ORAL TESTIMONY: PRICES AND CONCENTRATION MAY 2022 ANTITRUST

Chairman Cicilline, Ranking Member Buck, 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, megacorporations are seeing the highest profit margins in 70 years.

- Second, entrenched concentration has facilitated high levels of pricing power by corporate actors for decades, but the pandemic, the cover of inflation, and geopolitics have given these companies new opportunities to exercise that pricing power. And investors are egging them on.

- Finally, the brunt of these price hikes does not fall evenly across our economy. Small businesses, low-income people, and people on fixed incomes are paying the highest price.

Recent data and research lays bare the role of plain-old profiteering in recent price hikes.

- Bureau of Economic Analysis corporate profit data released in April revealed that the corporate profits of non-financial firms surged 35% in 2021, and overall profit margins reached their highest level since 1950.

- And recent analysis from the Economic Policy Institute (EPI) finds that approximately 54% of the price increases that consumers are experiencing come from an increase in corporate profits. By contrast, labor costs (primarily wages) and non-labor costs (such as input costs) have contributed only 8% and 38%, respectively.

Groundwork has combed through hundreds of earnings calls where executives tell investors about last quarter's performance and what they can expect going forward. Over and over, the message from corporate America is clear: they aren't just asking consumers to pay for their rising costs; they're going for more.

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Some of the most egregious cases are corporations like Visa and Mastercard – a duopoly that controls over 70% of the payment network market – that cannot even blame supply chain disruptions for their profiteering. Since credit card companies make their money on a fixed percentage fee off of each transaction, inflation means they will automatically see higher returns. But, of course, these companies are not content to stop there – both Visa and Mastercard also reported that they would be raising the fees themselves, netting even more in an environment already difficult for small businesses. In short, Visa and Mastercard are using the power afforded through their duopoly control of the market to raise fees on small businesses and consumers who have nowhere else to go.

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 price hikes drive up profits, investor demand for those profits also goes up.

Take oil and gas companies, an industry dominated by seven supermajor companies. Despite the significant hardship that higher gas prices have incurred on families around the country, producers resolutely refused to increase supply to respond to the increasing price of gas. As the CEO of Pioneer Oil replied when asked to explain, he said: “It’s all about the shareholders. Our shareholders own this company. They want a return of cash.”

In fact, 59% of oil and gas executives recently told the Dallas Fed that investor pressure is the primary reason publicly traded oil companies are throttling supply, despite high prices.

And investors have cashed in across the board. In 2021 S&P 500 firms spent nearly $900 billion on stock buybacks and U.S. companies paid out nearly $1.5 trillion in dividends to shareholders, both record highs.

Small businesses, in particular, face unique challenges as they fight to survive in deeply consolidated markets.

Small businesses have a harder time navigating global supply chains, as large corporations throw their weight around in order to jump to the front of the line with shipping companies, while small business owners sit and wait with empty shelves.

Big businesses also strong-arm suppliers into deals that raise prices for small businesses and leave them waiting longer for goods and products. Giants like Walmart and Amazon have the buying power to negotiate more favorable contracts with suppliers in the first place – leaving small businesses struggling to keep up.

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

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

- Strengthen antitrust laws already on the books and better enforce them when anticompetitive behavior reaches the threshold for price-fixing and collusion and enact a federal price gouging statute to curtail exploitative pricing during emergencies,
- Ensure corporations are paying their fair share of taxes and implementing excess profits tax on megacorporations when appropriate,
- and make long overdue investments in our supply chain infrastructure to ensure that large corporations can't game the system and use their market power to rig the playing field further in their favor.

Thank you and I look forward to your questions.