Introduction

For many years mergers and acquisitions in the food industry have been viewed with skepticism. The primary concern was the promotion of anti-competitive behavior resulting from fewer firms and increased concentration. Senate hearings on the effect of mergers and acquisitions in meatpacking and slaughter are a good example of these concerns. More recent attention by the media and policy officials has focused on the impact of mergers and acquisitions in the food industry on changes in the structure of the economy, and particularly how changes in employment and wages affect the sustainability of rural communities.

Over 1972-92, the number of workers decreased by more than 100,000 (20 percent), and the number of plants declined by about one-third in seven food industries in the meat, dairy, and grain and oilseed processing sectors. Amidst a period of labor strife in the meatpacking and meat processing industries, mergers and acquisitions rose sharply over two census periods 1977-82 and 1982-87 and then dropped (Ollinger et al., 2005).

Productivity can be increased and profitability enhanced by laying off workers, dismissing managers, closing plants, abrogating pension benefits, and reducing wages.[1] This may make shareholders better off, but workers and the communities in which they live can be devastated due to bleak employment opportunities and lost tax revenues. The effect of mergers and acquisitions (M&As) on local communities is particularly important for agricultural processing because food product plants often locate in very small communities that depend on a few large employers for their survival.

Previous research on the effect of M&As on plant closures, employment, and wages has been mixed. Brown and Medoff (1988) found that, except for divestitures, M&As had little effect on employment and wages for small firms in Michigan. Lichtenberg and Seigel (1992), who used a sample of mostly large manufacturing plants from the Longitudinal Research Database at the Census Bureau, found that M&As led to reductions in both employment and wages at central offices but had little effect at production establishments. More recently, McGuckin et al. (1997) found that M&As positively affected the likelihood of plant closures and wages and employment growth in the entire U.S. food and beverage manufacturing industry. Finally, Davis and Wilson (2003) found that M&As led to wage increases at railroad companies after deregulation in 1980.

While the just-mentioned studies provide valuable insights into the effect of M&As on the labor market, they either used data for the entire U.S. manufacturing sector (Lichtenberg and Siegel, 1992), for a single State (Brown and Medoff, 1988), after deregulation (Davis and Wilson, 2003), or for a broadly defined industry (McGuckin et al., 1997). Thus, the results may not hold for unregulated firms existing in more narrowly defined industries or for more than one period. Here, we consider the effect of mergers and acquisitions on plant closures, employment, and wages over two periods—1977-82 and 1982-87—in eight important food industries: meat packing, meat processing, poultry slaughter and processing, cheese, fluid milk, flour milling, feed, and corn/soybean (oilseed) processing. We evaluate wages and employment over a 10-year period to compare pre-merger and post-merger wages and

[1]The public image of massive layoffs among hostile takeovers appears to be shaped by a small number of cases. Recent work by Gauchely, Groshen, and Neumark (1994) finds that the effects of hostile takeovers on workers are mostly compositional: Hostile takeovers do not reduce workers' shares of the total rents to the firm, but they do reduce payments to senior workers by reducing their employment and flattening wage-seniority profiles.

employment. For 1977-82, we use data from 1977 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. We consider two periods to check the robustness of our results and chose the 1977-82 and 1982-87 periods because they encompass the most recent merger waves in the food sector.[2] We focus on the eight industries because of their dramatic structural changes and their importance to farmers who look to them as outlets for their products, consumers who view them as providers of final products, and manufacturers who regard them as sources of ingredients for food products or animal feed.

The eight industries produce commodity products in cost-driven industries that require little advertising or research expenditures. These characteristics make Census of Manufacturers data ideally suited for the analysis because these data contain detailed information on value of shipments, production costs, and employment.

[2]There is no reason to believe that conclusions drawn from a study using more current data (if they were available) would be any different.The results for this report were robust for the two merger periods examined.If merger incentives remain unchanged, these results should be valid for current and future mergers and acquisitions.We have no reason to suspect that merger incentives have changed.