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Abstract

Empirical analysis of mergers and acquisitions in eight important food industries suggests that workers in acquired plants realized modest increases in employment and wages relative to other workers. Results also show that mergers and acquisitions reduced the likelihood of plant closures while high relative labor costs encouraged plant shutdowns. These results differ from commonly held views that mergers and acquisitions lead to fewer jobs, wage cuts, and plant shutdowns.

Keywords: Food product industries, mergers and acquisitions, plant closures

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About the Authors

Ollinger, Blayney, Chambers, and Nelson are agricultural economists with the Economic Research Service, U.S. Department of Agriculture. Sang Nguyen is an economist working for the Center for Economic Studies, U.S. Bureau of the Census.

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Summary

For many years, mergers and acquisitions in the food industry have been viewed with skepticism. The primary concern was that mergers, by reducing the number of firms and increasing industry concentration, were promoting anticompetitive pricing behavior. Senate hearings on the effect of mergers and acquisitions in meatpacking and slaughter are a good example of this concern. More recent attention by the media and policy officials has focused on the impact of food industry mergers on changes in the structure of the economy, particularly on how changes in employment and wages affect the sustainability of rural communities.

What Is the Issue?

The effect of a merger on local employment and wages is not readily apparent. Mergers can cause lost jobs and reduced wages when new ownership attempts to lower production costs by shedding workers. Mergers and acquisition can, however, preserve and even increase employment when a firm is saved from bankruptcy and plant closure or when new ownership expands output and hires more workers by capturing productivity gains through increased economies.

During the 1980s and 1990s, 100,000 workers in seven food-related industries—meatpacking, meat processing, cheese, fluid milk, flour milling, feed, and oilseed processing (soybean, corn, and cottonseed processing) lost their jobs. At the same time, the pace of mergers and acquisitions accelerated in these industries, leading some observers of the food industry to conclude that mergers and acquisitions encouraged worker dislocations.

What Did the Project Find?

Empirical analysis of mergers and acquisitions in eight food industries during two distinct merger waves, 1977-82 and 1982-87, does not support the commonly held view that mergers and acquisitions necessarily caused worker dislocations and lost wages. Workers experienced a modest increase in the number of job opportunities but little change in wages relative to their peers. Findings from this report show that mergers and acquisitions led small plants in the food industries studied to add workers during the first merger wave of 1977-82 but not during the second merger wave, 1982-87. Similarly, mergers and acquisitions generally had a small but positive effect on wages during the period 1977-82 and little discernible effect during the second merger wave, 1982-87. We also found that mergers and acquisitions encouraged large meat and poultry and oilseed plants to exit their industries during the 1977-82 period and feed and oilseed plants to close over 1982-87.

Substantial labor strife marked both merger waves for the meatpacking and meat processing industries. In some cases, unions acceded to management demands for wage concessions, but in others, union workers were either replaced or the plant closed. Employment gains occurred in the newly acquired plants in the earlier period because plant buyers shifted production from less efficient, antiquated facilities producing carcasses to newer, more productive ones producing boxed meats and poultry parts. With availability of abundant labor, there was little pressure on the owners of newly acquired plants to raise wages. In the later period, the technological change and

production shifting in the meat and poultry sector had pretty much run its course, causing employment and wage growth in newly acquired plants to be no greater than that in other plants.

Large cheese, flour, feed, and oilseed processing plants with high labor costs relative to their total costs were more likely to exit over 1977-82, and large plants in all industries, except meat processing and fluid milk, with high wage costs were more likely to exit over 1982-87. The differences for meatpacking and poultry slaughter and processing in the earlier period can be attributed to a major transformation of industry output to boxed meat products and poultry parts requiring relatively more labor. Plants that continued to produce carcasses rather than boxed meat products had lower labor costs but had to accept a much lower price for their output. Many of the large plants that produced carcasses were built for an earlier era and either disappeared or changed their product mix as boxed meat and poultry production came to dominate the output mix of large plants.

How Was the Project Conducted?

This report examines employment and wage effects and the causes of plant closures among meat and poultry, dairy, and grain milling/oilseed processors. Within these three major groupings, eight industries—meatpacking, meat processing, poultry slaughter and processing, cheese, fluid milk, flour milling, feed, and oilseed processing (soybean, corn, and cottonseed processing) are examined. These industries were selected because they (1) are cost-driven industries in which production cost economies play a prominent role in a merger decision, (2) underwent dramatic structural changes, and (3) are important to farmers who look to them as an outlet for their products, consumers who view them as providers of final products, and other manufacturers who regard them as sources of ingredients for their food or animal products. We use the most recent Census of Manufacturers data. These data capture all plants producing food products and include variables for output, employment, and production costs for individual U.S. manufacturing establishments.

Plants are evaluated over the two most recent merger waves in the food industry, 1977-82 and 1982-87. The study compares pre-merger and post-merger wages and employment. For 1977-82, data from 1977 is used as a gauge of the pre-merger performance of plants that were acquired over 1977-82 and 1987 as a measure of post-merger performance. Two periods are used as a check on the robustness of the results.