



## **Congressional Testimony**

# **"Corporate Profits are Soaring as Prices Rise: Are Corporate Greed and Profiteering Fueling Inflation?"**

## **U.S. SENATE COMMITTEE ON THE BUDGET**

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## **I. Introduction**

Chairman Sanders, Ranking Member Graham, members of the committee, thank you for inviting me to testify today. My name is Lindsay Owens, and I am the Executive Director of 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 Committee for holding this hearing about the critical issue of rising prices and corporate profiteering.

My testimony today will focus on three key points:

- First, corporate profiteering is playing an important but underreported role in rising prices. Corporate executives and shareholders are enjoying the highest profit margins in 70 years – all while consumers are quite literally paying the price.
- Second, Wall Street's presence in every corner of our economy makes this period of inflation unique. Investor demands for ever higher profits suggest that a profit-price spiral is a significant risk. In contrast, the share of economic output going to labor is declining, inconsistent with a wage-price spiral.
- Finally, today's price increases are the direct result of the outsized power that mega-corporations hold over our supply chains and economy more broadly. Over the last 50 years, mega-corporations have set up a "heads I win, tails you lose" system, resulting in a brittle supply chain and less resilient economy. Our highly concentrated economy has also left us without the competition needed to undercut companies that gouge consumers.

I will conclude by recommending that Congress take on pandemic profiteering and recent price hikes by tackling the imbalanced power dynamics and incentives in our economy. First, the committee should work across Congress to tax excess profits to encourage productive investment rather than profiteering and share buybacks. Second, it is critical that Congress makes additional long-overdue investments in our physical and human infrastructure, including in our supply chains, to keep prices down and foster an economy rooted in shared prosperity and abundance. Third, regulators should ensure rigorous competition in key product markets and at critical nodes along the supply chain by enforcing antitrust laws already on the books. Finally, Congress should pursue a federal price gouging standard to protect consumers from excessive price hikes during periods of economic transition.

## **II. Corporate profiteering is playing an important but underreported role in rising prices.**

**Corporate executives and shareholders are enjoying the highest profit margins in 70 years – all while consumers are paying the price.**

*Corporate profit margins are soaring because of rampant price hikes on consumers across sectors. Record profit margins are directly tied to corporate profiteering.*

There are a range of factors driving inflation right now, including increased and shifting demand, as well as supply chain disruptions resulting in bottlenecks and supply shortages. Corporations across the economy are citing these challenges as the reasons why their prices are going up. While increased demand certainly can increase corporate profits, the 70-year record-high<sup>1</sup> in corporate profit *margins* – despite rising input costs which would normally eat into margins – demonstrate that megacorporations are taking advantage of this crisis to pad their profits by passing along more pricing than justified by rising input costs alone.

In short, it is true that firms are experiencing higher input costs as a result of these supply chain disruptions; but these very real price increases are giving firms cover to pad their profits and raise prices on consumers further.

Groundwork Collaborative has combed through hundreds of earnings calls over the last three quarters to understand why profit margins are at a record high. In these calls, executives tell investors about the last quarter's performance and also discuss what investors can expect from the company in the months ahead. Over and over, in sector after sector, the message from corporate America is clear: CEOs are telling their investors that the current inflationary environment has created significant opportunities to extract more and more profit by raising prices on consumers. Their strategy is simple—pass along rising costs, and then take even more.

In their fourth quarter earnings call, the Chief Financial Officer of Tyson Foods made the strategy clear. He explained to investors that their “pricing actions” were able to “more than offset” their higher cost of goods sold (or input costs).<sup>2</sup> Tyson is passing along their rising costs, and a little extra, bringing in record profits.

The most poignant examples of corporate profiteering are in sectors where dominant corporations have a stranglehold on essential goods, resulting in the toxic combination of immense market power and low price elasticity of demand – and ultimately, sky high prices for consumers.

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<sup>1</sup> “US corporate profits stayed high through 2021, even as inflation took hold.” Ben Werschel. Yahoo! Finance. March 30, 2022.

<https://finance.yahoo.com/news/us-corporate-profits-stayed-high-through-2021-even-as-inflation-took-hold-160908829.html>

<sup>2</sup>

<https://www.fool.com/earnings/call-transcripts/2021/11/15/tyson-foods-inc-tsn-q4-2021-earnings-call-transcri/>

Take Procter and Gamble, one of the most dominant companies in the world with a chokehold on diaper production and more than a quarter of the global market on laundry products.<sup>3</sup> The company produces a range of household goods, from feminine care items to cleaning supplies.

In the company's quarterly earnings call on January 19, P&G CFO Andre Schulten announced price increases in all 10 of their product categories in 2021 with more to come in 2022 and 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."<sup>4</sup> Procter & Gamble reported that price increases helped drive their net sales up six percent higher than the previous year, bringing their total net earnings for the quarter up 9% to \$4.2 billion.<sup>5</sup>

In other words, Schulten knows the company can take advantage of consumers' basic needs because demand is relatively unresponsive to price hikes for goods like diapers or household cleaning supplies. The ability to raise prices without seeing consumer demand drop, combined with significant market share, essentially gives companies like Procter and Gamble free rein over price increases – especially when they can blame inflation for the rising prices, rather than their insatiable desire to boost short-term profits.

Linda Montag, senior vice president at Moody's, agrees. She told Marketplace's Justin Ho that since companies like P&G sell essential household items people need to clean their homes and take care of their families, they can hike prices with little pushback in response.<sup>6</sup>

Mega-corporations are able to get away with this kind of aggressive and extractive pricing precisely *because* of the current inflationary environment. Increased demand and the resulting supply chain disruptions have caused input costs to increase, and consumers expect higher prices as a result. As Hostess' CEO Andy Callahan said on a March 2022 earnings call, "When all prices go up, it helps."<sup>7</sup>

### **III. Wall Street's presence in every corner of our economy makes this period of inflation unique. Investor demands for ever higher profits suggest that a profit-price spiral is a**

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<sup>3</sup> "Can Procter & Gamble's Revenue Cross \$72 Billion By 2021?," *Forbes*, October 2019, <https://www.forbes.com/sites/greatspeculations/2019/10/31/can-procter-gambles-revenue-cross-72-billion-by-2021/?sh=11bb795eae9>.

<sup>4</sup> "The Procter & Gamble Company (PG) Q2 2022 Earnings Call Transcript," *Alpha Street*, January 29, 2022, <https://news.alphastreet.com/the-procter-gamble-company-pg-q2-2022-earnings-call-transcript/>.

<sup>5</sup> Coral Murphy Marcos, "Procter & Gamble's sales jump as consumers brush off rising prices," *New York Times*, January 19, 2022, <https://www.nytimes.com/2022/01/19/business/procter-gamble-2q-2021-earnings.html>.

<sup>6</sup> Janet Nguyen, "Why are company profits rising despite inflation?," *Marketplace*, January 2022, <https://www.marketplace.org/2022/01/20/why-are-company-profits-rising-despite-inflation/>.

<sup>7</sup> *Ibid.*

**significant risk. In contrast, there is absolutely no evidence that wages are driving prices up.**

*Our economy is deeply financialized, which means that we can see Wall Street's influence in every corner of our economy. As a result, companies are incentivized to prioritize short-term returns for investors over productive investments.*

The excessive financialization of our economy is undeniable. As profits rise as a result of price hikes, so too does the investor demand for those profits. Take the example of oil and gas. Last month the CEO of Texas-based Pioneer Oil was asked whether Pioneer would consider increasing production to make up for any shortfall resulting from Russia's invasion of Ukraine. His answer: "No." When asked to explain, he said: "It's all about the shareholders. Our shareholders own this company. They want a return of cash."<sup>8</sup>

It's not just Pioneer. 59% of oil and gas executives recently told the Dallas Fed that "investor pressure to maintain capital discipline" is the primary reason publicly traded oil companies are throttling supply despite high prices.<sup>9</sup>

Shareholders across sectors aren't hiding the ball: they expect buybacks and dividends, not investments in production. And their strategy is paying off. 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.<sup>10</sup>

Buybacks are simply a symptom of a "shareholder first" economy that prioritizes short-term shareholder payouts over productive investments and other stakeholders such as workers. As Dr. Lenore Palladino writes, "For nearly half of a century, America's public corporations, driven by a shareholder primacy approach to corporate governance, have increasingly prioritized shareholder payments over other, more productive uses of corporate resources. Over the same period, employee bargaining power has fallen and wages for non-executive workers have stagnated across sectors."<sup>11</sup>

*Pandemic profiteering is being reinforced by a highly financialized economy, putting us at risk for a profit-price spiral.*

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<sup>8</sup> <https://twitter.com/frankmonah/status/1502158569528987654?s=21>

<sup>9</sup> <https://www.dallasfed.org/research/surveys/des/2022/2201>

<sup>10</sup> <https://www.yardeni.com/pub/buybackdiv.pdf>

<sup>11</sup> Palladino, Lenore, "Ending Shareholder Primacy in Corporate Governance," *Roosevelt Institute Working Paper*, Feb. 2019, [https://rooseveltinstitute.org/wp-content/uploads/2020/07/RI\\_EndingShareholderPrimacy\\_workingpaper\\_201902.pdf](https://rooseveltinstitute.org/wp-content/uploads/2020/07/RI_EndingShareholderPrimacy_workingpaper_201902.pdf)

The stickiness of prices, combined with Wall Street's influence in every corner of our economy puts us at risk for a profit-price spiral<sup>12</sup><sup>13</sup> and higher prices over the longer term. As profits rise as a result of price hikes, so too does the demand for those profits – sending prices spiraling ever upward. Because investors are so powerful across our economy, these spiraling demands are contagious from sector to sector – driving prices higher and higher across a range of sectors.

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.<sup>14</sup> 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 their prices.<sup>15</sup>

In another example, the cost of Kimberly-Clark N95 masks more than doubled between October 2021 and January 2022 when the CDC updated its guidance to wear more protective masks.<sup>16</sup>

Michael Hsu, Kimberly-Clark's CEO, was not shy about sharing why the company had jacked up prices. In an earnings call just last week, he 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, Hsu suggested that these pricing actions would allow Kimberly Clark to allocate more cash to shareholders through dividends and buybacks.<sup>17</sup>

In other words, even though the company was experiencing a disappointing quarter, Kimberly-Clark's CEO was prioritizing shareholder payouts – all on the backs of consumers paying higher prices for essential items.

*While investor demands for higher profits are sending prices spiraling up, there is no evidence that wages or labor shortages are playing a significant role in driving up prices.*

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<sup>12</sup>Joe Weisenthal, Feb 2022, <https://twitter.com/TheStalwart/status/1491485319811805192>

<sup>13</sup> Alloway, Tracy. "Investors Are Loving Companies That Increase Their Prices," *Bloomberg*, Feb 2022, <https://www.bloomberg.com/news/articles/2022-02-09/investors-love-companies-increasing-prices-and-shifting-inflation-to-consumers?sref=azsh6QkL>

<sup>14</sup> Repko, Melissa. "Walmart and Target clash with investors over strategy to keep prices low despite inflation," *CNBC*,

<https://www.cnb.com/2021/11/17/walmart-and-target-clash-with-investors-over-low-price-strategy-.html>

<sup>15</sup> Repko, Melissa, "Walmart says shoppers are on alert as grocery bills climb," *CNBC*,

<https://www.cnb.com/2022/02/17/walmart-cfo-brett-biggs-says-customers-are-paying-attention-to-rising-prices.html>

<sup>16</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>

<sup>17</sup> "Kimberly-Clark Full Year 2021 Results and 2022 Outlook Prepared Remarks," January 26, 2022, <https://investor.kimberly-clark.com/static-files/1297975a-1de1-4095-8d91-d7dc9413a88e>

In a system characterized by the kind of baked-in inequality and power-imbalances we have in our economy, many will look to blame wages or recent federal investments for the rise in prices. Not only would focusing on these factors be misguided, but also trying to correct for higher wages or derailing critical, long-overdue investments would only double down on the harm that workers and families are feeling at the checkout line.

A recent analysis by the Economic Policy Institute looks at the relationship between price increases and wage increases over time. While historically there has been a link between price inflation and wage growth, there has been no correlation between these two factors since December 2020.<sup>18</sup>

One reason wages are not having as much of an impact on prices right now is because worker power has seen a precipitous decline over the last several decades, in large part because of the weakening of organized labor. Since the 1970s, we have experienced a secular decline in unionization rates: sector union membership rate was 6.1% in 2021<sup>19</sup> down from 24.2% in 1973<sup>20</sup>.

To be clear, both wage increases and increased worker power backed by unionization would begin to rebalance the pernicious power dynamics that we have in our economy right now – corporations hold outsized power, allowing them to exploit crises to amass even more wealth and power. Increased unionization and higher wages are good things – both for workers and our economy as a whole.

In short, there is little evidence to suggest wage increases for workers are to blame for the price increases we are seeing today.

**IV. Today's price increases are the direct result of the outsized power that mega-corporations hold over our supply chains and economy more broadly. Over the last 50 years, mega-corporations have set up a "heads I win, tails you lose" system, resulting in a brittle supply chain and less resilient economy.**

But the question remains: *why* do corporations have so much power to exploit crises for their own gain? The answer starts decades before the pandemic: we spent a half-century allowing business executives and financiers to take control of our supply chains. They hailed the so-called "efficiencies" – ignoring the fact that this knife-edge system was supremely ill-equipped to handle the inevitable supply bottlenecks.

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<sup>18</sup> Josh Bivens, "U.S. workers have already been disempowered in the name of fighting inflation," *Economic Policy Institute*, January 2022, <https://www.epi.org/blog/u-s-workers-have-already-been-disempowered-in-the-name-of-fighting-inflation-policymakers-should-not-make-it-even-worse-by-raising-interest-rates-too-aggressively/>

<sup>19</sup> "Union Members – 2021," *Bureau of Labor Statistics*, Jan 2022. <https://www.bls.gov/news.release/pdf/union2.pdf>

<sup>20</sup> "The Shrinking American Labor Union," *New York Times*, Feb 2015, <https://www.nytimes.com/2015/02/08/business/the-shrinking-american-labor-union.html>

Corporate America's ruthless pursuit of efficiency ushered in a wave of mergers and acquisitions that 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 enough geographic diversification or productive capacity to withstand significant shifts in demand, COVID-induced closures, or natural disasters without supply shortages.
- Second, it has left us vulnerable to pandemic profiteering. Without competition to undercut companies who are charging excess prices or laws and regulations prohibiting this behavior, companies will continue unabated.

*Extreme concentration has created a brittle system unable to withstand shocks.*

We have an economy characterized by extreme concentration. This concentration has thinned out our supply chains and left the remaining mega-companies perfectly positioned to capitalize on the frenzy around inflation to post record profits while extracting from consumers. The presence of Wall Street backing these corporate behemoths has driven this trend in corporate consolidation as investors profit.

And Wall Street's unending quest for maximizing short-term returns has resulted in deregulation of everything from shipping to our rail network. As corporate executives bowed down at the altar of a lean, just-in-time supply chain system that eliminated resiliency and redundancy and increasingly relied on precarious labor, our economy was left more vulnerable to shocks and to the price-gouging, collusion, and pandemic profiteering those shocks allow. In other words, 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. The majority of the goods families rely on are delivered by as few as three ocean shipping alliances,<sup>21</sup> packed by four meatpackers<sup>22</sup> and equipped by a single chip maker.<sup>23</sup> If something goes wrong with any of these companies, consumers are left without goods on the shelves – driving up prices due to scarcity.

*Concentration leaves the economy vulnerable to profiteering and price gouging.*

The meat packing industry provides a stark example of how mega-corporations have consolidated the market to reap massive profits while consumers and workers are left to foot

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<sup>21</sup> "Shipping Alliances: 2M, Ocean Alliance & THE Alliance [2021 Overview]," *Container Xchange*, July 2019, <https://www.container-xchange.com/blog/shipping-alliances/>

<sup>22</sup> "Explainer: How four big companies control the U.S. beef industry," *Reuters*, June 2021, <https://www.reuters.com/business/how-four-big-companies-control-us-beef-industry-2021-06-17/>

<sup>23</sup> Yang Jie *et al.*, "The World Relies on One Chip Maker in Taiwan, Leaving Everyone Vulnerable," *Wall Street Journal*, June 2021, <https://www.wsj.com/articles/the-world-relies-on-one-chip-maker-in-taiwan-leaving-everyone-vulnerable-11624075400>

the bill. According to a recent analysis from the White House National Economic Council, the four biggest meatpackers have seen their net profit margins go up more than 300%<sup>24</sup> since the start of the pandemic, while consumers continue to face sky-rocketing prices.

The consolidation in the meat-packing industry can be traced back to the Reagan administration, which ushered in a period of deregulation and institutionalized Robert Bork's approach to antitrust that adopted the consumer welfare standard. Bork argued that as long as consumer prices were unchanged, or even dropping, monopolistic control over an industry was not a problem.<sup>25</sup> Across all industries, including the meat-packing industry, the Reagan administration stopped enforcing antitrust provisions and allowed big companies to acquire competitors and consolidate their power.

Today, four companies in the meat-packing industry, Tyson, Cargill, JBS, and National Beef Packing, control 85% of the beef industry.<sup>26</sup> These corporations promised that through consolidation, consumers would face lower costs.<sup>27</sup> And yet, these companies have ended up with higher profit margins while consumers faced a 30% jump in beef prices from 2020 to October of 2021.<sup>28</sup>

Corporate consolidation has helped facilitate the pandemic profiteering we are seeing today. With control and dominance over the market, these massive corporations can raise prices and pass along expenses to consumers who have nowhere else to turn.

**V. Congress should encourage productive investment over profiteering by taxing excess profits, making long-overdue investments in our infrastructure and supply chains, enacting a federal price gouging statute, and beefing up antitrust enforcement to crack down on profiteering and create an economy that works for all.**

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<sup>24</sup> Brian Deese *et al.*, "Recent Data Show Dominant Meat Processing Companies Are Taking Advantage of Market Power to Raise Prices and Grow Profit Margins," *The White House*, December 2021, <https://www.whitehouse.gov/briefing-room/blog/2021/12/10/recent-data-show-dominant-meat-processing-companies-are-taking-advantage-of-market-power-to-raise-prices-and-grow-profit-margins/>

<sup>25</sup> "Who Do You Want Controlling Your Food?," *The New York Times*, January 2022, <https://www.nytimes.com/2022/01/28/podcasts/the-daily/beef-prices-cattle-ranchers.html?action=click&module=audio-series-bar&region=header&pgtype=Article>

<sup>26</sup> Nicole Goodkind, "Meet the 4 meat empires Biden says are unreasonably jacking up prices for Americans," *Fortune*, January 2022, <https://fortune.com/2022/01/06/meat-prices-biden-inflation-tyson-cargill-jbs/#:~:text=The%20four%20major%20meat%20companies.%2C%20cattle%2C%20and%20chicken%20markets.>

<sup>27</sup> "Who Do You Want Controlling Your Food?," *The New York Times*, January 2022, <https://www.nytimes.com/2022/01/28/podcasts/the-daily/beef-prices-cattle-ranchers.html?action=click&module=audio-series-bar&region=header&pgtype=Article>

<sup>28</sup> David Lawder, "Analysis: High U.S. meat prices: packer profiteering or capacity crunch?," *Reuters*, January 2022, <https://www.reuters.com/business/retail-consumer/high-us-meat-prices-packer-profiteering-or-capacity-crunch-2022-01-19/>

Tackling pandemic profiteering requires checking the outsized power that megacorporations hold in our economy and encouraging productive investment to build a resilient economy that works for all. Congress must also do its part to address corporate concentration and the power that these megacorporations exert on prices, wages, and working conditions.

- Congress should tax excess profits, as it did after World War I and World War II to encourage productive investment and deter price gouging. Other types of taxes, such as an increase in the corporate rate, or the establishment of a minimum tax on book income, could serve a similar purpose.
- Regulators should ensure rigorous competition in key product markets and at critical nodes along the supply chain by curtailing mergers that further concentrate industry, breaking up monopolies, and enforcing the laws against price-fixing and collusion that are already on the books.
- While 38 states have laws against price gouging there is currently no federal price gouging statute. Congress should enact a federal price gouging law to prevent excessive pricing and protect consumers during periods of economic transition.
- Congress should make critical, long-overdue investments in sectors where we are seeing significant shortages, such as housing, and along key nodes of our supply chain. Congress should also make critical investments in sectors that have been eating into family budgets for decades.

Taken together, these actions will begin the important work of reorienting our economy towards the people who keep it going: consumers, workers, and small businesses.

## **VI. Conclusion**

Workers, families, and small businesses around the country are feeling the pressure of higher prices for basic goods and services. Everything from groceries to medical care to the supplies small business owners need to sustain their livelihoods is more expensive. The more sway large corporations have over our economy, the more power they have to profit off the pain of consumers and Main Street.

Addressing this crisis means focusing on the real reasons that prices are soaring and small businesses are struggling to stay afloat: the unchecked power of giant corporations and their armies of lawyers and lobbyists who have rigged our economy in their favor for decades. This has created a brittle system that has allowed them to take advantage of consumers and small businesses over the course of this crisis. Egged on by investors, these megacorporations are using inflation as a cover for rampant profiteering – and it must be stopped.

Our economy works best when it works for all of us, and deeply entrenched concentrated corporate power has systematically stripped down supply chains and undermined consumers' bargaining power. The path towards an inclusive, resilient economy must include policies that foster competitive markets where consumers, working people, and smaller competitors all have meaningful bargaining power.

The best way to bring down prices and get our supply chains back up and running is to make smart investments now — and make sure dominant corporations don't get to siphon them off or use them to accumulate even more market power. These investments, coupled with pro-competition safeguards, will shift power to working people, consumers, and communities, reduce costs and prices in the long run, and ensure that no one is left behind during the recovery and beyond.

Thank you.