

Structural Change and Competition in Seven U.S. Food Markets. By A. J. Reed and J. S. Clark. Food and Rural Economics Division, Economic Research Service, U.S. Department of Agriculture. Technical Bulletin No. 1881.

Abstract

Recent trends in mergers and acquisitions in the U.S. food sector – food manufacturers, wholesalers, and retailers – raise concerns about market power. In the presence of market power, farmers may receive lower than competitive farm prices, and consumers may pay higher than competitive retail prices. This study presents empirical tests of market power at the national level for seven food categories: beef, pork, poultry, eggs, dairy, fresh fruit, and fresh vegetables. At the national level, our tests provide evidence of competitive conduct in both the sale of final food products and the purchase of farm ingredients.

Keywords: Retail food and farm prices, market power, structural change, cointegration.

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Summary

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The procedures employed in this study account for three important features of food markets. First, the procedures recognize that within a product category consumers prefer a variety of food items. Second, the procedures account for firm diversity by recognizing that different firms produce a variety of different products using different technologies. Firm and technological diversity seem to be particularly relevant to food industries because mergers and acquisitions may be feasible only if firms and technologies are diverse. Third, the procedures recognize that structural changes in food markets may be unpredictable. Some of the most significant impacts on food markets may have been unpredictable. For example, it was probably difficult to predict trends in consumer patterns following the entry of women into the labor force in the 1970's and 1980's. Unpredictability of consumer behavior poses considerable risk to food producers and can induce industrial reorganizations that spread this risk across stages of food production. Failure to account for product diversity and uncertainty has been shown to seriously affect tests of market power.

The empirical evidence presented in this bulletin is mostly consistent with competitive conduct. At the national level, our tests provide evidence of competitive conduct in both the sale of final food products and the purchase of farm ingredients. Also at the national level, the tests suggest that food industries pay competitive prices for farm commodities. The results do not rule out imperfectly competitive local markets, and they cannot be used to address questions of relative market power between specific stages of food production. Nevertheless, the broad implications of these results may be that it is the unpredictable nature of trends in consumer demand, and not imperfect competition, that may be responsible for observed trends in the industrialization and concentration of the U.S. food sector.