Chairwoman Waters, 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 that a profit-price spiral is a 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 mega-corporations hold over our supply chains and our economy more broadly.

There are a range of factors driving inflation right now, including increasing and shifting demand, as well as supply chain disruptions and resulting shortages. However, the 70-year record high corporate profit margins demonstrate that megacorporations 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 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 that we’re not leaving any pricing on the table. We want to take as much as we can."
Mega-corporations are able to get away with this kind of aggressive and extractive pricing precisely because of the current inflationary environment.

As Hostess’ CEO said on an earnings call this month, "We’re also seeing consumers experience a lot of disruptions...They're losing benefits. They're 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. As the same CEO said, "Pricing, by definition, is a change model. It's temporary. Consumers get used to it. When all prices go 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 upward.

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. 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 prices.

While investor demands for higher profits are sending prices spiraling 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 over time across sectors. They find no correlation between these two factors since December 2020. In other words, there is absolutely no evidence to suggest 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 ensuring rigorous competition in key product markets and along the supply chain.

It's 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.