U.S. Chamber of Commerce

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March 8, 2022

The Honorable Maxine Waters
Chair
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Dear Chair Waters and Ranking Member McHenry:

We appreciate the Committee's attention to inflation that is hitting American businesses and consumers through your March 8 hearing, and we believe it important for you to focus on macroeconomic trends, including supply and demand shocks and monetary policies, as important causes. The Committee should examine constructive fiscal, regulatory, and labor policies to increase supply and reduce prices. The Chamber stands ready to work with you and the entire Congress to address these issues. The premise that "corporate profiteering" is to blame for higher prices is not supported by the facts.

The Business Community is Not to Blame for Higher Prices

We reject the assertion in the title of the hearing that inflation in driven by "corporate profiteering." As the Washington Post's Editorial Board recently explained in a piece titled, "*The White House once again offers a bizarre message on inflation*," the business community is not to blame for higher prices:

> President Biden is facing mounting criticism for inflation's rise to its highest level since 1982. Unfortunately, the White House's latest response is to blame greedy businesses. Economists across the political spectrum are rightly calling out the White House for this foolishness. Even some within the White House are questioning this approach.
>
> Inflation, which was relatively low for years, did not suddenly rise in recent months because businesses decided now was the ideal time to squeeze their customers. What actually happened is that demand soared for many products as the economy recovered. Often, there were not enough products to meet it, thanks to supply chain hiccups and labor shortages, so prices went up. In a surprise to many, consumers kept buying goods such as cars and washing machines even at higher prices.[1]

Indeed, the Post specifically refuted the President's narrative that industry concentration causes higher food prices.

The Attempt to Blame Business Is Driven By Politics, Not Facts

[1] See https://www.washingtonpost.com/opinions/2022/01/10/white-house-again-offers-bizarre-message-inflation/

Perhaps most troubling, recent efforts by the Administration to blame high prices on market concentration are reportedly driven by political advisors and are not supported by the economic evidence. On January 10, 2022, the Washington Post reported:

> In November and December, at least four Democratic polling experts told senior White House officials that they needed to find a new approach as public frustration over price hikes became widespread and highly damaging to Biden's popularity, according to three people with knowledge of the private conversations.
>
> "What we said is, 'You need a villain or an explanation for this. If you don't provide one, voters will fill one in. The right is providing an explanation, which is that you're spending too much,'" one Democratic pollster who, like the others, spoke on the condition of anonymity to reflect private conversations, told The Washington Post. "That point finally became convincing to people in the White House."[2]

The same article noted:

> Senior officials at the Treasury Department, for instance, have been unsettled by the White House's attempts to blame some large corporations for inflation, skeptical of that explanation for the recent rise in prices, according to four people with knowledge of internal administration dynamics.[3]

Macroeconomic Trends Explain Higher Prices

Instead of blaming the business community, the Committee should explore macroeconomic trends. Former Secretary of the Treasury Lawrence Summers, a senior official in both the Clinton and Obama Administrations, recently wrote the following:

> We have a serious inflation problem whatever the precise CPI [consumer price index] reading. Inflation is running well ahead of anything seen during the guns and butter Vietnam episode and 50 percent above where it was when Pres Nixon imposed wage price controls.[4]

In recent months, Japan, China, and Germany all reported their highest inflation in more than a decade.[5] Macroeconomic trends explain these high prices:

Oil Prices. The price of oil, "the most important global determinant of inflation," is very high and not expected to decline significantly in the near term.[6] The war in Ukraine has already exacerbated this trend.

Supply and Demand. As a whole, American consumers, have excess savings as a result of government pandemic relief. At the same time, the pandemic has caused many Americans to change

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[2] See https://www.washingtonpost.com/us-policy/2022/01/10/white-house-inflation-strategy/
[3] *Id*.
[4] See https://twitter.com/LHSummers/status/1481241779508846599?cxt=HHwWjoC94Z3jto4pAAAA.
[5] See https://www.washingtonpost.com/opinions/2021/11/15/inflation-its-past-time-team-transitory-stand-down/
[6] *Id*.

their spending patterns. Since February 2020, spending on goods has grown 6-fold compared to spending on services. Spending on goods is up almost 30% while services spending is up only 5%. When demand rises faster than supply can keep up, prices rise.[7]

Supply Chain Problems. Supply is in large part constrained because global supply chains have not healed from lockdowns and from shifting consumer patterns, including increased demand for goods. Supply chain problems are pushing prices higher because consumers have to pay more for scarce goods and businesses have to pay more for the inputs they need to produce these goods.

Worker Shortages. In the U.S., there are 4.6 million more job openings than workers to fill them. Businesses cannot make their products or provide their services at the levels necessary to meet demand without the appropriate number of workers. Additionally, businesses are having to pay workers substantially more to come to work, which is increasing their operating costs. As Secretary Summers points out, workers who switch jobs are receiving double-digit pay increases, costs that ultimately are passed along to consumers.[8]

Monetary Policy. The Federal Reserve has put approximately $5 trillion into the financial system since the beginning of the COVID-19 pandemic. This enormous sum is slowly trickling from the financial economy into the real economy, which is pushing up the price of goods and services.

Rather than blame the business community, policymakers should explore other avenues to encourage competition and lower prices for consumers. As former Secretary Summers explained, policymakers should work to reduce tariffs, raise supplies of fossil fuels, and relax regulations. All of these tools would allow the business community to serve the needs of consumers more efficiently and at lower prices. Finally, monetary policy remains the best tool for fighting inflation.

Sincerely,

Neil Bradley
Executive Vice President, Chief Policy Officer,
and Head of Strategic Advocacy
U.S. Chamber of Commerce

cc: Members of the House Committee on Financial Services

[7] See https://www.washingtonpost.com/opinions/2022/01/10/white-house-again-offers-bizarre-message-inflation/
[8] Id.