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CORPORATE PROFITS ARE SOARING AS PRICES RISE: ARE CORPORATE GREED AND PROFITEERING FUELING INFLATION?

HEARING

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CORPORATE PROFITS ARE SOARING AS PRICES RISE: ARE CORPORATE GREED AND PROFITEERING FUELING INFLATION?

TUESDAY, APRIL 5, 2022

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, D.C.

The Committee met, pursuant to notice, at 11:03 a.m., via Webex and in Room SD–608, Dirksen Senate Office Building, Hon. Bernard Sanders, Chairman of the Committee, presiding.

Present: Senators Sanders, Whitehouse, Kaine, Van Hollen, Padilla, Graham, Grassley, Crapo, Braun, and Scott.

Staff Present: Warren Gunnels, Majority Staff Director; and Nick Myers, Republican Staff Director.

OPENING STATEMENT OF CHAIRMAN SANDERS

Chairman SANDERS. Let me call this hearing to order.

There is some confusion on the floor about when the next vote is going to take place, so we will see what happens. But I do want to thank our panelists for being with us. I am going to get to them in a moment.

I believe Senator Graham should be here in a while, and I have the feeling that other members will be floating in and out depending on the votes on the floor. This is an important hearing, and I want to thank everybody for being here.

The truth is that corporate greed is nothing new. It has been going on for a very, very long time, and it manifests itself in the extreme wealth and income inequality that we are seeing in this country now. And this is one of the issues which gets far too little discussion, but the American people have got to determine whether or not we are comfortable with 2 people owning more wealth than the bottom 42 percent of Americans, whether we are comfortable with the top 1 percent owning more wealth than the bottom 92 percent.

And I have said this a million times. You know, we focus on the oligarchy in Russia, which should be focused on, and Putin's allies there led him into this and worked with him on this terrible war. The truth is we have an oligarchy in this country, and we might want to be focusing on that as well.

When we talk about why the American people are angry, why, among other things, we are seeing a spurt in the growth of trade unionism in this country, it has a lot to do with the fact that CEOs in large corporations now make 350 times more than their average workers. In addition to that, they receive stock options, golden parachutes, and a wide range of perks go to the CEOs. And meanwhile, working families are struggling to pay their bills, to feed their kids, to take a few weeks' vacation, and to save up for retirement. So what we are seeing now is more income and wealth inequality in this country than we have seen in a hundred years, and this is an issue that if nobody else wants to talk about we will talk about in this Committee.

But it is not just income and wealth inequality. Corporate greed manifests itself in the massive amounts of union busting that we have been experiencing in which large corporations spend millions of dollars to deny workers their constitutional rights to organize while, in many cases, forcing workers who belong to unions to make unacceptable concessions like eliminating pensions and major pay cuts. I have been involved in a number of strikes in the last year, and it is astounding to me to see the degree to which large, profitable corporations go out of their way to try to take away health care, take away pension benefits, lower wages. It is really rather astounding.

And today, when we talk about corporate greed, it manifests itself in corporation after corporation using the pandemic and all of the instability caused by the pandemic, using the terrible war in Ukraine, as a specter, as an attempt to raise prices for the average American higher and higher. And that obviously deals with gas prices. It deals with housing. It deals with food.

And what we are seeing is during this pandemic this is an issue we have to deal with, and we are going to deal with it today. Is it appropriate that during this pandemic, during the war in Ukraine, during all of this instability, that this be a moment in which large corporations continue to enjoy huge profits? And I think the American people, based on the polling that I have seen, have had enough. They are outraged at the unprecedented level of corporate greed that is taking place all around them.

And today, while the average worker is making $40 a week less in real wages than he or she made nearly 50 years ago, corporate profit margins are a 70-year high, and CEOs are seeing huge increases in their compensation package. So let me just give you a few examples though I do not know that I have to because the American people are seeing this every day right in front of them.

Yesterday, at a time when gasoline in America is now at a near record high of $4.17 a gallon, guess what? We have seen yesterday ExxonMobil reported that its profit from pumping oil and gas alone in the first quarter will likely hit a record high of $9.3 billion. Meanwhile, big oil CEOs are on track to spend $88 billion this year, not to decrease supply constraints, not to address the climate crisis, but to buy back their own stock and hand out dividends to enrich their wealthy shareholders. That is for oil and gas.

And let us talk about more examples of corporate greed. Amazon recently raised the price of its Prime Membership by 16.8 percent while increasing its profits by 56 percent last year to a record-breaking $33 billion, and by the way, they avoided over $5 billion in Federal taxes. Meanwhile, the founder of Amazon, Mr. Bezos, became $83 billion richer during the pandemic and is now worth almost $200 billion, making him the second wealthiest person in America.

Other examples of corporate greed, let us talk about food. Tyson, a major meat producer, has increased the price of beef by 32 percent, the price of chicken by 20 percent, and the price of pork by 13 percent. Meanwhile, Tyson Foods has increased its profits by 140 percent last quarter to $1.1 billion and gave its CEO a 22 percent pay raise last year, to $14 million, while its owner, John Tyson, doubled his wealth during the pandemic and is now worth $3 billion.

Another example about corporate greed in terms of products desperately needed by the American people, let us talk about prescription drugs. Last year, Pfizer, Johnson & Johnson, and AbbVie, three giant pharmaceutical companies, increased their profits by over 90 percent to $54 billion. Meanwhile, the CEOs of just 8 prescription drug companies made $350 million in total compensation in 2020.

In other words—and these are just some examples. We can go on and on. But in other words, the problem is not that a low wage worker got a 50-cent raise 2 weeks ago and a $1,400 check from the government last year, as some of my Republican colleagues will suggest. The problem is that corporations are making record-breaking profits and over 700 billionaires in American became nearly $2 trillion wealthier during the pandemic while engaging in obscene levels of price gouging.

Now the American people want us to take action. They are sick and tired of prices going up, corporate profits going up, CEO compensation going up. They want us to represent them, not the corporate world. They are sick and tired, among other things, of billionaires paying a lower effective tax rate than a teacher, a nurse, a truck driver, or a firefighter. They want Congress to address corporate greed and make sure that the wealthiest people in our country and the most profitable corporations pay their fair share of taxes.

In order to address the current crisis, I have introduced legislation to enact a windfall profits tax modeled off a bill signed into law during World War II. During World War II, our country, the people of our country, understood that it was unacceptable for companies to make obscene profits when young men and women were dying in Europe and in Asia. That is not a time to make huge profits.

Now I am not here to suggest that this moment is equivalent to the 1940s and World War II, but I will tell you that during this terrible pandemic, which has caused so much pain and so much economic instability, during Putin's murderous invasion of Ukraine, it is at this moment not acceptable to me for corporate America to make huge profits by ripping off Americans at the gas station, at the grocery store, or any other sector of our economy.

And let us be clear. When we talk about corporate greed, we are also talking about the enormous concentration of ownership that exists in America today and the lack of competition which has allowed companies to drive prices higher and higher. So it is not just the reality of income and wealth inequality, and corporate profits, it is an economy in which a handful of giant corporations control sector after sector after sector and can control the pricing that goes on.

In terms of agriculture, just 4 firms in America control 85 percent of the corn seed market, 82 percent of the beef packing market, 76 percent of the soybean seed market, 66 percent of the pork processing market, and 54 percent of the poultry processing market. All right, that is agriculture; that is food.

In terms of transportation, 4 large companies control 67 percent of our airlines and 83 percent of our railways while just 3 companies control 80 percent of cargo shipping.

In terms of health care, over the past 20 years, there has been approximately 1,600 hospital mergers while 90 percent of metropolitan hospital markets are considered highly concentrated.

And maybe most important—and we had a hearing on this, and we are going to come back to this issue over and over again. In terms of our entire economy—and I want everybody to hear this—we should all understand that just three Wall Street firms, three, one, two, three, BlackRock, State Street, and Vanguard, control $22 trillion in assets, which is roughly the equivalent of the entire gross domestic product (GDP) of the United States of America. Three companies. And when you have that kind of power, you are impacting hundreds and hundreds of corporations, where you are a major stockholder in the lives of millions and millions of workers.

If we are serious about combating inflation and lowering prices, we must aggressively use the antitrust laws that are on the books and introduce new ones as necessary to break up behemoth corporations and increase competition.

Now is corporate greed the only reason for inflation? The answer is obviously not. The severe supply chain crisis and the microchip shortage are also contributing to higher consumer prices.

But let me remind my colleagues that over the last 30 years, as a result of our disastrous, unfettered free trade policies, corporate America has shut down many thousands of factories and shipped millions of good paying American jobs to low-wage countries. Maybe, just maybe, if we did not make it so easy for corporations in America to move abroad, our supply chain crisis and microchip shortage would not be as serious as it is today.

Bottom line, we need an economy that works for all Americans, not just a handful of people on top.

Senator Graham is not here, so we go to the—okay, let us go to our panelists, and let me begin with Robert Reich, who is a former Secretary of Labor, U.S. Secretary of Labor, and is the Carmel P. Friesen Professor of Public Policy at the Goldman School of Public Policy at the University of California, Berkeley.

Professor Reich, are you there?

Mr. REICH. Yes, I am right here. Senator, I hope you can see me. I can see you.

Chairman SANDERS. Loud and clear.

STATEMENT OF THE HONORABLE ROBERT B. REICH, CARMEL P. FRIESEN'S PROFESSOR OF PUBLIC POLICY, GOLDMAN SCHOOL OF PUBLIC POLICY, UNIVERSITY OF CALIFORNIA, BERKELEY

Mr. REICH. Okay. Good. Mr. Chairman and members of the Committee, I am going to submit my formal testimony for the record, and I will simply summarize.

The Commerce Department reported last Wednesday that corporate profits are at a 70-year high, which raises an obvious question about inflation. When corporations are so flush with cash, why are they raising prices? Not because of the increased cost of supplies and components or of workers who are beginning to get raises because they are in demand. Yes, there are increased costs, but in a competitive economy, corporations enjoying record profits would absorb these costs. They would keep their prices down to prevent competitors from grabbing away customers, but instead, they are passing these costs on to consumers in the form of higher prices.

Why? Because they can. They can because they do not face meaningful competition. Since the 1980s, two-thirds of all American industries have become more concentrated. This concentration gives corporations the power to raise prices without risking the possibility of losing customers who have no other choice.

Now, Mr. Chairman, you went through a number of examples. Many people see it every day. Starbucks is raising its prices to consumers, blaming the rising costs on supplies, on increasing supply costs, but Starbucks just reported a 31 percent increase in yearly profits.

Proctor & Gamble is charging more for consumer staples, also citing rising costs, but Proctor & Gamble has reported a whopping 24.7 percent profit margin. It even spent $3 billion during the fourth quarter buying back its own shares of stock.

Meat prices are soaring because the four giant meat processing corporations that dominate the industry are using their market power to extract bigger and bigger profit margins for themselves, and this is according to a report from the White House National Economic Council.

Although major oil companies have faced increasing costs for crude oil, they posted near record profits last year. So they are passing those costs on to consumers in the form of higher prices at the pump and for heating oil, and they are keeping record profits. And now they are using Putin's invasion of Ukraine as an excuse to raise prices even further.

The New York Times, two weeks ago, pointed out that corporate executives have spent recent earnings calls with Wall Street analysts, bragging about their newfound power to raise prices, often predicting that it is going to last.

Now what are large corporations doing with their near record profits? They are buying back their own shares of stock in order to deliver higher returns to their shareholders. Stock buybacks hit a new record last year, this year is on track to exceed it. The oil giants alone are planning to buy back at least $22 billion of their own stock.

So here we have corporations with record profits not seen in 70 years. They are raising their prices. This means consumers are paying more. Wages are rising, but almost all of the increase in wages is being wiped out by price increases. And, corporations are using their profits to buy back their shares of stock. All of this—what is all of this? Connect these dots. This amounts to an upward transfer of income and wealth from consumers and workers, many of whom live from paycheck to paycheck, to shareholders, half of whom are in the richest 1 percent of the population and more than 80 percent of whom are in the richest 10 percent.

Now what to do about this? The Fed is battling inflation the old fashioned way, by raising interest rates to slow the economy. But here is the point; higher interest rates are not going to stop corporations from using their pricing power. Higher interest rates are just going to slow the economy and potentially cause millions of lower-wage workers to lose their jobs and forfeit long overdue real wage increases.

There is a far better way to battle this corporate-induced inflation that would not hurt average working Americans. It is for Congress and the Administration to apply tougher antitrust enforcement and enact a windfall profits tax and price controls.

Inflation is intimately connected to record corporate profits and widening inequality. Average working people in America are being shafted. They need and deserve action.

Thank you.

[The prepared statement of Mr. Reich appears on page 26]

Chairman SANDERS. Professor Reich, thanks very much.

Let us now go to Senator Graham, and then we will go back to the other two witnesses.

Senator GRAHAM. If you want to do the witnesses, I am okay with that, Mr. Chairman.

Chairman SANDERS. All right. Very good. Then let us go to Dr. Lindsay Owens. Dr. Owens is the Executive Director of the Groundwork Collaborative and an award-winning sociologist and policy researcher.

Dr. Owens, thanks for being with us.

STATEMENT OF LINDSAY OWENS, PH.D., EXECUTIVE DIRECTOR, GROUNDWORK COLLABORATIVE

Ms. OWENS. 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, a think tank working to produce broadly shared prosperity and abundance for all.

My testimony today will focus on three key points. First, corporate profiteering and price gouging are accelerating price increases and squeezing consumers and small businesses while corporate executives and shareholders cash in. Second, Wall Street's presence in every corner of our economy is putting us at risk for a profit-price spiral; 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 market power that giant corporations hold over our supply chains and our economy more broadly.

There are a range of factors driving inflation right now, from increasing and shifting demand to supply chain disruptions and even conflict abroad, but last week's Bureau of Economic Analysis's data release laid bare another culprit behind recent price hikes: plain old profiteering. Corporate profits of nonfinancial firms surged 35 percent in 2021, and overall profit margins reached their highest level since 1950. In all 4 quarters of 2021, the overall profit margins stayed above 13 percent, a level reached in just one other 3-month period during the past 70 years.

The 2021 profit data confirms what CEOs have been telling shareholders for months. Inflation has been very, very good for business.

My team at the Groundwork Collaborative has combed through hundreds of quarterly earnings calls to understand why profit margins are at record highs despite the rising costs of energy, raw materials, and other inputs. In these calls, executives tell investors about last quarter's performance and discuss what they can expect going forward. Over and over, the message from corporate America is clear. They are not just asking consumers to pay for their rising costs; they are going for more.

Whereas, the CEO of Constellation Brands, the parent company of popular beers Modelo and Corona, put it in their January earnings calls, "So we want to make sure that we are not leaving any pricing on the table. We want to take as much as we can."

Giant corporations are able to get away with this kind of aggressive and extractive pricing precisely because of the current inflationary environment. As the CEO of Hostess said in an earnings call last month, "When all prices go up, it helps."

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 profits rise as the result of price hikes, so too does investor demand for those profits.

Take an example from the energy sector. 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 is all about the shareholders. Our shareholders own this company. They want a return of cash."

But it is not just Pioneer. Fifty-nine percent of oil and gas executives recently told the Dallas Fed in a survey that investor pressure to maintain capital discipline is the primary reason publicly traded oil companies are throttling supply despite high prices.

Shareholders across sectors are not 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.

Over the last 50 years, corporate America's ruthless pursuit of efficiency and short-term profit set the stage for today's high prices by ushering in a wave of corporate consolidation that left us vulnerable to profiteering and price increases in two ways. First, it hollowed out and nearly eliminated diversity in our supply chain, leaving us without any fail-safes to withstand significant shifts in demand without shortages. Second, without competition to undercut companies who are charging excess prices, those companies with market power can continue raising prices virtually unabated.

Giant corporations' control over our supply chain has supplanted the functioning, resilient system we could have built through robust public investment and free and fair competition. But it is not too late. We have many policy tools at our disposal. First, Congress should tax excess and windfall profits to encourage productive investment instead of profiteering. Second, regulators should enforce the laws already on the books to make markets more competitive and prevent collusion and price fixing. Third, Congress should pursue a Federal price gouging standard to protect against excessive price hikes during periods of economic transition. And finally, Congress should make long overdue investments in our supply chain.

Importantly, interest rate hikes, which slow inflation by tamping down demand and making people poorer, will not address any of the underlying causes of our supply shortages and do nothing to address profiteering.

Thank you for inviting me to testify today, and I look forward to your questions.

[The prepared statement of Ms. Owens appears on page 36]

Chairman SANDERS. Thank you very much.

Our third witness is Dr. Michael Faulkender, the Dean's Professor of Finance at the University of Maryland's Smith School of Business. Dr. Faulkender served as the Treasury Assistant Secretary for Economic Policy during the Trump Administration.

Dr. Faulkender.

STATEMENT OF THE HONORABLE MICHAEL FAULKENDER, PH.D., DEAN'S PROFESSOR OF FINANCE, ROBERT H. SMITH SCHOOL OF BUSINESS, UNIVERSITY OF MARYLAND

Mr. FAULKENDER. Chairman Sanders, Ranking Member Graham, Senators on the Committee, thank you for the opportunity to speak with you today on the impact of inflation on the American people and its root causes.

I had the honor of serving as Assistant Secretary for Economic Policy at the Department of Treasury in the previous administration. In that role, I worked with Senators on both sides of the political aisle and the Small Business Administration to quickly implement the Paycheck Protection Program (PPP) and ensure that the economic devastation that might have resulted from the pandemic was not realized.

The excessive inflation currently harming America's families is primarily the result of unnecessary fiscal stimulus passed by Congress and implemented by this administration, bolstered by excessively accommodative monetary policy by the Federal Reserve.

At the onset of the pandemic, prices declined. When the economy reopened, prices started rising with inflation from June 2020 to February 2021, averaging 32 basis points per month.

The $1.9 trillion American Rescue Plan (ARP) was signed into law in March of 2021. Since then, monthly inflation has doubled to 64 basis points per month, resulting in a 7.9 percent annual inflation rate.

Due to a fundamentally strong economy prior to the pandemic, Americans had aggregate balances in their checking and savings accounts of just under $11 trillion. Following ARPA's disbursements, that amount had risen to over $14.2 trillion, nearly a 30 percent increase.

The entirely predictable result was inflation, running the highest we have seen in 40 years. Even former Clinton Treasury Secretary Larry Summers characterized enactment of such policy as "the last responsible macroeconomic policies we have had in the last 40 years."

Last week, researchers at the San Francisco Federal Reserve published findings that stated, "Fiscal support measures designed to counteract the severity of the pandemic's economic effect may have contributed to this divergence by raising inflation about 3 percentage points by the end of 2021."

Some are, instead, blaming the recent inflation on corporate greed and the exercise of market power. There are many problems with this conclusion. From January 2010 through January 2020, the 12-month average inflation rate averaged 1.8 percent. Over the last 12 months, inflation has been 7.9 percent, more than quadrupling recent increases.

Were corporations not greedy in the 2010s? What changed in March 2021 such that corporations suddenly became greedy? As someone who has researched corporate financial decision making for the last 20 years, I am not aware of any finding that corporations only recently desired profits.

It is true that corporate profits have risen during the recovery. Just as corporate profits fell at the beginning of the pandemic, when there was extra supply relative to suddenly diminished demand, corporate profits will rise when demand significantly outstrips supply. This outcome is caused by a shortage caused by policies that have inflated demand while discouraging supply. It also appears to be the case that PPP expenses in 2020 that were forgiven in 2021 helps explain the vast majority of the increase in corporate profits.

To curb the 40-year high rate of inflation the American people are enduring, Congress must reverse course. Continuation of irresponsible fiscal policy would only accelerate the Federal Reserve's already aggressive plans to hike interest rates. Instead, we need to encourage more domestic supply by reducing the regulatory burdens on companies, cease the constant threats of higher taxation, remove barriers to work, and declare an end to pandemic restrictions. Following those policies prior to the pandemic, our nation saw low inflation, a 50-year low in the unemployment rate, historic gains in household income, reductions in income inequality, and record low poverty rates across all races.

The Chairman's proposal would have devastatingly counterproductive effects. The proposal would apply a 95 percent tax rate on any profits realized by large companies above their pre-pandemic 5-year average profit level adjusted for inflation. Any company that created new products, successfully entered new markets, or shifted their offerings in response to changes in consumer preferences following the pandemic would be punished. Companies whose product prices rose with inflation but who merely served more of their fellow Americans would have their increased results deemed excess profits and taxed at 95 percent.

If enacted, this proposal would nearly eliminate domestic economic growth. Today's punishment becomes tomorrow's extremely strong disincentive. Profits from successful innovation that better serve the needs of fellow citizens would be forcibly taken by government, but losses from failed innovation would be borne by the businesses. Why would American companies innovate, respond to changes in the economy, supplement supply when there are shortages, or engage in research and development under those kinds of conditions? I urge the Senate to reject such destructive proposals.

I look forward to participating in today's conversation. Thank you.

[The prepared statement of Mr. Faulkender appears on page 47]

Chairman SANDERS. Thank you very much.

Senator Graham.

OPENING STATEMENT OF SENATOR GRAHAM

Senator GRAHAM. Thank you, Mr. Chairman. I am sorry, I voted. There is another vote on, so . . .

Chairman SANDERS. Is there one?

Senator GRAHAM. Yeah, so you might—we will figure out how you want to do this.

So anyway, very well done, sir. I agree with everything you said.

I want to remind the Committee and the American people that basically before the pandemic hit we had a 50-year low unemployment rate. We had among—African Americans and Hispanic Americans and Americans with disability hit their lowest levels on record. American workers saw their paycheck rise at the fastest pace in years, and they were rising faster for low earners. The official poverty rate in 2019 hit an all-time low.

We cut taxes in 2017 through the reconciliation process. We reduced the corporate rate to make it competitive. Before the tax reduction, from 35 percent to 21 percent, America had the fourth largest corporate tax rate in the world.

What you saw from 2017 to 2019 was economic growth that touched every sector of the economy. Making our corporate tax rate competitive is important in my view because we live in a global economy and people can go where capital is most well received. And if you want to create jobs in America, the American corporate tax rate has to be competitive with the rest of the world.

Now we find ourselves here talking about how to fix inflation and who to blame. And all I can say to my Democratic colleagues, you have an insatiable desire to take money from the private sector, build the government bigger, and I assume you do this because you think that is the best way to help people.

My view is that the best way to help people is have a competitive tax code, take money from the American people to run the government in a professional manner, not overly expand the role of government, but whatever you do, do it well, and we have to be competitive. If you have ever been in the private sector, tax policy really does relate to who you hire and how many people you can hire.

So the idea of a windfalls profit tax in the middle of this would be a disaster. We are trying to get our economy back on its feet after dealing with COVID throughout the world. And, what I would say is that the best cause for inflation lies in the policy choices of this administration more than any single thing.

So that is kind of an inventory of where we are at.

Here is the tale of the tape. If you are buying a used car, it is up 41.2 percent since the Administration took over, 38 percent increase in gas prices, 12.7 percent increase in airfare; meat, poultry, fish, eggs, 13 percent; fruits and vegetables, 7.6; milk, 11.2; electricity, 9 percent from February 2021 to February 2022. So people get what I am saying because they are living this.

You can see the 7.9 percent surge in inflation from October 2021 to January 2022. We are going in the wrong direction at a fast rate. So if you got a 5 percent pay raise, it does not go very far.

You can see this chart, the tremendous spike in inflation from basically January 2021 till now. It has just gone through the roof, and the question is, why?

On the energy side, every time you go to the pump, you are reminded of the dramatic increase in gas prices, and inflation is a nightmare for working-class people. It is the enemy of the middle class.

So let us see if we can figure out what happened here. Why are gas prices so high? Well, there is a supply and demand component for sure. Demand was down during COVID because most of us were not traveling. Demand is up, so you would expect some increase.

But what happened here? Remember the 2020 election? I do. This is Biden's campaign promise, President Biden on energy: "We are going to end fossil fuel," September 2019. No more, no new fracking, March 2020. "No more drilling, including offshore," March 2020.

So how can you be surprised that American energy production is down? The policies that he campaigned on were basically to declare war on the fossil fuel industry in the United States. And, guess what? It worked.

Top five Biden actions that impede energy production: Revoked the Keystone Pipeline, which would have had a supply coming out of Canada. Paused new oil and gas leases on Federal lands and waters. Halted drilling in Alaska's Arctic National Wildlife Refuge. Stifled new energy infrastructure projects in the name of climate change. Included $45 billion in new taxes on domestic energy production.

Now when you look at all this, if you are surprised that gas prices are up, you should not be.

So what is driving all this? I think, Mister—what is your name, sir?

Mr. FAULKENDER. Faulkender.

Senator GRAHAM. Okay. I think you and Larry Summers agree that this is not from profiteering; this is from policy.

So what I want the Committee to understand is that we have a vastly different view in this Committee of how to fix this problem and the role of government and tax policy. Our Democratic colleagues spent $1.9 trillion by themselves, and I think you see from the passage of that bill to now a dramatic increase in inflation. We poured a bunch of money into the system, and you have got demand chasing money.

They proposed Build Back Better, which would have made all of our problems 10 times worse. So the people telling you how to fix this inflation problem were trying to sell you a bill on top of the $1.9 trillion, the American Rescue Plan, called Build Back Better. Democrats said it would cost $1.75 trillion over a decade. CBO scored the cost, and it is $4.9 trillion because all the gimmicks in the bill limiting programs to 1 or 2 years. If you actually look at reality, they never go away. So it over doubled the cost of the bill. In terms of deficit impact, Democrats told us it was $365 billion over 10; it is actually $3 trillion over 10.

So I remind the American public that they have been selling policy proposals that really do not pass the smell test.

So this Committee is designed to debate where should we go and how we get there when it comes to budgets. To the American people, if we impose new taxes now on businesses who have changed their business model in light of COVID, we are going to make a huge mistake. It is hard enough in America to create a job as it is. Every time we turn around, there is a new desire by my Democratic colleagues to take more money out of the economy, to make villains out of people who work and produce jobs, to grow this government, and this will be on the ballot in November 2022.

It is not Putin's fault. It is not corporate greed. As you said, in March, did they suddenly get greedy before then? What changed was the big spending package in March and a destruction of American oil and gas supply.

So if you spend a bunch of money at the Federal level and you reduce the ability of America to produce its own oil and gas, you will wind up one day with gas prices like we have. If we do not change our policies, it is going to get worse, and the only policy change I see is to double down on the policies that are not working.

So all of us on this side will oppose a windfall profits tax as designed by the Chairman, and we will take this issue to the voters in November and argue that when somebody campaigns in 2020 of destroying American energy production you should not be surprised in 2022 your gas bill was through the roof.

Thank you, Senator Kaine.

Senator KAINE [presiding]. We will now move to five minute rounds of questions, and I am the only Democrat here, so I will start. I feel lonely in this body. I feel like there is a hundred people here and most people in the Senate only have broad brushes in their paint kit.

So inflation is Biden's fault——

Senator GRAHAM. Well, I will take you to lunch if you are lonely. I like you, you are a nice fella.

Senator KAINE. Inflation is Biden's fault, or inflation is because of corporate greed? I think most Americans understand—and you acknowledge this, Dr. Owens, in your written testimony—there is a lot of different causes for this.

Inflation is Biden's fault when nations all around the world are experiencing it? Inflation is because of American corporate greed when nations all around the world are experiencing it?

I do think we made a big mistake. I want to focus on some labor market issues. I think we made a significant mistake in the tax bill in 2017. I voted against it. And in particular, here was a mistake, the corporate tax rate. Did we need to reduce it to make the corporate tax rate competitive? I think we did.

And my Virginia companies were coming to me and saying, reduce the rate to 26 or 27 percent. Were they greedy to ask for that? I do not know whether they were or not. I think they were trying to be competitive.

But Congress was stupid to take it to 21.5. My companies were asking for 26 or 27, and Congress, in my view, stupidly took it to 21.5.

I made an amendment on the floor during our—when we were given the thousand-page bill to read immediately and we got a one-minute opportunity to amend, I said, take it back up to 27 and you will dramatically reduce the deficit or give us the opportunity to do some other things.

And Senator Toomey and all the Republicans opposed me. Senator Toomey said he opposed me because it would be raising taxes on corporations.

I felt like I was in Alice in Wonderland. No. It would have been reducing taxes dramatically to what they were asking us to do, but sadly, we went further.

I think one of the reasons for inflation—and there are many reasons, but one of the reasons for inflation right now is a tight labor market. We still have a lot of people out of the labor market. It would be good if we could get people back in the labor market. I believe we could get a lot of people back in the labor market if child care was more affordable.

If we took the corporate tax rate back to what they were asking for, the 26 or 27, I think it would dramatically fund more affordable child care and universal pre-K.

Let me just ask that question. Would more affordable child care and universal pre-K, in your views, get more people back in the labor market?

Ms. OWENS. Yeah, absolutely. According to the Washington Post today, the second most common reason people cite for being out of the labor force, aside from early retirement, is the lack of child care options. And so providing robust child care, bringing the United States closer to peer countries where folks, you know, can assume that they will have child care, it will be ready for them when they need it to go to work, will absolutely pull people off the sidelines and help secure a robust economic growth.

Senator KAINE. Here is a question that I would like all three of you to answer. Would Congress working together in a bipartisan way to do immigration reform, would that also open up the labor market and maybe put some downward pressure on prices? And I would like each of the witnesses to answer that question.

Ms. OWENS. Sure. We are absolutely overdue for immigration reform, and it would be a great way to increase our labor force participation.

Mr. FAULKENDER. I agree we need to reform the immigration system. In particular, we need to look at more H-1B visas and facilitating high-educated foreign workers to come into the country legally to perform services and relax some of the labor constraints we have.

Senator KAINE. Professor Reich.

Mr. REICH. Yes. And, Senator, I do agree as well. The United States labor force is aging. I am a good example of that. And the Baby Boomers are moving on. The Millennials are a big generation, but the United States is going to need more workers. Immigration is, and has always been, a source of extraordinarily important labor market growth in America, and there is absolutely no doubt that we need to have immigration reform and we need to allow in more immigrants.

Senator KAINE. Thank you. I yield back, Mr. Chair.

Chairman SANDERS [presiding]. Senator Graham.

Senator GRAHAM. Well, thank you. On immigration reform—number one, Senator Kaine is really good to work with.

The 21 percent rate that we picked was, I think, the world average. Is that right, Doctor—how do you say your name again?

Mr. FAULKENDER. Faulkender.

Senator GRAHAM. Okay. Was that correct, that 21 percent is sort of the world average?

Mr. FAULKENDER. That brought us to the median within the OECD (Organisation for Economic Co-operation and Development).

Senator GRAHAM. Yeah. So when Senator Kaine says 25 versus 21, it is not an unreasonable debate to have. We just did not pull 21 out of the air. So—but, no, he is always trying to look for a way forward, and I appreciate that.

When it comes to immigration reform, I have been in the Gang of Eight and about every other gang you can be. I will just tell—you know, Dr. Reich, I know you have been involved—that if we do not secure our border first there will be no immigration reform.

Dr. Owens, does that make sense? If you legalized a bunch of people now without securing your border, you would have even more illegal immigration?

Ms. OWENS. I think Dr. Reich was referring to the fact that our aging population means that to get robust labor market growth over the future we are going to need some population growth and immigration reform is one way to take that on.

Senator GRAHAM. Yeah. I am just—Dr. Reich, are you there?

Mr. REICH. Yes, I am, and that is exactly what I said, and that is exactly what I mean.

Senator GRAHAM. Okay. But we do have to secure the border as part of immigration reform. Is that correct?

Mr. REICH. Yes, and we have had in this country a very strong and robust debate about what securing the border actually means just as we have had a robust debate about a lot of things.

I think the central issue that we are debating today is whether we have a corporate-centered economics or whether we have a people-centered economics in terms of inflation and making sure that wages rise in a real way. And as somebody who has been involved in labor policy for the last 50 years, I can tell you that from the World War II until the late 1970s we had a growing middle class, we had lower inequality, we had more opportunities for people in this country. And starting in 1980, we actually had a U-turn, and most Americans have not had much of a wage, if at all, but corporate profits continue to grow to the point where last week we learned that corporate profits are at a 70-year high.

Now if you cannot actually explain that and explain to the American public how we can possibly have inflation and price increases while corporate profits are at a 70-year high, then I just simply do not know how you can say we have a people-centered economics. We do not.

We have policies coming out of Washington——

Senator GRAHAM. Thank you.

Mr. REICH [continuing]. That continue to improve the wellbeing of American corporations——

Senator GRAHAM. Okay.

Mr. REICH [continuing]. Not the wellbeing of American people.

Senator GRAHAM. Thank you. So I totally disagree with what you just said. Before COVID, we had the fastest growing economy in all sectors of America. African American and Hispanic families were doing better than they have ever done. The American disability community was doing better than it has ever done. The poverty rate was lower, and our economy was in good shape. And along comes COVID.

So all I am saying is we are here to talk about inflation, and Senator Kaine mentioned immigration. Count me in for supplementing a declining workforce. Count me out for an immigration bill that does not secure the border first.

So, yes, we need a rational immigration system to supplement a declining workforce. It is not just H–1B visa workers. We need people in the service industry. When you cannot find an American to do a job after you advertise it at a competitive wage rate, you need to give business a chance to bring people into our country to improve their lives and improve our economy. Count me in for that.

But we are here to talk about how to deal with inflation, and the Democratic response is to tax people. The Democratic response is it is business's fault. It is Putin's fault. No. It is the policy choices you have made as Democrats is the leading contributor.

It is a bit complicated. I am sure there are other things other than the policy choices, but it is no accident there has been a surge in inflation after you pass a $1.9 trillion bill to flood the Federal Government with spending, put money throughout the economy in every area you can think of. It is no accident that gas prices are through the roof when the man campaigning for President said he would put the fossil fuel business out of business. They virtually have.

So this whole hearing is about what to do, and if you left it up to my Democratic friends, they would spend more money through Build Back Better. Thank God, Manchin and a few others said, no. And when it comes to energy production, instead of producing here, you are calling Venezuela and you are calling OPEC and you are calling maybe even Iran. You have got it backwards.

Thank you.

Chairman SANDERS. Thank you very much, Senator Graham.

Let us do a little bit of reverse engineering, so to speak. Let us look at where we are.

Senator Graham mentioned policy issues. Let us take a look at where we are and how we got here. Right now, we have more income and wealth inequality than we have had, I think, in a hundred years. We have CEOs making 350 times what their average workers make. We have half of our people living paycheck to paycheck. We have the average worker in America today making $40 a week less in real wages than he or she made 50 years ago despite huge increases in productivity. And right now, we are looking at corporate profits at a 70-year high while companies have raised prices for a number of goods at extremely high levels. And, we have concentration of ownership in sector after sector that we have not seen in a long, long time.

Secretary Reich, let us talk about policy. How did we get to where we are today with so much income and wealth inequality, where the people on top are doing phenomenally well while ordinary Americans are struggling?

Mr. REICH. Mr. Chairman, to my mind, there are three related, interrelated reasons. One is that corporate power keeps growing. And when I say corporate power, I am talking about market power, corporate dominance over their markets, the ability to raise prices and not suffer any competitive loss, and we see this especially during the pandemic and now.

Senator Graham asks, how can it be? Well, I will tell you how it can be. Because corporations—and they have said this in earnings calls over and over again. They are taking advantage of both the pandemic and the inflation and the war, some companies, to raise their prices because they can. They can get away with it.

Now you can call it, and we can call it, whatever we want to. We can call it price gouging, or we can call it profiteering. It does not matter what we call it. The fact is they are doing what their shareholders want them to do, and that is capitalism, but workers and consumers are paying the price.

Another major factor is that labor has had less and less bargaining leverage. Labor unions—when I was growing up, a third of the private sector workforce was unionized. Now, 6 percent of the private sector workforce is unionized, which means that if you have companies that are getting more and more dominant on the one hand and workers who are losing their bargaining power on the other, it is no surprise that you are going to see widening inequality.

Chairman SANDERS. Let me interrupt you if I could because I want to get to—thank you. Let me get to Dr. Owens to respond to that.

Ms. OWENS. Yeah, so you need motive and opportunity to commit a crime. I do not think that corporate greed has changed significantly from the pre-pandemic period to the post-pandemic period. So I really agree with my Republican colleagues on that point.

I think what we are seeing here is opportunity. It is the opportunity that changed. In the case of Exxon, which just today noted that they are going to be seeing quarterly profits this quarter better than they have seen in a decade, the opportunity was foreign war. In the case of 3M, that has jacked up the price of masks, the opportunity was the pandemic. And in some cases, the opportunity is actually the pretext of inflation, the ability to point to inflation rather than their own profiteering.

So I think what we are seeing here is really a system that was set up to pounce on a moment like this and corporations are taking it to the hilt. They are telling us that over and over again. I think we should believe them.

And I think Congress can step in and we have a variety of policy tools at our disposal, from an excess profits tax to trying to rein in buybacks to implementing a Federal price gouging statute. I think we are overdue for a Federal price gouging statute to protect against exactly this kind of profiteering during crisis moments, economic transition, climate catastrophe, and the like.

Chairman SANDERS. Let me ask Dr. Faulkender. How do you feel when two people have more wealth than the bottom 42 percent, when CEOs make 350 times more than their average employee? Is that a good thing?

Mr. FAULKENDER. I view profit as a reward that people realize from serving their fellow Americans, and so if they amass profits because they have offered a better product at a lower cost than somebody else, I do not begrudge them for providing that good or service to me or to my fellow Americans.

Chairman SANDERS. Okay. Thank you.

Senator Grassley.

Senator GRASSLEY. Thank you, Mr. Chairman. I have no questions. I want to speak. Democrats have been consistently wrong about inflation. This hearing is yet more evidence that they remain clueless about the economies of inflation and are in denial about the role played by their reckless spending.

At the start of 2021, Democrats told us inflation was nothing to worry about as they pushed ahead with a $2 trillion liberal spending spree. According to them, the real risk to our economy was spending too little. Now imagine that. This argument never had any basis in reality. At that point, Congress had spent as much on the pandemic in inflation-adjusted dollars as we had waging World War II.

Democrats ignored common sense, and they ignored the warnings of very prominent economists. This included Larry Summers, who held top posts in the Obama and Clinton administrations, who cautioned that Democrats' $2 trillion partisan spending spree "set off inflationary pressures of a kind we have not seen in a generation."

Since then, Democrats have been trying to explain away inflation. In April 2021, President Biden told us inflation was due to base effects from prices being suppressed during the pandemic. In June, we were told inflation was merely transitory and the result of a bottleneck in supply chains. These remained the favored lines of arguments until October, when inflation surged to 6.2 percent, at that time the highest rate in 31 years.

President Biden finally recognized inflation as a problem and claimed addressing it was his, quote-unquote, top priority. However, instead of admitting government spending was a main contributor, would you believe it, he sought to argue that the solution was spending trillions more. Now can you imagine that?

Thankfully, the American people were not buying it. More importantly, common-sense Democrats like Joe Manchin did not buy it either.

It is now clear high inflation endangers Democrats' reckless tax-and spending agenda. As a result, Democrats are grasping at straws to find a scapegoat, hence, blaming inflation on corporate greed, never mind that economists across the political spectrum overwhelmingly reject the theory. Seventy-nine percent of the economists responding to a Chicago Booth School of Business survey said they disagreed that, quote-unquote, dominant corporations is the cause of today's inflation. Jason Furman, President Obama's Chief Economist, has stated that "corporate greed is a bad theory of inflation" and called such arguments, quote-unquote, a side show. Larry Summers has called such arguments, quote-unquote, diversionary. And Benjamin Page, a senior fellow at Liberal Tax Policy Center, has called them, quote-unquote, a red herring.

The current Democratic rhetoric would be amusing if not for the disastrous consequences that could result from misdiagnosing the cause of inflation. The current focus on so-called corporate greed risks taking us down the failed road of the 1970s-style price controls and windfall profit tax. Anyone who lived through that time can tell you that these policies made things worse by reducing supply. The result was rampant shortages, most notably, gas lines around the block. Let us not repeat the mistakes of the past.

I yield back my time.

Chairman SANDERS. Thank you very much.

Senator Whitehouse.

Senator WHITEHOUSE. Thanks very much. Secretary Reich, you have said that corporate profits are at a 70-year high. My recollection from my economics classes is that competition would drive prices to, at, or near the marginal cost of production. That does not seem to be happening, and there are two markets in which it seems particularly not to be happening. One is the oil market, and the other is the meat market. Are there characteristics of the oil market that create this problem or allow it to exist? And same for the meat market, is there something unusual about those two markets that seemingly causes this market theory not to pertain in those markets?

Mr. REICH. Well, Senator, you have both in the oil market and in the meat market a relatively few number of producers who can easily coordinate their production. It is called oligopolistic pricing and oligopolistic coordination, and we see it not just in oil and in meat.

I want to emphasize that since the 1980s two-thirds of all American industries have become more concentrated, and you look across the industries, particularly where you see the greatest inflation, and you see the fewest number of competitors dominating the industries because they can raise prices even though they are highly profitable. That is a core problem today.

If you will allow me, I just want to—because I have been, in much of this discussion, struck by the criticism of the American Rescue Plan and the very important actions that the Senate and the House took to help average Americans. I think it would be wrong simply to sit back and not say that one of the great successes going through this pandemic was that so many Americans did not fall into poverty as we have seen in former recessions. The fact that they did not fall into poverty, that they actually survived, is a great credit to the Senate and the House for passing the American Rescue Plan. And again, if you take the view that this economy is about people, it is not about corporations, then you have to congratulate what the government did to help people through this pandemic.

Senator WHITEHOUSE. What would you say is the role of the international oil cartel and speculation in driving the recent surge in oil prices?

Mr. REICH. The international oil cartel and speculation typifies the kind of oligopoly that is the relatively few number of players who coordinate prices and production that we see and again that exemplifies the problems of oligopoly, that is, when you have producers who are able to coordinate prices and production, inevitably, they are going to do what their shareholders want them to do, and that is to maximize profits. And then they are going to turn around, and they are going to do again what their shareholders want them to do, which is buy back their shares of stock to raise and maintain the highest possible share prices. That is probably good for their shareholders, but what is good for shareholders, we see time and again, is not necessarily good for the economy or good for consumers or good for workers.

Senator WHITEHOUSE. In the 30 seconds remaining, I would just note that in addition to corporate market power, which the Secretary discussed, we have a really stunning problem of corporate political power in this country, with massive corporate trade associations dominating this building. The oil and gas industry, through basically blunt force political power, has forced us to ignore climate change now for a decade. I think we will rue the day that we let the oil and gas industry have that kind of control over what we do here in Congress.

And with that, I will yield.

Chairman SANDERS. Senator Scott.

Senator SCOTT. Thank you, Chairman Sanders. The Federal Reserve Bank of San Francisco recently released a report stating that massive government spending is to blame for the raging inflation crisis hurting families across America right now. My Democratic colleagues disagree and want to approve trillions in additional spending.

Dr. Faulkender, is the Federal Reserve wrong?

Mr. FAULKENDER. Is the Federal Reserve wrong? The Federal Reserve was entirely too accommodative during the most recent year in increasing the money supply and facilitating the amount of Federal spending that was then monetized by the Fed.

Senator SCOTT. So what is causing inflation? Is it spending, or is it Federal Reserve actions, or both? What is it?

Mr. FAULKENDER. It is a combination of both. So we have excessive demand coming from excessive fiscal stimulus. So we have increased household checking and savings accounts balances by $3 trillion while the Fed pushed more money into the money supply, and at the same time, we degraded our ability to provide supply to offset that increase in demand.

Senator SCOTT. So how much longer is the inflation going to last?

Mr. FAULKENDER. I think we were looking for inflation to curb this year, but with what is going on geopolitically we continue to expect energy prices to rise. And now we are looking at food prices rising, particularly grains, and so inflation will continue. Fortunately, with the failure of the enactment of Build Back Better, we are not going to have as much fiscal stimulus overdoing demand in the economy.

Senator SCOTT. So does spending in excess of what we collect, does that cause inflation?

Mr. FAULKENDER. It does, particularly when it is monetized by the Fed increasing the money supply to support it.

Senator SCOTT. I questioned OMB Director Young last week about the nation's financial stability and President Biden's $6 trillion proposed budget that will take the U.S. debt to $45 trillion in 10 years. She could not tell me if that debt was too much or what number would be enough. I know that the Chairman believes that, you know, we can absorb more debt. I do not think on this—nobody would do that in their personal life, have all this excessive debt.

So each of the witnesses, can you tell me, is $45 trillion worth of debt too much for the United States to carry, or what number do you all think is the right number? Mr. Faulkender?

Mr. FAULKENDER. Historically, when debt-to-GDP ratios get above 100 percent, that is when you start being concerned. The U.S. fiscal capacity is probably slightly larger than that because we are the world's reserve currency, but I do not want to test how much we can get to. I think we need to pull back.

Senator SCOTT. So can we service $45 trillion?

Mr. FAULKENDER. Given the expected increase in interest rates, it is going to become an excessive burden for the Federal budget. It is going to become unsustainable, and that could put us into a debt spiral.

Senator SCOTT. So does that mean we would not be able to pay the interest expense, or what would happen?

Mr. FAULKENDER. We would have to print additional money to pay the interest expense, which is just going to increase interest rates even further and increase inflation.

Senator SCOTT. Ms. Owens.

Ms. OWENS. Yeah, when I look at the inflation we see right now, I actually see 50 years, decades, of underinvestment. We have let American manufacturing hollow out. We have let our supply chain hollow out. And we are really paying the price for that right now. We do not have any redundancy, any geographic diversity, any resilience in our supply chain.

Senator SCOTT. What about the $45 trillion?

Ms. OWENS. It seems like we are paying the price for that.

Senator SCOTT. But you think we can sustain $45 trillion worth of debt?

Ms. OWENS. I believe we are at about $23 trillion right now.

Senator SCOTT. But the budget—if in 10 years, if we follow President Biden's budget, we will be at $45 trillion.

Ms. OWENS. Yeah, I think the President's budget laid out his plans for investment in the American economy going forward and his plans to pay for it with taxes on the rich.

Senator SCOTT. Well, even with that, you know, the budget goes—the debt goes to $45 trillion, even with the taxes on the rich. You realize that?

So, Mr. Reich, what do you think about $45 trillion worth of debt? Do you think we can afford it?

Mr. REICH. Well, I think that we could afford it, but there are two necessary prerequisites. One is investing in the American people, that is, education, infrastructure, making sure that people have what they need to be more productive. That is what we have done for much of the postwar era. We stopped doing it. It is very important that we resume doing it.

Secondly, I think we have to raise taxes on the extraordinary wealthy and also on big companies, and for Congress to fail to do that at a time when we have unprecedented corporate wealth and income, and also individual wealth and income at the top, not ordinary people—I am talking about at the top. There is extraordinary—it is an opportunity to get our fiscal house in order, and for Congress not to take this opportunity I think would be a shame.

Senator SCOTT. Thank you, Chairman.

Chairman SANDERS. Thank you.

Senator Van Hollen.

Senator VAN HOLLEN. Thank you, Mr. Chairman. Thank all of you for your testimony.

I keep hearing from some of my Republican colleagues that the Trump tax cuts brought better outcomes for American workers. I would just point out that it is a fact that real wages grew faster during President Obama's second term than during the Trump years, and that does not include the Trump years after COVID hit. So the notion that this $2 trillion tax cut was a great boon to American workers and wages just does not bear out under any scrutiny.

What we know it brought us was $2 trillion added to the deficit and debt and a huge amount of additional stock buybacks, and I want to focus for a moment on the stock buybacks because they went from approximately $368 billion a year in 2016–2017 to what Goldman Sachs estimates will be about $1 trillion this year.

Secretary Reich, let me just ask you to talk a little bit about the connection between those Trump tax cuts and ongoing stock buybacks. As I think everybody agrees, all the witnesses agree, those are great from the perspective of the stockholders. I mean, you have a large share of those stockholders, I would point out, are overseas investors that are pocketing those gains, but clearly, the argument that they were going to go to higher wages and more investment just did not bear out.

So, Secretary Reich, if you could start by just talking about what the incentives from that bill were created and what we are still living with.

Mr. REICH. Yes, Senator, we were promised—the American public was promised—you recall, before the Trump tax cuts, that everybody would get a raise, a wage raise, and that there would be a huge new round of investments in America. Neither of those came to pass. Instead, corporations used their—the money that they otherwise would have spent, otherwise would have been taxed, the revenues, they actually spent on corporate buybacks.

I think it is important to understand that stock buybacks do not generate more productivity in the economy. There is no trickledown from a stock buyback. When corporations use their record profits, as they are doing right now, to buy back their own shares of stock, what they are doing is delivering higher returns to their shareholders because buybacks reduce a company's shares outstanding, pushing its profit per share figure higher. They hit a new record last year. They are going—they are on the way to hitting an even larger record this year.

It is—it helps the share price, but it amounts to a redistribution from workers and consumers to shareholders because in an inflationary environment, as we are in right now, when highly profitable companies are using their profits to buy back shares and they are raising their prices at the same time, what happens is: Consumers pay more. Workers, even if they got a raise, are losing those raises because they are losing them to inflation. And shareholders do better, but as we all know, most shareholders—half of the stock market is owned by the top 1 percent of Americans by income, and 84 percent is owned by the top 10 percent of Americans by income. This is how you get the redistribution upward.

Senator VAN HOLLEN. So, Dr. Owens, one of the proposals that was in the House-passed Build Back Better agenda was a modest excise tax on stock buybacks. I do not know if you are familiar with the proposal and what your view of that is.

Ms. OWENS. Yeah, I mean, I think the other thing buybacks are good for, aside from shareholders—and I completely agree with the Secretary that buybacks do nothing for innovation, nothing for productive investment, but you should remember they are also really good for executives. Executives are frequently compensated in stock. They announce a round of buybacks. Share prices go up. And guess what we see in the research? In the days following one of those buyback announcements, executives are more likely to cash in that stock.

So I think if we want CEOs' incentives, shareholders' incentives, corporate incentives aligned with what we care about in the real economy, you know, building worker power, building an economy that works for all of us, taking on buybacks is a critical piece of that. The House-passed proposal could do that. President Biden put out a proposal in his budget that is nice as well. I think there are a lot of options here.

Senator VAN HOLLEN. Thank you. I guess my time is out.

Chairman SANDERS. You can take a little bit more.

Senator VAN HOLLEN. Well, we have a professor from the great Smith School at the University of Maryland. Good to see you. So I did want to press you on one issue, which is the House Build Back Better legislation. And people can have disagreements, obviously, over the elements, but it is paid for. You would agree with that?

Mr. FAULKENDER. I would not. As Senator Graham pointed out in his opening statement, once you recognize that these temporary measures are going to be made permanent, CBO estimates that it will add $3 trillion to the debt.

Senator VAN HOLLEN. Right. But if you look at the—what CBO does is the actual, the law, right, budget projection. It is paid for. We have got lots of tax cuts around here. Some have expired by law; some have been extended. But just in terms of the legislation itself, it is paid for on its face. Right?

You are assuming that the Congress, future Congresses, will extend the tax cuts. That is your assumption. Right?

Mr. FAULKENDER. I am assuming future Congresses will extend some of the spending programs; that is right.

Senator VAN HOLLEN. Right. And the tax cuts.

Mr. FAULKENDER. Yes. So if things like the refundable child tax credit will be extended——

Senator VAN HOLLEN. And not the taxes, yes. Right. So I think in terms of the near-term impact on inflation, to the extent that you have got tax revenue coming in, offsetting expenditures, in that sense, at least in the first number of years, it would be neutral.

I do not want to prolong the conversation. My time is up. Thank you, Mr. Chairman.

Chairman SANDERS. Thank you very much.

Senator Padilla.

Senator PADILLA. Thank you, Mr. Chair, and I thank you for once again putting the spotlight on how corporate greed drives up costs for working Americans and hurts workers across the country.

As I have noted in this Committee before, I approach the topic not just as a member of this Committee and as a member of the Senate but as a parent. We have seen it firsthand, Angela and I, when we go to the grocery store, when we are at the gas station. Prices are up, and we know how it impacts working families. We get the feeling, and the feeling is not good.

But these price increases—right. This is our job to lay out what is causing it in our attempts how to address it. These price increases that are in the news constantly are not just about rising costs for small businesses that may be struggling to get by. The reality is—and you have pointed out the evidence, Mr. Chairman, that corporations across industries are posting record profits.

In 2021, corporate profits hit an all time high of nearly $3 trillion, up 25 percent from 2020. Now estimates show that the earnings of S&P 500 companies rose nearly 50 percent over the past year, and no doubt, they boast about these statistics to their boards and to their investors while they justify increased prices for American families, to the public, by citing the pandemic or supply chain-related challenges.

And to add insult to injury, while some major corporations are increasing costs for working families, they are issuing the stock buybacks that were just mentioned and record executive compensation packages that enrich CEOs and shareholders.

Some have even tried to blame inflation on the critical assistance provided to the American people to help them endure a once-in-a-century global health pandemic. Or, some have even blamed workers who are fighting for the right to organize and standing up for fair pay and benefits and safer working conditions.

But with the growing consolidation of corporate power and increasing inequality amid record corporate profits, it is evident that corporate greed is what is increasing the costs for American families, and as we continue our recovery, we must ensure that the economy works for all Americans.

And so with that as a basis, my first question is going to be directed at Secretary Reich. While large oil and gas companies—we talked specifically about record profits while prices are going up, and I wanted to focus on the oil and gas industry for a moment because while large oil and gas companies have raised prices at the pump the profits of five of the major oil companies increased by $154 billion last year. Now these companies have also spent nearly $13 billion on stock buybacks over the past year.

As working families are paying the price amid these higher gas prices, it is outrageous that oil companies continue to reap billions in profits and use those profits to further enrich their executives and shareholders. That is why I am a proud co-sponsor of the Big Oil Windfall Profits Tax Act, which would establish a per-barrel tax to capture the windfall profits of the largest oil companies and return that money to consumers in the form of a quarterly rebate. I know Senator Whitehouse has talked about this earlier. The measure would provide consumers much needed relief while maintaining American competitiveness and reducing pressure on inflation by targeting corporate profiteering.

So, Mr. Secretary, I know you are joining us virtually, but can you spend a minute talking how a windfall tax can help counter the outsized power of these large corporations and reduce inflationary pressure?

Mr. REICH. Yes, Senator, and I think it is very important. A windfall profits tax is exactly what is needed right now when oil companies, for example, are showing, as they are, historical profits. They are making huge amounts of money. They are raising prices at the pump at the same time. They do not need to raise those prices. They could easily absorb any cost increases, but they are not absorbing those cost increases. They are—instead, as you pointed out, they are taking their windfall, their huge windfall profits, and they are buying back shares of stock to help their shareholders and executives.

And so people are going to the gas pumps. They are spending their own money at very, very high and rabid rates to fill their gas tanks. And that money, a large portion of that money, is going to executives and major investors. So you want a windfall profits tax that enables—that stops them from doing that and actually rebates that money to consumers.

We did it in World War II. We did it in World War I. We did it under emergency circumstances. There is no reason we should not be doing it now. In fact, there is every reason we should be doing it.

Senator PADILLA. Thank you very much.

And, Mr. Chairman, I know my time is up. I will submit some additional questions for the record. I just wanted to appreciate the distinction and the emphasis on not just taxing profits, taxing windfall profits because that is what is happening now through the exploitation at the pump. Thank you, Mr. Chair.

Chairman SANDERS. Well, thank you, Senator Padilla.

Let me close by saying this. This hearing has focused on inflation taking place at the same time as we are seeing record-breaking profits, we are seeing record-breaking levels of stock buybacks, we are seeing high dividends, we are seeing and living through a moment in American history where the people on top are doing phenomenally well while working people are struggling.

Now this hearing actually has been criticized. I got a letter this morning from the Chamber of Commerce, who strongly criticized the basis, the hypothesis, underlying this hearing. But when we talk about corporate power in America, it is important to understand that the Chamber of Commerce itself has spent $1.4 billion in lobbying in the last 20 years.

During this hearing, we referred to the fact that pharmaceutical industry profits are soaring. And yet, at a time when we want to lower the cost of prescription drugs, it turns out that the pharmaceutical industry, to defeat that initiative within Build Back Better, spent some $300 million on lobbying alone, not to mention advertising and campaign contributions.

So while this hearing today focused on corporate profits and inflation, in truth, what we are touching on is an issue much broader, and that is the incredible power now held by corporate America, not only over the economic life of this country but the political life of this country and the media life of this country. And I think it is fair to say that never before, at least in the modern history of this country, have so few had so much in terms of financial resources and in terms of political power.

And the challenge that we are facing right now is whether we are going to live in a government—live with a government that works for all of us or is dominated by big money and trusts and works for the very few. Unfortunately, right now the latter is the case. The rich get richer, and working families struggle. The wealthy buy political campaigns. So I would hope that this hearing today is simply a start in focusing on this massive disparity, not only in wealth but in economic and political power as well.

And with that, let me thank our panelists for being with us and the Senators who participated, and let me conclude this hearing.

And let me just say that I want to thank the—all information for all Senators—as information for all Senators, questions for the record are due by 12:00 noon tomorrow with signed hard copies delivered to the committee clerk in Dirksen 624. E-mailed copies will also be accepted. Under our rules, the witnesses will have seven days from receipt of our questions to respond with answers.

With no further business before the Committee, this hearing is adjourned.

[Whereupon, at 12:30 p.m., the Committee was adjourned.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

[Prepared statements submitted for the record follow:]

United States Senate

Budget Committee

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

April 5, 2022

Testimony of Robert B. Reich

Mr. Chairman and members of the Committee,

My name is Robert Reich. I am currently Chancellor's Professor of Public Policy at the Goldman School of Public Policy at the University of California at Berkeley. In the Clinton Administration I served as Secretary of Labor. In the Carter Administration I directed the Policy Planning Staff of the Federal Trade Commission. In the Ford Administration I served as Assistant to the Solicitor General. I am the author of eighteen books about the American political economy.

Today I want to address a major cause of inflation which Congress and the Administration have the power to ameliorate. I will explain why corporations are raising their prices, assess the evidence, discuss why this entails an upward distribution of income and wealth from average working people to corporations and their shareholders, and suggest what government should and should *not* do to deal with this.

1. Corporations with near-record profits are raising prices because they don't face meaningful competition

The Commerce Department reported last Wednesday, March 30, 2022, that corporate profits are at a 70-year high.[1] This raises an obvious question: With corporate profits at near record levels, why do we have inflation? When corporations are so flush with cash, why are they raising prices?

They are *not* raising prices because of the increasing costs of supplies and components and of labor (which are real but expected when an economy goes suddenly from a pandemically-induced deep freeze due to meeting the soaring demands of consumers who are emerging from the pandemic). Corporations enjoying record profits in a healthy competitive economy would *absorb* these costs. Instead, they're passing these costs on to consumers in the form of higher prices. Why? Because they *can*. And they can because they don't face meaningful competition.

[1] https://www.bea.gov/data/income-saving/corporate-profits

If markets were competitive, companies would keep their prices down to prevent competitors from grabbing away customers. As the White House National Economic Council put it in a December report: "Businesses that face meaningful competition can't [maintain high profit margins and pass on higher costs to consumers], because they would lose business to a competitor that did not hike its margins."[2]

The underlying problem is that large American corporations have so much market power they can raise prices with impunity. Since the 1980s, two-thirds of all American industries have become more concentrated.[3] This concentration gives corporations the power to raise prices because it makes it easy for them to informally coordinate price increases with the handful of other companies in their same industry — without risking the possibility of losing customers, who have no other choice.

2. The Evidence

Corporations have been using the *excuse* of increasing costs to raise prices and make fatter profits. For example:

Starbucks is raising its prices to consumers, blaming the rising costs of supplies. But Starbucks is so profitable it could easily absorb these costs – it just reported a 31% increase in yearly profits.[4] Why didn't it just swallow the cost increases? Ditto for McDonald's and Chipotle, whose revenues have soared but who are nonetheless raising prices.[5] The reason they're raising prices rather than absorbing increased costs is they have pricing power in their locales.

In April, Procter & Gamble announced it would start charging more for consumer staples ranging from diapers to toilet paper, citing "rising costs for raw materials, such

[2] 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/
[3] https://hbr.org/2018/03/is-lack-of-competition-strangling-the-u-s-economy
[4] https://www.nytimes.com/2022/02/01/business/starbucks-prices.
[5] ttps://money.com/chipotle-starbucks-mcdonalds-price-increases/

as resin and pulp, and higher expenses to transport goods."[6] But P&G continues to rake in huge profits. After its price increases went into effect, it reported a whopping 24.7 percent profit margin. It even spent $3 billion during the fourth quarter buying back its own stock.[7] The reason it could raise prices and rake in more money is P&G faces very little competition. The lion's share of the market for diapers (to take one example) is controlled by just two companies – P&G and Kimberly-Clark – which coordinate their prices and production. It was hardly a coincidence that Kimberly-Clark announced price increases similar to P&G's at the same time P&G announced its own price increases.[8]

Or consider another consumer product duopoly – PepsiCo (the parent company of Frito-Lay, Gatorade, Quaker, Tropicana, and other brands), and Coca-Cola. In April, PepsiCo announced it was increasing prices, blaming "higher costs for some ingredients, freight, and labor."[9] Yet PepsiCo recorded $3 billion in operating profits through September.[10] If PepsiCo faced tough competition, it could never have gotten away with it. Consumers would have deserted it for lower-priced competitors. But PepsiCo appears to have colluded with its only major competitor, Coca-Cola – which announced similar price increases at about the same time as PepsiCo and has increased its own profit margins to 28.9 percent.[11]

All have been able to pass cost increases on to consumers in the form of higher prices because they face so little competition. As Chipotle's chief financial officer said, "Our ultimate goal … is to fully protect our margins."[12]

The *New York Times* recently pointed out that "corporate executives have spent recent earnings calls [with Wall Street analysts] bragging about their newfound power to raise prices, *often predicting that it will last*" (emphasis added).[13] The Chief Financial Officer

[6] https://www.wsj.com/articles/procter-gamble-will-raise-prices-in-september-11618916498?redirect=amp
[7] https://www.cnbc.com/2021/10/19/procter-gamble-pg-q1-2022-earnings.html
[8] https://www.cnbc.com/2021/03/31/higher-commodity-costs-lead-to-price-hikes-from-kimberly-clark.html
[9] https://www.cnbc.com/2021/07/13/pepsico-and-conagra-plan-to-battle-rising-costs-with-higher-prices.html
[10] https://finance.yahoo.com/news/pepsico-earnings-q2-2021-103318871.html
[11] https://d1io3yog0oux5.cloudfront.net/_fd5695e7395cd38ea318a62ddca3817e/cocacolacompany/news/2021-10-27_Coca_Cola_Reports_Continued_Momentum_and_Strong_1040.pdf
[12] https://www.nytimes.com/2022/01/21/business/fast-food-prices-inflation.html
[13] https://www.nytimes.com/2022/02/27/business/economy/price-increases-inflation.html

of Constellation Brands, the parent company of Modelo and Corona beers, told investors in January that the company wants to "take as much as [we] can" from customers.[14] (Publicly, however, the company has blamed rising material costs for their increased prices.) The grocery food brand Hormel saw a 19 percent increase in operating income in the first quarter of 2022. Their CFO's response to these soaring profits? "We've done a great job with our pricing."[15]

Big Oil, too, has hit a gusher. Although major oil companies have faced increasing costs for crude oil, their profit margins are so large they could easily absorb those costs. The biggest oil companies (Shell, Chevron, BP, and Exxon) posted near-record profits last year, totaling $75 billion.[16] But they're passing the costs on to consumers in the form of higher price at the pump and for heating oil, and keeping their record profits. How can they do this? They don't worry about losing market share to competitors.

Inflation itself has given some large corporations cover to increase their prices *above* their rising costs. With consumers expecting rising prices, it's easy to tack on some extra beyond the corporation's own increased costs. More than half of the companies surveyed by the business services reviews website Digital.com reported raising prices beyond what was required to offset rising input costs.[17]

Meat prices are soaring because the four giant meat processing corporations that dominate the industry are "using their market power to extract *bigger and bigger* profit margins for themselves," according to a December report from the White House National Economic Council (emphasis added).[18]

[14] https://twitter.com/owenslindsay1/status/1493963096737656839
[15] https://www.minnpost.com/community-voices/2022/03/its-not-just-inflation-its-price-gouging/
[16] https://www.accountable.us/news/big-oil-companies-net-75-billion-in-profit-while-americans-struggle-to-heat-homes-fill-gas-tanks/
[17] https://digital.com/half-of-retail-businesses-using-inflation-to-price-gouge/
[18] 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/

3. Corporations are using their near-record profits to buy back their shares of stock

What are large corporations doing with their near-record profits? Using them to buy back their own shares of stock in order to deliver higher returns to their shareholders. Buybacks reduce a company's shares outstanding, pushing its profit-per-share figure higher.

Stock buybacks hit a new record last year. This year is on track to exceed it. In the first two months of 2022, S&P 500 companies have disclosed authorizations to buy back $238 billion in stock -- a record pace, according to Goldman Sachs, which expects *$1 trillion of buybacks this year* – an all-time high.[19] **Chevron engaged in $1.4 billion in stock buybacks and spent $500 million more on shareholder dividends than it did in** 2020. This year, the oil giants are planning to buy back at least $22 billion *more*.[20]

Connect the dots. (1) Corporations have the highest profits in 70 years. (2) They have enough market power to pass on higher costs resulting from supply bottlenecks to consumers in the form of higher prices, rather than absorb the costs and accept lower profit margins. (3) They're utilizing consumer expectations of continued higher prices to raise prices even more than their higher costs, giving them even higher profit margins. (4) They're using their near-record profits to boost their share prices by buying back a record amount of their shares of stock. (5) As corporations raise their prices, they're also eroding the value of their workers' wages. Corporations are handing out wage increases to attract or keep workers with one hand, but eliminating those wage increases by raising prices with the other.

What's the result? An upward transfer of income and wealth from consumers and workers – many of whom live from paycheck to paycheck – to shareholders, half of

[19] https://www.thestreet.com/investing/stock-buybacks-at-record-pace-for-2022
[20] https://www.bloomberg.com/news/articles/2022-03-15/oil-and-gas-share-buybacks-boomed-before-energy-prices-hit-highs?sref=0KUfhQHv

whom are in the richest 1 percent of the population and more than 80 percent of whom are in the richest 10 percent.

Pointing out these connections between corporate pricing power, inflation, and this upward transfer of income and wealth is not "bashing" big business. Big corporations are doing precisely what their shareholders want and expect them to do – maximize profits and share values. But just because this is good for shareholders doesn't mean it's good for the economy, which includes consumers and workers. We may rail at what corporations are doing -- accuse them of price gouging and profiteering -- but unless or until there are laws preventing them from doing this, they will continue to do so.

4. What should *not* be done

The Fed is battling inflation the old way. It has already raised interest rates by a quarter point and penciled in six more increases by the end of the year. Fed Chair Jerome Powell says he is ready to do whatever it takes to bring inflation down, including following the example of his predecessor Paul Volcker, who increased interest rates to 20 percent in 1981. Let me remind you that Volcker's rate rise triggered a deep recession and double-digit unemployment.

We can debate whether that harsh medicine in 1981 was necessary. What should be clear is that the current inflation is nothing like the inflation of the late 1970s.
The Fed apparently believes that inflation is coming from the wage gains workers have been receiving due to their newfound bargaining leverage in an economy facing worker shortages. Powell openly worries that "the labor market is extremely tight,"[21] to "an unhealthy level."[22] As a result, the Fed is on the way to raising interest rates repeatedly in order to slow the economy and presumably reduce the bargaining leverage of American workers.

[21] https://www.federalreserve.gov/newsevents/speech/powell20220321a.htm
[22] https://www.youtube.com/watch?v=kb5Qn0klO6I

With due respect, this makes no sense. When American corporations are enjoying record profits, why should wage gains lead to price increases? In a healthy economy we would expect corporations to pay the higher wages out of their profits rather than to pass them on to consumers in higher prices. Most American workers have not had much of a real wage increase (adjusted for inflation) in four decades. The labor market is not "unhealthily" tight, as Jerome Powell asserts; corporations are unhealthily fat. Workers do not have too much power; corporations do.

Raising interest rates is the wrong medicine for the wrong disease. Higher interest rates will not stop corporations from using their pricing power. Instead, higher interest rates will slow the economy and potentially cause millions of lower-wage workers to lose their jobs and forfeit long-overdue real wage increases. Higher rates will hurt millions of people who are among the most vulnerable in the economy.

The objective should be to stop big profitable corporations from using their power to raise prices, thereby fueling inflation. The correct medicine is to reduce corporate market power.

5. What *should* be done.

A preferable (but by no means perfect) set of weapons against inflation are tougher antitrust enforcement, a windfall profits tax, and price controls.

Tougher antitrust enforcement is necessary. As I noted earlier, since the 1980s, two-thirds of all American industries have become more concentrated. Monsanto now sets the prices for most of the nation's seed corn. Wall Street has consolidated into five giant banks. Airlines have merged from 12 carriers in 1980 to four today, which now control 80 percent of domestic seating capacity. The merger of Boeing and McDonnell Douglas has left the US with just one large producer of civilian aircraft — Boeing. Three giant cable companies dominate broadband: Comcast, AT&T and Verizon. A handful of drug companies control the pharmaceutical industry: Pfizer, Eli Lilly, Johnson & Johnson, Bristol-Myers Squibb and Merck. Two giant firms dominate consumer staples. A handful of national retailers and food outlets dominate local markets. And so on.

Such concentration makes it easy for corporations to coordinate price increases with the handful of other companies in their same market without risking the possibility of losing customers, who have no other choice. If corporations had less market power, they would have less power to raise prices.

But antitrust litigation is complex and time consuming. I directed the policy planning staff at the Federal Trade Commission in the Carter Administration and saw this firsthand. Corporate America will do whatever it can to keep its near-record profits. Nonetheless, antitrust is worth the effort over the long term. Corporate concentration continues to harm workers and consumers while rewarding CEOs and investors.

One possible initiative in the shorter term is a bill[23] introduced by Rep. Jan Schakowsky of Illinois, the COVID-19 Price Gouging Prevention Act. The bill provides that "it shall be unlawful for any person to sell or offer for sale a good or service at a price that is unconscionably excessive; and indicates the seller is using the circumstances ... to increase prices unreasonably." The bill goes on to direct the Federal Trade Commission to investigate whether the price reasonably reflects "additional costs, not within the control of" the seller, or whether it reflects opportunistic price-gouging. The FTC already has the power to carry out such investigations and impose penalties under existing law.

A windfall profits tax is also sensible. Senator Sheldon Whitehouse has introduced a windfall profits tax bill that would levy a quarterly tax on large oil companies and distribute the revenue to consumers through a quarterly rebate. The per-barrel tax would be equivalent to half the differential between the pre-pandemic average oil price from 2015 through 2019 and current prices. Senator Bernie Sanders has introduced a temporary emergency measure modeled on the broad-based windfall profits tax implemented during the first and second World Wars and the Korean War, that would

[23] https://www.congress.gov/bill/117th-congress/house-bill/675/text

levy a 95 percent windfall profits tax on the profits of large corporations that exceed their average profit level from 2015 to 2019

Price controls are a third possibility. They worked well in World War II, but not so well in the 1970s, when they were half-baked and badly executed.

Conclusion

Congress and the administration have the power to stop corporations who are enjoying the highest profits in 70 years from raising their prices, which is requiring American workers and consumers to subsidize wealthy investors. It is preferable for Congress and the administration take direct against this rather than for the Federal Reserve to raise interest rates to slow the economy and risk another recession, which will harm average working people.

Congressional Testimony

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

U.S. SENATE COMMITTEE ON THE BUDGET

Washington, DC
April 5, 2022
11:00am ET

Lindsay Owens, Ph.D.
Executive Director
Groundwork Collaborative

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[1] 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).[2] 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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[1] "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

[2] 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.[3] 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."[4] 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.[5]

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.[6]

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."[7]

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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[3] "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=11bb795eaee9.
[4] "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/.
[5] 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.
[6] 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/
[7]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."[8]

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.[9]

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.[10]

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."[11]

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

[8] https://twitter.com/frankmonah/status/1502158569528987654?s=21
[9] https://www.dallasfed.org/research/surveys/des/2022/2201
[10] https://www.yardeni.com/pub/buybackdiv.pdf
[11] 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

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[12][13] 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.[14] 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.[15]

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.[16]

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.[17]

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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[12]Joe Weisenthal, Feb 2022, https://twitter.com/TheStalwart/status/1491485319811805192
[13] 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
[14] Repko, Melissa. " Walmart and Target clash with investors over strategy to keep prices low despite inflation," *CNBC*, https://www.cnbc.com/2021/11/17/walmart-and-target-clash-with-investors-over-low-price-strategy-.html
[15] Repko, Melissa, "Walmart says shoppers are on alert as grocery bills climb," *CNBC*, https://www.cnbc.com/2022/02/17/walmart-cfo-brett-biggs-says-customers-are-paying-attention-to-rising-prices.html
[16] 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.
[17] "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.[18]

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[19] down from 24.2% in 1973[20].

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.

[18] 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/
[19] "Union Members – 2021," *Bureau of Labor Statistics*, Jan 2022. https://www.bls.gov/news.release/pdf/union2.pdf
[20] "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,[21] packed by four meatpackers[22] and equipped by a single chip maker.[23] 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

[21] "Shipping Alliances: 2M, Ocean Alliance & THE Alliance [2021 Overview]," *Container Xchange,* July 2019, https://www.container-xchange.com/blog/shipping-alliances/
[22] "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/
[23] 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%[24] 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.[25] 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.[26] These corporations promised that through consolidation, consumers would face lower costs.[27] 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.[28]

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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[24] 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/
[25] "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
[26] 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.
[27] "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
[28] 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.

Prepared Statement of Michael Faulkender, Ph.D.

Chairman Sanders, Ranking Member Graham, and Senators on the committee,

Thank you for the opportunity to speak with you today on the impact of inflation on the American people and its root causes. I had the honor of serving as the Assistant Secretary for Economic Policy at the Department of the Treasury during the previous administration. In that role, I worked with Senators on both sides of the political aisle and the Small Business Administration to quickly implement the Paycheck Protection Program and ensure that the economic devastation that might have resulted from the pandemic was not realized.

The excessive inflation currently harming America's families is primarily the result of unnecessary fiscal stimulus passed by Congress and implemented by this Administration, bolstered by excessively accommodative monetary policy by the Federal Reserve.

At the onset of the pandemic, prices declined. When the economy reopened, prices started rising with inflation from June 2020 to February 2021 averaging 32 basis points per month. The $1.9 trillion American Rescue Plan Act (ARPA) was signed into law in March of 2021. Since then, monthly inflation has doubled to 64 basis points per month, resulting in a 7.9 percent increase in the consumer price index over the twelve months ending February 2022.

Due to a fundamentally strong economy with rising wages and decreasing unemployment prior to the pandemic, Americans had aggregate balances in their checking and savings accounts of just under $11 trillion. Following ARPA disbursements, that amount had risen to over $14.2 trillion—nearly a thirty percent increase.

The entirely predictable result was inflation, running the highest we have seen in forty years. Even former Clinton Treasury Secretary Larry Summers characterized enactment of such policy as "the least responsible macroeconomic policies we've had in the last 40 years." Last week, researchers at the San Francisco Federal Reserve published findings that stated, "Fiscal support measures designed to counteract the severity of the pandemic's economic effect may have contributed to this divergence by raising inflation about 3 percentage points by the end of 2021".

For further evidence, as former Acting CEA Chair Tyler Goodspeed recently documented, inflation in the Euro area and the United States were largely equivalent to each other in the eighteen years prior to the pandemic. However, in the twelve-month period starting in March 2021, the increase in inflation in the United States was more than triple the increase observed in the Euro area.

Some are instead blaming the recent inflation on corporate greed and the exercise of market power. There are many problems with that conclusion. From January 2010 through January 2020, 12-month inflation averaged 1.78 percent. Over the last twelve months, inflation has been 7.91 percent, more than quadrupling recent increases. Were corporations not greedy in the 2010s? What changed in March 2021 such that corporations suddenly became greedy? As someone who has researched corporate financial decision making for the last twenty years, I am not aware of any finding in the academic literature that corporations significantly altered their desire to generate profits in the last year relative to the decades that preceded the pandemic.

The second challenge to that narrative is that producer prices have increased at a faster pace than consumer prices. Sellers did not pass along all of their cost increases to consumers. If retailers used monopoly power in pursuit of greed, consumer prices would rise faster than the cost of inputs, and yet we have observed the opposite.

It is true that corporate profits have risen during the recovery. Just as corporate profits fell at the beginning of the pandemic when there was extra supply relative to suddenly diminished demand, corporate profits will naturally rise when demand significantly outstrips supply. This increase in corporate profits is not the result of an exercise of market power; it is the necessary outcome of a shortage caused by policies that have inflated demand while discouraging supply.

To curb the 40-year high rate of inflation the American people are enduring, Congress must reverse course. Continuation of irresponsible fiscal policy would only accelerate the Federal Reserve's already aggressive plans to hike interest rates. Instead, we need to encourage more domestic productive activity by reducing the regulatory burdens companies are facing, cease the constant threats of higher taxation, remove barriers to work, and declare an end to pandemic restrictions. Following those policies prior to the pandemic, our nation saw a 50-year low in the unemployment rate, historic gains in household income, reductions in income inequality, and record low poverty rates across all races.

The Chairman's proposal for a 95 percent tax on profits would have devastatingly counterproductive effects. Fundamentally, profit is the reward from providing things Americans value at low cost. It encourages individuals and companies to respond to the desires of consumers. A profits tax therefore eliminates these incentives.

The proposal would apply a 95 percent tax rate on any profits realized by large companies above their pre-pandemic five-year average profit level, adjusted for inflation. Any company that created new products, successfully entered new markets, or shifted their offerings in response to changes in consumer preferences following the pandemic would be punished. Companies whose product prices rose with inflation, but who served more of their fellow Americans, would have their increased results deemed excess profits and taxed at 95 percent.

If enacted, this proposal would nearly eliminate domestic economic growth. Today's punishment becomes tomorrow's extremely strong disincentive. Profits from successful innovation that better serves the needs of fellow citizens would be forcibly taken by the government but the losses from failed innovation are borne by the business. Why would American companies innovate, respond to changes in the economy, supplement supply when there are shortages elsewhere, or engage in research and development under those kinds of conditions? I urge the Senate to reject such destructive proposals.

I look forward to participating in this important conversation.

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