THE REAL INFLATION PROBLEM: CORPORATE PROFITEERING

the GROUNDWORK COLLABORATIVE

MARCH 2022

Powerful corporations are using the pandemic as an excuse to jack up prices and pad their record-breaking profits.

- While workers and families are seeing their paychecks erode, megacorporations are enjoying record-breaking profit margins and Wall Street is getting "the biggest payout in a decade."
- The reason corporations are increasing their prices isn't a mystery – all you have to do is listen to what they are brazenly boasting to investors on corporate earnings calls. For example:
    - "I think we've done a great job with our pricing," boasted the CFO of Hormel, a maker of popular grocery brands. As prices went up, the company improved its operating income by 19% in the first quarter of 2022 compared to 2021.
    - Constellation Brands, the parent company of popular beers Modelo and Corona, admitted that its consumer base " skews a bit more Hispanic" and the company wants to "take as much as [we] can" from them.
    - Pioneer Natural Resources, a Texas shale company, chose to limit production to line the pockets of Wall Street investors, despite the recent spike in prices around the war in Ukraine. As their CEO stated, "We think it's important to return cash back to the shareholders."
- Using inflation as an excuse, these megacorporations are choosing to raise prices to increase their profit margins – and they hold enough market power to do so without fear of losing customers to other competitors.
- Corporate profiteering and monopoly power are big drivers of price increases on basic necessities, like prescription drugs, groceries, diapers, and gas. And it's taking a massive toll on consumers, workers, and small businesses.

These price hikes were brought to life by decades of disinvestment and corporate consolidation – paving the way for megacorporations to corner markets and increase prices on consumers with impunity.

- This wasn't an accident – it was their goal all along. For half a century, we have allowed megacorporations, which produce goods that families rely on, to take control of our supply chains and put short-term profits over a functioning system. For example:
    - The world's most popular diaper brands — Huggies, Luvs, Pampers and Pull-Ups — are all made by one of two companies: Kimberly-Clark or Procter & Gamble. Those companies account for 70% of the U.S. diaper market.
    - Just four meat processing giants control more than 80% of the beef industry and more than 60% of the pork industry. This enables them to dictate prices that both flatten returns for farmers and ranchers and inflate prices for consumers at the meat counter.
- We're seeing the impact of deeply-entrenched corporate power on our supply chain, too. Decades of turning our supply chains over to megacorporations created a brittle system that was ill-equipped to handle crises like the pandemic – resulting in bottlenecks and shortages and ultimately pushing prices up.

- As a result, a handful of megacorporations were perfectly positioned to capitalize on current crises to post record profits – while consumers pay the price.
    - Just three shipping alliances control delivery for the majority of goods consumed by Americans each year. These outfits control about 80% percent of seaborne cargo and have seen their profits increase seven-fold from the previous year.
    - Many of the goods people in the United States consume are delivered by as few as four railroad companies, equipped by one chip maker, and packed by four meatpackers.
- The more sway large corporations have over our economy, the more power they have to gouge customers and squeeze Main Street. And unless something is done to address the issue, corporations with outsized market power will continue raising prices "because they can."

We need federal policies that will tackle the root causes of inflation: decades of disinvestment in our supply chains and corporate profiteering.

- Large corporations are trying to pin the blame for price increases on workers or government spending, but that's simply not true.
    - While investor demands for higher profits are sending prices spiraling up, there is no evidence that wages are playing a role.
    - Derailing critical, long-overdue investment - or raising interest rates too quickly - would only double down on the harm that workers and families are feeling at the checkout line.
    - These additional public investments – in health care, paid leave, climate, child care, and more – will have little to no effect on inflation in the short-term and are necessary to ensure sustainable economic growth in the long-term.
- Voters are catching on: A recent poll from Data for Progress and Groundwork finds that 63% of voters believe that "large corporations are taking advantage of the pandemic to raise prices unfairly on consumers and increase profits."
- Lawmakers are also taking steps to rein in corporate profiteering and monopoly power through antitrust regulation, competition policy, and taxing excess profits on corporations.
    - The New York Attorney General's office just announced new price gouging rules, paving the way for other states to follow suit.
    - The Federal Maritime Commission opened an investigation into the three major ocean shipping alliances.
    - The COVID-19 Price Gouging Prevention Act would help the Federal Trade Commission and State Attorneys General protect people across the country from pandemic profiteering.
    - Congress has also introduced legislation that would impose a new windfall profits tax to prevent oil companies from using Putin's invasion as an excuse to pad their bottom line.
- However, without continued aggressive action to address corporate profiteering, investors will continue to demand higher profits – sending prices ever spiraling upward.

By cracking down on price gouging and pandemic profiteering — and making sustained public investments in our infrastructure, our supply chains, and our labor force — we can cultivate shared economic growth and build an economy that truly works for all of us.