



Corporate greed is not causing inflation, despite the claims of many on the political left who failed to understand the very basics of economic supply and demand.

?If you take a look at what people have, they have the money to spend. It angers them and angers me that you have to spend more. It?s like 20% less for the same price. That?s corporate greed. That?s corporate greed. And we have got to deal with it. And that?s what I?m working on.? ? [President Biden via CNN](#)

Yes, prices have certainly gone up due to inflation. However, that wasn't the fault of corporations. The surge in inflation directly resulted from the supply-to-demand imbalance caused by shutting down the economy (*supply*) and increasing household purchasing power by sending them checks (*demand*).

For the majority of Americans who now get their "news" from social media, the uneducated masses now have a new target of hatred for their financial woes - **corporate greed**.

A Claim Of Absurdity

The problem, as with many of the narratives ramping up the ire of Americans on social media, is it is patently false.

As [Michael Maharrey](#) previously penned:

?One simply has to reason through the claim to uncover the absurdity. If corporations can willy-nilly raise prices and enjoy ?excessive? profits, why don?t they do it all the time? Did corporations suddenly get greedy in 2021? And why did the Federal Reserve spend a decade fretting about inflation being ?too low? as it struggled to hit its 2% target? Was there not enough corporate greed before coronavirus??

When you think about it this way, something else apparently happened.

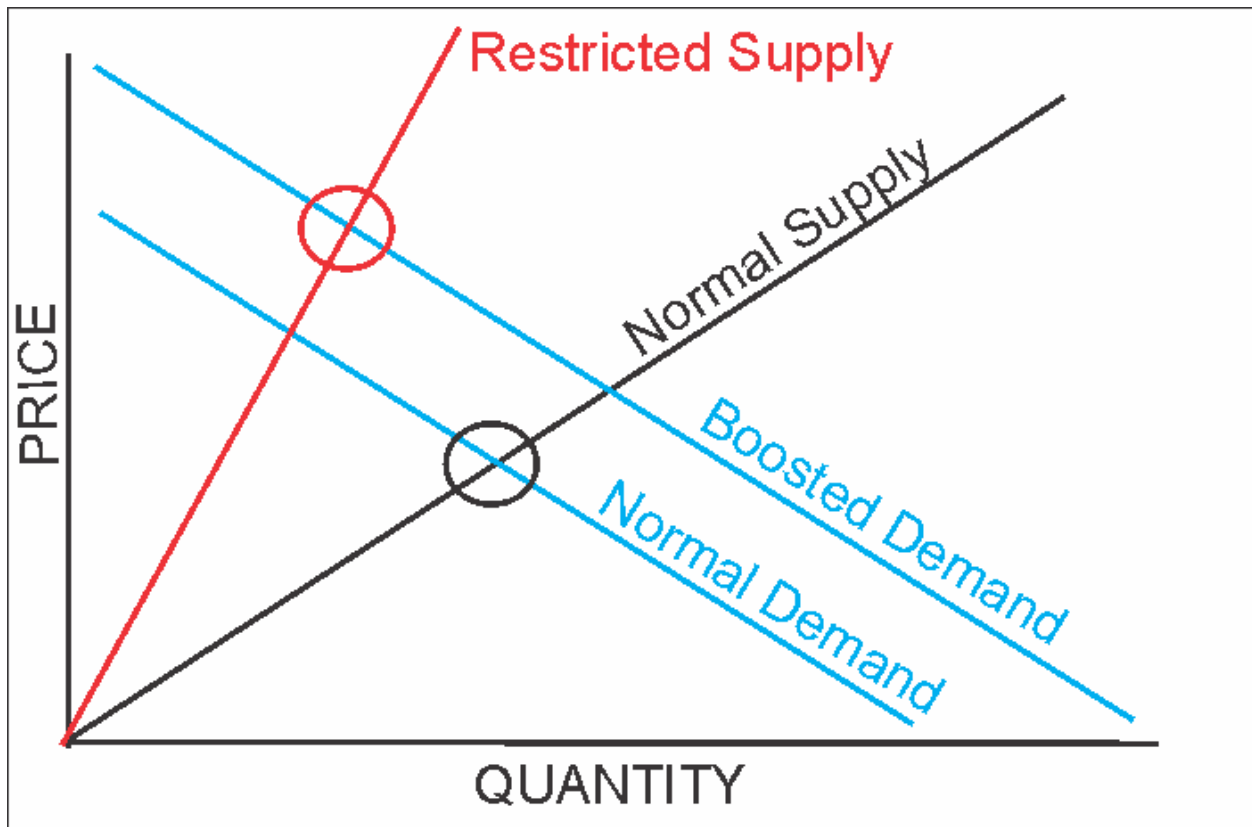
Let's begin with Powell's assessment of the cause of inflation.

?The ongoing episode of **high inflation initially emerged from a collision between very strong demand and pandemic-constrained supply**. By the time the Federal Open Market Committee raised the policy rate in March 2022, it was clear that **bringing down inflation would depend on both the unwinding of the unprecedented pandemic-related demand and supply distortions and on our tightening of monetary policy, which would slow the growth of aggregate demand, allowing supply time to catch up.**

It's crucial to note the complete dismissal of the causes behind the "collision between robust demand and pandemic-constrained supply." I suspect this was intentional in avoiding placing blame at the feet of the current or previous administrations or themselves. However, it muddies the

impact of their actions that created the problem.

The following economic illustration is taught in every "Econ 101" class. Unsurprisingly, inflation is the consequence if supply is restricted and demand increases via monetary interventions.



- Who had the power to shut down the entire economy and force everyone into their homes using a fear-driven campaign? Was it the war, corporations, **or the Government?**
- Who then supplied trillions in stimulus checks directly to households to spend when no supply could be produced? Was that corporations? Russia? **Or was it the Government?**
- Who supported the issuance of trillions in debt issuance to fund those stimulus checks and keep interest rates suppressed? **Was that the Federal Reserve, Russia, or corporations?**
- Was it corporations that put a moratorium on student loans, rent, and mortgage payments, giving individuals a source of additional funds to spend? **Or was it the Government?**

Milton Friedman also had much to say on this issue.



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Corporate Greed Does Not Cause Inflation

Regarding inflation, many armchair economists are quick to quote Milton Friedman.

?Inflation is always and everywhere a monetary phenomenon.?

The problem is there is much more to Friedman's statement on the cause of inflation.

As Milton Friedman once stated, corporations don't cause inflation; **governments create inflation by printing money.**

*It is always and everywhere a result of too much money, of a more rapid increase of money, than of output. Moreover, in the modern era, the important next step is to recognize that today the governments control the quantity of money so that, as a result, **inflation in the United States is made in Washington and nowhere else.** Of course, no government any more than any of us, likes to responsibility for bad things.*

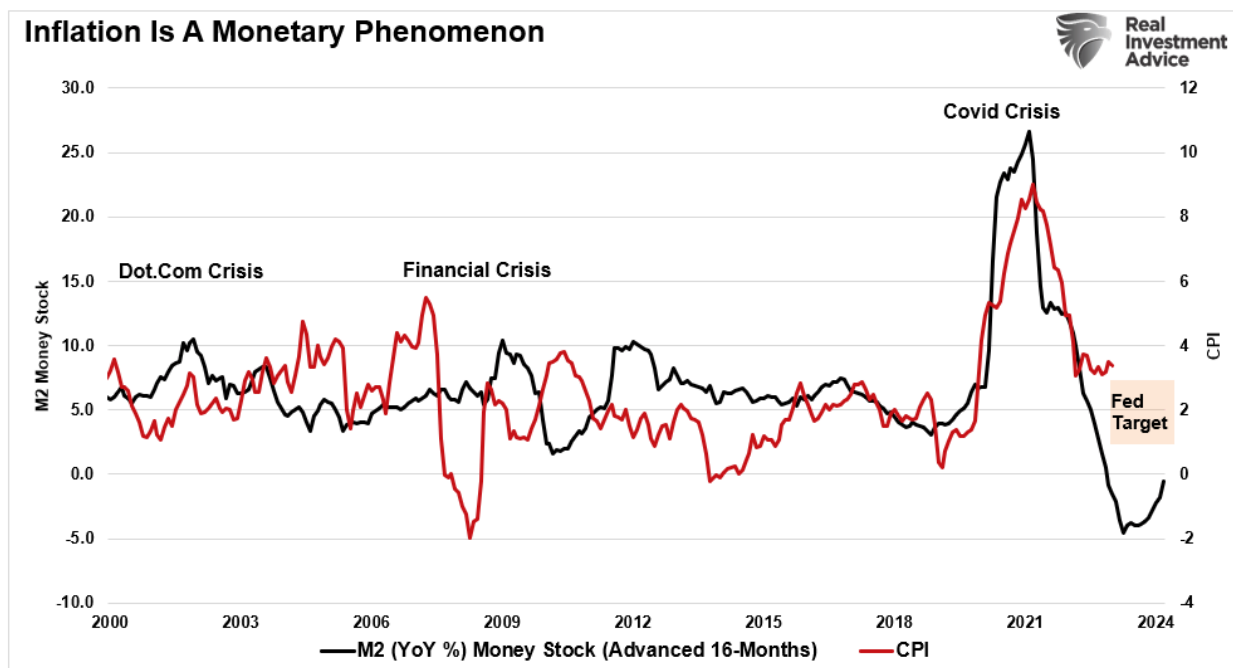
*All of us are humans. If something bad happens, it wasn't our fault. **And the government is the same way,** so it doesn't accept responsibility for inflation. If you listen to people in Washington talk, **they will tell you that inflation is produced by greedy businessmen,** or it's produced by grasping unions, or it's produced by spendthrift consumers, or maybe its those terrible Arab sheiks who are producing it.?*

As he concludes:

***?But none of them produce inflation, for the very simple reason that neither the businessmen, not the trade union, nor the housewife have a printing press in their basement** on which they can turn out those green pieces of paper we call money. Only Washington has the printing press, and therefore, only Washington can produce inflation.?*

The inflation surge has nothing to do with corporate greed taking advantage of consumers but rather the actions of the Federal Reserve and the Government. The cause of inflation was the economic consequence of **"too much money chasing too few goods."**

Milton Friedman's statement is supported by the chart below showing the M2 money supply compared to inflation (with a 16-month lag).



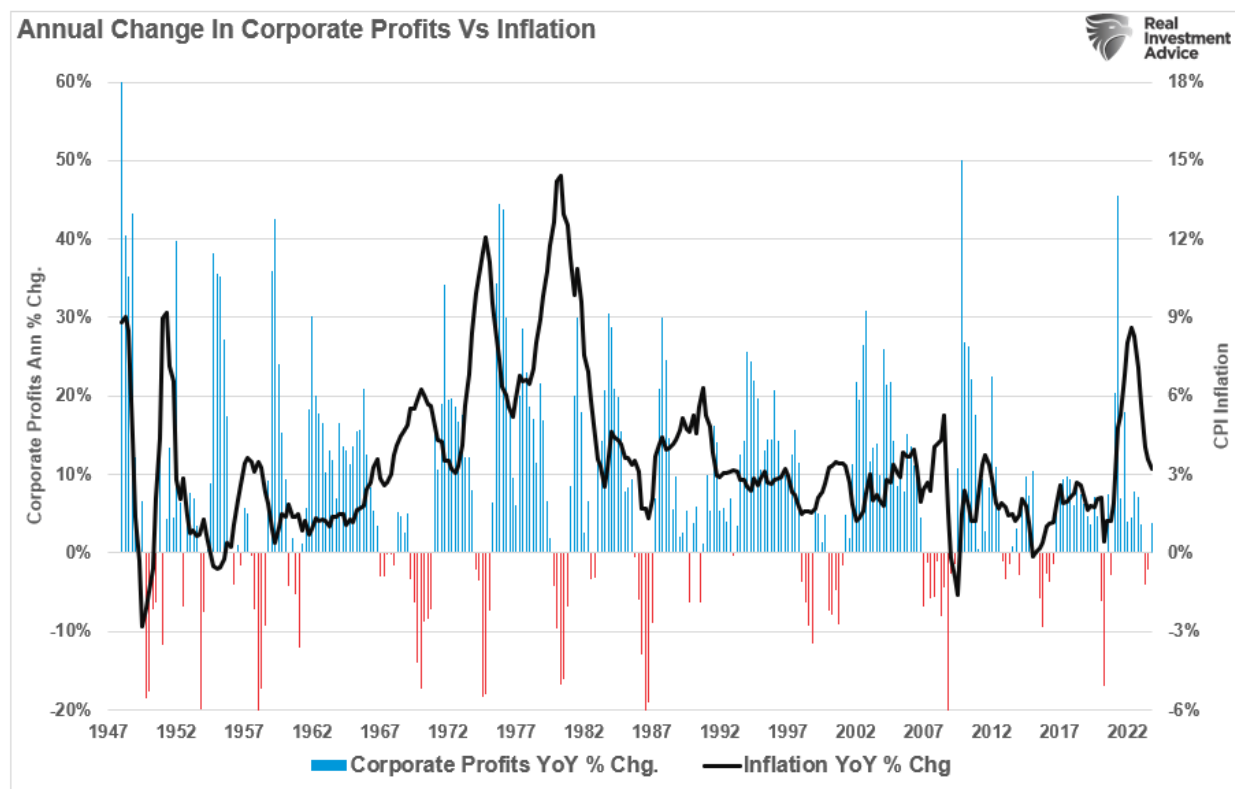
You can watch Milton's entire speech on ["Money and Inflation."](#)

Corporations Respond To Inflation

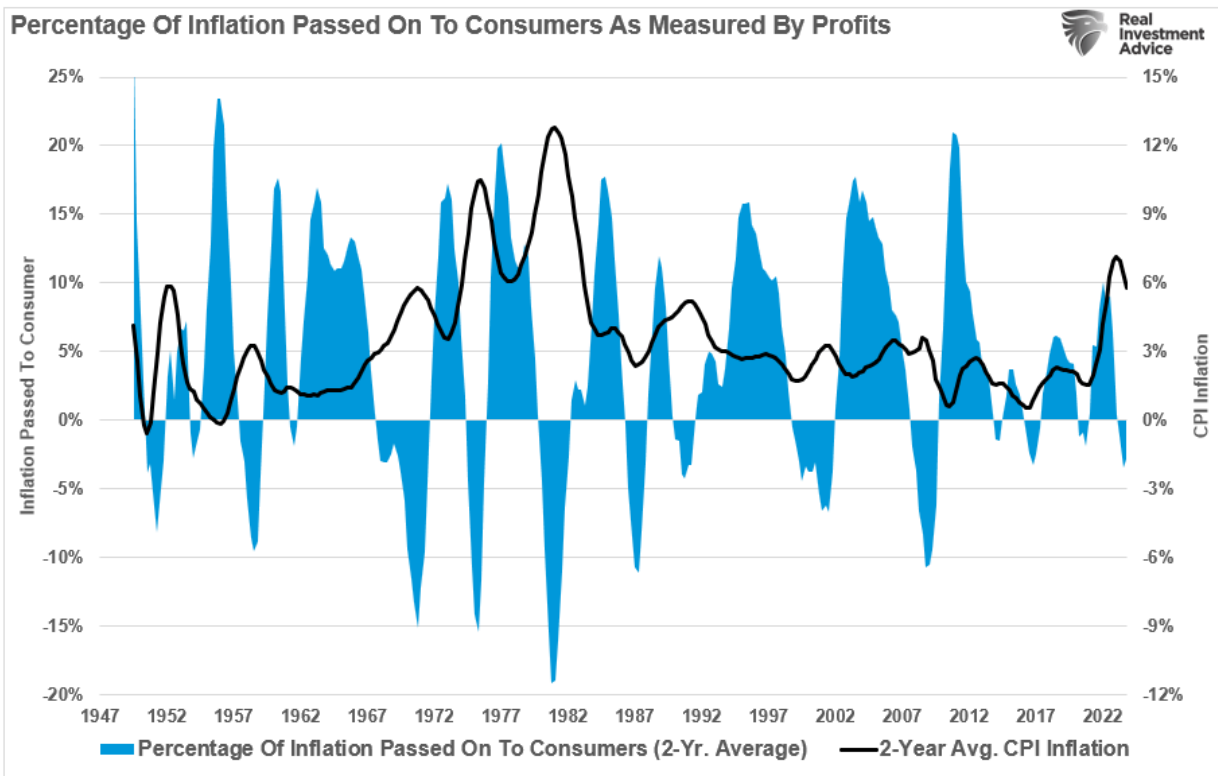
So, if it isn't corporate greed, why are corporations raising prices so much on everything?

Corporations have a responsibility to their shareholders to remain in business. If the costs to their business increase (*i.e., wages, benefits, commodities, utilities, etc.*), such must be factored into the selling price to maintain profitability. Crucially, corporations can only pass on higher input costs to consumers if demand remains higher than the available supply of those goods or services.

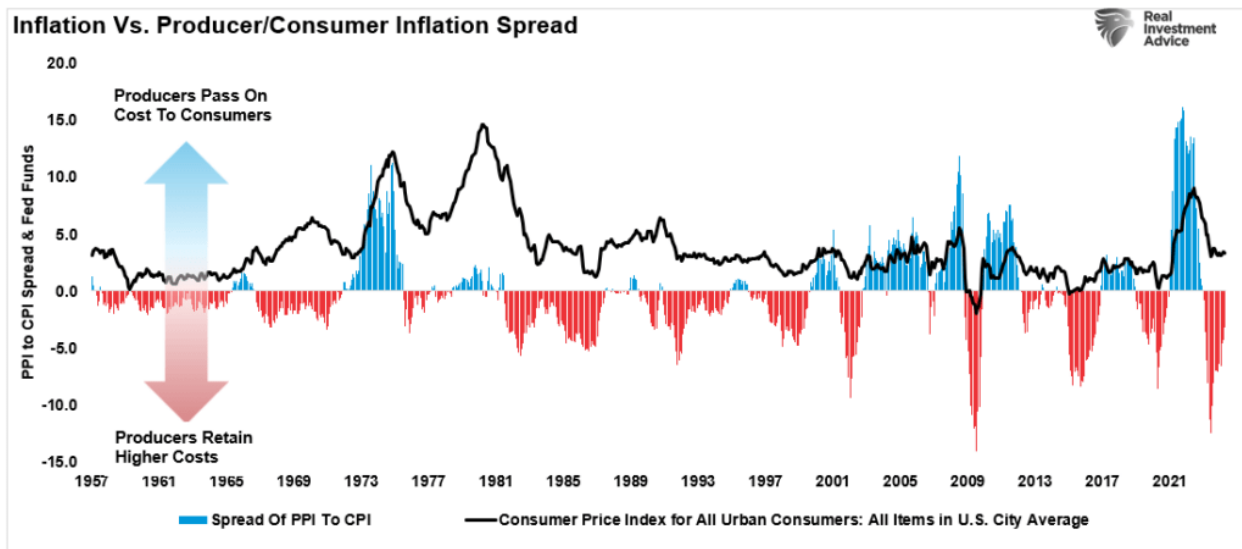
In 2020 and 2021, corporations could pass on most of the inflationary increase to consumers as they were willing to spend the Government's money. However, as excess savings run out, inflation declines as consumers decrease spending. Corporate profits weaken as the ability to pass on higher input costs to customers fades. As shown, as inflation declines, the rate of change in corporate profits also weakens.



We see the same if you use a two-year average of corporate profits minus inflation. Again, when inflation surged in 2020, corporations could pass on the bulk of the cost increases to consumers. Today, as inflation slows due to declining demand, corporations must absorb the inflation to sell products or services.



Another way to view this issue is by comparing the spread between the consumer price index (*what consumers pay for goods and services*) and the producer price index (*what corporations pay*). When inflation rises, and consumer demand exceeds supply, corporations can pass on higher input costs to consumers. Corporations absorb higher input costs when inflation declines to sell products or services.



Here is the crucial point:

"Corporations don't create inflation. They merely react to changes in demand and adjust pricing and supply to maintain profitability. When the consumer slows down, corporations cut prices to reduce supply."

Who Is Responsible For Inflation?

If there is a "greed factor" in inflation, it is more of a function of political policy and Wall Street. Let's start with political policies.

Most government policies are passed to appease the masses in one form or another, but mostly to appease those who fund campaigns to keep them in office. We have already addressed the side effects of shuttering the economy and sending checks to households while halting debt payments. That had nothing to do with corporate greed, but the voting base was happy getting "free money."

There are also policies pushed at the state level that result in higher inflation but keep politicians in office. For example, California's minimum wage hike to \$22/hour is an inflationary policy. Corporations' obvious response is to raise prices to offset the higher wage costs.

To wit:

*?Labor costs are the highest expense to any business. It's not just the actual wages, but also payroll taxes, benefits, paid vacation, healthcare, etc. **Employees are not cheap, and that cost must be covered by the goods or services sold. Therefore, if the consumer refuses to pay more, the costs have to be offset elsewhere.***

For example, after Walmart and Target announced higher minimum wages, layoffs occurred and cashiers were replaced with self-checkout counters. Restaurants added surcharges to help cover the costs of higher wages, a ?tax? on consumers, and chains like McDonald's, and Panera Bread, replaced cashiers with apps and ordering kiosks.?

Furthermore, Wall Street itself is a factor. Prices of commodities are controlled by traders on the New York Mercantile Exchange. Those traders look for opportunities to place bets on commodities based on many events that could impact supply, such as weather, transportation disruptions, or geopolitical conflicts. Take a look at the commodity index below.



That surge in commodity prices, which resulted from the economic shutdown, raises the cost of input prices to corporations. That additional cost must be accounted for in the production process

and is ultimately passed on to the consumer.

This isn't corporate greed. The increased cost to consumers is a byproduct of Wall Street raising the price of commodities to gain profit from supply disruptions.

While it is easy to blame corporate greed for higher prices, it is not the fault of corporations. As noted, corporations are responding to higher input costs to maintain profitability for both shareholders and to remain in business.

No, corporate greed is not responsible for inflation.

Yes, it is a nice fantasy that corporations should eat higher costs and be benefactors to consumers.

However, corporations are not charities.