U.S. Chamber of Commerce

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April 27, 2022

The Honorable David Scott
Chairman
Committee on Agriculture
U.S. House of Representatives
Washington, DC 20515

The Honorable Glenn Thompson
Ranking Member
Committee on Agriculture
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Scott and Ranking Member Thompson:

Thank you for your interest in cattle markets and meat prices. I write today regarding your April 27 hearing. As price increases hit American consumers, the Committee should focus on the real underlying causes, namely, macroeconomic trends that include supply and demand shocks and monetary policies, rather than the strawmen of industry concentration or unfair business practices. Moreover, 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.

Market Forces Are Driving Prices

Earlier this year, the Chamber explained the causes of higher meat prices:

> Like so many other products, the factors driving meat prices higher include increased demand, COVID-related supply chain disruptions, and increased input costs, especially higher energy and labor costs.
>
> One has to ask, if, as the administration asserts, consolidation in meat and other industries has been a problem for years and it is also driving the current surge in prices, then why didn't it drive prices higher before? It is pretty clear that the administration is attempting to use higher prices to justify their preexisting agenda to overturn decades of bipartisan consensus around antitrust and competition policy in favor of a 'government-knows-best' regulatory approach. That isn't economics, it is politics and sadly, such government intervention would likely further constrain supply and push prices even higher.[1]

[1] See Chamber statement, at https://www.uschamber.com/security/supply-chain/u-s-chamber-objects-to-misguided-administration-efforts-to-address-meat-prices. See also Recording of US

These causes are readily apparent to the American public. 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.

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."[2]

Industrial Concentration is Not Causing Higher Prices

Contrary to the assumptions of many in Congress, the U.S. economy is not becoming more concentrated. In an exhaustive analysis of all available economic census data from the past two decades, Dr. Robert Kulick finds that since 2002, U.S. economic concentration has remained flat.[3] In fact, since 2007, in both the manufacturing sector and the broader economy, the economy became less concentrated.

In terms of meat specifically, the four-firm packer concentration ratios in beef and pork packing is monitored by the Packers and Stockyards Division (P&S) of the

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Chamber Food Inflation Event Virtual Panel: Understanding Inflation Trends in Food and Related Industries.

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

[3] 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.

Agricultural Marketing Service (AMS). P&S data show the four-firm concentration ratio in fed cattle beef packing has not changed meaningfully in more than 25 years.[4]

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."[5]

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.

Indeed, in connection with this hearing, Ranking Member Thompson has warned against using this hearing as a "political charade."[6]

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:

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[4] See https://www.meatinstitute.org/ht/a/GetDocumentAction/i/194719.
[5] See https://www.washingtonpost.com/us-policy/2022/01/10/white-house-inflation-strategy/.
[6] See https://directory.politicopro.com/congress/member/66884.

> 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.[7]

In recent months, Japan, China, and Germany all reported their highest inflation in more than a decade.[8] 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 rapidly.[9] 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 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.[10]

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.[11]

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."[12] In a separate report, ERS identified the causes of inflation: "2020 was a year of high food price inflation due to shifts in consumption patterns and supply chain disruptions resulting from the coronavirus pandemic."[13]

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[7] See https://twitter.com/LHSummers/status/1481241779508846599?cxt=HHwWjoC94Z3jto4pAAAA.
[8] See https://www.washingtonpost.com/opinions/2021/11/15/inflation-its-past-time-team-transitory-stand-down/.
[9] Id.
[10] See https://www.washingtonpost.com/opinions/2022/01/10/white-house-again-offers-bizarre-message-inflation/.
[11] See https://www.reuters.com/business/retail-consumer/high-us-meat-prices-packer-profiteering-or-capacity-crunch-2022-01-19/.
[12] See https://www.ers.usda.gov/data-products/food-price-outlook/summary-findings/.
[13] See https://www.ers.usda.gov/data-products/ag-and-food-statistics-charting-the-essentials/food-prices-and-spending/.

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.

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.

Thank you for the opportunity to share our 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 House Committee on Agriculture