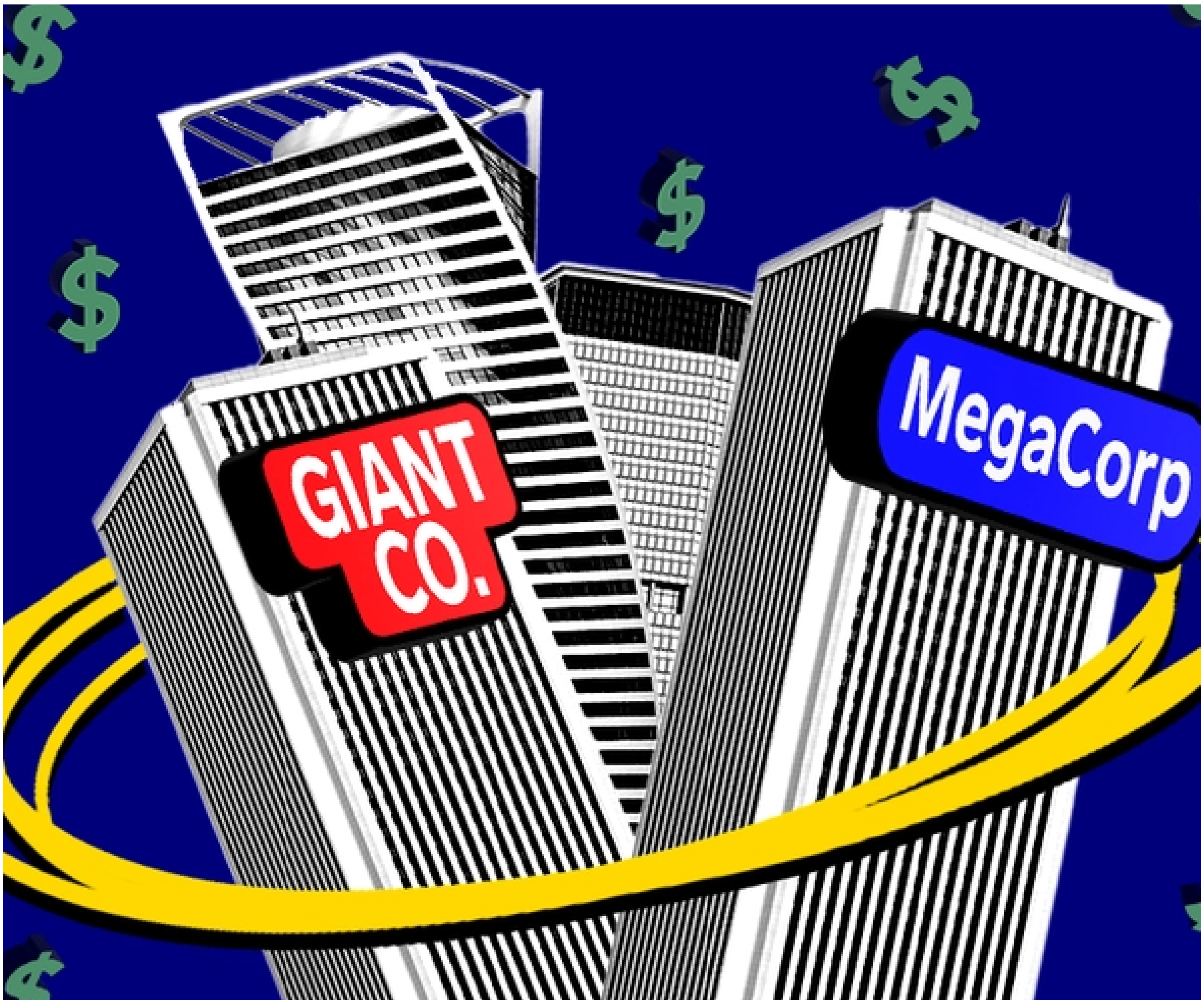
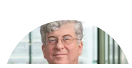
Premium ECONOMY

America's richest companies are using the pandemic as an excuse to jack up prices



America's megacorporations are taking advantage of supply-chain bottlenecks to push up prices higher than they need to be, adding to inflation. iStock; Rebecca Zisser/Insider



Robert H. Lande

4 hours ago

ANALYSIS

Larry Summers, the former US Treasury secretary and longtime Democratic economic advisor, has been adamant that the anticompetitive behavior of America's corporate cartels and monopolies is not a cause of the recent inflation surge. Last month, he even claimed that Federal Trade Commission Chair Lina Khan's push to crack down on illegal mergers and protect small businesses is "disturbing" and would actually increase prices.

But Summers is wrong. High corporate concentration, and the anticompetitive conduct it facilitates, does contribute to inflation. And there is no doubt that inflation is high right now. Last month, inflation jumped to 7.5%. In some industries, prices have surged even higher. But these increases cannot be fully explained by "normal" increases in the cost of raw material, production, labor, transportation, or by increased demand. In the US, many industries are controlled by just a few massive companies, and when only a few companies control a single industry, they have the power to push up prices arbitrarily because consumers have few other options for these goods.

While there are many components that go into soaring prices, Summers is wrong to dismiss corporate concentration as a contributing factor to our record-high inflation,

Monopolistic power pushes up prices

Supply-chain chaos has caused shortages of a wide variety of items across the country, leading to prices of some goods to go up to match the increased demand. Hard-to-find at-home COVID-19 tests are a good example of this. When demand surges due to shortages, prices go up to match what consumers are willing to pay. But some corporations across the economy are taking advantage of the broader supply-chain crisis to raise prices significantly — even where no bottleneck or shortage seems to exist. Some companies, like Procter & Gamble, even brag about it openly to their shareholders.

Basic economics tells us that market power allows firms to raise prices. When there is a small number of companies producing a product, it's easier for them to move in lockstep to raise prices without losing many customers to one another or to other products. Two companies can do this more easily than four companies, and four can do it more easily than eight. A temporary bottleneck or shortage can give consolidated firms the ability to raise prices significantly more than when the market had more active participants.

This consolidation often arises through company mergers. In his book "Controlling Mergers and Market Power," economist John Kwoka has documented that our overly lax merger policy — which encourages the creation of megacorporations and reduces the number of firms competing in a given field — has led not to the efficiency gains that Summers expects, but to higher prices.

The beef industry is one of the more egregious offenders. A White House briefing report from September shows that half of the spike in grocery bills in the last year came from higher meat prices — beef prices alone have risen by 14% since the

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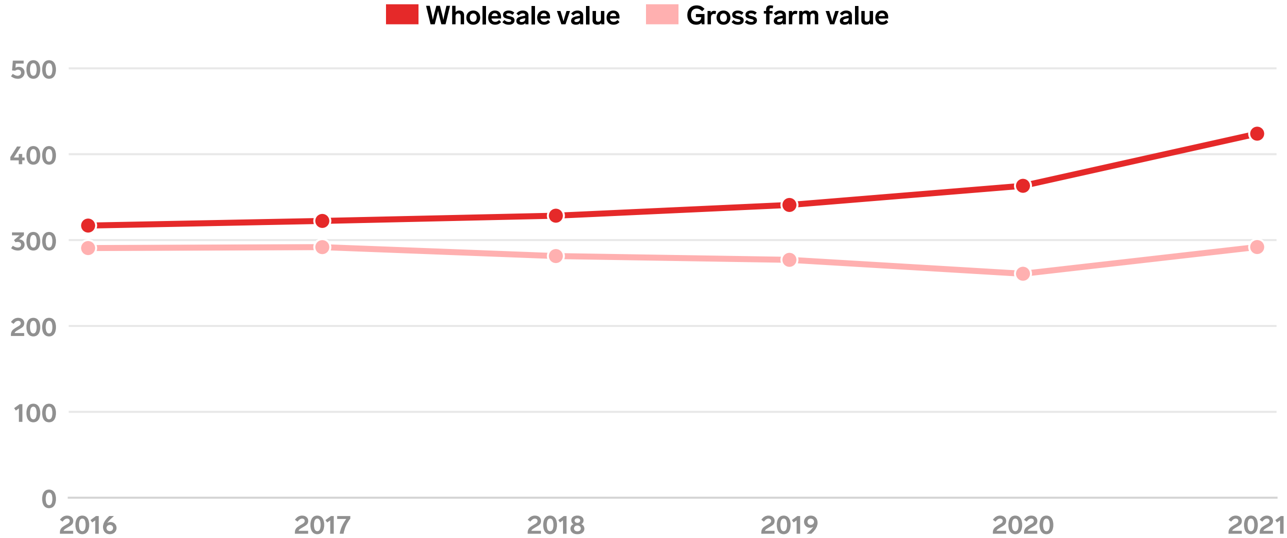
stagnated. So the increase isn't caused by farmers charging processors more for cattle.

Beef prices

Cents (¢) per pound of retail equivalent



Note: Data as of January 12, 2022.

Source: USDA; Economic Research Service calculations based on U.S. Department of Labor; Bureau of Labor Statistics; USDA, Agricul

Another possibility is that prices increased not because meat-packers had to pay farmers more, but because the cost of processing meat increased due to COVID shutdowns and workers getting sick. But that doesn't track either: Profits for meat processors hit record highs last year. One of the largest meat-processing companies, Cargill, saw a net income increase of 64% in 2021 — the most profitable year in its history. Profit margins for beef-packing companies also hit record highs during COVID.

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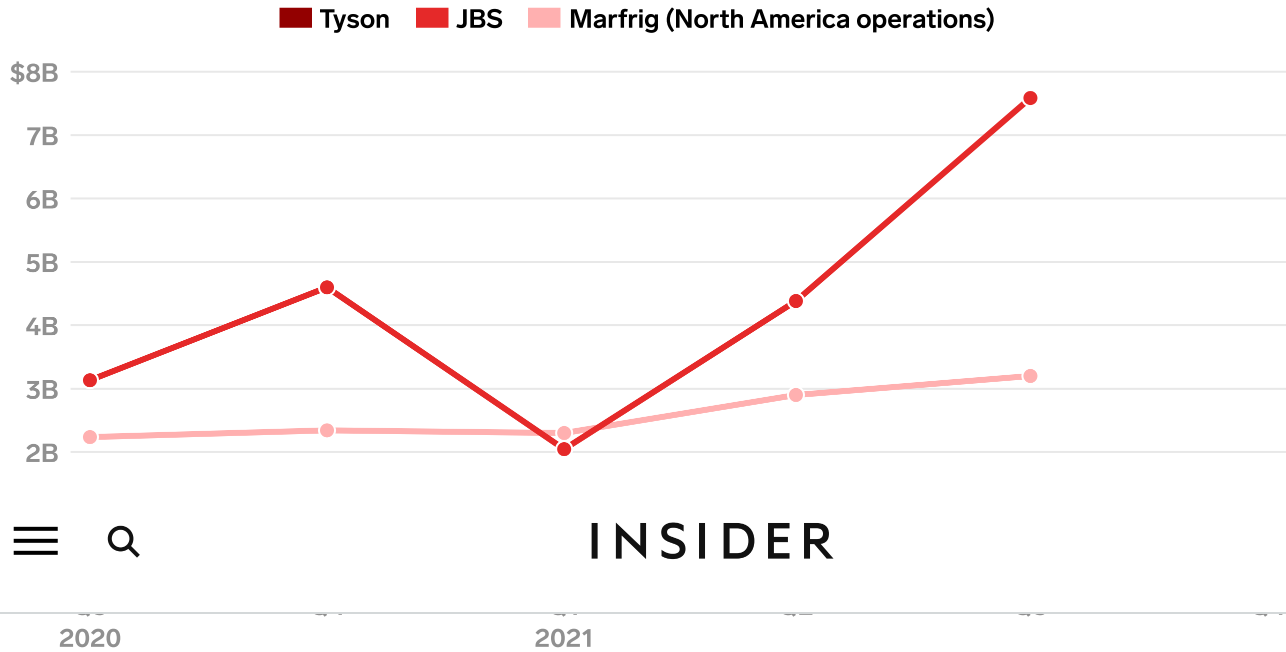
Quarterly net income from top meat processors



Source: Tyson Foods; JBS; Marfrig

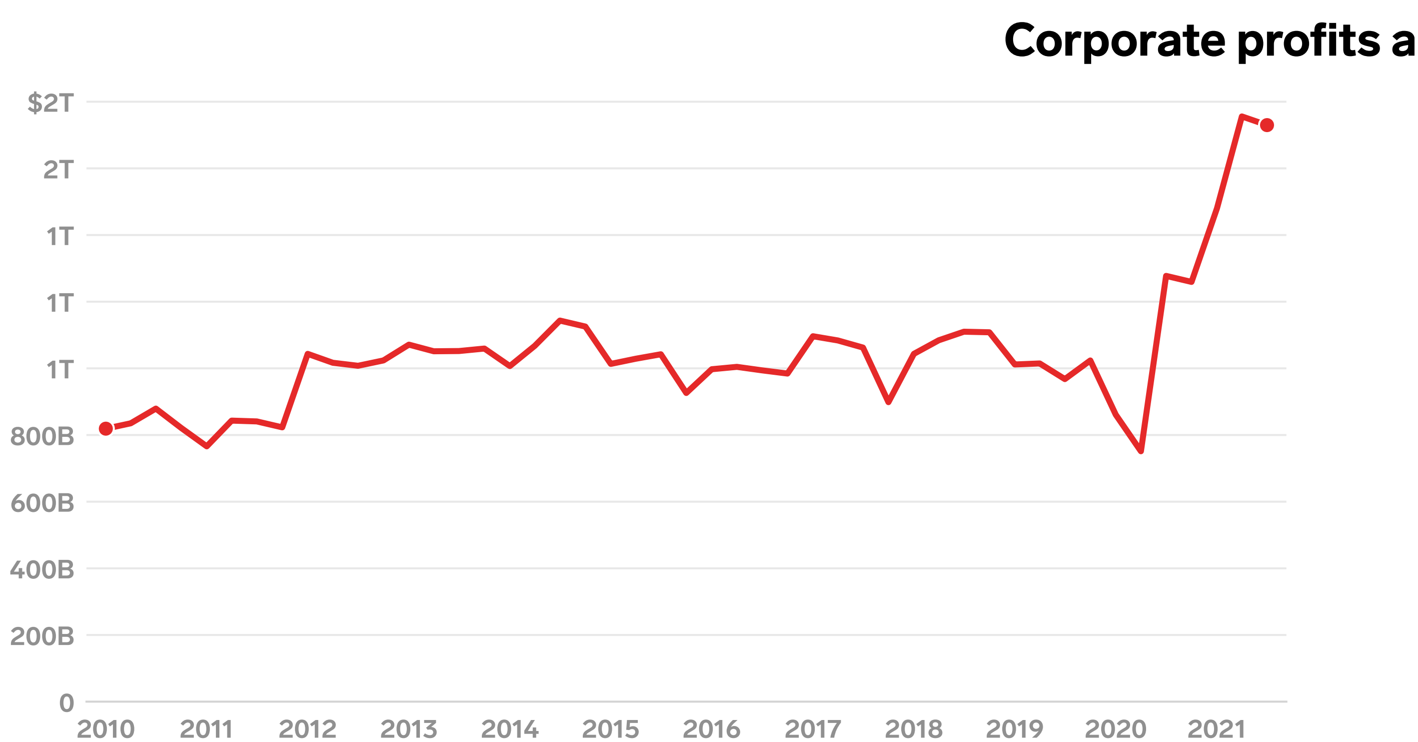
The White House report says it best: "While factors like consumer demand and input costs are affecting the market, it is the lack of competition that enables meat processors to hike prices for meat while increasing their own profitability." Forty-five years ago, the four largest beef-packing companies controlled a quarter of the market — today they control more than 80%.

A similar situation is happening in the firearm-ammunition industry. According to Mark Oliva, director of public affairs for a firearm-industry trade association, "Ammunition for an AR-15 used to be about 33 cents a round ... Now you're looking at closer to almost a dollar a round." One retailer similarly noted: "Before all this kicked off, we were selling 9mm — a good-quality brand, 50 rounds — for $15.99. Right now, I've got it from $39.99 to $49.99."

steep raises questions: Are these price increases caused only by higher demand, or are they in part related to the fact that there are only two major US manufacturers of ammunition — and they've been accused of colluding with one another? (Vista Outdoor, one of those manufacturers, saw massive profit margins last year.) Is their control over the market responsible for prices suddenly rising upward of 300%? We can't know for sure unless we give the antitrust enforcers enough resources to take a serious look.

In the meantime, as Jeffrey Meli, the global head of research at Barclays, told Bloomberg, inflation due to monopolistic power over the market "will grow over time as companies with market power feel increasingly comfortable raising prices."

It comes as little surprise that overall US corporate profits increased to $1.7 trillion during 2021. Operating margins for the companies that make up the S&P 500 remained at near-record highs through most of 2021, and corporate profit margins exploded during the Omicron surge.



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As Fed Chair Jerome Powell has admitted, companies "are raising prices because they can," and part of the reason they can is because there are fewer and fewer competitors that could undercut the increased prices.

Penalties for price fixing are essentially a parking ticket

Higher prices aren't just the product of advantageous companies in highly concentrated sectors. Despite the bipartisan consensus that price fixing and related offenses should be penalized, corporate collusion was rampant long before COVID. Evidence suggests some of the dramatic increases we're seeing across the economy today may not be legal.

Price increases of 100%, 200%, and even more due to collusion have been thoroughly documented. The best modern scholarship demonstrates that US cartels — groups that aim to reduce competition and keep prices high — raise prices an average of 49%, but even very conservative scholars believe that antitrust enforcers catch only 20% to 30% of illegal cartels in the US. The reality is that collusion affects much of our economy today, raising prices for consumers by many billions of dollars each year, and the offenders rarely get caught.

Astonishingly enough, price fixing is usually profitable *even if* the colluding firms are caught. An analysis in the "Iowa Law Review" of 71 US price-fixing cartels showed that only 14 were caught and forced to compensate their victims fully. In other words, 57 illegal cartels walked away having made money after they were successfully taken to court. In fact, the median payout was only 37% of the overcharges — and that doesn't even consider how many cartels are never caught.

Although illegal collusion can result in criminal fines and prison, the overall effect of all the sanctions against cartelization is woefully inadequate. Taken together, the

a parking ticket.

A recent empirical study compared penalties for cartel activity with the profits they earned. The study concluded that the current overall level of sanctions for corporate collusion would have to be increased by at least a factor of five to actually prevent collusion in a meaningful way. It's no wonder that collusion is so common.

Antitrust enforcers, who are woefully underfunded to do their jobs properly, are often only able to uncover cartels when someone involved in the criminal behavior gets scared they'll get caught and comes running to the government, promising to turn over intel on the firms they colluded with in exchange for amnesty. Even then, it usually takes years to prove it. Cases brought by victims of price fixing typically take even longer.

Could corporate collusion be driving many of the price hikes we're witnessing today? Since enforcement is only a slap on the wrist, firms certainly have the incentive to collude. But due to the lack of funding for regulators, it's impossible to know for sure how much inflation is being caused by collusion.

So, what do we do?

Larry Summers concluded, without evidence, that illegal anticompetitive conduct "is at most a minor cause of the recent surge in inflation." But he is ignoring the fact that illegal collusion has long been rampant throughout our economy, and years of previous corporate concentration have set up the current moment. Before the pandemic, when inflation was low, consumers and the enforcers would be more likely to notice any sudden price increases and suspect they were caused by collusion. But with supply-chain bottlenecks and shortages as cover, many companies can finally take advantage of their years of consolidation and collude more easily with less chance of it being detected.

illegal profiteering and pushing to inject competitiveness back into industries where it has decayed. The current efforts are essential, but it's worth remembering that the main benefit of vigorous antitrust enforcement is preventative — to deter anticompetitive conduct from arising in the first place. Typically, the benefits of strong antitrust enforcement are only noticed by consumers in the long run. But when a concentrated, brittle economy crumbles, sudden inflation forces regulators to look closely at its causes. The fragile nature of the current economy means that cracking down now on monopolistic and collusive activity can deter anticompetitive activity, and thus dramatically benefit consumers even in the short run.

Over the long term, there are many steps the US should undertake to combat anticompetitive conduct. In addition to substantially increased funding for antitrust enforcement, the government should implement higher penalties for price fixing, make it easier to bring forward and prove class-action lawsuits, allow purchasers to sue cartels for damages even if they bought products from intermediaries instead of directly from the colluders, and create more protections and incentives for whistleblowers with knowledge of illegal cartels to come forward.

Given the complex nature of our economy, it may be years before we know the extent to which companies recently have inflated prices illegally or were able to take advantage of the current market conditions to ratchet up prices to rake in even higher profits. But if the question is, "Does increased concentration, and the anticompetitive and illegal corporate conduct it facilitates, help drive inflation?" The answer has to be a resounding "of course."

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