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Chairman Casey, Ranking Member Tuberville, members of the subcommittee, thank you for inviting me to testify before you about the high costs that American families face for everyday expenses and what can be done to improve affordability.

I am a Senior Vice President for Inclusive Growth at the Center for American Progress, an independent, nonpartisan policy institute that is dedicated to improving the lives of all Americans. I oversee the organization's economic policy, health policy, and Women's Initiative. Prior to joining American Progress, I served as an economist on the staff of the Council of Economic Advisers in the White House and at the U.S. Department of Health and Human Services.

I want to stress that the trajectory of the economy—and the economic security of families and children today and into the future—is not simply the result of the "invisible hand" of the markets but the result of deliberate policy choices. Rising corporate power and growing inequality are the products of decades of overly permissive antitrust policy, labor laws hostile toward unions, and a tax system that lets corporations get away without paying their fair share.

I will discuss some of the ways in which high costs for basic expenses can undermine families' economic security, the role of corporate concentration in rising prices, and recommendations for federal policies that have provided families relief and could further restore the balance of power in the economy.

The COVID-19 pandemic recession exposed weaknesses in the U.S. economy

To understand the present state of the economy, we should look to the recent past. The state of the current U.S. economy is strong. In the past 40 months, the United States has added 15.6 million jobs,[2] the unemployment rate has held steady at or below 4 percent since December 2021,[3] and inflation is below 3 percent.[4] Incomes have grown faster than inflation across all income groups, and that growth has been strongest for the poorest Americans.[5]

Nevertheless, the global economic shock brought by the COVID-19 pandemic recession looms large in our collective memory. The recession, along with the rise in energy costs resulting from Russia's war on Ukraine, exposed the fragility of our economic system. Fractures in fragile supply chains rapidly led to shortages of goods, from toilet paper and medical supplies, and to spikes in prices. The supply chain disruptions also exposed the challenges small businesses disproportionately face; a recent Federal Trade Commission report on competition in the grocery industry noted that small grocers were at a disadvantage relative to large corporations.[6]

The resulting spell of high inflation the United States experienced in 2021 and 2022—with PCE price indexes at 5.9 percent for both years—can be attributed to a number of factors,[7] with the largest effect coming from the supply side.[8] In addition, the pandemic's unstable economic environment also generated an opening for firms to exercise their market power by hiking prices.

In fact, during that period of supply chain disruptions, corporations raised prices for consumer goods beyond levels justified by present costs—in other words, increased their markups. Markups were also a major contributor to inflation. In fact, researchers at the Federal Reserve Bank of Kansas City found that "markups could account for more than half of 2021 inflation."[9] Higher markups translate into higher profits, and both markups and corporate profits rose in 2021 to their highest levels in over 50 years.[10] (See figure below.)

Corporate profits are at historically high levels

Corporate profits as a share of national income, 1949–Q1 2024

This analysis includes inventory valuation adjustment (IVA) and capital consumption adjustment (CCAdj) but excludes Federal Reserve bank profits.

Source: CAP analysis of U.S. Bureau of Economic Analysis, "NIPA Table 1.12: National Income by Type of Income," available at https://apps.bea.gov/iTable/ (last accessed July 2024); U.S. Bureau of Economic Analysis, "NIPA Table 6.16B–D: Corporate Profits by Industry," available at https://apps.bea.gov/iTable/ (last accessed July 2024).

Chart: Center for American Progress

While inflation has moderated, many American families still feel squeezed

Thanks to a series of federal investments that helped defray families' costs for major expenses like child care and rent during the recession and spur private investment in sectors critical for the economy of the 21st century, the United States made a strong recovery from the pandemic recession. To put things in perspective, the U.S. economy had a faster recovery and is experiencing lower inflation than the economies of other G7 nations, and it is on track to grow faster this year than those of the other G7 countries.[11]

Inflation has moderated and is now below 3 percent. Grocery price inflation peaked at 13.5 percent in 2022,[12] and has come down since then, following policies to ease supply chain bottlenecks in meat and poultry processing and increased policymaker scrutiny of high food prices.[13] Food prices were essentially flat between April and May.[14] And substantial wage growth has helped keep groceries affordable for many families: a typical worker must work fewer hours to buy a bag of groceries than in 2019.[15]

Nevertheless, the high *level* of prices is still giving Americans sticker shock in the grocery aisles and the checkout counter. When surveyed, Americans rank the high cost of living and inflation as one of the top concerns facing the country.[16] Even families who say they are making it feel a heightened sense of precarity, knowing they are just one car breakdown or one illness away from financial disaster.[17]

Child care and health care are two of the biggest items in family budgets. Many families spend well above the federal affordability benchmark—7 percent of annual household income—for licensed child care, including 95 percent of low-income working families.[18] The burden of rising health care costs only add to this financial strain. In 2022 nearly half of U.S. adults, including 47 percent of those with insurance, reported difficulty affording health care costs including monthly premiums, deductibles, and out-of-pocket expenses.[19] High costs and unaffordable care can lead to medical debt, which further increases families' risk of financial hardship.[20]

Rising consolidation leads to higher prices and harms families and small business

Corporate profits as a share of our economy are above where they were before the pandemic. This is the result of 40 years of tax, labor, regulatory, and antitrust policy tilted in favor of large corporations and fueling the growth of private equity, at the expense of workers and families. As research by my CAP colleague Marc Jarsulic has shown, the share of firms earning profits above competitive levels has risen substantially since the 1970s, markups have increased in recent decades, and corporate profits are concentrated in a declining number of firms.[21]

Corporate concentration is rising throughout the economy, and since the 1990s has increased in more than 75 percent of U.S. industries.[22] In 2019, the top four grocery chains accounted for 43 percent of grocery sales, compared with just 21 percent in 1997.[23] Within the prescription drug financing chain, the top three pharmacy benefit managers accounted for nearly 80 percent of the market.[24] And in the global container shipping business, the top four firms control more than half of shipping capacity.[25]

Americans should be concerned about dominant corporations using increased market power not only to raise prices but also to limit choice, to conceal information necessary for consumers, investors, and small businesses to make informed decisions, to wield greater control over our personal data, and to limit workers' job mobility. By one estimate, the increase in corporate power over the past 20 years costs the average American household $5,000 annually through higher prices and lower wages.[26]

So-called "junk fees" represent one manifestation of insufficient competition. The hidden fees for everything from airline tickets to home rentals to banking take consumers by surprise, robbing them of the ability to comparison shop and making it more difficult for families to budget for the future.[27] The numerous actions the Biden administration has taken to eliminate junk fees are projected to save Americans over $20 billion annually, as well as millions of hours of wasted time.[28,29]

Policy recommendations to improve the economic security of American families

Federal policymakers have an opportunity to shape markets to lower costs for American families and rightly value the contributions of American workers and small business owners. Indeed, recent legislation, as well as actions by the Biden administration, have turned the United States in a better direction.

The Inflation Reduction Act (IRA) is a prime example of reforms aimed at countering corporate power to lower everyday costs.[30] I applaud Congress for having stood up to Big Pharma greed to newly empower Medicare to directly negotiate lower prescription drug prices, cap the cost of insulin at $35, and prevent unjustifiable price hikes and return that money to seniors' pockets. The IRA was also a historic investment for climate, accelerating the U.S. transition to cleaner energy and lowering families' costs for household appliances and utility bills.[31]

With everyday costs in mind, I want to highlight three areas of competition policy to address corporate power: transparency, antitrust, and stronger consumer and producer protections:

Transparency. Transparency is essential for robust competition and for corporate accountability. First, greater transparency for consumers, including full information upfront about pricing and product characteristics, facilitates comparison shopping and budgeting. It also enables honest and efficient firms, offering lower costs, to distinguish themselves in the marketplace. For example, standardization of health insurance plans reduces choice overload and allows consumers to easily compare the plan characteristics that matter most to them.[32] The elimination of hidden junk fees and surprise medical billing are also examples of consumer-facing reforms that advance transparency.

A second area for greater transparency is corporate control and financial risk. An ever-larger number of private equity funds and companies are taking advantage of expanded exemptions from the critical disclosures that public companies are required to make regarding operations, management, risks, and audited financials. Private markets are growing rapidly and private companies, which are now often worth billions, increasingly raise capital from pension and other retirement funds—essentially from millions of retirement savers—while avoiding disclosure mandates. Examples abound of geographies where private equity funds have acquired a large share of a particular industry or profession, enabling greater control over prices, employment, and more. In addition, close connections between private funds in these dark markets compound these concerns, with private equity funds selling to each other (secondary buyouts) and colluding with each other in some industries in which more than one private equity fund owns businesses (oligopolistic collusion).[33]

Mandated disclosures would be particularly impactful in health care markets, where consolidation, concentration, and the proliferation of private equity are driving up health care costs for American families.[34] For example, to address issues related to prescription drug pricing, insurers, drug wholesalers, pharmacy benefit managers, retail pharmacy chains, group purchasing organizations, and mail-order pharmacies would disclose information on all material contractual and economic relationships with other parties that affect medication pricing, availability, and choice for patients. Implementing disclosures would provide much needed insight into health care delivery operations, shedding light on who is benefitting and by how much, as well as exposing conflicts of interest that are increasing the cost of care and harming patients.[35] Moreover, these disclosures would equip antitrust authorities to identify and address anticompetitive behavior.

Stronger antitrust enforcement. If Congress wants to improve competition, it should back that up with funding. The nation's competition watchdogs are charged with overseeing a growing economy marked by diminished competition but are not being given the resources to do so. Between 2010 and 2018, the antitrust budgets for the FTC and DOJ grew only 3 percent while the overall U.S. economy grew by 37 percent.[36] FTC and DOJ's new merger guidelines call for increased scrutiny of serial acquisitions, vertical consolidation, and labor market effects of consolidation transactions,[37] but the success of that agenda in practice will require bringing merger challenges and other cases and having the resources to win.

Expanding the FTC's authority over anticompetitive conduct would also help consumers and workers. For example, the Price Gouging Prevention Act of 2024 would empower the FTC to stop dominant corporations from using periods of market shock to opportunistically raise prices, which many appear to have done during the pandemic to raise profits, while creating a defense for small businesses that act in good faith.[38] The FTC's ban on non-compete agreements is a major step forward for workers,[39] and Congress could bolster that to explicitly extend the FTC's conduct enforcement authority to not-for-profit entities, such as non-profit hospital systems.

Worker protections. As we consider the toll of high costs, we should keep in mind the other side of the leger in family budgets: wages. The good news is Americans' wages are growing faster than inflation: almost six in 10 workers got an annual raise that beat inflation as of November last year, a share higher than the pre-pandemic (2017-2019) average.[40] Going forward, policies such as overtime protections, bans on non-compete clauses, and minimum wage, as well as the free and fair choice to form a union, will remain essential to ensuring that corporations are fairly compensating labor and that workers have a fairer shot.

Conclusion

The growth of corporate profits stands in contrast to the still-shaken confidence families have in the economy and stress they feel from high prices.[41] To grow the middle class and ensure families are able to afford the things they need, Congress should take action to ensure that high costs—including groceries, housing, child care, and health care—are not a barrier for American families.

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