U.S. Chamber of Commerce

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June 15, 2022

The Honorable Amy Klobuchar
Chair
Subcommittee on Competition Policy,
Antitrust, and Consumer Rights
Committee on the Judiciary
United States Senate
Washington, DC 20510

The Honorable Mike Lee
Ranking Member
Subcommittee on Competition Policy,
Antitrust, and Consumer Rights
Committee on the Judiciary
United States Senate
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Dear Chair Klobuchar and Ranking Member Lee:

The U.S. Chamber of Commerce writes today regarding your upcoming hearing, "Baby Formula and Beyond: The Impact of Consolidation on Families and Consumers." We believe a careful review of the facts will find that:

1. The U.S. economy is not suffering from excessive levels of concentration or consolidation;
2. Increased demand and constrained supply explain the broad rise in prices;
3. In specific sectors, including baby formula, government policy is exacerbating supply shortages; and
4. Attempts to blame business for higher prices are driven by politics, not facts.

The Chamber stands ready to work with you and the entire Congress to address the true causes of prices increases and supply shortages.

Industrial Concentration is Not Growing or Causing Higher Prices

The administration and some activists have argued that consolidation in industries has both been a problem for years and is also driving the current surge in prices. Which raises the obvious question, why didn't excessive concentration drive prices higher before?

The reality is contrary to the assumptions of some; the U.S. economy is not becoming more concentrated. In an exhaustive analysis of all available census data from the past two decades, Dr. Robert Kulick finds that since 2002, U.S. economic concentration has remained flat.[1] In fact, since 2007 in both the manufacturing sector and the broader economy, the economy became less concentrated.

Senior officials within the Biden Administration have rejected the false narrative that industrial concentration has sparked inflation. For example, the head of the Federal Maritime

[1] Robert Kulick and Andrew Card, Industrial Concentration in the United States: 2002-2017 (March 2022) ("Kulick study"), at https://www.uschamber.com/finance/antitrust/industrial-concentration-inthe-united-states-2002-2017.

Commission recently confirmed that natural market forces, rather than industrial concentration, account for high prices: "Our markets are competitive and the high ocean freight rates have been determined by unprecedented consumer demand, primarily in the United States, that overwhelmed the supply of vessel capacity. Congestion further constrained available capacity."[2]

Similarly, attempts to blame high prices on corporate greed are wrong. As the Washington Post's Editorial Board recently explained in a piece titled, "*The White House once again offers a bizarre message on inflation":*"

> 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.

Indeed, the Post specifically refuted the President's narrative that industry concentration causes higher food prices: "pinning the current inflation problems on corporate greed is a flimsy argument that won't stop Americans from beefing about inflation."[3] Moreover, two of former President Obama's top economic advisers have referred to blaming price gouging as "dangerous nonsense" and "political ranting."[4] Finally, President Biden's own Treasury Secretary, Janet Yellen, has "rejected the idea that corporate greed is causing the US inflation surge."[5]

Increased Demand and Constrained Supply Explain Higher Prices

When demand increases and supply is constrained, prices rise. As a whole, American consumers, have excess savings as a result of government pandemic relief and loose monetary policy. This has fueled a high level of demand while at the same time the pandemic has caused shifts in 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%.

At the same time, supply is constrained because of supply chain bottlenecks, worker shortages, and public policy. Global supply chains have not healed from lockdowns and from shifting consumer patterns, including increased demand for goods. In the U.S., there are 5.5 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.

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[2] See https://www.fmc.gov/commissioner-dye-releases-final-report-for-fact-finding-no-29/.
[3] See https://www.washingtonpost.com/opinions/2022/01/10/white-house-again-offers-bizarre-message-inflation/.
[4] See https://www.vox.com/23163167/democrats-biden-enemy-inflation-corporate-greed-price-gouging.
[5] See https://www.bloomberg.com/news/articles/2022-06-09/yellen-rejects-idea-corporate-greed-is-to-blame-for-inflation.

Further, the price of oil, "the most important global determinant of inflation," is very high and not expected to decline rapidly.[6] Public policies that call into question support for additional supply in the near-medium term as well as geopolitical factors, such as the war in Ukraine are contributing to the inability of supply to meet demand.

In terms of meat specifically, agricultural economists agree meat demand, exacerbated by the pandemic has exposed a shortage of slaughterhouse capacity, a supply-chain problem similar to those of other industries. Even President Biden's own Department of Agriculture (USDA), through its Economic Research Service (ERS), recognizes that macroeconomic trends, rather than industrial concentration or other business practices, explain high prices: "High feed costs, increased demand, and changes in the supply chain have driven up prices for wholesale beef and dairy."[7] In a separate report, ERS identified the causes of inflation: "2020 and 2021 was a year of high food price inflation due to shifts in consumption patterns and supply chain disruptions resulting from the coronavirus pandemic."[8]

Misguided Governmental Policies Have Exacerbated the Baby Formula Shortage

To truly understand the causes of the baby formula shortage, the government should reexamine its own policies. Tariffs and regulatory trade barriers limit the ability to import formula into the United States. Federal policies regarding rebates and exclusive contracts under the Women, Infant, and Children (WIC) program may distort markets and create supply constraints. Regulatory and enforcement policies also must take into account impacts on potential supply and be constructed and executed in such a way as to both maintain safety and ensure supply.

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

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."[9]

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[6] Id.
[7] See https://www.ers.usda.gov/data-products/food-price-outlook/summary-findings/.
[8] See https://www.ers.usda.gov/data-products/ag-and-food-statistics-charting-the-essentials/food-prices-and-spending/.
[9] See https://www.washingtonpost.com/us-policy/2022/01/10/white-house-inflation-strategy/.

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.

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, particularly those restricting supply in critical areas like baby formula. All of these tools would allow the business community to serve the needs of consumers more efficiently and at lower prices.

The Chamber thanks the Subcommittee for the opportunity to share its views.

Sincerely,

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

cc: Members of the Subcommittee on Competition Policy, Antitrust, and Consumer Rights