



## 2022 ENC Consumer Protection Oral Testimony

Chairwoman Schakowsky, Ranking Member Bilirakis, and members of the subcommittee, 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.

I am grateful to the Subcommittee for holding this hearing about the critical issues of pandemic profiteering and price gouging.

My testimony today will focus on three key points:

- First, pandemic profiteering is widespread, and is taking a massive toll on consumers, workers, and small businesses, all while corporate executives and shareholders are enjoying record profits.
- Second, today's profiteering is the direct result of decades of policy choices resulting in an imbalanced and brittle economy that allows mega-corporations to profit from crises.
- Third, wage increases for workers are not a driver of current price spikes.

Big corporations have taken advantage of shifting demand to raise prices on essentials like Covid tests, masks, and hand sanitizer.

Just last month, after the CDC updated its guidance for the public to "wear the most protective masks you can", producers of critical PPE immediately cashed in. In early

October, a 50-pack of Kimberly-Clark N95 masks cost \$23.19. By mid-January, the same box of masks cost \$57.15.<sup>1</sup>

In Kimberly-Clark's earnings call last week the CEO 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, he said Kimberly Clark would allocate more cash to shareholders through dividends and buybacks.

In other words, even though the company was experiencing a disappointing quarter, Kimberly-Clark's CEO was confidently telling shareholders that he would still be able to deliver their payouts – all on the backs of consumers paying higher prices for essential items like masks.

Unfortunately, profiteering is not limited to pandemic-related goods.

Take Procter and Gamble, a Fortune 500 company with a chokehold on diaper production and more than a quarter of the global market on laundry products.

In the company's January 19th earnings call, their CFO announced price increases in all 10 of their product categories in 2021– with more to come in 2022. He 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."

In other words, the company will take advantage of consumers' basic needs because demand is relatively unresponsive to price hikes for goods like diapers. The ability to raise prices without seeing consumer demand drop, combined with significant market share, gives companies like Procter and Gamble free reign over price increases and ever-increasing profit margins – especially when they can blame inflation for the rising prices.

Corporations have this kind of power because Wall Street's ruthless pursuit of efficiency and short-term profits ushered in a deeply concentrated economy that leaves consumers vulnerable to profiteering and price gouging.

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<sup>1</sup> 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>.

The unending quest for maximizing short-term returns has resulted in deregulation of everything from shipping to our rail network. As corporate executives prioritized a lean, just-in-time supply chain system that eliminated resiliency and increasingly relied on precarious labor, our economy was left more vulnerable to price-gouging and pandemic profiteering.

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.

While concentrated market power isn't the only reason for our current plight, it plays a critical role in propping up an imbalanced economy that prioritizes profits over a functioning system.

Finally, I'd like to address a common misconception about the role of workers wages on the price hikes. Recent research demonstrates there has been no correlation between price increases and wage increases since December 2020. In short, there is absolutely no evidence to suggest wage increases for workers are to blame for the price increases we are seeing today.

There is a clear path forward for Congress.

- First, Congress should take up H.R. 675, the "Price Gouging Prevention Act." This legislation would create a clear framework to identify and prohibit profiteering, and provide the Federal Trade Commission, as well as State Attorneys General, the power to protect consumers from corporate price gouging.
- Second, the Committee can continue to ensure that the FTC investigates anticompetitive, deceptive, and unfair business practices to protect consumers and encourage competition.

The best path towards an inclusive, resilient economy is to support policies that foster competitive markets where consumers, working people, and smaller competitors all have meaningful bargaining power. Smart investments, coupled with pro-competition safeguards, will reduce costs and prices in the long run, and ensure that no one is left behind during the recovery and beyond.

Thank you, and I look forward to your questions.