The Economic Cost of Food Monopolies

FOOD

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The agriculture and food sector is unusually concentrated, with just a few companies dominating the market in each link of the food chain. In most sectors of the U.S. economy, the four largest firms control between 40 and 45 percent of the market, and many economists maintain that higher levels of concentration can start to erode competitiveness.[1] Yet according to data compiled by the University of Missouri-Columbia in 2012, in the agriculture and food sector, the four largest companies controlled 82 percent of the beef packing industry, 85 percent of soybean processing, 63 percent of pork packing, and 53 percent of broiler chicken processing.[2]

Consolidation is not isolated to farms and processing. In 1998, the four biggest food retailers sold about one-fifth (22 percent) of groceries.[3] By 2010, retail concentration had more than doubled and over half of grocery sales went to the four largest companies.[4] Walmart became the nation's largest food retailer within a dozen years of opening its first supercenter in the late 1990s.[5]

The concentration of economic power in every segment of food and agriculture can harm both farmers and consumers. Farmers can pay more for supplies when only a few firms sell seeds, fertilizer and tractors. They also sell into a highly consolidated market, and the few firms bidding for crops and livestock can drive down the prices that farmers receive. Consumers have fewer choices at the supermarket, and food processors and retailers are quick to raise prices when farm prices rise (as is anticipated as a result of the 2012 drought) but are slow to pass savings on to consumers when farm prices fall.

Rural communities often bear the brunt of agribusiness consolidation. For nearly 80 years, academic studies have documented the negative impact of agriculture's consolidation and industrialization, which aligns farms more closely with food manufacturers than their local communities. The rising economic concentration has contributed to the decline in the number of farms and the increased size in the farms that remain. Communities with more medium- and smaller-sized farms have more shared prosperity, including higher incomes, lower unemployment and lower income inequality, than communities with larger farms tied to often-distant agribusinesses.

Agribusiness concentration works in many ways, all with same objective: to move income from farmers and rural economies to Wall Street. In this report, we examine five case studies of agribusiness concentration.

Pork Production in Iowa: Food & Water Watch found that over the past three decades, the Iowa counties that sold the most hogs and had the largest farms had declining county-wide incomes, slower growth in median household income and declining numbers of local businesses compared to the statewide average. Iowa farmers sold twice as many hogs in 2007 (47.3 million) as in 1982 (23.8 million), but the total real value of Iowa's hog sales was 12 percent lower in 2007. As pork packing consolidated and hog farms in Iowa became larger and more integrated with the pork processing companies, the value of hogs to the local economy declined. These trends were confirmed by an econometric analysis by the University of Tennessee's Agricultural Policy Analysis Center.

Dairy Farming in New York: Milk processors and handlers in New York have come under such concentrated and coordinated ownership that the prices farmers receive for their milk have been pushed lower than what they would have received in a competitive economic system with more independent buyers. Food & Water Watch compared two New York dairy counties that experienced different trends in the size and structure of their dairy sector. St. Lawrence County has ranked among the counties with the most dairy farms in New York for 30 years but has shifted to fewer, larger farms. Yates County started with very few dairy farms but was the only dairy county in New York to have an increase in the number of farms. Yates County had stronger economic performance than St. Lawrence County, despite St. Lawrence's status as a dairy leader.

Poultry Production on Maryland's Eastern Shore: The rise of the industrialized poultry industry eventually transformed the entire Eastern Shore region from a diverse agricultural mix to one dominated by vertically integrated chicken production. Food & Water Watch estimates that if the farms on Maryland's Eastern Shore cultivated the same proportion of fruits and vegetables in 2007 as 1940, total farm sales would have been $137 million higher — 65 percent more than what contract poultry growers received for raising chickens in 2007.[6]

The Organic Soybean Market: In 2009, the company that owns Silk-brand soymilk, Dean Foods, shifted the formerly organic product to a "natural" label that required no organic soybeans. The impact of this change from organic to conventional soybeans is magnified because of Dean's market dominance in soymilk production, and had substantial ramifications for farmers. The change from organic to natural reduced the market for organic soybean farmers by 1.2 million bushels of food-grade soybeans in the first year.

Fruit and Vegetable Production in California's Central Valley: The global reach of transnational agribusiness giants can serve to drain wealth from rural economies, as seen in the case of fruit and vegetable production in California's Central Valley. Food & Water Watch found that between 1992 and 2007, as imports rose, one out of eight (12.7 percent) of the large freezing and canning plants in California closed.[7] Fewer plants meant fewer workers but also fewer outlets for California farmers to sell their crops.

Conclusions

For decades, the U.S. Department of Justice and the U.S. Department of Agriculture (USDA) have taken a hands-off approach to consolidation in the food system. The economic harm caused by the concentration of the food system is real, but often neglected. Federal regulators must strengthen the oversight of this highly consolidated sector that affects every member of society every day. Fair markets will require new rules and better oversight that:

Collects and disseminates information about concentration throughout the food chain: The federal government should determine the levels of concentration in the various sectors of the food system from farm inputs, food processing, marketing and retailing.

Coordinates competition and antitrust policy for the entire food and farm sector: The USDA should have a special counsel's office on agricultural consolidation in the food and farm sector to effectively coordinate between the agencies with jurisdiction over competition policy.

Remedies and prevents distortions in the hog and cattle markets: Currently, several common practices allow meatpackers to avoid buying hogs and cattle on public markets, which reduce competition and lower the price that farmers receive. These practices, including meatpackers that buy cattle and hogs with opaque contracts that do not give farmers firm prices when the contracts are negotiated (known as captive supplies) or meatpackers that own their own livestock to avoid auction markets when prices are higher, should be prohibited.

Prevents unfair and deceptive practices in agricultural contracting: Many farmers raise livestock or crops under contract with large agribusinesses, but because the few firms have tremendous leverage, farmers are often forced into take-it-or-leave-it contracts that can be unfair or abusive. Fair contract practices should be spelled out in regulation and law.

Future farm policy should focus on access to fair and open markets that benefit farmers, workers, consumers and the marketplace. At every point in the food chain, there are a handful of companies squeezing profits out of farmers, wages out of workers and choices out of eaters. A more vibrant marketplace with more choices for farmers and consumers is essential, but it cannot happen without breaking up the agribusiness cartels.

Endnotes

1 Democratic Staff Report, U.S. Senate Committee on Agriculture, Nutrition and Forestry. "Economic Concentration and Structural Change in the Food and Agriculture Sector: Trends, Consequences and Policy Options." October 29, 2004 at 4 to 5.

2 Hendrickson, Mary and Bill Heffernan. Department of Rural Sociology, University of Missouri-Columbia. "Concentration of Agricultural Markets." April 2007.

3 McCluskey, Jill J. and A. Desmond O'Rourke. "Relationships between produce supply firms and retailers in the new food supply chain." *Journal of Food Distribution Research*. November 2000 at 12.

4 "SN's top 75 retailers for 2011." *Supermarket News.* December 1, 2010; "2011 North American food retailers." *Supermarket News.* January 24, 2011.

5 Martinez, Steve W. U.S. Department of Agriculture (USDA) Economic Research Service (ERS). "The U.S. Food Marketing System: Recent Developments 1997-2006." Economic Research Report Number 42. May 2007 at 6.

6 Food & Water Watch modeled estimate based on USDA 1940 and 2007 Census of Agriculture; Rhodes, Jennifer L. et al. University of Maryland Extension. "Broiler Production Management for Potential and Existing Growers." 2011 Update at 18.

7 U.S. Census Bureau. Census of Manufacturing. Report years 1982 through 2007.

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