EXPLAINER

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Six Ways the Federal Government can Lower Costs and Fight Inflation

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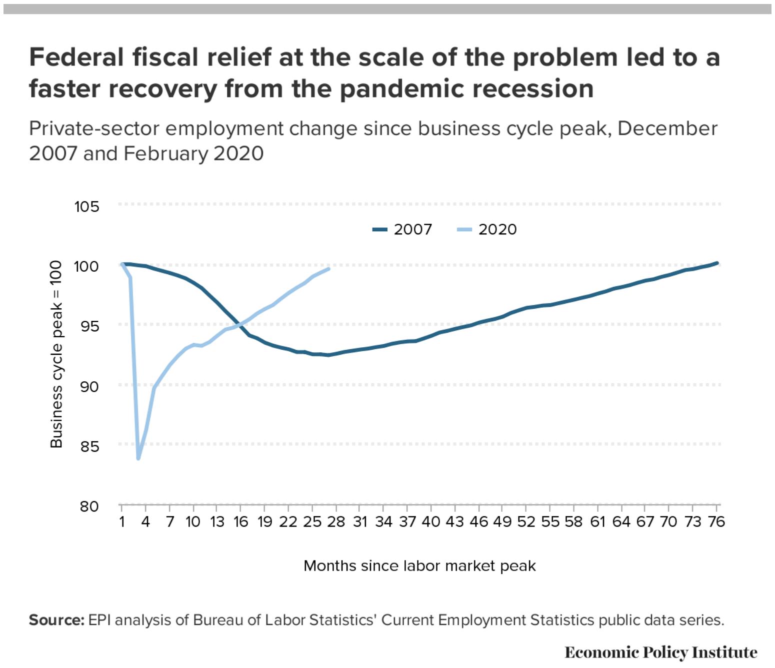
Prices climbed to historic highs in 2021 and 2022. This persistent inflation in gas, cars, food, and housing has hit people all across the country hard. Small businesses were squeezed as large corporations exerted their power to raise prices.

In a May speech, President Biden described inflation as "the number one challenge facing families today," and he announced several initiatives to bring down costs for families. This explainer outlines several policies mentioned in the President's speech as well as a few other policies that Congress can enact.



During the pandemic, Congress passed legislation signed into law by President Biden that provided survival checks, pandemic unemployment assistance, and child tax credits to keep people afloat through the worst of the pandemic recession. And while corporate-backed special interests have attempted to pin inflation primarily on these investments to help families stave off financial disaster, the evidence shows the opposite. Federal policies that put money in people's pockets have helped Americans weather the recession and rising prices. COVID relief legislation also led to a speedy recovery–roughly eight years faster than the recovery from the Great Recession. Thanks to these investments, during the first year of the Biden presidency, the labor market added nearly 7 million jobs–the most jobs added in any year since World War II.

Around the world, governments had different policy responses to the pandemic. The US, New Zealand and Great Britain made some of the most significant public investments to help people make it through. Other nations, such as Denmark, Sweden and Portugal, spent a much smaller share of their GDP. But even in countries that spent less, prices saw a significant increase–evidence that debunks arguments that President Biden's policies drove inflation. **Instead, the pandemic, the supply chain crunch, the war in Ukraine, and corporate price-gouging are at the root of current price increases**.

Since the low point of the COVID recession when unemployment and economic growth were at their worst, most of the increases in prices (53 percent) in the non-financial corporate sector of the private sector have been due to increased corporate profits. Nonetheless, many CEOs are brazenly attributing this solely to inflation. The CEO of U.S.-based bakery Hostess recently told a reporter that inflation gives them cover to increase prices. The White House criticized the four largest meat processing companies for taking advantage of inflation to raise prices and costs for consumers. In a shareholder call, Walmart executives pointed to "price management" (in other words, higher prices) as the basis for strong growth in the last year. Meanwhile, the amount that companies spent on hiring and wages was just 8 percent. As Josh Bivens of the Economic Policy Institute writes, "This is not normal. From 1979 to 2019, profits only contributed about 11% to price growth and labor costs over 60%."

While America alone cannot untangle the global supply chain crunch or control a worldwide pandemic, there are important actions the Biden Administration and Congress can take to moderate these inflationary effects. At the same time, such actions would limit corporate price-gouging and bring the American people some relief at the cash register.

Here are six solutions the federal government can focus on to lower costs for families and fight inflation. Some of these solutions require congressional action. Others, such as the Administration's commitment to protecting competition laws, drawing down strategic oil reserves, or reining in prescription drug pricing, can be accomplished through executive action. All of these would help slow rising costs so that the already remarkable recovery is robust and broadly felt.

1. **Regulate Price Gouging:** In addition to labor costs and corporate profits, costs to companies also include nonlabor input costs like energy, land, and capital. When any of these costs rise, the increase can be passed on to consumers. As noted above, much of the rise in prices since the recession's low point is due to an increase in the share of corporate costs going to corporate profits. However, labor costs as a share of price increases are less than is typically the case. In other words, little of the increased costs passed on to consumers went to workers in the form of wage growth that kept up with inflation. Over the same period, though, companies enjoyed a 25 percent bump in year-over-year corporate profits.

   Rather than allowing shareholders and CEOs to reap the benefits of these corporate profits exclusively, several legislators have raised the prospect of taxing these excess profits and, in some cases, using the revenue for further COVID-19 relief or public investments in child care or elsewhere in the economy.

Sen. Sheldon Whitehouse (RI) and Rep. Ro Khanna (CA) introduced S. 3802 and H.R. 7061, respectively. The Big Oil Windfall Profits Tax Act would tax the excess price of oil sold by the biggest oil companies compared to the pre-pandemic average costs. Revenue from the bill would be rebated to consumers quarterly, phasing out for people making $75,000 a year or households making more than $150,000.

Rep. Peter DeFazio (OR) introduced H.R. 7099, the Stop Gas Price Gouging Tax and Rebate Act, in March of 2022. This bill imposes a one-time 50 percent tax on the excess profits of the largest oil companies in 2022, defined as the difference between 2022 profits and pre-pandemic 2015-2019 average profits. The revenue would go back to consumers as a refundable tax credit phased out by income.

Sen. Bernie Sanders (VT) similarly defines excess profits in S.3933, the Ending Corporate Greed Act, by comparing 2022 profits to pre-pandemic profits. This bill would tax the excess profits of any corporation with over $500 million in revenue. However, the Sanders bill does not explicitly designate a use for revenue from the legislation. As this bill demonstrates, legislators can easily craft an excess profits tax that zeroes in on corporations at a certain revenue threshold across the economy.

In early May, Reps. Schrier (WA) and Porter (CA) introduced legislation, the Consumer Fuel Price Gouging Prevention Act, which would allow the President to issue an Energy Emergency Declaration that would prevent companies from excessively raising gas and home energy costs.

2. **The Federal Reserve and Interest Rates:** Another way to combat inflation is the Federal Reserve's (The Fed) ability to set interest rates. If the Federal Reserve lowers interest rates, it can heat up the market by, for instance, making it cheaper for the typical consumer to borrow money or for employers to hire people. If the Fed goes the opposite route and raises interest rates, things like mortgage rates and unemployment rise, thus slowing economic activity.

   For several years the Fed has kept interest rates low. This policy grew the economy as lower interest rates allowed employers to spend more money hiring workers, pushing unemployment to historic lows.

   As inflationary pressure from the pandemic, the supply chain crunch, the war in Ukraine, and corporate greed have increased, the Fed has begun to raise interest rates to slow the economy. In early May, the Federal Reserve raised interest rates by 50 basis points, the second of seven proposed rate hikes planned for 2022.

   But the Fed has to be cautious. Too many hikes run the risk of cooling off the economy too much, temporarily spiking unemployment, and moving the economy into a painful downturn. This would disproportionately affect the most disadvantaged workers, including Black and Hispanic workers, people with disabilities, and low-wage workers.

3. **<u>Draw Down Strategic Oil Reserves</u>:** Generally, global oil markets determine gas prices. This means there is little an American president can do to lower gas prices. One lever the President *can* employ is to release oil from the U.S. strategic reserves. President Biden did just that, announcing in March of 2022 that the U.S. would release 1 million barrels of oil a day. If the Administration can get our international allies to do the same, this could put a dent in gas prices at home and abroad.

4. **<u>Invest in Care</u>:** Public investments in child care and elder care can help blunt inflationary pressures by raising wages for workers and lowering costs for parents and family members as the economy slows down.

   Child care costs have grown faster than inflation has for years. According to the National Women's Law Center, investments in affordable, quality care would "...increase the number of women with young children working full-time/full-year by about 17 percent, and by about 31 percent for women without any college degree. These investments would boost the lifetime earnings of a woman with two children by about $94,000, which would lead to an increase of about $20,000 in private savings and an additional $10,000 in Social Security benefits."

   As COVID-19 waves continue to result in more infections and long-COVID has turned into a mass-disabling event, the need for more healthcare and home care will persist. Home care costs for seniors and people with disabilities are already high, with a 5 percent increase in the last year alone. Public investments in home and elder care would make care more affordable and raise wages for care workers.

5. **<u>Rein in Prescription Drug Prices:</u>** Prescription drug prices have long been prohibitive for many people who need vital medications. During the pandemic, prescription drug prices rose faster than inflation for more than half of all drugs, exacerbating the pain felt by consumers. In February, President Biden announced that lowering drug prices would be a top priority for his administration. Rep. Porter (CA) and Rep. Underwood (IL) introduced the *Freedom from Price Gouging Act* that would force prescription drug makers to pay the government back when they raise prices for drugs covered under Medicare Part B. And members of the Congressional Progressive Caucus, the Congressional Black Caucus, and the Congressional Hispanic Caucus have urged the President to use the power of the executive to rein in drug costs. Reducing prescription drug prices would relieve inflationary pressure for millions and protect them from excessive price increases in the future.

6. **<u>Accurately Measure Inflation for Seniors:</u>** Inflation affects people differently depending on incomes and the items they purchase. For some, it is much harder to absorb swings in prices. Seniors living on a fixed income are particularly vulnerable to jumps in inflation. A simple way to ease inflationary pressures on retirees is to increase

benefits by accurately measuring the prices seniors pay for different items and then calculating the Social Security cost of living adjustment (COLA) accordingly. Social Security 2100: A Sacred Trust (S.3071 and H.R 5723, sponsored by Sen. Blumenthal and Rep. Larson (CT)) would accomplish this by tying COLAs to the CPI-E, which is more precise than the current measure. Rep. Sanchez also has a bill, the Strengthening Social Security Act (H.R. 4921) that would also increase benefits for seniors by switching to the CPI-E.

Many seniors only have their Social Security income to live on in retirement. Increasing benefits by changing how the COLA is calculated would bring them added financial security and make it easier for them to buy the things they need.

The spike in inflation that began in the pandemic has brought uncertainty into an otherwise remarkable economic recovery. While wages did grow somewhat, higher prices for bread, eggs, milk, and gas caused 19 percent of Americans to say that they cut back on their grocery expenses and 31 percent to say they cut back on fuel and transportation costs. Policies like the American Rescue Plan Act and other COVID-relief legislation helped people pay bills, lowered the unemployment rate, and mitigated higher prices by putting money in people's pockets, and helped the economy recover. But many of these benefits have expired.

While the President works with Congress on additional measures to support a robust economy, taking the steps outlined above would rein in inflation and bring much-needed relief to people and families across the nation.