ORAL TESTIMONY ECONOMIC AND CONSUMER POLICY

Chairman Krishnamoorthi, Ranking Member Cloud, thank you for inviting me to testify today. My name is Rakeen Mabud and I am the Chief Economist and Managing Director of Policy and Research at the Groundwork Collaborative.

My testimony today will focus on three key points:

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

- Second, these price hikes are not falling evenly across our economy: the most marginalized groups are paying the biggest price.

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

While families have struggled to navigate both a deadly pandemic and rising costs that have further strapped family budgets, corporations saw the highest quarterly profit margins in over 70 years in the second quarter of this year.

And we know why. For over a year now, Groundwork has combed through hundreds of corporate earnings calls to better understand how these megacorporations are taking advantage of recent crises to make record profits for themselves and their shareholders. Executives are forthright that these crises have been very good for business. In fact, even as input costs come down, corporate executives are gleefully reporting how they plan on keeping prices high.

On one recent earnings call, the car repair company Autozone's CEO said it had increased pricing due to inflation and "that following periods of higher inflation, our industry has historically not reduced pricing to reflect lower ultimate cost."

H.B. Fuller, an adhesive manufacturing company, told analysts in June that the company expected "sizable margin expansion" as costs declined because of "extremely sticky" prices and said the company would "push harder" on price increases. H.B. Fuller's CEO put it more bluntly: "We don't reduce prices on the back end of these increases." The CEO even went as far as to say "a nice light recession would be perfect for us" because it would bring raw material costs down even more.

These mega-companies are acutely aware of how their market power affords them the ability to keep prices high, even as the costs of expenses go down. Procter & Gamble, a massive conglomerate that encompasses major diaper brands such as Luvs and Pampers and major detergent brands Tide, Downy, Bounce, and Gain, said in July that they planned to raise prices "across most categories" in the coming months, despite paying shareholders $3.5 billion last quarter. Executives also told analysts that consumers were responding well to price hikes, noting they “don’t deselect” their “daily use” products.

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

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

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

These choices hollowed out and nearly-eliminated diversity in our supply chain, leaving us without any failsafes to withstand significant shifts in demand without shortages.

Without competition to undercut companies that are charging excess prices, those companies with market power are able to raise prices with impunity.

But it's not too late – we have many policy tools at our disposal:

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

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

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

- Congress should continue to make long-overdue investments in our supply chain and tackle costs like health care and housing, that have long dominated family budgets.

Importantly, interest rate hikes, which slow inflation by tamping down demand and making people poorer, will not address any of the underlying causes of our supply shortages and do nothing to address profiteering.

Giant corporations' control over our supply chains has supplanted the functioning, resilient system we could have built through robust public investment and free and fair competition.

Big corporations are getting away with pushing up prices to fatten their profit margins, and families are quite literally paying the price. It’s time to rein them in. Thank you.