



PHOENIX FOR ADVANCED
LEGAL & ECONOMIC
C E N T E R PUBLIC POLICY STUDIES
www.phoenix-center.org

5335 Wisconsin Avenue, NW
Suite 440
Washington, D.C. 20015-0234
Tel: +1 (202) 274-0235
Fax: +1 (202) 318-4909
www.phoenix-center.org

Press Release

Contact: Lawrence J. Spiwak
Phone: +1 (202) 274-0235

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NEW PHOENIX CENTER STUDY EXPLAINS ROOT CAUSES OF RISING PRICES

Price increases are not the result of price gouging or collusive behavior but are due to positive demand-side and negative supply-side shocks

WASHINGTON, D.C. – When prices and profits rise, policymakers and ideological advocates tend to point to seller market power or collusion as the cause.

Many of these claims are rooted in ignorance about the cause of inflation and how markets work. Inflation is a general increase in prices caused by excessive growth in the money supply that diminishes the value of currency, which has occurred in the United States from the extraordinary spending by the federal government in response to the Covid Pandemic (a long-term, inflationary concern). Also, Covid brought severe supply-chain disruptions and labor shortages, both of which linger to varying extents today in certain industries, but these price increases are temporary and thus not inflation *per se*.

In a new analysis released today entitled *Explaining Higher Prices in the Covid and Post-Covid Era*, Phoenix Center Chief Economist Dr. George S. Ford explains that highly competitive industries respond to positive demand-side and supply-side constraints in predictable ways. As Dr. Ford demonstrates, when firms face a supply constraint, prices will rise and, under some conditions, margins (profits) along with them, but they do so in competitive markets without collusion among producers or otherwise violating the antitrust laws. Also, under supply constraints, competitive and monopoly prices are difficult to distinguish and may be identical, though economic theory provides some guidance on distinguishing between the two.

Finally, Dr. Ford's analysis shows why a focus on retail margins is misplaced under supply constraints. The key issue is whether sales are below the competitive, supply-constrained level.

"To date, there is little compelling evidence of collusion or coordination among sellers that cannot be explained by supply constraints," says study author Phoenix Center Chief Economist Dr. George S. Ford. "My analysis should help conscientious policymakers and advocates better understand the economic fundamentals underlying the present climate of high prices and profits and to avoid fallacious arguments."

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A full copy of PHOENIX CENTER POLICY PERSPECTIVE NO. 24-05, *Explaining Higher Prices in the Covid and Post-Covid Era*, may be downloaded free from the Phoenix Center's web page at: <http://www.phoenix-center.org/perspectives/Perspective24-05Final.pdf>.

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