PRICES ON THE RISE: EXAMINING OF INFLATION ON SMALL BUSINESSES

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS UNITED STATES HOUSE OF REPRESENTATIVES

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PRICES ON THE RISE: EXAMINING THE EFFECTS OF INFLATION ON SMALL BUSINESSES

WEDNESDAY, JUNE 7, 2023

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 2:01 p.m., in Room 2360, Rayburn House Office Building, Hon. Roger Williams [chairman of the Committee] presiding.

Present: Representatives Williams, Luetkemeyer, Stauber, Meuser, Mann, Ellzey, Molinaro, Alford, Bean, Hunt, LaLota, Velázquez, Golden, Mfume, Phillips, Landsman, McGarvey, Gluesenkamp, Perez, Scholten, Thanedar, Davids, and Pappas.

Chairman WILLIAMS. Good afternoon to everybody. And before we begin, we're going to take a moment and ask Congressman Meuser of the great state of Pennsylvania to lead us in our opening prayer in the Pledge of Allegiance.

Mr. MEUSER. Please stand for the Pledge of Allegiance.

Chairman WILLIAMS. I now call the Committee on Small Business to order without objection. The Chair is authorized to declare recess of the committee at any time. I now recognize myself for my opening statement. I'd like to welcome everyone to today's hearing, where we will be examining the detrimental effects inflation has had on main street America. I also want to thank our witnesses for joining us today. Your time is greatly valuable and we appreciate you being with us.

According to almost every small business economic survey, inflation has been ranked as the owner's biggest concern going

back to 2021. They have been seen utility payments increase because of skyrocketing energy prices, distributors charging more to source materials because of supply chain disruptions, and labor costs rising because of not being able to find qualified workers. In all these instances, small businesses are left with 2 options pass along these price increases to the consumer, or absorb the cost and watch your operating profit margins shrink.

The COVID-19 pandemic started this inflationary cycle that we are still experiencing, but we have seen it prolonged by reckless levels of government spending. The Federal Reserve Bank of San Francisco did a study after the passage of the partisan American Rescue Plan that showed government spending made inflation in the United States spike more than other developed economies. This should not come as a surprise to anyone. There are going to be consequences when the Government continues to stimulate the economy further than what is necessary. This has led to a prolonged period of high prices that has forced the Federal Reserve to raise interest rates to tamper demand.

High interest rates have led to many additional problems that are being faced by small businesses. The cost of getting a loan has greatly increased, and now even the average SBA loan is approaching 10 percent interest. This is forcing banks to tighten their lending standards as they evaluate if it will make sense to even extend the loan, and is forcing many business owners to delay expansion plans because it simply is too expensive in this environment.

There are a few things that I think will stop the runaway inflation problem. First, we must stop reckless government spending, as we say. We all know this was not a transitory issue like so many people claimed when this started in 2021. And we must get the Government's fiscal house in order. Second, we must stop passing burdensome regulations when businesses are forced to hire compliance officers, it is nothing but a drag on a company's bottom line. And a third, we must find ways to secure our supply chains and expand our domestic manufacturing base, whether it be energy or food supply. We must reduce our reliance on foreign influences.

In this hearing, I hope we will explore how each of your businesses and industries have been dealing with this pressing issue that has been affecting every American for the last few years. As the voice for main street here in Washington, the House Committee on Small Business will be working to create an environment where businesses can thrive and where businesses can grow. We are eager to find solutions that will help pave the path towards success for both now and in the future. So, I want to thank all of you again for being here with us today, and I'm looking forward to today's conversation. With that, I want to yield to our distinguished Ranking Member from New York, Ms. Velázquez.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman. The effect of inflation on small businesses is no secret. It can dig into margins and contribute to tighter monetary conditions, limiting access to capital and the ability to grow and expand. However, inflation is not a single threaded issue. It is a complex dynamic of global events. The COVID-19 pandemic, supply chain disruptions, labor shortages, monopolistic price gouging, and geopolitical tensions have created a perfect storm of inflationary pressures that are impacting main street. It is a disservice to our nation's small firms to oversimplify this issue, as a mere consequence of federal spending. We stand in the middle of the global pack in terms of inflation rates.

Yet our recovery from the pandemic has been unparalleled. Fiscal stimulus, like the Cares Act and the American Rescue Plan, turned the deepest post World War II recession into the shortest. Projections from Moody's Analytics predict that without this relief U.S. GDP would have fallen 3 times its actual rate, and we would have experienced a double dip recession in early 2021. Today, we now enjoy unemployment rates at 50 year lows, with GDP recovering to its prerecession trend, something not seen in decades. According to the Federal Reserve, the entire $5 trillion worth of fiscal stimulus deployed in response to the pandemic contributed to only about a third of total inflation. Therefore, we must consider the many other drivers of inflation to create a comprehensive policy response, not play political games.

First, our country has a history of outsourcing and supply chain consolidation. While this made a few shareholders a lot of money in good times, it made us increasingly vulnerable to disruptions. Additionally, the increasing concentration of industries over the past 30 years enabled corporate monopolies to exploit their market power and dramatically increase margins. Democrats focused on enhancing our domestic productive capacity by passing the Infrastructure Investment and Jobs Act to revitalize and bolster our supply chains. We passed the Chips and Science Act to invest in innovation and create resilient domestic supply chains. Finally, the Inflation Reduction Act was enacted to lower health care and energy costs for small businesses while making the U.S. a world leader in clean energy and reducing our dependence on volatile global energy markets. Clearly, there is more to be done, but we are seeing encouraging signs of lower inflation, nearly cut in half from last summer's peak.

While the only Republican plan to fight inflation is draconian cut to our social safety net, democrats have recognized the need to invest in the future to bring long term stability to our small businesses. I thank all the witnesses for their participation and look forward to hearing your testimony. Mr. Chairman, I yield back.

Chairman WILLIAMS. Thank you very much, and I will now introduce our witnesses. Our first witness this afternoon is Mr. Gordon Gray. Mr. Gray is the Vice President for Economic Policy at the American Action Forum, located in Washington, DC. Prior to joining the American Action Forum, he was a Professional Staff Member for the Senate Budget Committee before working for Senator Rob Portman as a Senior Policy Advisor.

Mr. Gray's portfolio includes the federal budget, taxes, the macronomic outlook, and general economic policy. He has testified as an expert witness before the multiple committees in Congress on domestic and economic issues. Mr. Gray is a graduate of Tufts University and has a degree in Political Science. Mr. Gray, thank you for being here today, and we look forward to hearing from you.

Our next witness here with us today is Silvia Saldana Lee. Ms. Lee is the Executive Vice President and Chief Lending Officer of the First Community Bank in Corpus Christi, Texas, and she previously served a 3 year term on the Texas Bankers Association board of Directors. Ms. Lee has worked in the banking for over 31 years and has been with First Community Bank since 2000.

In her current position, she manages all aspects of First Community Bank's lending portfolio, including risk selection, underwriting, and loan production, making her uniquely qualified to discuss the important topic at hand today. Ms. Lee is a graduate of Texas A and M University in Kingsville, Texas, where she received her Bachelor of Business Administration Finance. So, Ms. Lee, thank you for being with us today, and we also look forward to your testimony.

I now recognize my colleague, Mr. Molinaro from New York, the great state of New York, to briefly introduce our third witness who is appearing before us today.

Mr. MOLINARO. Thank you, Mr. Chairman. The great state of New York is happy to welcome Mr. David Zittel. A graduate of Cornell University. Mr. Zittel is president of Ammo. Zittel and Sons, inc. In Eden, New York. The Zittels have been farming in Eden Valley for six generations, since 1897. Producing vegetables on about 400 acres.

The farm primarily focuses on vegetable production. To sustain operations, the farm heavily relies on a labor force comprising over 100 seasonal workers, some of whom have dedicated more than 2 decades to working at the farm. However, rising inflation rates have driven up prices and wages, which cut into profit margins, making today's hearing all the more relevant and pressing.

Given Mr. Zittel's extensive experience and long-standing ties to the community, his testimony provides invaluable insight into how the current economic conditions are affecting the economic mainstays of local communities like his and his business. Mr. Zittel, thank you for being here today, and we look forward to hearing from you, and I yield back.

Chairman WILLIAMS. Thank you. I now recognize the Ranking Member, Ms. Velázquez, to introduce the minorities witness for today's hearing.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman. Our final witness today is Dr. Josh Bivens. Dr. Bivens is the Chief Economist at the Economic Policy Institute. His areas of research include macroeconomics inequality, social insurance, public investment, and the economics of globalization. He has been published in both peer reviewed journals, like the Journal of Economic Perspective, as well as in popular print outlets like The New York Times and Wall Street Journal. He is the author of the books *Failure by Design: The Story of America's Broken Economy* and *Everybody Wins Except Most of Us: What Economics Really Teaches Us About Globalization*. He holds a PhD in Economics from the New School of Social Research and a BA in Economics from the University of Maryland. Thank you, Mr. Bivens, for joining us on such short notice. Your attendance is greatly appreciated. Thank you and welcome.

Chairman WILLIAMS. Thank you again to all of you for being here today. So before recognizing the witnesses, I'd like to remind them that their oral testimony is restricted to 5 minutes in length. So if you hear this and you're still talking, that means you're talking too long, okay? And if you see the light turn red in front of you, it means your 5 minutes have concluded, and you should wrap up your testimony. So with that, I now recognize Mr. Gray for his 5 minute opening remarks.

STATEMENTS OF GORDON GRAY, VICE PRESIDENT FOR ECONOMIC POLICY, AMERICAN ACTION FORUM; SILVIA SALDANA LEE, EXECUTIVE VICE PRESIDENT AND CHIEL LENDING OFFICER, FIRST COMMUNITY BANK; DAVE ZITTEL, PRESIDENT, AMOS ZITTEL & SONS, INC.; JOSH BIVENS, CHIEF ECONOMIST, ECONOMIC POLICY INSTITUTE

STATEMENT OF GORDON GRAY

Mr. GRAY. Chairman Rogers, Ranking Member Velázquez, and Members of the Committee. It is a privilege to be before this committee again, to join my fellow witnesses and to discuss a matter of National significance: inflation and its effects on the beating heart of American commerce, Small Businesses. In my testimony, I wish to make 3 basic observations: The United States is experiencing persistent inflation that is taxing America's families and businesses.

Policy choices have contributed to the recent rapid acceleration in price levels. Federal policies should be oriented around reducing inflationary pressures, and the record has been mixed at best. I'll briefly discuss these observations in turn. According to the U.S. Census Bureau, the median age of the United States is about 39, which means a little bit more than half the United States population has never experienced inflation like what we've seen over the last couple of years. Not since 1980 has the consumer price index grown as rapidly as was observed in June of 2022, when yearly inflation topped 8.9 percent. Stripping out more volatile food and energy price components to isolate core price growth reveals a similar story of rapid, historically aberrant inflation.

Notably, one can observe a significant divergence between the 2 indices around the time of the Russian invasion of Ukraine that significantly disrupted energy markets. It is clear that event moved food and energy prices, but the fundamental story of U.S. price growth is not about the Russian invasion, but the laws of supply and demand. These laws are in force, and they are taxing small businesses and the households that support them.

Over the last 2 years, yearly price inflation has averaged about 2 percentage points higher than yearly wage growth. Wage growth has been substantially elevated over the same period but has nevertheless failed to keep pace with price growth. Put another way, small business and households are falling behind. While inflation is down off of the recent peak, it remains stubbornly elevated at well above the average of recent decades and more than twice the target rate set by the Federal Reserve. Thus, even though the U.S. inflation outlook has improved, enduring inflation is nevertheless a significant tax on household finance that will diminish the US standard of living. At the current rate of 5 percent, a family with a median income of about $71,000 is paying over $3,500 in price growth.

Food, energy and shelter inflation, which tends to be more volatile but nevertheless represents about half the average household budget, has been more elevated and serves as a uniquely regressive tax. It is worth acknowledging the rocky road that led us here. In March of 2020, the COVID-19 Pandemic precipitated a historic shuttering of the economy. The public policy response was robust, with combined monetary, fiscal and administrative actions estimated to be on the order of $11 trillion. Most notable was the series of bipartisan measures that were enacted in 2020. Through a combination of public policy, effective vaccines and more than a fair amount of grit from the American public, the nation and the economy recovered rapidly. Subsequent policy changes marked a break from the bipartisan tradition that largely characterized the Congressional response to the Pandemic.

One conspicuous example, though not the only one, is the $1.9 trillion American Rescue Plan Act. Despite a chorus of warnings from a diverse range of economists that the act would give a massive injection of fiscal stimulus at a time when it needed, at least the law was passed and sure enough, within 2 months, inflation had nearly doubled before doubling again in the subsequent months. It is important to note that while other global economies faced rapid inflation, the United States was a conspicuous frontrunner, subsequent to the enactment of the American Rescue Plan. To be sure, there are economic forces at work that can and eventually do swamp the effects of temporary legislation. Many of these challenges are beyond the direct control of policymakers.

Accordingly, while I want to emphasize that no single policy change is responsible for the current inflation challenge, to the extent legislation is within the direct control of policymakers, American Rescue Plan stands out as a significant policy error. The Federal Reserve's rapid tightening of monetary policy and eventually improved public comments on the likely course of monetary policy have done and will continue to do most of the work in bringing stubborn inflation under control. But as any household or business relying on credit markets knows this is not costless. Congress should therefore help the Fed by pulling in the same direction. Congress has a somewhat uneven record since the enactment of the American Rescue Plan. The Inflation Reduction Act, for instance, was found to have no effect on inflation by CBO and Penn Wharton. Policies such as the Chips Act and the infrastructure bill must be balanced against the risk of additional inflationary measures. Most recently, the Fiscal Responsibility Act could modestly reduce inflationary pressures through deficit reduction largely deriving from the Act's spending caps. Thank you very much and I look forward to addressing your questions.

Chairman WILLIAMS. Thank you, Ms. Saldana Lee, for her 5 minute opening remarks.

STATEMENT OF SILVIA SALDANA LEE

Ms. SALDANA LEE. Thank you, Chairman Williams, Ranking Member Velázquez, and the Committee Members. I appreciate the invite of being here and I pray that my testimony will be beneficial to the objective of this meeting. As Chairman Williams mentioned, my name is Sylvia Lee. I'm a graduate of Texas A and M University Kingsville with a Bachelor's in Finance.

I have been a Texas banker for 32 years with the last 23 years at First Committee Bank in Corpus Christi where I am the Chief Lending Officer. Our bank has 175 employees and is a somewhat unique factor about First Community Bank is that 73 percent of our employees are shareholders via our Employee Stock Ownership

Program. Our Community Bank was founded in 1983 and now has eleven branches with 657,000,000 in assets and growing daily. We have a loan portfolio of 458,000,000 consisting of residential and commercial real estate and of course, small business loans, which are the subject of today's hearing.

As a preparatory point, I do want to mention that almost all our Paycheck Protection Program loans that we funded have been paid out at our institution. They consisted of 845 loans in an aggregate amount of 107,000,000. And I can tell you personally that these loans contribute immensely to the ability of our local customers to continue as growing concerns during the pandemic. In my view, lending to small businesses and thereby allowing them to add new customers, purchase property, buy equipment and hire more employees is frankly the most important community service we provide. Federal Reserve data confirmed that small businesses in search of a loan look first to their Community Bank.

With respect to today's hearing topic, namely the impact of inflation on small businesses, the answer is simple and is applicable to small and large businesses and individuals. It is hardship for all, but for small businesses it can often be worse in that they start with smaller margins to absorb adverse outside factors. Everyone is familiar with the severe decline in mortgage origination volume as the Fed's anti-inflation strategy has driven up interest rates nearing the 8 percent range. What is not widely appreciated, however, is that the housing industry is composed almost exclusively of small business contractors.

At our bank, for example, we developed a great market niche in the home construction business, but new credit applications have slowed significantly due to less buyer demand. Recently, a longtime bank customer who owns a small business had an increase in his monthly loan payment of approximately $1,000 due to increased interest rate. The loan has an annual adjustment and repriced. In May 2023, the business owner commented that he would price his goods out of the market to absorb the increased cost of his inventory and increase rates. He mentioned he has increased his prices 10 percent, but would have to raise them 40 percent in order to absorb all those costs. He mentioned that he feels our government does not want small businesses to succeed and wants only large companies in business. It is an unfortunate perspective.

Underwriting small business loans relies primarily on debt coverage ratio, which is monthly debt service in relation to historical net income. With what has been a doubling of interest rates in just the last twelve months, the equation is fairly straightforward in that we are now seeing the cash flow available for debt service drop dramatically for every type of business. This would be especially true for a small startup business, which is probably the most critical local component for a growth economy.

As a bank with a very strong earnings and capital, we are prepared to work with any of our small business borrowers encountering temporary difficulties, and all of us, whether borrowers or lenders, hope that this unprecedented combination of excess fiscal and monetary policy, followed by rapidly rising interest rates will soon come to a pause.

The current market pressure is notwithstanding. Texas is blessed to have a strong economy and very strong banking system. Nevertheless, Texas has not been immune from industry consolidation trends, where the number of FDIC insured banks headquartered in our state has declined from 556 to 387 over the last ten years. An even sadder part of this is that even among the remaining local bank, so many have been forced to abandon important parts of the consumer market, such as home mortgage lending to the larger banks or nonbanks, as the case may be. Fortunately, that has not been the case at First Community Bank. We remain committed to home mortgage, to the home mortgage market, the small business market and as many of the full service banking products as make economic sense. On behalf of the banking industry, I thank you for your time and the opportunity to appear before you this afternoon.

Chairman WILLIAMS. Thank you very much. And next, I recognize Mr. Zittel for his 5 minute opening remarks.

STATEMENT OF DAVE ZITTEL

Mr. ZITTEL. Thank you to the Committee on Small Business and Chairman Roger Williams for inviting me to testify to you today on the impact of inflation on small business like my family farm. My name is David Zittel and my family is owned and operated Amos Zittel and Sons, a fresh market, vegetable and greenhouse farm based in Eden, New York. My brother and cousin and I are currently 4th generation and my son, the fifth generation is now back on the farm. I'm also representing the farming and agricultural community across New York and the country that works hard to produce food and fiber for consumers across the country and globe.

At Amosinol and Suns, we produce a wide variety of fresh vegetables 350 acres in western New York, including lettuce, strawberries, peppers, cabbage, corn, tomatoes, broccoli, eggplant, Brussels sprouts, grape, tomatoes, et cetera. Approximately 95 percent of our produce is sold through our marketing cooperative Eden Valley Growers, which our farm is a proud founding Member of from 1956. This co-op is created to bring growers in the area together to market and sell our produce. In addition, the farm is also consists of greenhouse operations that produce approximately 4 million rooted liner, geraniums and other spring annuals that are marketed through brokers Nationally and retail ready container crops sold to local garden centers. In addition, we grow over 2 million transplants for our field grown vegetables.

The farm employs 40 to 50 individuals year round and approximately 135 employees during the peak season. Because we produce fresh market produce, all the crops must be hand harvested and can be very labor intensive. It also means that our business is directly impacted by market forces and we cannot wait to sell the crop until prices increase. Farmers are price takers, not price makers. As a small family owned business, we feel the direct effects of inflationary pressure to have seen the overall increase in the cost of operating the farm.

While farmers have become more efficient over time and helps overcome the lower commodity pricing, like increasing production per acre, inflation can quickly take away the efficiency gains through the pandemic and even to this day, we continue to feel the impact of inflation. Examples of inflation and rising costs have seen on the farm include tractor equipment parts have increased 15 percent to 30 percent. A delay in timely delivery of these things are also adding to the supply chain issue. The consolidation of agricultural industry, which has decreased available vendors to source, also lends itself to increased prices. The cost of boxes and transportation of our vegetables is up 30 percent, with the cost of the farm of $100,000 this year. Fertilizers and most other inputs are up 30 percent to 50 percent. Cost of feed for dairy farmers is up 25 percent to 40 percent.

All of these things, unfortunately for us, are prices that we receive for our product do not cover and the cost increases since our markets are no longer local but global, resulting in a reduce in profits. Inflation has created a price instability and uncertainty for our farm economy and has made many investment decisions riskier than they would be if inflation remained low or stable. We have an impacted in the last 2 recent historical snowfalls in 2014 and again last November, which resulted in rebuilding greenhouse shops, storage buildings. In both situations we had decent insurance recoveries, but the cost was 3 times. We will be financing another million dollars and the rebuild for the loss from the 72-inch snowfall in November. Held off as long as we could in hopes that interest rates would stabilize or begin to go back down. As we look to the future of our operation, young farmers are so discouraged by challenges that they face in making career in agriculture the expense of land, labor, fuel, energy, machinery, taxes, rules and regulations the list goes on and on.

It is no secret that in New York is a high cost state in the difficult regulations and environment for our family, business and farms. But despite all this, we are so proud that the next generation has decided to carry on the farming tradition. We know that there will remain challenges and need to overcome, including inflation, regulatory requirements and labor challenges. Like to finish with a quote from John F. Kennedy the farmer is the only man in our economy who buys everything at retail, sells everything at wholesale, and pays freight both ways. Thank you.

Chairman WILLIAMS. I now recognize Mr. Bivens for his 5 minute opening remarks.

STATEMENT OF JOSH BIVENS

Mr. BIVENS. Chair Williams, Ranking Member of Velázquez and Members of the Committee, thank you for inviting me to testify today. My name is Josh Bivens. I'm the Chief Economist and Research Director of the Economic Policy Institute. EPI is a nonprofit, nonpartisan think tank that uses the tools of economics to identify policies that will boost living standards of low and moderate income families, particularly through their role as workers.

I'd like to make the following points about the subject of this hearing inflation and its effect on small businesses. First, inflation has been a key economic challenge for workers and small businesses over the past 2 years. But inflation is not the only notable economic trend that is emerged in this time. We've also seen by far the best labor market in a generation, particularly for low wage workers. We've also seen extraordinarily fast growth in employment at small businesses and in the aggregate, and extraordinarily fast growth in small business applications. Small business income growth has actually performed better relative to corporate profits since the last business cycle peak than it was doing in the 2 years before the COVID-19 recession. All these salutary trends are the direct result of the policy choice to fight the COVID-19 recession with fiscal relief and recovery at scale.

Second, inflation has not simply been the result of a US Policy mistake. Inflationary pressures have clearly been global, and it is essentially been the inevitable result of massive shocks to the economy and the long lived but steadily dampening ripple effects. The shocks are obvious. The Pandemic, the Russian invasion of Ukraine, and the ripples were mostly about jockeying by different economic actors corporations, workers, small businesses to protect their own real incomes from these shocks. The inflationary pressures, particularly the ripples, could have theoretically been reduced if the economy was allowed to settle into stagnation with really high rates of unemployment for an extended period of time, like we did after the 2008 recession. But inflation wouldn't have been zero even in that scenario and the collateral damage would have been absolutely immense.

Third, the ripple effect stemming from economic actors seeking to insulate their own incomes from price shocks meant that inflation in this time around has mostly been a distributional challenge because one person's income is another person's cost. Higher cost for some has shown up as significant income gains for others that mostly has been the business income of sellers, but particularly corporate profits. A key question is has any small businesses been able to draft in the corporate pricing power wake and charge higher prices themselves to protect their own margins? I would say the first thing to know about this is that the small business sector is incredibly variable and lots of what we call small businesses are actually very rich in privileged enterprises. My guess is this privileged slice of the sector has done quite well to the degree that lots of genuine main street small businesses have been squeezed on the input side but have been unable to pass these costs on. Maybe because their primary customers are big corporations who refuse to pay higher prices to their suppliers. That is more a problem of unbalanced power in markets and monopoly power generating an unlevel playing field. We certainly should address that problem. It is carried long run costs. It is less a problem of inflation per se in terms of the most important input cost labor.

It is important to note that there is no generalized labor shortage anymore relative to pre pandemic trends. Labor supply has essentially fully recovered. There are smart policies we could undertake, particularly large investments, say in Childcare, that would boost labor supply even well above its historic highs. And I think we should absolutely do that. But again, there is no labor shortage today relative to pre COVID trends. Finally, the risk to small businesses from an over aggressive attack on inflation that seeks to slow the economy with contractionary fiscal and monetary policy in the name of tamping down inflation will sacrifice the huge gains from the rapid recovery for no real need. If inflation is already normalizing, and my view is inflation is already normalizing, it is not happening fast enough for any of us.

But I would say one example showing that we do have some time for some patience is if you look at nominal wage growth over the past year. We've seen a sharp deceleration in that growth even as unemployment has remained very low. We had many people a year ago saying that was impossible. We were going to need 6 percent unemployment to get nominal wage growth into a noninflationary place. It is in a noninflationary place today, even with unemployment remaining very low. In short, as challenging as the inflation of the past 2 years has been, it remains the case that many proposed cures could do a lot more damage than normality itself. I look forward to talking more about this issue with the committee. Thank you so much for your time.

Chairman WILLIAMS. Thank you. And we'll now move to the Member questions. Under the 5 minute rule, I recognize myself for 5 minutes. There were many factors that have contributed to inflation. The Pandemic destroyed supply chains, reckless government spending overheated the economy, and businesses are having trouble finding qualified workers to fill open positions. While some of these issues are long, will take some time to get resolved, there are certain things that can be done in the short term that could make an immediate impact on this upward price pressure. And one of these things that the Biden Administration could do to help small business deal with this economic headwind is to end the regulatory assault on the private sector. When businesses are forced to spend more time and resources on compliance, these costs get passed along to the consumer in the form of higher prices or increased fees. So, Mr. Gray, my question to you. Can you discuss the regulatory impact the Biden Administration has had on main street, America, as has inflation, and do you have any suggestions on how Congress could begin to rein in some of the most damaging regulations?

Mr. GRAY. Yes, sir. So I am lucky in that I work with one of the, I think, finer regulatory shops, policy shops in DC. My colleague Dan Gobeck tracks the self reported costs of the accumulation of regulation, and he and his team has been doing this over the years, and we have seen hundreds of billions of dollars in additional regulation. And in the present environment, when a number of the policy approaches that this Congress and policymakers in general have been attempting to expand supply, we later see regulations tacked on that are somewhat in conflict to the notion of supply because they restrict the businesses and workers that may or may not participate in that given activity, and that makes the activity more expensive, thus restricting supply. And so that is a very real challenge at the moment.

Chairman WILLIAMS. Thank you. One of the most harmful aspects of inflation is what the Federal Reserve is being forced to do to get it under control. Interest rates are rising at the fastest pace in decades, and it is making it much more expensive for small business to get loans or service and their debt. We've heard that already today. I have come across my small businesses that have variable term loans we talked about that who are not having to pay a few hundred dollars more each month in interest payments, but it is changing their entire business, even the smallest amount it is eating to their margins and making them unable to remain profitable. So, Ms. Saldana Lee, can you tell us what you're doing on the ground as it relates to small businesses service and their existing debt, as well as the overall loan volume coming through your bank?

Ms. SALDANA LEE. First, the loan volume is not coming through the bank. Our production is very low right now, and most investors have postponed any projects that they had at any one time. And what we're doing is we're actually doing outreach. Our loan officers are reaching out to our borrowers, making sure that they are in a good position, and if they're not, if they're being stressed, if there is anything that we can do to assist them with those stress factors. What we have seen, because we do have a large portfolio of construction loans, our contractors and builders and developers as well, they have limited the amount of inventory that they have on the ground, which is not normal because they just want the inventory to keep rolling because they're selling one house. And they need to have been building a house that would be 40 to 50 percent to 60 percent complete at the time of a sell of a subject house. So that has slowed tremendously. And that end user, the consumer, who is stressing their income as well, their debt to income ratios have increased, making it extremely difficult for them to qualify for a loan.

Chairman WILLIAMS. I've been a car dealer for over 50 years and but also run a calf cow operation. We talked about that at my family ranch, and you've talked about Mr. Zittel, you talked about the cost of fertilizer, inability to find workers, et cetera. So, I've got a little bit of time left. Let me ask you this. Can you tell us how you've been dealing with the persistently high inflation and some of the other economic headwinds that you mentioned and that you're feeling in the economy today?

Mr. ZITTEL. Yes, so 2 specific examples. The winter storm that we went through that knocked down our greenhouses. I think the first round that happened in 2014, we were able to rebuild and take loan money out and be able to handle the inflationary effect with the last November storm. Perfect example of where we're not doing what we should be doing, and that is where we're building infrastructure, but we're not doing the technology tied with the infrastructure that we should be doing right now. So we're basically going at it at a limited fashion, knowing that there are things that are there that we'd like to do but aren't doing.

Chairman WILLIAMS. My time is up. I now recognize the Ranking Member for 5 minutes of questions, Ms. Velázquez.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman. Mr. Bivens, inflation is a complex global phenomenon, and you stated that in your remarks. Can you give us an overview of where America stands compared to our peers in terms of inflation rates and recovery?

Mr. BIVENS. Yeah, I would say it is definitely the case that the inflation acceleration of the past 2 years was global. Every single advanced economy in the world experienced an inflation of core inflation relative to pre COVID trends. And I say that acceleration is actually important. Sometimes people just look at the rate of inflation in, like, the US. Versus the EU, and it is higher in the US.

But we went into COVID with higher inflation rates in many of these cases. So you have to look at that acceleration. The US was first in seeing some of those outbreaks of core inflation, but we also have peaked first and we are clearly coming down at, again, too slow a pace, but coming down, whereas other countries are not seeing the retreat in core inflation. I think the really important thing here is the inflation experience has been very common. The policy decisions made immediately after the COVID Pandemic recession were very different. And so that is why I think there is such a weak linkage between any specific piece of policy we did in the inflation exchange.

Ms. VELÁZQUEZ. How can you explain how policies like the ones that we passed last Congress contributed to that recovery?

Mr. BIVENS. So the US recovery is clearly there is many other countries in the world. It is clearly at the top end in terms of fast recoveries being experienced in the world. We've been much better on that front than many countries. And I think that is just directly the result of we were also on the leading edge of how big we went with fiscal relief and recovery efforts, which I think were correct, given the scale of the problem.

Ms. VELÁZQUEZ. What does that recovery mean for small business in particular?

Mr. BIVENS. By the measures I track, small business has participated fully in this recovery. If you look at their share of net employment gains, their share of sort of total income, they look right on track with what they were pre COVID. So it has been a broad based recovery that has not left small business behind in any way.

Ms. VELÁZQUEZ. Thank you. Mr Zittel, you mentioned that consolidation in your industry has led to fewer vendors to source goods from in your lifetime of farming. Has this been an ongoing trend?

Mr. ZITTEL. No, I'd say when I got out of college back in the late 80s, there was expansion, more people were getting in, we had more tractor dealerships, we had more fertilizer plants, we had more seed companies. The consolidation has certainly happened over the last 20 or 30 years and I'm not seeing it getting any better going the other way. It seems like it is getting worse.

Ms. VELÁZQUEZ. Can you explain how competition in this area can lead to lower prices?

Mr. ZITTEL. So a perfect example would be we've had upwards of 5 or six seed companies and now we're down to 2 or 3 seed companies. You're forced to go to those houses, there is less competition. Some of them don't even carry the varieties you want. So if you want that variety, you've only got a sole house to go to. They name the price, pretty much.

Ms. VELÁZQUEZ. Thank you. Mr Bivens, you mentioned housing as a key factor of inflation. Can you discuss what Congress can do to increase housing development, to alleviate our housing shortage and bring prices back down to earth?

Mr. BIVENS. Yeah, I think that is an incredibly important question. I would say to me, the key to getting house prices in check, which is just a huge challenge for household budgets is building more quality housing. We just have underbuilt housing for a generation. We need to build more lots of the blockages to that building actually happen at the state and local level. So the federal has to do policies that complement that. I think some of the big things the Biden administration has done that will help a lot is they sort of plus up federal grants to state and localities that change their zoning and regulatory laws to allow more housing to be built. I think that is a really good thing to do. This could be even supercharged with legislation that allocated actual money to go to states and localities that do more building or do good things on the regulatory and zoning side.

Ms. VELÁZQUEZ. Thank you. Mr. Gray, recently we learned that the producer price index has dropped to only 2.3 percent. Do you think this is a positive development for small businesses and may be able to give them more hope for economic conditions to stabilize?

Mr. GRAY. I think to the extent that we can observe improvements in the inflationary environment in general is a good thing for households, businesses, small business in particular, and that may be an indication of that. So I would view that favorably.

Ms. VELÁZQUEZ. Thank you. I yield back.

Chairman WILLIAMS. Thank you. Ms. Valezquez. I now recognize Mr. Luektkemeyer from the great state of Missouri for 5 minutes.

Mr. LUETKEMEYER. Thank you, Mr. Chairman. In this committee last year, we had a number of economists come in and we talked about the causes of inflation, and they all agreed on 4 different chart costs or reasons energy costs, rules and regulations, supply chain, employee problems, and our immense money supply that was poured in the amount of money was poured in the system.

So let's start with Mr. Gray. The Fiscal Responsibility Act cut the NEPA requirements down from what would be an average of seven years to approve a project, down to either one for small projects, 2 for larger projects. Can you give us just a quick recap on the importance of that with regards to the cost of the projects and effects on inflation?

Mr. GRAY. Absolutely. I haven't studied the degree to which that particular policy change would move development costs, because I haven't seen the estimate of that but directionally, that is entirely the right way to go if the goal is to expand the supply of energy production and thus lower the price for households and consumers.

Mr. LUETKEMEYER. Ms. Lee, having been in the banking business myself for a few years, I know that the banking business is extremely regulated, and you've been inundated with even more regulations. So I know that when we were my brother and I had a bank and forever loan officer, we had a higher compliance officer. Is that kind of your experience as well?

Ms. SALDANA LEE. Well, our compliance department has grown, and it continues to grow.

Mr. LUETKEMEYER. Does it make you any money? No, that is a dead investment, a dead cost for you that you've got to overcome.

Ms. SALDANA LEE. That is correct.

Mr. LUETKEMEYER. And it is all due to more rules, more regulations?

Ms. SALDANA LEE. That is correct.

Mr. LUETKEMEYER. And you haven't any fewer rules and regulations over the last few years? You've had more, probably, have you not?

Ms. SALDANA LEE. That is correct.

Mr. LUETKEMEYER. Thank you. Just kind of curious, too. You mentioned the PPP program. I thank you for those comments. I mean, this committee was one of the key folks that oversaw I was served on Financial Service Committee, and our subcommittee there oversaw the PPP program, helped originate it, and then we provide the oversight here. Thank you for your comments on that because it was a very successful program due to the banks getting involved and using your customer law to be able to protect the integrity of that program. So we thank you for that and for thanking your clients.

With regards to inflation, how is it affecting your small businesses that you're financing right now? Are they struggling as a result of that? And you're seeing increased past dues losses, businesses go out of business. What do you see as the effect of inflation on small businesses?

Ms. SALDANA LEE. There is a variety of things. What we're really watching right now is any small loans that have a fixed rate. At this point, we originate 5 one Arms or 3 one. So that means they're fixed for 5 years or 3 years. So they're in that time frame. As they start to readjust those rates, that is where the stress comes in. We had one business owner that absolutely cannot afford the increase in rates and other costs associated with his business, and he is put his business up for sale. And so it is just a timing aspect of what is going to happen in the future with our loan portfolio and past dues and any kind of restructuring. But that is something that we've talked about already in our bank, is that if there is restructuring which don't want to get into banking too deep, but you start restructuring, that means problem loans and then regulatory burdens and a lot of other work that comes along with that.

Mr. LUETKEMEYER. Thank you for that. Mr. Zittel, you are in a very difficult business. As you said a minute ago with your Kennedy quote, you're the only group that can you have no control over your cost, no control over sale your product, and you hope the weather works. I always tell people that farmers are the ultimate gamblers. Las Vegas folks are nothing compared to what farmers are because you truly roll the dice every day. And I thank you for what you do because you feed our country in the world. But you've had a roller coaster effect with your revenues that you're talking about here with regards to the inflation and the Pandemic. And now the roller coaster of all is can you talk a little bit about that, how that is all affected you and what kind of changes you've made to your organization with regards to inflation?

Mr. ZITTEL. Very briefly, the pandemic did not affect us much because we went to work every day. Didn't know a damn bit of difference beyond that. The inflation rate, like we said, we're not doing the things we should be doing because we don't want to leverage our business. And I think regulation wise, our state has been very difficult to work with as far as passing things like overtime rate, mandatory days off and things like that.

Mr. LUETKEMEYER. Your labor costs have gone

Mr. ZITTEL. Our labor costs, which 50 percent of cost of doing business for a farmer is.

Mr. LUETKEMEYER. Labor, and you have no control over that cost. And you have no control on being able to pass that cost on like most businesses.

Mr. ZITTEL. Exactly.

Mr. LUETKEMEYER. Thank you very much.I yield back now.

Chairman WILLIAMS. I recognize Mr. McGarvey from the great state of Kentucky for 5 minutes.

Mr. MCGARVEY. Thank you, Mr. Chairman. Very much appreciate it. Really glad we're having this conversation today. Obviously, we are all concerned about the root causes of inflation and how we prevent a recession in this country. I think it is important to understand and identify those causes of inflation so that we can best deal with it. Because, again, we can all, I think, agree that reigning in inflation is vital to protecting consumers and small businesses. And it is appropriate to look at those. I think it is appropriate for this committee to understand how the COVID stimulus programs contributed to inflation. But it is easy to Monday morning quarterback this a little bit as well and just reminding everybody how important these programs were during the Pandemic.

As the Ranking Member noted, found that the US GDP would have fallen by 11 percent in 2020 without fiscal stimulus, and that is equivalent to 3 times the actual decline we saw. We did much better here than other places in the world during this kind of difficult time between COVID and what was going on in Russia and Ukraine. So in talking about how we combat a recession, how we help these small businesses, looking at these stimulus programs I think is helpful too, in understanding how they were helpful. Mr. Zittel, you're talking about your experience during the Pandemic. And like so many of the great business people in my state of Kentucky, you're one of the millions of small business owners who participated in and benefited from the PPP program. And so just tell us your experience with that and how you used that funding to help your business and the employees in your area.

Mr. ZITTEL. So I would say probably the best example of it is you are correct. It was well needed and a perfect timing. And not just because of the Pandemic, because like I said before, the Pandemic really didn't change our lives a whole lot. We weren't moving any place anyhow. But I think one of the biggest effects is we've been falling behind. Our margins have been dwindling. Our rate of trying to stay ahead of technology and move with that curve to try and make money has fallen behind because we haven't had money to work with. That was a great stimulus package, whether it was pandemic or non pandemic, it was a breath of fresh air. But we continue to see those regulations that keep pushing us down and pushing us down.

I don't know if I'll have an opportunity, but I just want to say it one time I did a calculation logbook 1935. If you do the calculation on labor, it is 50 times higher. If you do the calculation on a couple of the vegetables that I did that take exact the same amount of space as it did in 1935, you're only talking about 15 to 18 times. So labor costs that cost us 50 percent are rampant. So that was a breath of fresh air. But will it be enough for the future? We don't know.

Mr. MCGARVEY. I appreciate that insight and talking more you're speaking more regulatory pressure than the stimulus funding and the impacts there. Going back again to some of the things that were going on during COVID My home state of Kentucky is using $500 million in American Rescue Plan funding for the Cleaner Water Program to invest in water and sewer projects across the state. I can tell you I was in the state legislature at the time. There are Kentuckians who now have clean drinking water for the first time because of this investment in a state like ours, sewer access for homes, this has been a game changer for us in Kentucky. So Mr. Bivens, looking at how this infrastructure has or Dr. Bivens, I should say, looking at how access to clean drinking water we have 89 million in my state that got people Internet for the first time. We remember people going to McDonald's parking lots during the pandemic so that they could go to school or go to work. Can you explain how this investment in infrastructure and local economies will benefit small businesses and the National economy in the long term?

Mr. BIVENS. Yeah, I think it is a lot of the mechanisms you just talked about, like small businesses, like kind of every other actor in the economy, they need good roads to transport their product on. They need good schools to make sure the workers coming out of those schools are productive and provide good value. And then I think one maybe underrated thing that is in the infrastructure bill that was passed in 2022. A very big investment in broadband and especially in a world if we're going to see more remote work to actually expand the pool of people actually available to work in areas that have been underserved by broadband before, I think that could be a huge boon to small businesses. But basically all the mechanisms you talked.

Mr. MCGARVEY. About, the hardest question I'll ask you with 25 seconds left, given what we're all trying to do, help small businesses, help consumers bring down inflation, you're in our shoes. What would you do to help small businesses and consumers and bring down inflation?

Mr. BIVENS. I think the inflation bit is going to be really hard. It is just going to require a little bit of patience and to make sure we don't make any mistakes going forward to help small business generally, to me, that the biggest arrow in the quiver is antitrust policy that levels the playing field between them and the very large corporations.

Mr. MCGARVEY. So well done. I yield back.

Chairman WILLIAMS. Thank you. I now recognize from Pennsylvania Mr. Meuser for 5 minutes.

Mr. MEUSER. Well, thank you very much, Mr. Chairman. Certainly, thank you to our witnesses. It is appreciated. I spent about 25 years in small business. I talk with small businesses every day, visit them regularly, as I should, being on this committee as well as just being a Member of Congress. Since 70 percent of those employed are in my district are employed through small business, you've been dealing with high inflation supply issues, wage disruptions costs, regular costs going up, regulations. So I'd like to start with the regulation costs, which aren't really factored into well, they're factored into the inflation, but they're not factored into necessarily your added bottom line costs on your balance sheet.

Mr. Gray, the Biden Administration, according to your colleague Dan Goldbeck, American Action Forum, found that the Biden administration accumulated approximately $367,000,000,000 $367,000,000,000 in less than 30 months in regulatory costs. Can you share with us the impact that these costs have on small businesses in what is a very fragile economic climate?

Mr. GRAY. Absolutely. So I should stipulate that those costs come from the administration. So those aren't our estimates. Those are the self reported costs and they are significant. And they are significant to small businesses because whereas a one key difference between a large firm and a small firm is just as has been referenced elsewhere is just the capacity to absorb compliance costs. And I know from the small business in my family, there isn't the capacity to go hire compliance officers. And so each time one of these comes down, all it does is come out of out of their pocket.

Mr. MCGARVEY. Sure. All right. Thank you. I have in my district, we have one of the largest reserves for natural gas. Natural gas, of course, half the carbon emissions of other fossil fuels, and yet we see a regular regulatory.

Russian assault on natural gas pipeline distribution and such. Lately, we're seeing where prohibitions on gas stoves, which boggles the mind, right? I mean, gas stoves, you need electricity for other stoves. Where does that electricity come from? Some don't think a little bit past what is right in front of us. But that being said, would more natural gas be beneficial? Mr. Zettel, first of all, where you are in upstate New York, you'd like to mine or gather some of that natural gas? And I know that is hopefully down the road for you, but what would

Mr. ZITTEL. We actually started in 1973 and started with our first well, which was an abandoned well, and we've got nine wells. But we can only go down to the Medina region, which supplies about 30 percent of the gas for our greenhouses and our greenhouse operation. If we were allowed to deep well, probably one well would do that in all of our houses and probably half the neighbourhood. But we are limited, but we do have gas wells. And yes, we are very short sighted, at least in our state, to say, let's get rid of gas. Let's go all electric. There has been comments on what would have happened in that November storm, and it would have been a lot more than 40 people die in Buffalo from freezing to death if we would have had all electric instead of gas.

Mr. MCGARVEY. Yeah, and I'm just south of you in Pennsylvania, fortunately, where we have been fracking, and it is been a real benefit and godsend to many of our farmers and businesses, and it is bringing in many new competitive, adding competitive advantages for businesses because of the low cost of energy. Let me move on, Ms. Lee. The CFPB Small Business Data Collection Rulemaking, where they're asking for, frankly, a bizarre list of personal data on your clients. How are you doing with that?

Ms. SALDANA LEE. Well, I'm very grateful that I don't have to manage that part of the bank. And so, I'm not in compliance. And we have a compliance officer in his department, and they're working through all the details. It is extremely burdensome, and we're going to have to develop programs and systems. And it is a project committee that has been meeting for months now, and they continue to meet until everything gets finalized.

Mr. MCGARVEY. Thank you. I appreciate all of your work for small businesses. Mr. Bevins, how many years' experience do you have in the small business sector?

Mr. BIVENS. My employer is fewer than 50 people, so I work for a small business.

Mr. MCGARVEY. Okay. I yield back.

Chairman WILLIAMS. I now recognize Ms. Gluesenkamp. Camp Perez from Washington, the great state of Washington, for 5 minutes.

Ms. GLUESENKAMP PEREZ. Thank you, Mr. Chairman. Mr. Bevins, in your testimony, you noted that one avenue for looking at inflation is actually as a distributional issue, because what is a cost to one person is profit to another person. In this case, higher costs for consumers have often shown up as higher profits for some corporations. You note that in normal times, corporate profits contribute about 13 percent to prices. But since the second quarter of 2020, they have instead contributed more than a third to the growth or more than twice as much as they normally do. Inflation has given corporations a lot of room to pad profits and increase margins. But that is not all corporations, right? There is a difference between my corporation with eight employees and some of the big guys. So why is there such a difference? Why are our profits diminishing and some others are getting so much higher? Why is there such a difference in gouging and then the rest of us who are just trying to get by? One thing that I hear about all the time when I'm back at home is the impact of consolidation, particularly in AG and in our food supply chain. I hear about the concentration of power in the hands of a few of these distributors. Transporters has resulted in unfair practices and higher prices for us at the grocery store. So what efforts should be made to improve or better enforce some of these antitrust issues? How can you discuss, can you discuss the benefits of enforcing those laws on small businesses, on competition overall?

Mr. BIVENS. Yeah, I'd say a couple of things. Your question about what explains why some firms have really been able to just pass on all costs and then some, whereas other firms have been more constrained. I think there is 2 answers. One is just partly luck. The supply chain snarls meant that some people who had supply on hand as supply chain shut down were just in a great position to charge whatever they needed to. The more sort of profound answer is just there is lots of market power in the corporate sector and very big corporations exert a lot of that power. What is different this time is they have normally exerted it mostly not against their own customers. They've kept inflation has been low for like 25 years. Instead, a lot of that power has been thrown backward against their own workers and against small businesses. This time the shortest route to profitability was by raising prices and lots of them took it. And that is why you saw such a sort of huge contribution of corporate profits to inflation over those past couple of years. And so I think whether we're talking about the long run problem or the short run problem, the answer is we need a more level playing field between various economic actors and the economy, between workers, between corporations and small businesses. And a key policy lever is the one you talked about, which is more robust antitrust enforcement that doesn't only look at product market competition, but also looks at what is happening in the labor market and to suppliers.

Ms. GLUESENKAMP PEREZ. Yeah, like on a very small frame. Remember when everyone was getting their catalytic converters stolen rampant everywhere? There was one point where there was one catalytic converter on the entire West Coast for a year. Make and model of a vehicle, one on the entire West Coast. And I bought it and I paid for it and it never showed up. And turns out the dealerships get to pull first order off of it. And so prices went up for everyone. And what could have been a simple fix instead was a bill because of these inflationary issues that eviscerated people's savings accounts. So appreciate the seriousness and the perspective with which you all are all taking this issue. Thank you to all of our witnesses for being here and thanks for this hearing today. I yield back.

Chairman WILLIAMS. Yields back and now recognize Mr. Stauber from the great state of Minnesota for 5 minutes.

Mr. STAUBER. Thank you, Mr. Chair. And I've said it in this committee before, small businesses are not only the engine of our economy, but they're the innovators. And we're hearing it here today. During the COVID-19 Pandemic, our small businesses were hit incredibly hard. Yet it was small businesses that held this economy and the entire country together. Our small businesses, just like everyday American consumers, are being hit with inflation the hardest, which are being worsened by the Biden administration's policies. Mr. Bevin, my colleague from Pennsylvania. Maybe I'll ask the question just bluntly. Have you ever owned a small business?

Mr. BIVENS. No.

Mr. STAUBER. No? It sounds like it. Mrs. Lee, I have a few questions about the small business loan activity at First Community Bank. What is the current rate on business loan that most small businesses working with your bank would receive today?

Ms. SALDANA LEE. Approximately 10 percent.

Mr. STAUBER. And what ballpark estimate of the interest rate that a small business would have received in January of 2020?

Ms. SALDANA LEE. Oh, goodness. Probably 5 and a quarter.

Mr. STAUBER. Almost double?

Ms. SALDANA LEE. Yes, sir.

Mr. STAUBER. What kind of trends have you seen over the past year or so in small business loan activity? Have you seen an increase in the number of businesses that are unable to keep up with their loans or small businesses?

Ms. SALDANA LEE. Actually, what we've seen is just a decline in applications because they're in a very difficult situation in which their profits are suffering. And as much as they would like to come to the bank to borrow money, they know that that is going to further their problems. And a lot of things are just services in the moment where you don't want to do some short term lending and borrowing for long term capital. And that is really what they're needing.

Mr. STAUBER. You had said to, I think, Mr. Luke Byer about some of the regulators or specialized workers that follow help with your regulations in the bank. How many of those do you employ right now?

Ms. SALDANA LEE. Oh, goodness. When I look around the bank, it is going to be I'm going to say at least 30 are looking at one piece of compliance and that is more in an in depth level. Every person in the bank has to deal with compliance.

Mr. STAUBER. So you have 30 that you've hired specifically for compliance?

Ms. SALDANA LEE. Not specifically for compliance, but it is throughout the bank where among their responsibilities is looking at something, reviewing something, monitoring something. And in my opinion, that is the compliance piece.

Mr. STAUBER. Thank you. Mr. Ziedel, the farming industry is an incredibly labor intensive industry, as you described. Can you once again share some of the challenges you are facing with recruiting and retaining your employees?

Mr. ZITTEL. So recruiting during the Pandemic was difficult just because of the process in applications, because it is Chicago, California, and the consulate in Mexico. So logistically, during the Pandemic, it was tough. Other than that, the federal H 2 A program is the only program to go with, again, the regulations of our state. Because the H 2 A rate, the AW rate that they call it, is based off of your minimum wage rate. That is one of the driving forces. So the higher the minimum wage rate, the higher the AW rate. But as far as retention wise, we've got a great track record. And I'd like to say because we're good employers.

Mr. STAUBER. I just known you and heard you comment here. You're somebody I could work for. I think you're a straight shooter and common sense and a good business owner.

Mr. ZITTEL. Thank you.

Mr. STAUBER. Mr. Gray, as you noted in your testimony, the federal government has poured an excessive amount of money into our economy over the past few years. Do you believe we would be seeing the same level of inflation we are today if Congress and our president did not pass excessive spending packages like the American Rescue Plan and the so-called Inflation Reduction Act?

Mr. GRAY. I do not.

Mr. STAUBER. Where do you think it would be at?

Mr. GRAY. I don't want to overstate the effect, particularly a couple of years later, and I have not done a backwards looking analysis, but I believe we've seen other research that suggested it was a positive contributor to the inflation rate.

Mr. STAUBER. My next question, and I don't have much time how would lowering regulatory burdens and cutting red tape help tame inflation? You got 2 seconds.

Mr. GRAY. Increase supply. Increase.

Mr. STAUBER. There you go. Thank you. Mr. Chair back.

Chairman WILLIAMS. Thank you. I now recognize Ms. Davidson, the great state of Kansas for 5 minutes.

Ms. DAVIDS. Thank you, Chairman. And thank you to the Ranking Member to both of you for holding this hearing today, 3 years after the start of the COVID-19 Pandemic, Kansas families, small businesses and workers are still dealing with high costs. Inflation makes it harder for our small businesses to keep their doors open, for our workers to put food on their tables. And I've been particularly focused on making sure that our domestic supply chains meet our country's demand to move goods efficiently. I've been proud to introduce legislation to support our small manufacturers and vote for critical legislation like the bipartisan infrastructure law and the major manufacturing domestic manufacturing bill that we passed in the last session. These things are helping us get our economy back on track. They're helping to create good paying jobs and lowering prices for folks back home in Kansas. But there is clearly a ton of work still left to be done. Mr. Bivens, I'm curious if you could answer my first question here. I know there are some indicators that inflation is slowing, but that it is not declining fast enough to provide real relief to our small businesses. I'm curious if you could share your insights on how the current supply chain disruptions that we're looking at are impacting the elevated prices that people are still seeing.

Mr. BIVENS. So my sense is that the supply chain disruptions, which were a major cause of the initial surge in inflation, are substantially better than they were years ago. The New York Federal Reserve Bank tracks something called the global supply chain pressure index. It was historically high pressure earlier. Now it is getting much more normalized. And so my expectation is that that along with hopefully some reduction in profit margins over the next year, will start to bring down overall inflation a little faster than what we've seen. But yeah, I think it is headed in the right direction. But I agree it is agonizingly slow.

Ms. DAVIDS. Yeah. And I appreciate the insights on supply chain disruptions. Can you talk a little bit about the other factors that are playing into the elevated prices that we're seeing?

Mr. BIVENS. Yeah, so I think profit margins are a big part of it. So basically, you had this enormous rise in profit margins in corporations that drove at one point about 60 percent of the price increases. Since then, they have been coming down, but they've not anywhere near normal. And so normally at this point in a recovery, you'd see quite a dip in profit margin. They would actually provide some really nice disinflation that has not really happened yet. I think it will happen. I think supply chain unsnarling will increase some competition. People will let go some of those very high profit margins because they'll be forced to. I think the other thing that is keeping inflation too high is just a lot of lagged effects that are taking some time to get through the economy. One obvious one, there is a range of service sector industries that are very labor intensive and inflation is mostly driven by wage increases and very early in the recovery there are some sectors like leisure and hospitality that is all real scramble for workers. And you actually really had a labor shortage. I think those are gone. I think the lagged effect of those wage normalization is going to show up in inflation. And then the last one, everyone knows housing costs only hit official measures of inflation with very long lag. We know in the private sector housing costs really have gone down quite a bit in the past year. It has really not shown up much at all in the CPI. It will show up in the next six to eight months. So, I think there is a lot of disinflations in the pipeline coming.

Ms. DAVIDS. That is really helpful. And I might follow up with you about the housing cost lag that you were mentioning. I did want to touch on really quickly that I have been working specifically on trying to figure out ways to help restore some of our manufacturing capacity and of course I want to do more manufacturing in the Kansas Third. But I am curious, speaking of Lags and what the timing might look like on the commitment to reshoring manufacturing, can you share some insights on how you think that might stabilize or impact the price inflections and that sort of thing?

Mr. BIVENS. My hope is we're going to see enough disinflation over just the next six to twelve months, that all that extra capacity that is coming online from things like the bipartisan infrastructure law won't have a huge effect on this episode, but it will have an enormous effect in the future. It basically means we're not going to be in this situation again. If we're hit by a big shock 3 years from now, it is not going to cause anywhere near the inflationary blow up it did this time because our supply chains will be so much more diversified and strong. So, it really is an investment in the future. Even if it is not going to come online quick enough this time to really shove down inflation over the next 3 months. I think it is absolutely worth doing because of the resilience it builds into the economy.

Ms. DAVIDS. Thank you and I'll follow up with some of the other questions I had. Thank you so much. I yield back.

Chairman WILLIAMS. Thank you. And now recognize Mr. Hunt from the great' state of Texas for 5 minutes.

Mr. HUNT. Thank you Mr. Chairman. Really appreciate it. Also want to thank the witnesses for being here as well. Really appreciate your time and efforts today. Yesterday we observed our greatest generation's greatest moment. D-Day brave men risked their lives to free the world from tyranny to ensure that we don't speak German. Today, they waited through waste deep water in the face of machine gunfire into a barrage of machine gunfire in order to free the world from fascism. And more than 57,000 of these men gave their lives 79 years ago. Yesterday, those fearless and courageous soldiers, sailors, marines and airmen wanted those closest to them to prosper in a free society. Not just then, but now and of course for the future. Today, because of many of the policies from this administration, we can hardly say that we've kept our promise to America, the promise of freedom that our greatest generation sacrificed for us, that we observed yesterday. The American people are suffering under this administration. Small businesses, as you have articulated, are feeling the sting of this administration's actions. Inflation has remained at a record high for going on 2 years now. Groceries and essential items have been at all time highs for American families. Bread, eggs and the most basic staples of life are now exorbitantly expensive for American families.

We are feeling this everyday. Fuel costs are at a halt or at all time high heating. Our homes are at an all time high. American films are struggling right now because this administration has waged war on our oil and gas industry. As you have just articulated, sir, your state is sitting on the Marcel Shale and you can't even get the natural resources needed to fill your home and to fuel your farm. These are not real solutions that are being proposed right now. Solutions like we must demand that everybody buys an EV or we have to use solar panels. And by the way, I'm not an anti green guy. I'm just an all hands on debt kind of guy. And we are a country that must have redundancies. The economic and energy priorities of this administration are flat out not sustainable. We passed the so called Inflation Reduction Act, and we know 2 things about this bill. According to our former Vice President Al Gore, the IRA is a quote is a quote climate bill. He said these words and it will cost the US at least $1.2 trillion in green subsidies instead of cutting the continued wasteful spending, this administration is on track as of last week to spend an additional $4 trillion over the course of the next 18 months instead of curbing our spending to pre COVID levels. Because last I checked, COVID is over. And for you, sir, COVID never started. Thank you for all you've done for our country. Small businesses will continue to feel this and so will the consumer.

Under this administration has become harder to start a business and very costly to do so. President Reagan famously said the nine most terrifying words in the English language are, I'm from the government and I'm here to help. We don't want that. We want you to be able to make your own decisions. We want to empower you. The individual the individual small business owner is the very backbone of this country. We must unleash American energy. We must unleash your spirit fire and reign in the influence that we have seen destroy this country for the past 2 years. Now, ma'am, before I did this job, I was actually in the mortgage business. And also, I worked for a home builder in the greater Houston area. One thing that I found to be very interesting is for every $1,000 increase in a home, you basically price out 2900 potential home buyers. When we have inflation, the input goes into the slab, it goes into the frame, it goes into the brick, it goes into the roof, it goes into the doors, it goes into everything of the home. And that then gets pushed down to the consumer.

So, ma'am, my question is for you. What have you seen in this industry and how damaging has inflation been to the industry that I work in and that you work in every single day? And in spite of the strength of the Texas economy, how has this hurt the home builder and the homeowner?

Ms. SALDANA LEE. I'm going to start with the homeowner we have seen our custom home built. They have decreased by half from about a year ago. And we track that because, again, we're very heavy in construction lending. We have the data to support that. And I see it as because of the home mortgage interest rates, families are not being able to build their dream homes. And the other thing that I'd like to add really quickly, we had some builders that were building custom homes and eight households in particular, homeowners in particular. Those 2 builders went out of business during construction. I was able to talk to one of the owners who was extremely disappointed, distraught, because they were going to have to go out and find another builder to finish her house. And this was like a 2 year period.

Mr. HUNT. Okay, time is up. Thank you very much, ma'am, for your time. And thank you, sir, for feeding our country. I yield back.

Chairman WILLIAMS. I now recognize Mr. Mfume from the great state of Maryland for 5 minutes.

Mr. MFUME. Thank you very much, Mr. Chairman. I want to thank you and in her absence, I want to thank the Ranking Member also, and I want to thank our witnesses. One of the interesting things about this committee and all committees is that we don't always agree. And fortunately, we ultimately found our way out of disagreement, back to the facts and back to the reality and back to the science. And I know it has been oftentimes convenient because President Biden is in the White House, to sort of paint him as the great culprit, the great conspirator that has created a situation that we're all definitely trying to survive under. But the fact of the matter is Joe Biden did not create this inflation. And if we really want to talk about inflation and administrations, the inflation last year got up to what, over 6 percent?

Well, in the 1970s, following 2 back to back Republican administrations, Ronald Reagan and his successor, inflation hit 12.6 percent. Now, can you imagine what that would be like today? 12.6 percent? And small businesses were screaming for help. It was so interesting that in 1974, Gerald Ford addressed the joint session of the Congress, and he gave this long, detailed speech about what we as Americans can do to drive down inflation. And people listened politely. And then at the end of the speech, he pulled out a great big button that said W-I-N. And he hung it on his lapel, and it said it stood for Whip Inflation Now. And that he and the First Lady and his family was going to find a way to spend less, and the government probably needed to find a way to spend less. But all Americans have the responsibility to, quote, Whip inflation. Now, Bob Hope, who was a dear friend of the President at the time, went on stage a few weeks later and gave a joke, or told a joke, saying that since that great speech about whipping inflation at 12 percent, whips have gone up by $0.50 in the last week. So if you live long enough, you'll see everything at least twice. I believe that Greenspan, Alan Greenspan, who was his economic advisor at the time, said it was the most unbelievable demonstration of stupidity that he had ever seen or heard.

So there is enough blame to go around to everybody. And I know someone mentioned, I think it was the gentleman from the great state of Texas earlier, Ronald Reagan. Well, I knew Ronald Reagan. I served with Ronald Reagan. And Ronald Reagan said about inflation that it is not the fault of any particular administration. It is the fault of policies that can carry over from administration to administration. So I just want us all to take a little bit of a deep breath and remember that we're seeing now what we saw then only twice as devastating without as we saw then a Democrat in the White House. So it is really not about parties. It is more about policies, practices, principles. Trying to figure out what works doesn't work and throwing stuff up against the wall and realizing that none of us really have an answer.

But there is a good idea here, there is a good idea they're there, and then we try to find a way to make it all work. So I just have one question of you, Mr. Bivens. I want to go back to the fact that inflation is slowing, but it is not reversing. However, I think that there are some other things that are keeping prices elevated that maybe we should talk about for a moment. You'd mentioned price margins in respect to the gentlewoman's question a moment ago, but wouldn't labor market have something to do with that? Wouldn't employment levels have something to do with that? And wouldn't the monopoly power and pressure downward on really small businesses that operate on the real main street, wouldn't those also be things that sort of drive this uncontrollable beast that we call inflation?

Mr. BIVENS. Yeah, I think all those influences go into the mix of what generates the inflation rate. And so one of the reasons why I'm relatively encouraged by what I'm seeing in very recent data and inflation and think like we some patients will will help us a lot is that we have not seen inflation lock in and become embedded across every sector of the economy like you brought up the 1970s.

One reason why that inflation was so incredibly tough to fight was like every sector, workers, rank and file workers, small businesses, corporate profits all saw really rapid gains in their income growth year after year as they all tried to pass on price increases to each other. That dynamic really hasn't happened this time. There is one sector corporate profits that have really increased their share of the total. Everyone else's income is kind of lagging behind and actually being an anchor on inflation and trying to bring it back down.

Mr. MFUME. Thank you very much. That is the thing we don't talk about that much, the corporate side of all this. Well, this gentleman from Maryland yields back. Mr. Speaker, thank you for the opportunity.

Chairman WILLIAMS. Okay, thank you. And I recognize Mr. Phillips from the great state of Minnesota for 5 minutes.

Mr. PHILLIPS. Thank you, Mr. Chairman. Let me start with you, Mr. Gray. You made some comments, and I concur that deficit spending is accretive to inflation. I think it is basic economics. I just looked at core inflation rates around the world. The most recent update I see, the US is about 5.5 percent. Some countries doing a little bit better than us, but we got Germany at 5.8 percent, Italy at 6.9, Denmark, 6.1, Greece, 6.1, Spain, 6.1, Paraguay, 6.2. France, 6.3, Norway, 6.3. Ireland 6.4. European Union 6.45. Australia, 6.6. Netherlands, 6.6. Honduras, 6.6. Peru, 6.7. United Kingdom, 6.8, Belgium, 6.8, New Zealand, 7.3. I can keep going. Sweden, 7.6. Chile, 8.7. Estonia, 10.8. Poland, 12.2. Pakistan, 20. Egypt, 38. Argentina, 105. Not so bad, comparatively. Is that a fair statement? Compared to developed countries around the world? Compared to those large numbers, our smaller numbers are better.

Okay. And by the way, I'm the first to admit I'm really tired of both parties being very poor fiscal managers of our economy. One party talks about doing it a little bit more than the other, neither are doing it. Both deserve blame. What president in our country's history added more to our federal debt than any other in a 4 year term? I don't have that off the top of my head, but I have a pretty good guess. Who do you think? I would imagine it is probably not the current one, but perhaps the last one. That is correct. Donald Trump added $7 trillion. So all I'm getting at here is I'm tired of this nonsense about who. But we're all responsible for it, every single one of us, both parties. And I simply want to focus more on solutions because that is what we're here for.

So to all of your witnesses, thank you. To our Chairman and Ranking Member, thank you. But in terms of culture, man, I just am tired of this throwing stones, because we're both responsible. With that said, I do want to talk about solutions. Some of you have mentioned some before. I've been a small business owner my entire life. I know how darn tough it is during the best of times, let alone during inflationary times. I also, as a banker, Ms. Lee, I can imagine trying to find that intersection between raising rates to cool the economy and reduce inflation with ensuring that we have capital access to small businesses as a challenge. Just share with me what you think is the most important thing that we policymakers can do now in a thoughtful manner to actually make life easier for small business owners as it relates to inflation regulation or anything else. Why don't we. Start with you, Mr. Bivens.

Mr. BIVENS. I would say for small business owners, the most important thing is enhanced antitrust agenda level.

Mr. PHILLIPS. You talk about that a little bit. You mentioned that earlier. Be a little more specific.

Mr. BIVENS. A couple of things. I mean, one, I think we often think about antitrust as a make sure big companies are not charging their own customers really high prices because of their privileged market position. We also need to look at how they treat their suppliers. A lot of the stories about small businesses being squeezed are my input. Prices are rising. I have no control over that. Then when I try to sell my stuff, often to a big corporate retailer, they just tell me no. And they do not give me any sort of extra price boost at all. I think that is a real problem and that is an asymmetry of bargaining power that is going to hurt them even during non inflationary times. But it is becoming really acute now.

Mr. PHILLIPS. I appreciate that. Okay. Antitrust. Got that. All right. Ms. Lee, what can we do expeditiously to help small businesses?

Ms. SALDANA LEE. In my opinion, every Congresswoman, every congressman needs to sit and just be in that small business owner's shoes. Get educated, get in depth into the real cost of each particular different type of industry, different type of business. Because that is one of the best things about banking. We call them deals. No deal is the same, every deal is different and every customer is different. And that is what I feel would be beneficial because it would come back to getting educated and then forming the policies that need to be formed.

Mr. PHILLIPS. Thank you. In fact, I do a series called on the Job with Dean. I spend 2 to 3 hours a shift at small businesses. I've done about 30 of them in my district. Most educational, insightful, enlightening thing. I wish every Member of our Committee would do the same in his or her districts. Why don't we move to you, Mr. Zittle? I'm sorry. I'm sorry, Mr. Gray. Yeah, sorry. Just trying to throw you off a little bit.

Mr. GRAY. I would just say do no harm. And this Congress has paid good attention and discussed opportunities to increase supply across a number of industries, and I would continue those.

Mr. PHILLIPS. Okay. And Mr. Zittel?

Mr. ZITTEL. Consistency and policy making, it doesn't matter whether it is state line or country or in the world. You can't sell coal to China. We live under the same sky and then want to be all electric. Same thing with state to state. Policy making has to have a concept and they got to know what they're talking about.

Mr. PHILLIPS. Any specific policy relative to your business that would be most helpful? You mentioned natural gas, under——

Mr. ZITTEL. Anything labor for US.

Mr. PHILLIPS. Labor——

Mr. ZITTEL. Our state and labor.

Mr. PHILLIPS. Maybe immigration reform to help increase the supply of labor. What do you think of that?

Mr. ZITTEL. No, we're good.

Mr. PHILLIPS. Oh, you're good?

Mr. ZITTEL. Yeah, they work out just fine. It is our state labor.

Mr. PHILLIPS. Okay, thank you. I yield back.

Chairman WILLIAMS. Next, I recognize Mr. Alford from the great state of Missouri for 5 minutes.

Mr. ALFORD. Thank you, Mr. Chairman. I appreciate that. Ranking Member small businesses contribute greatly to the American economy, the fabric of our society, our way of life. But rampant inflation is contributing to the downfall of a lot of small businesses. It is a matter really important to me in our district. Our district is very rural, 24 counties. We have 95,000 farms in the state of Missouri. A lot of these are family owned. We're losing a lot of farms. 1000 a month in America. This is serious business. Farmers are small business owners as well. And everyday small business owners have to deal with the crushing effects of inflation, higher input costs, increased labor costs.

65 percent of small businesses say they are likely or very likely that they will permanently close if inflation continues at its current pace. Economist Larry Summers, who served in the Obama administration, said the risk of this inflation is sizable and that he believes we will tip into a recession. Biden Harris administration has decided to focus on woke policies. Instead of tackling inflation, they've also decided to increase, not decrease, regulations, adding to the cost of doing business. Well, folks, it is time that we and the Small Business Committee and the House of Representatives get down to the business, to once again allowing the greatness of our small businesses to be unleashed and tame the Biden inflation.

My constituents are focused on 3 big things food, fuel and fertilizer. The F 150 is a model of a truck. It shouldn't be what it costs to fill it up. But unfortunately, our farmers are dealing with these higher input costs, driving them some out of business. President Biden has targeted the fossil fuel industry, but he has squarely put the crosshairs on the backs of the American people. And it is time for this to end. Andrew bettering chairs. The Missouri Farm Bureau young farmers and ranchers program. He is very concerned about these input costs. He says, I think we're just in a situation where you have to hold tight and hope for the best. Hopefully there is light at the end of the tunnel. Well, hopefully there is. And Mr. Zittel, I want to start with you. Do you see light at the end of the tunnel? And what can we tell young farmers like Andrew?

Mr. ZITTEL. Same thing I tell my son, be patient. Same thing Andrew is saying. We've weathered the test of time. We've been around 100 plus years. You get creative. It will never be easy, I don't believe I always had the dream that it would happen in my lifetime, but I don't think I'm going to last that long. I believe the American farmer will become more appreciated and better compensated in the future because we're going to lose enough of them where they're going to become a rare enough commodity that people will start to understand what they're putting in their mouth.

Mr. ALFORD. We better start realizing that quickly. Our food security is our National security, as you well know. Mr. Zittel, Mr. Gray, inflation is a burden for all Americans. It is a tax on all Americans. I don't care how much money you make, what your skin color is or what pronoun you go by. It is a tax. The negative effects of inflation are really hard felt in rural communities. As we've talked about, incomes grew slower there while expenses grew faster. It has put rural small businesses in a tough spot. Mr. Gray, how are currently administration policies making it more challenging for rural small businesses to navigate the impacts of inflation?

Mr. GRAY. I would first speak to the current inflationary environment as I think we would all agree is complex. I would identify, however, some policy errors that were made recently that exacerbated it. It certainly not the only cause and as the Members of the Committee have already addressed, the regulatory environment is a challenge for commerce. And I think the combination of those 2 elements are antithetical to our understanding of price discovery which is the intersection of supply and demand. And these policies sort of push in the wrong direction.

Mr. ALFORD. I can't help but think have we had a different president and a different administration? This would not be happening. The war on fossil fuels would not be happening. We would be energy dominant and not energy dependent as we are going on our hands and knees and begging other countries, taking oil out of our strategic oil supply, putting it at risk on a National security level. And I can't help but think that fertilizer prices which are dependent upon natural gas prices, that's what makes fertilizer. We only have 7 percent of the world's fertilizer is made in the United States of America because the overregulation of EPA and other government agencies that see fit to try to shut down businesses so we can't have an active, growing economy, I think that is reprehensible. And I think we here on the Small Business Committee are going to make every step we can to get people back into the business of doing business. Thank you, Mr. Chairman. I yield.

Chairman WILLIAMS. Thank you. I now recognize Ms. Scholten from the great state of Michigan for 5 minutes.

Ms. SCHOLTEN. Thank you so much Mr. Chair and thank you so much to the witnesses for taking time out of your busy lives here today. I want to start by saying that inflation has been a deeply concerning issue for individuals in my district and I am so grateful that we're having this hearing today.

As my colleague Representative Phillips said, this is an issue that has been blown up by both parties. We need to put the politics aside and focus on solutions which is what I hope we can do here today. I know that I came to Congress because I was concerned about working families like mine and the rising costs. So many families in West Michigan work hard, pay their bills and still struggle to make ends meet. Prices across the board are too high and wages are too low. Inflation is slowing which is encouraging.

However, it isn't reversing. American families and small businesses are still suffering. Mr. Bivens, in your testimony you spoke about how inflation is the inevitable result of massive shocks to the economy and the long lived but steadily dampening ripple effects. You go on to list the Pandemic and the Russian invasion of Ukraine as some of those shocks but what is keeping prices elevated now that the ripple effects of these shocks have subsided?

Mr. BIVENS. So I would argue they have not fully subsided. I think they're really long lived and there's also big lags between when they actually subside and when they show up in lower inflation. And so I gave the example to your colleague earlier it is widely recognized that what is actually happening in housing markets is only reflected in official measures of inflation with up to a year lag. I think we've only seen in the past month or 2 a deceleration in the housing component of the CPI. I think that's really reliably going to continue over the next year because we know in the private sector the real time data those costs have been moderating a lot. The same story holds with a bunch of very labor intensive sectors in the service industry where prices are really a function of what's happening to wages. Wage growth was through the roof in the very beginning of the recovery. Everyone remembers the restaurant scrambled to rehire 12 percent wage increases. That's an old story and it's just taking time for those to filter through. And then the last thing is profit margins are not as high as they were at their absolute historic peak at the beginning of 2022 but they've only come down a little bit. I think if they normalize to like 2019 levels over the next year that puts a lot of disinflation on the table as well. So I would argue the ripple effects they're still out there but they're going to predictably dampen unless some, god forbid, huge shock hits again.

Ms. SCHOLTEN. So you think it is the ripple effects that are still contributing?

Mr. BIVENS. Yes.

Ms. SCHOLTEN. I wonder if you could talk my colleague Mr. Phillips listed off a number of inflationary rates of other countries and developed nations. I wonder if you can dig into that a little bit and talk about how the United States compares to other similarly situated countries.

Mr. BIVENS. Yeah, when I see that data the first thing I think is it's very clear evidence that there is just not some US specific policy mistake that caused our inflation. It was literally every single advanced economy in the world saw a pronounced acceleration in inflation. Ours came a little sooner than some others but it also peaked sooner and it's on its way down whereas in many other countries it is not. And if you look across the different policy choices those countries made, they're all over the table like some did very aggressive fiscal relief and recovery like we did, which I think was appropriate. Some really didn't at all, but still got the inflation. And so what I take from that data is that the US is kind of in the middle of the pack generally as to what happened with its inflation experience. It's better on the recovery front, and it really means that there is no one dumb US specific mistake that led to this. It was a global pandemic and global war that led to most of the inflation we've seen.

Ms. SCHOLTEN. Thank you. Because I only have a minute left, I want to stick with you. In a little bit of a follow up, we talk about how inflation needs bipartisan solutions. When you think about the best case scenarios for recovery, can you speak to whether we are on track to achieve this recovery scenario and what specifically in terms of policies, especially those policies we can actually achieve in a bipartisan manner in this Congress we can help do as legislators.

Mr. BIVENS. So I think at the moment we're actually on a pretty decent track. Everyone wishes inflation would come down much more quickly, but I don't wish that at the cost of having unemployment rise a lot. And so I don't want the Fed to continue super aggressive rate hikes. I think at the moment the soft landing is in reach. That is, we have inflation come down steadily. Normalize unemployment never really goes up. I think in terms of, like, bipartisan things that can happen, I think they're mostly on the sort of infrastructure spending front. There are still some other things we could do. And I would also include a big investment in childcare that boosts labor supply. And actually I think that's not going to take effect in the next six months, but it really could make us much better prepared for the next big shock that comes our way.

Ms. SCHOLTEN. Thank you. Yield back the remainder of my seconds.

Chairman WILLIAMS. And now recognize Mr. Bean from the great state of Florida for 5 minutes.

Mr. BEAN. A very good afternoon, Mr. Chairman. Thank you so much. And good afternoon, panelists. I'm a rookie in more ways than one, Mr. Chairman, as you know, and everything happens at once. Running from committee to committee. Mr. Who's our banker? Our banker is Miss Lee. But what are we seeing out there? And I was a banker for 13 years. What are we seeing? Are we change because inflation I know it's kicking everybody's tail. What are we doing? Are we changing lending standards? Are we looking at different things? What's changed in banking now that inflation is just kicking everybody's tail?

Ms. SALDANA LEE. Okay, before I answer, can I ask you a question?

Mr. BEAN. Sure, go right ahead. You're recognized

Ms. SALDANA LEE. Why are you not a banker anymore?

Mr. BEAN. I got this Congress gig going on right now, but you never know. You never know if it doesn't work out.

Ms. SALDANA LEE. I thought you were going to say compliance.

Mr. BEAN. No. You never know, though. You never know. But it's certainly a rewarding career of helping businesses and putting people in houses and businesses and whatnot. I know there's great satisfaction. But is it hard now? Is it gotten difficult?

Ms. SALDANA LEE. It's gotten extremely difficult. And I mentioned earlier that I think that the thing that's most difficult is a small business that's already suffering, and they are needing capital to continue to meet some of those increased prices. But they don't want to get into debt further than they might already be or just get debt if they don't have any already. There's a lot of short-term things that the bank is assisting them with, and that has helped tremendously. But it's almost like the paycheck to paycheck for a consumer. That's the way it is for business. But we're just going to continue to help however we can.

Mr. BEAN. Good Deal. Are you finding this is a toss-up question? Is hiring people we've heard that as a recurring theme. Are you all seeing that as well? Getting people to work for you everywhere?

Ms. SALDANA LEE. Everywhere.

Mr. BEAN. You're seeing that, too? Anybody else? Mr. Gray. Jump in.

Mr. GRAY. I don't have any direct reports myself, but I know elsewhere in my organization it's been a struggle to find folks

Mr. BEAN. Very good.

Mr. ZITTEL. People are always surprised when I say this not an issue. But we don't have Americans that want to be farmers either. So, we're depending on the H 2 A program. Good workers, reliable workers, happy to be with us, always come back. So far, so good.

Mr. BEAN. And with the remaining time, does anybody have anything to say that wasn't asked of you? Ms. Lee?

Ms. SALDANA LEE. I can't think of anything off the top of my head. Some of the points that I really wanted to make actually questions were posed and I was able to field those questions.

Mr. BEAN. Very good. Mr. Gray. Anything? Any final thoughts?

Mr. GRAY. Just the observations from the Ranking Member at the beginning are well taken, and I think we would all agree that the response to the inflation is painful and because the Federal Reserve, our primary institution for controlling and moderating price stability, has some very blunt tools. And unfortunately, we are in a position where they are having to deploy them. And the issue is a credit crunch.

Mr. BEAN. Got you. Mr. David?

Mr. ZITTEL. I think the American farmer does what he does because he loves it. It's not ever going to be a get rich scheme. I always tell people I passed 3 very responsible human beings on to the rest of the world and only one of them became a farmer. But I hope more of them become farmers because that's where you get work ethic from. So don't kill the American dream of being a farmer.

Mr. BEAN. Amen. Amen. Mr. Chairman, I yield back.

Chairman WILLIAMS. Thank you very much. I now recognize Mr. Thanedar from the great state of Michigan for 5 minutes.

Mr. THANEDAR. Thank you, Mr. Chair, and I thank all of the witnesses here. This has been a good discussion. I'm a small business owner. I'm a serial entrepreneur, started many small businesses. And Mr. Bivens, I struggled making payroll, hiring, acquiring new customers. Running a small business is tough, even though small businesses create 70 percent of the jobs. Now looking back in this pandemic and in current situation, it somehow seems to me that larger corporations are continue to do well. They continue to command higher prices, but the small businesses continue to struggle. They are closing down. They have felt real pain of the current economic situation. Why is that? Why is the larger corporations able to be able to pad their profits and look robust and healthy as ever? Why is that? Help, help me understand if you can.

Mr. BIVENS. Yeah, I think the simple answer to it is just like different degrees of market power. A lot of the stories on the panel, which I think are totally true, is you've got small businesses and they look on the input side and they see costs rising a lot and then somehow, they're not able to sell their output for much higher prices. And on the one hand that should be a puzzle. There's inflation. I thought all prices were rising. Why aren't they just getting it back on the output side? And it's often the case that because some of their customers tend to be really big corporate retailers who have the ability to say no, don't care about what's happening to your input costs. I'm holding the line on prices and I'm able to just because I'm a big corporation and I've got market power that you don't. And so that's why I think, like inflation or not, long run, short run, one key issue is just to relive level that playing field and actually do more robust antitrust enforcement so that the pain is actually shared more. Equitably across society when you've got these shocks and it just leads to more efficient outcomes when you've got more competition in markets as well.

Mr. THANEDAR. Yeah. Thank you. Thank you so much. And Mr. Gray, I represent Detroit, State of Michigan. Many of the residents in my district average typical annual household income could be as low as $25,000, maybe as high as $45,000. So, people are struggling and they haven't seen, many of these families haven't seen the benefit of the wage increases depending on the type of work that they do. But they are experiencing the same inflation as everybody else, the same cost increases, the cost of grocery, the fuel, everything else going up. Now, Federal Reserve at least looks like indicating that they would want to pause the interest rate hikes. Now, given the current inflation situation, what would that do to the inflation? And do you think that the Fed is gone far enough or they need to continue to go further?

Mr. GRAY. Thank you for the question and your observation is absolutely correct. And this is true of every recovery, is it not? Too often, those at the lowest end of the income distribution recover last. However, I do think in the current recovery, we've actually seen something of a break from that tradition. And we have seen, particularly in this very tight labor market, is unemployment rates across all demographic groups are really bouncing off historic lows. And I view that positively within the context, though, of an inflationary environment. However, in terms of the outlook on the Federal Reserve, I think there's an argument for a pause. We have seen rapid increase in the tightening of monetary policy. So, there's an argument for that at present.

Mr. THANEDAR. Okay. With 30 seconds remaining, do you believe that the Fed policy has helped us avoid a recession and likely to end up into a soft landing?

Mr. GRAY. I believe that's the hope. We're not there yet, and so I simply don't know if that's yet achievable. I am hopeful, and so far, we haven't landed hard.

Mr. THANEDAR. Mr. Gray, thank you. And, Mr. Chair, I'll yield back.

Chairman WILLIAMS. Thank you very much. And I would like to thank our witnesses today. We've had almost 2 hours of a hearing. It's been great for your testimony, and I hope that when you go back, you realize that everything in Washington is not one side or another. I think you see on this committee, we agree to a lot of things, which is important because we need to agree on main street, America and so forth. So, I appreciate you being here. I appreciate all my colleagues being here today. And without objection, Members have 5 legislative days to submit additional materials and written questions for the witnesses to the Chair, which will be forwarded to the witnesses. I ask the witnesses to please respond promptly if that happens. And if there's no further business, without objection, the committee is adjourned. Thank you.

[Whereupon, at 3:50 p.m., the committee was adjourned.]

APPENDIX

Testimony on:

Prices on the Rise: Examining the Effects of Inflation on Small Businesses

Gordon Gray
American Action Forum*

United States House of Representatives
Committee on Small Business

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* The views expressed here are my own and not those of the American Action Forum.

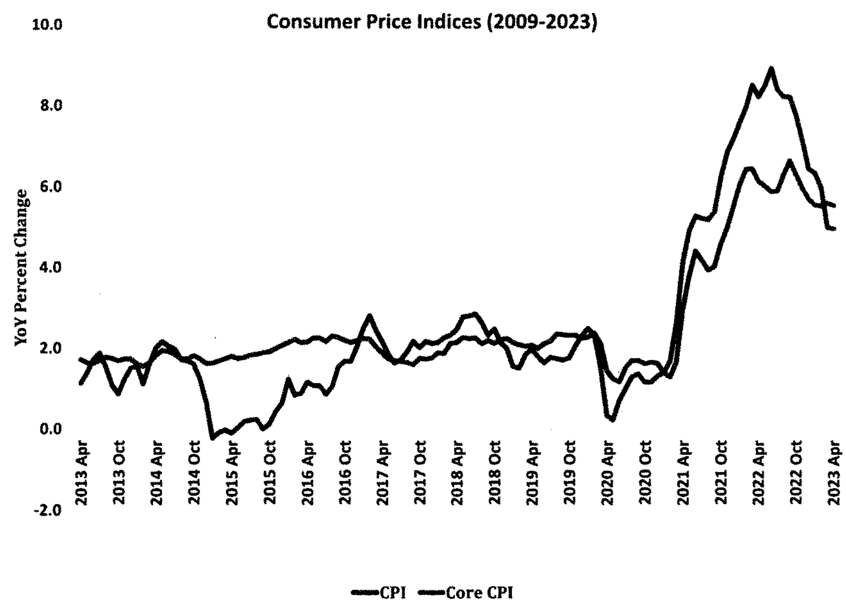
Chairman Williams, Ranking Member Velázquez, and members of the Committee, thank you for the privilege of appearing today to discuss inflation and its effects on small business. I hope to make the following main points:

- The United States is experiencing persistent inflation that is taxing America's families and businesses.
- Policy choices have contributed to the recent, rapid acceleration in price levels.
- Federal policy should be oriented around reducing inflationary pressures – and the record has been mixed at best.

Let me discuss these in turn.

The Inflationary Environment

According to the U.S. Census Bureau, the median age in the United States is about 39, which means that a bit more than half of the country has never experienced inflation like what the United States has seen over the last two years. Not since 1980 has the Consumer Price Index (CPI) grown as rapidly as was observed in June of 2022 when yearly inflation topped 8.9 percent.



Stripping out more volatile food and energy price components to isolate core price growth reveals a similar story of rapid, historically aberrant inflation. Notably, one can observe a significant divergence between the two indices around the time of the Russian invasion of Ukraine that significantly disrupted energy markets. It is clear that event moved food and energy prices, but the fundamental story of U.S. price growth is not about the Russian invasion, but the laws of supply and demand.

These laws are in force, and they are taxing small businesses and the households that support them. Over the last two years, yearly price inflation has averaged 2 percentage points higher than yearly wage growth. Wage growth has been substantially elevated over the same period but has nevertheless failed to keep pace with price growth. Put another way, small business and households are falling behind. While inflation is down off of the recent peak, it remains stubbornly elevated at well above the average of recent decades, and more than twice the target rate set by the Federal Reserve.

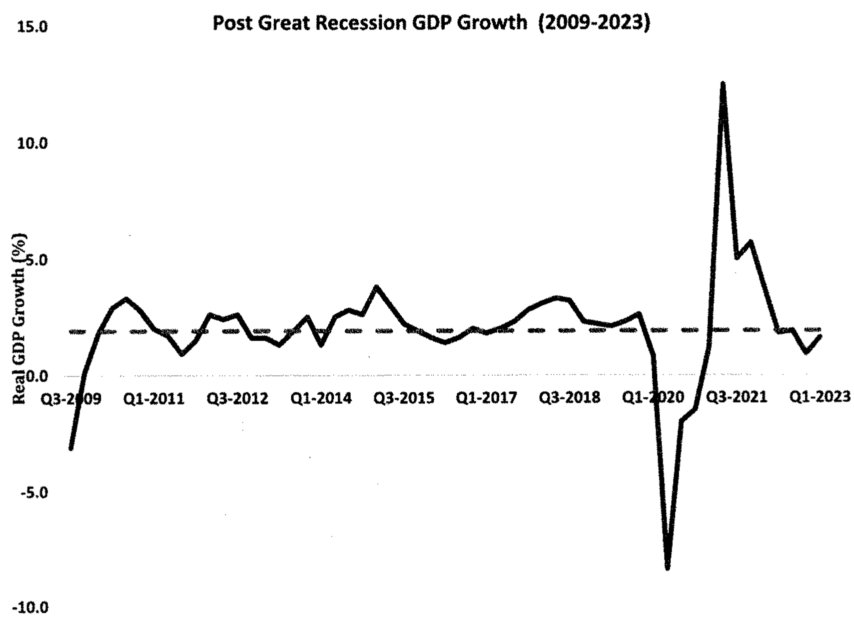
Thus, even though the U.S. inflation outlook is improved, enduring inflation nevertheless is a significant tax on household finance that will diminish the U.S. standard of living. At the current rate of 5 percent, a family with the median income of $70,784 is paying over $3,500 in price growth.[1] Relative to stable price growth, this is a $2,000 tax right out of household budgets. Food, energy, and shelter prices – which tend to be more volatile but nevertheless

[1] https://www.census.gov/library/publications/2022/demo/p60-276.html

represent about half of the average household budget – have been even more elevated, and serves as a uniquely regressive tax.[2]

Recent Macroeconomic History

Prior to the onset of the COVID-19 pandemic, there had been a meaningful improvement in the persistence of healthy economic growth over the prior three years. Gross domestic product (GDP) growth, measured as the growth from the same quarter in the previous year, accelerated steadily from a low of 1.4 percent in the 2nd quarter of 2016 to a pre-pandemic peak of 3.3 percent in the 2nd quarter of 2018. Notably, throughout this period, GDP growth remained above the 1.9 percent growth rate that prevailed throughout the 14 years since the Great Recession.

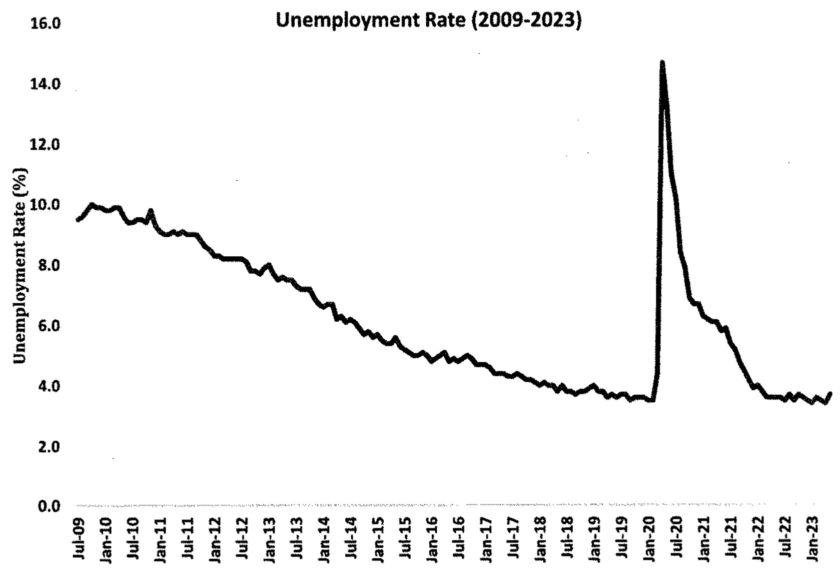


In March of 2020, the COVID-19 pandemic precipitated a historic shuttering of the economy. The broadest measure of economic wellbeing – real quarterly GDP growth – reflected the devastation. The Bureau of Economic Analysis (BEA) estimated that that the economy contracted 8.4 percent between the 2nd quarter of 2019 and the 2nd quarter of 2020 – the single largest drop in real GDP since the Depression-era.

[2] https://oversight.house.gov/hearing/inflation-a-preventable-crisis/dhe-testimony-house-oversight-final-3-9-23-holtz-eakin/

The public policy response was robust, with the combined monetary, fiscal, and administrative actions estimated to be on the order of $11 trillion.[3] The most conspicuous of these actions was the series of bipartisan measures that were enacted in 2020. Through a combination of public policy, effective vaccines, and more than a fair amount of grit from the American public, the nation and the economy recovered rapidly, such that the economy as measured from the 2nd quarter of 2020 to the 2nd quarter of 2021 had expanded by 12.5 percent. The pace of growth has somewhat tempered in real terms since.

A somewhat similar story can be told of the U.S. labor market. U.S. unemployment gradually moderated over the last decade, before finally bouncing near historic lows. In February of 2020, the regular unemployment rate stood at 3.5 percent. Just one month later unemployment had shot up to 14.7 percent, the highest rate and largest monthly increase in dataset going back to 1948.[4]

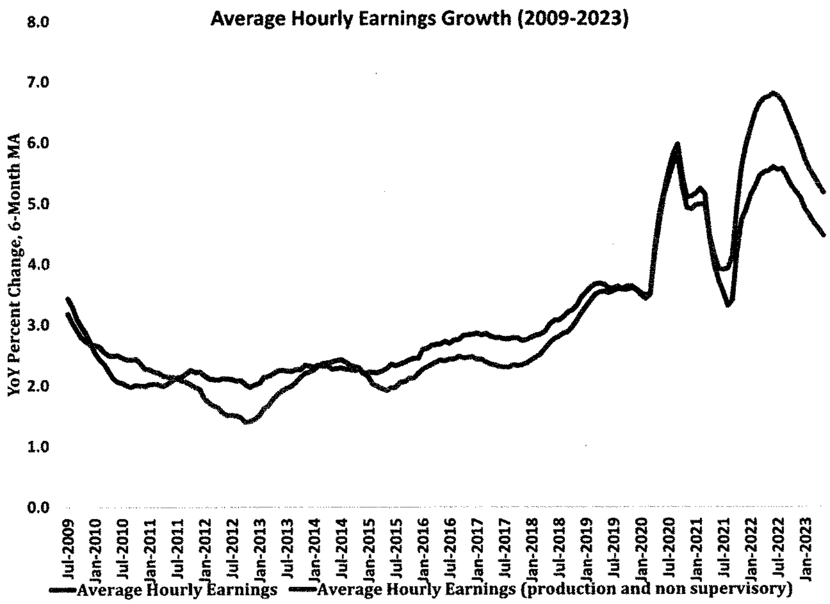


But robust policy actions by Congress and the Federal Reserve combined with an improved public health outlook provided for a rapid recovery in the labor market from the depths of the pandemic. Yet somewhat differently than the pace of real GDP, the labor market

[3] https://www.covidmoneytracker.org/
[4] https://www.bls.gov/opub/ted/2020/unemployment-rate-rises-to-record-high-14-point-7-percent-in-april-2020.htm

remains quite tight such that as recently as last month the unemployment rate remained at lows not seen since the 1960s.

A more nuanced economic history is borne out by the evolution of the pace of nominal average hourly earnings.



Here, we see a somewhat similar trajectory to other major economic indicators over the last decade, reflecting slow building wage growth. Unlike employment, however, earnings growth did not crater but rather have cycled between high and very high rates of growth. This is a feature of a very tight labor market. In the presence of historically high inflation, it reflects an economy running hot.

Rising Inflation and Policy Design

On the fundamental questions as to whether the current inflationary cycle is a function of excess demand or insufficient supply, the answer, of course, is "yes." Unquestionably, the pandemic imposed somewhat unique challenges on the economy. It was the deliberate policy of the United States to essentially shutter commerce for a significant period of time. The disruptions rippled through every institution in the United States, from government, to schools, to businesses and households.

The U.S. policy response in 2020 was rapid, appropriately sized, and included policies that were well-tailored to the challenge – the Paycheck Protection Program loans are a conspicuous example. The first pandemic-era response, the Families First Coronavirus Response Act (H.R. 6201) was signed into law on March 18th and offered over $300 billion in emergency support for paid family and sick leave for workers and employers. This law was followed soon after by the enactment of the CARES Act, which provided more than $2 trillion in relief and support to households, government agencies, and businesses. Follow-on legislation enacted on a bipartisan basis throughout the year variously extended certain programs to maintain federal support for families and business and ensure government functioning. The last such legislation was the Consolidated Appropriations Act of 2021, which featured about $900 billion in additional relief and support largely modeled on policies in the CARES Act. At the time, inflation as measured by the CPI was 1.4 percent year-on-year and real GDP grew 3.9 percent on an annualized basis in the 4th quarter of 2020.[5]

Subsequent policy changes marked a break from the bipartisan tradition that largely characterized the congressional response to the pandemic. On March 19, President Biden signed into law the American Rescue Plan Act, which injected on the order of $1.9 trillion into the economy. Setting aside the policies within the Act, which were somewhat inconsistent in design with past coronavirus-response measures, the Act was quite simply too big.

According to the Congressional Budget Office (CBO), the gap between the capacity of the U.S. economy to grow and actual economic performance – known as the output gap – was about $380 billion for the rest of the year.[6] At the time, the U.S. economy was growing at 6.3 percent annualized. The upshot is that Congress and the administration gave a massive injection of fiscal stimulus at a time when it needed it least – within two months inflation had nearly doubled before doubling again in the subsequent months. It is important to note that while other global economies faced rapid inflation – the United States was a conspicuous frontrunner subsequent to the enactment of the American Rescue Plan. That excessive stimulus uniquely contributed to U.S. inflation has been found in research published by Federal Reserve banks.[7]

Unquestionably there are global forces at work that can and ultimately do swamp the effects of temporary legislation. There is a temptation to identify a single cause of America's inflation challenge. The reality is that it is a challenge with myriad interactions and lags. Economies around the world have been grappling with the same challenges that confronted the United States. Many of these challenges are beyond the direct control of

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[5] https://www.bls.gov/news.release/archives/cpi_01132021.htm; https://www.bea.gov/itable/national-gdp-and-personal-income

[6] https://www.cbo.gov/system/files/2021-02/51135-2021-02-economicprojections.xlsx

[7] https://www.frbsf.org/economic-research/publications/economic-letter/2022/march/why-is-us-inflation-higher-than-in-other-countries/; https://www.federalreserve.gov/econres/notes/feds-notes/fiscal-policy-and-excess-inflation-during-covid-19-a-cross-country-view-20220715.html#:~:text=Our%20back%2Dof%2Dthe%2D,ppt%20in%20the%20United%20Kingdom.

policymakers. Accordingly, while I want to emphasize that no single policy change is responsible for the current inflation challenge, to the extent legislation is within the direct control of policymakers, the American Rescue Plan stands out as a significant policy error.

And it was a foreseeable error. As noted, the output gap was about $380 billion at the time. According to the nonpartisan Committee for a Responsible Federal Budget, the American Rescue Plan was plainly excessive, and was sufficient to close the output gap "two to three times over."[8] The analysis, which assessed the tradeoffs in such a policy identified the risks of inflation and noted that CBO may have overestimated the relevant output gap. If nonpartisan analysis was an insufficient deterrent, Congress could have availed itself of the warnings from key members of President Obama's economic team and other well-known "doves" that the ARP was excessively large.[9]

Policy Considerations in an Era of High Inflation

The Federal Reserve, as per its dual mandate, is charged with maintaining price stability. The Central Bank's rapid tightening of monetary policy, and eventually improved public comments on the likely course of monetary policy have done and will continue to do most of the work in bringing stubborn inflation under control. This body nevertheless has an important role to play by pulling in the same direction.

Congress has a somewhat uneven record since the enactment of the American Rescue Plan.[10] The Inflation Reduction Act, for instance, was found to have no effect on inflation by CBO and Penn Wharton.[11] Policies such as the CHIPs Act must be balanced against the risk of additional inflationary measures. Most recently, the Fiscal Responsibility Act could modestly reduce inflationary pressures through deficit reduction, largely deriving from the Act's spending caps.[12]

Thank you very much, and I look forward to addressing your questions.

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[8] https://www.crfb.org/blogs/how-much-would-american-rescue-plan-overshoot-output-gap
[9] https://www.crfb.org/blogs/voices-skeptical-size-19-trillion-covid-relief-plan
[10] https://www.americanactionforum.org/insight/is-congress-helping-or-hurting-inflation/
[11] https://budgetmodel.wharton.upenn.edu/issues/2022/8/5/inflation-reduction-act-comparing-cbo-and-pwbm-estimates
[12] https://www.americanactionforum.org/insight/highlights-of-the-fiscal-responsibility-act/

Congressional Testimony
Silvia Lee
Executive Vice President & Chief Lending Officer
First Community Bank
Corpus Christi, TX
before the
House Committee on Small Business
"Prices on the Rise: Examining the Effects of Inflation on Small Businesses"

June 7, 2023

My name is Silvia Lee. I am a graduate of Texas A&M University, Kingsville with a Bachelor of Science in Finance. My first and only jobs have been in the Texas banking industry with the last 23 of those at First Community Bank, Corpus Christi where I am the Chief Lending Officer.

We have 175 employees, and a somewhat unique factor about First Community Bank is that 73 percent of our employees are shareholders of the bank via our Employee Stock Ownership Program (ESOP). This has proven to be an important contributor to building a satisfied and growing customer base.

Our community bank was founded in 1983 and now has 11 branches and $657 million in assets. We have a loan portfolio of $458 million consisting of residential and commercial real estate and, of course, small business loans which are the subject of today's hearing.

As a prefatory point, I do want to mention that almost all our Paycheck Protection Program (PPP) loans have been paid out at our institution. They consisted of 845 loans in an aggregate amount of $107 million and I can tell you personally, that these loans contributed immensely to the ability of our local customers to continue as going concerns during the pandemic.

In my view, lending to small businesses and thereby allowing them to add new customers, purchase property, buy equipment, and hire more employees is frankly the most important community service we provide. Federal Reserve data confirm that small businesses in search of a loan look first to their community bank. The Fed's annual surveys in the small business sector confirm our experience that almost 70 percent of small businesses apply for this type of credit at an FDIC-insured bank.[1]

With respect to today's hearing topic, namely the impact of inflation on small businesses, the answer is simple and is applicable to small and large businesses, individuals, institutions, government entities and any other category I may have omitted. It's a hardship for all but for small businesses it can often be worse in that they start with smaller margins to absorb adverse outside factors.

Everyone is familiar with the severe decline in mortgage origination volume (40-60 percent) as the Fed's anti-inflation strategy has driven up interest rates nearing the eight percent range. What is not widely appreciated, however, is that the housing industry is composed almost exclusively of small business contractors.

At our bank, for example, we developed a great market niche in the custom-built home construction business but new credit applications have slowed significantly due to less buyer-demand. Even on larger build-out sites and non-housing construction, the rising costs of building materials, not to mention supply-chain delays, has impaired the

[1] Availability of Credit to Small Businesses, Federal Reserve Board (Oct., 2022).

overall business environment for the small businessmen and women who provide the component construction elements: architecture, design, carpentry, electric installation, plumbing, landscaping and the many other services which go into this critical aspect of local economies.

On the retail front, higher interest rates are likewise having a negative impact on rents and, at least in the State of Texas, higher commercial building taxes which are also passed on to the family businesses, including many immigrant families, which constitute a larger number of this vital economic segment.

These retail stores have landlords of course which are also included in our small business customer base and likewise are subject to the same financial pressures. At this point, we have not seen this rise to the level of actual loan defaults in our commercial real estate portfolio, but we also see a slow-down here as well as some business owners increasingly looking at the sale option. In the retail sector, however, many of the difficulties, as is well known, remain focused on just filling employee positions.

As a coastal community, Corpus Christi's hospitality industry remains a positive driver of local employment growth. We are also a lender in this area which includes mid-scale hotels/motels, RV parks and related leisure businesses that are fortunately witnessing full post-COVID recovery.

Recently, a long-time bank customer who owns a small business had an increase in his loan monthly loan payment of approximately $1,000.00 due to increased interest rates. The loan has an annual adjustment and re-priced in May 2023. The business owner commented that he would price his goods and services out-of-the market to absorb the cost of his inventory and increased interest rates. He mentioned that he feels our government does not want small businesses to succeed and wants only large companies in business. It is an unfortunate prospective.

Even in areas where the economy remains strong, however, underwriting small business loans relies primarily on a business' debt coverage ratio, i.e., the new or refinanced monthly debt service in relation to the business' historical net income. With what has been a doubling of interest rates in just the last twelve months, the equation is fairly straightforward in that we are now seeing the cash-flow available for debt service ratios drop dramatically for every type of business. This would be especially true for a start-up small business which is probably the most critical local component for a growth economy.

As a bank with very strong earnings and capital, we are prepared to work with any of our small business borrowers encountering temporary difficulties and all of us, whether borrowers or lenders, hope that this unprecedented combination of excess fiscal and monetary policy followed by rapidly-rising interest rates will soon be coming to a pause.

The current market pressures notwithstanding, Texas is blessed to have a strong economy and very strong banking system. In our area of the state, the macro-economy is driven by oil, gas and hydrogen production and transportation, of course, as we are a port city.

Nevertheless, Texas has not been immune from industry consolidation trends where the number of FDIC-insured banks headquartered in our state has declined from 556 to 387 over the last ten years. An even sadder part of this is that even among the remaining local banks so many have been forced to abandon important parts of the consumer market such as home mortgage lending to the larger banks or nonbanks as the case may be.

That has not been the case at First Community Bank, we remain committed to the home mortgage market, the small business market and as many of the full-service banking products as make economic sense. In this regard, we are very concerned about the massive new regulation on small business data collection just finalized by the CFPB which puts us in the position of having to collect nonfinancial personal information on prospective business borrowers.

Thank you for the opportunity to appear before you this afternoon.

Statement by David G. Zittel

To the House Committee on Small Business

**"Prices on the Rise:
Examining the Effects of Inflation on Small Businesses"**

Presented by David G. Zittel

Wednesday, June 7, 2023

Amos Zittel & Sons | 3275 Webster Road | Eden, NY 14057 | p. 716-649-6340 |www.zittels.com

Thank you to the Committee on Small Business and to Chairman Roger Williams for inviting me to testify before you today on the impacts of inflation on small businesses like family farms. My name is David Zittel, and my family and I own and operate Amos Zittel & Sons, a fresh market vegetable and greenhouse farm based in Eden, New York. My brother, cousin and I are currently the fourth generation to run the farm. My son, the fifth generation is back on the farm as well. I'm also representing the farming and agriculture community across New York and the country that works hard to produce food and fiber for consumers across the country and globe.

At Amos Zittel & Sons, we produce a wide variety of fresh market vegetables on 350 acres in Western New York including lettuce, strawberries, peppers, cabbage, sweet corn, tomatoes, broccoli, eggplant, squash, brussel sprouts and grape tomatoes. Approximately 95% of our produce is sold through our marketing co-op, Eden Valley Growers, which our farm is proud to be a founding member of. This co-op was created to bring growers in the area together to market and sell our produce. In addition, the farm also consists of a greenhouse operation that produces approximately 4 million rooted liners of geraniums, and other spring annuals that are marketed through brokers nationally, and a retail ready container crop sold to local garden centers. In addition, we grow over 2 million transplants for our field grown vegetables.

The farm employs 40-50 individuals year-round and has approximately 135 employees during the peak of the season. Because we produce fresh market produce, all our crops must be hand harvested and can be very labor intensive. It also means that our business is directly impacted by market forces, and we cannot wait to sell a crop until prices increase. Farmers are price takers, not price makers.

As a small, family-owned business, we feel the direct effects of inflationary pressures and have seen an overall increase in the cost of operating the farm. While farmers have become more efficient over time to help overcome low commodity prices, like increasing production per acre, inflation can quickly take away any efficiency gains. Through the pandemic and even to this day, we continue to feel the impacts of inflation.

Examples of inflation and rising costs that we have seen on our farm include tractor and equipment parts, which have increased 15-30%, with a delay in receiving them on a timely basis. Inflation and supply chain issues have also led to consolidation in the agriculture industry which has decreased available vendors to source goods and services and led to increased prices.

The cost of the boxes used to transport our vegetables is up about 30%, which will cost the farm an extra $100,000 this year. Fertilizer and most other input costs are up 30-50% for the farm as well, which impacts our bottom line. The cost of feed for dairy farmers is up 25-40% and transportation costs have contributed to much of our inflationary increases. Unfortunately for us the price we are receiving for our product does not cover these cost increases since our markets are no longer local but global resulting in reduced profits and often losses.

The largest negative impact to our bottom line is due to increases in labor cost and regulations imposed on us by NYS and Federal governments. Labor costs account for 50% of our business expenses and continues to rise. Not only have we seen yearly increases in the minimum wage rates in New York, which is currently $14.20 per hour, the H-2A guest visa rate is $16.95 per hour, an increase of $1.41 per hour from the 2022 AEWR of $15.66 (a 9% increase). A recently released rule by the DOL will further drive the AEWR up as there is now a rule that requires separate wage rates for various job functions. New York also has an overtime threshold of 60 hours for farm workers, which has increased labor costs and narrowed the hours we can afford to pay. This puts us at a competitive disadvantage compared to other states with lower minimum wages and no overtime requirements. Paired with a short growing season, we must be efficient as possible to ensure that we can stay in business.

Inflation has created price instability and uncertainty in the farm economy that has made many investment decisions riskier than they would be if inflation had remained low and stable. Higher interest rates also continue to impact farms like mine. We work closely with Farm Credit East, an agricultural lender, to assist with continued investment in our farm. However, we have been carefully monitoring interest rates and have held off expanding the farm business because we don't want to overextend our operation given current rates. We were impacted by two recent historical snow falls in 2014 and again last November which resulted in rebuilding greenhouses, a shop and storage buildings. In both situations, we have had decent insurance coverage but the cost to rebuild is 3x. We will be financing an additional $1 million to rebuild the loss from that 72" of snowfall in November, holding off as long as we could, and hoping interest rates would stabilize or begin to go back down.

Having a healthy farm economy is key to ensuring a healthy domestic food system and vital to national security. In New York, we have access to markets that other farmers would envy. Our farm is located near the cities of Buffalo and Rochester, but we are also located within 500 miles of one-third of the U.S. population with New York City, Boston, Philadelphia, Washington, D.C., Pittsburg, and Cleveland, all areas hungry for what we grow. However, if we cannot ensure a viable domestic agriculture industry and control rising production costs, we could see food production continue to shift to other countries because in many cases it is cheaper and easier to produce food in other areas and then transport it to metropolitan areas.

As we look to the future of our operation, young farmers are so discouraged by challenges they face by making a career in agriculture—the expense of land, labor, fuel, energy, machinery, taxes, rules and regulations, the list goes on and on. It is no secret that New York is a high-cost state with a difficult regulatory environment for family businesses and farms. But despite all this, we are so proud that the next generation has decided to carry on our farming tradition. We know that there will remain challenges that need to be overcome including inflation, regulatory requirements, labor challenges, and others.

The Zittel's' hope that vegetables will always be grown on our land for generations to come, and we look forward to carrying on the farming tradition but also look to Congress to ensure that laws and regulations do not put us out of business. We always say fresh market vegetable farming is the only business that buys all inputs, plants and harvests the crops before we have any idea what our return will be.

If I may quote John F Kennedy:
"The farmer is the only man in our economy who buys everything at retail, sells everything at wholesale, and pays the freight both ways."

Thank you again for the opportunity to share my family's farm story and how our small business has been impacted by inflationary pressures. I would be glad to take any questions you may have.

David Zittel

Testimony for the Committee on Small Business of the U.S. House of Representatives on "Prices Are On the Rise: Examining the Effects of Inflation on Small Businesses"

Josh Bivens, Ph.D.
Chief Economist and Research Director, Economic Policy Institute, Washington, DC

Chairman Williams, Ranking Member Velázquez, and distinguished Members of the Committee: Thank you for inviting me to testify at this hearing. My name is Josh Bivens and I'm the Chief Economist and Research Director of the Economic Policy Institute (EPI). EPI is a non-profit, non-partisan think tank that uses the tools of economics to identify policies than will boost the living standards of low- and moderate-income families, particularly through their role as workers.

I'd like to make the following points about the subjects of this hearing – inflation and its effects on small businesses.

- Inflation has been a challenge over the past two years, but inflation is not the only notable economic trend that's emerged in this time – we've also seen by far the best labor market in a generation, particularly for low-wage workers. Policy changes that are undertaken in the name of fighting inflation may threaten these labor market gains, and if inflation is poised to moderate on its own even absent these changes, then they would be pure gain for little gain.

- Inflation has not been the result of policy mistakes. Instead, it's been the essentially inevitable result of massive shocks to the economy and the long-lived – but steadily dampening – ripple effects. These shocks were obviously the pandemic and the Russian invasion of Ukraine, and the ripples were mostly about jockeying by different economic actors – corporations, workers, and suppliers – to protect their own real incomes from these shocks.

- All of this means that inflation has mostly been a *distributional* challenge – because one person's income is another person's cost, the higher costs for some have shown up as significant income gains someplace in the economy. This "someplace" has mostly been the business income of sellers - particularly corporate profits.
    - Have small businesses been able to draft in this corporate pricing power wake and charge higher prices themselves to protect their own margins? It's very hard to generalize, but it is vital to remember that lots of "small businesses" are actually incredibly rich and privileged enterprises. My guess is that these privileged businesses have largely been able to pass input price increases on and then some.
    - To the degree that some genuine Main Street small businesses have been squeezed on the input side but have been unable to pass these costs on – maybe because they are suppliers to big corporations who refuse to pay higher prices to their suppliers – this is not really a problem of inflation *per se*, it's a problem of monopoly power in markets that's been growing for years. We certainly should address this, particularly with more assertive anti-trust policy.

  - There is no labor shortage relative to pre-pandemic trends – recovery in labor supply is effectively complete.
- But, the risk to small business from an overaggressive attack on inflation that seeks to slow the economy are the same as to workers writ large – it will sacrifice the huge gains from the recovery for no real need if inflation is already normalizing (and it almost surely is).

Below I'll say a bit more on each of these.

Inflation not the only notable economic trend of recent years
This hearing is predominantly about inflation and its effects on small businesses – and inflation has obviously been a key economic challenge facing working families throughout the recovery from the recession caused by the COVID-19 pandemic. But inflation is not the only notable economic trend in recent years – and it is certainly not the only notable trend highly relevant to small businesses.

In short, this has been a remarkably rapid recovery – particularly when compared to recoveries following the recessions of the early 1990s and 2000s and the recovery from the Great Recession and financial crises of 2008. Over 13 million jobs have been added since January 2021, a rate of around 450,000 jobs per month since President Biden took office.

The pre-recession unemployment rate was reattained in essentially 2 years following the recessionary shock. It took 10 years to reattain the 4.3% unemployment trough after 2007.

Growth in hourly pay – even adjusted for inflation – has been extraordinarily strong for low-wage workers. Between 2019 and 2022 hourly real wages for workers at the 10th percentile rose by 9%. In the first three years following the business cycle peak of 2007, inflation-adjusted wages grew by just 1.1%.

Since the recovery from the COVID-19 recession began in the third quarter of 2020, gross job gains have outpaced gross job losses in the Business Employment Dynamics (BED) data by more than 5 million. A third of these net job gains have been in businesses with less than 50 people – a bit higher than the average share of net job creation that could be accounted for by small businesses in the two years before the pandemic hit. In 2021 and 2022, 10.5 million applications to start new businesses were filed, the highest two years on record. Work from the Federal Reserve finds that these applications have turned into new establishments and new hiring.[1] (Fed).

All of these salutary economic trends have been supported by Biden administration efforts, including but not limited to the rapid recovery ensured by the American Rescue Plan (ARP). Additional efforts for small businesses have included expanded access to capital through small

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[1] Decker, Ryan and John Haltiwanger. 2022. *Business entry and exit in the COVID-19 pandemic: a preliminary look at official data*.

business lending and investments in support services for small businesses. [2]

Inflation was not the result of a policy mistake – it was the inevitable result of mammoth global shocks and their long-lived – but dampening - ripples

In early 2021, debate raged about the potential economic effects of the American Rescue Plan (ARP). The ARP, passed in early 2021, was explicitly designed as fiscal stimulus, with large and front-loaded transfers to households as its centerpiece, along with substantial aid to state and local governments.[3]

It is worth remembering the macroeconomic situation at the time of this debate. Of the 22 million jobs lost due to the COVID-19 shock, barely half had been recovered by December 2020 leaving the economy more than ten million jobs below pre-recession levels. This was a larger jobs gap than we had at the trough of the Great Recession and financial crisis of 2008-2009.

Further, the recovery that had begun in May 2020 was flagging. Monthly job gains had been getting smaller and smaller since September of that year, and December 2020—the last month's data informing the meat of the debate over the ARP—saw outright job losses again. Hence, the decision to go for a large fiscal stimulus was very well founded in the evidence.

Some critics of the ARP worried about its potential effect on inflation, as it was argued that the ARP would push gross domestic product (GDP) well over the economy's long-run potential to deliver, hence causing inflation. In this story, a positive "output gap" with actual GDP far exceeding the economy's long-run potential should have appeared in the data. Yet both real GDP and estimates of potential GDP today sit almost exactly where pre-pandemic forecasts predicted they would be in 2023 – and these forecasts included no indication of inflation. If the economy is not trying to produce more than it is capable of relative to pre-pandemic forecasts, it is hard to see where the heat that is generating inflation is coming from.

Reasonable estimates of potential GDP that account for the damage done by the pandemic were also slightly below pre-pandemic trends, but the size of the resulting output gap was utterly *un*remarkable—totally in line with recent past episodes that saw larger and more sustained gaps without generating any inflation at all.

Another piece of evidence against this simple overheating view comes from international data. Inflation—even outside of food and energy prices—has clearly been global. Every single advanced economy has seen inflation accelerate relative to pre-COVID trends, and most of these countries have seen a large acceleration, whether or not they used large stimulus programs. Some have argued that this just means that every single other advanced country replicated the U.S. "mistake" of overheating their economies. But this would suggest that the

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[2] See the fact sheet from the Biden-Harris administration here: https://www.whitehouse.gov/wp-content/uploads/2023/04/Small-Business-Report.pdf

[3] This section draws on Banerjee, Asha and Josh Bivens. 2023. ***Lessons from the Inflation of 2021-202?.*** Economic Policy Institute.

extent of inflationary acceleration should be correlated with reductions in unemployment—for overheating to take hold, it must run through labor market tightening. Yet across countries, there is no correlation at all between the reduction in unemployment and the acceleration of inflation in recent years.

Finally, key aspects of the labor market show little conventional signs of heat. One of the most reliable empirical relationships in modern business cycles is that low and falling unemployment (i.e., an economy that is "heating up") pushes *up* the share of corporate-sector income claimed by workers (rather than capital owners). Yet the labor share fell sharply and has remained depressed all through the recent inflationary surge.[4]

Shocks and ripples

If inflation was not driven by macroeconomic overheating, what's the alternative account? Extreme sectoral shocks kicked off large—but steadily diminishing—ripple effects. In this "shocks and ripples" account, if shocks relent, then inflation will normalize—even if it will take some time.

The shocks are fairly obvious: The pandemic led to a historically sharp reallocation of spending away from face-to-face services and toward goods consumption and residential investment. Simultaneously, the pandemic introduced huge snarls in global supply chains that need to function smoothly to meet demand for goods and materials used in residential investment. These extreme shocks to both sectoral demand and supply was *the* spark to inflation in 2021. In 2022, the Russian invasion of Ukraine added another, more familiar shock to energy and food prices.

Proponents of the macroeconomic overheating view often refuse to acknowledge that sectoral shocks that lead to large changes in *relative* prices (i.e., prices for specific goods and services) can cause overall inflation. Their reasoning is that if, say, gas prices rise by 50 percent in a short period, then this should lead to a near-immediate reduction in demand for other goods and services that forces down their prices, leaving overall inflation unaffected. There's some logic to this, but the time span in which this kind of countervailing demand reduction happens following sectoral price shocks is *far* longer than they think—measured in years, not months. In short, thinking that sectoral shocks can have profound implications for inflation is not a simple failure to understand macroeconomics. James Tobin, perhaps the greatest macroeconomist of his generation, wrote in 1972 that:

> *"dispersion is inflationary ... the rate of wage inflation will depend not only on the overall dispersion of excess demands and supplies across markets but also on the particular markets where the excess supplies and demands happen to fall. An unlucky random drawing might put the excess demands in highly responsive markets and the excess supplies in especially unresponsive ones."*

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[4] See Bivens, Josh. 2023. *What Profit-Price Spirals Are Telling Us About Post-Pandemic Inflation*. Intereconomics. Volume 58(3), pp. 167-168.

Ripples That Were Surprising—But Likely to Decline Without High Interest Rates.
These sectoral shocks led to more persistent effects on inflation than many anticipated in part because of a key ripple effect—nominal wage growth accelerated noticeably in late 2021 and early 2022. This nominal wage acceleration did not provide the initial impetus to inflation—the pandemic and war shocks did that. Further, while nominal wage growth accelerated relative to pre-pandemic levels, it remained slower than overall inflation and so actually muffled rather than amplified the inflationary shock.

Essentially, the pandemic and war shocks to prices sent economic actors—firms, workers, and consumers—scrambling to protect their own real incomes from higher costs. As nonlabor costs rose due to pandemic and war shocks and pushed up prices, workers tried to protect their real (inflation-adjusted) incomes by demanding higher nominal wages. Firms in turn tried to keep their own profit margins intact or even to opportunistically raise them. This cascade of higher nominal wage demands and profit margin hikes intensified the inflationary effect of the initial shocks and made them more persistent.

Nominal wage acceleration did keep inflation higher than it would have been had wage growth not budged from its pre-pandemic pace. But even if nominal wage growth had not quickened at all, we still would have had a burst of inflation over the past two years. The reduced inflation that could have been "bought" by keeping unemployment higher and nominal wage growth lower in 2021 and 2022 would have been relatively small—and the price of this slightly slower inflation would have been even larger declines in real wages for working families than we have seen. In short, given the incredibly binding constraints put on the range of economic choices by the pandemic distortions and the Russian invasion of Ukraine, choosing to tolerate some inflation as the price of engineering a remarkably fast recovery was the right thing to do.

Inflation has been mostly a distributional challenge – sellers have done well
There are times when inflation really can be driven by *most* incomes in society rising at mostly the same pace. In this case, inflation is distributionally neutral, but there's also no "real" cost. For example, if inflation accelerates from 0% to 4%, but nominal wage growth accelerates from 2% to 6%, real wages haven't been harmed (they grow at 2% in either case). The inflation we have seen since 2021 has not been distributionally neutral. Prices and incomes for low-wage workers, middle-wage workers, high-wage workers, and profits have not moved in lockstep but have seen very different rates of growth.

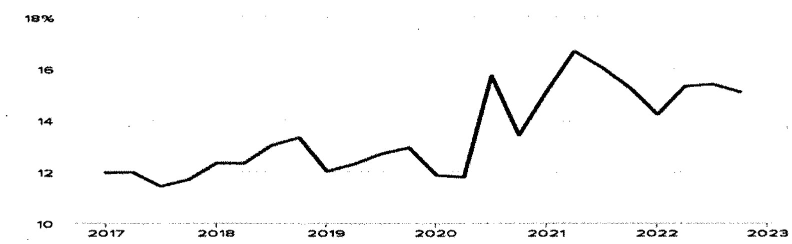
Most striking is the role of corporate profits in starting and sustaining inflation since 2021. **Figure A** below shows one measure of profit "mark-ups" in the non-financial corporate (NFC) sector of the U.S. economy. We look at this sector because it has rich and timely data coverage. Mark-ups are essentially profits earned per unit of output divided by labor and non-labor costs.

When these profit markups rise, the result is increasing prices for consumers (inflation). The very large spike in the beginning quarters of the COVID-19 recovery is clear. Since then, mark-ups have come down a little, but remain extremely elevated relative to historic norms. Many (including me) had hoped these high mark-ups would relent sooner and provide more relief from too-high inflation by now, but it has not yet happened in a serious way.

Figure A

Profit markups spiked during COVID-19 economic recovery

Profits per unit of output divided by unit labor and unit nonlabor costs in the NFC, 2017–2022



Source: Bureau of Economic Analysis (BEA) National Income and Product Accounts (NIPA) data, Table 1.15.

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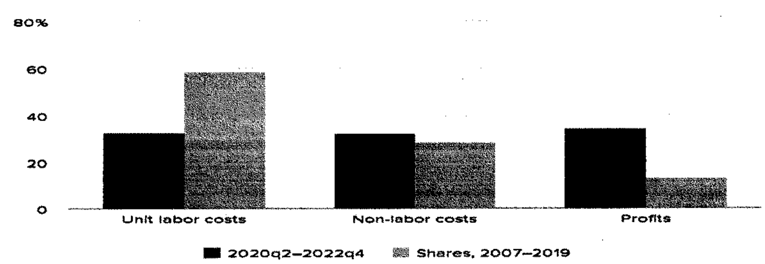
Figure B

Corporate profits contributed disproportionately to price growth in the COVID-19 economic recovery

Share of NFC price growth accounted for by unit labor costs, non-labor costs, and profits, 2020q2–2022q4 and shares of each between 2007–2019



Source: Bureau of Economic Analysis (BEA) National Income and Product Accounts (NIPA) data, Table 1.15.

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Figure B shows the contribution of profits, labor costs, and nonlabor costs to growth in NFC prices between the beginning of the COVID-19 recovery (the second quarter of 2020) and the end of 2022. Measuring since the last business cycle peak (the fourth quarter of 2019) does not change this story radically.

In normal times, corporate profits contribute about 13% to prices. Between the second quarter of 2020 and the end of 2022, they have instead contributed more than a third of price growth, or more than twice as much as they normally do. This contribution was larger in previous quarters, which means the slight decline in mark-ups shown in **Figure A** has put a small bit of welcome *downward* pressure on inflation in recent quarters. But there remains a long way to go before profits are back to normal, and this profit normalization drive even more disinflation.

Have small businesses also been able to increase their profit margins due to pandemic and war distortions?

Much of the income earned by small businesses is classified as "proprietors' income" in by the National Income and Product Accounts (NIPAs) – the statistical backbone of the U.S. economy. Before looking at aggregate trends in this measure, it is vital to note that many firms that get classified as small businesses or included in proprietors' income are actually extraordinarily privileged and rich enterprises.

For example, as Smith, Yagan, Zidar and Zwick (2020) note – *"More than 69 percent of the top 1 percent of income earners - and more than 84 percent of the top 0.1 percent of income earners accrued some pass-through business income in 2014, the most recent year for which complete data are available."*[5] Pass-through income is essentially all business income earned by entities that are not traditional C-corporations (ie, corporations that pay federal taxes at the enterprise level). Further, these same authors estimate that half of the post-1979 doubling of the share of total national income claimed by the top 1 percent can be accounted for by rising pass-through business income. In short, small businesses are an even more-varied and unequal set of economic actors than any other in the U.S. economy.

In the aggregate, proprietors' income has lagged overall domestic income growth since the last business cycle peak in the last quarter of 2019 – growing at a 4.6% annualized rate in nominal terms compared to over 5.6% for overall domestic income. But, proprietors' income growth lagged even worse in the last 2 years before pandemic – growing at just an annualized rate of 3.2% between 2017 and 2019, compared to 4.5% growth in overall domestic income. In short, there is little evidence that any economic development – inflation or anything else – has severely affected the relative performance of the sector that small business incomes appear in since 2020.

Many genuine small businesses surely find themselves facing rising input cost pressures. The

[5] Smith, Matthew, Danny Yagan, Owen Zidar, and Eric Zwick. 2019. *Capitalists in the Twenty-First Century*. Quarterly Journal of Economics. Volume 134(4), pp. 1675-1745.

huge increases in corporate prices, however, should have given many of these smaller businesses some elbow room to raise their own prices to deal with some of these more expensive input costs. In cases where small businesses work as suppliers for larger corporations, and these corporations have held the line on what they will pay their suppliers, this is obviously a huge source of pressure for the smaller businesses – but its root cause is the asymmetry in market power, not inflation per se. This asymmetry in market power that allows "lead firms" to pressure their own suppliers and starve them of opportunities is a real problem in the U.S. economy in recent decades.[6] It should be met primarily with enhanced anti-trust efforts that put market power in labor markets and supplier markets on the same footing as power in product markets. The Biden administration's Federal Trade Commission (FTC) and the Anti-Trust division of the Department of Justice have made admirable steps in this regard.

There is no labor shortage

There has been a consistent complaint by business over the course of the recovery over labor shortages. For short periods in some sectors since the recovery from the COVID-19 recession began, there did indeed seem to be some labor shortages which were relatively quickly alleviated by raising wages. But by now, there is no evidence at all of any economy-wide labor shortage relative to pre-pandemic trends. The level of employment and the labor force participation rate are higher than what the CBO projected in February 2021, before the American Rescue Plan took effect. Further, these are both higher than what the CBO projected in early 2020, before the Covid pandemic.

The number of prime-age adults (those between 25 and 54) working is not only higher than 2019 levels, it is the highest it has been since 2001. Black workers, in particular, have had historically high levels of employment in the recovery, a testament to the broad nature of this recovery. In recent months, for the first time in recorded history, the overall employment to population ratio for the Black population exceeded that of the white population. Much of this crossover was driven by differential aging trends (the white population is getting older faster and relatively more of them are crossing over retirement), but much of it is the natural tightening of racial gaps in employment that occur when the labor market is in good health.[7]

There is work that we could certainly to do to expand labor supply even further and beat past trends by supporting workers and by extension small businesses. The most obvious plank of a progressive labor supply policy that would yield big results would be a robust public investment in child care. By making high-quality childcare more affordable, we would reliably boost the labor supply of young parents – particularly women.[8]

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[6] See Wilmers, Nathan. 2018. *Wage Stagnation and Buyer Power: How Buyer-Supplier Relationships Affect U.S. Workers' Wages, 1978-2014*. American Sociological Review. Volume 83(2). Pp 213-242.

[7] See Bivens, Josh. 2021. *The Promise and Limits of High-Pressure Labor Markets for Narrowing Racial Gaps*. Economic Policy Institute.

[8] See Bivens, Josh, Emma Garcia, Elise Gould, Elaine Weiss, and Valerie Wilson. 2016. *It's Time for an Ambitious Investment in the Nation's Children*. Economic Policy Institute.

Risks to robust recovery – and small businesses – from attacking inflation with the wrong policy tools

If one sees inflation as *ipso facto* evidence that the economy has a macroeconomic excess of demand over productive capacity, and one sees this productive capacity as relatively fixed in the short-run, the obvious policy corollary is to tamp down demand – either through contractionary fiscal or monetary policy. But if one instead sees the inflation over the past 2 years as a set of long-lived ripples stemming large pandemic and war shocks, then one would expect inflation to normalize even without sharply contractionary policy.

In recent months there has been a sharp decline in the pace of nominal wage growth even as unemployment has remained low. Further, home price declines from early and mid-2022 are just now showing up in official inflation data. In short, there is substantial reason to expect a normalization of inflation in the coming months even if we manage to keep the unemployment rate very low.

This scenario where inflation normalizes without a recession – the "soft landing" – is by far the best one for small businesses and nearly every other actor in the U.S. economy. The necessary condition for success in business – whether small or large – is a steady stream of customers. These customers will dry up if contractionary policy takes hold.

Inflation has been key challenge to the U.S. economy and its small businesses in recent years, but it remains the case that many proposed cures for this inflation would do more harm than the malady itself. Further, given the many promising signs on disinflation coming down the pike, risking a recession now by calling for ever more-contractionary monetary and fiscal policy would be akin to snatching defeat from the jaws of victory.