Feeling the Pinch:
Inflation and corporate consolidation

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Feeling the Pinch

Introduction

Prices are rising and Mainers are feeling the pinch. At the same time, some of the world's largest corporations are reporting record profits.

The mismatch between Mainers feeling the pinch as corporate profits rise is the result of choices made by policymakers over time, particularly at the federal level, that have given corporations greater power over people to set prices and control the flow of goods and services. Now, corporations are using this power to extract even larger profits under the cover of current global supply chain disruptions.

Prices on everyday items that we all rely on including meat, milk, bread, fuel, and electricity have gone up as much as 16 percent in the last year.[1] That's well above the average increase in the costs of goods and services as a consequence of the economic impacts of the COVID-19 pandemic, Russia's invasion of Ukraine, and changing consumer behavior. From April 2020 through December 2021, corporate profits accounted for 54 percent of each dollar increase in prices compared to just 11 percent on average during the 40 years prior to that period. As a result, corporate profits are the highest they've ever been since the late 1940s.

Against this backdrop, policymakers must work to reduce corporate consolidation and power while also helping to buttress Mainers against ongoing price increases.

Mainers feel the pain of rising prices

A rapid increase in prices of essential goods and services can stretch any household budget and is especially painful for people with low incomes who are often already living paycheck-to-paycheck. Before the pandemic, nearly half of Mainers were unable to cover a surprise expense as small as $400 without taking on some debt.[2] When the price of essentials such as groceries, gas, and rent increase rapidly, many families can easily be thrown into financial crisis.

For some families the impact of rising prices has been lessened somewhat by rising wages, especially in certain sectors of the economy. For example, as of April 2022, average hourly wages for leisure and hospitality workers in Maine were 13.2 percent higher than a year before. Pay in these sectors outstripped inflation, which rose at 8.5 percent over the year, leaving workers with more money in their pockets even with higher prices.[3]

However, many workers as well as Mainers on fixed incomes have seen a decline in their ability to cover higher costs. The average hourly wage for all private sector workers has increased just 7.5 percent over the past year,[4] and while Social Security recipients received a 5.9 percent cost of living adjustment in January, prices have since outpaced that increase.

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Price increases are greatest where corporations have the most power

Over the past three decades, there has been a consistent consolidation of market power, with a small number of corporations controlling most of the market for a particular product.[5] While some amount of consolidation can bring benefits to consumers, as larger companies are able to achieve savings through efficiency of scale, excessive consolidation reduces competition and makes it easier for companies to charge excessive prices.

Studies have shown that since 1980, companies charging higher markups and collecting larger profits have come to dominate many industries, leading to higher average prices for customers.[6] A study published by the Federal Reserve Bank of Boston found the widespread economic concentration the US economy has undergone since 2005 resulted in a 25 percent increase in producer's ability to pass costs onto consumers.[7] Other research confirms that increased competition helps reduce inflation, and concentration of market power among just a few firms increases it.[8]

Some of the sectors which currently have the highest rate of growth in prices also have the highest rates of market concentration:

Gas. A 2004 report by the US Government Accountability Office showed that rapid consolidation of the US petroleum market in the 1990s did indeed lead to price increases at the pump.[9] Over the past year, gas prices in Maine have risen 59 percent.[10] These price increases have continued even after crude oil prices declined. For example, crude oil prices peaked on March 8 at $124 a barrel. Since then, the price of crude has declined by 5 percent, but the price of gas in Maine has increased 18 percent.[11]

Food. Just four firms control more than half of the meat-processing industry.[12] Over the past year, the price of meat has risen 12.3 percent. Other common grocery items are also only produced by a small number of large corporations.[13]

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- Three corporations produce 73 percent of all breakfast cereals, the price of which has risen 12.1 percent in the past year.
- Four corporations sell 61 percent of all the bread in the United States, the price of which has risen 8.7 percent.
- Consolidation, especially at the regional level, in the dairy industry has led to many small farms going out of business because the large firms can set prices for raw milk especially low.[14] However, consumers are currently paying very high prices for milk at the store – up 15.9 percent over the year.

Electricity. Mainers have very few options for purchasing electricity. Transmission and delivery costs are essentially set by the single provider servicing their home. And while there is some competition in the "supply" component of electricity bills, just 10 percent of Mainers use competitive energy providers.[15] The vast majority receive the "standard offer" price through Central Maine Power or Versant Energy. Nationally, electricity costs have risen 12 percent over the past year.

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Corporations are reporting record profits – and still raising prices

Consolidated firms in the food processing and energy sectors have dramatically raised their prices while reaping historic profit margins.

In 2021, corporate profits were the highest they've been since the late 1940s.[16]

Despite the adversity being faced by hardworking families as a result of the economic disruption caused by COVID-19 and other global events, corporations continue to extract greater profits. An analysis of financial filings of the top 100 US Corporations by *The Guardian* found median profits were up by 49 percent compared to before the pandemic, while median wages only increased by 1.6 percent over the same period.[17]

Analysis by the Economic Policy Institute (EPI) found a similar trend. During the period from April 2020 through December 2021, in the nonfinancial corporate sector, for every dollar in price increases, 54 cents went toward corporate profits, while just 8 cents went to increased wages.[18]

These figures are far from the norm — they're upside down. According to EPI, from 1979 to 2019, profits contributed about 11 percent to price growth while labor costs contributed more than 60 percent.[19]

If we look closely at sectors where prices most significantly impact household costs, we can see how firms in consolidated industries have operated during this period of heightened inflation. For example, consolidated firms in the food processing and energy sectors have dramatically raised their prices while reaping historic profit margins.

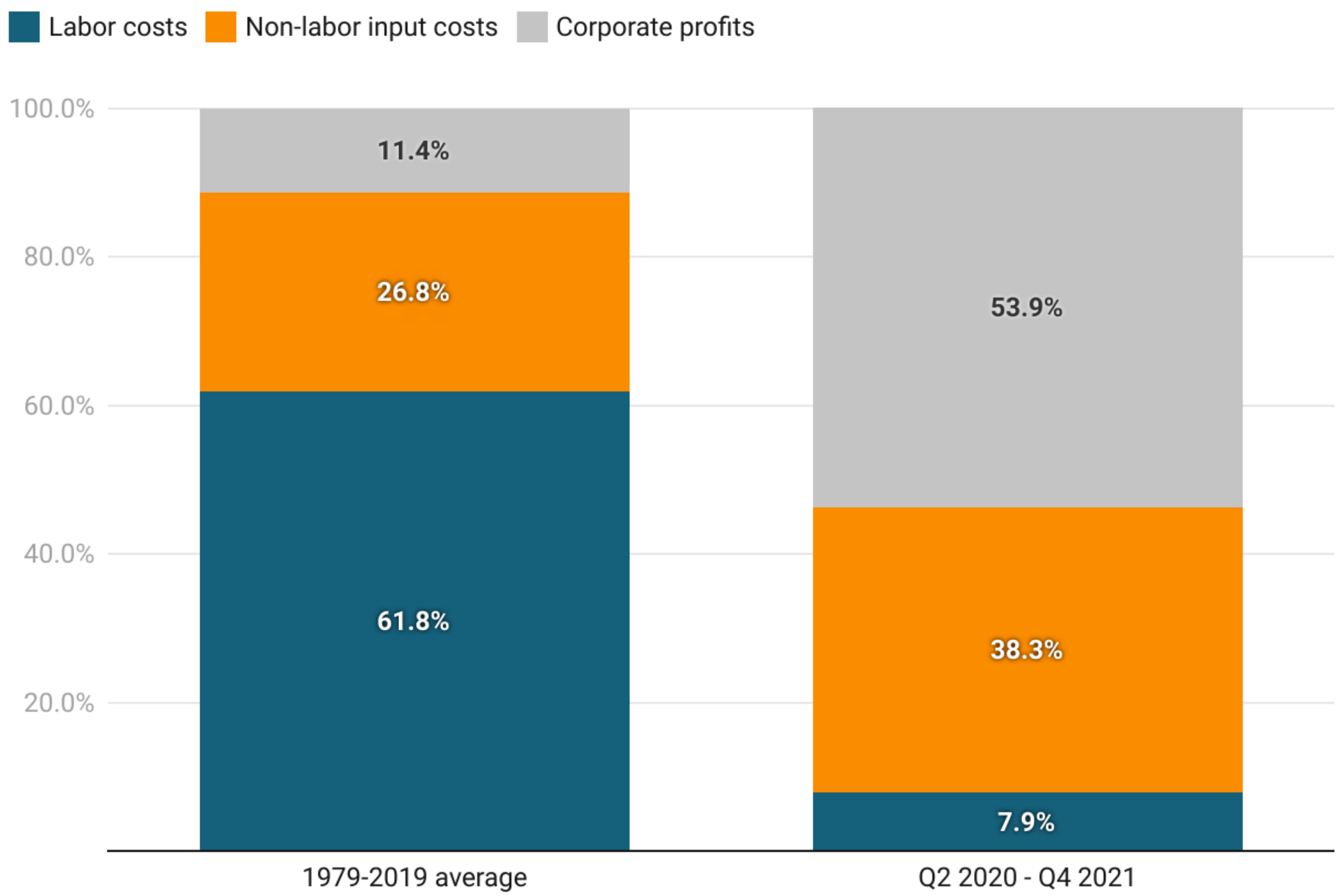
According to the National Economic Council, the four biggest companies in the highly concentrated meat-processing industry reported in late 2021 that their gross profits had increased by more than 120 percent compared to before the pandemic.[20] They also collectively spent at least $4 billion on stock buybacks and dividends to shareholders. Meanwhile, from December 2020 to December 2021, the price of meat, poultry, fish, and eggs increased by 12.5 percent, a leading driver in the rising cost of groceries.[21]

Tyson Foods is one of the world's largest meat processing firms and has a production facility in Portland, Maine. The company saw shares reach a record high this year after reporting first-quarter profits had nearly doubled.[22] Tyson raised its beef prices by an average of 31.7 percent in the quarter ending January 1 and raised prices of all its products by an average of 19.6 percent.

Hormel Foods, another leading food processing corporation, announced that due in part to its pricing power — the company's ability to raise prices without losing market share — the company's operating income rose by 19 percent in the first quarter of 2022 compared to the same period a year earlier. Yet CEO Jim Snee told investors the company was implementing another round of price increases for its grocery products.[23]

Another sector reaping historic profits as prices for consumers have skyrocketed is the oil industry. Russia's invasion of Ukraine in February and subsequent sanctions have curtailed the supply of oil and capacity to refine it into gasoline. However, oil companies were reporting record profits before the

Figure 1: Corporate profits used to account for a small portion of price increases. Recently, they've represented the majority.



SOURCE: MECEP analysis of Economic Policy Institute data

invasion and have rebuffed calls to increase supply. US households that remain dependent on oil for heating and transport, including many in the cold, rural state of Maine, have meanwhile faced sharply higher prices.

Chevron CEO Mike Wirth told investors during the company's 2021 Q4 earnings call, "the last two quarters have been the best two quarters the company has ever seen. And last year was 25 percent higher than the best year in our history."[24]

Exxon reported first quarter profits in 2022 of $5.5 billion, double its earnings from the same period the year before. The company also announced it would triple stock buybacks from $10 billion to $30 billion through 2023.[25]

At a time when many workers and families face increased struggles to make ends meet, the profits of powerful corporations are soaring and prices continue to rise. This disparity illustrates an economic system that enables corporate giants to take advantage of circumstances to keep prices high and bottom lines robust — all at the expense of everyday people.

Policymakers can reign in corporate power and reduce the pain caused by rising prices

Lawmakers must act to protect the most vulnerable Mainers while taking on corporate giants whose profiteering is making people's struggles worse.

Regulators must take a new approach to antitrust laws

Federal and state regulators can play a key role in preventing excessive concentration of market power — which allows for higher prices and lack of competition. The US Department of Justice (DOJ) and Federal Trade Commission (FTC) are responsible for approving corporate mergers in the United States and enforcing antitrust laws. Yet for decades the federal government has retreated from its role in ensuring markets are competitive.

Since the late 1970s, the federal government has been increasingly reluctant to bring antitrust cases against corporations, and the FTC has routinely approved even the largest corporate mergers.[26] The DOJ and FTC need to recognize the harm done by excessive market concentration and step up enforcement appropriately. Moreover, Maine does not have to wait for federal action. The Maine Attorney General can use their own authority to investigate and pursue corporations for violations of antitrust law.[27]

Similarly, Maine has several regulatory agencies which can more actively restrain corporations seeking excessive price increases. The Maine Public Utilities Commission (MPUC) is charged with ensuring companies such as Central Maine Power and Versant Energy do not impose unreasonable price hikes on their captive customers. Yet MPUC regularly approves significant rate increases, most recently boosting the cost of electricity supply by more than 80 percent for 2022.[28]

The state's ability to control health care costs is somewhat limited by the complexity of the health care market, but the State Bureau of Insurance can reject excessive health insurance rate increase requests from some providers, and the newly established Office of Health Care Affordability has a mandate to find ways to reduce costs through greater state regulation and oversight.

Governor Mills has the power to tackle price gouging directly

Policymakers could also tackle corporate 'profiteering' — the leveraging of circumstances to raise excessive profits — head-on. Maine law allows the governor to prevent price gouging during a period of "abnormal market disruption" for a specified commodity. Under the law, businesses cannot raise prices by more than 15 percent above their previous prices (after accounting for increased input costs).[29] This law was invoked at the start of the COVID-19 pandemic but has since lapsed. Reinstating a market disruption proclamation would reduce instances of profiteering and price gouging. While it's not immediately clear how many companies would be constrained by this rule in Maine, recent national data on corporate profits shows that average aggregate profit margins for corporations have been close to 15 percent for the past year.[30]

A windfall tax could redirect profits to struggling Mainers

Another tool to address profiteering would be the adoption of a one-time "excess profits" or "windfall" tax. Businesses would pay a special high rate of tax on any additional profits above their 2019 levels. Such taxes have been adopted as extraordinary measures before. The United States had a widespread 95 percent excess profits tax during World War II to prevent war profiteering and implemented a more targeted windfall tax against oil companies in the 1980s.[31] Recently, the Conservative government in the United Kingdom has announced its own windfall tax on energy companies, with the proceeds paying for assistance to struggling Britons.[32] Reinstating such a tax at the state or federal level would remove the incentive for corporations to profit at the expense of suffering Mainers.

Robust safety net programs can mitigate hardships caused by rising prices

Aside from these direct actions, lawmakers have tools to reduce suffering in the short term. and to bring down prices in particular areas in the medium term.

Maine's recent initiative to issue $850 checks to most adults will provide some immediate relief to families facing increased costs. However, this program is expensive — around $730 million dollars — representing 15 percent of general revenues this year[33] and is unlikely to be repeated on this scale. It is also not well-targeted to people struggling to afford higher costs of the basics, since couples making up to $200,000 could receive a payment of $1,700.[34]

To ensure the most vulnerable Mainers are protected from the impacts of rising prices, lawmakers should strengthen existing safety net programs:

- The Supplemental Nutrition Assistance Program (SNAP) helps families with low income purchase food. The federal government is temporarily allowing states to issue the maximum possible SNAP benefit to families. Maine should continue applying for this maximum assistance as long as possible.
- The Temporary Assistance for Needy Families (TANF) program provides a cash benefit to the poorest families. Thanks to recent improvements to the program, the monthly TANF benefit increases each year to keep up with inflation. However, the program is still under-utilized, and Maine has accrued a substantial balance of unspent funds.[35] In this time of acute need, Maine should ensure as many eligible people as possible make use of this extra support.
- The Low Income Home Energy Assistance Program (LIHEAP) provides assistance to Mainers facing difficulty heating their homes. However, help doesn't reach everyone who needs it because there aren't enough staff to process applications.[36] Again, the state should streamline administration of the program to increase access and raise awareness so that all eligible Mainers know to apply.

Long-term policy changes are needed to curb future price increases

For longer-term solutions to bring down the cost of living, lawmakers need to look at investments in programs to reduce key costs:

- Many state tax expenditure programs implicitly encourage corporate consolidation by favoring large companies over small businesses in several ways. Tax breaks generally scale with the size of the business, providing a bigger break to the largest corporations — for example, in Maine's Business Equipment Tax Reimbursement (BETR) program, 46 percent of the benefit goes to the largest 1 percent of applicants.[37] Some tax benefits are only available to companies over a certain size threshold — for example, the outcomes in the recent Paycheck Protection Program showed how small firms can be excluded because they don't have the same capacity to apply for government assistance as their large competitors.[38]

  Maine must stop effectively subsidizing market consolidation with many of these programs. Reforming or eliminating wasteful and costly tax breaks for corporations will end this incentive to consolidate and free up state revenue to help consumers.
- Close to 94,000 Mainers have already been insulated from rising health care costs by the expansion of eligibility for MaineCare, the state's Medicaid program.[39] The legislature has built on

this success by extending coverage for thousands more children with low income and women following childbirth.[40] Maine has also taken small steps toward regulating the price of prescription drugs. Doing so more aggressively would produce real savings for most Mainers. At the federal level, Congress authorized additional subsidies for people purchasing individual insurance under the Affordable Care Act, from which 66,000 Mainers currently benefit.[41] Congress must extend these subsidies to ensure premiums don't rise for these people.

- Maine should build on the recently passed wage subsidies for child care providers which will reduce the need for care centers to increase tuition and will help retain staff. The state or federal government could also implement a subsidy for parents to make it easier to afford care. A recent federal proposal would have capped costs at a share of parents' income up to 7 percent.
- Affordable housing remains an acute challenge in Maine. The recent passage of statewide zoning reform will gradually increase the supply of housing and bring prices down. There are additional steps which can be taken, including a state housing voucher program, construction of public housing, and stricter regulation of short-term rentals which take housing away from Mainers.

An acute problem requires decisive leadership

The rapid increase in the cost of living is clearly hitting many Mainers hard, especially those with low income. In the early months of the pandemic, lawmakers took decisive action to address the public health crisis and unprecedented economic fallout that resulted. Now, more than two years after the outbreak of COVID-19 in the United States, similar leadership is required to take on both the causes and impacts of inflation. Lawmakers must act to protect the most vulnerable Mainers while taking on corporate giants whose profiteering is making people's struggles worse.

About MECEP

The Maine Center for Economic Policy is a nonprofit research and policy organization dedicated to economic justice and shared prosperity by improving the well-being of Mainers with low and moderate income. Since its founding in 1994, MECEP has provided policymakers, advocates, media organizations, and the public with credible, rigorous research and analysis. MECEP is an independent, nonpartisan organization.

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Endnotes

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