POLITICS

WHAT KAMALA HARRIS DOESN'T GET ABOUT FOOD COSTS

The real culprit is the host of federal laws and regulations propping up prices to benefit corporate interests.

By Scott Lincicome

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Last week in North Carolina, Kamala Harris called for a new federal law to ban "price gouging on food." Such a law might be popular, but it would have, at best, no impact on grocery prices and might even make the problem worse. That's especially unfortunate because it distracts from all the federal policy changes that actually *could* reduce food prices.

The evidence that price gouging was responsible for the post-pandemic spike in food prices is somewhere between thin and nonexistent. A recent report from the New

York Federal Reserve found that retail food inflation was mainly driven by “much higher food commodity prices and large increases in wages for grocery store workers,” while profits at grocers and food manufacturers “haven’t been important.” Similarly, a 2023 report from the Kansas City Fed observed that rising food prices were overwhelmingly concentrated in processed foods, the prices of which are more sensitive to (and thus driven by) labor-market tightness and wage increases. Grocery profits did rise briefly during the pandemic, but the increase was the predictable result of increased demand (thanks to government stimulus along with more Americans eating at home) running headfirst into restricted supply (thanks to pandemic-related closures and supply-chain snarls, along with the war in Ukraine, a major food producer). In fact, expanding corporate profits frequently accompany bouts of heightened demand and inflation; the past few years have been no different.

Even if excessive corporate profits *had* been the cause of higher food costs, a price-gouging ban would do nothing to relieve Americans’ current burdens for the simple reason that food prices long ago stopped rising. From January 2023 to July 2024, the “food at home” portion of the Consumer Price Index increased by just over 1 percent, much less than the overall rate of inflation, and consistent with the long-term, pre-pandemic trend. The U.S. Department of Agriculture adds that the share of consumers’ income spent on groceries, which did tick up during the pandemic, declined last year and remains far below levels seen in previous decades. Did corporate profiteering suddenly just stop?

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In reality, the grocery business has always had notoriously thin profit margins. According to the latest industry-wide data from NYU's Stern School of Business, the industry's average net profit margins were just 1.18 percent in January 2024—ranking 80th of the 96 industries surveyed and lower than the margins the food industry recorded in all but one of the past six years. Even Biden White House economists' own analyses of grocery-price inflationin both 2023 and 2024 downplayed corporate profiteering when discussing recent price trends and what's behind them.

Inflation is generally a macroeconomic issue, driven by broad monetary and fiscal policies, not the choices of individual corporate actors. Food prices in particular are shaped by volatile forces—weather, geopolitics, natural disasters—beyond government control or influence, which is why economists' "core inflation" metric omits them. As economics textbooks and centuries of experience teach us, limiting the amount that companies can charge is more likely to reduce supply by discouraging investment and production: a recipe for both shortages and higher, not lower, prices in the long term. The main solution to voters' grocery angst is simply time, as normal market conditions return and American incomes slowly outpace U.S. food prices.

That fix, of course, is a nonstarter for candidates running for an election just months away and tagged, fairly or not—mostly not—with causing higher grocery prices. Politicians whose pitch to voters is "Just be patient" could soon be out of a job—so they must promise to do *something*. The good news is that an eager White House and

Congress, laser-focused on food prices, have plenty of policy reforms available that would give American consumers some relief. The bad news is that they would all involve angering powerful business interest groups, which is why they never actually happen.

Start with trade restrictions. To protect the domestic farming industry from foreign competition, the United States maintains tariffs and "trade remedy" duties on a wide range of foods, including beef, seafood, and healthy produce that can't be easily grown in most parts of the country: cantaloupes, apricots, spinach, watermelons, carrots, okra, sweet corn, brussels sprouts, and more. Special "tariff-rate quotas" further restrict imports of sugar, dairy products, peanuts and peanut butter, tuna, chocolate, and other foods. These tariffs do what they are designed to do: keep prices artificially high. Sugar, for example, costs about twice as much in the U.S. as it does in the rest of the world. The USDA conservatively estimated in 2021 that the elimination of U.S. agricultural tariffs would benefit American consumers by about $3.5 billion.

In addition to tariffs, regulatory protectionism—against imported products such as tuna, catfish, and biofuel inputs—causes more consumer pain for little health, safety, or environmental gain. The 2022 baby-formula crisis exposed the degree to which Food and Drug Administration regulations effectively wall off the U.S. market from high-demand, safely regulated alternatives made abroad—alternatives that the Biden administration tapped when the crisis hit. These regulatory measures further inflate prices: The USDA, for example, once calculated that mandatory country-of-origin labeling for meat imports cost American meatpackers, retailers, and consumers about $1.3 billion annually. Those rules were scrapped after years of litigation, but cattle ranchers and their congressional champions continue working to reinstate them.

Propping up the domestic food sector is a long-standing American tradition. For dairy products, the Agricultural Marketing Agreement Act of 1937 artificially raises milk, cheese, and other dairy prices, while USDA loans to sugar processors effectively create a price floor for sugar. Produce-marketing orders allow U.S. fruit, nut, and vegetable farmers to limit supply and set rigid inspection rules and other terms of sale that stymie foreign competition and entrepreneurship and further increase domestic prices.

Finally, there's U.S. biofuel policy. The federal Renewable Fuel Standard, created by Congress in the 2000s, requires a certain amount of biofuels to be blended into transportation fuel. The purpose of this mandate is ostensibly environmental: Burning corn-based ethanol produces lower greenhouse-gas emissions than burning gasoline. But, as a 2022 study published in the *Proceedings of the National Academy of Sciences* concluded, when the environmental impact of growing and processing the corn is taken into account, ethanol contributes significantly *more* to climate change. The fuel standard thus has a negative environmental impact even as it significantly increases U.S. corn prices and reduces the land available for other crops. The Congressional Budget Office and other organizations estimate that artificial demand for ethanol has raised Americans' total food spending by 0.8 to 2 percent. Additional price pressures are likely on the way, if they're not here already: A 2024 Kansas City Fed analysis estimates that Inflation Reduction Act subsidies for "clean" and plant-based transportation fuels could boost demand for and prices of oilseed crops and vegetable oils.

Laws and regulations like these add up—especially for Americans with low incomes or large families. So, with grocery prices front of mind for millions of voters, you might expect campaigning politicians to target these policies to achieve a significant, onetime reduction in U.S. food prices and, perhaps, an accompanying bump in the polls.

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Instead, our elected officials not only ignore these measures but actively work to add even more. In just the past year, for example, the Senate voted to override a USDA rule allowing beef from Paraguay, and various members of Congress have championed new duties on imported shrimp and tomatoes.

This reveals a sad reality for American consumers. The federal policies inflating U.S. food prices all result from the same political malady: Each one on its own costs the average person a few cents here and there, but it delivers big and concentrated financial benefits to American cattlemen, shrimpers, farmers, sugar barons, and other powerful groups. As a result of this imbalance, we consumers rationally ignore the policies, while the beneficiaries fiercely lobby to maintain them. So, when elected officials must choose between modestly reducing Americans' grocery bills and delivering many millions of dollars' worth of regulatory goodies to entrenched political benefactors, the choice is simple. Consumers don't stand a chance.

"Corporate greed" is indeed a problem in the U.S. grocery market. Just not in the way politicians say it is.

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