



POLICY BRIEF

November 2022

THE POLITICS OF ECONOMICS: “GREED-FLATION”

“The destiny of nations depends on the manner in which they feed themselves.”

Jean-Anthelme Brillat-Savarin

“I won’t eat anything that has intelligent life, but I’d gladly eat an (...) executive or a politician.” Marty Feldman



Last week’s Fall Economic Statement (FES) predicts a rising risk of recession – backing up the claim by pointing to slowing global growth and declining consumer confidence.

While somewhat gloomy this is not unexpected news. Post-pandemic economic uncertainty continues to reign and is made worse by geo-political volatility. Not to mention enduring concerns with inflation.

In relative terms (for this government anyway) spending is being pared down significantly from pandemic highs. It is good fiscal management to not exacerbate inflationary pressures with new spending notwithstanding near time affordability challenges. Prudently the government is giving itself room to maneuver and adapt to changing economic fortunes.

In Canada, some good news in that Stats Can reported a slowdown in the inflation rate for September, with the consumer price index declining to 6.9% after reaching a 40-year high of 8.1% in June. But to rein in that inflation the Bank of Canada announced yet another raise in the interest rate, at the end of October, raising the benchmark to 3.75% (marking another 50 point hike, the sixth since March).

Enter the politics of economics: ‘pain now to avoid bigger pain later’ is good policy but tough politics. At its best politics is choosing between terrible options and making them work – so the government is on the right path but can it withstand the inevitable political onslaught?

Consider food prices. The decline in the rate of inflation was expected to be even more

pronounced, but persistent high food prices saw it go otherwise. Food costs registered an inflation rate of 11.4% in September, or almost twice as much as the overall rate¹, which incidentally is the fastest increase in grocery costs since 1981. Nobody wants to relive the big-haired spandex bands of the 80's.

The rise in grocery costs is projected to continue for a number of reasons. First, there is the low Canadian dollar, making prices on imported goods costlier. Seasonally, Canada imports more food goods over the winter months, hence the anticipated upward price pressure on imported foods in the near term. Combine that with drought conditions in the US and war in central Europe impacting supply, the continued post-pandemic supply chain disruptions, and producer input costs (like fertilizer or gas) and the near horizon does not look encouraging. Best save now for your Christmas feast.

Rising food costs with little prospect for let-up have put the food sector under intense scrutiny. For good reason. Food is an essential good. There are very few practical alternatives to the weekly trip to the grocery store.

Opposition politicians have been quick to point fingers and cast blame. The NDP have identified corporate profiteering as the chief cause for escalating food prices, coining the phrase “greed-flation”.

Accordingly the parliamentary standing committee on agriculture is set to hold hearings on the matter, and the Competition Bureau (Canada's competition watchdog²) will conduct an investigation to examine whether the highly concentrated food retail sector is contributing to soaring food costs.

The concentration of food retail in Canada makes suspicions of corporate profiteering plausible. Loblaw's oversees Zehrs, Fortinos, No Frills, Valu-mart, Your Independent Grocer, and other supermarket chains. Empire is the parent company of Sobey's and other subsidiaries including Farm Boy, Foodland, FreshCo, IGA, and Safeway.

NDP leader Singh describes ‘greed-flation’ as prices increasing at a rate that exceeds inflation, and admonishes retailers for using inflation as a cover for raising prices to increase profit margins. There are many in the business world that would say ‘so what? Hello – demand and supply. If market conditions warrant raising prices, especially in a cyclical market, why not?’

Well, back to food being much more than widgets. If ever there was a key role for government, it would be to rein in the excesses of capitalism on essentials like medicine or food. Greed-flation, or excessive profiteering of an essential good such as food, warrants government scrutiny and some form of intervention, if proven. **And there's the rub. If proven.**

True fact: Loblaw reported a quarterly profit of \$387m, which is a 3.2% increase over the same quarter last year; Empire reported a slight decline in profits over the most recent quarter, from \$188.5m last year to \$187.5m³. Both corporate entities are doing well but the signals are mixed and do not really suggest egregious profiteering.

Both Michael Medline (president and CEO of Sobeys Inc.) and Galen Westin (chair and president of Loblaw Companies Ltd) have already publicly blamed supplier and input costs for the upward price pressures at retail. Any increase in profits

1. The inflation rate for food has topped the overall inflation rate for ten months in a row now.

2. It is worth noting at this juncture that the inquiry by the Competition Bureau into allegations of bread price fixing by major Canadian grocery chains and commercial bakeries (an investigation which commenced in 2017) is still ongoing some five years later...but has resulted in no charges or fines issued to date. Just a cynical aside.

3. It should be noted that corporate concentration in Canada's food system is not only at retail. For example, Cargill and JBS account for 95% of the cattle processed in the country; Weston bakeries and Canada Bread comprise 80% of the bread market. Concentration to establish sector competitiveness (especially relative to US corporate giants) has meant less competition across many sectors in the home market.

they attribute to post-pandemic and seasonal increases in pharmaceutical sales, and successful corporate redeployment strategies.

A recent study by Dalhousie University concurs: Canada's major grocers are not using inflation as a pretext for boosting profit earnings.⁴

All this suggests that the entire structure of Canada's food system needs review, not just retail. No single component of the food ecosystem acts in a vacuum. Rather than seek to confirm early conclusions, both the parliamentary standing committee and the Competition Bureau investigations should use this opportunity to shed greater light on how the Canadian food system works (or doesn't work), and table some recommendations on how to make it better.

The cause of soaring food prices isn't a single, simple problem with a simple, single solution. Post-pandemic supply chain disruptions, labour shortages, increased transportation costs, drought in the US, the Russian invasion of the Ukraine, sanctions against Russia — global events have combined to impact food production, processing, distribution and ultimately retail costs. There is no quick fix to any of these interwoven and overlapping issues.

At least the Competition Bureau recognizes the need for a broad scope in its examination, identifying the mandate as investigating how competitive dynamics affect higher grocery prices, what can be learned from other countries in terms of increasing grocery competition, and how governments can lower barriers to entry and stimulate competition in the sector. This is a good start, although still a tad narrow. The heart of the matter lies beyond retail.

More importantly is the risk of political necessity leading to undesirable actions.

Many Canadians are struggling with the rapid increases in food prices (and other inflationary pressures on everyday affordability).

There is a real need to acknowledge these challenges and work to resolve them. But oversimplifying the complex global dynamics driving food price inflation can lead to oversimplistic domestic "solutions" (see, for example, historical and contemporary attempts at price controls or export limitations).

So yes, the notion of greedflation is an opportune political narrative and catchy sound bite — and it reflects real problems for people across the country. But the work of the parliamentary standing committee or the Competition Bureau is unlikely to address the underlying causes of rising prices nor provide relief to Canadians scrimping to afford grocery costs.

The truth is that it will take time before consumers see relief.

But for now it would appear politics rules the day — let's hope something useful (or at least not damaging) can yet emerge.



4. *Greedflation*, Agri-Food Analytics Lab, Dalhousie University @ www.dal.ca/sites/agri-food.html