Testimony to the United States House of Representatives Committee on the Judiciary

Subcommittee on Antitrust, Commercial, and Administrative Law Hearing: Reviving Competition, Part 6: Rebuilding America's Economic Leadership and Combating Corporate Profiteering

Patrice Onwuka
Director, Center for Economic Opportunity
Independent Women's Forum

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Chairman Cicilline, Ranking Member Buck, and Members of the Committee thank you for inviting me to appear today.

My name is Patrice Onwuka, and I am the director of the Center for Economic Opportunity at Independent Women's Forum. We are a nonprofit organization, committed to increasing the number of women who value free markets and personal liberty. We advance policies that enhance people's freedom, opportunities, and well-being. My work focuses on expanding opportunities for women.

As we emerge from this pandemic as a nation, it has been encouraging to see the recovery of women's participation in the labor force. As disruptions to in-person learning have finally disappeared, working parents have the certainty to seek out employment. The tight labor market has rewarded them with rising wages and increased flexible work opportunities. For women, greater pay and greater flexibility will lead to greater financial security and work-life balance.

Rapid inflation has placed these gains at risk. Inflation rose 8.3% in April over the past twelve months. Prices have risen across every major spending category with significant increases in energy, food, and shelter. Although wages increased, real average hourly earnings decreased 2.6% (seasonally adjusted). For another month in a row, women have watched inflation erode their buying power, and households have been forced to do more with less.

At one time, prices were spiking in just a few categories of spending, but that is no longer the case. Price increases are broad-based, and they are negatively affecting the budgets of every American household. The heaviest economic pressure is borne by low-income households and those on fixed budgets, such as the elderly, who spend disproportionately more of their budgets on groceries and gas.

Women are keenly aware of the impact of 8.3% inflation on family budgets, and it's devastating. Daily, women spend more time than men making economic decisions for their families about consumer goods and services. They drive 70-80% of all consumer purchasing through buying power and the influence they wield over purchasing decisions. They have been sensitive to rapid price increases that began in mid-2021 and have had to adjust household spending habits in the wake of shortages.

Food prices increased 9.4% last month–the largest 12-month increase since ending April 1981. Prices on household staples such as beef, eggs, chicken, milk, and cereal have all risen by double-digit rates over the past year.

Shelter costs–one of the biggest household expenditures each month–are rising rapidly at 5.1% over the past year. Yet, that overall inflation number masks how rapidly rent is rising or just how much more families must spend to keep a roof over their heads. January's average asking rent rose 15.2% and home prices in December climbed 18.8% from the year prior.

From tuition costs to haircuts to shoes, parenting has become significantly more expensive.

Driving to and from work or shuttling kids around from school to sports and activities is markedly more expensive as well. Gasoline hit its highest recorded price yesterday, May 16, 2022, at $4.48, but one year ago it was $3.04 and about $1.96 on average for the month of May 2020.

Now, parents of newborns and babies face the dual hardship of an unprecedented baby formula shortage concurrently with rising prices on baby formula. Currently, 43% of baby formula inventory was out of stock nationally, up from 18% at the start of 2022 and 3% from the same time in 2021.

Three out of four babies below the age of six months in the U.S. consume baby formula, some have dietary restrictions that require a specialized formula. This has placed many families in the vulnerable position of making desperate social media pleas to find a nutrition source for their littles. This new economic crisis is one of life or death for the littlest members of our society.

Americans are worried about inflation and the state of the economy. Recently, U.S. consumer sentiment fell to its lowest level in nearly a dozen years as worries about inflation persisted. Some 94% of voters are concerned or upset about inflation. This is the top concern for Americans.

Americans look to Congress and the White House for answers and solutions. For months President Joe Biden and Treasury Secretary Janet Yellen held that inflation was "temporary" or "transitory." They made the case for additional stimulus spending through a multi-trillion dollar package of domestic spending priorities and denied the connection between inflation and federal policy. The President also recently discussed price-gouging and antitrust investigations into industries that have raised their prices.

Voters do not think that Washington has the right answers. Some 47% of people said the president's policies to get inflation under control were "hurting," compared with only 22%, who said they were "helping."

Price gouging is not the driver of inflation

Arguments that today's spiking inflation is due to price gouging are disingenuous. Scapegoating specific industries for widespread economic problems will not address this kitchen-table problem. Furthermore, they could raise – not lower – prices for American households.

Price "gouging" usually occurs in a narrow market over a short period of time such as when prices for refrigerated food spike in the wake of a massive power outage caused by a big storm. These prices naturally decrease as power is restored and new inventory arrives.

Prices have been rising for a year and have spiked on items in every sector, not because companies have colluded to charge more. The economy is experiencing the effects of significant, sustained demand and a short supply of goods.

Corporate profits are rising, but profit rises with inflation. (They also plummeted during the beginning of the pandemic.) Previously, if prices rose on an item, consumers would buy less of it. Today, consumers are willing to pay more because they have amassed significant savings during the pandemic and are still spending it.

At the same time, supply-chain disruptions and labor shortages have increased the costs of the production of goods and services. U.S. producer prices soared 11% in April 2022 from a year earlier. According to the

National Federal of Independent Business, a third (32%) of small business owners reported that inflation is their single most important problem in operating their business. This is the highest reading from the organization's optimism index since 1980.

There is no evidence that sticker prices are rising because businesses are taking advantage of the pandemic to hike their prices. Often, they are passing along rising costs. One significant cost increase has been labor. Historically, labor costs have represented roughly two-thirds of costs for businesses. In 2020, goods and service-producing industries did not have substantial wage growth. In 2021, wage increases nearly doubled for businesses in both types of industries.

Economists are skeptical of the price-gouging allegation against large companies. In a survey of economists from America's top universities including MIT, Harvard, Yale, Stanford, and the University of Chicago, 67% disagreed that "dominant corporations in uncompetitive markets taking advantage of their market power to raise prices in order to increase their profit margins" is a significant driver of inflation. Three out of four (75%) disagree that stronger antitrust interventions over the next year will lower inflation.

Perhaps their skepticism stems from the fact that some industries with the largest price increases are highly competitive. Take for example, the gasoline sector. Gasoline prices are highly volatile, and prices increased by over 40% in April from 2021. Of the five largest companies operating in the U.S.—Shell, Exxon, Chevron, Speedway, and BP– not one of them owns more than a 12.5% market share. Together, they control 36% of market share.

Investigations into specific industries will not yield lower prices, nor would new legislation that cracks down on mergers and acquisitions. Absent record-breaking levels of inflation, large companies typically can and do lower prices for consumers even as they enjoy greater profits.

Government Spending and Monetary Policy are Drivers of Inflation

The major factors behind inflation have been excessive monetary and fiscal policy, particularly over the past year.

Lockdowns led to a significant shift in consumer spending away from services to goods. Remarkably, household spending on goods soared 20% above the pre-pandemic levels by May 2021. This was fueled by federal stimulus.

From March 2020 to March 2021, the U.S. government made massive direct payments to American households. The first and second rounds of stimulus payments, along with other benefits, such as expanded unemployment insurance and mortgage and student loan forbearance, kept demand for goods strong.

Additionally, the American Rescue Plan in 2021 added significant cash payments, including the expanded child tax credit payments, at a time when millions of jobs had been recovered, vaccines were being distributed, and the economy was experiencing a tremendous rebound. Americans enjoyed spending power from the large savings they amassed during lockdowns and from these federal payouts.

The Federal Reserve (Fed) also engaged in hyper-expansionary monetary policy. This aided the auto industry and contributed to the housing price boom.

Supply could not meet such high demand for goods because of supply-chain disruptions and labor shortages. This drove prices to rise on some specific items that depended on imported raw materials and final goods such as semiconductors and computer chips as well as on autos. Today, inflation ranges on items across the economy.

Economists raised inflationary alarms about the American Rescue Plan in early 2021. Former Obama administration Treasury Secretary Larry Summers questioned President Biden's $1.9-trillion Covid-relief plan writing, "There is a chance that macroeconomic stimulus on a scale closer to World War II levels than normal recession levels will set off inflationary pressures of a kind we have not seen in a generation." At the time inflation was *below* the Federal Reserve's 2% target rate. Today, the inflation rate is over 4 times that.

The Federal Reserve Bank of San Francisco estimates that the American Rescue Plan added at least 3 percentage points to inflation. Although inflation has risen around the world, it is higher here than it is abroad because of excessive transfer payments.

Solutions

It will take time for inflation to fall back to pre-pandemic levels. Unfortunately, American households are unlikely to gain much relief at the grocery store and the gas pump. They may also experience unexpected shortages as the baby formula crisis has demonstrated.

Driving demand down will be key to reducing inflation. The Fed has already begun to unwind its aggressive monetary policy by raising interest rates. This should slow purchases in the housing and auto industries. Households are also spending down their pandemic savings. Thus, another stimulus package or increased fiscal spending on new entitlements and student loan forgiveness are not the right solutions. They would put more dollars into the economy and fuel price increases.

In polling, the American people recognize that more inflationary fiscal policy is unwarranted. Some 46% of the people believe that the Build Back Better Plan (BBB) would push inflation higher. Similarly, according to a recent POLITICO-Harvard survey, nearly half believe that both the BBB and the infrastructure bill will increase inflation.

Ramping up supply by raising labor force participation, perhaps reducing import restrictions, keeping corporate tax rates low, and encouraging oil drilling, will reign in inflation. Congress and the administration should also reduce regulations to reduce costs for businesses. Antitrust interventions would be ill-advised because they would further drive up consumer prices.

American households are hurting. Women want solutions that will increase their purchasing power and allow them to enjoy their wage gains and flexibility. Congress should focus on solutions that actually increase the supply of goods and services and reduce elevated demand to tackle inflation in a meaningful way.