

Institute for Public Policy Research



# PRICES AND PROFITS AFTER THE PANDEMIC

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**COMMON  
WEALTH**

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# 1.

## INFLATION AND PROFITS

Inflation has been surging across the world. The initial shock came from supply disruption in energy, commodities (such as metals), food and other goods. But there are some signs this is widening to other sectors (IMF 2022, Bank of England 2022, Jung 2021).

In the UK, inflation is currently driven by such supply side issues combined with other large-scale economic forces, such as monetary policy stimulus and how quickly economies are recovering from the pandemic. But in addition to these factors, inflation can be fuelled by either high wage increases or profits increases. While high increases in wages are often seen to be at the heart of inflation, the role of profits has recently been receiving more attention. For example, in the US, politicians have highlighted the role of high or increasing profits in rising inflation (eg Bloomberg 2022). And Isabel Schnabel, the German member of the board European Central Bank's board, highlighted in May 2022 that in some sectors in the Eurozone "unit profits had increased at an unprecedented pace" (Schnabel 2022).

This paper serves as a first step to analysing the behaviour of profits in the UK. **This is intended to be as a discussion paper to stimulate debate rather than the final word on the issue.** To do so, as a conceptual framework, we highlight the following.

- There are some big winners from extreme price increases in certain markets, such as gas or certain commodities. As a result of such spikes, some companies are seeing their profits increase by billions of pounds, including as a result of price spikes caused by the war in Ukraine. We call such profits, caused by *extreme and sudden* price increases '**windfall profits**'.
- As a separate phenomenon, the market power of some firms could be exacerbating inflation. This could arise if powerful firms are increasing their prices by more than they would if it was a fully open and competitive market. This could happen at any time, but it could be more pertinent in an environment of generally elevated inflation (Menezes and Quiggin 2022). We call such profits '**excess profits**'.

### There are winners and losers from the current inflation environment

Looking at the UK right now, (CPIH) inflation was at 7.8 per cent in April 2022 (ONS 2022) and the Bank of England expects it to hit 10 per cent (Bank of England 2022). The current inflation shock is such that there are big winners and big losers. These are determined by the relative market power of different parties – the market power of businesses, the rights and power of employees and the way laws and regulation determine their remunerations. As such, the distribution of winners and losers is inherently driven by market forces together with political decisions and power relations.

Currently, big losers tend to be wage earners. Their real wages this year are expected to fall by 2 per cent, according to the Bank of England (2022). This amounts to the biggest fall in real incomes since records began in 1956 (OBR 2022). Policy has been passed to tackle this, such as through transfer payments and measures to reduce the amount by which

energy bills are rising. But more could be done, including by ensuring public sector wages, benefits and the minimum wage rise in response to higher than expected inflation.

Many businesses too will suffer as higher input costs squeeze their profit margins. But there are also many businesses – and their owners – who are doing well in the current environment. This can be so because they can increase prices, thereby either (1) maintaining their profit margins or (2) increasing them further. We find evidence for both.

### Excess profits could result from the combination of inflation and market power

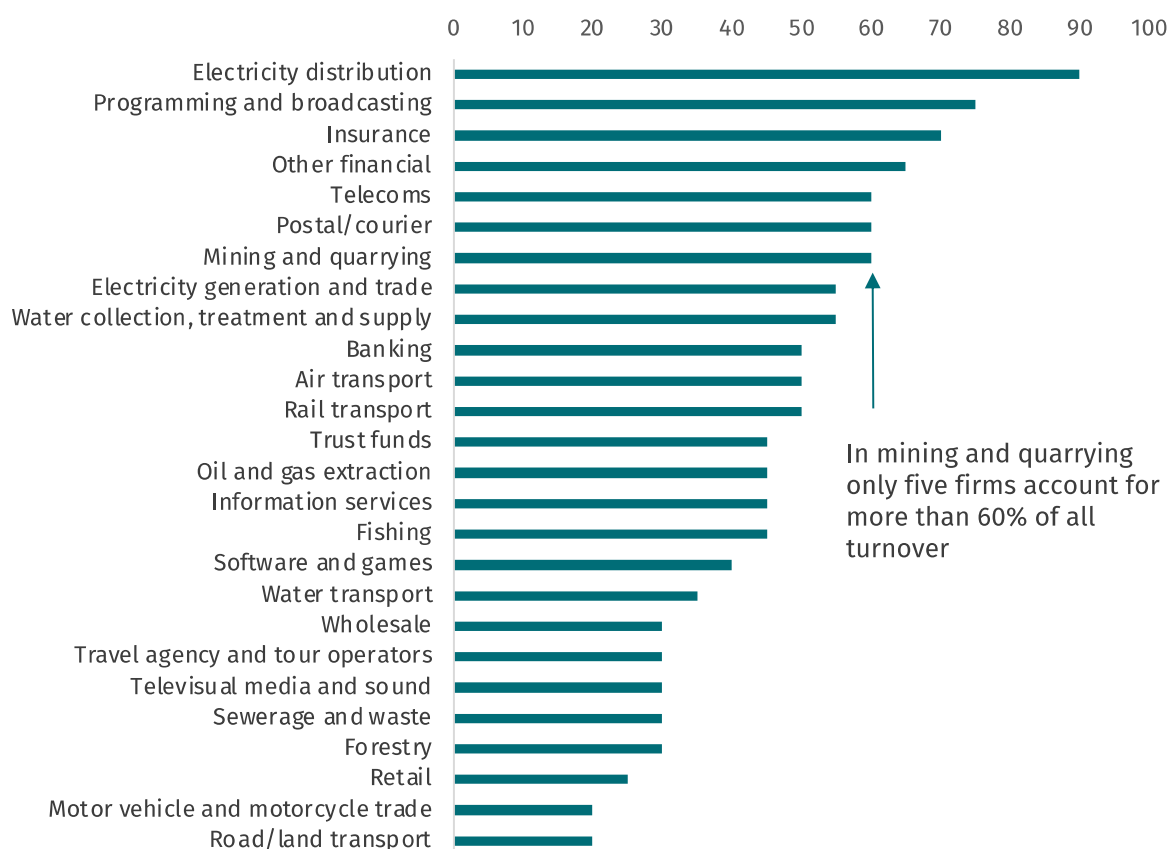
In an economy with open and fully competitive markets, businesses will be constrained in increasing their profit margins, as competition between firms pressure them to keep prices as low as possible. In this situation firms undercut each other and drive down profits. In reality, in the current situation of high demand for some products as well as supply shortages, firms do have increased pricing power. When markets are not competitive – when they become dominated by one or a small number of companies – firms gain market power. Firms then have more scope to raise prices and profit margins. They have much more control over what to do with prices, including in this inflationary environment. **In this situation, some firms can be expected to make ‘excess profits’ compared to a competitive market** (Menezes and Quiggin 2022).

In the US, researchers from the Boston Federal Reserve (Bräuning et al 2022) argue that exactly this could be happening. The authors write "the increase in industry concentration over the past two decades could be amplifying the inflationary pressure from current supply-chain disruptions and a tight [labour] market." In other words, because there has been increasing market power by big businesses over a long period, they could be making the sudden inflation shock worse. Indeed, businesses themselves have stated that they have significant pricing power that enables them to keep profits high in an inflationary environment (Groundwork Collaborative 2022, Economist 2021).

In this paper, we investigate whether the same could be happening in the UK. To do so, we investigate at the evolution of profits of the 308 largest UK listed non-financial businesses which reported up to at least Q4 2021. We consider the three years before the pandemic and compare them to the most recent profit outturns. This gives a first indication where either windfall profits or excess profits might be occurring.

We build on evidence by the UK’s Competition and Markets Authority (2022), which finds mark ups (a measure of profitability) in UK companies have increased by 75 per cent over the last two decades. That’s partly attributable to rising market concentration and the power that comes with it. As shown in figure 1.1, which plots the UK’s 15 industries with the largest turnover, several of them are highly concentrated – implying there are few players and a lower degree of competition. For example, in construction and real estate only five firms account for about 60 per cent of the market.

**Figure 1.1: Many sectors in the UK have high market concentration**  
 Percentage share of turnover made by the five largest companies in each sector, 2018



Source: CMA (2022)

### Profits have bounced back since the pandemic

We find that net overall profits amongst the firms we analyse were up by 34 per cent at the end of 2021 (and 32 per cent for companies that reported as recently as Q1 2022) compared to pre pandemic. And given further increases in energy and commodity prices, we find that further increases might be still to come. As we show below, only part of the increases in nominal profits can be explained by bounce back activity.

#### Definitions

**Profits:** Unless otherwise stated, we always refer to profits as pre-tax profits excluding non-recurring items. Non-recurring items include balance sheet activities such as selling or buying another business which can have huge impacts on profit figures. Note also that these are global profits, which are reported for UK listed firms but are not necessarily taxable in the UK.

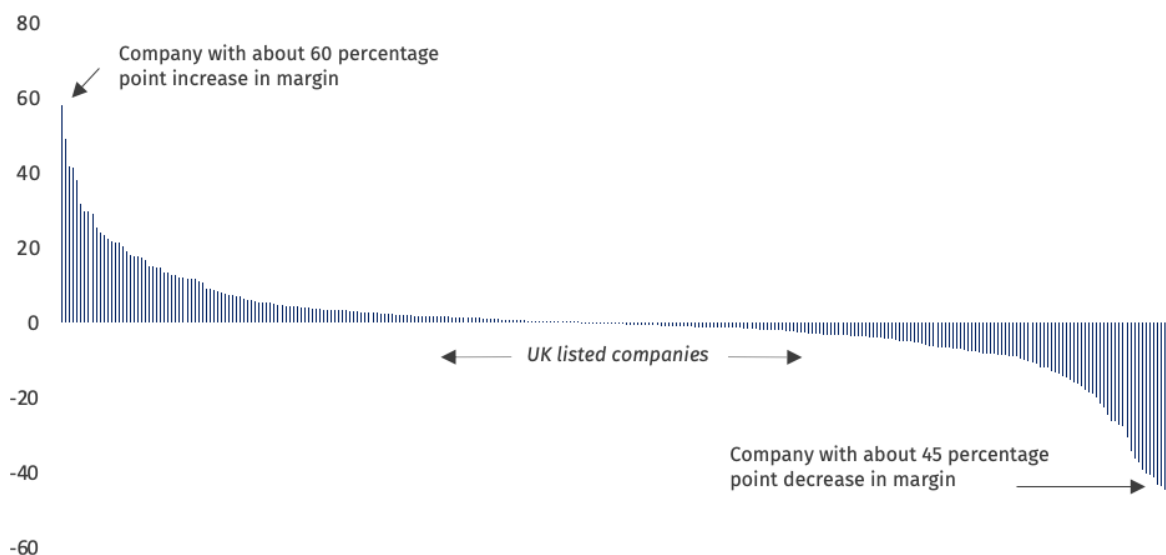
**Change in profits:** Unless otherwise stated, we define change in profits as the difference between annualised average profit in the three years before the pandemic and the annualised amount of profits since Q2 2021 up to Q4 2021. The three years before the pandemic were picked as a baseline measure of the pre pandemic degree of profitability.

**Profit margins:** We define profit margins as the profits over revenue. We interchangeably also call these profit rates. Note that this metric is not strictly comparable between financial and non-financial firms which is why we omitted financial firms in our sample.

**Sample:** We analysed the 308 largest non-financial firms listed in the UK that reported up to Q4 2021. (We separately also conducted robustness checks with firms reporting up to Q1 2022 and mention these below.) In future analysis we will also consider non-listed firms and financial firms.

The aggregate numbers are driven by a small number of companies. Figure 1.2 shows the varying experience by companies. Some increased their profit margins in 2021 by up to about 60 percentage points. But many others saw a significant reduction in profit margins. Overall, about half of firms were able to keep their margins roughly stable or increase them, while the other half saw a decrease in margins.

**Figure 1.2: There is wide variation in how profit margins shifted since the pandemic**  
*Percentage point change in profit margins of most recent reporting compared to pre pandemic average (2017-19) of non-financial firms*

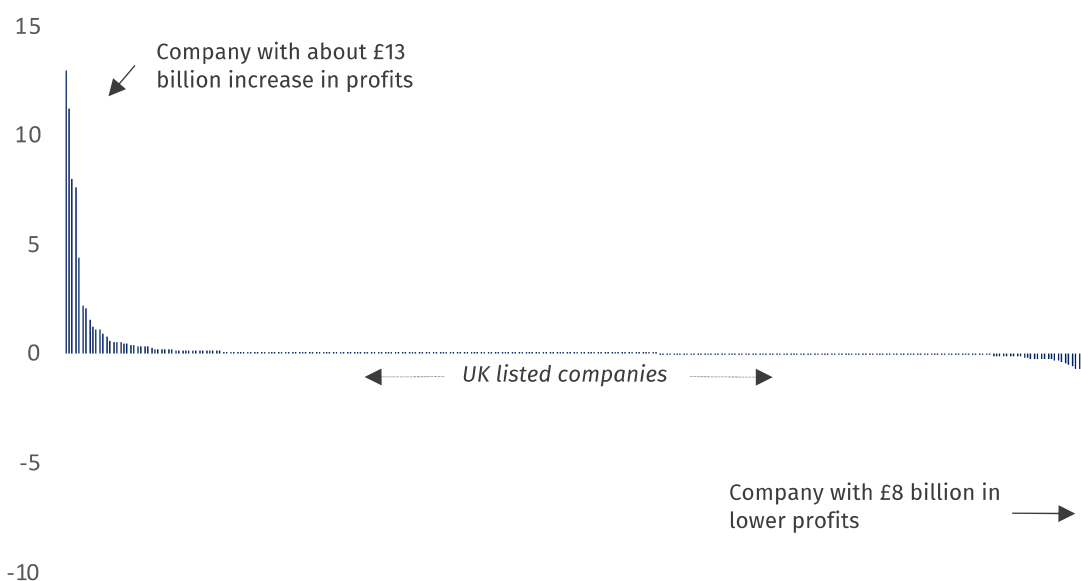


Source: Common Wealth/IPPR analysis of Refinitiv (2022)

Note: This chart excludes financial firms as profit margin calculations are usually done with a separate methodology in that sector. Profit refers to pre-tax profit excluding non-recurring items over revenue. We calculate differences based on annualised figures. We excluded 8 companies from this chart that saw extremely high changes for ease of presentational purposes.

But a lot of the companies in the above chart are small. As figure 1.3 shows, it is only a very small number of companies that account for the vast majority of the increase in profits. Only 25 companies account for 90 per cent of the increase in total profits. At the same time, 25 companies account for 81 per cent of the decreases in profits. As with wages, this shows the highly concentrated and unequal impact that the current situation has on companies and their shareholders.

**Figure 1.3: Only 25 companies account for 90 per cent of the increase in profits**  
*Nominal change profits up to Q4 2021 compared to pre pandemic average (2017-19), non-financial firms*



Source: Common Wealth/IPPR analysis of Refinitiv (2022)

Disentangling to what extent the increase in profits is driven by market power or other factors is difficult in practice. This paper is a first step in a research agenda to unravel the various effects.

### Windfall profits taxes could be used in response to address the distributional impacts of extreme market movements

Even if large increases in margins are *not* due to market power, there can be a case for policy action. For instance, UK oil and gas firms are making large profits that are due to the Russian invasion of Ukraine. Above we define these as ‘windfall profits’. The flipside of these rising profits is that households are being hurt via large energy bills. That is, the global impact of the war in Ukraine on energy prices is having huge distributional consequences.

Societies should take measures to address these consequences even if they occur in a perfectly competitive market. As a result, windfall profits taxes are rightly already being implemented widely, including Italy and the UK, and have been approved by the European Commission for its member states. Similar proposals have been made by the one of the German governing parties as well as by US senate politicians.

Based on the same principles, below we argue that OECD member states should consider a ‘global windfall tax’ on commodity profits in the same way as has been done for taxes on oil & gas in some countries. The OECD could be a useful forum for discussing this as it already has the set up to analyse and coordinate global tax cooperation, as it has done regarding the global minimum corporation tax agenda. The receipts could be used to incentivise businesses to invest in global supply chains, in particular those needed to deliver the commodities needed to ramp up investment in ‘green technologies’ as well as to compensate households hit by the cost of living crisis.

## Excess profits taxes could be used in response to market power driven profits

Three broad types of solutions have been suggested to address the problem of excess profits that are due to market power. First, reverse the increase in market concentration through competition (or, in the US, anti-trust) policies, which will take effect in the medium term. Second, put in place controls where high margins are due to market power. Such policies are aimed at preventing firms with market power from excessively raising prices. This has been proposed by US lawmakers (Bloomberg 2022). Third, use an ‘excess profits taxes’ to redistribute excess profits that are as a result of market power. Below we argue that **further research is needed to establish where excess profits accrued to due market power and in what way, to determine which policy tools are most promising.** As we propose below, the UK’s Competition and Markets Authority (CMA) is well placed to do this.

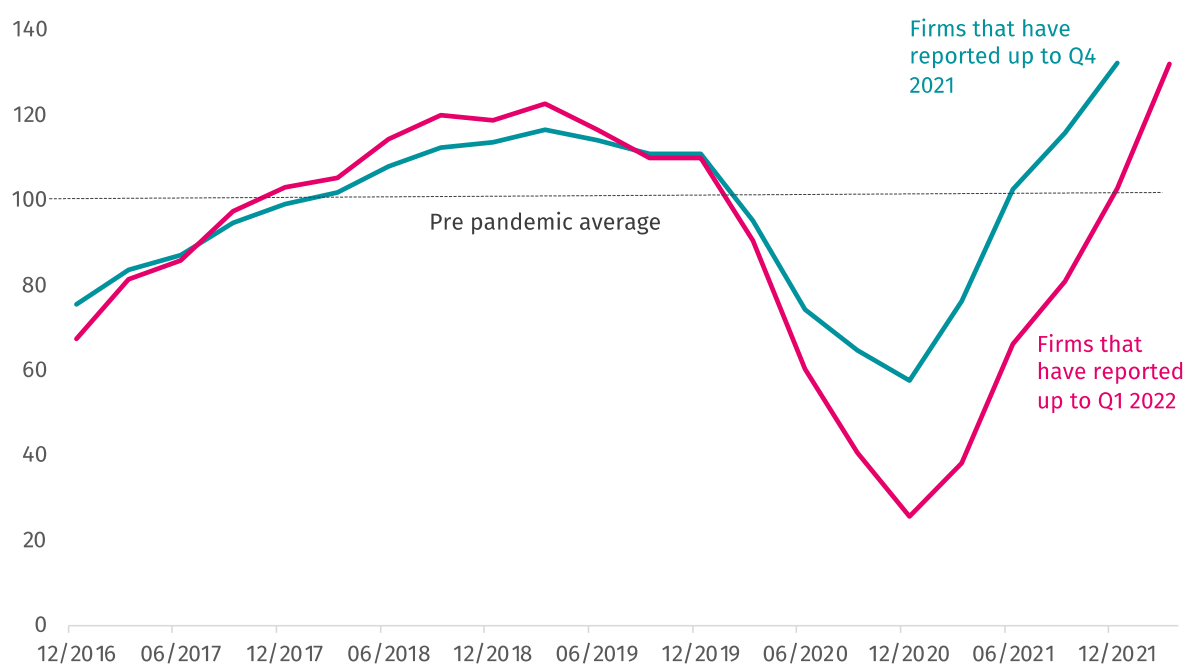
Moreover, longer-term solutions to prevent market power from taking hold include overhauling competition enforcement as well as changing ownership structures, as we outline below. Other countries, such as Germany, have already done so and started making proposals to tighten competition enforcement (Spiegel 2022).



## 2. PROFITS HAVE BOUNCED BACK SHARPLY

During the Covid-19 pandemic, profits across the economy were severely hit due to a fall in economic activity as a consequence of pandemic restrictions. But at the end of 2021, in aggregate, total profits had bounced back to above pre-pandemic levels. Of those companies reporting by the end of the year 2021 (top line in Chart 3), **profits had increased by 34 per cent** (and 32 per cent for the firms reporting up to Q1 2022) – significantly above inflation. By comparison, cumulative inflation since end-2017 was 9.3 per cent. And from the companies that reported for the first quarter of 2022 we find that in some sectors (energy, basic materials) further increases are to be expected.

**Figure 2.1: Most recent profits of large UK listed firms were above pre-pandemic levels**  
*Cumulative pre-tax profits of non-financial firms, excluding non-recurring items (pre pandemic average = 100)*



Source: Common Wealth/IPPR analysis of Refinitiv (2022)

Note: the aggregates are based on *net* profits. This means positive and negative profits can cancel each other out.

### Profits developments vary strongly on the sectoral level

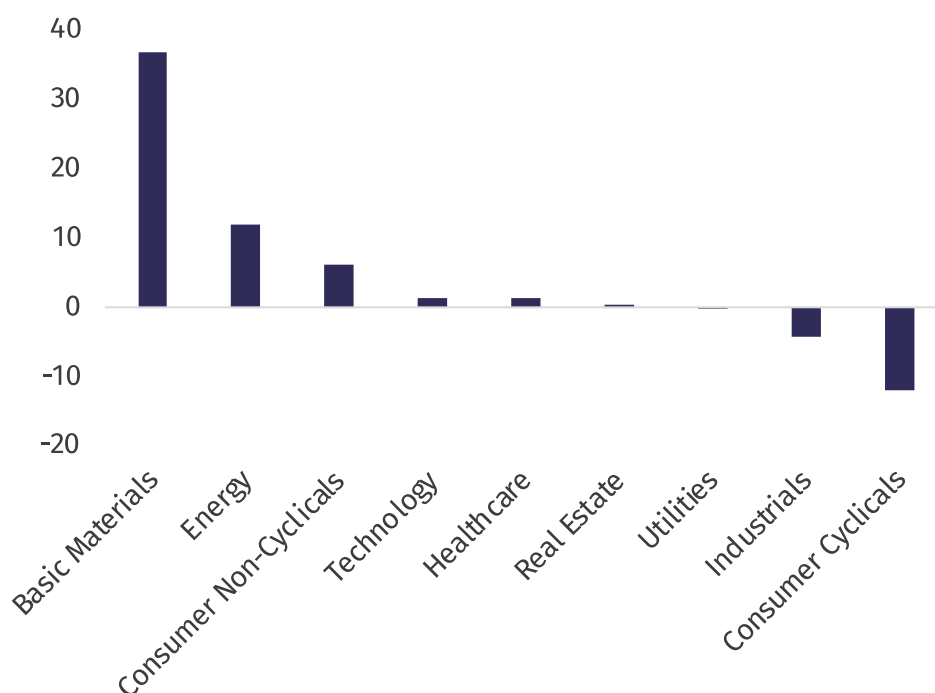
This economy-wide story varies strongly sector-by-sector. As figure 2.2 shows, basic materials (which includes mining, energy and consumer non-cyclicals) have strongly increased their nominal profits compared to pre pandemic. Basic materials' sectoral net profits have increased by about £37 billion compared to pre-pandemic levels. Energy

sector profits have increased by £12 billion and consumer non-cyclicals by £6 billion.<sup>1</sup> At the same time, profits of some industries (including consumer cyclicals and industrials) have fallen.

**Initial analysis suggests that the increase in profits mostly was not used for increased capital investment. Instead, dividends and share buybacks increased (see appendix A).**

### Figure 2.2: Profits have increased most markedly in basic materials and energy

*Cumulative change in annualised profits compared to pre-pandemic, for firms who reported at Q4 2021 (£ billions)*



Source: Common Wealth/IPPR analysis of Refinitiv (2022)

### Part of the profit increase is due to bounce back activity

In theory, increased profits might be explained by a bounce back in activity post pandemic. That is companies had catch-up business (and associated revenues) and thus also higher profits. To separate out this effect we look at profit *rates*, which correspond to profits divided by revenue (both global). In general over time, real estate, basic materials, healthcare and utilities stand out as the most profitable industries.

Compared to pre pandemic it was especially basic materials and energy that significantly increased their profit margins compared to pre pandemic by between 6 and 12.5 percentage points. Consumer non-cyclicals, utilities, real estate and technology all slightly increased their profit margins in the light of inflationary pressures. Only three out of nine sectors saw declines in profit margins.

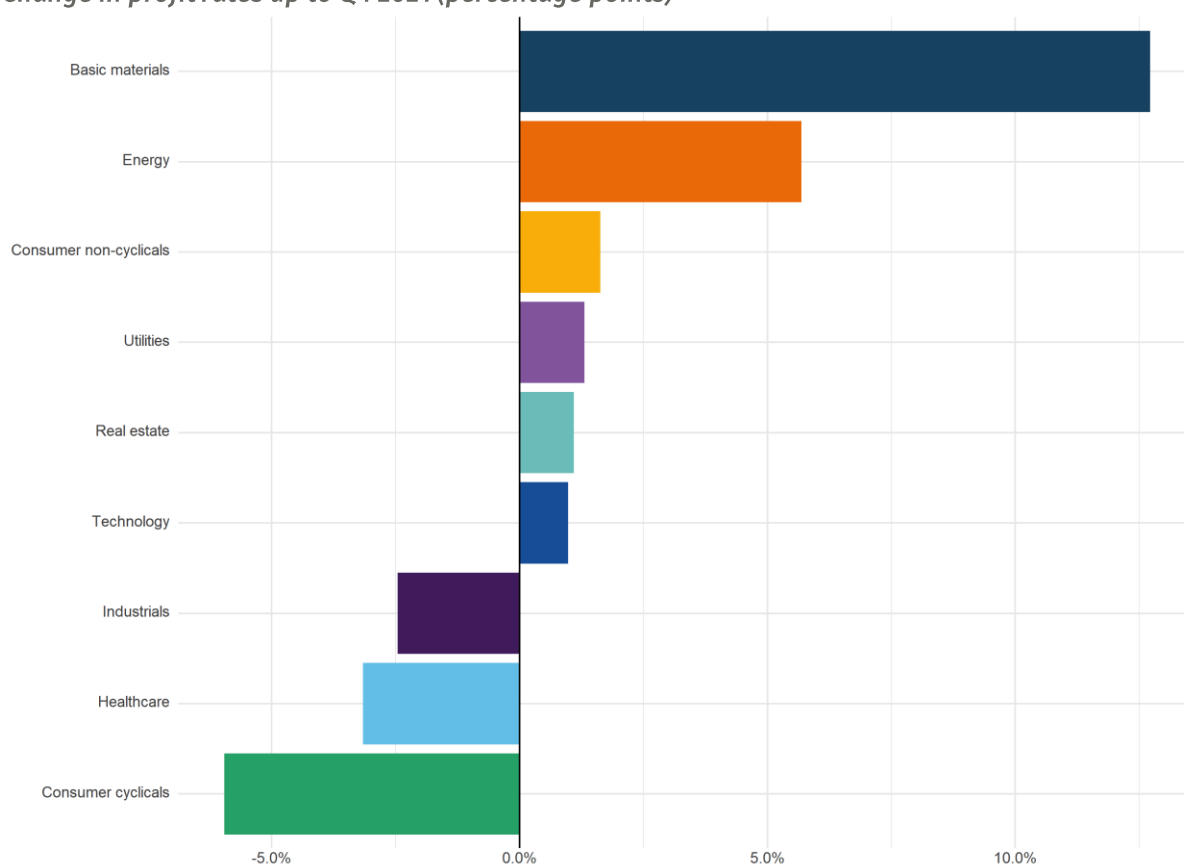
<sup>1</sup> Note that these are net sector profits. So positive profits by some firms are summed together with negative profits.

This has two implications. **First, firms in most sectors were able to maintain their margins in recent quarters despite high inflation, while real wages were falling.** This implies that the shareholders of these companies were winning out relative to wage earners and that firms had some pricing power to keep profits up.

Secondly, in sectors where profit margins were relatively stable, bounce back activity can partly explain rising profits.

A more in-depth analysis will be needed to disentangle the various driving factors and to determine in which sectors windfall profits or excess profits (as defined above) might have occurred. We investigate individual sectors in the next section.

**Figure 2.3: Profit rates have strongly increased in basic materials and energy and held up in consumer non-cyclicals, utilities, real estate and technology despite rising inflation**  
*Change in profit rates up to Q4 2021 (percentage points)*



Source: Common Wealth/IPPR analysis of Refinitiv (2022)

### **But even sector level trends hide drastically different performances of firms within a given sector**

It is only in basic materials where a fairly homogenous sector wide story emerges. Most companies in this sector kept their profits stable and handful of firms had large increases in profits compared to pre-pandemic (figure 2.4). Given this is at least partly linked to the global commodity price shock (exacerbated by Russia's invasion of Ukraine), one might refer to these as windfall profits as defined above.

Looking at aggregate net profit rates for sectors hides large differences in profit performances of firms within these sectors. For example, energy sector profits are dominated by Shell and BP, while there are some firms further up in the energy supply chain saw decreases in profits. In most sectors we find highly varying performances of firms, mirroring the ones we show in figure 1.2. Moreover, individual firms within sectors might be in very different markets and have different degrees of power.

We thus look at individual firms across sectors in the next section.

**Figure 2.4: In basic materials and energy profits have increased for a number of firms**  
*Firm by firm breakdown of change in profits by sector (£ billion)*



Source: Common Wealth/IPPR analysis of Refinitiv (2022)

### 3.

## THE FIRMS WITH THE HIGHEST INCREASES IN PROFITS

All in all, as shown in figure 1.2, there might be excess profits and windfall profits only for *specific* firms in *specific* sectors. Table 3.1 shows the top 25 companies with the largest increases in nominal profits amongst the listed non-financial firms we analysed.

The top six firms are all mining or energy firms – suggesting that the increase in profits is driven by the large increases in global commodities prices (IMF 2022). For example, Rio Tinto had increased its profits by £12.9 billion, BHP Group by £11.2 billion and Anglo American by £8 billion at Q4 2021. Also, some consumer brands had experienced large increases, including British American Tobacco, Keurig Dr Pepper, and Tesco – all of whom increased profits between about £1.1 and 2.2 billion compared to before the pandemic. Energy sector profits have since risen further, based on firms reporting in Q1 2022.

Note that, as inflation increases and growth slows, some of these profit developments may change. We will thus seek to update this analysis on an ongoing basis. Note also that not all (but most) increases in profits in table 3.1 meant increases in margins. Where margins were stable or fell, the increase in profits is likely due to bounce back activity.

**Table 3.1: Top 25 firms with the highest increase in nominal normalised<sup>2</sup> pre-tax profits between pre-pandemic and Q4 2021, non-financial firms**

|    | Firm                         | Sector                 | Change in profits (£ billion) | Margin at end 2021 | Change in margin (ppts) |
|----|------------------------------|------------------------|-------------------------------|--------------------|-------------------------|
| 1  | Rio Tinto PLC                | Basic Materials        | 12.9                          | 48%                | 18.0                    |
| 2  | BHP Group Ltd                | Basic Materials        | 11.2                          | 50%                | 11.9                    |
| 3  | Anglo American PLC           | Basic Materials        | 8.0                           | 40%                | 20.3                    |
| 4  | Shell PLC                    | Energy                 | 7.6                           | 12%                | 5.3                     |
| 5  | BP PLC                       | Energy                 | 4.4                           | 10%                | 6.0                     |
| 6  | EVRAZ plc                    | Basic Materials        | 2.2                           | 34%                | 19.0                    |
| 7  | British American Tobacco PLC | Consumer Non-Cyclicals | 2.1                           | 35%                | 1.3                     |
| 8  | Keurig Dr Pepper Inc         | Consumer Non-Cyclicals | 1.6                           | 27%                | 10.7                    |
| 9  | CRH PLC                      | Basic Materials        | 1.2                           | 12%                | 4.4                     |
| 10 | Tesco PLC                    | Consumer Non-Cyclicals | 1.1                           | 4%                 | 1.7                     |

<sup>2</sup> Normalised profits exclude non-recurring items.

|    |                                |                        |     |     |      |
|----|--------------------------------|------------------------|-----|-----|------|
| 11 | Vodafone Group PLC             | Technology             | 1.1 | 8%  | 3.0  |
| 12 | Imperial Brands PLC            | Consumer Non-Cyclicals | 0.9 | 17% | 4.2  |
| 13 | Diageo PLC                     | Consumer Non-Cyclicals | 0.8 | 30% | 0.9  |
| 14 | GSK plc                        | Healthcare             | 0.6 | 22% | -1.6 |
| 15 | BAE Systems PLC                | Industrials            | 0.5 | 9%  | 1.8  |
| 16 | AstraZeneca PLC                | Healthcare             | 0.5 | 11% | -4.1 |
| 17 | Polymetal International PLC    | Basic Materials        | 0.5 | 40% | 11.6 |
| 18 | Airtel Africa PLC              | Technology             | 0.4 | 25% | 9.0  |
| 19 | Endeavour Mining PLC           | Basic Materials        | 0.4 | 23% | 13.3 |
| 20 | Signet Jewelers Ltd            | Consumer Cyclicals     | 0.4 | 12% | 5.3  |
| 21 | Harbour Energy PLC             | Energy                 | 0.4 | 22% | -3.1 |
| 22 | Ashtead Group PLC              | Industrials            | 0.3 | 23% | -1.0 |
| 23 | Entain PLC                     | Consumer Cyclicals     | 0.3 | 10% | 7.0  |
| 24 | Diversified Energy Company PLC | Energy                 | 0.3 | 45% | 24.0 |
| 25 | Experian PLC                   | Industrials            | 0.3 | 25% | 2.5  |

Source: Common Wealth/IPPR analysis of Refinitiv (2022). Note: See box with definitions above, for exact description of metrics shown in this table.

### Do we have evidence for excess profits or windfall profits?

We have shown evidence that there likely are windfall profits in the Energy and Basic Materials sectors for UK listed firms as they have strongly increased profits in the face of extreme increases in energy prices. Individual firms' accounts confirm this view. For example, Rio Tinto CEO stated that there was "significant price strength for our major commodities, which we were able to capture, achieving record financial results" (MT, 2022). For mining companies, the bulk of these profits are global. As we outline below, the global community – for example on OECD level – could thus consider if a 'global windfall profits tax' on commodities companies would be appropriate to address the distributional implications of extreme price swings.

What about excess profits? Based on the evidence gathered here, we are unable to conclude whether other firms such as those in certain consumer goods firms have increased their margins more than they would have in fully open and competitive markets. This is partly because profit changes are driven by a wide range of factors that might not necessarily be due to changes in prices. Moreover, more detailed analysis of market power, pricing power and companies' actions would need to be undertaken to prove this. We think the UK's CMA would be well placed to conduct this analysis.

At the same time, as shown in table 3.1, certain sectors and firms are enjoying high margins. As mentioned by the CMA (2022) market concentration and profits are significantly higher than they were two decades ago and dominant firms are able to remain dominant more easily. This structural situation, together with the strong ability of firms to retain their profits in the current situation provides some evidence that market power might be partly driving some increases of profits.

# 4.

## RECOMMENDATIONS: A GLOBAL WINDFALL TAX ON COMMODITIES AND FURTHER RESEARCH ON EXCESS PROFITS

### Considering a global windfall profits tax

As more and more countries implement windfall taxes on their national energy companies, we have shown above that the Basic Materials sector might also qualify as making windfall profits from extreme market swings. The reasons for taxing windfall taxes are threefold. First, they can be an important tool for addressing adverse distributional outcomes of extreme market movements. For example, in the case of energy profits the case has been made that companies are benefitting from the consequences of the war in Ukraine while households are being hard hit (Giles 2022). Secondly, they can be used to steer business behaviour towards long-term objectives, including ensuring that windfall profits are used towards boosting supply chains rather than for dividend payments for shareholders. Thirdly, the presence of a windfall tax regime provides incentives for increased competition in the future as gives a tax advantage to firms who reinvest their profits and grow, rather than distributing them to shareholders.

OECD member states could thus consider a ‘global windfall tax’ on commodity profits in the same way as has been done for taxes on oil & gas in some countries. The receipts could be used to incentivise businesses to invest in global supply chains, in particular those needed to deliver the commodities needed to ramp up investment in ‘green technologies’ as well as to compensate households hit by the cost of living crisis.

### The building blocks of excess profits taxes

As we argued above, further work is needed to establish the degree of market power and how it influences firms pricing and profits. To inform this we outline five principles for how an excess profits tax could be designed.

- **Principle 1:** First and foremost, policy makers need to establish a toolkit to determine which firms operate in an ‘environment of significant market power’. For those firms and those firms only an ‘excess profits tax’ could be applied.
- **Principle 2:** Apply excess profits tax on companies that have a threshold increase in margins (say, five percentage point increase in margins) as well as nominal profits compared to pre pandemic. In the UK, this would be true for about a 15 per cent of firms we analysed (49 companies) out of the 308 analysed for this paper. Their change in profits is jointly £40 billion (excluding the energy sector which is now already covered by a windfall tax). If these were taxed globally at the



same rate as Rishi Sunak's levy (25 per cent), they could raise £10 billion. If excess profits were taxed at 50 per cent, in turn this could raise £20 billion. Note though that not all of these profit increases might take place in an environment of significant market power. So the actual number of firms that this applies to may be smaller.

- **Principle 3:** Tax only UK domestic profits, but establish an OECD mechanism to apply the same principle across – similar to the global minimum corporation tax.
- **Principle 4:** Only apply this to large firms, with a certain turnover threshold.
- **Principle 5:** Find a harmonised way of handling various accounting conventions that can have large impacts on declared profits. For example, non-recurring items can hugely impact a company's annual profits and may mask underlying market dynamics.

### The role of price caps

Certain forms of price caps can act as means of profit restraint. For example, an energy price cap has already been implemented (in 2019) by the energy regulator, Ofgem. The cap limits the amount energy suppliers their customers while they're on a default energy tariff, for each unit of electricity and gas and their daily standing charge. The goal of the price cap is to ensure customers get 'a fair price, and don't get unexpectedly high energy bills' (Ofgem 2022a). At present it is reviewed every 6 months, although Ofgem are proposing changes to the cap (Ofgem 2022b).

There are other possible ways of using such a price cap in energy and elsewhere to limit the potential for companies to reap excess profits within an inflationary environment.

### Medium-term action to tackle entrenched market power

A crucial way to tackle excess profits in the future is of course to reduce market power in the first place. IPPR's Centre for Economic Justice has previously recommended various steps to do so (Dibb et al 2021, CEJ 2018), primarily through competition policy which is the established means of dealing with uncompetitive sectors.

The UK's competition regulator, the Competition and Markets Authority (CMA), should launch pre-emptive investigations into the potential for excess profits in the most concentrated sectors in the UK economy. In a similar vein, the German government has already started making proposals to tighten competition enforcement in sectors that are perceived to unfairly benefitting from the current situation (Spiegel 2022). Such a policy would serve two purposes. First, it would indicate that the UK's regulator was pre-emptively and pro-actively willing to act on excess profiteering. Second, an investigation is the first step ahead of more significant enforcement, if required, as the inflation crisis continues through 2022 and 2023.

In the US, the Biden administration is embarking on an ambitious programme of anti-trust (competition) policy both towards more rigorous enforcement and a broader conception of how to assess competition in the first place. Similarly, the UK's CMA should broaden its conception of market power (which currently is still focusses too narrowly on prices) to more structural markers of market power. IPPR has previously called for the CMA, in its role in determining the public interest, should consider the interests of consumers, suppliers and entrepreneurs, alongside taxpayers, workers and the wider public value of innovation (IPPR Commission on Economic Justice 2018). A review of the CMA's powers and

decision-making principles could determine whether market share thresholds for regulatory action should be set, whether regulatory tools to address vertical integration and price discrimination should be strengthened, and whether competition policy should have an *a priori* objective to limit market power by limiting market concentration (ibid).

Moreover, changing ownership structures can be an important tool to tackle entrenched market power. For example, IPPR has argued that public stakes can ensure that profits are reinvested and business models evolve to deliver social value, including alignment with climate targets (Jung, Dibb, and Lawrence 2020). Furthermore, Common Wealth has outlined in their *Democratic Public Ownership in the 21st Century* report (Lawrence and Hanna 2020) that public ownership of natural monopolies has the potential to deliver significantly better economic outcomes than concentrated markets.

Ultimately, there is a need for a coherent approach that helps minimise windfall profits and excess profits, and their potentially damaging consequences. Increasing competition and changing ownership structures form one pillar to pre-empt this. But a principles-based tax framework will also be needed that can respond promptly and predictably to extreme market moves that have damaging, unintended outcomes, including windfall profits.

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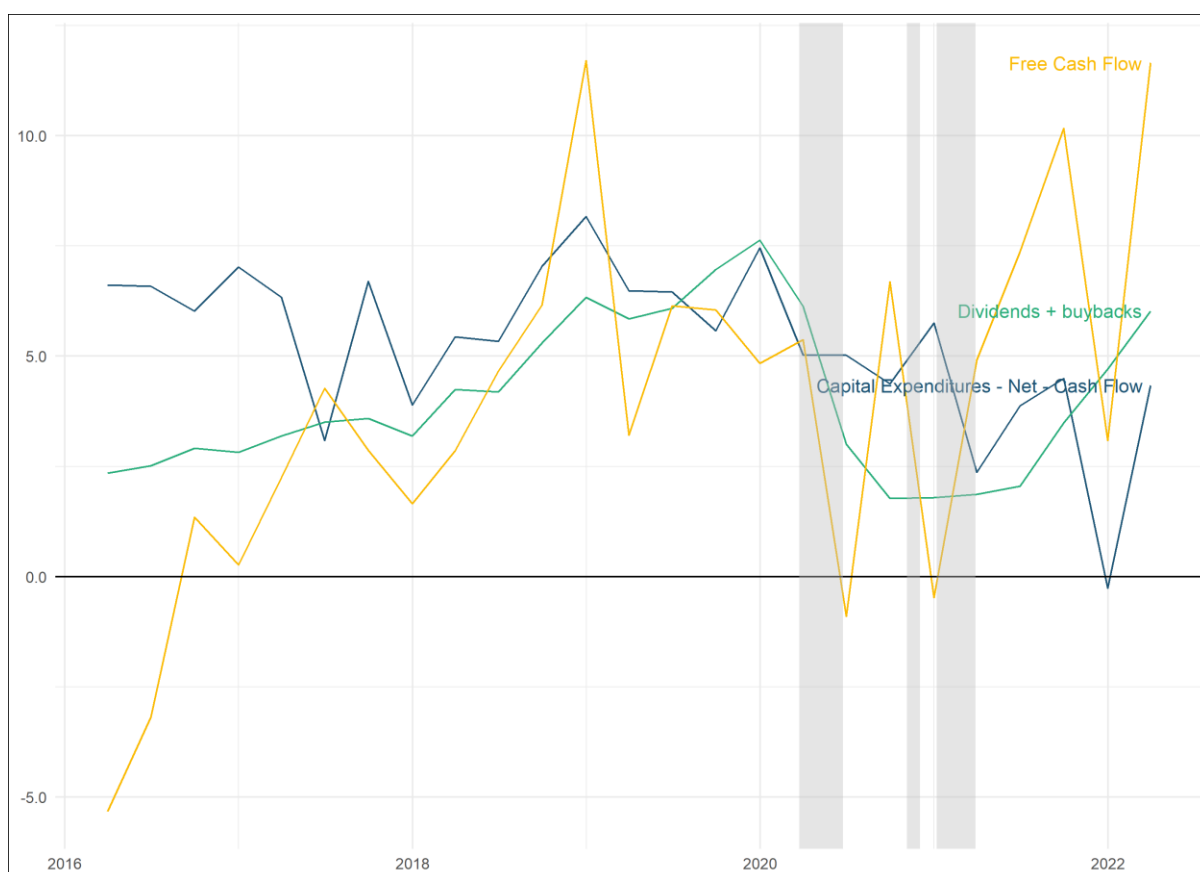
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# APPENDIX A

The below charts show look at the evolution of free cash flow, dividends & buybacks (net of issuance) and capital expenditures of the energy sector and basic materials sector. In both sectors capital expenditure has not significantly increased in response to high profits, while dividends & buybacks have risen.

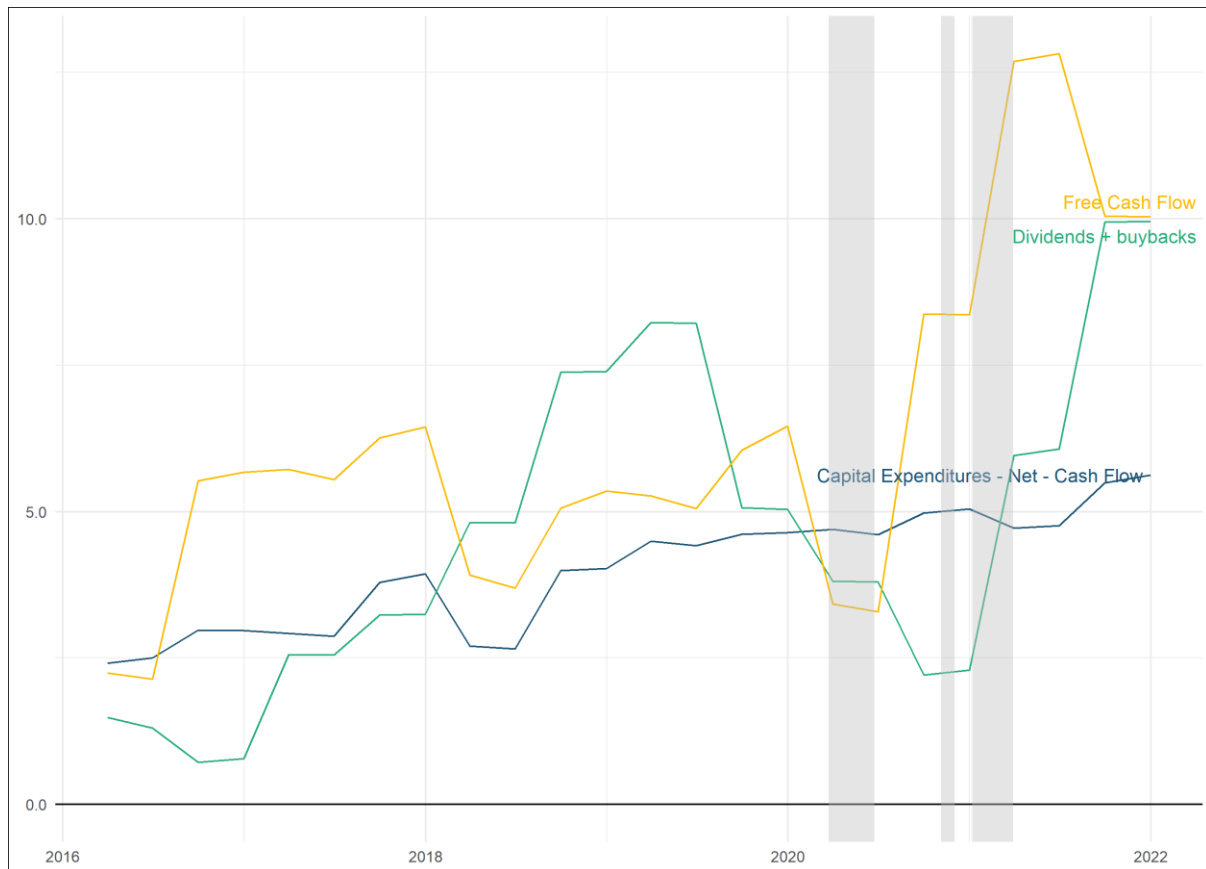
**Figure A1: Capital expenditures in the energy sector seem not to have increased in response to high profits, while dividends and buybacks have increased**  
*£ billion, up to Q1 2022*



Source: Common Wealth/IPPR analysis of Refinitiv (2022)

Note: The sample of companies may not be identical to the one in the figures in the main text. So these results should be seen as indicative.

**Figure A2: Capital expenditures in basic materials seem not to have increased much in response to high profits, while dividends and buybacks have increased**  
*£ billion, up to Q4 2021*



Source: Common Wealth/IPPR analysis of Refinitiv (2022)

Note: the sample of companies may not be identical to the one in the figures in the main text. So these results should be seen as indicative.

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