

# Meatpacker Concentration Harms Farmers, Workers and Consumers:

## Proposed USDA Livestock Rule Can Strengthen Rural Economies



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Over the past few decades, the largest meatpacking and processing companies have consolidated their market power, driven smaller meatpackers out of the industry, pushed farmers out of business by offering lower prices for hogs and cattle and slowly but surely raised real prices for consumers. The dominant pork and beef packers have made it impossible for small businesses to survive, and this has contributed to the decline in the number of meatpacker and processor workers as well as to their falling real wages. Together, these losses have undercut a vital economic force in rural America: independent livestock operations and the small businesses and workers that process meat.

Over the past 10 years, real prices for hogs and cattle have fallen while real consumer retail prices for meat have risen by 41 percent. The number of hog and cattle farmers has slid dramatically, and while real earnings for most hog and cattle farmers fell, only the very largest operations saw incomes rise. The loss of medium- and smaller-sized hog and cattle operations meant that the gross income of these farms fell by an estimated \$7.3 billion, money that would typically go to purchase farm supplies from local, rural businesses.

### Economic Costs of Meatpacker Consolidation: 2000 to 2010

- **Small businesses:** Number of slaughterhouses declined by 491 (15 percent).
- **Workers:** Number of meatpacking, processing and poultry jobs fell by 16,600 (3.3 percent).
- **Real worker earnings at meat and poultry plants:** Inflation-adjusted earnings for slaughter, processing and poultry workers fell by \$1.16 billion.
- **Consumer meat prices:** The consumer price index for beef and pork products rose by 41.0 percent.
- **Farmers:** The number of beef cattle operations fell by 141,370 (13.1 percent) and the number of hog farms fell by 18,370 (21.0 percent).
- **Rural economies:** The gross farm income of the medium- and small-sized cattle and hog farms that drive rural economies fell by \$7.3 billion (31.6 percent) between 1999 and 2008.

Meatpacker consolidation also contributed to a sharp decline in the number of slaughterhouses, workers at meat and poultry plants and total real earnings of these workers. Nearly 500 slaughterhouses nationwide have disappeared over the past decade, and with the decline in meatpackers, the number of meatpacking and processing workers has fallen by 16,600. Total real earnings of meatpacking, processing and poultry workers declined by more than \$1 billion between 2000 and 2010.

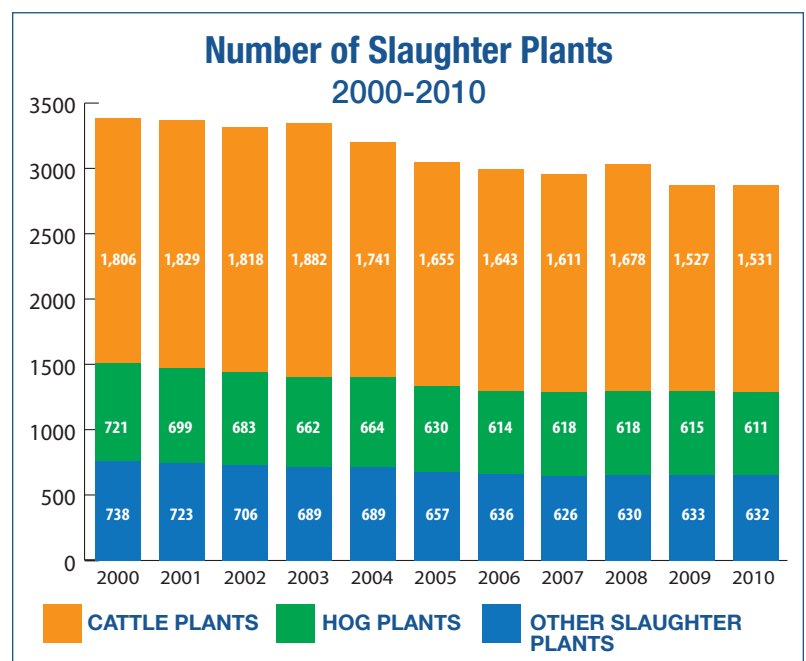
In June 2010, the USDA proposed rules to clarify and strengthen provisions of the 1921 Packers & Stockyards Act (P&SA) to help restore balance and fairness to livestock markets. The P&SA was originally passed to curb concentrated market power by the largest beef and hog packers, but today the markets are more concentrated than when the law was passed 90 years ago. All of the economic losses have been happening in the absence of enforcement of the P&SA and before the new rules.

The 2008 Farm Bill directed USDA's Grain Inspection, Packers and Stockyards Administration (GIPSA) to write rules that would help restore competition to a marketplace that had become intensely concentrated in the hands of a few companies. The proposed rules would ensure that meatpackers pay livestock producers fair prices and prohibit offering sweetheart deals to favored farmers, typically the very largest operations. It also would ensure that the largest meatpackers could not rig or manipulate prices at livestock auctions, and would prohibit meatpackers and poultry companies from imposing unfair contracts on livestock producers and poultry growers.

Some meatpacker-commissioned studies have contended that the proposed rules would hurt the economy and reduce employment.<sup>1</sup> For example, in an analysis performed for the National Meat Association, Informa Economics found that the proposed rule would cost over \$1.5 billion and cost nearly 23,000 jobs.<sup>2</sup> (It should be noted that this is about the same as Informa's \$1.3 to \$1.5 billion 2009 estimated cost for country-of-origin labeling, itself about a billion dollar reduction from its original estimate.<sup>3</sup>) The University of Tennessee's Agricultural Policy Analysis Center disputes Informa's assess-

ment because it is slanted to the largest meatpackers' perspective and "fails to take into account the losses that small producers are incurring under present conditions."<sup>4</sup> Without the proposed rule, the economic losses of farms, meatpacking plants and jobs are likely to continue. This issue brief attempts to delineate some of the costs that producers, workers, consumers and rural economies have paid already because of consolidation in the meatpacker, processor and poultry sectors.

Restoring competition in livestock markets could provide a boost to rural economies. Farmers would likely receive better prices for their livestock, after decades of declining farm numbers and real prices for hogs and cattle. Independent medium-sized and smaller farmers are more likely to buy their supplies locally, and this spending reverberates across local communities. A more competitive livestock marketplace could help small businesses withstand the pressures of the meatpacker monopolies and provide opportunity for new, small meatpackers and processors to emerge and thrive. These firms can hire some of the workers who have lost their jobs as the largest meatpackers bullied smaller- and medium-sized meatpackers out of business over the past decades. And consumers may see better prices and more choices when more meatpackers actually compete for their supermarket purchases



Source: USDA National Agricultural Statistical Service; cattle and hog plants are federally inspected facilities, other plants include state-inspected plants and bison, sheep, lamb and goat slaughterhouses (does not include poultry).



instead of being captive consumers with few choices at the meat counter. The proposed GIPSA rule is a first step in restoring competitive markets and will help prevent the economic losses of the past decade from continuing unabated.

## The Rise of the Meatpacker Monopolies and Decline of Small Businesses

Mega-mergers between some of the largest livestock processing companies have led to an unprecedented concentration of economic power – over farmers, over consumers and over their competitors. The past five years saw some of the largest meatpacker mergers. In 2007, Brazilian beef giant JBS bought the U.S. meatpacker Swift.<sup>5</sup> In 2007, the largest hog processor, Smithfield Foods, merged with Premium Standard Farms.<sup>6</sup> In 2006, Pilgrim's Pride (itself now part of JBS USA) bought Gold Kist, making it the world's largest chicken producer.<sup>7</sup> The four largest beef packers have slaughtered four out of five cattle for about a decade; the four largest pork packers slaughtered 63 percent of hogs in 2009, up from 56 percent in 2000.<sup>8</sup>

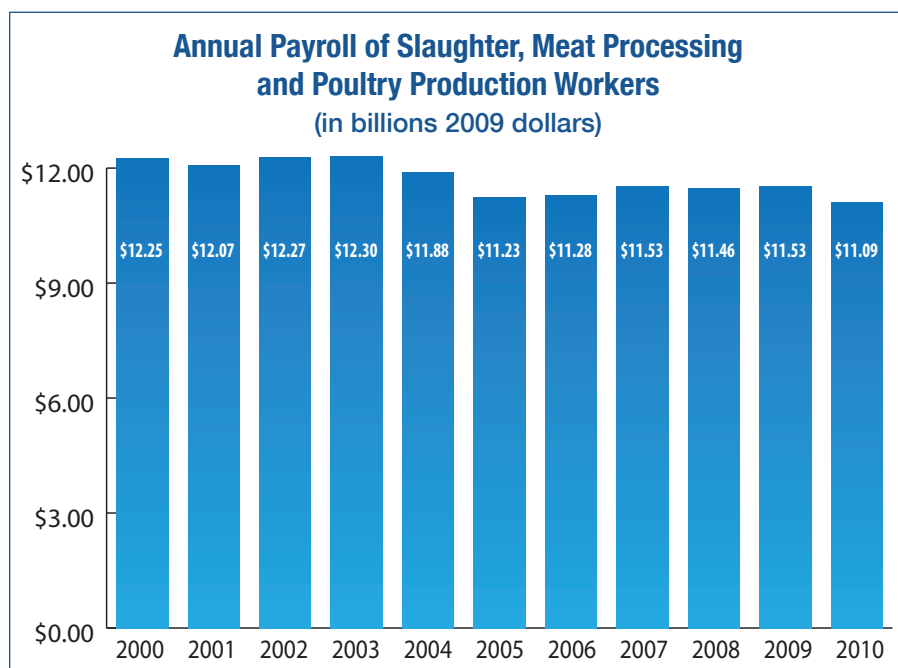
These concentrated markets helped to push smaller slaughterhouses and meat processors out of business and make it hard for new small businesses to gain a foothold. The economies of scale of the large meat-

packers not only control most of the livestock to slaughter through rigid contracts with farmers, but also drive out innovation because it is almost impossible for new firms to challenge the biggest players. Mergers between rivals, as have occurred over the past five years, can distort markets sufficiently to prevent new firms from restoring competition.<sup>9</sup>

These pressures have steadily reduced the number of plants that slaughter livestock. The total number of slaughter plants has fallen by 15 percent over the past decade, dropping from 3,265 in 2000 to 2,774 in 2010.<sup>10</sup> The number of federally inspected hog and cattle slaughterhouses – the largest plants that are eligible to sell beef and pork on the national market – fell by 216 between 2000 and 2010.

## Fewer Workers at Lower Real Wages as Meatpacking Consolidates

Decades ago, nearly every medium-sized town in rural America had a meatpacking or processing plant, and these plants provided good job opportunities for the surrounding communities. As the plants vanished over the past decade, more than \$1 billion in meatpacker, meat processor and poultry worker earnings disappeared. Independent farms supplied livestock that were slaughtered and processed by independent small businesses.



Source: Bureau of Labor Statistics

As the number of slaughterhouses has fallen, the number of workers has declined. The number of livestock slaughterhouse workers fell by 4.0 percent over the past decade, shedding 6,100 workers between 2000 and 2010.<sup>11</sup> The number of workers at processing plants remained fairly steady, adding 800 workers over the decade (a 0.7 percent increase). The number of poultry workers fell the most sharply, dropping 4.7 percent – 11,300 jobs – between 2000 and 2010. In total, the meatpacking, processing and poultry industry had 16,600 fewer jobs in 2010 than in 2000.



A larger impact to the economies of rural communities has been the decline in real wages for meatpacker and processing workers. Inflation-adjusted wages for slaughterhouse workers have not grown over the past decade; instead, they fell slightly from \$13.41 per hour to \$13.35 per hour, in real 2009 dollars.<sup>12</sup> Wages for meat-processing plant workers fell more steeply, dropping 6.7 percent from \$14.96 in 2000 to \$13.96 in 2010, in real 2009 dollars.<sup>13</sup> Wages at poultry plants fell by 5.1 percent from \$11.66 in 2000 to \$11.06 in 2010, in 2009 dollars.

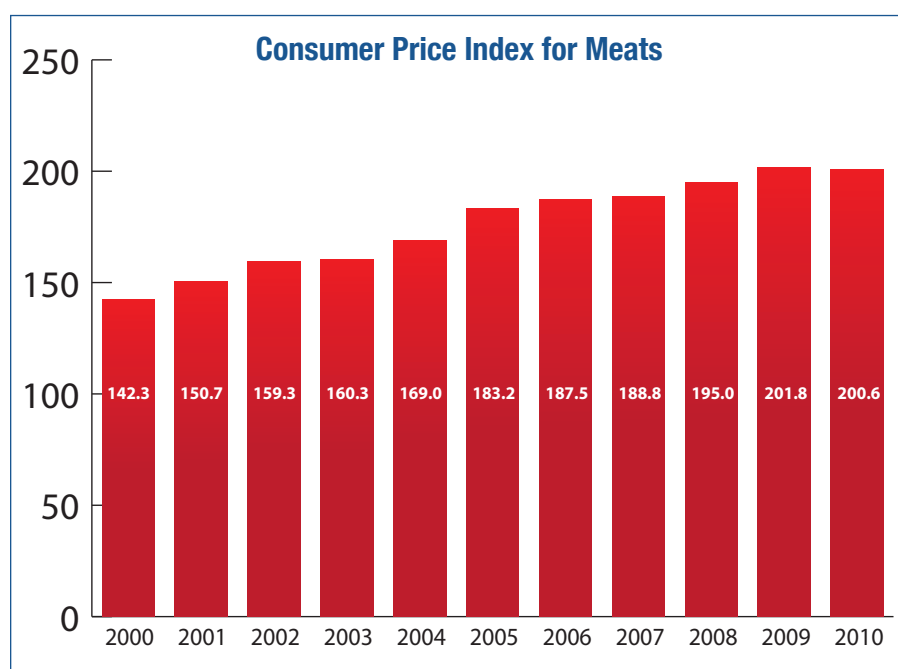
The combination of fewer workers and declining wages has significantly reduced the earnings of work-

ers available to spend in local communities – on rent, groceries, entertainment and other goods and services. Total real earnings by slaughter plant, meat processing and poultry workers fell by \$1.16 billion between 2000 and 2010, in real 2009 dollars.<sup>14</sup> A more competitive meatpacking marketplace could provide jobs at wages that are not stagnant or declining.

## Consumers Have Not Benefited from Meatpacker Monopolies

The growing meatpacker consolidation puts a handful of companies between 1 million hog and cattle farmers and more than 300 million consumers. Many of the fundamental questions Americans are asking about their food system are questions about economic power and equity. Although meatpacker consolidation has pushed down the real prices farmers receive for their crops and livestock, few of these savings are passed on to consumers – the meatpackers and retailers are pocketing the difference.

The meatpackers contend that the scale and efficiency of the largest companies and facilities delivers savings for consumers, but consumers are paying considerably more for meats. The consumer price index for meats – all pork and beef products – has risen by 41.0 percent between 2000 and 2010.<sup>15</sup>



Source: Bureau of Labor Statistics

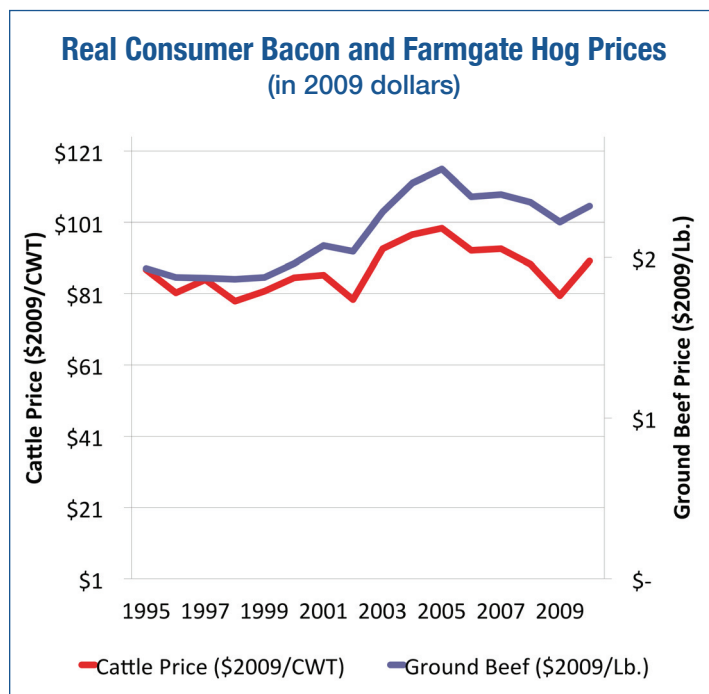
Consumer meat prices rose even as the prices farmers received for cattle and hogs were falling. Between 2000 and 2010, the inflation-adjusted price for bacon rose by 5.4 percent in real 2009 dollars, but the real price farmers received for hogs fell by 0.2 percent (although prices were much lower for much of the decade).<sup>16</sup> Real ground beef prices rose 18.2 percent over the decade, although the real prices farmers received for cattle rose only 5.5 percent.

Consumers face not only rising prices but also diminishing choices at the supermarket. Although consumers see a wide variety of brands at the meat counter, many large meatpackers market a range of brands that all come from the same company. For example, Smithfield Foods sells pork products under the Smithfield, Farmland, John Morrell, Gwaltney, Armour, Eckrich, Margherita, Carando, Kretschmar, Cook's, Curly's and Healthy Ones brand names as well as private-label brands.<sup>17</sup> When four firms control two-thirds of the pork sold under a wide range of brands, choice is constrained but consumers may be largely unaware of their reduced options because they still see a variety of brands at grocery stores. A more competitive industry should increase consumer choices and lower consumer prices, as sellers increase efficiencies and offer better prices to capture consumers.

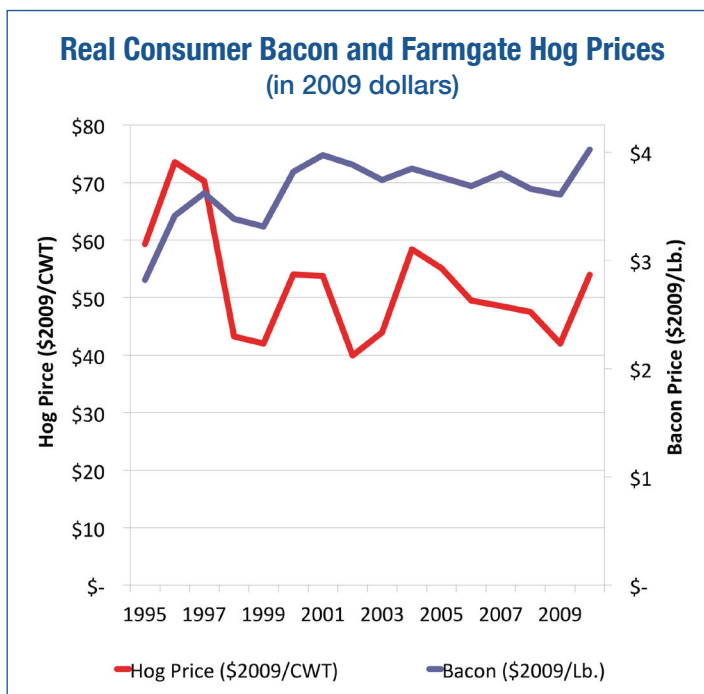
## Dominant Meatpackers Drive Down Farm Prices, Push Farmers Off the Land

Livestock producers need access to slaughter and processing to sell their livestock, and this relationship has always been prone to an imbalance of power. The decline in buyers and processing plants has left fewer selling options for livestock producers, which puts them under increased pressure to take whatever price they can get, even if it does not cover their costs.

The largest meatpackers can exert tremendous leverage over farmers because of their concentrated market power. They can lower the prices they paid to farmers because there were so few firms to bid for livestock, and farmers are forced to accept lower prices. USDA has observed that the increased market concentration can allow “packers, live poultry dealers or swine contractors [to] use their market power to harm producers or impair the private property rights of growers and producers.”<sup>18</sup> These meat and poultry companies can and do exercise considerable market power over consumer food choices and prices, and contribute to the often-precarious economic condition of farmers.



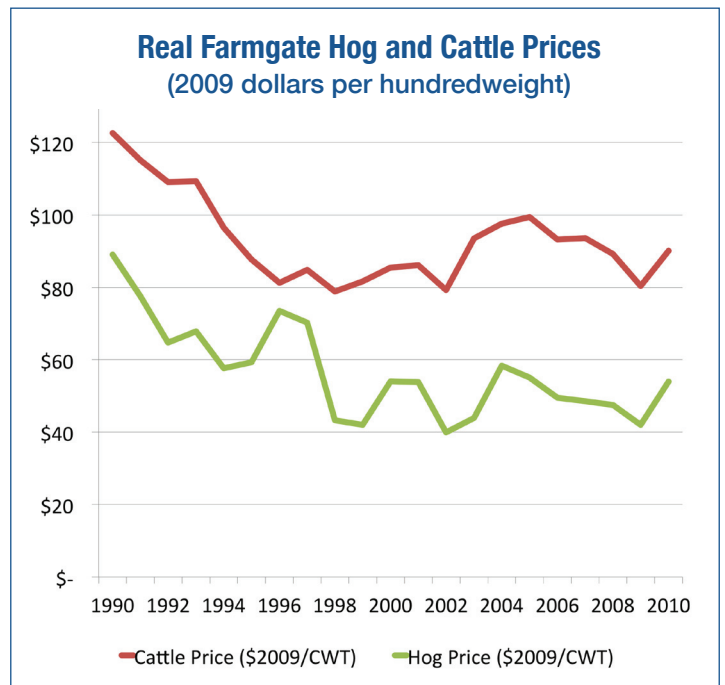
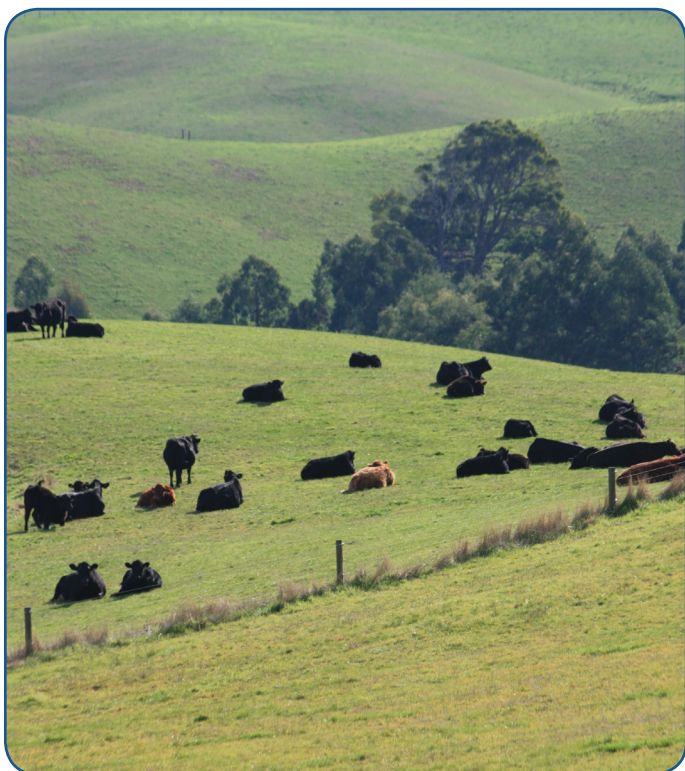
Source: USDA NASS; BLS





The prices farmers received for their hogs and beef cattle have fallen steeply over the past two decades. The inflation-adjusted price for hogs fell by more than half – from \$89 per hundredweight in 1990 to \$40 per hundredweight in 2002, in real 2009 dollars.<sup>19</sup> Although hog prices rose slightly since 2002, by 2010 real farmgate hog prices were \$54 per hundredweight in 2009 dollars, 40 percent below prices two decades earlier. Real farmgate beef cattle prices fell by 36 percent from \$123 per hundredweight in 1990 to \$79 in 1998 (and again in 2002), in real 2009 dollars. By 2010, real beef cattle prices had risen to \$90 per hundredweight, still 27 percent below 1990 prices.

The collapsing prices contributed to the decline in the number of livestock producers. Over the past 30 years, the number of beef cattle producers has fallen by 42 percent and the number of hog farms has declined by 90 percent.<sup>20</sup> Over the past decade, as meatpackers consolidated their economic power and smaller slaughterhouses disappeared, beef cattle and hog operations continued to disappear. The number of hog farms fell by 21.0 percent – from 87,470 in 2000 to 69,100 in 2010 – and the number of beef cattle operations fell by 13.1 percent, from 1,076,370 farms in 2000 to 935,000 in 2010.



Source: USDA NASS

## Consolidation Erodes Rural Economies

Agribusiness consolidation and the decline in independent, medium-sized and smaller livestock producers can sap the economic vitality of rural communities. The demise of local agricultural businesses combined with a declining number of independent full-time farmers creates a real economic cost for rural America. Food & Water Watch estimates that the gross farm income of most medium- and smaller-sized hog and cattle operations fell by \$7.3 billion between 1999 and 2008.

Economically viable independent farms are the lifeblood of rural communities.<sup>21</sup> The earnings from locally owned and locally controlled farms generate an economic “multiplier effect” when farmers buy their supplies locally and the money stays within the community.<sup>22</sup>

These benefits to rural economies are higher with a larger number of medium-sized independent farms than with fewer large farms with tight relationships with big companies. Consolidated meatpackers and poultry processors primarily do business with the largest operations and are reluctant to deal with medium-sized or smaller producers.<sup>23</sup> Often meatpackers offer sweetheart deals with higher prices to larger, favored firms.

Fewer, larger livestock operations pump less money into rural communities. Several studies have reported that large-scale livestock operations were more likely than smaller livestock farms to bypass local suppliers for inputs like feed and equipment.<sup>24</sup> An Iowa study found that more than two-thirds (70 percent) of smaller livestock operations bought feed locally, but only two out of five (43 percent) of large-scale livestock operations bought local feed.<sup>25</sup> The economic multiplier effect is much lower with large corporate-

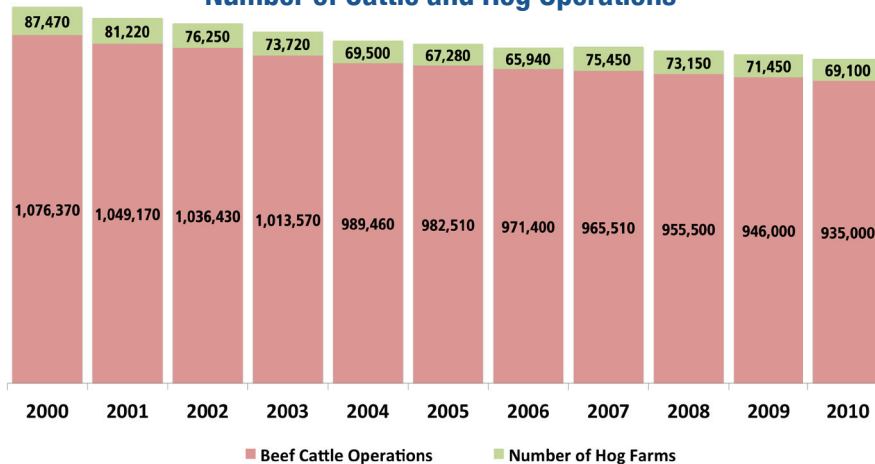
affiliated livestock operations than with smaller independent farms.<sup>26</sup> The earnings and profits from meatpacker-owned cattle feedlots and hog production facilities are shipped to corporate headquarters instead of invested locally.

The decline in the number of farms combined with the dramatically lower real prices for hogs and cattle meant that smaller- and medium-sized farms are earning less and consequently spending less in local communities. The inflation-adjusted gross farm income for medium- and smaller-sized hog and cattle operations fell by about one-third (31.6 percent) over the most recent decade, dropping by \$7.3 billion from \$23.1 billion in 1999 to \$15.8 billion in 2008, according to USDA Economic Research Service survey data.<sup>27</sup> The reduction in gross farm income for hog farms with sales under \$250,000 (representing 60 percent of hog operations) and cattle operations with sales under \$100,000 (about 90 percent of cattle operations) includes paying for expenses like feed, labor, equipment, veterinary services and other farm inputs, the very types of expenditures that support rural economies.

## Conclusion

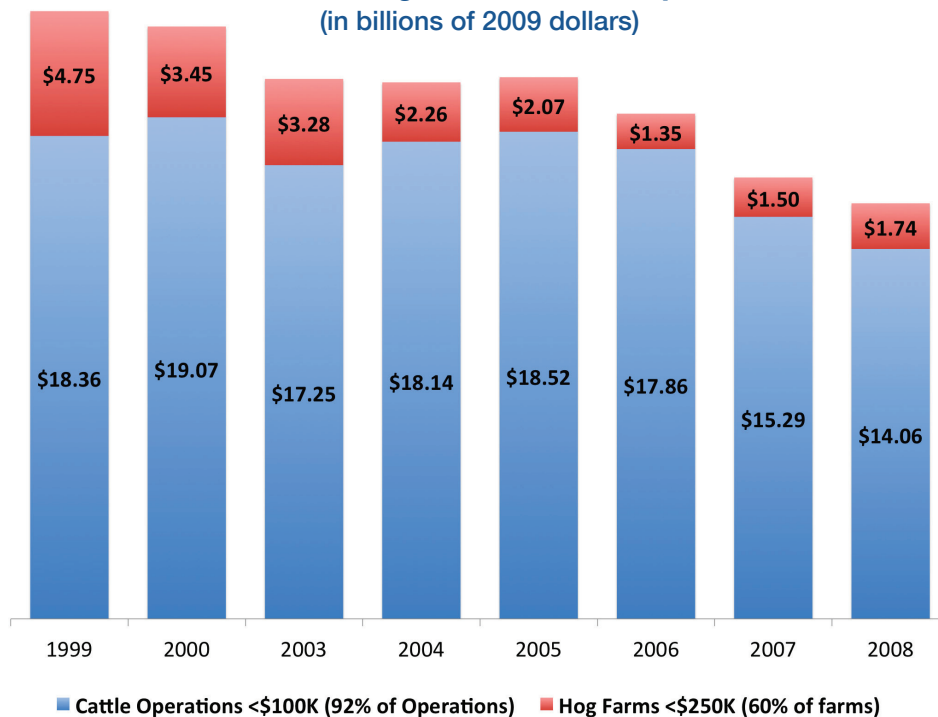
The growing consolidation in livestock markets driven by the largest meatpackers, processors and poultry companies has eroded rural economies over the past decade. The big meatpackers have contributed to the loss of nearly 500 slaughterhouses, mostly small businesses, since 2000. The loss of slaughterhouses has also reduced the number of meatpacker, processor and poultry workers by 16,600 between 2000 and 2010 and reduced the real total earnings

**Number of Cattle and Hog Operations**



Source: USDA NASS

**Total Real Gross Farm Income for Small and Medium Sized Hog Farms and Cattle Operations**  
(in billions of 2009 dollars)



Source: USDA Economic Research Service ARMS Survey; USDA NASS



of these workers by over \$1 billion. The steep decline in real farmgate prices for hogs and cattle has pushed thousands of farmers out of business. Over the past decade, more than 141,000 cattle operations and 18,000 hog farms have disappeared. The loss of these independent producers and the declining earnings of those that remain has effectively removed about \$7.3 billion in gross income from medium- and smaller-sized hog and cattle producers – money that used to be spent at local small-business farm suppliers. A more competitive livestock market would level the playing field for independent farmers, small businesses, workers and consumers. The proposed USDA livestock rules are a vital first step to restoring competition and reinvigorating rural economies.

## Endnotes

- 1 See Informa Economics, Inc. "An Estimate of the Economic Impact of the GIPSA's Proposed Rules." Prepared for the National Meat Association. November 18, 2010; John Dunham and Associates, Inc. "The Impact of Proposed Grain Inspection, Packers and Stockyards Administration Proposed Rule." Prepared for American Meat Institute. August 24, 2010.
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- 3 Informa Economics, Inc. "Update of Cost Assessments for Country of Origin Labeling – Beef & Pork (2009)." June 2010 at 9, 11, 17 and 19.
- 4 Ray, Daryl E. and Harwood D. Schaffer. "A GIPSA study and its analysis." *MidAmerica Farmer Grower*. Vol. 32, Iss. 38. September 23, 2011.
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- 8 U.S. Department of Agriculture (USDA). Grain Inspection, Packers and Stockyards Administration. "2010 Annual Report: Packers & Stockyards Program." March 2011 at 45.
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- 15 BLS. Consumer Price Index – All Urban Consumers – Meats. Available at [www.bls.gov](http://www.bls.gov). Accessed October 2011.
- 16 Food & Water Watch analysis of average consumer price data from the BLS, Consumer Price Index – Average Price Data. Annual farmgate prices averaged from monthly farmgate prices in: USDA National Agricultural Statistical Service. Agricultural Prices Annual Summary. 1990-2010. Adjusted for inflation using the BLS inflation calculator to constant 2009 dollars.
- 17 Smithfield Foods. U.S. Securities and Exchange Commission. Form 10-K Annual Report. Fiscal Year May 1, 2011 at 3.
- 18 75 Fed. Reg. 35338. June 22, 2010.
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- 23 Democratic Staff Report. U.S. Senate Committee on Agriculture Nutrition, Forestry. October 2004 at 11.
- 24 See Abeles-Allison, M. and L. Conner. Department of Agricultural Economics. Michigan State University, East Lansing. "An Analysis of Local Benefits and Costs of Michigan Hog Operation Experiencing Environmental Conflicts." 1990; Gómez, M.I. and L. Zhang. "Impacts of Concentration in Hog Production on Economic Growth in Rural Illinois: An Economic Analysis." Presentation. American Agricultural Economics Association Annual Meeting. Tampa, Florida. July 31-August 2, 2000; Folz, J.D., D. Jackson-Smith and L. Chen. "Do Purchasing Patterns Differ Between Large and Small Dairy Farms? Economic Evidence from Three Wisconsin Communities." *Agricultural Resource Economic Review*. Vol. 31, Iss. 1 at 28-38.
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- 26 Pew Commission on Industrial Farm Animal Production. April 2008 at 41.
- 27 Food & Water Watch analysis of USDA Economic Research Service. Agricultural Resource Management Survey: Farm Structure and Finance data. Available at [www.ers.usda.gov/Data/ARMS/FarmsOverview.htm](http://www.ers.usda.gov/Data/ARMS/FarmsOverview.htm). Accessed October 2011. ARMS distribution of hog and cattle farms by gross sales class applied to total hog and cattle operations numbers from USDA NASS.

Food & Water Watch works to ensure the food, water and fish we consume is safe, accessible and sustainably produced. So we can all enjoy and trust in what we eat and drink, we help people take charge of where their food comes from, keep clean, affordable, public tap water flowing freely to our homes, protect the environmental quality of oceans, force government to do its job protecting citizens, and educate about the importance of keeping the global commons — our shared resources — under public control.

