Do Food Industry Mergers and Acquisitions Affect Wages and Employment?

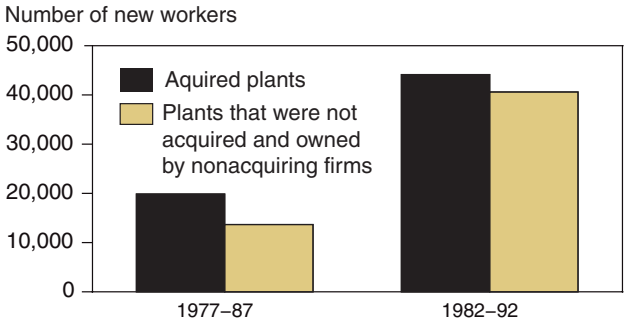
Headlines announcing a major merger or acquisition are often followed by an opening paragraph outlining planned job cuts, plant closings, and possible cuts in salaries and wages. The merger or acquisition is often blamed for the cuts and closings, but other structural changes come into play.

The late 1970s and 1980s were times of major mergers and acquisitions in the food industry. In beef packing, Conagra acquired Monfort, and Cargill bought the operations of MBPXL and Spencer Beef, renaming them EXCEL. In fluid milk processing, Borden bought Meadowgold in 1987 before Borden itself exited the industry. During this time period, eight food industries—meat packing, meat processing, cheese making, fluid milk processing, flour milling, corn milling, and feed and soybean processing—underwent structural transformation. The number of plants declined by about one-third, the number of employees dropped 20 percent (more than 100,000 workers), and wages stagnated. Poultry slaughtering and processing, by contrast, added workers, mainly due to a shift from producing whole roasters to more labor-intensive boneless and processed products.

Untangling the causes of structural change and its effect on wages and employment is difficult. Many economic forces underlie decisions to shut down plants and purchase others, most importantly, changes in demand and technology. For example, technological change has led to larger beef packing plants. At the same time, declining beef consumption has lowered production across the industry. Larger plants and declining production lead to a reduction in the number of plants, a need for fewer workers, and downward pressure on wages. Such "shrinking" pains are often accompanied by a wave of mergers.

ERS and the Census Bureau used statistical techniques to isolate the effects of mergers and acquisitions on wages and employment during two merger waves. The research found that mergers and acquisitions were no more likely to lead to job cuts than other causes of restructuring. After controlling for plant size, capital investment, initial wage levels, and other plant characteristics, analyses of Census of Manufacturers data show that mergers and acquisitions had a positive effect on employment in six of the nine industries during the first study period (1977-87), but no effect during the second study period (1982-92). Mergers and acquisitions had a positive, but small, effect on wages in seven of the nine food industries in the first study period, and no discernible effect in the second study period.

Acquired plants post larger job increases than nonacquired plants



Source: Estimates by USDA, Economic Research Service, based on Census of Manufacturers data.

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This finding is drawn from . . .

Effect of Food Industry Mergers and Acquisitions on Employment and Wages, by Michael Ollinger, Sang V. Nguyen, Donald Blayney, Bill Chambers, and Ken Nelson, ERR-13, USDA, Economic Research Service, December 2005, available at: www.ers.usda.gov/publications/err13/