospect of higher corporate income tax rates down the road is that it raises the incentive for firms, including firms in the timber industry, to defer investment in new equipment to 2022 because the deduction for new equipment investment is much more valuable under a 28 percent rate than a 21 percent rate. So, that was unlikely to help equipment investment recover in 2021.

Mr. ZANDI. Can I just push back on that, Congressman? I don't think there is any material evidence that the lower tax rates that were put into place back in 2017 have impacted investment in a meaningful way. And I don't think the discussion and debate around rolling back some of those tax cuts had any impact on business investments over the last year. In fact, I would say if we go look at business investment in equipment, it is much higher than it would have been without the pandemic. It has gone skyward. And that goes to supply chains, and that goes to trying to improve productivity growth. So, I don't think there is any—

Mr. AUCHINCLOSS. The gentleman's time has expired.

Mr. ZANDI. The timber industry is a problem, but I don't think the solution is lower tax rates.

Mr. LAWSON. Okay. With that, Mr. Chairman, I yield back.

Mr. AUCHINCLOSS. The gentleman from Georgia, Mr. Loudermilk, is now recognized for 5 minutes.

Mr. LOUDERMILK. Thank you, Mr. Chairman.

I am almost speechless—not entirely, I have plenty to say—that we are here doing this, because obviously, some of my colleagues haven't learned anything from history, especially recent history. I heard in testimony earlier that we expect the inflation to be short-lived; we will get out of it soon. Yes, if you really buy into a lot of what we heard here today, that it is the big corporations that are the problem and it is not the self-imposed destructive policies that have brought us to where we are right now.

Let us turn the clock back to just a few months ago, where in the first quarter of last year, we heard, oh, there is no inflation, it is not really there, it is just temporary, caused by the pandemic, we will be out of it really soon. But many of us on this side of the aisle, me included, were saying no. And the direction that we are going with this wasteful spending, that it is not just the deficit spending that we are in, it is where we are spending the money. You are dumping money into the demand side, and then regulating the supply side. It is going to cause problems, and we have seen that. Then it went into, well, it is here, inflation is here, but it is not going to last long. Then we get into, well, finally, you are recognizing that we are in inflation, but we have to find somebody to blame it on because it can't be our bad policies.

Quite frankly, my colleagues on the other side are again turning away from fact and embracing a more advantageous political science instead of real science, and scrambling to find a scapegoat for self-created problems that are affecting Americans across-the-board. And it is not just me saying this, former Democrat Treasury Secretary Larry Summers warned last year that excessive fiscal stimulus will cause the highest inflation in generations. Democrats dismissed these warnings, but it turned out he was right. Again, this is somebody from the other side of the aisle.

And Federal Reserve Chairman Powell last week, in responding to one of my questions, admitted that the reckless stimulus spending is a significant driver of inflation. These are facts.

Even the Washington Post has reported that Democrat pollsters recently advised the White House to find a villain to blame inflation on. This is the Washington Post. Because Republicans' criticism that the out-of-control spending as the cause of inflation is being effective. So, even the Washington Post is reporting that pollsters, political science, not natural science, is driving this entire narrative.

Just a little while ago, President Biden finally announced that we were going to stop importing Russian oil, but then he continued on to blame U.S. oil producers as the reason that we are not producing oil, not his Executive Orders. And I also would suggest, let us look at some of the self-imposed policies like the influence that ESG has had on American producers by punishing investors and steering them away from fossil fuels and investing in petroleum companies in the U.S. but not in foreign entities. So, there is a lot of blame to go around in a lot of areas that we have self-imposed the problems that most Americans are facing today.

The Democrats are now blaming the so-called greedy corporations for their self-created inflation problems. This is a baseless and completely unserious argument. This is simply to distract us from the real problem that they have brought upon this nation. And the American people are quite frankly not buying it. Polling shows that 70 percent of Americans disapprove of the way this Administration is handling inflation. It is because they are doing the same thing over again and expecting a different outcome. And I am not even sure they are expecting a different outcome. They are just hoping that the American people will finally buy into the narrative they are pushing out there, but they are not.

In a piece titled, "The White House once again offers a bizarre message on inflation," the left-wing Washington Post editorial board said, "President Biden is facing mounting criticism for inflation's rise to its highest level since 1982," which is right after the end of the Carter Administration. And I suggest if you go back and look at history, we are repeating the Carter Administration's years all over again, but on steroids. Unfortunately, the White House's latest response is to blame greedy business. And economists across the political spectrum are rightly calling out the White House for this foolishness.

I can go through a litany of things that have caused this problem, but I am running out of time. So, Mr. Goodspeed, in your testimony you said the American Rescue Plan artificially increased demand as much as 5 percent above pre-pandemic forecasts. Can you explain briefly how that is the case?

Mr. GOODSPEED. Thank you, Congressman.

Briefly, that means that with a fiscal stimulus of that magnitude, it increased aggregate demand in the United States economy at the same, relative to the potential output of the U.S. economy. That 5 percent is probably an underestimate, because as I noted in my testimony, the supply-side potential of the United States economy was probably depressed in 2021.

Mr. AUCHINCLOSS. The gentleman's time has expired.

Mr. LOUDERMILK. Mr. Chairman, I yield back.

Mr. AUCHINCLOSS. The gentlewoman from Iowa, Mrs. Axne, who is also the Vice Chair of our Subcommittee on Housing, Community Development, and Insurance, is now recognized for 5 minutes.

Mrs. AXNE. Thank you, Mr. Chairman. And thank you to the witnesses for being here. I think we all know how much price increases are on the minds of our constituents, as we are talking here in Congress. And the war in Ukraine has far more severe consequences for their people than higher gas prices. But since we are here to talk about inflation, let us focus on that to start.

Right now, gas prices are up $0.55 nationally in the last week, following oil prices higher after the invasion, of course. Those prices may rise further now that we are blocking imports of Russian oil, and I support that move. But since Russian imports make up only 3 percent of our consumption, that is not all that is going on here. Even before this invasion, gas prices were up about $1 over last year, and oil was trading at $90 a barrel.

Dr. Zandi, it's good to see you. Do you have an estimate of the price where U.S. shale oil production becomes profitable?

Mr. ZANDI. That price is somewhere between $65 and $70 per barrel. Obviously, I am painting with a broad brush. There are big differences across the fracking fields of North America. But that is the marginal cost of producing and transporting that oil to the global marketplace, so, about $65, $70 a barrel.

Mrs. AXNE. Thank you. Okay. So, about $65 to $70 a barrel is becoming profitable. And again, oil was trading at $90 a barrel when last we talked. So, pre-pandemic oil was around $60 a barrel, and domestic production here was around 13 million barrels a day. Since the pandemic, though, production is down 10 percent, which is about 1.3 million barrels a day. Now, I understand companies can't turn this on overnight, but oil has been over $60 for a year now.

Dr. Mabud, do you have any explanation for why production is still so far below where it was?

Ms. MABUD. Thank you for that question. The fossil fuel industry is not immune to the type of profiteering that I spoke about in my testimony. And this moment when things are in flux, when there are a lot of geopolitical factors happening, is an opportunity to exploit those headlines in chaos and use their grip on the market to raise prices. In fact, just 5 oil and gas companies raked in over $75 billion in profits last year, which is the highest increase in profits in 7 years. Look, the only thing more lucrative than pandemic profiteering is war profiteering. And sadly, we are probably going to be seeing both. And major oil companies, including household names like Exxon Mobil, Shell, and Chevron, are set to return record buybacks to their shareholders in 2022. Analysts are estimating that these buybacks could range anywhere between $38 billion and $41 billion, which is nearly double the buybacks in 2014, the last time that oil traded above $100 a barrel, so this is just corporate profiteering. And this sector is not immune to that.

Mrs. AXNE. That is incredibly unfortunate. I certainly hear a lot of calls lately for increased U.S. production directed right here at Washington, D.C. But the truth is, we are not the ones that are stopping it from happening. The companies are just choosing not to produce what we need right now. Here are a couple of quotes from some oil CEOs just in this last month. "Our plan now for 2022 is to just keep our volumes flat." Another quote, "Whether it is $150 oil or $200 oil, we are not going to change our growth plans." Maybe my economics is a little rusty, but I know yours certainly isn't, Dr. Zandi. Is that how supply and demand is supposed to work?

Mr. ZANDI. No. I do think though, Congresswoman, we are starting to see the economic incentives starting to work. If you look at Rig Counts, they are double what they were at the pre-pandemic low. And in the last 6 to 8 weeks, they have picked up sharply. And I suspect now that we are in $120 oil, we will see the oil rigs really ramp up.

I don't have a perspective on the industry and how competitive it is. It has been slow to respond to the higher prices, that's for sure. But it feels like it is kicking into gear now. And thank goodness for that, because we will need that oil.

Mrs. AXNE. I am glad to hear that it is turning around and that they are actually going to start doing some production for us because we need it. A couple of other things that the CEOs have been saying, "The capital that historically we would spend in growing, now we are redeploying in the form of share repurchases." Another quote, "We have to do what Wall Street wants, or else your stock craters." This is my big concern, that Americans, working Americans are suffering as more money is being put in shareholder pockets. And so, this is why company after company is reporting record-free cash flows. Those calls for more oil production shouldn't be coming to Washington. They absolutely need to be going to Wall Street because that is who is really demanding that oil companies not increase their production. So, thank you so much for your testimony here today.

I yield back.

Mr. AUCHINCLOSS. The gentleman from Tennessee, Mr. Kustoff, is now recognized for 5 minutes.

Mr. KUSTOFF. Thank you, Mr. Chairman. And thank you to the witnesses for appearing today.

Dr. Goodspeed, the Consumer Price Index has gotten a lot of attention. Of course, we saw the numbers last month that registered in at 7.5 percent, which was higher than I think a number of economists were thinking. The number that I have seen, that is expected when the CPI number comes out later this week, is 7.9 percent. In historical terms, can you reference that? We know that when the number came out last month, that was the highest number that we have seen in 40 years. Where does 7.9 register? What does that mean for the average American and consumer?

Mr. GOODSPEED. Thank you, Congressman. That frankly is a level of inflation that we have not observed since the late stages of the great inflation of the 1960s to the early 1980s. And I would add that it might very well be higher than that if we calculated CPI the way we did before 1983. The 1983 was improvement, but prior to 1983, home prices directly entered into the calculation of CPI. And I suspect that if they did again, then we would have actually seen even higher inflation than 7.5 percent.

Mr. KUSTOFF. And in your opinion, what would 7.9 percent, if that number is real, and it projects that way when it comes out later this week, what would that mean for the average American? What does that reflect?

Mr. GOODSPEED. I think that reflects a substantial decline in purchasing power even greater than that which we observed in 2021 when, in inflation-adjusted terms, wages actually declined in 2021. And they declined by various measures between 2 and 3 percent, because even though wages went up, they did not go up by enough to keep pace with the surge in inflation.

Mr. KUSTOFF. The markets, as anybody who opens up their brokerage statement or logs online and looks at it knows, have been tumultuous, certainly over the last several weeks. Do you have an opinion of how the markets feel about government spending and increased government spending?

Mr. GOODSPEED. I think markets are reflecting a great deal of factors, geopolitical uncertainty included, concerns about fiscal excess necessitating tightening by the Federal Reserve. I would add that when we are talking about asset classes, one of the ways in which inflation really hurts lower- and middle-income households is through the fact that they don't have the same hedges against inflation that higher-income households have. Higher-income households are more exposed to equity markets, higher-income households tend to own their own homes. So, they are better-hedged against inflation than lower-income households.

Mr. KUSTOFF. Thank you, Dr. Goodspeed.

Mr. Zandi, I would like to talk to you about the travel and the airline industry for a moment. I know during this hearing, there have been a lot of questions about high energy prices. The airline and travel industry, as we know, has been through a roller coaster with the pandemic. We all fly. We have seen increased capacity, although I am not sure that the business traveler has returned to his or her pre-pandemic level. But with high energy prices, at what point do the airlines look at the price of a barrel of oil and decide that it is not profitable and start parking airplanes?

Mr. ZANDI. Oh, I think we are a long way from that. Although, you make a great point that the airline industry is obviously very energy-intensive, and as prices rise, fuel costs rise, it is going to make it very difficult for them to earn money. Their profitability is going to be under extreme pressure. At least, that has been the case historically. And I would be surprised if that isn't the case here as well. They may pull back on expansion plans, they may pull back on particularly unprofitable routes, but I don't think they will do this in a widespread way. Because the other thing that is going to happen is I do think demand is picking up, business travel, as you point out, has been very depressed. But now that we are on the other side of Omicron, offices are reopening, particularly in the big urban centers that are globalized, and we are going to see more business travel. So I would be surprised, Congressman, if we saw the airline industry actually park planes on tarmacs.

Mr. KUSTOFF. To make up for their margins, if oil continues to increase, they would have to raise their prices, wouldn't they?

Mr. ZANDI. Yes, sure. And I am sure that they will try to compensate for that.

Mr. KUSTOFF. Thank you. I yield back.

Mr. AUCHINCLOSS. The gentleman from Illinois, Mr. Casten, who is also the Vice Chair of our Subcommittee on Investor Protection, Entrepreneurship, and Capital Markets, is now recognized for 5 minutes.

Mr. CASTEN. Thank you, Mr. Chairman. Our memories are short in this town, but I want to remind everybody that 2 years ago this month, we were looking at the biggest-ever collapse in GDP in our history, and the biggest-ever spike in unemployment in our history. And if I would have told you then, don't worry about it, 2 years from now we are going to have 300 million Americans vaccinated, we are going to have employers creating jobs at a faster rate than the workforce is growing, and we are going to have Republicans and Democrats united across the aisle to support NATO to provide defensive weapons to Ukraine and stand up to Vladimir Putin, you would have told me I was smoking some funny cigarettes. But here we are.

And I do not mean to make light of the challenges Americans face today, but I think I speak for all Americans when I say I am a lot happier to be here than where we were just 2 years ago. That rate of change is extremely disorienting. It is hard to understand. It is hard to process. And so, I want to start with just some really simple questions.

Dr. Goodspeed, if I gave you a 9.2 percent raise in your income, and your expenses went up by 5.6 percent, would you have more or less money in your wallet at the end of the year?

Mr. GOODSPEED. [Inaudible.]

Mr. CASTEN. You would have less money if your income went up at 9.2 percent in your—

Mr. GOODSPEED. [Inaudible.]

Mr. CASTEN. No, a 9.2 percent raise and a 5.6 percent increase in your expenses.

Mr. GOODSPEED. [Inaudible.]

Mr. CASTEN. Okay. I just described the 2021 wage growth in the United States and core inflation. And when we only talk about income growth, or we only talk about expense growth, it is a one-hand-clapping conversation. What matters to Americans is how much money is left in their bank, not what is the end, and, indeed, we have seen a $2 trillion increase in savings in the last year. You also mentioned, Dr. Goodspeed, that the U.S. inflation rate, I think, if I understood you, is the 5th-highest among the G20 countries. Where is our wage growth among G20 countries?

Mr. GOODSPEED. I noted that among 46 economies tracked by the Organisation for Economic Co-operation and Development (OECD), the increase in average inflation in 2021 relative to pre-pandemic was the 4th highest in the United States.

Mr. CASTEN. Okay. Close. I am just saying that among G20 countries, what is our rate of wage growth, because I want to make sure we focus on not one-hand-clapping.

Mr. GOODSPEED. I do not, off the top of my head, know—

Mr. CASTEN. I will help you out. It is the second-fastest rate, and, in fact, the third spot is the U.K., which is just half of our rate. So, it is a long drop from the silver-medal podium to the bronze-medal podium. How does our GDP growth compare over the last year to the rest of the G20?

Mr. GOODSPEED. Our GDP growth over the past year has outpaced most of, if not all of the rest of the G20.

Mr. CASTEN. Yes, I think we are the 8th-fastest, interestingly enough, but the number one through three spots are Argentina, Turkey, and Saudi Arabia. I think it is safe to say that none of us want to emulate their economic policies, but they are seeing rapid GDP growth.

It seems to me that, yes, we have had rapid inflation growth, but we have also been at the top of the league tables, thanks to a lot of what we did, we would not be there but for those changes. So, Mr. Drummer, I would like to start with you. I am under no illusions that that 9.2 percent wage growth has accrued to every single American. Can you take a minute and tell us what you see that we have done from a policy perspective to drive that wage growth? And what we can do to make sure that those gains are shared by all Americans going forward?

Mr. DRUMMER. Thank you, Representative. That's an excellent question. So, average wages for U.S. workers grew by 4.7 percent. It was the highest growth in 2 decades. However, inflation also grew by 7 percent during the same time, meaning that even with—

Mr. CASTEN. I'm sorry; let me just interrupt you there, because the Bureau of Economic Analysis had 9.2 percent average wage growth in 2021. I just want to make sure I am not—

Mr. GOODSPEED. To my knowledge, the Bureau of Economic Analysis doesn't report average wage growth. The average wage growth would be from the Bureau of Labor Statistics.

Mr. CASTEN. I'm sorry but the data says 9.2—

Mr. ZANDI. I think that is wage and salary growth; I am pretty confident that is wage and salary growth.

Mr. CASTEN. Okay. I am sorry to interrupt Mr. Drummer, but I just want to make sure that we are—

Mr. DRUMMER. Okay. But to your point, we can get to the point here that the wage growth is a reflection of what happens when we have expansionary monetary fiscal policy. We don't get growth in our economy without stimulating our economy. And that is pretty much what it comes down to. Now, unfortunately, we do see that the fastest wage growth did happen for the lower quartile. But they were coming up from a pretty low number, and that wage growth still isn't enough. And this is why the rate increase is so dangerous. We are about to claw back those gains that they just had after decades of relative stagnation.

Mr. CASTEN. Dr. Zandi, with the time left, anything you want to add as far as what we have done from a policy perspective to make sure that we are at the top of those league tables on GDP growth and wage growth, and what should we be doing going forward to make sure we maintain those gains?

Mr. ZANDI. I thought the policy response, the fiscal policy response in particular, and the American Rescue Plan, more specifically, was a slam dunk positive for the economy. And I think it is critical to getting the economy back to full employment as quickly as it has faster than almost any other economic recovery.

Mr. AUCHINCLOSS. The gentleman's time has expired.

Mr. ZANDI. And I don't believe that it contributed in any meaningful way to inflation.

Mr. AUCHINCLOSS. The gentleman's time has expired.

Mr. CASTEN. I yield back.

Mr. AUCHINCLOSS. The gentleman from Ohio, Mr. Gonzalez, is now recognized for 5 minutes.

Mr. GONZALEZ OF OHIO. Thank you, Mr. Chairman. First, I want to submit for the record a CNBC article entitled, "Inflation eroded pay by 1.7 percent over the past year," by Greg Iacurci.

Mr. AUCHINCLOSS. Without objection, it is so ordered.

Mr. GONZALEZ OF OHIO. Thank you. There is a bit of debate as to whether the real inflation rate or, I'm sorry, the real wage growth was negative. And I think that hopefully helps put it in context. So we are talking about historic inflation here. And for the 2012 to 2020 period, prices were relatively stable and much of the prior period. And so, the question is always what changed, what actually changed? If you listen to the Chair and some of the witnesses today, it seems to suggest that the idea is we should be spending more and we should keep rates low, and that will somehow correct inflation.

I want to start with Dr. Goodspeed. Do you have any reason to believe that corporations are greedier today than they were 4 years ago?

Mr. GOODSPEED. I have no evidence, nor I have seen any academic study to that effect, no.

Mr. GONZALEZ OF OHIO. So, this notion that greedy corporations are somehow driving inflation—I would argue that relative greed amongst corporations is pretty stable over time. It is sort of silly as an explanation for inflation.

And it is notable that Chairman Powell, when he was before our committee last week, disputed that. And Treasury Secretary Yellen rejects that explanation as well. And she didn't mention it a single time when she was before our committee. So, I think it is disingenuous, to say the least.

Another thing I am hearing is that we should keep rates low, while also complaining about housing prices, which housing prices are high.

Dr. Goodspeed, again, what impact do zero percent interest rates have on the price of housing?

Mr. GOODSPEED. They have a very substantial impact on the price of housing because you are discounting the future flow of housing services at a much lower rate. And that tends to increase demand for housing and increase the price of housing.

Mr. GONZALEZ OF OHIO. So when the Fed lowered rates to zero at the pandemic onset, it's not surprising that we saw demand increase, and therefore, prices increase? We saw it in housing, but we saw it in most markets. Fair?

Mr. GOODSPEED. That is fair.

Mr. GONZALEZ OF OHIO. Okay. And so, this idea that we should keep rates low and that is going to somehow solve the housing problem, boy, somebody's going to have to explain that one to me.

Now, we are going to talk about another thing that changed, which is in the summer of 2020, the Federal Reserve updated its statement on longer run goals and monetary policy strategy to state that the Fed would seek to achieve inflation above 2 percent for some time, after periods of low inflation. That is a significant change.

Given the persistent increase in inflation over the last year, do you believe that this policy hindered the Fed's ability to act sooner to address rising inflation or could you see where it might have?

Mr. GOODSPEED. I don't think that the policy change should have hindered—they still could have responded earlier. And I think they should have responded earlier. I fear that they may have overemphasized the, "flexible" part of flexible average inflation targeting.

Mr. GONZALEZ OF OHIO. Thank you. And I wish that this chart were easier to see. I know these are hard to see, but basically, this is personal goods expenditure from pre-COVID levels. If you look before the recession, more or less demand is fairly stable over time.

Here, you see massive jumps in durable goods. Here, here and here, where these arrows are all correlated almost perfectly with the fiscal stimulus, the Cares Act, March 27, 2020, you saw a massive increase in demand on durable goods. Bipartisan COVID Relief Bill December 21st, again, you see a massive increase in the demand for durable goods. American Rescue Plan, March 11, 2021, massive increase in demand for durable goods.

These are all things that have changed. And so, when you think about what is driving inflation, I think it is fairly obvious. We have rates that are at zero. We had a pandemic, and we responded. I voted for most of that stuff, frankly. I didn't vote for the American Rescue Plan. Massive fiscal stimulus and so, you have seen a shift in the demand dynamics.

What you have not seen is what the chairwoman and some of our witnesses seem to suggest, which is that there is evidence that corporations are somehow greedier today than they were 5 years ago. I don't think anybody would make that claim. But it seems to be the one that we are hearing. With that, I yield back.

Mr. AUCHINCLOSS. The gentlewoman from Massachusetts, Ms. Pressley, who is also the Vice Chair of our Subcommittee on Consumer Protection and Financial Institutions, is now recognized for 5 minutes.

Ms. PRESSLEY. Thank you, Mr. Chairman. Workers, families, and small businesses in my District, the Massachusetts 7th District, and around the country, are feeling the impact of higher prices, everything from groceries to diapers to medication, and other essential necessities. Corporations are claiming that they have no choice, but to pass costs on to consumers due to inflation, and supply chain bottlenecks, but their profits are telling a different story.

Mr. Vaheesan, isn't it true that most large corporations reported greater profits in 2021 than prior to the pandemic?

Mr. VAHEESAN. That is correct, Congresswoman. Corporate profit margins were at a 12-year high in 2021. And, importantly, markets across the economy were already highly concentrated, but inflation has given many corporations cover to exercise their pricing power. And CEOs and CFOs have gone on record to say that they can exercise pricing power that they couldn't before.

Ms. PRESSLEY. Two out of three of the largest publicly traded companies reported more profits in 2021 than they did in 2019, at a time of a global pandemic, and a pandemic-induced recession, when people are struggling to make ends meet. Corporations like Amazon, Kroger, and Starbucks are not only hauling in massive profits, but they are also still raising prices. That doesn't sound like they are simply, "passing costs on to consumers." That sounds like corporate price gouging.

Mr. Vaheesan, for those following from home who hear this term but don't exactly know what it means—and they are feeling the impact of it every day—can you briefly describe what price gouging is, and how it impacts consumers?

Mr. VAHEESAN. This price gouging really comes in two forms. The first is when a firm exercises monopoly or oligopoly power to unilaterally raise prices far in excess of costs. And that seems to be in action in industries such as beef, where processors are raising prices to consumers while keeping prices down to ranchers.

The second phenomenon is collusion, where a group of firms come together to jointly raise prices, foreign excess of costs. And that seems to be happening in poultry processing. In fact, a number of processors have been indicted and face private lawsuits over collusive activity. So those are the two types of price gouging that commonly happen in the economy.

Ms. PRESSLEY. Thank you. And I'll give another sort of real-time example that I certainly hear from constituents every day. Take Procter and Gamble, for example. They have repeatedly raised prices on their products during the pandemic, including diapers, while increasing their CEO pay, stock buybacks and dividends and raking in $21 billion in sales last year. So, these price hikes are rooted in corporate greed, plain and simple, and low-income families will continue to pay the highest price.

Dr. Mabud, are we seeing price gouging occur in just one or two sectors of the economy or would you say it is more of a broader problem?

Ms. MABUD. Thank you for that question. My organizationz, the Groundwork Collaborative, has combed through hundreds and hundreds of earnings calls over the last 3 quarters, and what we see is in sector after sector, this type of pandemic profiteering is really, really rampant. And part of the reason we are seeing such widespread profiteering is because these CEOs and corporate executives are being egged on by their shareholders. Because when prices go up, and there are higher profit margins like we have been seeing, record profit margins, the demand from investors is yes, keep doing that play, push the prices up even more, so we can push profits up even more. And the concern here is that investor scaffolding that undergirds our entire economy will keep prices elevated for a longer period of time and allow these huge companies to get rich while all of us pay the price.

Ms. PRESSLEY. Thank you. And this isn't just about the exploitive nature of price gouging by large corporations. It is also about investigating how and why, and do they have the power to do so?

Ms. MABUD. Absolutely. In many ways, pandemic profiteering is like that little blinking red light that says the whole switchboard is going down, right? And what we essentially have is 50 years of policy decisions that have led to a brittle supply chain and megacorporations really shaping a system that works for them and not for others. And as a result, when we have a moment of inflation and we are hearing this on the earnings calls, executives are saying, inflation is helping us with some cover to raise prices, and by the way, we can raise prices without losing market share because we are so big that our consumers have nowhere else to go.

Ms. PRESSLEY. Thank you.

Mr. AUCHINCLOSS. The gentlewoman yields back.

The gentleman from Michigan, Mr. Huizenga, is now recognized for 5 minutes.

Mr. HUIZENGA. Thank you, Mr. Chairman. I am about to attend a funeral of one of our colleagues, Jim Hagedorn.

Mr. AUCHINCLOSS. Mr. Huizenga, you are—

Mr. HUIZENGA. —sure all of my colleagues—

Mr. AUCHINCLOSS. Mr. Huizenga, you have come in with some buffering issues. Do you want to start over?

Mr. HUIZENGA. Sure. I apologize for that. I am on my way to the funeral of one of our colleagues, Jim Hagedorn, and I know all of my colleagues are thinking of his family today. So, I apologize as I am in the vehicle doing this.

Some pretty amazing statements are being made today. For example, the prices are up because of corporate greed, so I must assume that gas prices were low because the same corporations were not greedy. A year ago, Amazon had record profits because they are greedy, not because people are using them more, and trust me, I am no fan of Amazon per se. But there is another statement that ruthless efficiency has brought higher prices. The views on how the economy works are clearly very, very disjointed here within the committee.

I do want to ask Mr. Goodspeed to explain why inflation is hurting those middle- and lower-income families that I represent. I have the second-poorest county in the State of Michigan. It is one of the top 100 poorest counties in the nation. It is very rural. It has a significant minority population, and I am worried about them. Not the top quartile, I am worried about the bottom, and the second, and the third quartile of income earners. If you could address that, Mr. Goodspeed?

Mr. GOODSPEED. Thank you, Congressman. And on the subject of workers and how inflation is impacting them, I would just like to note for the record that I am not familiar with the 9.2 percent figures cited by the Congressman from Illinois. Insofar as I can tell, he is referencing nominal, aggregate wage and salary income, as reported by the Bureau of Economic Analysis, which is economy-wide. That is something very different from average wage growth as measured either by average hourly warning earnings or average weekly earnings or the employment cost index. So, I would just like to note that for the record.

In terms of your question, Congressman, yes, the inflation can be particularly difficult for middle- and lower-income Americans because they tend to have lower bargaining power. It is more difficult for their wages to keep pace with inflation. Second, things like rent, gas, groceries, and utilities tend to account for a higher share of their disposable personal income. And finally, as I have noted in my testimony, they tend to be less exposed to classic inflation hedges like equity markets, and like owner-occupied real estate.

Mr. HUIZENGA. And how would you respond to these calls for more Federal spending, that we haven't been spending enough and that more stimulus is going to help those families that you were just talking about?

Mr. GOODSPEED. I think that more Federal spending is likely to continue to put upward pressure on interest rates and that is not good for most households. I think more Federal spending is likely to exacerbate a lot of the inflationary pressure. And in the long run, I don't think it is sustainable, so that implies a higher future tax liability for ordinary Americans.

Mr. HUIZENGA. In a previous hearing, I took the adage, when you are a hammer, everything looks like a nail, and converted it to, when you are a modern monetary theorist or a neo-Keynesian, everything looks like a spending opportunity. And I think that is exactly what the debate is here today, whether we are going to pour more fuel on the inflationary fire that we have here. And maybe I'll finish with this, Mr. Goodspeed. How does fiscal discipline regulatory right sizing and private sector investment rather than government sector investment help families like those in my district?

Mr. GOODSPEED. I think we ran that experiment, Congressman, in 2017, 2018, and 2019, and the result was, as I noted earlier, real wage growth for the bottom 10 percent of the wage distribution of 9.8 percent versus real wage growth for the top 10 percent of 4.8 percent. We saw declining wealth inequality, and declining income inequality. And we saw real median household income grow by $4,400, which was more in one year than in the preceding 2016, combined. I think that is the result of this sort of policy mix to which you referred.

Mr. HUIZENGA. I appreciate that. And with that, I will yield back.

Mr. AUCHINCLOSS. The gentlewoman from Pennsylvania, Ms. Dean, is now recognized for 5 minutes.

Ms. DEAN. Thank you to the chairman, and I thank all of our witnesses for your time and testimony and expertise today.

I want to follow up on a question that I asked Federal Reserve Chair Powell just last week, at our hearing. I have voiced my concerns about increasing market concentration and the role it has played in contributing to the fragility of our supply chain. I am thinking and some of you have spoken to it in the beef and poultry industry, for example and its connection to inflation. In response to my question, Mr. Powell downplayed the role of market concentration, noting that it is not a settled question, and he defers to the competition authorities. Many of you on this panel see it differently.

So maybe, I'll start with Dr. Mabud and Mr. Vaheesan. Can you please speak more to the market concentration and its impact on inflation?

Ms. MABUD. Sure. Thank you for that question. Corporate consolidation and its large size in our economy has really helped facilitated the price hikes that we are seeing today. With control and dominance over these markets, these massive corporations can raise prices and pass along costs to consumers who have nowhere else to turn. Think about families again, who need diapers, and all of the diaper brands that we are all familiar with are made by two diaper companies, and the prices are going up.

Those companies know that they can get away with it because families are not going to go without diapers. Pandemic profiteering is really just one symptom of an economy that prioritizes profits, all while decimating the economic security of millions around the country, and faced a broken economy for decades. It is kind of the tip of the iceberg in many ways, and I am happy to speak more to the supply chain aspect of this too, but we'll let my colleague on the panel, go next.

Ms. DEAN. Mr. Vaheesan?

Mr. VAHEESAN. Yes, that is exactly right. First, corporate concentration has contributed to higher unilateral pricing power on the part of businesses, so they can raise prices, raise profit margins without losing large volume of sales.

Second, in concentrated markets, it is easier for companies to come together and collude, and as a number of Members noted today, markets were very concentrated before the pandemic. That is certainly true. But inflation of an excess of 7 percent has given powerful corporations the freedom to approach their purchasers, whether they are wholesalers or retailers and say, look, inflation is up. We want to raise prices, and they didn't have that cover before. So it is easier to broach the topic of price increases without jeopardizing their relationship with purchasers.

And I think I would add that 40 years of mergers and acquisitions have meant that companies have plowed money into buying other companies instead of investing in new capacity. And the pandemic has really exposed the fragile nature of many of our supply chains and the lack of economic resiliency.

Ms. DEAN. Thank you very much, both of you.

Dr. Zandi, it is good to see you, my fellow Philadelphian, Pennsylvanian. I want to thank you.

Mr. ZANDI. It's good to see you.

Ms. DEAN. Maybe tacking on to this question about concentrations in the market and inflation, what are some solutions that Congress can apply? And then, I have another question for you after that.

Mr. ZANDI. Sure. I do think it is very important that you have hearings like this to shine a bright light on these practices. In fact, you may want to dig deeper into each of these industries where concerns are raised about competition in the meatpacking industry or the energy industry. I think that is a very fundamental role of government, to make sure that everyone is playing by the rules, particularly in a time of crisis. And we are deeply in crisis. So, I think that is very key.

And then, making sure that the antitrust laws are in the shape they need to be in, and I know there has been a lot of work, both in the Senate and in the House, around taking a good hard look at our antitrust laws and making sure they are up to the challenges that exist today. So, I think those are very important things to do, just to make sure that businesses are playing by the rules in these markets in a time of stress.

Ms. DEAN. And following up on the American Rescue Plan that I was very proud to be a small part of with a yes vote about a year ago, sadly, some of my friends on the other side of the aisle have been spinning about the American Rescue Plan and inflation as though it were entirely to blame for the inflation that we are seeing in this country, and we all know that it is a global phenomenon. Can you speak to that set of myths?

Mr. ZANDI. Yes, the American Rescue Plan did help demand, but that was a year ago and that coincided with the vaccinations in the reopening of the economy, so inflation picked up. But that was deemed to be okay because we have been through a decade or more of low inflation, suboptimal inflation. The really difficult inflation came well after the American Rescue Plan and its impact on demand waned, and that was due to the pandemic and the Delta wave and disruption to supply chains and—

Mr. AUCHINCLOSS. The gentlewoman's time has expired.

Mr. ZANDI. —the complicated question we are experiencing now is not due to the American Rescue Plan.

Mr. AUCHINCLOSS. The gentlewoman's time has expired.

Ms. DEAN. Thank you for that clarity, and I yield back.

Mr. AUCHINCLOSS. The gentleman from South Carolina, Mr. Timmons, is now recognized for 5 minutes.

Mr. TIMMONS. Thanks, Mr. Chairman. I have to say the evolution of the so-called experts and the leftist politicians on inflation over the last year has been absolutely incredible to behold. When Republicans warned of inflation last year while Democrats were spending like drunken sailors, we were shooed away and told that was crazy talk. Inflation was a thing of the past, et cetera. My, how their tune has changed, after calling it crazy, then it was transitory. And then, it was only used cars, lumber, and gas. And then it was, and this is my favorite, a first-class problem. The White House chief of staff literally described inflation as a first-class problem, but nothing could be further from the truth. And we aren't done yet. That wasn't the end of the evolution.

Once my colleagues across the aisle started polling the issue and realized what we have been saying all along, that inflation functions as a tax, a regressive tax, primarily hurting folks living paycheck to paycheck on fixed incomes, who are just trying to make it until payday. Once they realized they could not wish away this problem, they had to start blaming it on something. There has been no introspection to speak of friends across the aisle. Instead, they are blaming their tried-and-true boogeyman, corporate America. Never mind the easy money policies of the Federal Reserve over the last 2 years. Never mind trillions of dollars of unneeded Federal deficit spending poured into an otherwise healthy economy that was emerging from the pandemic.

Last year, Democrats ignored Larry Summers when he joined Republicans and warned of the risk of inflation that the so-called American Rescue Plan posed. So what is our friend, Mr. Summers, former Treasury Secretary to President Clinton, and Director of the National Economic Council to President Obama, saying about the Democrats new plan to, "break up the evil and greedy corporate overlords inflation." "The emerging claim that any trust can combat inflation reflects science denial. There are many areas like transitory inflation, where serious economists defer any trust as an anti-inflation strategy is not one of them."

One of the last favorite boogeyman is the meatpacking industry. What does Larry Summers have to say about that? "Breaking up meat packing would in the short run lead to reduced supply, which would further increase prices. In general, when government goes to war with industries, that discourages investment in subsequent capacity." I am going to say that again. "When government goes to war with industries, it discourages investment in subsequent capacity." So in plain English, what my friends on the other side of the aisle were proposing as a solution would only make things worse.

Subsequently, making goods and services even more expensive for the American consumer, they ignored so much once. They will be wise not to ignore him again. So, where do we go from here? Obviously, the Fed is the government's institution with the greatest ability to curb inflationary pressures across the economy. And I am glad to see that they are finally beginning to use their tools to address rising prices. Better late than never, I guess.

Dr. Goodspeed, obviously in the energy sector, there are many steps Congress can take to address runaway inflation, namely increased production here at home. But looking at the big picture, besides immediately halting wasteful spending, what can Congress do to address this problem and provide relief to the American people? It is the least we could do given actions of my colleagues across the aisle this last year.

Mr. GOODSPEED. Thank you, Congressman Timmons. I think three important things would be not only slowing the growth of Federal spending, but also providing some certainty on the future direction of both personal and corporate income tax rates so that we can incentivize increased labor force participation, particularly among those of retirement age or near retirement age, 1.5 million of whom have exited employment early. And also by giving some certainty on the business tax side to incentivize increased business investment to increase capacity.

And if I may, a policy situation that seemed eerily familiar to me to the last time that we saw demand excess from fiscal policy and a constrained labor force, and this is from Alan Meltzer, writing about the origins of the great inflation in the 1960s: "Policymakers denied for several years that inflation had either begun or increased, they did not deny the numbers they saw, but like Jeff Gardner, the chairman of Janssen, they gave special explanations."

Mr. TIMMONS. Thank you, Dr. Goodspeed. Thank you, Mr. Chairman. I yield back.

Mr. AUCHINCLOSS. The gentlewoman from Texas, Ms. Garcia, who is also the Vice Chair of our Subcommittee on Diversity and Inclusion, is now recognized for 5 minutes.

Ms. GARCIA OF TEXAS. Thank you, Mr. Chairman, and thank you to all the speakers who are here today to join us in a discussion of such a very important topic.

It is important that we address the issue of inflation. But first, we must identify the issues correctly. We cannot produce targeted strategic solutions without identifying the problems and where they are coming from. I know it is fun for some to blame the Biden Administration for economic problems, but these problems, as you know, are global and far-reaching. We must dig deeper to understand some of the fundamentals, the economic structures we operate that rigged the game against lower- and middle-class Americans.

My colleagues across the aisle have talked about upgrading America's aging infrastructure for years, with no action. Instead of fixing and investing the American infrastructure, they spent $1.9 trillion in tax cuts to the wealthy, but while the previous Administration only talked about infrastructure, we did it. Under the Biden Administration, we have invested $550 billion in new infrastructure development, including $17 billion for ports and waterways, bringing it home. I have always been a vocal supporter of the strategic significance my city places and why I fought for us to invest in widening, deepening, and dredging our port, the Port of Houston, so you can expeditiously move goods, keeping up with shipping containers becoming larger and heavier, and shipping activity moving more frequently. That is critical American infrastructure work.

Dr. Zandi, in your testimony, you referenced the supply chain bottlenecks as a major factor in contributing to the shortage of goods, thus causing prices to rise. Do you agree that it is important that we invest in American ports and waterways, and how are the projects funded by the infrastructure law reducing supply chain backlog?

Mr. ZANDI. Thank you for the question, Congresswoman. Absolutely, I think that infrastructure legislation was a critical piece of legislation, both in terms of addressing near term inflationary issues related to supply chain disruptions, and that is roads and bridges, seaports, and airports. There are significant amounts of new funding for all of those things in that infrastructure legislation. I also think it is very important for long-term economic growth because I do think it lowers the cost of doing business, makes U.S. businesses more competitive globally, and will lift overall productivity growth, which raises the standard of living for all Americans and it lowers inflationary pressures going forward.

The only criticism I would have is it is too small. We have been underinvesting in our infrastructure, in everything from water systems, to broadband to, you name it. We have been underinvesting for a decade, and there is a big shortfall, and we need to invest even more. And I think the benefits of that are very obvious.

Ms. GARCIA OF TEXAS. Dr. Mabud, from auto companies, to hotels, to restaurants, to retailers, earnings calls show that many corporations are looking to their competitors and taking advantage of unusual pandemic conditions and supply chain challenges to pass on the higher prices. Some speakers before me mentioned that last year, Kroger's CEO said, and this is a direct quote, "A little bit of inflation is always good in our business, pass off costs to consumers when it makes sense to do so." Can you share examples from these earnings calls or price gouging or profiteering?

Ms. MABUD. Yes, thank you for that question. Johnson & Johnson is actually a great example. The company expects to make more than $3 billion from its COVID-19 vaccine in 2022, which I think is worth noting is the result of more than $1 billion of Federal funding for research and development. And these vaccine profits are on top of the price increases it has set for 29 other prescription drugs in this year alone. And on these earnings calls, Johnson & Johnson's CEO is really candid about the company's potential to profit from future human suffering. He noted, "We remain optimistic on the fact that strong underlying demand for health care is there. And there is still a lot to do in multiple diseases in order to address suffering and death. In other words, future opportunities to profiteer from public health crises." And as I have testified, this is not something that is limited just to the grocery sector or the health care sector. These are really widespread issues.

Ms. GARCIA OF TEXAS. Thank you. Back to Dr. Zandi, our colleagues on the other side of the aisle here really focused on Federal spending as the biggest driver of inflation. However, they seem to forget the deficits went up every single year under the Trump Administration, as they passed multi-trillion-dollar tax breaks for corporations and the wealthy. Do you feel that the American Rescue Plan of 2021 raised or lowered deficits in this last year?

Mr. AUCHINCLOSS. The gentlewoman's time has expired. Please be brief, Dr. Zandi.

Mr. ZANDI. Initially, it raised deficits because it was deficit finance, but without it, the economy would have been significantly diminished. And if you look out towards the middle to the end part of the decade, it would actually have resulted in the same deficits in debt, if we had not done the American Rescue Plan.

Mr. AUCHINCLOSS. The gentlewoman's time has expired.

Mr. ZANDI. I don't think there was a choice here.

Ms. GARCIA OF TEXAS. Thank you. I'll yield back, Mr. Chairman.

Mr. AUCHINCLOSS. The gentleman from Arkansas, Mr. Hill, is now recognized for 5 minutes.

Mr. HILL. Thank you, Mr. Chairman. I appreciate our panel bringing your expertise to the committee. Rising prices and ongoing labor shortages are leading to substantial wage growth across many industries. The latest data shows that average hourly wages grew at 4.5 percent in the 12 months ending in December.

Of course, this is not real wage growth, which is at a loss since inflation is running at 7.9 percent. While wage growth alone can be positive, it can lead to a vicious wage price spiral, like we saw when I began my career in the 1970s. Particularly, if higher prices and pay in excessive productivity feed into each other, drive up inflationary expectations, and lead to persistent inflation, even after this supply chain issues abate. Further, these wage gains have been outpaced, as I noted, by the rising cost of everything from groceries to housing, meaning real wages were negative, and in fact, Mr. Chairman, real wages were negative in 8 of the last 12 months.

Dr. Zandi, in your testimony, you talk about inflation expectations, of which this is a key component. You described them as appearing fragile, and said that they bear close watching. You suggest that it is hard to see how the Fed can tolerate this for long, knowing that, based on the experience of the 1970s and 1980s, that the economic cost of waiting too long to short-circuit wage price spirals is extraordinary high.

What do you expect the inflation number to be, the CPI on Thursday, ballpark? Let me ask you, if you don't want to give an answer, what are analysts suggesting is the range for CPI for Thursday?

Mr. ZANDI. It is somewhere between 7.5 percent, and 8 percent, year-over-year, Congressman.

Mr. HILL. Right. Thank you, Dr. Zandi. And I am concerned that when you see this kind of issue, when I talk to HR directors and chief financial officers and company presidents all over the country, you are really getting this inflation embedded into their infrastructure, not just through costs, but through labor shortages.

And let me ask you, Dr. Goodspeed, if we make it harder to hire people through additional regulatory burdens on small businesses, vaccine mandates, getting into an argument about how old you have to be to drive a truck, and all these kinds of things and how many others, does this drive up wages when you have these kinds of severe shortages?

Mr. GOODSPEED. Thank you, Congressman. I think what it means is that for any given level of unemployment, there is going to be a greater degree of inflationary pressure. When we look at the efficiency of labor market matching in the United States, the efficiency with which unemployed workers are matched to vacant jobs, the U.S. labor market has not been performing this poorly since the late 1970s. This is the beverage curve relationship.

Mr. HILL. Yes. And that is very concerning to me and to my colleagues who keep trying to rewrite history. Deficit spending during the CARES Act was bipartisan. There is no doubt about that. We didn't know what was going to happen in 2020. And we spent $6 trillion in addition to the money that we also spent by way of the Federal Reserve. And so, the logic I think Larry Summers laid out was, "Don't spend more," and that is the American Rescue Plan argument. You have already stimulated the economy way too much, plus the monetary policy issue.

Dr. Goodspeed, let me turn to you now about the components of CPI. I am very pessimistic that somehow we are going to get a break and that number is going to go down. And I want to ask you specifically about the housing component. Housing is 30 percent of CPI, and about 40 percent of core CPI, but the method of calculating housing, both rental and single-family ownership, in my view, understates the real experienced inflationary cost in the economy. Is that how you understand the CPI calculation?

Mr. GOODSPEED. The CPI calculation does understates the inflation in housing that I think ordinary Americans feel, because for the rental component, it only measures continuing leases.

Mr. HILL. Yes.

Mr. GOODSPEED. Whereas, it is in new leases that we have seen double-digit increases in rent, right?

Mr. HILL. Yes, correct. So with that understanding, I think my colleagues need to understand we are going to have higher CPI numbers coming as a result of this increase in demand and wage pressure. For example, house price inflation—the CPI from December 2020 to 2021 was stated at 5 percent. But when you look at the new home price index, it was up 18 percent, and when you look at single-family rent prices on this point of new, it was up 12 percent. So, I think we are going to continue to see inflation. And I think it is driven, just as Milton Friedman promised us, as a monetary phenomenon, and we have overstimulated the economy and fiscal policy, and we have mishandled our monetary policy. And I yield back.

Mr. AUCHINCLOSS. The gentleman from Guam, Mr. San Nicolas, is now recognized for 5 minutes.

Mr. SAN NICOLAS. Thank you, Mr. Chairman. I want to begin by clearly acknowledging that the inflation that is devastating this country and everyday hardworking Americans is just terrible. It is terrible. And the circumstances that we are all dealing with here today is something with which we all need to grapple.

I wanted to first open, however, Mr. Chairman, with a question to Dr. Zandi. We are dealing with inflation today, but isn't it true that the actions we took with respect to the fiscal policy that we initiated actually prevented a worse circumstance happening, which is stagflation; would you agree?

Mr. ZANDI. Yes, I think the odds that we would get into a stagflationary environment, which just for everyone's edification is very weak growth and high inflation, would be much higher. Right now, we have high inflation, but we have very, very strong growth, with lots of jobs, and we are getting back to form very quickly. So, I would agree with that.

Mr. SAN NICOLAS. And just to clarify, from an economist perspective, stagflation's impact on society would be materially worse than inflation, is that correct?

Mr. ZANDI. Yes, because that means both higher inflation and higher unemployment. Right now, obviously, the high inflation, as you point out, is very painful for Americans, but fortunately, we have a low unemployment rate that is falling very rapidly and that is good for all Americans. But in a stagflation environment, you have both rising inflation and rising unemployment, and there's nothing worse than that; that is what we had in the 1970s and 1980s, and that is what we need to avoid.

Mr. SAN NICOLAS. And just to really put into context the circumstances we are dealing with, the Fed rate was at or near zero when the pandemic hit. And so, the monetary policy options that we had were very limited with respect to its comparative alternative, which was a fiscal policy that we initiated here in the Congress.

Would you agree that the fiscal policy initiative that we undertook to really fund us out of this pandemic was materially responsible for preventing us from entering into a stagflationary scenario?

Mr. ZANDI. Yes. I think that is fair to say. I think the very aggressive fiscal policy response beginning with the CARES Act 2 years ago in March of 2020, and there were a number of other pieces of legislation: a piece of legislation that was deficit-financed in December of 2020; and then, the American Rescue Plan, which was in March of 2021; and all of that together was critical to ensuring that this economy has been able to recover as fast as it has.

And just to give you a sense of that, we are going to be at full employment 3 years after the pandemic hit us. And obviously, remembering back, that was a harrowing period, and we have made our way back in 3 years, typically coming out of recessions, since World War II, it takes double that, more than 6 years. And of course, after the financial crisis, which hit us over a decade ago, it took us 10 years to move on.

So from that prism, because of the fiscal policy response and including the American Rescue Plan, we have recovered very, very dramatically. There is nothing but good news as a result of that.

Mr. SAN NICOLAS. Thank you. Thank you for that. There is bad news, and the bad news is we are still dealing with inflation. I think that the American people demand that we tackle that, and I very much agree. The inflation that we are dealing with, we have been arguing back and forth about all the different component parts, and one of the really main points that has been brought up over and over again is the indication that the increase in profits that is being realized by corporations is a sign that corporate profiteering is contributing to the inflationary calculation.

I want to contextualize it more specifically, though, because profits could be as a result of market share accumulation due to pandemic circumstances. I think the more important question is, have margins increased? Have the margins of these corporations increased dramatically pre-pandemic, pandemic, and post-pandemic, as we get into post-pandemic?

And so, I wanted to pose that question to Dr. Mabud. Are we seeing significant margin increases, because that would be indicative of profiteering, because then the input prices, although they may be increasing due to supply constraints, they are actually not translating on a dollar-for-dollar basis onto the actual price points. Would you be able to comment on that, Dr. Mabud?

Ms. MABUD. Yes. That is spot on. In the past two quarters, U.S. corporations outside of the financial industry posted their fattest profit margins in 70 years. And when we contextualized that within 2 years-plus of a global pandemic, when so many people are suffering around the country, it really points to the fact that we have way too much corporate power, and they are able to—as the CEO from Kroger said, " A little bit of inflation is good for business," and they are taking advantage of that.

Mr. AUCHINCLOSS. The gentleman's time has expired. The gentleman from Wisconsin, Mr. Steil, is now recognized for 5 minutes.

Mr. STEIL. Thank you very much, Mr. Chairman. I appreciate you holding today's hearing. People are getting clobbered with inflation. When I am home in Wisconsin, people are going to the gas pump, and they are feeling it. People go to the grocery store, and they are feeling it. People are getting clobbered day in and day out. And inflation impacts everybody, but it really clobbers seniors on fixed-incomes and low-income workers.

And low-income workers are taking it on the chin right now. It was suggested by one of my Democratic colleagues that Republicans were having fun blaming Biden. This isn't fun at all. People are getting clobbered by higher prices. They are getting clobbered by higher prices, and we have to get to the answer of the policies that are driving it.

And I think it is very interesting. We have heard about corporate concentration. I am guessing that polls pretty well. Do you think that polls pretty well, Mr. Goodspeed, to blame it on corporate concentration and corporate greed?

Mr. GOODSPEED. The polling and politics are outside my area of expertise. I would imagine if the claim is being made, then presumably someone sees some—

Mr. STEIL. Yes. That would be my guess. It was interesting. I was looking at your presentation in following along kind of the Eurozone against the United States, inflation between the Eurozone and the United States tracked pretty closely over the past 15, 20 years. Is that accurate?

Mr. GOODSPEED. That is accurate.

Mr. STEIL. And then all of a sudden there was this massive deviation between the Eurozone and the United States. Is that accurate?

Mr. GOODSPEED. Correct.

Mr. STEIL. Roughly when did that break start to occur?

Mr. GOODSPEED. In March 2021.

Mr. STEIL. In March 2021. So then the question becomes, what occurred roughly around March of 2021 that might have driven this? The proposal that I have been hearing earlier is that all of a sudden, corporate greed in the United States took off. But interestingly, the data might suggest that it didn't take off in the Eurozone. Would that be a reasonable inference, Mr. Goodspeed?

Mr. GOODSPEED. Yes, it would.

Mr. STEIL. Interesting. What would be the Biden Administration's policy that was allowing corporate greed in the United States, that wasn't taking place in the Eurozone at this time? Because previously, inflation between the United States and the Eurozone was tracking pretty consistently, then we have a break, a huge deviation, triple the inflation in the United States than the Eurozone has been experiencing. Is that correct?

Mr. GOODSPEED. That is correct.

Mr. STEIL. Then, the logic would say, okay, if corporate greed and concentration is driving this in the United States, why did the corporations, all of a sudden decide once the Biden Administration came in, the Biden Department of Justice—do you think these corporations sat down and said, "We have a Biden Department of Justice. We have one-party Democratic rule in Washington, D.C. Now's the time to go and drive greedy profits up." Do you think that occurred?

Mr. GOODSPEED. I have seen no evidence to suggest it occurred.

Mr. STEIL. Were there any policies that shifted in the Biden Administration or under one-party Democratic rule specifically as it relates to corporate greed in profits that would have driven these corporations to drive up profits?

Mr. GOODSPEED. No.

Mr. STEIL. Did they say, we are going to stop enforcing some certain policy, that they are going to have a massive change on antitrust regulation that would have meant these corporations would have said, boom, now's the time to go?

Mr. GOODSPEED. None that I am aware of.

Mr. STEIL. Yes. And the data shows that consistency in the Obama Administration, and the Trump Administration, and then all of a sudden, this massive deviation—you'd almost think that spending suddenly took off in Washington D.C., this year.

Mr. GOODSPEED. I think that is the $1.9-trillion elephant in the room.

Mr. STEIL. Did the Eurozone have a massive ginormous increase in spending that paralleled the United States?

Mr. GOODSPEED. Neither of the same magnitude in 2020, nor anywhere close to the same magnitude in 2021.

Mr. STEIL. Interesting. So, we have this massive deviation that occurs. You have not identified any policies that would have allowed corporate greed to take off uniquely under the Biden Administration. We have problems with corporate greed on occasions, right? And we should dig into that. We don't want that to occur. But you haven't identified any unique policies in the Biden Administration that are uniquely weak, as it relates to corporate greed or enforcement?

Mr. GOODSPEED. I have no idea.

Mr. STEIL. And I haven't heard any of my colleagues suggest a specific policy of weakness in the Biden Administration on that, that we need to dive into. But we have noted all of a sudden a massive, fiscal policy change once we had Democratic one-party rule here in Washington, D.C., driving huge demand increases, more money chasing the same number of products can lead to inflation. And at the same time, we have had a monetary policy that has been pushing easy money. The balance sheet at the Fed has increased over $4 trillion over the last 2 years. The Fed's balance sheet continues to increase.

So, we have easy money policy rather than sound money policy. We have massive fiscal spending, and I think we have identified the problem that is occurring, that is clobbering people in the pocketbooks in Washington, and I think we should wake up and change the policies here in Washington.

Thank you very much. Mr. Chairman, I yield back.

Mr. AUCHINCLOSS. The Chair now recognizes himself for 5 minutes.

Dr. Mabud, Dr. Goodspeed, Dr. Zandi, in that order, I have an energy question for you. This morning, President Biden announced a U.S. ban on Russian oil imports. This is a welcome step in ratcheting up pressure on the Kremlin, as I have been saying for weeks, although to be effective, this action must be global. Working with our allies in NATO and beyond, the United States must cut off Russia from the world's oil market. The fossil fuel industry is not going to lead the free world; Americans need to. This ban will deprive the Kremlin of vital hard currency to sustain the Rubal and fund its military and government. It will also remove up to 5 million barrels a day from energy markets that are already surging in price; a primary driver of inflation here in the United States.

To backfill these 5 million barrels in the short term as we transition into a long-term clean-energy economy, the Organization of the Petroleum Exporting Countries (OPEC) could expand production by up to 2 million barrels, America by 1 million barrels, Canada, Brazil, and other smaller producers buy up to 1 million barrels, and should a deal be reached, even Iran by up to 1 million barrels. It is also likely that some portion of the 5 million Russian barrels will end up on the market, sold to buyers not complying with sanctions, although at a significantly discounted price. And finally, of course, the Biden Administration and its allies can continue to use their strategic petroleum reserves to smooth out supply. Although that is only 60 million barrels in a market that consumes 100 million daily, that is going to have a marginal impact.

As I said, starting with you Dr. Mabud, then Dr. Goodspeed, and then, Dr. Zandi, if there were a global embargo on Russian oil, that was accompanied by the supply response that I have just outlined, would you expect that gasoline prices in the United States would rise beyond the highs they have hit in January?

Ms. MABUD. Thank you for that question. Any hits to supply are going to raise prices. But I think what is really critical to remember is that our dependence on fossil fuels is keeping us tied to volatility. And so, yes, it is going to take a long time, but transitioning to and investing in a green economy is not only important for people and maintaining low energy prices for folks around the country, but also in ensuring that we have a planet that works for our economy.

And I'll also harken back to what I said earlier, which is that we know that oil company executives are not immune from the type of profiteering that we have been talking about across the course of this call. First, they use pandemic disruptions to massively boost their profits, and unfortunately, now the conflict in Eastern Europe is providing another opportunity to pad their bottom lines. So again, going after profiteering in the fossil fuel industry is an important short-term imperative. And over the long term, we must not delay in making the long-overdue investments in a clean-energy economy.

Mr. AUCHINCLOSS. Dr. Goodspeed?

Mr. GOODSPEED. I was keeping track, in my head, the specific barrel amounts to which you referred. But I will say that roughly 12 percent of global oil production is from the Russian Federation, and about 17 percent of gas production. I think even if in theory, we increased production from the United States, increased production from the kingdom of Saudi Arabia and other OPEC members can compensate that, I think that there is going to be an adjustment period.

Mr. AUCHINCLOSS. Right.

Mr. GOODSPEED. And production, because production of different types of oil in different regions of the world is not immediately substitutable; the infrastructure just isn't the same.

Mr. AUCHINCLOSS. Have the markets priced in those 2022 disruptions into the January price, or would you predict further inflation in gas prices?

Mr. GOODSPEED. I think, as of a few weeks ago, even perhaps as recently as a week ago, markets were probably underpricing the risk, the upside risk. I haven't checked today what they are doing, but I would imagine that they are substantially revising their price expectations.

Mr. AUCHINCLOSS. So you would expect that the January prices would reflect, would have internalized much of the disruption risk of 2022 and also the potential to backfill?

Mr. GOODSPEED. I think throughout January into February markets, we are substantially underpricing the risk of conflict and conflict escalation, including the oil market implications.

Mr. AUCHINCLOSS. And Dr. Zandi?

Mr. ZANDI. I don't think markets are fully discounting what we are talking about. If there are broad-based sanctions on Russian oil, and the U.S. stops buying, and Europe stops buying, and other advanced economies stop buying, I think we'd see prices closer to $150 per barrel, which means the cost of a gallon of regular unleaded is going to $5. If, however, it is just the U.S., and the Europeans don't go along, and there is a lot of discussion about that, then $125 is probably where we are going to land. And that would mean that we are going to see gasoline prices of $4.50, or $4.75 nationwide.

Mr. AUCHINCLOSS. But Dr. Zandi, are you incorporating the supply response that I outlined where there is coordination to backfill?

Mr. ZANDI. Yes.

Mr. AUCHINCLOSS. You are? Okay.

Mr. ZANDI. Yes, because that is going to take time.

Mr. AUCHINCLOSS. Yes.

Mr. ZANDI. That will not happen immediately.

Mr. AUCHINCLOSS. Dr. Mabud, as a final request, would you be willing to offer into the record at a later date the short-term proposals that you have alluded to, to crack down on any war profiteering by big oil? I would be interested in any of the specifics you have there.

Ms. MABUD. I can follow up. Thank you.

Mr. AUCHINCLOSS. The Chair now recognizes the gentleman from North Carolina, Mr. Budd, for 5 minutes.

Mr. BUDD. I thank the Chair, and I want to continue on with this theme. Dr. Goodspeed, again, thank you, and I thank the whole panel for being here.

I have heard a lot of my colleagues across the aisle claim that the 40-year high inflation spike that we are currently experiencing is a result of corporate profiteering. Now, you would think that the nearly $2 trillion that the Democrats injected into the economy would be more of a culprit. The economist, Milton Friedman, would say, "There are just too many dollars chasing too few goods." Businesses are forced to accommodate the increased cost of production to meet demand needs, which is simply Econ 101. I think some of my colleagues should reeducate themselves on how basic supply and demand works.

I have a bill, H.R. 5968, that addresses this. It would require certain White House employees to receive training on economic literacy, and it is clear that they badly need it. I am even thinking about expanding the bill to include Members of Congress.

So, Dr. Goodspeed, is there any compelling evidence to suggest that inflation has hit this 40-year high because businesses are conducting so-called profiteering?

Mr. GOODSPEED. Thank you, Congressman. I have seen no evidence as to why corporate profiteering would have increased in 2021 relative to previous years, and why corporate profiteering would have increased in the United States versus Europe. I have seen no evidence as to why we should observe not just an increase in prices, but an increase in the rate of change in prices. And I have also not seen any evidence for why we should see general price inflation rather than simply relative price inflation in sectors with greater concentration.

Mr. BUDD. Thank you. Both the Obama and the Biden Administrations blocked the development of the Keystone Pipeline. President Biden has also established a policy of opposing funding of oil and upstream natural gas projects through Multilateral Development Banks (MDBs). Oil prices are currently sitting at a 7-year high. The unjust invasion of Ukraine by Russia has also led to additional impacts on oil prices. And the New York Fed has been working on developing climate stress testing.

Are there any concerns that additional regulations and stress testing that is hyper-focused on oil in particular can make the price concerns that we are currently seeing even worse? I'll just leave it at that. Do you think that what the Biden Administration is doing, and the Obama Administration has done, could make things worse?

Mr. GOODSPEED. As I noted in some of my earlier remarks, one very striking aspect of 2021 was the breakdown in the historic relationship between the price of oil and Oil Rig Counts in the United States. As Dr. Zandi pointed out, we might expect that to recover in 2021, given the considerable upward pressure on oil prices. But that relationship broke down and I think that has something to do with the increased regulatory burden on the domestic energy industry and possibly some effects on capital allocation.

Mr. BUDD. Continuing on, doesn't restricting the supply of oil and natural gas internationally increase the risk of inflation even further?

Mr. GOODSPEED. Yes.

Mr. BUDD. I yield back. Thank you.

Chairwoman WATERS. The gentleman yields back.

The gentleman from New York, Mr. Torres is now recognized for 5 minutes.

Mr. TORRES. Thank you, Madam Chairwoman. Inflation is deeply regressive, imposing a disproportionate burden on the poorest families. The families who are hit hardest by inflation are the same families who would benefit the most from an expanded Child Tax Credit. The regressive impact of inflation underscores the need to restore a progressive Child Tax Credit.

Mr. Drummer, do you believe, as I do, that the Child Tax Credit could be a tool for mitigating the impact of inflation?

Mr. DRUMMER. In short, absolutely. These investments in our economy are what saved our country from falling into a depression, and they lifted millions of children out of poverty. Absolutely.

Mr. TORRES. And as you know, inflation is not equally distributed across the economy, some sectors of the economy are more inflationary than others. And according to an analysis by the Center for Budget and Policy Priorities, the CTC monthly payments were most commonly spent on food, utilities, and housing. Food, utilities, and housing are among the most inflationary goods and services in the U.S. economy. Is that correct, Mr. Drummer?

Mr. DRUMMER. That is right. And energy is particularly volatile.

Mr. TORRES. And so, the Child Tax Credit would essentially enable the families most affected by inflation to afford the life necessities of food, utilities, and housing?

Mr. DRUMMER. That is right. The more money they have, the more they can absorb these fluctuations.

Mr. TORRES. Mr. Zandi, in March of 2021, you coauthored a report entitled, "Overcoming The Nation's Daunting Housing Supply Shortage." The report, as I understand it, found that the annual demand for housing exceeds the annual supply of housing by 100,000 units, representing the largest shortfall in nearly half a century. The report also found that over a 10-year budget horizon, an annual investment of $50 billion in affordable housing could boost affordable housing construction by 275,000 units per year. It is a common refrain among Republicans that government is not the solution; government is the problem. But in your professional opinion, as an economist, can we even come close to solving the housing supply problem in America without government investments like the Build Back Better Act?

Mr. ZANDI. Not anytime soon, Congressman. It is a very pernicious problem that has developed over a period of more than a decade, since the financial crisis. And the root causes of that are very, very pernicious and difficult to address around zoning, permitting, global supply chain issues, building materials and labor supply issues, and construction land, and development lending, very complex issues. I think markets are starting to work, home builders can make a return and they are now starting to build homes that are more affordable at lower price points.

The way it is going, it is going to take a long, long time, and inflationary pressures are going to continue to develop because again, housing is such a key component of overall inflation.

I would strongly recommend that lawmakers take this up. And I think there are a lot of good proposals that are bipartisan that can help to lower the cost of construction, particularly for affordable housing around light tech, neighborhood home tax credits, new market tax credits, HOME, and the Housing Trust Fund. These are things that could go a long way to quickly addressing this housing shortage and addressing one of the most significant contributors to inflation beyond the current period.

Mr. TORRES. And as you know, when it comes to housing, there is one sense in which government is indeed a problem: zoning. Local zoning codes have essentially made it illegal to build affordable housing, multi-family housing in much of the country. And so, the housing affordability crisis must be solved, not only with greater investment from the Federal Government, but also greater land use reform from State and local governments.

I have a question about the American Rescue Plan. Among the wealthiest countries, the U.S. has seen the strongest economic recovery from COVID-19. The U.S. has seen historic highs in job creation, economic growth, and wage growth.

Mr. Zandi, to what extent can the exceptionalism of America's recovery be attributed to the American Rescue Plan?

Mr. ZANDI. I think it is a very significant contributor. If you are interested, I just wrote a paper that I published last week. Just Google, "Zandi and the macroeconomic consequences of global fiscal policy." I go through the contribution that the American Rescue Plan has made to our economic recovery and our economic success compared to other parts of the world. And again, just to reiterate, I think it is clearly why we are back getting back to full employment very rapidly, much more quickly than the rest of the world, and much more quickly than we have historically coming out of recessions. And again, I do not think you could connect the dots between the uncomfortably high, painfully high inflation we are suffering right now, back to the American Rescue Plan is related to the pandemic and now of course related to Russia and Ukraine.

Ms. GARCIA OF TEXAS. [presiding]. The gentlewoman from North Carolina, Ms. Adams, is now recognized for 5 minutes

Ms. ADAMS. Thank you very much. And thank you very much to Chairwoman Waters and Ranking Member McHenry, and thank you to our witnesses for your testimony. Let me drill down on [inaudible] opponents of the phase [inaudible] that we are currently experiencing, the housing shortage. You don't need to take my word for it; economists across the nation are saying the same thing. We need to increase our housing supply of new units, of affordable units, of all kinds of units, and we need to do so immediately. I am proud that under Chairwoman Waters' leadership, this committee has advocated for the most-robust investment in public and affordable housing in our nation's history.

So Dr. Zandi, in my district, research by the University of North Carolina, Charlotte [inaudible] 11,000 family homes are now owned by private equity firms, or other Wall Street-backed entities. So, with 4 percent of the single—

Ms. GARCIA OF TEXAS. Ms. Adams, if you could raise the volume. You are a little low.

Ms. ADAMS. Okay. Dr. Zandi, to what extent has the current housing supply crunch been exacerbated by the excess of Wall Street and private equity firms?

Mr. ZANDI. Private equity firms and investors broadly including institutional investors and mom-and-pop investors—Americans buying homes for investments has risen quite significantly, particularly over the last year. So, almost a little over one-fourth of the home sales at the end of last year were to investors, which is up about 10 percentage points from the year before. They are all playing a more active role in the housing market, particularly in different parts of the country, the South and the West come to mind relatively quickly. They are having an impact on house prices, on affordability, and on homeownership. And it's really having a meaningful impact on the dynamics of the housing market, and just making it more difficult for low-income Americans, and first-time homebuyers to afford their first home.

I do think this goes back to supply. I think we need to encourage investors to work to increase the supply of housing. For example, going back to investors, one thing they are doing now is they are buying homes and then renting them. We can design policies to incent them to build homes, to rent them, or for homeownership. And if we can do that, then we can address this problem, but it is increasingly an issue that is beginning to affect more and more housing markets across the country.

Ms. ADAMS. Okay. Another aspect has to do the across the nation [Audio malfunction.] is feeling the crunch? So do you believe that Congress should enact [inaudible] State and localities to tap into the State and Local Fiscal Recovery Funds (SLFRF) dollars to help shore up affordable housing developments that are currently in the pipeline?

Mr. ZANDI. I am having a hard time hearing you. I think you are referring to the money in the American Rescue Plan (ARP). It has gone to State and local governments in helping facilitate the direction of that funding to housing. I think that is what you were saying.

Ms. ADAMS. I said—

Mr. ZANDI. Yes, absolutely. I keep mentioning the Low-Income Housing Tax Credit (LIHTC), which is an incredibly effective way of increasing the supply of affordable rental housing in communities across the country. It is a tried-and-true program and we know how it works. And all we have to do is turn the dials here a little bit. I think we can really juice that up and get a lot more supply into the housing market. It is not going to be next month or next quarter, but by this time next year, going into 2024, it will be very significant. And taking some of that State and local relief funding that was part of ARP, that is sitting out there, and directing that, changing the rules a little bit to direct it towards juicing up LIHTC and other forms of funding for housing, I think would be highly effective.

Ms. ADAMS. Thank you very much, ma'am. I yield back.

Ms. GARCIA OF TEXAS. Thank you. The gentlewoman yields back.

Mr. GOODSPEED. I think there is an important point here on this. There are two things that really substantially contribute to housing prices in the United States. One is the State and Local Tax (SALT) deduction, and the other is the mortgage interest deduction, both of which tend to be fully capitalized into housing prices, particularly.

Ms. GARCIA OF TEXAS. Sir, you are out of order. I don't think anyone addressed a question to you, sir.

Ms. ADAMS. Thank you very much, Madam Chairwoman. I yield back.

Ms. GARCIA OF TEXAS. The gentlelady yields back.

The gentlewoman from Michigan, Ms. Tlaib, is now recognized for 5 minutes.

Ms. TLAIB. Thank you so much, Madam Chairwoman. And thank you for this critically important hearing. As you know, the pandemic has been great for the richest Americans, who have lined their pockets and doubled their wealth during the pandemic. As we all know, corporations have the nerve to blame inflation, while consolidating their market power and raising the price of essential goods and services, while working people foot the bill. For me, this is not inflation, it is extortion. Meanwhile, the same corporations who are gouging prices on consumers, on our neighbors, have been engaging in what we call major stock buybacks. When corporations funnel record earnings into stock buybacks, Madam Chairwoman, that is money that they are not allocating towards capital investment in research and development.

Dr. Mabud, just listening to your testimony has been really interesting, to understand some of these trends. One of the things that I think we haven't looked at, and I would love your opinion on is, what trends have we seen with regards to the major corporations and stock buybacks, particularly since the Trump tax cuts were enacted?

Ms. MABUD. Thank you for that question. We are in a period where we are seeing record stock buybacks, and that is really important because that is money that is going out to shareholders, and all ofour prices are going up. And these companies are not making productive investments in their firms. They are not investing in making the company work better. They are just grabbing as much profit as they can and sharing out the shares to their shareholders. And tax policy is critical to this, because if raising corporate tax rates, or taxing excess profits is a real way to curb the amount of money that flows to shareholders and executives over productive investments in our economy.

Ms. TLAIB. Thank you so much.

Dr. Zandi, are stock buybacks making our supply chains more resilient, or bringing down prices for consumers in any way?

Mr. ZANDI. It is hard to connect the dots, I think, between stock repurchases and what is going on with supply chains and inflation.

Ms. TLAIB. But we have a record number of stock buybacks.

Mr. ZANDI. But that money does go to investors that reinvest. I think that is a very tenuous kind of blanket, in my view.

Ms. TLAIB. Okay. One of the things I always say is, we obviously didn't predict the pandemic would be around the corner in 2019. But today, we all know that the next crisis that will pose an existential threat to our economy is our planet. If our planet warms 2 degrees Celsius, the damage will be irreparable. Extreme weather events will be the new normal, our communities will flood, and our economy will be underwater. And these are real facts for many scientists across the world.

Dr. Zandi, we know extreme weather events like floods, wildfires, and droughts are occurring with alarming frequency due to the climate change. Can you explain the impact climate change will have on our supply chains and on prices, for example, in the energy and food sectors?

Mr. ZANDI. Yes, it already has, Congresswoman. For example, we talked about lumber. One of the reasons for the severe problems we are having in that industry is because of extraordinary weather events in the Pacific Northwest, particularly in British Columbia, where a lot of the timber that is produced goes into U.S. homes. So, it is already having a major effect, and it is affecting timber supplies, where forests are growing, and where they are not growing. It is a major adjustment that is adding to our costs and contributing to our global supply chain issues. It is not one of those things that matters a lot in any given year, but when we look back a decade from now, certainly.

Ms. TLAIB. Yes, when they do nothing now, of course, the impact will be there later. Look at the lack of safety nets before the pandemic: we didn't have child care; and we have a preexisting condition because of environmental racism. So, I totally hear you. But I think much of what is happening, and the fact that we weren't able to save more lives during this pandemic, is because of some of these broken systems and not thinking forward. Last year, a handful of dominant shipping container firms reaped record profits, while passing those costs directly on to the consumer; raising prices here by 1 percent, according to Kansas City Fed and the European Central Bank. Based on this evidence, I am credibly concerned that big corporations will simply look at the climate crisis in the same way they viewed the pandemic, as just another chance to make a quick buck.

Dr. Mabud, are we doing enough to address our supply chain, for fragility and exposure to climate risk? If not, what sorts of investments should our country, our Federal Government be looking at?

Ms. MABUD. That is absolutely critical, because every new climate shock across the—a storm halfway across the world, when we have such a brittle supply chain, can bring the whole system crashing down. So, it is really critical that we check our corporate power by using tax policy—

Ms. GARCIA OF TEXAS. The gentlewoman's time has expired.

Ms. TLAIB. Thank you, Madam Chairwoman. I yield back.

Ms. GARCIA OF TEXAS. The gentlewoman from New York, Ms. Ocasio-Cortez, is now recognized for 5 minutes.

Ms. OCASIO-CORTEZ. Thank you so much. Thank you, Madam Chairwoman, and thank you to all of our witnesses for being here today. I want to explore a little bit about the role of corporate profiteering and its contributions to inflation as we have kind of been discussing today, particularly in two areas: rent and groceries.

Now, in terms of housing, big corporations are exacerbating what is already a major housing supply crisis in the United States. We have these major, often private equity-backed companies that are gobbling up homes in our housing market, which is already creating excess scarcity on top of the housing scarcity that already exists. And then by constricting that supply, we are also seeing a lot of these major, huge, multi-billion-dollar companies, then either flip those properties or just resell them at a higher rate due to that artificially inflated price, or they hold on and hoard this housing stock and rent out at exorbitant prices.

Dr. Zandi, isn't it the case that the average American now has to compete with major companies like Invitation Homes, whose parent company is Blackstone, which is the largest private equity company in the world, when they are in the market for a home?

Mr. ZANDI. Yes. I think obviously, the institutional investors and mom-and-pop investors, as I mentioned earlier, were one quarter of all home sales at the end of last year, so they are big players, and that is nationwide. In some markets, if you go to Atlanta or Phoenix or Boise, they are much higher; they are at 30 percent to 40 percent of the market. So yes, they are playing a very large role. They don't affect the amount of housing stock. The home is still there. It is changing. We are going from single-family homeownership to rental, so it is making it more difficult, of course, for home buyers—

Ms. OCASIO-CORTEZ. Yes. And available housing stock for purchase, I should clarify.

Mr. ZANDI. Yes, exactly.

Ms. OCASIO-CORTEZ. Yes.

Mr. ZANDI. So, this is definitely having an impact there. And that is why it is very critical, in my view, for lawmakers to really focus on the kinds of things to increase the supply—

Ms. OCASIO-CORTEZ. Thank you.

Mr. ZANDI. —so that becomes less of an issue.

Ms. OCASIO-CORTEZ. Thank you, Dr. Zandi. So to clarify, the image that we have here is that you have a young couple, and they try to do the right thing. They were told that if you go to college, you will get a good job. They graduate with hundreds of thousands of dollars, or tens of thousands of dollars in student debt, but they worked through it. Perhaps they have a young child, so they want to get a 2- or 3-bedroom home. And they are competing against the largest private equity firm in the world to purchase a home. In fact, companies like Blackstone, Zillow, and Bedrock are buying up to 15 percent of available homes. But what I find interesting here is that they are purchasing them in minority and low-income neighborhoods, specifically. Particularly, in metro areas like New York, Atlanta, and Detroit, about 1 in every 7 homes in the United States is being bought by a corporation at an inflated price.

Dr. Drummer, we are seeing here that even in communities like mine in Queens, renters are now facing drastic rent hikes as large as 30 percent to 50 percent up from what they were paying last year. Can you expand a little bit on how this concentration of corporate power and the skyrocketing costs of housing are being disproportionately felt in low-income, working-class, Black, and Latino neighborhoods?

Mr. DRUMMER. Thank you, Representative, for the great question. This is the market that we have created for housing in America. Right now, 6 million rental households are currently behind on rent. Again, as stated previously, that is double the pre-pandemic baseline, and two-thirds of these people are people of color. In 2021 alone, rents increased by at least 10 percent in 149 metropolitan areas. So what we are seeing around the country is a failure of policy and law to address the acute shortage of housing. If someone wants to make the case that this is just how markets are supposed to work, they can. My view is that our current housing crisis constitutes a serious significant series of market failures that require robust policy response at the Federal, State, and local level.

Ms. OCASIO-CORTEZ. Thank you. Thank you, Dr. Drummer. I have one more question as well. I want to explore a policy possibility with you. There are a lot of ideas that are explored. The United States has very different housing policies than other countries and areas. What do you make of the idea of a public institution that purchases distressed real estate and finances it to transfer to the social housing sectors such as cooperatives, committee land trusts, the nonprofits—

Ms. GARCIA OF TEXAS. The gentlewoman's time has expired.

Mr. DRUMMER. Yes. The Build Back Better bill actually has—

Ms. GARCIA OF TEXAS. The gentlewoman's time has expired. If you'll just submit your answers, sir, for the record, that would be great. Thank you.

The gentleman from Illinois, Mr. Garcia is now recognized for 5 minutes.

Mr. GARCIA OF ILLINOIS. Thank you, Madam Chairwoman. And thanks to all of the witnesses who joined us today to discuss the economic challenges our country faces. I represent a working-class district, and my constituents are the hardest hit by inflation, and the hardest hit by interest rate hikes. We have to understand what is driving inflation in order to tackle it, and from your testimony, it sounds like it is corporate greed.

Dr. Mabud, in your testimony, you raised a pretty striking quote that I just have to revisit. Earlier this year, the CFO of Constellation Brands, a company that owns Modelo and Corona beers, and I admit, I enjoy these frequently, said, "As you know, we have a consumer set that skews a bit more Hispanic than some of our competitors and in times of economic downturn, if you will, or weakness, they tend to get hit a little harder, and they recover a little bit slower. So we want to make sure that we are not leaving any pricing on the table. We want to take as much as we can."

I represent a Latino, largely immigrant district, and I can confirm that our communities were hit hard by the pandemic, but this is shocking. Our suffering is their excuse to raise prices. Can you talk about how corporate concentration is raising prices for some of the most basic goods that my constituents buy, from diapers to beer?

Ms. MABUD. Thank you for that question, and that quote is really striking. The truth of the matter is, we have heard over and over and over on earnings calls across a range of sectors that these big corporations simply have the power to raise prices, particularly when they have the cover of inflation to do so. And they are shameless about it. That quote is so bald-faced about exactly what it is that they are going to do, which is to exploit the pain of a community and pocket the profits as a result. And we see that time and time again. We have seen that with Johnson & Johnson, with Chipotle, with McDonald's, and I can go on and on with the number of companies that we have heard, really of this moment, to jack up prices and pocket the profits.

Mr. GARCIA OF ILLINOIS. Thank you. Mr. Vaheesan, the corporations and local businesses faced similar challenges at the start of the pandemic, but market concentration allowed big businesses to reap record profits, while local businesses struggled to recover. And as always, consumers pay the price with inflation. In your testimony, you laid out that our policy choices brought us here. I hope they can bring us out as well. Can we reverse decades of corporate concentration to avoid what we see happening today? What is the first step?

Mr. VAHEESAN. Thank you, Congressman. You are absolutely right. For 40 years, we have tolerated consolidation across the economy, and it was a policy choice, and just as we initiated certain pro-merger policy choices in the 1980s, we can undo those. And I think a good place to start is by reversing some of the mergers that have happened in recent years. Meatpacking is a great industry to start with, since it is a driver of inflation and we have seen extraordinary levels of concentration in that industry, driven in large measure by consolidation. So, I think the Department of Justice and the Federal Trade Commission can actually unwind these mergers and create more competitive market conditions. And going forward, they can strengthen anti-merger laws to ensure that businesses grow through investment in hiring instead of by acquiring existing corporations and enhancing their pricing power.

Mr. GARCIA OF ILLINOIS. Thank you for that. Mr. Drummer, from what we just discussed, it is clear that corporate concentration and price gouging directly contributes to increased prices of goods and services. Corporate greed should be addressed to mitigate inflation. But many policy experts are only talking about raising interest rates. Can you talk about, in the next 50 seconds, how raising interest rates hurts working-class people?

Mr. DRUMMER. That is an excellent question. Yes, if we use interest rates to curb inflation, what are we doing? We are literally driving down the demand for labor, which disproportionately affects the lowest-income workers, which means that we are lowering their ability to bargain, right? And to demand higher wages, which means we are taking money out of their pocket in order to balance our economy. That is the most inequitable way to handle this crisis. We believe that the best way to address this affordability crisis is to turn our gaze away from inflation and focus on deep structural changes to rebalance our economy.

Mr. GARCIA OF ILLINOIS. Thank you, sir. And, Madam Chairwoman, I yield back.

Ms. GARCIA OF TEXAS. The gentleman from Indiana, Mr. Hollingsworth, is now recognized for 5 minutes.

Mr. HOLLINGSWORTH. Good afternoon. I appreciate everyone being here. Maybe I'll just talk about a constellation of things I have heard today and observations about some of this.

Number one, I am frequently reminded of a famous economist, John Kenneth Galbraith, who famously retorted, "When given the choice between changing one's mind and proving there is no need to do so, almost everyone gets started on the proof." This hearing is that proof.

It is embarrassing to hear policymakers try to claim that it is anything but the policies that they have enacted that have led to this inflation. And frankly, much of the, "evidence," that has been asserted in some of these testimonies isn't real evidence at all. I didn't see significant data about the surfeit of demand. I didn't see data about the wage gaps that existed 2 years ago that we overfilled with trillions of dollars of stimulus and transfer payments. No, I saw quotations from earnings conference calls with CEOs who mentioned the word, "price," and, thus, it must be corporate greed and profiteering and not real inflation.

Second, during the course of this entire hearing, I have been struck by the fact that no one here seems to understand that every price increase is not inflation; inflation and price increases are different and can be rooted in different things. But I don't believe anyone here thinks that inflation doesn't exist, being separate from price increases. I think some of you can argue short-term supply chain issues have led to certain price increases, but I don't think anyone can argue against the tidal wave of evidence that inflation also exists.

Third, I think it is almost embarrassing that we would sit here and say that inflation is not harming those at the lowest end of the income deciles, the people we are most here to help, but we have seen real wages decline month after month, purchasing power declining month after month, because of these policies. I want to ensure that inflation does not continue to erode the purchasing power, especially of those that are least able to cope with it.

Dr. Goodspeed mentioned earlier that those in the higher-income levels can cope better with inflation. They have many opportunities to substitute goods, they have many opportunities to move to lower-cost locations. They have more exposure to inflation hedges; those are not benefits afforded to those lower-decile earners. I want to make sure that we tackle inflation in order to empower them. What I have heard, however, is that 40 years of failed policy has somehow led to a year of the highest inflation in those 40 years, so the mistakes of 40 years have somehow come together. And all of these corporations were sitting around biding their time for 39.5 years, and, by God, they saw this was the opportunity for them to dramatically raise prices. That was not the case.

And Dr. Zandi also said that we can't directly tie the significant amount of stimulus that the Federal Government has undertaken during those periods, because inflation didn't save it for a couple of months after that. Certainly, he understands that it takes time from the moment Federal legislation passes until those dollars are spent in the economy. What I have seen in table after table, chart after chart, data after data is the tremendous growth in M2, and the tremendous acceleration in inflation on account of that, which has led to significant erosion in the purchasing power, especially of those at the lower deciles. The reason Nobel Prize economists are not in here testifying to the contrary is because that is the case—pandemic profiteering cannot be the sole reason for this dramatic increase. And even Mr. Vaheesan, at one point, said that companies are beginning to take advantage of the inflationary environment to raise prices. Well, which is it? Did the inflationary environment preexist corporations taking advantage of that to raise prices? It must have for them to have used that, as you said, for cover, to do so.

This hearing is an embarrassment and a further proof of the great dichotomy between Washington, D.C., that wants to engage in political fallacy, and Hoosiers back home, who are picking up the tab for these failed policies. With that, I yield back.

Ms. GARCIA OF TEXAS. The gentlewoman from Georgia, Ms. Williams, who is also the Vice Chair of our Subcommittee on Oversight and Investigations, is now recognized for 5 minutes.

Ms. WILLIAMS OF GEORGIA. Thank you, Madam Chairwoman. And now, we are in the homestretch with the last questions of the day.

Our economy is built on our infrastructure and supply chains. And in the decades before COVID, our infrastructure was slowly crumbling. Our ports, airports, roads, and bridges kept getting older, but year after year, infrastructure work remained an empty promise. Before President Biden, we didn't invest enough in the infrastructural modernization that will help get products quickly to our people. At the same time, we didn't invest enough in making critical products here at home. Even though we need semiconductors for everything from credit cards to cars, we haven't produced enough critical products like this in the United States. Before President Biden, we got by, but we didn't get ahead when it came to our infrastructure and supply chains. Whether it is an economic shock like a pandemic or an economic surge like we are seeing now, our infrastructure and supply chains have to be resilient over the long-term if we want our economy to respond well to rapid change.

Ms. Mabud, how exactly does an economic surge stretch our infrastructure and supply chains, and what is the connection between the resilience of infrastructure and supply chains and the prices of everyday goods?

Ms. MABUD. Thank you for this question, Congresswoman. Corporations have the power to hike prices in a crisis like this, because we spent half a century allowing business executives and financiers to take control of every single piece of our supply chain, from shipping to manufacturing, to trucking, to rail. And so, over the last 50 years, these companies have shaped our supply chains into the extremely brittle system that we have today, which means that when we experience shocks, whether it is a pandemic or a weather event halfway across the world, we are going to see bottlenecks and supply shortages. And big companies can use their dominance in markets to hike up prices, because consumers don't know how much of that is the rise in input costs, and how much of that is just them padding their profits. That is particularly the case when they have the cover of inflation.

Ms. WILLIAMS OF GEORGIA. Under President Biden, GDP grew nearly 6 percent in 2021 and the demand for goods has boomed as consumption patterns have changed. Democrats know that we can't build the economy of the future with the infrastructure of the past. That is why we invested in long-term success with the bipartisan infrastructure law.

Dr. Mabud, in what ways will the long-overdue infrastructure investments from the bipartisan infrastructure law address the supply side vulnerabilities currently impacting prices, while fostering the continued record-breaking economic growth that we have seen under President Biden?

Ms. MABUD. Shoring up our infrastructure and key modes of our supply chains is absolutely critical to making sure that we have functioning supply chains that can deliver goods on time, and that doesn't allow these big corporations to really take advantage of the situation. Furthermore, this bill has critical investments in child care and other aspects of our economy that have been putting strain on family budgets for decades. So, these investments are long-overdue. And frankly, with the ARP, I think we really saw how effective these investments are in making sure that people can live a good life in this country.

Ms. WILLIAMS OF GEORGIA. That led me to the next part of my question. Under President Biden's leadership, we boosted our economy from the brink with the American Rescue Plan, and invested in our long-term success with the bipartisan infrastructure law, but we know that we have more work to do. Reducing inflation means advancing our global competitiveness and investing in housing, child care, paid leave, health care and more so that we can lower costs for working families. Dr. Mabud, can you expand on how making these investments and realizing President Biden's full vision for building a better America and reduce rising costs that are impacting everyday people?

Ms. MABUD. Absolutely. People are feeling this, right? They are feeling the pressure of rising prices, but they are also feeling all of the issues that you just talked about, rents going up, child care being expensive and hard to get, and access to health care taking a huge toll. So really, tackling both sides of that equation and making sure that people have the means to participate in the labor market and continue this historic recovery is absolutely critical.

Ms. WILLIAMS OF GEORGIA. Thank you so much, Dr. Mabud.

And Madam Chairwoman, I yield back the balance of my time.

Ms. GARCIA OF TEXAS. The gentlelady yields back.

The Chair notes that some Members may have additional questions for these witnesses, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

This hearing is now adjourned. We thank everyone for participating today.

[Whereupon, at 2:07 p.m., the hearing was adjourned.]

A P P E N D I X

March 8, 2022

"The Inflation Equation: Corporate Profiteering, Supply Chain Bottlenecks, and COVID-19"

Tuesday March 8th, 2022

Written Testimony Submitted By
Demond Drummer
Managing Director, PolicyLink

To the U.S. House Committee on Financial Services

Introduction

Thank you, Chairwoman Waters, Ranking Member McHenry, and members of the Committee for the opportunity to offer testimony on the impacts of inflation on the nearly 100 million people living in America who are economically insecure and highlight equitable policy remedies. My name is Demond Drummer, and I am a managing director at PolicyLink, a racial and economic equity research and action institute operating nationwide with a network of thousands of community-based partners.

Our North Star at PolicyLink is to bring about a world that promotes equity, defined as just and fair inclusion into a society in which all can participate, prosper, and reach their full potential.

America should be a beacon of equitable prosperity. That is why we advance policies to enable everyone to participate in an equitable economy, live in a healthy community of opportunity, and flourish in a multiracial democracy. Equity aims to equip everyone, especially those who have been left behind, with the resources that allow them to contribute and prosper. It is a pragmatic approach to solve the nation's greatest problems and sources of tension: economic inequality and racial exclusion. Equity addresses race forthrightly and productively, but it is not about benefiting one group at the expense of another. When smart, sustainable strategies are tailored to the needs of those who've been excluded, our communities and our economy become stronger for everyone.

The barriers that have long harmed people of color—social and economic exclusion and community disinvestment—have been maintained and exacerbated, hurting more people than ever before, including **more than 53 million people of color and 46 million white people.**[1] ***That is one in three Americans.*** Our generation's challenge is to reimagine the nation's laws, policies, regulations, and programs so that they effectively serve all 100 million of those people, and ultimately all U.S. residents. Doing so will require us to acknowledge how oppressive systems and institutions have compromised our democracy and economy–and intentionally, creatively, and effectively redesign them. This must include honestly assessing how people experiencing the greatest financial insecurity are blocked from participating in and prospering within our economy, and how public investment must be used actively as a policy tool to help reshape equitable access to financial security and prosperity.

This is the work of every person who calls this nation home, but it is particularly critical that policymakers – including the Congress, regardless of political affiliation – dispense with ready-made answers and adopt a clear-eyed, rigorous structural approach to inflation that directly centers and is informed by the nearly 100 million people in our country who live in economic insecurity. This requires us to challenge our assumptions about price increases that are disproportionately affecting people experiencing financial insecurity. When we center these 100 million people in our analysis, it becomes clear that the inflation we are experiencing is not the crisis it has been made out to be. Further, when we center these 100 million people it becomes clear that the standard policy responses to curb inflation come at a cost, and that that cost is disproportionately borne by the 100 million.

If we truly care about the cost of living in America, the price increases we're experiencing today are best understood as evidence of broader structural problems, including decades-long wage stagnation, persistently high and ever-increasing housing costs, and runaway energy costs. For too long we have accepted these problems as simply the facts of life in America. However, there is nothing natural about wage stagnation. There is nothing inevitable about unaffordable rent and utility bills–these are choices we've made. These long-standing problems are the result of economic policy that favors wealth over work, and prioritizes the profits of large corporations over and against the wellbeing of consumers and communities.

Although well-intended, the rush to curb inflation with monetary tightening and fiscal restraint is, ultimately, misguided. **Truly addressing the affordability crisis—both in the short term and in the long term—requires more, targeted public investments, not less**. This is our moment to move beyond the reflexive, ideologically motivated policy responses circulating in Washington that will only lead us back to an unacceptable pre-pandemic status quo. This is our moment to

[1]National Equity Atlas, Income Growth https://nationalequityatlas.org/indicators/poverty#/, PolicyLink and the USC Equity Research Institute

enact practical policies that will bring balance to our economy and deliver real results for the American people—especially the 100 million who are economically insecure.

The 100 million

Today, nearly 100 million people—one-third of the U.S. population—live in households with incomes of less than 200 percent of the federal poverty threshold. Economic insecurity is pervasive in America–including for roughly a quarter of all white people in our country. For people of color, however, economic insecurity has a perniciously disparate impact: people of color account for 39 percent of the U.S. population, but more than half of the economically insecure.

Who are these 100 million people? They are the hostesses who greet us when we come in for dinner, the school teachers who help shape our children's futures, the caregivers who keep our elders safe, the sanitation workers who help ensure the health of our communities, the baristas who we catch up with as we grab a cup of coffee. They are people we know in every community across the United States for whom the steady rise in the cost of living creates a real, structural barrier to experiencing financial stability. Our federal government, including Congress, has the power, the practical means, and the moral obligation to remove these structural barriers, specifically wage stagnation, high housing costs, and rising energy costs.

An Era of Wage Stagnation and Diminished Purchasing Power for the Average Worker

As most people who have collected a paycheck or earned a salary understand, the wages you earn directly impact how you navigate costs of living and ultimately, absorb the impact of inflation fluctuations. Prior to the Covid-19 pandemic, purchasing power for workers on the lower end of the wage distribution had stagnated for several decades, drastically trailing productivity gains and inflating the number of people who were working yet still struggling economically.[2]

While wages for the lowest-paid workers have increased conservatively as the country transitions out of the immediate shocks of the pandemic, these improvements represent only a small and insufficient boost for a select group of workers in a select group of sectors. For example, the hospitality industry saw the greatest increase in average wages at 18.4 percent, and yet was still the lowest-paying sector in the nation's economy.[3] And as of December of

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[2] Mishel, Lawrence. "Causes of Wage Stagnation." Economic Policy Institute, January 6, 2015. Available at https://www.epi.org/publication/causes-of-wage-stagnation/

[3] Desilver, Drew. "Many U.S. workers are seeing bigger paychecks in pandemic era, but gains aren't spread evenly." Pew Research Center. December 22, 2021, available at https://www.pewresearch.org/fact-tank/2021/12/22/many-u-s-workers-are-seeing-bigger-paychecks-in-pandemic-era-but-gains-arent-spread-evenly/

2021, there were still nearly 1.6 million fewer hospitality workers than there were prior to the pandemic, meaning the industry's average wage increase is not entirely reflective of actual raises and is likely due, in part, to many of the lowest-income workers being excluded altogether.[4]

Average wages for U.S. workers grew by 4.7 percent in 2021 – the highest rate of growth in two decades.[5] However, inflation also grew by 7 percent during this time, meaning that **even with the strongest wage growth the country has seen in twenty years, the real wages – the purchasing power – of the average worker actually declined by about 2.4 percent.** This is a sobering statistic in light of popular rhetoric purporting that workers are doing well, and underscores that recent wage growth is woefully insufficient in the context of a labor market built on massive income inequality, entrenched occupational segregation, and economic precarity for one in three people.

As we consider the impact of this decline in worker's purchasing power, we must be clear that there is no such thing as "the average worker." In a labor market as dynamic as that of the U.S., we can't simply look at aggregate measures: we must disaggregate impact outcomes to understand *why* we're seeing certain changes. Wage trends must be understood in the context of the differential impacts of Covid-19 on the employment and incomes of different groups of people. For example, as of early February 2022, 27 percent of households with incomes below $50,000 had experienced a loss of employment income in the previous month, compared to 13 percent of households with incomes above $50,000.[6] During the pandemic, millions of mostly low-wage workers lost their jobs. This factor alone, without any sector's rate of pay actually changing, could have created a sizable upsurge in average wages. This dynamic is ongoing: despite recovery efforts, the U.S. economy is still missing 2.1 million jobs as compared to February 2020, labor market disruptions that we know continue to disproportionately impact lower-wage workers.[7]

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[4] Employment, Hours, and Earnings from the Current Employment Statistics survey (National). Bureau of Labor Statistics. March 5, 2022. Available at https://data.bls.gov/timeseries/CES7072000001?amp%253bdata_tool=XGtable&output_view=data&include_graphs=true

[5] Average Wage Index. Social Security Administration, available at https://www.ssa.gov/oact/cola/awidevelop.html

[6] Experienced Loss of Employment Income, by Select Characteristics, Week 42 Household Pulse Survey: January 26 – February 7, 2022, United States Census, available at https://www2.census.gov/programs-surveys/demo/tables/hhp/2022/wk42/employ1_week42.xlsx

[7] Employment Situation Summary. Bureau of Labor Statistics, March 4, 2022, available at https://www.bls.gov/news.release/empsit.nr0.htm

Second, even in terms of the average change, a 2.4 percent pay cut does not impact all families equally. For workers toward the top of the income distribution, that 2.4 percent decline cuts into discretionary income — savings, investments, nonessential spending. But for workers and families who were already living in or near poverty, for whom there was already little to no cushion in their household budgets, that 2.4 percent pay cut undermines their ability to pay for even the most basic necessities: housing, utilities, food, medicine. As of February 7, 2022, half of US households with incomes below $50,000 per year reported that they were having difficulty covering their usual expenses, along with 20 percent of those with incomes above $50,000.[8] Eleven percent of US households with children sometimes or often did not have enough to eat.[9] And as with most other health and economic harms caused by the pandemic, people of color were hit the hardest.[10]

Lastly, we must be clear that many of the pay hikes that workers did see were either a reflection of basic overtime pay or temporary increases such as "hazard pay" or so-called "hero bonuses" for essential workers and signing bonuses or other incentives for desperately needed health care workers. In most cases, they were not materially significant or sustainable improvements to counter decades of real-wage stagnation and decline experienced by the lowest 50 percent of earners.

Long-term wage stagnation has perpetuated as a result of macroeconomic shifts and policy decisions —from outsourcing and offshoring, to the subversion of union membership and other forms of worker power, to fiscal austerity and lethargic minimum-wage increases even in the face of massive productivity gains. Over the last four decades, productivity grew by nearly 60 percent, while typical workers' pay increased by less than 16 percent.[11] Meanwhile, millions of agricultural workers, domestic workers, restaurant workers, gig workers, and others are still excluded from even basic wage and overtime protections.

The data clearly show that economically insecure families and workers in low-paying jobs have borne the brunt of the economic hardships caused by Covid-19. And in the meantime, the outsized economic power of those at the top has continued to balloon. During the pandemic, the net worth of US billionaires grew by $2.1 trillion, an increase of 70 percent. [For

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[8] Week 42 Household Pulse Survey: January 26 – February 7, 2022, United States Census, available at https://www.census.gov/data/tables/2022/demo/hhp/hhp42.html

[9] ibid

[10] "Tracking the Covid-19 Economy's Effects on Food, Housing, and Employment Hardships." Center for Budget and Policy Priorities, available at https://www.cbpp.org/research/poverty-and-inequality/tracking-the-covid-19-economys-effects-on-food-housing-and

[11] "The Productivity-Pay Gap." Economic Policy Institute, Updated August 2021, available at https://www.epi.org/productivity-pay-gap/

perspective: The 2022 President's Budget requested nearly $69 billion to fund all of HUD.[12] These 745 individuals now hold more than $5 trillion in wealth.[13]

Affordable Housing Shortage, Speculation, Exclusionary Practices Deepen the Nation's Housing Insecurity

The twin forces of a housing shortage —particularly affordable housing— and uneven wage growth have converged to create a national crisis, further exacerbated by the economic impact of the pandemic. Nationwide, home production in the United States fell short of demand by 5.5 million units between 2001 and 2020, exacerbating imbalances in supply and demand. Paired with price-to-income ratios rising significantly, the ability of the average person living in the United States to secure affordable rental housing, let alone to save up and enter the housing market, is increasingly fraught.[14] The Federal Reserve reports that 39 percent of households do not have enough money to cover a $400 unexpected expense. This means most households cannot afford the three months' rent that is often required to secure new rental housing should they be evicted from their current homes—a looming threat as state-wide eviction moratoria continue to lift.

Even before the pandemic further worsened housing conditions, half of all renters were paying more than they could afford on housing. And although the housing crisis is far-reaching, it has hit low-income communities of color the hardest, exacerbating long standing racial inequities. People of color are more likely to experience housing burden and at higher rates–particularly women of color.[15] Seventy seven percent of renters and 58 percent of homeowners who are housing burdened are people of color.[16] A third of white renters and more than 40 percent of renters of color who experience housing burden are also financially insecure, putting them at a distinct risk of eviction–particularly if they are women of color.[17] Low-income women are evicted at much higher rates than men, and although women in high-poverty Black

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[12] 2022 Budget in Brief, U.S. Department of Housing and Urban Development, available at https://www.ncsha.org/wp-content/uploads/HUD-2022-Budget-in-Brief-FINAL.pdf

[13] Collins, Chuck. "U.S. Billionaire Wealth Surged by 70 Percent, or $2.1 Trillion, During Pandemic." Institute for Policy Studies, October 21, 2021, available at https://ips-dc.org/u-s-billionaire-wealth-surged-by-70-percent-or-2-1-trillion-during-pandemic-theyre-now-worth-a-combined-5-trillion/

[14] "The State of the Nation's Housing 2021." Joint Center for Housing Studies at Harvard University, available at https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_State_Nations_Housing_2021.pdf

[15] "Rent Debt Data: Stabilizing Renters is Key to Equitable Recovery." National Equity Atlas, September 16, 2021, available at https://nationalequityatlas.org/rent-debt-in-america, PolicyLink and the USC Equity Research Institute

[16] National Equity Atlas, Housing Burden, https://nationalequityatlas.org/indicators/Housing_burden#/?breakdown=2&geo=01000000000000000, PolicyLink and the USC Equity Research Institute

[17] National Equity Atlas, Rent Debt Dashboard, https://nationalequityatlas.org/rent-debt, PolicyLink and the USC Equity Research Institute

neighborhoods are more likely to work than men, their wages are persistently lower.[18] Black and Latina women, specifically, are the most severely rent-burdened tenants in the U.S., experiencing the highest rates of eviction and housing displacement.[19] [20]

The pandemic has further underscored how inextricably linked wages, income, and housing are in the lives of everyday people, and particularly for lower-income earners as they attempt to realistically access affordable, stable housing in a market that can either grow your wealth through homeownership or strip it through overheated rents. Six million renter households are currently behind on rent — about double the pre-pandemic baseline — and two-thirds of them are people of color.[21] In 2021, alone, rents increased by at least 10 percent in 149 metropolitan regions, whereas only three metros experienced that level of rent growth in 2019.[22] Lower-income renters, low-wage workers, and small businesses serving communities of color — already disparately impacted economically by the pandemic — have been hit hardest by these hikes, deepening racial inequities in housing-based wealth and stability. Renters, and disproportionately renters of color, have accumulated billions in debt, while predominantly white homeowners and property owners have gained billions in wealth from low interest rates and increased home values.[23] Black and Latinx workers are more likely to have lost employment income during the pandemic and disproportionately owe back rent, and are therefore more likely to face eviction as pandemic-era moratoria are lifted.

This is a direct consequence of our history. Decisions made by governments and policymakers suppressed entire races of people by controlling where they lived, whether they could access financing, and the health of their neighborhoods. Policy decisions have resulted in today's racial disparities: segregation, redlining, racially restrictive covenants and exclusionary zoning, and urban renewal in the first half of the 20th century engraved inequality across the country's landscape. Even today, Black and Latinx families are vastly overrepresented among the

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[18] "Clearing the Record: How Eviction Sealing Laws Can Advance Housing Access for Women of Color." American Civil Liberties Union, January 10, 2022. Available at https://www.aclu.org/news/racial-justice/clearing-the-record-how-eviction-sealing-laws-can-advance-housing-access-for-women-of-color/

[19] National Equity Atlas, Rent Debt Dashboard, https://nationalequityatlas.org/rent-debt, PolicyLink and the USC Equity Research Institute

[20] National Equity Atlas, Housing Burden, https://nationalequityatlas.org/indicators/Housing_burden#/?breakdown=2&geo=01000000000000000, PolicyLink and the USC Equity Research Institute

[21] National Equity Atlas, Rent Debt Dashboard, https://nationalequityatlas.org/rent-debt, PolicyLink and the USC Equity Research Institute

[22] Metropolitan Rent Changes from 2018-2021, Apartment List, available at https://www.apartmentlist.com/research/metro-rent-changes-18-21

[23] ibid

unbanked and underbanked.[24] Since the 1970s, deep structural changes to the US economy have also fueled new drivers of housing inequality, leading to rising rates of real estate speculation and exacerbating racial divides. Both segregation and displacement — disinvestment and predatory investment — undergird today's lack of stable, affordable housing for communities of color. The 2008 Recession and foreclosure crisis in particular stripped housing-based wealth held by Black and Brown communities and will have impacts for generations to come. By the year 2031, the 2008 recession will have decreased the wealth of the median Black household by $98,000.[25]

On top of historical, structural disinvestment from low-income communities and communities of color, economic impacts of the coronavirus crisis could have very long-term impacts on the financing and ownership of the multifamily rental housing stock that is affordable to working-class people without subsidies. If local rental property owners are unable to pay their mortgages, there is demonstrated risk that these properties will be acquired by banks and sold to Wall Street investors, many of whom have already created funds specifically aimed at acquiring "distressed properties" in the wake of the pandemic.[26] Policies governing land use, allocation of public resources, criminalization of "unwanted" communities, and real estate speculation all play a role and require structural responses from the federal government.

Energy Costs, Reliance on Fossil Fuels, Disproportionately Impact Economically Insecure

The rising cost of basic services such as water, electricity, and natural gas puts increased pressure on households, especially the 100 million people in America living in or near poverty. Energy is a non-discretionary household expense. Households below the federal poverty line spend 18 percent of their income on energy, nearly 10 times the energy burden of higher income households.[27] Households at 200 percent of the federal poverty line spend 6 percent of their income on energy, three times the energy burden of higher income households.[28] This is despite the fact that in places like Chicago, lower income households consume less energy on

[24] BCG cites FDIC data showing that while Black and Latinx households make up just 32% of the population, they represent 64% of the country's unbanked and 47% of the underbanked. Available at https://www.bcg.com/publications/2021/unbanked-and-underbanked-households-breaking-down-the-myths-towards-racial-equity-in-banking

[25] Sarah Burd-Sharps and Rebecca Rasch. "Impact of the US Housing Crisis on the Racial Wealth Gap Across Generations." ACLU, 2015. Available at https://www.aclu.org/sites/default/files/field_document/discrimlend_final.pdf

[26] Crowder, James et. al. "Our Homes, Our Communities: How Housing Acquisition Strategies Can Create Affordable Housing, Stabilize Neighborhoods, and Prevent Displacement." PolicyLink, 2021. Available at https://www.policylink.org/sites/default/files/pl_Our-Homes_050321_a.pdf

[27] Low-Income Energy Affordability Data (LEAD) Tool, United States Department of Energy, available at https://www.energy.gov/eere/slsc/maps/lead-tool

[28] ibid

average.[29] A high energy burden is not only a symptom of poverty, but in siphoning resources from other critical needs, it prolongs and exacerbates poverty.[30] Here again, these price levels have nothing to do with increased demand as a result of fiscal stimulus or modest wage increases of the lowest-paid workers. Rather, they are symptoms of longstanding structural problems.

A leading factor contributing to household energy burden in the U.S. is overreliance on fossil fuels for power generation. Natural gas alone accounts for 40 percent of power generation in the U.S, and half of all homes in the U.S. use natural gas for heating and cooking.[31] Because it is traded as a global commodity, the price of natural gas in the U.S. fluctuates dramatically according to global demand. The Energy Information Agency (EIA) expected the price of natural gas to increase 30 percent this winter.[32] Although the U.S. produces enough natural gas to cover domestic consumption, the U.S. is a net exporter of natural gas.[33] Thus, the cost of natural gas in the U.S. is set by commodities traders and domestic producers selling to the highest bidder.

Recent developments highlight the myriad economic risks of U.S. reliance on fossil fuels. The Russian invasion of Ukraine sent global energy commodities prices skyrocketing. The price of oil in the U.S. rose at the fastest rate ever, with daily price levels not seen since 2008.[34] Similarly, natural gas futures are up as commodities traders anticipate supply crunches in Europe.[35] In light of the globalized market for energy commodities, the U.S. has limited ability to insulate American households from the economic fallout of geopolitical conflicts. Further, the recently released Sixth Assessment Report of the Intergovernmental Panel on Climate Change signals the urgent need to transition away from fossil fuels. Economically insecure households are disproportionately burdened by the volatility of energy commodities markets, bear the brunt of

[29] Gazze, Ludovika et al. "10 Facts About Electricity Costs for Low-Income Families." The University of Chicago and Elevate Energy, December 2010, available at https://www.elevatenp.org/wp-content/uploads/Electricity_Use_10_Facts_2019-12-17-1.pdf

[30] Bohr, Jeremiah; McCreery, Anna C. "Do Energy Burdens Contribute to Economic Poverty in the United States? A Panel Analysis."*Social Forces*, Volume 99, Issue 1, September 2020, Pages 155–177, https://doi.org/10.1093/sf/soz131

[31] "Electricity Explained:Electricity in the United States." U.S. Energy Information Administration, available at https://www.eia.gov/energyexplained/electricity/electricity-in-the-us.php

[32] "EIA forecasts U.S. winter natural gas bills will be 30% higher than last winter." U.S. Energy Information Administration, October 25, 2021, available at https://www.eia.gov/todayinenergy/detail.php?id=50076

[33] Ibid

[34] Bogage, Jacob. "U.S. gas prices are rising at fastest pace ever as Russia intensifies invasion of Ukraine, AAA says." Washington Post, March 4, 2022, available at https://www.washingtonpost.com/business/2022/03/04/ukraine-russia-gas-prices/

[35] Dobbs, Kevin. "April Natural Gas Futures Extend Rally on Russia-Ukraine War Worries." Natural Gas Intelligence, March 3, 2022, available at https://www.naturalgasintel.com/april-natural-gas-futures-extend-rally-on-russia-ukraine-war-worries/

the negative environmental and health impacts of the fossil fuel industry, and are more vulnerable to the impacts of extreme weather events.[36][37]

Recommendations for Congressional Action

The federal government, as the author and enforcer of many of the laws and policies that allow these barriers to persist, must play a leading role in their remedy and our national renewal — particularly by centering racial equity in the nation's laws, policies, regulations, and programs moving forward. The federal government is uniquely positioned to ensure that opportunity is not random in America. And, policymakers must embrace that cause as a core tenet of our nation's foundational purpose.

This leadership moment requires the federal government not only to view its investments through its core commitment to racial equity, but also to **build new economic, housing, and energy systems** for a flourishing 21st century multiracial democracy — one that centers the needs of the nearly 100 million economically insecure people living in the United States. We urge Congress to consider the following strategies as the federal government invests in the economic resiliency of the nation:

Support wage growth for lowest-income workers, rebalance Federal Reserve policy, and enact a federal job guarantee

The Federal Reserve (The Fed) previously took the correct stance in assessing that we are in a transitory period of inflation, as is often observed in the wake of commodity price shocks.[38] The Fed's mandate to stabilize prices sits alongside, not above, its mandate to maximize employment. A key metric used to strike this balance is the non-accelerating inflation rate of unemployment (NAIRU), or the lowest unemployment rate that does not result in accelerating inflation. There is no consensus on what that rate actually is, but the concept is critically important to the monetary-policy levers controlled by the Fed. When composite economic indicators such as wage growth seem to suggest that unemployment is nearing or falling below NAIRU — that is, when unemployment is "too low"— interest rate increases are the primary tool available to the Fed to combat these pressures. The NAIRU is highly context-dependent,

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[36] Tessum, Christopher W et al. "PM2.5 polluters disproportionately and systemically affect people of color in the United States." Science Advances, April 28, 2021, available at https://www.science.org/doi/10.1126/sciadv.abf4491

[37] Fourth National Climate Assessment, Volume II: Impacts, Risks, and Adaptation in the United State, available athttps://nca2018.globalchange.gov/

[38] Atushi, Sekine, Tsurugu, Takayuki. "Effects of commodity price shocks on inflation: a cross-country analysis." *Oxford Economic Papers*, Volume 70, Issue 4, October 2018, Pages 1108–1135, https://doi.org/10.1093/oep/gpy015

and as such, recent wage growth alone cannot account for the recent acceleration in inflation. What is clear is that the modest wage gains enjoyed by millions of low-paid workers are *both* a critical step toward greater equity in our economy — which our research shows is essential for long-term growth and sustainability — *and* still woefully insufficient.

To meet the Fed's dual goals of maximizing employment and controlling inflation, **monetary policy should be designed and deployed not simply to maintain labor market equilibrium at whatever the current estimated NAIRU rate happens to be, but in fact to drive NAIRU down.** We have both rigorous economic models and recent historical lessons to support the conclusion that NAIRU is not constant but structurally variable, and that it moves in an inverse relationship to productivity.[39] In other words, greater labor productivity lowers the threshold to which unemployment can fall without triggering inflation. To sustain and extend the productivity gains of the past two years, **we need policies that *expand* the labor force, not contract it. Raising the floor on wages and removing structural barriers to employment that have locked many people of color and women out of opportunities are both critical strategies.**

The chasmic wealth gap, not modest wage gains, is a massive economic liability (and it may indeed be "spiraling"). Racial inequities in income, not increased labor market demand, threaten the stability of the nation's economic comeback. We need to do more than simply promote greater productivity — **we need to make sure the benefits of productivity gains are equitably shared.**

Additionally, policymaking focused on price stability to the detriment of increasing employment would miss a critical opportunity to lay the foundation for a more prosperous and inclusive US economy. **To build a stronger, more equitable economy, we need to lean into expansionary policy.** This will include some degree of inflation, but the potential economic costs of taking a contractionary stance in the middle of this precarious recovery would be much higher. **We need to bring more people into the economy, and we need corrective policies designed to grow the resources and economic power of the workers and families who have been systematically shut out of the nation's wealth and prosperity.**

Finally, **Congress should enact a Federal Job Guarantee** with permanent public financing that expands and contracts based on need and would ensure that everyone has access to family-supporting jobs. I want to particularly acknowledge and thank Representative Pressley for her

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[39] Mohebi, Mehdi, Komijani, Akbar. "NAIRU and productivity shocks: evidence from three gigantic economies." Applied Economic Letters, Volume I25, 2018- Issue 12, available at https://www.tandfonline.com/doi/full/10.1080/13504851.2017.1371839

leadership in introducing a resolution to accomplish this,[40] which PolicyLink was proud to work in partnership with her office to advance. A Federal Job Guarantee would act as an automatic stabilizer, maintaining stable employment and income during downturns, thus making our economy more resilient as well as more equitable. This guarantee is crucial to build an equitable economy and deliver on essential community infrastructure needs.

Invest in housing infrastructure, strengthen financial industry oversight

Despite the winter setback in Congressional negotiations over Build Back Better, this Committee has been a consistent voice and champion for a robust expansion of federal investments in affordable housing and policies aimed at ending the housing crisis in America. I want to especially thank you, Chairwoman Waters, for your consistent leadership and your latest efforts to ensure housing is addressed in any new compromise package that may come together. This moment demands significant new federal housing investments, and we will continue to work with this committee and others to realize this goal.

To end the nation's housing affordability crisis, we need to invest **at least $200 billion for housing acquisition** through the National Housing Trust Fund or a new Housing Infrastructure Bank. Just as corporations have begun preparing to purchase defaulted properties, the federal government should embrace this opportunity to purchase existing lower-cost housing and preserve it forever as affordable housing, leveraging recovery funding. These investments should expand community control and ownership, and the funds should be used to fully finance the purchase and rehabilitation of private rental properties by tenants, nonprofit organizations, public housing authorities, cooperatives, community land trusts, and state or local governments in order to increase the availability of permanently affordable housing. This funding should also be coupled with resources to provide technical assistance that facilitates peer learning for local organizations working on the ground in communities. The Department of Housing and Urban Development can expand public and community ownership of rental housing through Housing Trust Fund Rulemaking, and by clarifying appropriate uses of Community Development Block Grant funds for equitable acquisition[41]

In addition to this Housing Trust Fund, Congress must invest $70 billion in capital improvements to public housing for maintenance, greening, operations, and to end the current backlog in repair needs.

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[40] H.Res.145 - Recognizing the duty of the Federal Government to create a Federal job guarantee. https://www.congress.gov/bill/117th-congress/house-resolution/145/cosponsors?r=18&s=3&searchResultViewType=expanded.

[41] Our Homes, Our Communities, How Housing Acquisition Strategies Can Create Affordable Housing, Stabilize Neighborhoods, and Prevent Displacement, PolicyLink https://www.policylink.org/resources-tools/housing-acquisition-strategies

We must also advance the Homes for All Act and invest in the development of permanently affordable housing.[42] Learning from the scale of large social housing programs around the world, the federal government should reverse the nearly 50-year-long downward trend of reducing federal spending on public housing, and prioritize the creation of **12 million new housing units over the next 10 years** with an **investment of $1 trillion**, prioritizing low-income communities and communities of color particularly on public land near transit. While there are several ways to target these resources, our view is that these units must be made available for people earning 30 percent of their Area Median Income (AMI) or less.

The federal government must issue enough vouchers to make wait lists a relic of the past, and ensure universal access for all who qualify, with strong guidance to direct these vouchers toward community-owned, permanently affordable housing**.** Vouchers are not enough without strengthening protections that mainstream their use. For instance, Congress should establish and enforce a source-of-income protection[43] as a federal standard. Vouchers combined with infrastructure investments in new construction, acquisition, and rehabilitation will provide immediate support to those struggling to pay for housing and will ensure community-controlled properties are financed well into the future.

Congress must also establish a national requirement for rent stabilization to accompany any housing infrastructure investments. This is critical to ensure rent increases are predictable and do not push people out of their homes.[44]

Acknowledging that financial systems themselves often preclude low-income people and people of color from accessing homeownership opportunities and building wealth, Congress can immediately consider ways to **regulate banks and invest in alternative financing systems to help build bridges to homeownership.** Banks and financial institutions continue to undervalue Black-owned property, steer people of color into predatory financial products, and deny loans to people of color. This kind of **de facto redlining** leads to dramatic undervaluation, underinvestments, and underbanking in Black and Brown communities. Private equity companies flush with investor funds have bought up homes in low-income communities,

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[42] The Homes For All Act of 2019, H.R. 5244, was introduced by Rep. Ilhan Omar in the 116th Congress

[43] Source-of-income non-discrimination laws prohibit discrimination based on source of income. These laws are critical to preventing discrimination against housing voucher holders, young people whose parents pay their rent, domestic violence survivors who may be receiving housing assistance, or anyone else who has another institution or individual paying their rent. These laws are particularly important for voucher holders in communities with high housing costs where landlords are less likely to rent to voucher holders.

[44] "Our Homes, Our Future: How Rent Control Can Build Stable, Healthy Communities." PolicyLink, available at https://www.policylink.org/resources-tools/our-homes-our-future.

seeking to profit from eviction, displacement, and gentrification. This has led to deteriorating conditions and rising housing costs for low-income and working-class tenants who live in multifamily buildings. More robust financial regulations will protect both tenants and homebuyers by limiting the role that private equity can play. In particular:

- Enforce stronger regulation, including transparency and fair taxation, of real-estate development and investment corporations.
- Provide funding and policy preference for nonprofit and cooperative ownership, community land trusts, and other models that facilitate public and resident ownership.
- Limit the ability of banks to offer loans on property purchases that would require significant rent increases in order to meet mortgage obligations.[45]

Finally, Congress should **invest substantially more resources in the CDFIs, local credit unions, and business support organizations** that have deep relationships in low-income communities of color and provide crucial financial and technical support to help businesses owned by people of color start and grow. As we invest in housing and infrastructure development, we must ensure that developers and entrepreneurs of color can participate in rebuilding their communities, creating new, good jobs for residents, and scaling their businesses to shrink the racial wealth gap. Congress should also consider new programs and incentives to support the development of worker-owned cooperatives in communities of color. In addition to expanding workers' voice and ownership, worker-owned cooperatives tend to be more productive, pay better wages, offer longer-term employment that lasts through shocks to the economy, provide greater career mobility, and keep profits in the community.[46]

Enact equitable energy policy

Congress should advance the Heating and Cooling Relief Act to invest in and expand the Low Income Home Energy Assistance Program (LIHEAP). Federal funding for energy assistance falls well short of current needs. The funding gap is two-fold. For example, in Chicago only one in five households that are eligible for LIHEAP receive energy assistance.[47] For those who do, the average offset was only $173 per year and the median household received a 12.3 percent reduction in their energy expense.[48] While energy prices have steadily increased, federal

[45] For more information on how to advance housing justice and limit the outsized influence of corporate landlords, see the Housing Justice National Platform, supported by a nationwide movement of tenants, homeowners, and their allies: https://www.housingjusticeplatform.org/our-platform.
[46] "How Economic Democracy Impacts Workers, Firms, and Communities." Democracy at Work, available at https://institute.coop/resources/how-economic-democracy-impacts-workers-firms-and-communities.
[47] Gazze, Ludovika et al. "10 Facts About Electricity Costs for Low-Income Families." The University of Chicago and Elevate Energy, December 2010, available at https://www.elevatenp.org/wp-content/uploads/Electricity_Use_10_Facts_2019-12-17-1.pdf
[48] Ibid

funding for energy assistance remained flat for nearly a decade prior to the COVID-19 pandemic.[49]

It is critical to align monetary, fiscal, and regulatory policy to accelerate adoption of low-cost renewable energy and promote the development of high-wage sustainable industries. Wind and solar energy are by far the most cost effective sources of power generation on the planet.[50] However, in 2020, renewables accounted for only 20 percent of electrical power generation and only 12 percent of total energy consumption.[51][52] Beyond power generation, **enacting an equitable and sustainable industrial policy** is the most effective way to insulate American households from the inflationary pressures of geopolitical crises and global supply chain shocks. This requires leveraging the full spectrum of economic policy tools — monetary, fiscal, and regulatory — to direct public and private investments to develop America's productive capacity to deliver the goods and services that will power an equitable and sustainable future.

Conclusion

In the midst of our national recovery, Congress has an opportunity to act beyond immediate concerns surrounding inflation, and rather boldly address the long-standing structural barriers that preclude nearly 100 million people living in our country from experiencing financial security. Inflation never has, nor will it ever be, as strong as the structural forces that keep them and their families from prospering in our economy. As the author and enforcer of many of the laws and policies that allow these barriers to persist, we urge Congress to take up their leading role to boldly reimagine and restructure an economy — and ultimately a flourishing, multiracial democracy — that works for all.

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[49] Oliff, Phillip et al. "Federal Funding for Low-Income Energy Assistance Highest in New England, Upper Midwest." Pew Research Center, February 21, 2018, available at https://www.pewtrusts.org/en/research-and-analysis/articles/2018/02/21/federal-funding-for-low-income-energy-assistance-highest-in-new-england-upper-midwest

[50] "Renewable Power Generation Costs in 2020." International Renewable Energy Agency, available at https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2021/Jun/IRENA_Power_Generation_Costs_2020.pdf

[51] "Electricity Explained:Electricity in the United States." U.S. Energy Information Administration, available at https://www.eia.gov/energyexplained/electricity/electricity-in-the-us.php

[52] "Electricity Explained: What is renewable energy?". U.S. Energy Information Administration, available at https://www.eia.gov/energyexplained/renewable-sources/

Testimony of Dr. Tyler Goodspeed before the U.S. House of Representatives Committee on Financial Services

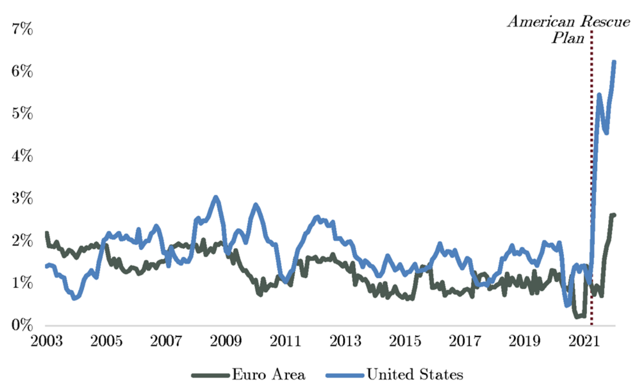
To:	Members of the Committee on Financial Services
From:	Dr. Tyler Goodspeed
Date:	March 8th, 2022
Subject:	Full Committee Hearing entitled, "The Inflation Equation: Corporate Profiteering, Supply Chain Bottlenecks, and COVID-19"

Chairwoman Waters, Ranking Member McHenry, and Members of the Committee:

Thank you for the opportunity to testify before you today on an issue of foremost concern for the U.S. economy and American households, namely, the substantial rise in inflation in the United States over the past year.

I am a Kleinheinz Fellow at the Hoover Institution at Stanford University and the U.S. Director at Greenmantle LLC, a global macroeconomic advisory firm. From 2017 to 2021, I had the privilege to serve on the President's Council of Economic Advisers as Senior Economist, Chief Economist for Macroeconomic Policy, Member, Vice Chairman, and Acting Chairman. In the latter roles I advised on the economic policy response of the Federal government to the worst macroeconomic shock to hit the U.S. economy since the Great Depression, a response which contributed to the 2020 recession being officially the shortest recession in U.S. history. In my academic work I have published extensively on economic and financial history, monetary economics, and the role of access to credit in mitigating adverse macroeconomic shocks.

Figure 1. Harmonized Index of Core Consumer Prices, 1999-2021



Note: Year-over-year percent change. HICP excluding food and energy for United States. HICP excluding food, energy, alcohol and tobacco for Euro area.
Source: Eurostat via Federal Reserve Bank of St. Louis; Bureau of Labor Statistics via Haver Analytics; author's calculations.

In 2021 and early 2022, the U.S. economy experienced the highest level of consumer price inflation since February 1982, with the Consumer Price Index (CPI) rising 7.5% in the 12 months through January 2022. If home prices factored directly into the calculation of the CPI, as they did before 1983, measured inflation would likely have been even higher, as the median home sale price rose more than 15% in the year through January. Whereas in early 2021 higher inflation was confined to a relatively narrow set of price categories, it is now broad-based. Various measures of underlying inflation indicate that the price level accelerated in January, with core prices now rising at an annualized rate of 7-8%.[1]

Figure 2. Change in Annual Average Consumer Price Inflation, 2021 versus 2019

Source: OECD; author's calculations.

[1] These measures include the Federal Reserve Bank of Cleveland's Weighted-Median CPI and Trimmed-Mean CPI, the Federal Reserve Bank of Atlanta's Sticky CPI, and core CPI (CPI excluding volatile food and energy).

Fundamentally, this four-decade high in inflation is the consequence of demand substantially outstripping supply in the U.S. economy. To a partial extent this has been a global phenomenon, as global supply has continued to sustain disruptions due to the COVID-19 pandemic. However, the magnitude of the increase in inflation in the United States is unique among advanced economies. As shown in *Figure 1*, reasonably comparable measures of core consumer price inflation in the United States and the Euro area, which previously tracked each other closely, diverged sharply in 2021, with a sharp break occurring after March 2021.

Compared to 45 other major economies tracked by the Organisation for Economic Co-operation and Development (OECD), the increase in the average level of inflation in the United States in 2021, relative to its 2019 pre-pandemic average, was greater than in all 45 other economies except Saudi Arabia, Brazil, and Turkey (*Figure 2*). Explanations of high U.S. inflation that are global in nature—for example, supply chain disruptions or increased market concentration—are therefore unlikely to explain all of the increase in inflation in the United States. Instead, a key difference between the United States and other major economies is that U.S. fiscal policy in 2021 stimulated demand on an unprecedent scale while simultaneously impeding a recovery in supply.

In particular, 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 U.S. economy, while increases in implicit marginal tax rates on employment impeded a recovery in labor force participation and uncertainty surrounding the future path of domestic business taxation likely raised the option value of deferring new business investment. I address both the demand- and supply-side impacts in turn.

A fiscal stimulus during an economic expansion of the magnitude of the $1.9 trillion American Rescue Plan Act was unprecedented in postwar U.S. history before 2021, and immediately followed $900 billion in additional pandemic-related spending already introduced under the Consolidated Appropriations Act, 2021. Applying conventional fiscal multipliers to a fiscal expansion of this size would imply aggregate demand rising to level as much as 5% above pre-pandemic forecasts of potential output.

Though an excess of aggregate demand over potential output of this magnitude would on its own generate substantial upward pressure on the price level, it understates the extent of the supply-demand imbalance introduced by the American Rescue Plan, because actual potential output in the supply-constrained context of the ongoing pandemic in 2021 was likely lower than pre-pandemic estimates of potential. In addition, it does not account for any drawdown of above-trend savings accumulated by households under the CARES Act and Consolidated Appropriations Act, 2021, which already totaled $1.5 trillion at the end of 2020. Any residual between nominal aggregate demand and potential output would then translate directly into higher prices.

The impact of an excess demand shock arriving in March 2021 is observable in the timing of the divergence between U.S. and Euro area core inflation, as measured by the Harmonized Index of Consumer Prices (HICP).[2] Whereas in the 12 months through February 2021, core HICP rose at roughly the same pace in the Euro area as in the United States, from February 2021 through December 2021 the increase in the core HICP inflation rate in the United States was more than triple that in the Euro area. Though HICP data is not yet available for the United States for January 2022, if we estimate it using observed CPI and the average difference between core CPI and core HICP inflation in 2021, the divergence is even sharper—the increase in the year-over-year core inflation rate in the United States is almost quintuple that in the Euro area. A similar pattern holds for overall HICP.

[2] Core HICP (excluding volatile food and energy) for the United States is available through the Federal Reserve Bank of St. Louis. Core HICP for the Euro Area is also available through the Federal Reserve Bank of St. Louis, but excludes food, energy, alcohol, and tobacco.

In the context of an ongoing pandemic and the associated impediments to the consumption of services, the American Rescue Plan generated a surge in demand for goods, with personal consumption expenditures on goods rising by 10.7% in the month of March 2021 alone. Soaring demand for goods placed severe strain on the capacity of U.S. ports to process increased import volumes. Despite port congestion being cited as a major contributor to rising inflation, U.S. ports actually handled record import volumes in 2021, approximately 20% above 2019 volumes. When we observe both price and quantity rising, economists associate that with demand increasing by more than supply. If port congestion in 2021 had instead been caused by a disruption to port capacity rather than an increase in demand, we would have observed rising prices but falling quantities. Port congestion in 2021 is therefore more likely a symptom of an over-stimulated economy than a cause of it.

The American Rescue Plan did, however, adversely impact the recovery of the supply-side potential of the U.S. economy, in particular the recovery in labor force participation. The extension of a \$300-per week Federal supplement to unemployment insurance benefits until September 2021 effectively raised the implicit marginal tax rate on the return to work, while an expansion of the Child Tax Credit (CTC) through the end of 2021 also raised implicit marginal tax rates on workers. Not only did a larger credit raise implicit marginal tax rates over the income phase-out thresholds, but also a lower phase-out threshold for the increased credit meant that more workers were affected by those higher implicit tax rates. Moreover, as Corinth et al. (2021) demonstrate, the expanded CTC under the American Rescue Plan also increased implicit marginal tax rates on the return to work over the phase-in threshold by substantially lowering the return to work relative to the expansion of the CTC under the 2017 Tax Cuts and Jobs Act.[3] The labor force participation rate rose just 0.4 percentage point from March to December 2021, and ended the year only 0.2 percentage point above its August 2020 level. At the end of 2021, labor force participation was still 1.5 percentage points below its pre-pandemic level, implying 2.4 million missing workers.

In addition, increased business tax uncertainty resulting from the Build Back Better plan likely impeded a recovery in business fixed investment, which by my estimates has incurred a \$1.8 trillion cumulative shortfall since the start of the pandemic, relative to pre-pandemic trend. Such a shortfall implies a smaller U.S. private capital stock, translating into approximately 1% lower potential output. In particular, the prospect of higher corporate income tax rates after 2021 would have incentivized firms to defer planned investment in new equipment, as the deduction for bonus depreciation is more valuable under a 28% Federal corporate income tax rate than under a 21% rate.

While the preceding analysis has focused on macroeconomic aggregates, it is important to not lose sight of the effect of the inflation shock of the past year on American workers and households. While average wages increased in nominal terms in 2021, they decreased in inflation-adjusted terms, as nominal wage growth was unable to keep pace with rising inflation. Even fixing the composition of the workforce, which can change over the course of a recovery, employee compensation declined in inflation-adjusted terms by 2.5% during the four quarters of 2021.

We observed a similar dynamic in the period of high inflation in the 1970s, when wages similarly struggled to keep pace with rising inflation. During the economic recovery from 1975 to 1980, real wages declined at an average annual rate of 1 percent. Though higher inflation erodes the value of existing debt, which can in the short-term benefit lower-income households—who tend to be more highly leveraged—borrowing costs quickly respond to account for higher expected inflation. Moreover, lower- and middle-income workers not only tend to have less bargaining power in wage negotiations, they also are disproportionately impacted by the rising cost of basic necessities—such as food, gas and rent—which constitute a bigger share of their disposable personal income. Lower-income households are also at greater risk in an inflationary environment because they have fewer financial hedges against

[3] Kevin Corinth, Bruce Meyer, Matthew Stadnicki, and Derek Wu, "The Anti-Poverty, Targeting, and Labor Supply Effects of the Proposed Child Tax Credit Expansion," National Bureau of Economic Research Working Paper No. 29366 (October 2021).

inflation, most notably owner-occupied real estate. In the closing years of the of the Great Inflation of the 1960s to the early 1980s, rent inflation of nearly 10% was outstripping nominal wage gains.

Over the past year, inflation in the United States has risen to levels not observed since the end of the Great Inflation. While inflation has risen globally, global factors cannot explain all or most of the increase in inflation in the United States because the magnitude of that increase has been substantially greater in the United States than in other advanced economies. Rather, a key factor in higher inflation in the United States were fiscal policy measures that stimulated aggregate demand to an historically unprecedented degree, while simultaneously exacerbating existing challenges to a recovery in the supply-side potential of the U.S. economy.

Congressional Testimony

"The Inflation Equation: Corporate Profiteering, Supply Chain Bottlenecks, and COVID-19"

U.S. HOUSE COMMITTEE ON FINANCIAL SERVICES

Washington, DC
March 8, 2022
10:00am ET

Rakeen Mabud, Ph.D.
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I. Introduction

Chairwoman Waters, Ranking Member McHenry, members of the committee, 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.

Groundwork is an economic policy think tank based in Washington, D.C. dedicated to advancing a coherent, economic worldview that produces broadly shared prosperity and abundance for all. Groundwork has no government contracts and accepts no government funds.

I am grateful to the Committee for holding this hearing about the critical issue of rising prices and inflation.

Today's price hikes are the result of three interacting factors: supply shortages and bottlenecks as a result of increased demand that are causing genuine increases in input costs, a highly concentrated economy that gives firms outsized pricing power -- especially when they can use the current inflationary environment as cover, and a deeply financialized economy that prioritizes short-term profit maximization over long-term investments. Together, these factors enable pandemic profiteering.

My testimony today will focus on three key points:

- First, corporate profiteering is playing an important but underreported role in rising prices. Corporate executives and shareholders are enjoying the highest profit margins in 70 years – all while consumers are paying the price.

- Second, Wall Street's presence in every corner of our economy makes this period of inflation unique. Investor demands for ever higher profits suggest that a profit-price spiral is a significant risk. In contrast, there is absolutely no evidence that wages are driving prices up.

- Finally, today's price increases are the direct result of the outsized power that mega-corporations hold over our supply chains and economy more broadly. Over the last 50 years, mega-corporations have set up a "heads I win, tails you lose" system, resulting in a brittle supply chain and less resilient economy.

I will conclude by recommending that Congress take on pandemic profiteering and recent price hikes by directly tackling the imbalanced power dynamics in our economy. First, the committee should work across Congress to tax excess profits to encourage productive investment. Second, it is critical that Congress makes additional long-overdue investments in our physical and human infrastructure to keep prices down and foster an economy rooted in shared prosperity and abundance. Finally, Congress should ensure rigorous competition in key product markets and at critical nodes along the supply chain by curtailing mergers that further concentrate industry.

II. Corporate profiteering is playing an important but underreported role in rising prices. Corporate executives and shareholders are enjoying the highest profit margins in 70 years – all while consumers are paying the price.

Corporate profit margins are soaring because of rampant price hikes on consumers across sectors. Record profit margins are directly tied to corporate profiteering.

There are a range of factors driving inflation right now, including increased and shifting demand, as well as supply chain disruptions resulting in bottlenecks and supply shortages. Corporations across the economy are citing these challenges as the reasons why their prices are going up. While increased demand could certainly increase corporate profits, the 70-year record-high[1] in corporate profit *margins* – despite rising input costs which would normally eat into margins – demonstrate that megacorporations are taking advantage of this crisis to pad their profits by passing along more pricing than justified by rising input costs alone.

In short, it is true that firms are experiencing higher input costs as a result of these supply chain disruptions; but these very real price increases are giving firms cover to pad their profits and raise prices on consumers further.

Groundwork Collaborative has combed through hundreds of earnings calls over the last three quarters to understand why profit margins are at a record high. In these calls, executives tell investors about the last quarter's performance and also discuss what investors can expect from the company in the months ahead. Over and over, in sector after sector, the message from corporate America is clear: CEOs are telling their investors that the current inflationary environment has created significant opportunities to extract more and more from consumers by raising prices.

Take Constellation Brands, the parent company of popular beer brands Modelo and Corona. On their Q3 earnings call in January, Constellation's CFO said, "As you know, we have a consumer set that skews a bit more Hispanic than some of our competitors. And in times of economic downturn, if you will, or weakness, they tend to get hit a little bit harder and they recover a little bit slower. So we want to make sure that we're not leaving any pricing on the table. We want to take as much as we can."[2]

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[1] Reuter, Dominick and Andy Kiesrz. "Companies are pocketing their fattest profits in more than 70 years, even as they complain about inflation," *Business Insider*, Dec 2021, https://www.businessinsider.com/companies-pocket-largest-profits-in-70-years-amid-inflation-complaints-2021-12

[2] "Constellation Brands (STZ) Q3 2022 Earnings Call Transcript," *Motley Fool Transcribing,* Jan 2022, https://www.fool.com/earnings/call-transcripts/2022/01/06/constellation-brands-stz-q3-2022-earnings-call-tra/

In the same breath as they acknowledge that their consumers are hurting, Constellation's executives are expressing excitement about an exploitative and aggressive pricing approach to maximize their profit margins.

The most poignant examples of corporate profiteering are in sectors where dominant corporations have a stranglehold on essential goods, resulting in the toxic combination of immense market power and low price elasticity – and ultimately, sky high prices for consumers.

Take Procter and Gamble, one of the most dominant companies in the world with a chokehold on diaper production and more than a quarter of the global market on laundry products.[3] The company produces a range of household goods, from feminine care items to cleaning supplies.

In the company's quarterly earnings call on January 19, P&G CFO Andre Schulten announced price increases in all 10 of their product categories in 2021 with more to come in 2022 and stated, "Building on the strength of our brands, we are thoughtfully executing tailored price increases...We see a lower reaction from the consumer in terms of price elasticity than what we would have seen in the past."[4] Procter & Gamble reported that price increases helped drive their net sales up six percent higher than the previous year, bringing their total net earnings for the quarter up 9% to $4.2 billion.[5]

In other words, Schulten knows the company can take advantage of consumers' basic needs because demand is relatively unresponsive to price hikes for goods like diapers or household cleaning supplies. The ability to raise prices without seeing consumer demand drop, combined with significant market share, essentially gives companies like Procter and Gamble free rein over price increases – especially when they can blame inflation for the rising prices, rather than their insatiable desire to boost short-term profits.

Linda Montag, senior vice president at Moody's, agrees. She told Marketplace's Justin Ho that since companies like P&G sell essential household items people need to clean their homes and take care of their families, they can hike prices with little pushback in response.[6]

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[3] "Can Procter & Gamble's Revenue Cross $72 Billion By 2021?," *Forbes,* October 2019, https://www.forbes.com/sites/greatspeculations/2019/10/31/can-procter--gambles-revenue-cross-72-billion-by-2021/?sh=11bb795eaee9.

[4] "The Procter & Gamble Company (PG) Q2 2022 Earnings Call Transcript," *Alpha Street*, January 29, 2022, https://news.alphastreet.com/the-procter-gamble-company-pg-q2-2022-earnings-call-transcript/.

[5] Coral Murphy Marcos, "Procter & Gamble's sales jump as consumers brush off rising prices," *New York Times*, January 19, 2022, https://www.nytimes.com/2022/01/19/business/procter-gamble-2q-2021-earnings.html.

[6] Janet Nguyen, "Why are company profits rising despite inflation?," *Marketplace,* January 2022, https://www.marketplace.org/2022/01/20/why-are-company-profits-rising-despite-inflation/

Consumers and small businesses are particularly affected by price hikes further up the supply chain because price hikes compound.

ConAgra, the parent company for popular brands such as Duncan Hines, Reddi Wip and Hunts, acknowledged that their price hikes would filter down to consumers through the grocery stores and other retailers that purchased their products: "We don't control what customers do with the price they put on the shelf. But I'd say, on average, they tend to pass it through pretty close to the way we pass it through to them. There may be some that take a small margin grab..."[7]

Small businesses in particular are hit hard because when their input costs go up, they have no choice but to pass the price increases on to consumers – often resulting in the loss of market share as customers abandon local businesses for big box retailers that can negotiate better prices.

Amid rampant supply chain shortages, the biggest players are first in line for inputs and inventory. Giants like Walmart and Amazon can absorb higher shipping costs and have the buying power to negotiate more favorable contracts with suppliers in the first place. One smaller retail competitor to Walmart and Amazon told *the Washington Post* that his contracts for inventory "were not worth the paper they were written on."[8]

The price hikes we are seeing now are rooted in corporate greed, plain and simple. Even the Chair of the Federal Reserve, Jerome Powell, has weighed in on this issue. When asked by Senator Elizabeth Warren if corporations with outsized market power are raising their prices to "fatten their profit margins," he did not mince words: "They're raising prices because they can," he explained.

Unfortunately, these aggressive pricing actions are commonplace and span the entire economy. In sector after sector, company after company, we see consumers paying more and mega-corporations getting ever richer.

Information asymmetries are allowing mega-corporations to use the inflationary environment to jack up prices.

Mega-corporations are able to get away with this kind of aggressive and extractive pricing precisely *because* of the current inflationary environment. Increased demand and the resulting supply chain disruptions have caused input costs to increase, and consumers expect higher prices as a result. However, firms have much more information than consumers about the

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[7] "Conagra Brands, Inc. (CAG) Q2 2022 Earnings Call Transcript," *The Motley Fool,* Jan 2022, https://www.fool.com/earnings/call-transcripts/2022/01/06/conagra-brands-inc-cag-q2-2022-earnings-call-trans/

[8] Groundwork Collaborative and American Economic Liberties Project, "Concentrated Corporate Power is Raising Prices, Harming Main Street, and Empowering Pandemic Profiteers," October 2021, https://groundworkcollaborative.org/wp-content/uploads/2021/10/GWC2140-EconLiberties.pdf.

degree to which input costs have increased. It is this information asymmetry that firms are able to exploit to pad their profits.

As Hostess' CEO Andy Callahan said on a March 2022 earnings call, "We're also seeing consumers experience a lot of disruptions. And it's a large range of variability as we flow throughout the year. They're losing benefits. They're moving to a normalized COVID environment. They haven't fully recognized they were absorbed [sic] pricing."[9]

Inflation is a helpful cover for these price hikes. Callahan said later in the same call, "Pricing, by definition, is a change model. It's temporary. Consumers get used to it. When all prices go up, it helps."[10]

These information asymmetries are not only being leveraged for short-term price hikes, but also have longer-term implications. Because prices are sticky, companies are able to use the current bout of inflation as cover for price hikes that will permanently push prices up.

As Utz's CFO Ajay Kataria said just last week, "Our actions around pricing and productivity have stickiness to them. While they address margin gaps in the near term, they will drive margin enhancement when inflation stabilizes...We have very strong reasons to believe that when inflation stabilizes, things are going to start improving in terms of margins. And part of that is because that [sic] once inflation stabilizes, there will be some overlapping pricing benefit going forward."[11]

Hormel's CFO Jim Sheehan agrees. "And over the long-term trend, it really shows that the value of Hormel products are accepted by the consumer and that we are able to price effectively into the marketplace. So I think it's been a great success."[12]

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[9] "Hostess Brands, Inc. (TWNK) Q4 2021 Earnings Call Transcript," *The Motley Fool*, March 2022, https://www.fool.com/earnings/call-transcripts/2022/03/02/hostess-brands-inc-twnk-q4-2021-earnings-call-tran/?source=iedfolrf0000001
[10] Ibid.
[11] "Utz Brands, Inc. (UTZ) Q4 2021 Earnings Call Transcript," *The Motley Fool,* March 2022, https://www.fool.com/earnings/call-transcripts/2022/03/03/utz-brands-inc-utz-q4-2021-earnings-call-transcrip/?source=iedfolrf0000001
[12] "Hormel Foods Corporation (HRL) Q4 2021 Earnings Call Transcript," *The Motley Fool*, Dec 2021, https://www.fool.com/earnings/call-transcripts/2021/12/09/hormel-foods-corporation-hrl-q4-2021-earnings-call/?source=iedfolrf0000001

III. Wall Street's presence in every corner of our economy makes this period of inflation unique. Investor demands for ever higher profits suggest that a profit-price spiral is a significant risk. In contrast, there is absolutely no evidence that wages are driving prices up.

Our economy is deeply financialized, which means that we can see Wall Street's influence in every corner of our economy. As a result, companies are incentivized to prioritize short-term returns for investors over productive investments and other stakeholders.

The excessive financialization of our economy is undeniable. Take stock buybacks, where firms buy back their own shares to artificially elevate their share price. In 2021, the largest U.S. companies engaged in $850 billion worth of buybacks, the highest in history.

Record buybacks are occurring in sectors as varied as the oil industry to hospitals.

As recently reported in the *Financial Times*, "The seven supermajors — BP, Shell, ExxonMobil, Chevron, TotalEnergies, Eni and Equinor — are poised to return $38bn to shareholders through buyback programmes this year, according to data from Bernstein Research. Investment bank RBC Capital Markets puts the total figure even higher at $41bn. That would be almost double the $21bn in buybacks completed in 2014 when oil last traded above $100 a barrel and the highest level since 2008 when their total buybacks topped $46bn driven by a huge share purchasing scheme at Exxon."[13]

Universal Health Services, one of the country's largest hospital management companies, announced last year that it would "increase the amount it will buy back to $3.7 billion, up from $2.7 billion. Since the program began in 2014, UHS has repurchased 20 million shares for $2.5 billion."[14]

Buybacks are simply a symptom of a "shareholder first" economy that prioritizes short-term shareholder payouts over productive investments and other stakeholders such as workers. As Dr. Lenore Palladino writes, "For nearly half of a century, America's public corporations, driven by a shareholder primacy approach to corporate governance, have increasingly prioritized shareholder payments over other, more productive uses of corporate resources. Over the same period, employee bargaining power has fallen and wages for non-executive workers have stagnated across sectors."[15]

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[13] Wilson, Tom, "Big Oil on course for near-record $38bn in share buybacks," *The Financial Times*, Feb. 2022, https://www.ft.com/content/2852b800-4a03-4cf6-a47f-65c306a22657
[14] Paavola, Alia, "UHS sees profit climb to $325M, ups stock buyback program by $1B," *Becker's Hospital Review*, July 2021, https://www.beckershospitalreview.com/finance/uhs-sees-profit-climb-to-325m-ups-stock-buyback-program-by-1b.html
[15] Palladino, Lenore, "Ending Shareholder Primacy in Corporate Governance," *Roosevelt Institute Working Paper*, Feb. 2019,

Pandemic profiteering is being reinforced by a highly financialized economy, putting us at risk for a profit-price spiral.

The stickiness of prices, combined with Wall Street's influence in every corner of our economy puts us at risk for a profit-price spiral[16][17] and higher prices over the longer term. As profits rise as a result of price hikes, so too does the demand for those profits – sending prices spiraling ever upward. Because investors are so powerful across our economy, these spiraling demands are contagious from sector to sector – driving prices higher and higher across a range of sectors.

Take Walmart and Target, whose executives wanted to pursue a strategy of increasing market share by keeping prices low. As a result, both companies experienced brutal selloffs.[18] Simply put, investors were not having it: having seen how successful price hikes were across the retail industry, they punished anyone who was not pursuing the same strategy. Within three months, both companies had raised their prices.[19]

In another example, the cost of Kimberly-Clark N95 masks more than doubled between October 2021 and January 2022 when the CDC updated its guidance to wear more protective masks.[20]

Michael Hsu, Kimberly-Clark's CEO, was not shy about sharing why the company had jacked up prices. In an earnings call just last week, he noted that, "While our overall financial results were disappointing, we took decisive action to offset the impact of higher costs with significant pricing actions." On the same call, Hsu suggested that these pricing actions would allow Kimberly Clark to allocate more cash to shareholders through dividends and buybacks.[21]

In other words, even though the company was experiencing a disappointing quarter, Kimberly-Clark's CEO was prioritizing shareholder payouts – all on the backs of consumers paying higher prices for essential items.

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https://rooseveltinstitute.org/wp-content/uploads/2020/07/RI_EndingShareholderPrimacy_workingpaper_201902.pdf

[16]Joe Weisenthal, Feb 2022, https://twitter.com/TheStalwart/status/1491485319811805192

[17] Alloway, Tracy. "Investors Are Loving Companies That Increase Their Prices," ***Bloomberg*,** Feb 2022, https://www.bloomberg.com/news/articles/2022-02-09/investors-love-companies-increasing-prices-and-shifting-inflation-to-consumers?sref=azsh6QkL

[18] Repko, Melissa. " Walmart and Target clash with investors over strategy to keep prices low despite inflation," *CNBC*, https://www.cnbc.com/2021/11/17/walmart-and-target-clash-with-investors-over-low-price-strategy-.html

[19] Repko, Melissa, "Walmart says shoppers are on alert as grocery bills climb," *CNBC*, https://www.cnbc.com/2022/02/17/walmart-cfo-brett-biggs-says-customers-are-paying-attention-to-rising-prices.html

[20] Claire Ballentine and Misyrlena Egkolfopoulou, "N95 Mask Prices Hit 'Ridiculous' Highs on Speculation Over CDC Guidance," *Bloomberg*, January 12, 2022, https://www.bloomberg.com/news/articles/2022-01-12/n95-kn95-or-cloth-masks-prices-surge-as-cdc-weighs-new-recommendations?sref=azsh6QkL.

[21] "Kimberly-Clark Full Year 2021 Results and 2022 Outlook Prepared Remarks," January 26, 2022, https://investor.kimberly-clark.com/static-files/1297975a-1de1-4095-8d91-d7dc9413a88e

While investor demands for higher profits are sending prices spiraling up, there is no evidence that wages or labor shortages are playing a role in driving up prices.

In a system characterized by the kind of baked-in inequality and power-imbalances we have in our economy, many will look to blame wages or recent federal investments for the rise in prices. Not only would focusing on these factors be misguided, but also trying to correct for higher wages or derailing critical, long-overdue investments would only double down on the harm that workers and families are feeling at the checkout line.

A recent analysis by the Economic Policy Institute looks at the relationship between price increases and wage increases over time. While historically there has been a link between price inflation and wage growth – leading to a "wage-price spiral," there has been no correlation between these two factors since December 2020.[22]

One reason wages are not having as much of an impact on prices right now is because worker power has seen a precipitous decline over the last several decades, in large part because of the weakening of organized labor. Since the 1970s, we have experienced a secular decline in unionization rates: sector union membership rate was 6.1% in 2021[23] down from 24.2% in 1973[24].

To be clear, both wage increases and increased worker power backed by unionization would begin to rebalance the pernicious power dynamics that we have in our economy right now – corporations hold outsized power, allowing them to exploit crises to amass even more wealth and power. Increased unionization and higher wages are good things – both for workers and our economy as a whole.

In short, there is absolutely no evidence to suggest wage increases for workers are to blame for the price increases we are seeing today. In February hourly earnings rose just one percent, and over the past year, wages are up only 5.1%. Further, an exceptionally strong jobs report last Friday, with 678,000 jobs added to the labor market, should ease any concerns about labor shortages driving up prices.

IV. Today's price increases are the direct result of the outsized power that

[22] Josh Bivens, "U.S. workers have already been disempowered in the name of fighting inflation," *Economic Policy Institute,* January 2022, https://www.epi.org/blog/u-s-workers-have-already-been-disempowered-in-the-name-of-fighting-inflation-policymakers-should-not-make-it-even-worse-by-raising-interest-rates-too-aggressively/

[23] "Union Members – 2021," *Bureau of Labor Statistics*, Jan 2022. https://www.bls.gov/news.release/pdf/union2.pdf

[24] "The Shrinking American Labor Union," *New York Times*, Feb 2015, https://www.nytimes.com/2015/02/08/business/the-shrinking-american-labor-union.html

> **mega-corporations hold over our supply chains and economy more broadly. Over the last 50 years, mega-corporations have set up a "heads I win, tails you lose" system, resulting in a brittle supply chain and less resilient economy.**

But the question remains: *why* do corporations have so much power to exploit crises for their own gain? The answer starts decades before the pandemic: we spent a half-century allowing business executives and financiers to take control of our supply chains. They hailed the so-called "efficiencies" – ignoring the fact that this knife-edge system was supremely ill-equipped to handle the inevitable supply bottlenecks.

Corporate America's ruthless pursuit of efficiency ushered in a wave of mergers and acquisitions that has contributed to today's high prices in two important ways:

- First, it hollowed out and nearly-eliminated diversity in our supply chain, leaving us without enough geographic diversification or productive capacity to withstand significant shifts in demand, COVID-induced closures, or natural disasters without supply shortages.
- Second, it has left us vulnerable to pandemic profiteering. Without competition to undercut companies who are charging excess prices or laws and regulations prohibiting this behavior, companies will continue unabated.

Extreme concentration has created a brittle system unable to withstand shocks.

We have an economy characterized by extreme concentration. This concentration has thinned out our supply chains and left the remaining mega-companies perfectly positioned to capitalize on the frenzy around inflation to post record profits while extracting from consumers. The presence of Wall Street backing these corporate behemoths has driven this trend in corporate consolidation as investors profit.

And Wall Street's unending quest for maximizing short-term returns has resulted in deregulation of everything from shipping to our rail network. As corporate executives bowed down at the altar of a lean, just-in-time supply chain system that eliminated resiliency and redundancy and increasingly relied on precarious labor, our economy was left more vulnerable to shocks and to the price-gouging, collusion, and pandemic profiteering those shocks allow. In other words, corporations have been able to keep costs low and reap profits, without any risk of being undercut by competition, all at the expense of stability and reliability for consumers.

The majority of the goods families rely on are delivered by as few as three ocean shipping alliances,[25] packed by four meatpackers[26] and equipped by a single chip maker.[27] If something goes wrong with any of these companies, consumers are left without goods on the shelves – driving up prices due to scarcity.

This extreme consolidation has also left us with a bare-bones workforce that relies on vulnerable, precarious workers who are often misclassified and exploited. Take truckers, for instance, a vital puzzle piece in getting goods to grocery store shelves. While big shipping companies such as XPO decry trucker shortages, the truth is that as many as 80% of port truckers are misclassified as independent contractors.[28]

As Harold Meyerson writes in a piece about the trucking industry, "As independent contractors, they receive no benefits and aren't covered by minimum-wage statutes. They must pay for their gas, maintenance, rig insurance, and repairs themselves; and, ever since the pandemic clogged the ports with more goods than ever before, they've had to wait in lines for as long as six uncompensated hours before they can access a container and get it on the road. If they get in the wrong line at the port, they literally can't get out, surrounded by other trucks and doomed to waste more time. Many ports don't even provide bathrooms for waiting truckers, because they aren't port employees."[29]

And the reason that so many truckers are facing rock-bottom working conditions and pay comes down to deregulation. Until the 1980s, truckers, especially those taking on long-haul journeys, "were generally employed by regulated companies whose routes and rates had to pass muster with the Interstate Commerce Commission." Drivers were unionized and could expect a comfortable life with benefits and good pay. The Motor Carrier Act of 1980 precipitated a race to the bottom, deregulating the industry and driving down trucker wages, working conditions, and unionization rates. We're not facing a trucker shortage – we're facing a shortage of good trucking jobs, spurred on by deregulation of the industry. And the upshot is that consumers and workers around the country suffer.[30]

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[25] "Shipping Alliances: 2M, Ocean Alliance & THE Alliance [2021 Overview]," *Container Xchange,* July 2019, https://www.container-xchange.com/blog/shipping-alliances/
[26] "Explainer: How four big companies control the U.S. beef industry," *Reuters,* June 2021, https://www.reuters.com/business/how-four-big-companies-control-us-beef-industry-2021-06-17/
[27] Yang Jie *et al.,* "The World Relies on One Chip Maker in Taiwan, Leaving Everyone Vulnerable," *Wall Street Journal,* June 2021, https://www.wsj.com/articles/the-world-relies-on-one-chip-maker-in-taiwan-leaving-everyone-vulnerable-11624075400
[28] Harold Meyerson, "Why Trucking Can't Deliver the Goods," *American Prospect,* February 2022. https://prospect.org/economy/why-trucking-cant-deliver-the-goods/
[29] Ibid.
[30] Ibid.

Concentration leaves the economy vulnerable to profiteering and price gouging.

The meat packing industry provides a stark example of how mega-corporations have consolidated the market to reap massive profits while consumers and workers are left to foot the bill. According to a recent analysis from the White House National Economic Council, the four biggest meatpackers have seen their net profit margins go up more than 300%[31] since the start of the pandemic, while consumers continue to face sky-rocketing prices.

The consolidation in the meat-packing industry can be traced back to the Reagan administration, which ushered in a period of deregulation and institutionalized Robert Bork's approach to antitrust that adopted the consumer welfare standard. Bork argued that as long as consumer prices were unchanged, or even dropping, monopolistic control over an industry was not a problem.[32] Across all industries, including the meat-packing industry, the Reagan administration stopped enforcing antitrust provisions and allowed big companies to acquire competitors and consolidate their power.

Today, four companies in the meat-packing industry, Tyson, Cargill, JBS, and National Beef Packing, control 85% of the beef industry.[33] These corporations promised that through consolidation, consumers would face lower costs.[34] And yet, these companies have ended up with higher profit margins while consumers faced a 30% jump in beef prices from 2020 to October of 2021.[35]

Corporate consolidation has helped facilitate the pandemic profiteering we are seeing today. With control and dominance over the market, these massive corporations can raise prices and pass along expenses to consumers who have nowhere else to turn. Furthermore, pandemic profiteering further highlights the wildly imbalanced power dynamics that continue to decimate

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[31] Brian Deese *et al.*, "Recent Data Show Dominant Meat Processing Companies Are Taking Advantage of Market Power to Raise Prices and Grow Profit Margins," *The White House,* December 2021, https://www.whitehouse.gov/briefing-room/blog/2021/12/10/recent-data-show-dominant-meat-processing-companies-are-taking-advantage-of-market-power-to-raise-prices-and-grow-profit-margins/

[32] "Who Do You Want Controlling Your Food?," *The New York Times,* January 2022, https://www.nytimes.com/2022/01/28/podcasts/the-daily/beef-prices-cattle-ranchers.html?action=click&module=audio-series-bar&region=header&pgtype=Article

[33] Nicole Goodkind, "Meet the 4 meat empires Biden says are unreasonably jacking up prices for Americans," *Fortune*, January 2022, https://fortune.com/2022/01/06/meat-prices-biden-inflation-tyson-cargill-jbs/#:~:text=The%20four%20major%20meat%20companies,%2C%20cattle%2C%20and%20chicken%20markets.

[34] "Who Do You Want Controlling Your Food?," *The New York Times,* January 2022, https://www.nytimes.com/2022/01/28/podcasts/the-daily/beef-prices-cattle-ranchers.html?action=click&module=audio-series-bar&region=header&pgtype=Article

[35] David Lawder, "Analysis: High U.S. meat prices: packer profiteering or capacity crunch?," *Reuters,* January 2022, https://www.reuters.com/business/retail-consumer/high-us-meat-prices-packer-profiteering-or-capacity-crunch-2022-01-19/

the economic security of low-income people of color – communities who have faced a broken economy for decades.[36]

V. Congress should encourage productive investment over profiteering by taxing excess profits, making long-overdue investments in our infrastructure, and beefing up antitrust enforcement to create an economy that works for all.

Tackling pandemic profiteering requires checking the outsized power that megacorporations hold in our economy and encouraging productive investment to build a resilient economy that works for all.

Given the supply-side nature of the problem, fiscal policy is one of the best paths forward in this important moment in our economic health. Congress must also do it's part to address corporate concentration and the power that these megacorporations exert on prices, wages, and working conditions.

- Congress should tax excess profits, as it did after World War I and World War II to encourage productive investment and deter price gouging. Other types of taxes, such as an increase in the corporate rate, or the establishment of a minimum tax on book income, could serve a similar purpose.

- Congress should ensure rigorous competition in key product markets and at critical nodes along the supply chain by curtailing mergers that further concentrate industry or by breaking up monopolies. Congress can pass legislation aimed at breaking up and re-regulating the large ocean shipping monopolies that are stoking inflation and gumming up critical points in our supply chain.

- Congress should make critical, long-overdue investments in sectors where we are seeing significant shortages, such as housing, and along key nodes of our supply chain. Congress should also make critical investments in sectors that have been eating into family budgets for decades, such as health care and the care sector.

Taken together, these actions will begin the important work of reorienting our economy towards the people who keep it going: consumers, workers, and small businesses.

VI. Conclusion

Workers, families, and small businesses around the country are feeling the pressure of higher prices for basic goods and services. Everything from groceries to medical care to the supplies small business owners need to sustain their livelihoods is more expensive. The more sway large

[36] From businesses to workers, inflation is taking its toll on Black communities," *The Grio*, January 2022, https://thegrio.com/2022/01/30/inflation-businesses-workers-black-communities/.

corporations have over our economy, the more power they have to profit off the pain of consumers and Main Street.

Addressing this crisis means focusing on the real reasons that prices are soaring and small businesses are struggling to stay afloat: the unchecked power of giant corporations and their armies of lawyers and lobbyists who have rigged our economy in their favor for decades. This has created a brittle system that has allowed them to take advantage of consumers and small businesses over the course of this crisis. Egged on by investors, these megacorporations are using inflation as a cover for rampant profiteering – and it must be stopped.

Our economy works best when it works for all of us, and deeply entrenched concentrated corporate power has systematically stripped down supply chains and undermined consumers' bargaining power. The path towards an inclusive, resilient economy must include policies that foster competitive markets where consumers, working people, and smaller competitors all have meaningful bargaining power.

The best way to bring down prices and get our supply chains back up and running is to make smart investments now — and make sure dominant corporations don't get to siphon them off or use them to accumulate even more market power. These investments, coupled with pro-competition safeguards, will shift power to working people, consumers, and communities, reduce costs and prices in the long run, and ensure that no one is left behind during the recovery and beyond.

Thank you.

The Inflation Equation:
Corporate Profiteering, Supply Chain Bottlenecks, and COVID-19

Testimony Before the Committee on Financial Services
United States House of Representatives

March 8, 2022

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My name is Sandeep Vaheesan. I am the Legal Director at the Open Markets Institute. I want to thank Chairwoman Waters, Ranking Member McHenry, and the other members of the Committee for the opportunity to participate in this hearing.

Ongoing inflation in the United States is, in part, a story of corporate pricing power. In industries ranging from agricultural chemicals and seeds to mattresses to rental cars to restaurants, chief executive officers and chief financial officers have boasted that they have been able to raise prices and boost profits and profit margins.[1] Profit margins surged in 2021.[2] Goldman Sachs has identified corporations with pricing power that are poised to do very well in an inflationary environment.[3] This corporate power over prices appears to be an important driver of inflation.

The extraordinary pricing power of corporations in many sectors is a result of policy choices, initiated by the courts in the late 1970s and furthered by President Reagan's administration in the 1980s, that effectively reinterpreted and neutered antitrust law against powerful corporations.[4] In particular, a lax approach to corporate mergers, embraced by both Democratic and Republican administrations, helped create the conditions for our present inflation. For forty years, the Department of Justice (DOJ) and the Federal Trade Commission (FTC) have disregarded the anti-merger law the Congress passed in 1914 and strengthened in 1950 and treated corporate consolidation as generally benign.

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[1] Jeanna Smialek, *Corporations Raise Prices as Consumers Spend 'With a Vengeance'*, N.Y TIMES, Feb. 27, 2022, https://www.nytimes.com/2022/02/27/business/economy/price-increases-inflation.html; Kristin Broughton & Theo Francis, *What Does Inflation Mean for American Businesses? For Some, Bigger Profits*, WALL ST. J., Nov. 14, 2021, https://www.wsj.com/articles/inflation-yellen-biden-price-increase-cost-shipping-supply-chain-labor-shortage-pandemic-11636934826.
[2] Ben Werschkul, *Corporate America's 2021 Profits Were Higher than Ever*, YAHOO! NEWS, Feb. 25, 2022, https://news.yahoo.com/corporate-profits-surge-2021-184717178.html.
[3] Tanaya Macheel, *This Goldman Pricing-Power Portfolio Could Win If Inflation Stays High*, CNBC, Jan. 27, 2022, https://www.cnbc.com/2022/01/27/this-goldman-pricing-power-portfolio-could-win-if-inflation-stays-high.html.
[4] Eleanor M. Fox & Lawrence A. Sullivan, *Antitrust—Retrospective and Prospective: Where Are We Coming From? Where Are We Going?*, 62 N.Y.U. L. REV. 936, 944-955 (1987).

With this implicit greenlight for consolidation, corporations have engaged in hundreds of thousands of mergers and acquisitions over the past four decades. Lax merger policy has enabled corporations in many markets to acquire substantial pricing power.

A permissive posture on mergers has also had deleterious effects on the productive capacity of the United States. Corporations often eliminate "redundant" capacity following mergers, especially those involving competitors, and, in many instances, have opted to grow through mergers and acquisitions instead of the more socially beneficial method of investment and hiring.

The net result is an economy in which corporations in many markets wield exceptional pricing power and have less slack capacity to meet even modest increases in demand for goods and services. These are not the only political economic harms of corporate consolidation and concentration, which include lower wages for workers,[5] but just the ones most relevant to the topic of today's hearing. The pandemic has merely exposed the underlying structural problems in the American economy.

I. Forty Years of Lax Anti-Merger Policy

Congress enacted a strong anti-merger measure in Section 7 of the Clayton Act, in response to the corporate merger and acquisition frenzy that occurred in the late 1890s and early 1900s. The members of Congress who debated and drafted the original Section 7 in 1914 and amended the law in 1950 spoke out against the economic and political evils of concentrated corporate power arising from consolidation.[6] For example, Representative Bennett stated that the "greatest value [of Section 7] lies in protecting our citizenry from domination by business interests so large and monopolistic that the voices of average people cannot be heard in their thunder[.]"[7]

Congress wanted to strike at consolidation before it inflicted harm on citizens, workers, suppliers, rivals, and consumers. To put this anti-merger policy into practice, the law prohibits mergers and acquisitions whose effects "may be to substantially lessen competition, or to tend to create a monopoly."[8] By featuring such probabilistic language, the law was designed to "thwart [harmful mergers] in their incipiency."[9] As the Supreme Court later recognized, "Congress decided to clamp down with vigor on mergers" and "arrest[] a trend toward concentration in its incipiency before that trend developed to the point that a market was left in the grip of a few big companies."[10]

At the same time, Congress took care to ensure that Section 7 did not stifle business growth. Rather, Congress sought to channel business strategy in socially useful directions. The Clayton Act spurred businesses to grow through investment in new plants and facilities and hiring more

[5] José Azar, Ioana Marinescu & Marshall Steinbaum, *Labor Market Concentration*, J. HUMAN RES. 1218 (2020); Nathan Wilmers, *Wage Stagnation and Buyer Power: How Buyer-Supplier Relations Affect U.S. Workers' Wages: 1978 to 2014*, 83 AM. SOC. REV. 213 (2018).
[6] Robert H. Lande, *Wealth Transfers as the Original and Primary Concern of Antitrust: The Efficiency Interpretation Challenged*, 34 HASTINGS L.J. 65, 126-142 (1982).
[7] 95 CONG. REC. 11506 (1949).
[8] 15 U.S.C. § 18.
[9] FTC v. Procter & Gamble Co., 386 U.S. 568, 577 (1967).
[10] United States v. Von's Grocery Co., 384 U.S. 270, 276-77 (1966).

workers—as opposed to growing through the acquisition of existing business assets and corporations. The Supreme Court noted in 1963: "[S]urely one premise of an antimerger statute such as § 7 is that corporate growth by internal expansion is socially preferable to growth by acquisition."[11]

In 1982, the Reagan administration chose to ignore the text and purpose of the Clayton Act. It radically weakened anti-merger policy in the United States. The DOJ and the FTC under President Reagan substituted their policy judgments for those of Congress. Whereas the Department of Justice in 1968 faithfully followed the law in stating "the primary role of Section 7 enforcement is to preserve and promote market structures conducive to competition,"[12] the Reagan administration's DOJ sounded a different tone—one that conferred broad discretion on corporate executives and investment banks supporting mergers and acquisitions but conflicted with the law. In the 1982 Merger Guidelines, the DOJ stated, "Although they sometimes harm competition, mergers generally play an important role in a free enterprise economy."[13] It further pledged "to avoid unnecessary interference with th[e] larger universe of mergers that are either competitively beneficial or neutral."[14]

During Reagan's eight years in office, actual merger enforcement, in practice, proved to be even more relaxed than what the new guidelines indicated.[15] The drop in merger investigations and enforcement actions under the Reagan administration was precipitous.[16] As an antitrust scholar and a former FTC commissioner (and future FTC chair) wrote in 1988, the Reagan administration's dearth of anti-merger enforcement served "as an invitation to [corporate America] to merge with anyone."[17]

Every subsequent administration up through President Trump followed the Reagan administration's permissive approach to merger enforcement. Indeed, they have often further loosened restrictions on merger activity. For example, both the Clinton and the Obama administrations raised the market concentration thresholds for when they would challenge mergers among competitors (horizontal mergers).[18] They also recognized an "efficiencies" defense in merger enforcement policy,[19] even though the Supreme Court had unambiguously rejected an efficiencies justification for unlawful mergers. The Court stated in 1967, "Possible economies cannot be used as a defense to illegality."[20]

[11] United States v. Philadelphia National Bank, 374 U.S. 321, 370 (1963).
[12] U.S. Dep't of Justice, 1968 Merger Guidelines § 2.
[13] U.S. Dep't of Justice, 1982 Merger Guidelines § I.
[14] *Id.*
[15] Thomas G. Krattenmaker & Robert Pitofsky, *Antitrust Merger Policy and the Reagan Administration*, 33 ANTITRUST BULL. 211, 226 (1988).
[16] *Id.* at 213.
[17] *Id.* at 228.
[18] U.S. Dep't of Justice & Fed. Trade Comm'n, 1997 Merger Guidelines § 1.51; U.S. Dep't of Justice & Fed. Trade Comm'n, Horizontal Merger Guidelines § 5.3 (2010).
[19] U.S. Dep't of Justice & Fed. Trade Comm'n, 1997 Merger Guidelines § 4; U.S. Dep't of Justice & Fed. Trade Comm'n, Horizontal Merger Guidelines § 10 (2010).
[20] *Procter & Gamble*, 386 U.S. at 580.

Time and again, presidential administrations have embraced the pro-merger ideology adopted by the Reagan administration. For instance, in their 2010 Horizontal Merger Guidelines, President Obama's DOJ and FTC asserted that "a primary benefit of mergers to the economy is their potential to generate significant efficiencies and thus enhance the merged firm's ability and incentive to compete, which may result in lower prices, improved quality, enhanced service, or new products."[21]

Democratic and Republican administrations permitted consolidation despite the lack of evidence to support the twin assumptions that mergers resulted in efficiency, and that powerful corporations willingly shared any of the benefits of efficiency with the public. If anything, the great bulk of evidence pointed in the opposite direction. For instance, in his landmark research on the effects of mergers, economist John Kwoka found that the DOJ and the FTC routinely permitted mergers that led to higher prices for consumers.[22] And as business school professor Melissa Schilling wrote, after reviewing a series of studies of completed mergers, "A considerable body of research concludes that most mergers do not create value for anyone, except perhaps the investment bankers who negotiated the deal."[23]

And benefit the bankers did. Mergers and acquisitions exploded after the Reagan administration's decision to scale back enforcement of the Clayton Act, increasing in dollar value from $81.2 billion between 1980 and 1984 to $925.2 billion between 1995 and 1999.[24] In recent times, mergers have only further increased. In 2021 alone, the value of merger activity in the United States was $2.5 *trillion*.[25]

To get a sense of the level of corporate consolidation and the federal tolerance of this consolidation, consider the number of merger filings and the government's response to them. The members of Congress who in 1976 enacted the notification system for large mergers expected the DOJ and the FTC to receive around 150 merger filings a year.[26] In the 2010s, the DOJ and the FTC received no fewer than 1,166 merger filings in a particular fiscal year.[27] In the calendar year 2021, businesses filed 4,130 merger notifications.[28] The DOJ and the FTC challenge only a miniscule portion of these consolidations. For instance, out of the 1,637 mergers reported to the agencies in the fiscal year 2020, the agencies challenged just 43 of them (15 by

[21] U.S. Dep't of Justice & Fed. Trade Comm'n, Horizontal Merger Guidelines § 10 (2010).
[22] JOHN KWOKA, MERGERS, MERGER CONTROL, AND REMEDIES: A RETROSPECTIVE ANALYSIS OF U.S. POLICY 94 (2015).
[23] Melissa A. Schilling, *Potential Sources of Value from Mergers and Their Indicators*, 63 ANTITRUST BULL. 183, 183 (2018).
[24] F.M. Scherer, *Some Principles for Post-Chicago Antitrust Analysis*, 52 CASE W. L. REV. 5, 11 (2001).
[25] Niket Nishant, *Global M&A Volumes Hit Record High in 2021, Breach $5 Trillion for First Time*, REUTERS, Dec. 31, 2021, https://www.reuters.com/markets/us/global-ma-volumes-hit-record-high-2021-breach-5-trillion-first-time-2021-12-31/.
[26] H.R. REP. NO. 94-1373, at 11 (1976).
[27] FED. TRADE COMM'N & DEP'T OF JUSTICE, HART-SCOTT-RODINO ANNUAL REPORT: FISCAL YEAR 2019, https://www.ftc.gov/system/files/documents/reports/federal-trade-commission-bureau-competition-department-justice-antitrust-division-hart-scott-rodino/p110014hsrannualreportfy2019.pdf.
[28] Fed. Trade Comm'n, Premerger Notification Program, https://www.ftc.gov/enforcement/premerger-notification-program.

DOJ, 28 by FTC).[29] In many of these cases, the "challenge" did not entail the government stopping the merger in court. Instead, it only involved the merging corporations selling off a line of business or agreeing to terms of fair dealing with their rivals to allay the DOJ or the FTC's competitive concerns.[30]

The character of merger activity also changed beginning in the early 1980s. Due to strict rules against mergers among rivals and mergers between firms in a potential purchaser-supplier relationship (vertical mergers) in the 1960s, the merger wave of the decade involved firms in unrelated markets and industries (conglomerate mergers).[31] With the loosening of anti-merger law beginning in the Reagan years, mergers increasingly became horizontal and vertical.[32] Some of the proposed and ultimately completed horizontal mergers in recent years have even combined the top two firms in a market, such as Anheuser-Busch InBev and MillerCoors in 2016.[33]

II. One Link Between Weak Anti-Merger Policy and Inflation: Greater Corporate Pricing Power

One result of this policy choice on mergers is highly concentrated markets and enhanced corporate pricing power. Due to corporate consolidation, markets across the economy have become more concentrated.[34] The signs are everywhere and familiar to Americans. Consolidation in the wireless industry has led to three carriers controlling the national market. Four airlines dominate domestic air travel.

High market concentration can translate to enhanced pricing power for individual corporations. A corporation that has fewer rivals has greater ability to raise prices. Even if it loses some sales from increasing prices, the higher per-unit margin can more than compensate for reduced volumes.[35] This pricing power is on display during the present inflation. On recent earnings calls, executives have touted their firms' pricing power to investors.[36] While demand did surge for

[29] FED. TRADE COMM'N & DEP'T OF JUSTICE, HART-SCOTT-RODINO ANNUAL REPORT: FISCAL YEAR 2020 1-3, https://www.ftc.gov/system/files/documents/reports/hart-scott-rodino-annual-report-fiscal-year-2020/fy2020_-_hsr_annual_report_-_final.pdf.

[30] *See, e.g.*, Press Release, Fed. Trade Comm'n, FTC Requires Bristol-Myers Squibb Company and Celgene Corporation to Divest Psoriasis Drug Otezla as a Condition of Acquisition (Nov. 15, 2019), https://www.ftc.gov/news-events/press-releases/2019/11/ftc-requires-bristol-myers-squibb-company-celgene-corporation.

[31] Dennis C. Mueller, *The Effects of Conglomerate Mergers: A Survey of the Empirical Evidence*, 1 J. BANKING & FIN., 315 (1977).

[32] David J. Ravenscraft, *The 1980s Merger Wave: An Industrial Organization Perspective*, *in* THE MERGER BOOM 17, 29 (Lynn Elaine Brown & Eric S. Rosengren eds., 1987).

[33] Press Release, Dep't of Justice, Justice Department Requires Anheuser-Busch InBev to Divest Stake in MillerCoors and Alter Beer Distributor Practices as Part of SABMiller Acquisition (July 20, 2016), https://www.justice.gov/opa/pr/justice-department-requires-anheuser-busch-inbev-divest-stake-millercoors-and-alter-beer.

[34] Gustavo Grullon, Yelena Larkin & Roni Michaely, *Are U.S. Industries Becoming More Concentrated?*, 23 J. FIN. 697, 698 (2019).

[35] Nathan H. Miller & Gloria Sheu, *Quantitative Methods for Evaluating the Unilateral Effects of Mergers*, 58 REV. INDUS. ORG. 143 (2021).

[36] Molly Smith & David McLaughlin, *Inflation Risks Getting Sticky as Big Firms Flex Pricing Power*, BLOOMBERG, Jan. 14, 2022, https://www.bloomberg.com/news/articles/2022-01-14/inflation-risks-getting-sticky-as-big-firms-flex-pricing-power.

certain goods, leading to bottlenecks in those sectors (such as chips in auto manufacturing), corporations have used the cover of inflation to sustain price hikes that might have initially been caused by supply bottlenecks for key components.[37]

Concentration also means greater market-wide pricing power. With fewer market participants, firms can collude with rivals more easily. Coordinating and maintaining collective price increases becomes simpler as there are fewer sellers to corral into a pricing agreement and monitor compliance.[38] In a market with just three competitors, defection from a collusive arrangement is easier to identify (and punish through retaliatory price cuts) than it is in a market with 15 or 20 competitors.

In highly concentrated markets, firms do not even need to conspire in the proverbial smoke-filled room to collusively raise prices. Instead, they can engage in tacit forms of collusion, in which one firm initiates a price increase and expects or encourages others to follow.[39] Indeed, executives' comments on earnings calls may be signals to rivals that the firm plans to raise prices, as a first mover or follow the lead of others. As a possible example of this pricing coordination among rivals, Goodyear's Chief Financial Officer Darren Wells, on a recent call in which pricing power in tires was a theme, said, "There are nine competitors that we tend to track, and seven out of the nine have announced price increases in the first quarter, and one of the ones who hadn't raised prices right at the end of last year."[40] Critically, courts in the United States have long held that tacit collusion is legal and cannot be challenged under the Sherman Act (one of the main federal antitrust laws).[41]

Meatpacking illustrates the connection between consolidation, concentration, and inflation. The price of meat, poultry, fish, and eggs rose 12.5% between December 2020 and December 2021,[42] and the increase in beef prices, in particular, has been an important contributor to food and overall inflation.[43] Meatpackers have engaged in many mergers and acquisitions since the 1980s.[44] The result is that, in beef, chicken, and pork processing, the top four national firms together have at least a 54% share of each market.[45] This concentration has conferred great pricing power on processors of beef, pork, and poultry. For instance, beef packers raised prices

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[37] Broughton & Francis, *supra* note 1.
[38] Joseph E. Harrington, Jr., *Evaluating Mergers for Coordinated Effects and the Role of "Parallel Accommodating Conduct"*, 78 ANTITRUST L.J. 651 (2013).
[39] Luke Garrod & Matthew Olczak, *Explicit vs Tacit Collusion: The Effects of Firm Numbers and Asymmetries*, 58 INT'L J. INDUS. ORG. 1 (2018).
[40] Smialek, *supra* note 1.
[41] Bell Atlantic Corp. v. Twombly, 550 U.S. 544, 557 (2007); Theatre Enterprises, Inc. v. Paramount Film Distributing Corp., 346 U.S. 537, 541 (1954).
[42] Bureau of Labor Stats., Consumer Price Index: 2021 in Review, https://www.bls.gov/opub/ted/2022/consumer-price-index-2021-in-review.htm.
[43] Peter S. Goodman, *Record Beef Prices, but Ranchers Aren't Cashing In*, N.Y. TIMES, Dec. 27, 2021, https://www.nytimes.com/2021/12/27/business/beef-prices-cattle-ranchers.html.
[44] Jessica Fu, *Can $1 Billion Really Fix a Meat Industry Dominated by Just Four Companies?*, COUNTER, Jan. 5, 2022, https://thecounter.org/big-four-meatpackers-antitrust-consolidation/.
[45] Mark K. Hendrickson, Philip H. Howard, Emily M. Miller & Douglas H. Constance, *The Food System: Concentration and Its Impacts* 9 (2020), https://farmaction.us/wp-content/uploads/2020/11/Hendrickson-et-al.-2020.-Concentration-and-Its-Impacts-FINAL.pdf.

to consumers and held down prices paid to ranchers.[46] Some chicken processors have allegedly resorted to direct collusion to maintain high prices for consumers (and low wages for workers) and faced criminal prosecution and private lawsuits over this conduct.[47]

By allowing corporations to accumulate pricing power through consolidation, federal merger policy has contributed to the current inflation. Businesses have extraordinary pricing power and can pass higher costs (and more) along to consumers. With greater price competition, they would be more likely to bear higher costs in the form of lower margins and lower profits.

Indeed, inflation can provide a useful cover for exercises of corporate pricing power that would otherwise trigger strong opposition from customers and the public. If inflation is treated as a general increase in prices, corporate price increases may be portrayed as only keeping up with an economy-wide phenomenon.[48] Executives can point to supposedly higher input costs and insist that they are simply passing them along to purchasers and end consumers, asserting they are following the general inflationary trend rather than helping instigate it.[49] A CFO of a supplier to food companies told the Wall Street Journal, "Widespread inflation makes it easier to broach the topic of raising prices with customers."[50]

III. Another Link Between Weak Anti-Merger Policy and Inflation: Eroding the National Industrial Base and Productive Capacity

Weak federal enforcement of anti-merger law has contributed to a lack of spare capacity in the economy. Mergers among competitors often lead to the elimination of "redundant" plants, facilities, and offices. In addition, permissive merger policy has encouraged businesses to grow through mergers and acquisitions instead of through investment in new production.

Mergers are (in)famous for leading to plant closures and layoffs. Following a merger between two firms, especially rivals, the newly enlarged corporation often closes plants, facilities, and offices that are duplicative and not necessary to meet demand. One analysis found that "roughly 30% of employees are deemed redundant after a merger or acquisition in the same industry."[51] This elimination of redundancies can reduce costs and generate greater cash flow for the corporation in the near term, which is an attractive proposition for executives and shareholders

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[46] Goodman, *supra* note 43; Fed. Reserve Bank of Dallas, Go Figure: What's Driving Wide Gap Between Cattle and Beef Prices? (2017), https://www.dallasfed.org/~/media/documents/research/swe/2017/swe1702.pdf.

[47] Press Release, Dep't of Justice, Four Executives and Company Charged with Price Fixing in Ongoing Investigation into Broiler Chicken Industry (July 29, 2021), https://www.justice.gov/opa/pr/four-executives-and-company-charged-price-fixing-ongoing-investigation-broiler-chicken; Mike Leonard, *Tyson Has Tentative Deal to Exit Chicken Farmer Wage-Fixing Suit*, BLOOMBERG LAW, June 15, 2021, https://news.bloomberglaw.com/antitrust/tyson-has-tentative-deal-to-exit-chicken-farmer-wage-fixing-suit; Claire Kelloway, *U.S. Food Prices Are Up. Are the Food Corporations to Blame for Taking Advantage?*, TIME, Jan. 14, 2022, https://time.com/6139127/u-s-food-prices-monopoly/.

[48] John Nichols, *The Dirty Secret of Inflation: Corporations Are Jacking Up Prices and Profits*, NATION, Feb. 21, 2022, https://www.thenation.com/article/politics/inflation-price-gouging/.

[49] Hal Singer, *Antitrust Should Be Used to Fight Inflation*, AM. PROSPECT, Feb. 2, 2022, https://prospect.org/economy/antitrust-should-be-used-to-fight-inflation/.

[50] Broughton & Francis, *supra* note 1.

[51] Mitchell Lee Markets, Philip Mirvis & Ron Ashkenas, *Surviving M&A*, HARV. BUS. REV. (March-Apr. 2017), https://hbr.org/2017/03/surviving-ma.

with a short-term orientation. It, however, means the corporation has less productive slack to meet increases in demand. At an aggregate level, consolidation strips the United States of vital productive capacity.

Hospital consolidation illustrates the social costs of merger activity. In metropolitan areas and counties across the country, hospitals in the past few decades have gone on a merger and acquisition frenzy, concentrated local healthcare markets, and obtained extraordinary power over patients and payors.[52] In the course of consolidation, they have also closed hospitals and clinics that they deemed superfluous. Due in part to this consolidation, the United States had fewer hospital beds in 2017 (900,000) than it did in 1975 (1.5 million),[53] even though the population of the country had increased by more than 100 million during that period. As a result, the nation was much less equipped to respond to the pandemic and the surge in Americans needing hospital care.

Permissive merger policy also channels corporate strategy away from investment and innovation. Why should executives undertake the challenge of building new plants and facilities and entering new markets using their own knowhow and resources when mergers and acquisitions offer an easier method of growth? In 1987, the economists Walter Adams and James Brock captured the opportunity cost of practically unchecked merger activity:

> [M]anagement attention has been diverted from the critical task of investing in *new* plants, *new* products, and state-of-the-art manufacturing techniques. Billions of dollars spent on shuffling ownership shares are, at the same time, billions of dollars *not* spent on productivity-enhancing plant, equipment, and research and development. The millions of dollars absorbed in legal fees and investment banking commissions are, at the same time, millions of dollars not plowed directly into the nation's industrial base. The opportunity costs of merger mania are real. And they bode ill for the reindustrialization of America.[54]

To put the amount of merger activity in perspective, the value of mergers and acquisitions between 1985 and 2008 was more than four times greater than the amount of private spending on research and development during that period.[55]

The turn to mergers and acquisitions reflects the broader financialization of corporate governance. Many corporations aim to disburse as much money as possible to shareholders through dividends, stock buybacks, and mergers and acquisitions (when paid for with cash),[56]

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[52] MARTIN GAYNOR, HAMILTON PROJECT: WHAT TO DO ABOUT HEALTH-CARE MARKETS? POLICIES TO MAKE HEALTH-CARE MARKETS WORK 8-9, 13-14 (2020), https://www.brookings.edu/wp-content/uploads/2020/03/Gaynor_PP_FINAL.pdf.

[53] Andrew Flynn & Ron Knox, *We're Short on Hospital Beds Because Washington Let Too Many Hospitals Merge*, WASH. POST, Apr. 8, 2020, https://www.washingtonpost.com/outlook/2020/04/08/were-short-hospital-beds-because-washington-let-too-many-hospitals-merge/.

[54] Walter Adams & James W. Brock, *The Proposed Emasculation of Section 7 of the Clayton Act*, 65 NEB. L. REV. 813, 819 (1986) (emphases in original).

[55] James W. Brock, *Economic Concentration and Economic Power: John Flynn and a Quarter-Century of Mergers*, 56 ANTITRUST BULL. 681, 683 (2011).

[56] J.W. Mason, *Acquisitions as Corporate Money Hose*, Sep. 26, 2018, https://jwmason.org/slackwire/acquisitions-as-corporate-money-hose/.

instead of investing in capacity and undertaking research and development. For example, Intel, which was once a global leader in semiconductor chip development, has focused in recent times on protecting its monopoly in chips for personal computers and servers and distributing profits to shareholders, while its foreign rivals Samsung and TSMC have concentrated on capital expenditures and innovation and become leaders in the growing markets for smartphone and tablet chips.[57]

These two effects of weak anti-merger enforcement mean the United States has a smaller industrial base and less productive capacity than it would otherwise. Less capacity—and critically less spare capacity—makes firms less capable of responding to even modest increases in demand. What executives, investment bankers, and short-termist shareholders disparage as "redundant" or "unnecessary" plants, facilities, and equipment can be vital for economic resiliency.

IV. Conclusion

Lax merger policy has contributed to present inflation. By allowing virtually unchecked consolidation across the economy, the DOJ and the FTC have permitted corporations to accumulate extraordinary pricing power. They can unilaterally and jointly raise prices for many goods and services. Just as importantly, a permissive approach to corporate mergers has encouraged the elimination of spare productive capacity and discouraged investment in new plant, equipment, and facilities, which are especially important during times of crisis when demand for certain products may surge.

Strengthening anti-merger policy can serve as a useful anti-inflation tool going forward. It can constrain corporate pricing power and encourage investment in the industrial base, instead of the zero-sum game of buying, combining, and swapping existing business assets. Congress should enact new anti-merger law that cracks down on corporate consolidation and channels corporate strategy in socially beneficial directions. In the meantime, the Biden administration has taken preliminary steps to breathe new life into federal anti-merger law, most notably by opening a broad review of the DOJ/FTC merger guidelines.[58] Paired with investigating collusive behavior by powerful corporations and unwinding harmful past mergers in industries such as meatpacking, strong federal anti-merger law can play an important role in containing inflation.

Thank you for your time.

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[57] Garphil Julien, *To Fix the Supply Chain Mess, Take on Wall Street*, WASH. MONTHLY, Jan. 17, 2022, https://washingtonmonthly.com/2022/01/17/to-fix-the-supply-chain-mess-take-on-wall-street/.
[58] Press Release, Fed. Trade Comm'n, Federal Trade Commission and Justice Department Seek to Strengthen Enforcement Against Illegal Mergers (Jan. 18, 2022), https://www.ftc.gov/news-events/press-releases/2022/01/ftc-and-justice-department-seek-to-strengthen-enforcement-against-illegal-mergers.

Written Testimony of Mark Zandi
Chief Economist of Moody's Analytics

Before the House Financial Services Committee

"The Inflation Equation: Corporate Profiteering, Supply Chain Bottlenecks, and COVID-19"

March 8, 2022

Americans are feeling the financial pain of higher inflation acutely for the first time in two generations, and they are rightly unhappy.[i] The typical household, which makes less than $70,000 a year, needs to spend about $3,300 more a year, or $275 a month, to purchase the same goods and services it did last year.[ii] Consider that the typical family spends about $200 a month on eating out, $150 a month on their cell phones, and $100 a month on clothes. This is a frustrating dynamic that is undermining consumer, business and investor confidence and is a threat to the economic recovery, the fate of which hinges on whether the high inflation soon moderates.

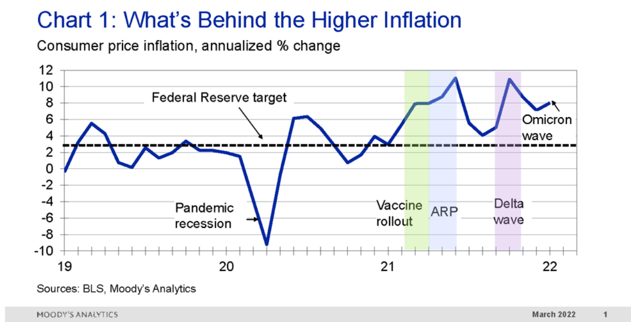
The COVID-19 pandemic, which has badly disrupted supply chains and the labor market, has ignited the high inflation, and Russia's invasion of Ukraine, which is causing oil and other commodity prices to spike, is sure to exacerbate it. While highly uncertain, we expect the pandemic to fade in coming months, and despite the wrenching crisis in Ukraine, we expect Russian commodity exports to continue largely unimpeded. If so, inflation will moderate beginning this summer, and the economic recovery will evolve into a self-sustaining expansion.

However, if the high inflation persists, either because the pandemic intensifies, further disrupting supply chains and labor markets, or inflation expectations become unanchored and precipitate a negative, self-reinforcing wage-price spiral, perhaps due to the higher oil and other commodity prices due to Russia's invasion of Ukraine, then the Federal Reserve will have no choice but to tighten monetary policy more aggressively. The recovery may very well unravel into recession. The odds of this dark scenario are still low, but they are rising.

Some blame the high inflation on government fiscal policies that have shored up the finances of pandemic-stricken households during the pandemic and call for the government to stand down. This is a misdiagnosis, and lawmakers should work to lower the cost of living, especially for financially hard-pressed lower- and middle-income Americans. This includes addressing the current acute affordable housing shortage and resulting rapid rent growth.

Pandemic ignites inflation

To understand where inflation is headed, it is necessary to understand what is behind its dramatic acceleration over the past year. A year ago, consumer price inflation was very low at just over 1% on a year-over-year basis. Many businesses had slashed prices during the pandemic lockdowns in an effort to shore up their sliding sales. This includes the airlines, rental car companies, hotels, restaurants, and other retailers. The price cutting quickly ended about this time last year with the rollout of the COVID-19 vaccines and the reopening of the economy. Consumer spending rebounded. Further supporting demand was the substantial financial support provided by the $2 trillion American Rescue Plan. Inflation picked up. The acceleration in inflation experienced last spring and early summer was largely the result of the rapid normalization of consumer demand (see Chart 1).



But this inflation was not worrisome, and was even viewed positively, as many businesses were simply re-establishing the prices they had previously cut. Moreover, inflation had been much too low for comfort since the global financial crisis more than a decade earlier. The Federal Reserve and other global central banks had been struggling to lift inflation to their targets.[iii] Indeed, the higher inflation was consistent with the change the Fed had just made to its monetary policy framework in which, if inflation had been below its target for an extended period, the central bank would welcome a period of above-target inflation. This was necessary to ensure that inflation expectations—what consumers, businesses and investors believe inflation will be going forward—were stable and consistent with the target for actual inflation.

Inflation only became uncomfortably high when the Delta wave of the pandemic hit in late summer last year. This inflation was a surprise, but so too was the Delta variant, as it came immediately on the heels of the vaccine rollout and widespread optimism that the pandemic was more-or-less behind us. Remember President Biden's July 4th speech celebrating independence from COVID-19. Unfortunately, we were not free.

Delta slammed consumer demand as it prompted renewed self-quarantining, social distancing and border restrictions. By itself this would moderate inflation, but Delta also severely disrupted supply. Global supply chains were badly scrambled. This wave of the pandemic was especially hard on Southeast Asia, which was lightly vaccinated at the time, and where most supply chains begin. Just how hard is shown by our supply-chain stress index, which is a combination of various purchasing manager surveys, transportation costs, and job openings in the transportation and distribution industries. The index is set equal to 100 just prior to the pandemic. At the worst of the supply-chain disruptions last September, the stress index topped out at nearly 150 (see Chart 2).

Chart 2: Supply Chains Under Stress

Supply-chain stress, 2019Q4=100

Sources: Baltic Exchange, Federal Reserve, Census Bureau, Cass Info, Moody's Analytics

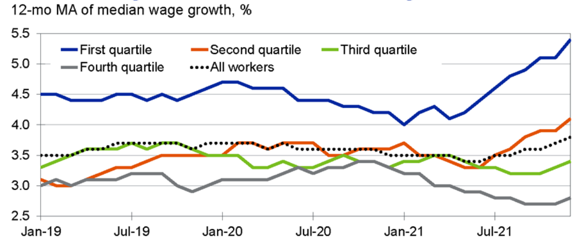
MOODY'S ANALYTICS March 2022 2

The job market was also roiled by the Delta wave as some 8 million people told the Bureau of Census' Pulse Survey in September that they were not working because they were either sick, taking care of someone who was sick, or fearful of getting sick. This is largely why so many open positions have gone unfilled, particularly for lower-wage jobs in industries where workers are in close contact with their patrons, such as retail, restaurants, healthcare, and education and childcare services.

Wage growth has sharply accelerated, as employers struggle to keep their businesses staffed, especially for these types of jobs. Then came the Omicron wave. It further complicated efforts to get workers back on the job. In January at the peak of that wave, some 12 million people told Census they were not working because of the virus. It could have been worse, but the impact of Omicron on the job market likely was mitigated partially by the Centers for Disease Control and Prevention's decision to reduce from 10 to five the number of days someone testing positive with the virus needs to safely self-quarantine (see Chart 3).

Chart 3: Wages Accelerate, for Low-Wage Workers

12-mo MA of median wage growth, %

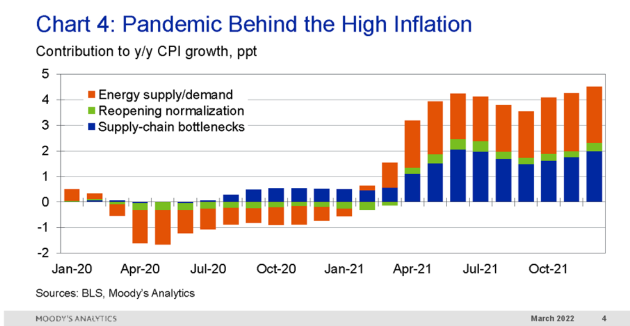


Sources: Atlanta Fed, Moody's Analytics

MOODY'S ANALYTICS March 2022 3

The pandemic has also jumbled demand and supply dynamics in energy and other commodity markets. It is typical for demand to pick up before supply in these markets coming out of global economic downturns, causing inventories to be depleted and prices to jump. Producers are slow to respond to improving demand, unsure of whether the demand is sustainable. Given the substantial fixed costs involved in ramping production back up, getting wrong-footed on demand is particularly problematic. And the nature of the pandemic has made getting an accurate fix on global demand especially vexing. Energy markets have the added complication that supplies are determined by a few swing suppliers like OPEC and are heavily impacted by geopolitics like Russia's invasion of Ukraine, which have an amplified effect on oil and natural gas prices when inventories are thin.

As of this January, year-over-year consumer price inflation is at a painful 40-year high of 7.5%. Of this inflation, 4.5 percentage points can be explained by a combination of the supply-chain bottlenecks, higher energy prices, and price normalization in industries that slashed prices in the worst of the pandemic. That is, CPI inflation would currently be near 3% if not for the direct fallout of the pandemic on prices. And it is not a stretch to think inflation would be very near the Fed's implicit CPI inflation target of closer to 2.25% after accounting for the pandemic's impact on wages and ultimately prices[iv] (see Chart 4).



Russian invasion of Ukraine

Russia's invasion of Ukraine complicates things measurably further, ensuring the pain of inflation is set to get worse and last even longer. Global oil prices have risen dramatically since the invasion began, to as high as $115 per barrel.[v] Even though global supplies have not been significantly disrupted by the Russian invasion, there is a considerable threat that they will be. The higher prices we are seeing are a premium that oil traders have added to compensate for this risk. If supplies are in fact significantly disrupted, we could see oil prices rise to near the previous all-time high of $150 per barrel and gasoline prices increase to well above $5 per gallon.[vi]

Even assuming there are no supply disruptions, and oil settles in near $100 per barrel in coming months, American consumers will still soon be paying well over $4 for a gallon of regular unleaded. If sustained, $100-a-barrel oil would ultimately add as much as half a percentage point to year-over-year consumer price inflation, based on simulations of the Moody's Analytics model of the global economy, which accounts for the impact of higher oil prices on the production and transportation of goods. This would cost American households another $50-plus per month in higher gasoline bills.

Also worrisome is that oil and gasoline prices play an outsize role in shaping the inflation expectations of global investors, businesses and consumers. Most of us purchase gas regularly and see the price each day as we go to and from work. Nothing influences people's thinking about future inflation more than what they are paying at the pump today. If inflation expectations start to rise, then the Federal Reserve will likely feel compelled to raise interest rates more aggressively. The Fed knows that a rise in inflation expectations may ignite a so-called wage-price spiral. That is, workers will demand their employers pay them more to compensate for the expected increase in their cost of living, businesses will agree to do so if they think they can pass the higher cost along to their customers, and so it goes. The last time this happened, in the 1970s and early 1980s, it ended very badly with a struggling economy that was suffering double-digit inflation at the same time—or stagflation. The only way to break the wage-price spiral was for the Fed to dramatically increase interest rates, pushing the economy into recession.

Policymakers have few tools to quickly stem the increase in oil prices. President Biden has ordered that oil from the nation's Strategic Petroleum Reserve be released to help quell higher oil prices. Allies in Europe and Asia are taking similar action, which will provide an additional 60 million barrels to global markets. While this is the right thing do—the SPR is supposed to be used in crises like the current one—it is much too little to have an impact on prices. The world consumes about 100 million barrels of oil a day. However, criticism that the administration's efforts to address the threat posed by climate change is significantly contributing to the higher oil prices is specious. To be sure, the administration is working to make fossil fuel production less economically attractive and green energy investments more, but this will play out over years and decades.

Russia's invasion of Ukraine is wrenching to watch as it inflicts an enormous toll on the Ukrainian people. For their sake we hope there is a resolution soon. It is also critical to ensure that the high inflation we are suffering recedes and the economic recovery remains intact.

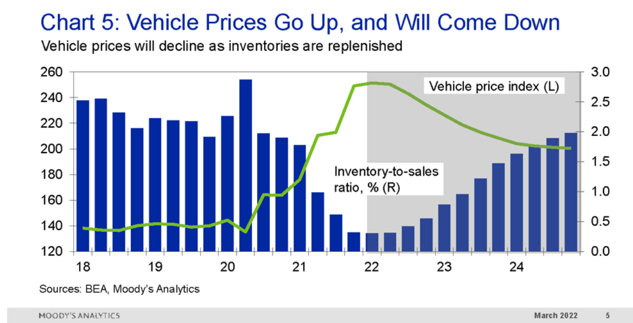
Inflation outlook

Given this diagnosis of what is driving inflation, it stands to reason that inflation will moderate as the pandemic winds down and there is some easing of the crisis in Ukraine. There is much uncertainty, but with regard to the pandemic, it should meaningfully abate in coming months, consistent with its recent path and the steady improvement in vaccines and therapies.[vii] There will likely be new waves of the virus, but each new wave should be less disruptive to the healthcare system and economy than the previous wave. Omicron was less disruptive than Delta, which was less disruptive than the Alpha variant that plagued us a winter ago. We expect the pandemic to continue to recede in this way.

How the Russian invasion of Ukraine plays out is arguably even more uncertain, but in the most likely scenario Russian troops will not push outside of Ukraine into a NATO country, and there will not be prolonged disruptions to Russian energy and other commodity exports. While no scenario should be ruled out, it is difficult to imagine Russia doing otherwise, since that would almost surely result in a global military conflict and push the already-reeling Russian economy even deeper into the abyss.[viii]

If the pandemic and the Ukrainian crisis more-or-less stick to this script, we expect consumer price inflation a year from now to be about half of what it is today, no more than 4%, and back near the Federal Reserve's inflation target of closer to 2.25% by year-end 2023.

This generally sanguine inflation outlook depends on goods prices, which have gone skyward in the pandemic, soon coming back to earth. Vehicle prices should lead the way. New- and used-vehicle prices spiked as global vehicle production shut down after the pandemic struck, and then when Asian semiconductor producers curtailed production during the Delta wave, cutting off critical supplies to vehicle producers. Asian chip production has since resumed, global vehicle production is ramping up, and vehicle inventories, while extraordinarily low, are off bottom. Vehicle prices are expected to begin falling this summer (see Chart 5).



There should also be a rebalancing of consumer demand from non-vehicle goods to services, and thus a rebalance of their relative prices. While total consumer spending is still not back to where it would have been if not for the pandemic, spending on goods is well above pre-pandemic trends and spending on services is well below. As the pandemic and the demand for goods fades, goods prices should quickly turn soft, more than offsetting, at least for a while, stronger service price inflation, most notable being stronger rent growth.

Monetary policy normalization

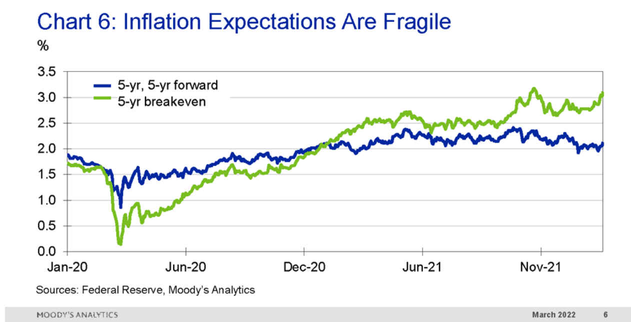
Optimism that inflation will soon moderate also depends on the Federal Reserve gracefully normalizing monetary policy. The complication is that even if inflation moderates with the fading pandemic and easing in the Ukrainian crisis, the economy is quickly approaching full employment.[ix] The Fed thus needs to carefully calibrate monetary policy so that growth slows sufficiently as the year progresses and the economy does not blow past full employment. If it does, then inflation will remain problematic.

We anticipate this will require the Fed to increase the federal funds rate four times this year, a quarter percentage point each time, beginning at the mid-March meeting of the Federal Open Market

Committee and then at FOMC meetings in June, September and December. We expect more rate hikes in 2023 and early 2024 with the federal funds rate, the rate the Fed directly controls, to settle in at 2.5%. The Fed will also begin quantitative tightening in June by not replacing maturing Treasuries and mortgage securities that mature and prepay. The Fed's balance sheet will shrink by approximately $100 billion per month. Financial conditions have tightened as global investors anticipate the Fed's actions. Ten-year Treasury yields are hovering just below a pandemic high of 2%, and the Standard & Poor's 500 stock price index is down about 10% from its all-time high at the beginning of the year.

But this may not be enough to sufficiently slow the economy, and even more monetary tightening could be needed. Despite the Russian invasion, global investors are anticipating that the Fed will increase rates as many as seven times this year in an effort to stem inflation. And even this may underestimate how the Fed will respond if inflation remains stubbornly high. If it does, the likely cause will be unanchored inflation expectations that set off a negative, self-reinforcing wage-price spiral.

So far, this does not appear to be happening. Inflation expectations, however measured, have moved higher over the past year but remain roughly consistent with the Fed's inflation target. But they appear fragile and bear close watching. And while it is difficult to disentangle the causality between wages and prices, it does not appear to be running in both directions, at least not to a significant degree, at least not yet (see Chart 6).[x]



However, if inflation does remain high for very much longer, for whatever reason, all this could quickly change. It is hard to see the Fed tolerating this for long, knowing based on the experience of the 1970s-1980s that the economic cost of waiting too long to short-circuit a wage-price spiral is extraordinarily high. The Fed would likely be willing to risk a modest recession sooner to ensure that inflation does not become an endemic problem.

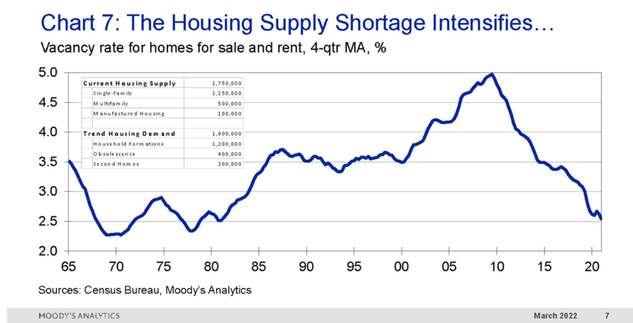
Address the housing shortage

Lawmakers can help address the high inflation over time and the financial burden it puts on lower- and middle-income Americans. President Biden has provided a good place to start in his Build Back

Better legislation, which is specifically designed to ease this burden for these income groups by helping with the cost of childcare, eldercare, education, healthcare and housing.

Homebuilders have been unable to keep up with demand for well over a decade, held back by restrictive zoning requirements, high permitting costs, and often an inability to get affordable financing to buy land and build homes. The pandemic has made matters worse, with acute shortages of materials and labor, but the problems from prior to the pandemic show no signs of fading along with the effects of the virus.

The scale of this shortfall is unnerving. We estimate that homebuilders have built on average 150,000 fewer homes a year than we have needed, going all the way back to the financial crisis. The 1.7 million home shortfall amounts to an entire year of homebuilding at its current pace. Both rental units and single-family homes are in short supply (see Chart 7).



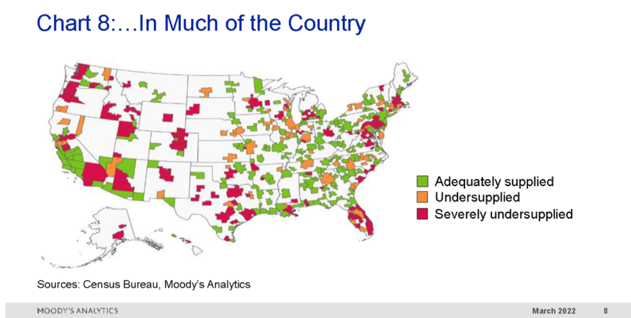
The shortfall has sent the cost of housing through the roof. House prices have more than doubled over the last decade, rising close to 20% in the last year alone. And rents are up a record 13.5% nationwide over the past year, with increases of more than 20% in metropolitan areas such as Austin, Las Vegas, Phoenix and Tampa. All of this is draining the savings of renters, putting homeownership further and further out of reach.

It is also putting enormous upward pressure on inflation. Housing alone counts for almost one-third of the typical household's budget, making it the single biggest component of the consumer price index, or CPI, the most popular measure of inflation. Food and energy together account for about one-fifth of the CPI, and all other goods, from clothing to vehicles, another one-fifth. No matter what happens to pricing across most goods, inflation will remain high as long as the cost of housing continues to rise so quickly.

So, if policymakers wish to rein in inflation, they have little choice but to take on the shortfall in housing supply. This means improving the economics of building enough to overcome the costs that have been holding builders back in recent years. This can be done in any number of ways, including tax breaks, grants, access to less expensive capital, and incentives to get local decisionmakers to ease zoning rules and restrictions on development.

President Biden has provided a good place to start in his Build Back Better legislation, which includes $18 billion in tax incentives for new construction and renovation, $30 billion in grants for new construction and renovation, and another $5 billion in grants for communities committed to removing the impediments to building more affordable housing, all over a 10-year budget window.[xi] Such a package would lead to the building of an estimated over half a million homes, meaningfully closing the gap between supply and demand that is driving the surge in house prices and rents.

There should be strong bipartisan support for a package along these lines. After all, the affordable housing shortage is a problem in every state and almost every congressional district. Whether Congress uses this bill as its starting point, policymakers need to step up, and those worried about inflation should be first in line. While the other drivers of inflation are set to ease in the coming months, the shortfall in housing is not going to be resolved anytime soon unless policymakers do something (see Chart 8).



Conclusions

It may be hard to remember, but only a year ago our far-and-away biggest economic problem was jobs. The economy was still down 9 million jobs from its pre-pandemic peak and the unemployment rate was stuck at just over 6%. Inflation was not even on the radar screen. Policymakers were thus appropriately focused on ensuring the economy returned to full employment as quickly as possible. The Fed was firmly committed to keeping the federal funds rate at the zero lower bound and actively buying bonds to bring down long-term interest rates. Lawmakers passed the nearly $2 trillion American Rescue Plan to provide additional financial support to lower- and middle-income households and small businesses.

These policies, along with the vaccines, worked. The economy created 6.5 million jobs last year and is on track to fully recover from the pandemic by late this year, fewer than three years after the pandemic struck. It took a decade for the economy to come all the way back from the financial crisis, and it has taken closer to six years on average for the economy to recover from recessions since WWII. But the supply disruptions created by the pandemic have ignited painfully high inflation that the Russian invasion of Ukraine is sure to exacerbate. Whether the recovery evolves into a self-sustaining economic expansion depends on whether inflation soon moderates. We anticipate that it will. However, if not, the recovery will quickly be in jeopardy. Lawmakers have an important role to play in determining how the recovery will unfold.

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[i] Consumer price inflation in January 2022 was 7.5% on a year-over-year basis, the highest since February 1982.
[ii] This is based on my calculation using the Bureau of Labor Statistics' Consumer Expenditure Survey.
[iii] Between the start of the global financial crisis in 2008 and when the pandemic hit in early 2020, inflation as measured by the personal consumption expenditure deflator, the Federal Reserve's preferred measure, averaged almost half a percentage point per annum below the Fed's 2% target.
[iv] The Federal Reserve has an explicit 2% target for inflation as measured by the personal consumption expenditure deflator. Inflation as measured by the consumer price index is typically at least a quarter percentage point higher due to measurement and conceptual differences between these inflation measures. The difference is closer to half a percentage currently, as the cost of housing services is rising quickly, and the weight on the cost of housing services in the CPI is about double that in the PCE deflator.
[v] Prices for other commodities exported by Russia and Ukraine have also risen sharply, including for aluminum, corn, neon, nickel, palladium and wheat.
[vi] A good rule-of-thumb is that every $10 per barrel increase in the price of oil, ultimately results in a 30-cent increase in the cost of a gallon of regular unleaded gasoline.
[vii] Households and businesses also appear to be increasingly more adept at adjusting to and navigating around the problems created by the pandemic.
[viii] We expect the Russian economy to contract by nearly 10% this year before stabilizing in 2023. The country's long-term growth potential has also been significantly diminished.
[ix] Full employment is consistent with unemployment in the low 3% range, labor force participation near 63%, and an employment-to-population ratio for prime-age workers 25-54 of over 80%. The unemployment rate is 3.8% as of February 2022, labor force participation is 62.3%, and the prime-age EPOP is 79.5%.
[x] Chart 6 shows global investors' inflation expectations as measured by five-year, five-year forwards, which is inflation five years from now over the subsequent five-year period, and five-year break-evens, which is the difference between five-year Treasury yields and five-year Treasury Inflation Protected Securities. Investor expectations are a more reliable gauge of inflation expectations than consumer or business expectations, as they reflect the views of people putting their money at risk.
[xi] The tax incentives include additional funding for the popular and highly effective Low-Income Housing Tax Credit, and the Neighborhood Home Tax Credit, a new tax credit to help support the rehabilitation and renovation of old rundown housing stock. The grants include funds primarily for the Housing Trust Funds and HOME program.

Merchants Payments COALITION

March 8, 2022

The Honorable Maxine Waters
Chairwoman
House Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

The Honorable Patrick McHenry
Ranking Member
House Committee on Financial Services
4340 O'Neill House Office Building
Washington, DC 20024

The Merchants Payments Coalition applauds the Committee's interest and concern with inflation as shown in today's hearing on "The Inflation Equation: Corporate Profiteering, Supply Chain Bottlenecks and COVID-19" and requests to have this letter submitted into the hearing record. MPC advocates on behalf of the millions of Main Street merchants that accept credit and debit cards in every Congressional district. U.S. merchants pay the highest fees for accepting debit and credit cards of any of their competitors in the industrialized world. Card processing fees topped $110 billion in the United States in 2020 and are forecast to be significantly higher this year. These fees limit Main Street merchants' ability to keep prices low for U.S. consumers, hire more workers, grow their business and compete in an ever-expanding global market. Unbelievably, the two largest card networks, Visa and Mastercard, are on track to have increased fees by $1.2 billion this April compared with the same time last year, ensuring that they and the mega-banks that issue cards reap massive profits on the back of Main Street America.

As President Biden noted in his State of the Union Address, "capitalism without competition isn't capitalism. It's exploitation — and it drives up prices." That is particularly true in the U.S. card payment system, which is broken and lacks the fundamentals of a competitive functioning market. Visa and Mastercard control 87 percent of the debit card and credit card markets, with Visa alone accounting for 62 percent. Visa and Mastercard centrally set fees, rules and terms of acceptance on behalf of their member banks that merchants must pay and adhere to in order to accept card payments from their customers. It is difficult to imagine any other market in the U.S. economy in which two entities set prices for thousands of businesses that should be competitors. That lack of competition or downward pricing pressure has resulted in out-of-control swipe fees and increases inflation throughout the economy.

MPC respectfully requests that the Committee immediately investigate Visa and Mastercard's market power and ability to unilaterally increase fees the banks that issue their cards collect. After providing a brief explanation of the inflationary effect of swipe fees, this letter provides just a few brief examples of fee increases and rule changes that are scheduled to be implemented in the coming weeks alone that will exacerbate these problems.

Visa and Mastercard Driving Up Inflation

Visa and Mastercard set the swipe fee rates that the banks that issue their cards collect every time a card is used. Those banks – particularly the mega-banks with hundreds of billions (or trillions) of dollars in assets – normally compete with each other on their fees and rates, but not on swipe fees. That lack of competition makes the fees unreasonably high and anticompetitive.

But there is another aspect of the centralized price-setting that is particularly destructive now. The largest portion of swipe fees are set as a percentage of the amount of a transaction, meaning the fees automatically rise every time other prices rise across the economy.

For Visa and Mastercard credit cards, the fees average 2.22 percent, meaning the banks and card networks receive more than $2 from every $100 spent, leaving the merchant with less than $98. Fees can be even higher with some premium cards, and the amount received by the merchant even lower.

This structure ensures greater profits for banks as prices rise. When an item sold for $100 increases to $107 based on the 7 percent inflation rate seen in 2021, the amount taken off the top for swipe fees increases from an average $2.22 to $2.38, multiplying the rate at which prices increase. The compounding multiplier effect of inflation is guaranteeing mega-banks massive profits paid for by American consumers and Main Street merchants.

In addition, swipe fees are charged on the total transaction amount, including sales tax and other taxes collected by merchants as a service to local, state and federal governments. Many of those taxes are also a percentage of the purchase amount and are also increasing as inflation forces prices up, thereby further increasing swipe fees.

Credit and debit card processing fees totaled $110.3 billion in 2020, up 70 percent over the previous decade, according to the Nilson Report. These fees are most merchants' highest operating cost after labor, and drive up prices for consumers, with estimates equating them to $724 a year for the average U.S. family.

Swipe fees are a clear example of high costs faced by merchants that could be lowered if card networks and banks were required to compete like any other business.

Visa credit card fee increases

In April 2021, Visa and Mastercard were set to implement a combined $1.2 billion increase in swipe fees but announced that they would postpone those increases to April 2022 under pressure from Congress. Nonetheless, Visa implemented a myriad of increases, including higher fees for online commercial card transactions and increases for full-service restaurants and some other industries. The remainder of Visa's increases are scheduled to go into effect this April, bringing its total to $842 million and creating even more challenges to Main Street merchants. Because swipe fees are a percentage of the transaction amount, inflation means the dollar amounts Visa and its banks will collect could be even higher than reflected in these figures.

Mastercard fee increases

The assault on Main Street does not stop with Visa. Mastercard is scheduled to implement $330 million in swipe fee increases in April, along with a number of rule changes. In addition, Mastercard plans to increase its Digital Enablement Fee, which is charged on all online transactions, to 0.02 percent from the current 0.01 percent. While that alone would double the amount collected across millions of transactions, Mastercard is also setting a minimum of 2 cents per transaction, bringing the total increase to an estimated $80 million on top of the swipe fee increases. Mastercard also plans to bundle a variety of add-on services, which are currently charged separately, under this fee. That means beginning in April, merchants will be forced to pay for those services even if they do not want the services or currently use one of Mastercard's competitors to provide the services. Mastercard's digital enablement fee is not optional and will significantly increase processing fees for merchants large and small. This fee is being levied unilaterally without any merchant input. Merchants will now have to pay for the same service twice or stop working with a Mastercard competitor. As a result, we can expect not just merchants and their customers to be harmed, but any competitor to Mastercard that provides these services.

Mastercard Buy Now, Pay Later

Mastercard intends to automatically make merchants accept its new buy now, pay later product. Mastercard will require merchants to proactively opt-out if they do not want to accept this expensive form of payment. Most merchants are unaware of this new product, the costs associated with it, and how it could impact their customers. Mastercard is working with banks that issue its cards to add a BNPL option within consumers' accounts.

Merchants who do not opt-out will pay an additional fee on top of the underlying swipe fee to accept the card for BNPL payments. To date, there is still no clarity on how this will work, including whether the consumer be notified of whether a merchant is participating in BNPL, who will notify consumers of which merchants are or are not participating, and what will happen if a consumer attempts to use BNPL at a non-participating retailer. In addition to the higher cost of BNPL fees, this new product raises considerable concerns about consumer protection. Today, BNPL providers compete on the open market for both merchant and consumer adoption. The Mastercard program bypasses any competition, instead allowing banks to directly target individuals without clarity on how consumers will be selected and advertised to. Additionally, by automatically enrolling merchants, a single consumer could have multiple BNPL purchases at one store, increasing the risk of over-extension.

These are only a few examples of how the two giant card networks and their partner mega-banks routinely use their market power to stifle competition and charge merchants the highest swipe fees in the industrialized world. MPC requests that the Committee immediately investigate how Visa and Mastercard are allowed to double down on the pain they inflict on Main Street when everyone else is working to tackle inflation. It is crucial for Congress to act swiftly and implement real reforms to bring true competition, transparency and equity to the U.S. payments market. MPC and all of Main Street stands ready to work with the Committee to ensure that the payments system works for all stakeholders, not just a very few.

Sincerely,

Merchants Payments Coalition

cc: House Committee on Financial Services members

February 28, 2022

The Honorable Nancy Pelosi
Speaker
U.S. House of Representatives
Washington, DC 20515

The Honorable Charles Schumer
Majority Leader
U.S. Senate
Washington, DC 20510

The Honorable Kevin McCarthy
Minority Leader
U.S. House of Representatives
Washington, DC 20515

The Honorable Mitch McConnell
Minority Leader
U.S. Senate
Washington, DC 20510

Dear Speaker Pelosi, Leader Schumer, Leader McCarthy, and Leader McConnell:

The undersigned organizations, including representatives of state and local governments and the affordable housing industry, strongly urge you to adjust the underlying statute of the Coronavirus State and Local Fiscal Recovery Fund (SLFRF) program to facilitate its use with the Low Income Housing Tax Credit (Housing Credit) program so that states and local governments may use these funds to build and preserve desperately needed affordable rental housing.

While the affordable housing crisis long predated the emergence of the Covid-19 virus, the pandemic has exacerbated the need for rental homes low-income households can afford. Rapidly rising housing costs are a central component driving inflation, leaving more and more families unable to pay their rent in market rate developments. Simply put, there is an extreme imbalance between supply and demand for rental homes that we must address if we are to mitigate housing inflation.

Inflation is also making it more difficult to produce more affordable housing with the Housing Credit—our nation's most important tool for the production and preservation of affordable rental housing—as costs of building commodities like lumber and aluminum rise, supply chains are disrupted, and housing developers face workforce challenges all stemming from the pandemic.

Housing Credit-financed developments in the pipeline that had been economically feasible not long ago suddenly are facing financing gaps due to inflationary pressures. Unless we can fill those gaps, we face a vicious cycle where cost increases make affordable housing infeasible to build and the lack of affordable housing supply allows market rate rents to rise even more.

This is where SLFRF comes in. As of this month, approximately half of states and countless local governments have chosen or proposed to dedicate a portion of their SLFRF to affordable housing uses, including as a supplemental financing source in Housing Credit developments. We estimate current commitments to represent as much as $8 billion in potential affordable housing investment, and maybe more.

The problem is that while the U.S. Treasury Department's final rule for SLFRF technically allows it to be used for affordable housing development, it is very difficult and sometimes impossible to structure these funds in a Housing Credit development.

First, SLFRF funds must be obligated by December 31, 2024 and expended by December 31, 2026. Though Treasury has explained how grantees can use SLFRF to cover the cost of long-term loans, this accounting procedure does not provide enough relief to make lending SLFRF to Housing Credit developments feasible in most instances. This means SLFRF money effectively cannot be used as long-term loans to serve as gap financing for Housing Credit developments. Instead, as a practical matter, the funds must be expended as grants.

Unfortunately, there are major impediments to the use of any federal grant in Housing Credit developments that make using SLFRF in this manner extremely inefficient. First, federal grants reduce "eligible basis" in Housing Credit developments—essentially the amount of Housing Credit equity a project is eligible for is reduced proportionally when a grant is used as part of the financing. This negates the benefits of using these two resources together. Second, for-profit developers receiving a grant typically need to treat that money as taxable income, which is often an insurmountable disincentive for a public-private partnership program like the Housing Credit. For this reason, gap filler sources are almost always provided as low- or no-interest long-term loans with flexible repayment terms.

Congress can fix this by allowing SLFRF to be used as long-term loans to Housing Credit-financed developments. There is already strong support in Congress for this change. Time is of the essence, as developments in the pipeline are stalled and risk falling apart completely.

Sincerely,

Ability Housing, Inc
Affordable Housing Investors Council
Affordable Housing Tax Credit Coalition
Applegate & Thorne-Thomsen
AURA Development & Advisory, LLC
Beacon Hill Capital
BRIDGE Housing
CAHEC
California Council for Affordable Housing

CCIM Institute
Centrant Community Capital
Cinnaire
CohnReznick
Community Revitalization and Development Corporation
Council for Affordable and Rural Housing
Council of Development Finance Agencies
Council of Large Public Housing Authorities
Council of State Community Development Agencies
CREA, LLC
CSH
Dauby O'Connor & Zaleski, LLC
Denton Housing Authority
Eden Housing
Enterprise Community Partners
Evernorth
First Community Housing
Greystone Affordable Development
Hawaii Housing Finance, LLC
HDC MidAtlantic
Holland & Knight LLP
Housing Advisory Group
Housing Partnership Network
Illinois Housing Council
Impact Development Partners LLC
Institute of Real Estate Management
Iowa Housing Partnership
KCG Companies, LLC
Kittle Property Group, Inc.
Kutak Rock LLP
Lincoln Avenue Capital
Local Initiatives Support Corporation
Low Income Investment Fund
Marble Cliff Capital
Massachusetts Housing Investment Corporation
Merchants Capital
Merritt Community Capital Corporation
Midwest Housing Equity Group
Mountain Plains Equity Group
National Apartment Association
National Association of Affordable Housing Lenders
National Association of Counties
National Association of Home Builders

National Association of Housing and Redevelopment Officials
National Association of Local Housing Finance Agencies
National Association of REALTORS®
National Association of State and Local Equity Funds
National Community Renaissance
National Council of State Housing Agencies
National Equity Fund
National Housing & Rehabilitation Association
National Housing Conference
National Housing Trust
National League of Cities
National Multifamily Housing Council
National Neighborworks Association
Nevada HAND, Inc
Nixon Peabody LLP
Novogradac
Ohio Capital Corporation for Housing
Pennrose, LLC
Pennsylvania Developers Council
Public Housing Authorities Directors Association
R4 Capital LLC
RBC Community Investments, LLC
St. Louis Equity Fund
Stewards of Affordable Housing for the Future
Stonehenge Capital
The Community Builders Inc.
The Michaels Organization
The NHP Foundation
VCDC
Wallick Communities

PERSONAL FINANCE

Inflation eroded pay by 1.7% over the past year

PUBLISHED THU, FEB 10 2022·1:02 PM EST

Greg Iacurci
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KEY POINTS

- "Real" hourly earnings (wage growth minus inflation) fell by 1.7% from January 2021 to January 2022, the U.S. Department of Labor said Thursday.
- Employers have raised pay to attract workers in a competitive job market. But consumer prices rose at their fastest annual rate in 40 years.
- There are indicators workers may start reclaiming some of their purchasing power. Some industry pay has even outpaced inflation over the past year.

BREAKING NEWS

MARKETS CNBC TV MENU

High inflation overshadowed a big increase in wages over the past year, amounting to a nearly 2% smaller paycheck for the average worker, according to federal data published Thursday.

Employers have raised wages at about the [fastest rate in 15 years](), as they compete for talent amid record job openings and quit levels. But consumer prices for goods and services are rising at their fastest annual pace in four decades, eroding those gains for many Americans.

As a result, "real" hourly wages (earnings minus inflation) fell by 1.7%, to $11.22 from $11.41, in the 12 months through January 2022, the U.S. Department of Labor said Thursday.

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What it would take for the government to cancel federal student loans

BREAKING NEWS ll more over the same period — by 3.1%, to $387.06 from $399.52 — after accounting for a shorter workweek, likely due to pandemic-related impacts on worker schedules.

"The price pressures on households just don't end," according to Greg McBride, the chief financial analyst at Bankrate.

However, substantial pay boosts in some industries, like leisure and hospitality, means

And data suggests the trend may be reversing — the average worker saw their pay outpace inflation by 0.1% from December to January. It was the second consecutive monthly improvement in "real" earnings.

"You're seeing it beat inflation, just barely," said Elise Gould, a senior economist at the Economic Policy Institute, a left-leaning think tank.

VIDEO 05:25
Inflation climbed faster than expected in January at 7.5%

If that monthly trend holds, workers would start to see an increase in their purchasing power, Gould said.

However, the direction of inflation and wages in coming months is difficult to predict.

The Federal Reserve is expected to start raising interest rates in March to bring inflation to heel — though it's unclear how aggressively Fed officials will do so. And many economists believe inflation will moderate in 2022 if supply-chain issues improve and elevated consumer demand for physical goods decreases, for example.

It's also unlikely the current pace of wage growth will continue if the pandemic recedes and workers are drawn back into the labor pool, Gould said. That would increase the

Inflation and wage growth

The Consumer Price Index, a key inflation measure, jumped 7.5% in January from a year earlier, the fastest rate since February 1982, the Labor Department reported Thursday.

The index accounts for household costs across many goods and services, from alcohol to fruit, airfare, firewood, hospital services and musical instruments. On average, a consumer who paid $100 a year ago would pay $107.50 today.

Meanwhile, average hourly wages grew 5.7% in January relative to a year earlier, to $31.63, according to a separate Labor Department report, published Friday.

But inflation and pay don't impact households equally — these are average statistics.

hotels and event admissions, according to the White House Council of Economic Advisers.

Consumers who didn't buy such goods and services would have kept more of their paychecks intact.

Monthly growth in consumer prices have decelerated since October, suggesting a slowdown in inflation. But inflation has also become more broad-based, affecting household staples like food, utilities and housing.

"Not only have home prices jumped 20% in the past year, but now many rents are too, rising 0.5% in the past month alone," McBride said. "Nothing squeezes household budgets more than the outsized increases we're currently seeing on costs for shelter and rent."

Rank-and-file workers in some industries have seen their pay growth eclipse inflation, sometimes by a wide margin.

...nd hospitality workers (those at restaurants, bars and hotels) saw average pay jump 15%, to $17.08 an hour, in the 12 months through January 2022. Earnings jumped by 9.1% among the rank-and-file in transportation and warehousing, too.

Some of the annual inflation is also due the so-called "base effects," Gould said. This means the current rate of inflation is being judged against January 2021, when consumer prices for gasoline and other items were depressed during the pandemic — amplifying the headline figure, she said.

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BREAKING NEWS

3 reasons why the White House may extend the payment pause for student loan borrowers

Annie Nova

U.S. Chamber of Commerce

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March 8, 2022

The Honorable Maxine Waters
Chair
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Dear Chair Waters and Ranking Member McHenry:

We appreciate the Committee's attention to inflation that is hitting American businesses and consumers through your March 8 hearing, and we believe it important for you to focus on macroeconomic trends, including supply and demand shocks and monetary policies, as important causes. The Committee should examine constructive fiscal, regulatory, and labor policies to increase supply and reduce prices. The Chamber stands ready to work with you and the entire Congress to address these issues. The premise that "corporate profiteering" is to blame for higher prices is not supported by the facts.

The Business Community is Not to Blame for Higher Prices

We reject the assertion in the title of the hearing that inflation in driven by "corporate profiteering." As the Washington Post's Editorial Board recently explained in a piece titled, "*The White House once again offers a bizarre message on inflation*," the business community is not to blame for higher prices:

> President Biden is facing mounting criticism for inflation's rise to its highest level since 1982. Unfortunately, the White House's latest response is to blame greedy businesses. Economists across the political spectrum are rightly calling out the White House for this foolishness. Even some within the White House are questioning this approach.
>
> Inflation, which was relatively low for years, did not suddenly rise in recent months because businesses decided now was the ideal time to squeeze their customers. What actually happened is that demand soared for many products as the economy recovered. Often, there were not enough products to meet it, thanks to supply chain hiccups and labor shortages, so prices went up. In a surprise to many, consumers kept buying goods such as cars and washing machines even at higher prices.[1]

Indeed, the Post specifically refuted the President's narrative that industry concentration causes higher food prices.

The Attempt to Blame Business Is Driven By Politics, Not Facts

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[1] Id.

Perhaps most troubling, recent efforts by the Administration to blame high prices on market concentration are reportedly driven by political advisors and are not supported by the economic evidence. On January 10, 2022, the Washington Post reported:

> In November and December, at least four Democratic polling experts told senior White House officials that they needed to find a new approach as public frustration over price hikes became widespread and highly damaging to Biden's popularity, according to three people with knowledge of the private conversations.
>
> "What we said is, 'You need a villain or an explanation for this. If you don't provide one, voters will fill one in. The right is providing an explanation, which is that you're spending too much,'" one Democratic pollster who, like the others, spoke on the condition of anonymity to reflect private conversations, told The Washington Post. "That point finally became convincing to people in the White House."[2]

The same article noted:

> Senior officials at the Treasury Department, for instance, have been unsettled by the White House's attempts to blame some large corporations for inflation, skeptical of that explanation for the recent rise in prices, according to four people with knowledge of internal administration dynamics.

Macroeconomic Trends Explain Higher Prices

Instead of blaming the business community, the Committee should explore macroeconomic trends. Former Secretary of the Treasury Lawrence Summers, a senior official in both the Clinton and Obama Administrations, recently wrote the following:

> We have a serious inflation problem whatever the precise CPI [consumer price index] reading. Inflation is running well ahead of anything seen during the guns and butter Vietnam episode and 50 percent above where it was when Pres Nixon imposed wage price controls.[3]

In recent months, Japan, China, and Germany all reported their highest inflation in more than a decade.[4] Macroeconomic trends explain these high prices:

Oil Prices. The price of oil, "the most important global determinant of inflation," is very high and not expected to decline significantly in the near term.[5] The war in Ukraine has already exacerbated this trend.

Supply and Demand. As a whole, American consumers, have excess savings as a result of government pandemic relief. At the same time, the pandemic has caused many Americans to change their spending patterns. Since February 2020, spending on goods has grown 6-fold compared to

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[2] See https://www.washingtonpost.com/us-policy/2022/01/10/white-house-inflation-strategy/
[3] https://twitter.com/LHSummers/status/1481241779508846599?cxt=HHwWjoC94Z3jto4pAAAA.
[4] See https://www.washingtonpost.com/opinions/2021/11/15/inflation-its-past-time-team-transitory-stand-down/
[5] *Id.*

spending on services. Spending on goods is up almost 30% while services spending is up only 5%. When demand rises faster than supply can keep up, prices rise.[6]

Supply Chain Problems. Supply is in large part constrained because global supply chains have not healed from lockdowns and from shifting consumer patterns, including increased demand for goods. Supply chain problems are pushing prices higher because consumers have to pay more for scarce goods and businesses have to pay more for the inputs they need to produce these goods.

Worker Shortages. In the U.S., there are 4.6 million more job openings than workers to fill them. Businesses cannot make their products or provide their services at the levels necessary to meet demand without the appropriate number of workers. Additionally, businesses are having to pay workers substantially more to come to work, which is increasing their operating costs. As Secretary Summers points out, workers who switch jobs are receiving double-digit pay increases, costs that ultimately are passed along to consumers.[7]

Monetary Policy. The Federal Reserve has put approximately $5 trillion into the financial system since the beginning of the COVID-19 pandemic. This enormous sum is slowly trickling from the financial economy into the real economy, which is pushing up the price of goods and services.

Rather than blame the business community, policymakers should explore other avenues to encourage competition and lower prices for consumers. As former Secretary Summers explained, policymakers should work to reduce tariffs, raise supplies of fossil fuels, and relax regulations. All of these tools would allow the business community to serve the needs of consumers more efficiently and at lower prices. Finally, monetary policy remains the best tool for fighting inflation.

Sincerely,

Neil Bradley
Executive Vice President, Chief Policy Officer,
and Head of Strategic Advocacy
U.S. Chamber of Commerce

cc: Members of the House Committee on Financial Services

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[6] See https://www.washingtonpost.com/opinions/2022/01/10/white-house-again-offers-bizarre-message-inflation/
[7] Id.

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Congress of the United States
House of Representatives
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March 11, 2022

Dear Chairwoman Waters:

During the House Financial Services Committee hearing on **Tuesday, March 8th, 2022 titled** "The Inflation Equation: Corporate Profiteering, Supply Chain Bottlenecks, and COVID-19," I stated that "Companies like Blackstone, Zillow, and BedRock are buying up to 15 percent of available homes…" I instead meant to say that "Companies like Blackstone, Zillow, and BlackRock are buying up to 15 percent of available homes…"

Thank you for holding such an important hearing.

Sincerely,

Alexandria Ocasio-Cortez
Member of Congress