



Congressional Testimony

“Higher Prices: How Shrinkflation and Technology Impact Consumers’ Finances”

THE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

Washington, DC

May 2, 2024

10:00 am ET

Bilal Baydoun

Director of Policy and Research

Groundwork Collaborative

Chairman Brown, Ranking Member Scott, members of the Committee, thank you for the opportunity to testify today. My name is Bilal Baydoun, and I'm the Director of Policy and Research at the Groundwork Collaborative, an economic think tank based here in Washington.

The price tag is a simple communications device we all take for granted. It's also an American innovation. John Wanamaker of Philadelphia, who invented the modern price tag, was a devout Presbyterian who believed that price discrimination—the idea that different people could pay different prices for the same product—was immoral. If everyone was equal before God, he [believed](#), everyone ought to be equal before price. From the very beginning, the price tag was infused with a sense of fairness and equality.

Yet in America today, a fair price, let alone a sweet deal, is harder and harder to come by. In the age of corporate concentration and high-powered algorithms, pricing is in the midst of a troubling transformation, and the price tag as we know it may become a relic of the past.

Rideshare apps like Uber reportedly [charge](#) users higher prices if their phone battery is lower. Insurance companies [fly drones](#) above our property in search of signs of clutter, and car companies install software that [reports](#) our driving behavior to insurance companies, who use the data to hike our rates. Amazon reportedly changes prices millions of times per day, running secret pricing experiments like “Project Nessie” that [reaped](#) \$1 billion in revenue. Frustratingly, food delivery apps like UberEats show us one menu price up front, only to tack on a series of mysterious junk fees right as we're about to pay, and these last-second markups can be as high as [95 percent](#). Even a family outing to the [bowling alley](#) means encountering “surge pricing,” in which we're charged more for the sin of seeking out family fun on a Saturday night, the only available time for such outings for many families.

At every turn, companies are cutting corners on the path to record profits, and American consumers are paying the price. In a practice known as “[shrinkflation](#),” companies discreetly reduce the size or volume of common household items—everything from jars of peanut butter to bars of soaps—to charge consumers more for less. For some essential goods like household paper towels, shrinkflation accounted for roughly [10 percent](#) of the price increase consumers experienced over the last four years. Indeed, big profits increasingly come in smaller packages.

While price hikes aren't new, today's companies have reinvented them, relying on surveillance, deception, and even high-tech forms of collusion to wring as much as possible out of American consumers. All of these tactics converge on a single goal: find out the maximum price each individual consumer can be charged at any given time.

It might seem counterintuitive that companies are reaping record profits by simply hiking prices. After all, in competitive markets, firms have to innovate, improve their products and services, and take calculated risks to win over consumers. But a perfect storm in our economy made it much easier for companies to simply price their way to profitability.

First, companies got bigger, and competition in many industries has dwindled. Over the last few decades, we've seen runaway corporate consolidation across our economy. About [three-quarters of domestic industries](#) have become more concentrated and are dominated by fewer players than they were twenty years ago. This grants the remaining corporate giants the freedom to hike prices without fear of being undercut by the competition. In many markets, there simply is none.

Second, pricing went high tech. Technological advances such as cloud computing, artificial intelligence, and surveillance targeting have enabled companies to collect reams of personal information on consumers and change prices in under a nanosecond. These technologies help companies build [profiles](#) of individual consumers that include things like our age, marital status, estimated salary, ethnicity, the magazines we read, and even the kinds of topics we talk about online. All of these private aspects of our lives can be used to determine how much price hiking each of us can tolerate.

Finally, market power and technological advances came together in the shadow of inflation, giving companies the cover they needed to begin rolling out pricing strategies they'd previously thought of as risky precisely because consumers dislike them. But with prices rising everywhere, consumers couldn't discern which hikes were justified by companies' own rising costs, and which were truly excessive. As the head of research for Barclay's bank [told](#) Bloomberg in 2022, "The longer inflation lasts and the more widespread it is, the more air cover it gives companies to raise prices." Visa's CEO was still more direct, [saying](#), "historically, inflation has been positive for us."

The complex algorithms often entrusted with maximizing profits through rapid changes in pricing have neither a conscience nor legal training. That is why algorithmic pricing can be both discriminatory and collusive. If you are charged a higher price for shopping at a chain store in your zip code, for example, that can function as a proxy for racial price discrimination. And when different firms in the same industry rely on a shared algorithm to set prices, that algorithm can fix prices just as a human agent can. We saw this play out in the rental market. In one neighborhood in Seattle, [70 percent](#) of apartments were overseen by just 10 property managers, and all of them relied on the same pricing software sold by RealPage.

But we don't have to accept the end of a fair price as inevitable. To start, we must continue to enforce existing laws outlawing collusion, price fixing, and unfair and deceptive practices. The Federal Trade Commission and state attorneys general have doubled down on the idea that algorithmic collusion is no more acceptable than collusion conducted by human agents in a smoke-filled back room.

But new laws are also necessary to ensure regulations keep pace with these rapidly changing tactics. The Price Gouging Prevention Act introduced in this chamber would enable the FTC to implement and enforce a federal anti-price gouging statute, saving consumers money in the [13 states](#) that don't have price-gouging protections on the books. Likewise, the Shrinkflation Prevention Act would classify shrinkflation as a deceptive practice and empower the FTC and attorneys general to take civil action to protect consumers' pocketbooks.

We must also continue to make progress on eliminating junk fees and regulating complex pricing structures that push hidden fees on consumers. The CFPB's late fees rule demonstrates that policymakers can – and must – take on predatory, deceptive behavior and act as a strong check on corporate power. By capping late fees at \$8, the CFPB will save American families more than \$10 billion annually. The interagency approach taken by the President's Strike Force on Unfair and Illegal Pricing with the Department of Justice and FTC represents a key step in tackling predatory pricing by deploying every available tool.

Finally, we can't allow companies to harvest our data and use it to price discriminate against us. CFPB Director Chopra noted recently that [payments data](#) (e.g. Venmo) is the "holy grail" of personal pricing. Allowing companies access to transaction data will open up a new frontier for exerting power over consumers. Protecting data privacy, including transactions data, is essential to confronting this new pricing regime and ensuring companies cannot surveil consumers as a means of pushing arbitrary price hikes based on unfair calculations of consumers' "willingness to pay."

Through these actions and others, we have the tools to restore a fair price in America – we just have to use them. Thank you, and I look forward to your questions.