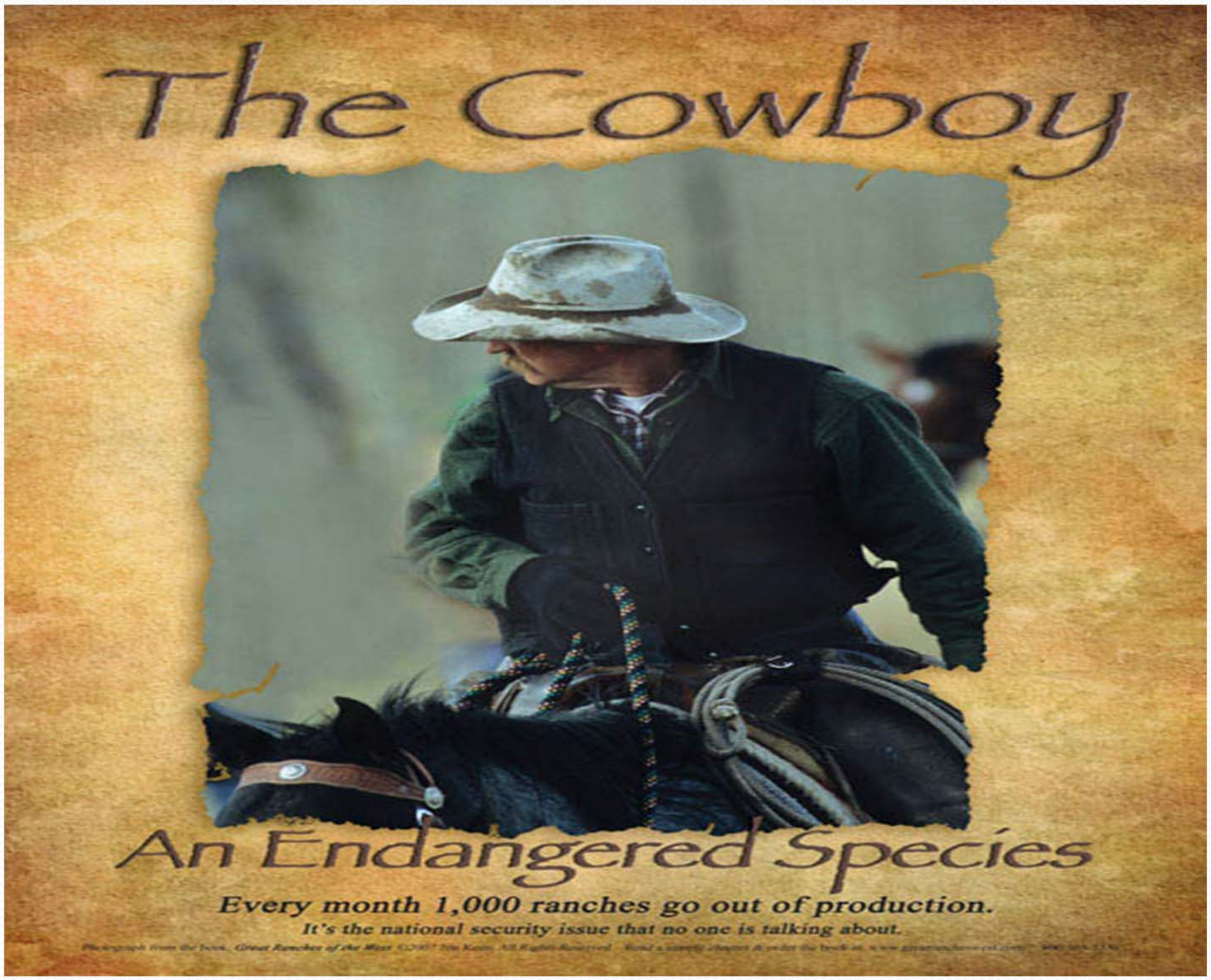
Market Power Fact or Fiction



By Doug Jolly

Introduction

- The issue of market power has been around for a long time
- Chicago meat packers showed market power
- “The Jungle” by Upton Sinclair in her book she talked about the packing houses in Chicago and revealed how unsanitary the packing plants of the time were. Sinclair also described how much power that the packing plants were able to exercise since there was a high concentration of only a few big packers in Chicago at that time. Concentration levels dropped from their peak in 1888 when the “Big Four slaughtered 89 percent of the cattle in Chicago and produced two-thirds of the country’s dressed beef supply,”

Review

- Definitions
- Monopoly is exclusive ownership through legal privilege, command of supply, or concerted action, exclusive possession or control, and a commodity controlled by one party.
- Monopsony is a market situation in which the product or service of several sellers is sought by only one buyer.
- Perfect Competition is where all firms sell an identical product, all firms are price-takers, all firms have a relatively small market share, Buyers know the nature of the product being sold and the prices charged by each firm, and the industry is characterized by freedom of entry and exit.

Review Continued

- Economies of Scale are the decrease in unit cost of a product or service resulting from large-scale operations, as in mass production.
- Class Action Lawsuit is a representative action wherein one or more plaintiffs actually named in the complaint, along with their counsel bring a lawsuit on behalf of themselves and the defined class against one or more defendants. Most class actions are filed for compensatory (money) damages.

Review Continued

- Concentration Ratio or CR 4 is the percentage of market share that the top four firms control
- In 1977 with 22 percent of cattle slaughter and 20 percent of fed steer and heifer slaughter controlled by the four largest packers
- In 1980, 626 plants in 561 firms reported steer and heifer slaughter to GIPSA. In 1996, 211 plants in 174 firms reported. The only size group of steer and heifer plants to increase in number after 1985 is the 1,000,000-head-or larger category, which increased from 5 in 1986 to 14 in 1996. The increase came primarily from existing plant expansion, not from newly built plants. The 22 plants slaughtering more than 500,000 head per year accounted for about 22.6 million of the 28.6 million steers and heifers slaughtered in 1996.

Review Continued

- The four largest packers accounted for only 36 percent of the market in 1980, this percentage had increased to 72 percent by 1990 and 82 percent by 1994.
- When the talks started of JBS a Brazilian meat packer was talking about buying more beef packing plants at that time the top four packers were killing 83.5% of the cattle, this included the companies of Tyson, Cargill, Swift & Co, and National Beef Packing Co.

Laws

- The Sherman Anti-trust act law was passed and signed into law by President Benjamin Harrison on July 2, 1890. Sherman Act cases often turn on circumstantial evidence, based on market shares, as a way of proving the existence of market power, a prerequisite to establishing market manipulation
- The Clayton Act covered, Price discrimination between different purchasers if such discrimination substantially lessen competition or tend to create a monopoly in any line of commerce. (Section 2), sales on the condition that the buyer not deal with the seller's competitors. (Section 3), mergers and acquisitions where the effect may substantially lessen competition. (Section 7), and any person from being a director of two or more competing corporations. (Section 8)

Laws Continued

- The Packers and Stockyards Act(PSA) covered these areas of concern, "Banning price discrimination, the manipulation of prices, and weight manipulation of livestock or carcasses, manipulation of carcass grades, commercial bribery, and misrepresentation of source, condition, or quality of livestock, in addition to other unfair and deceptive practices."

Review of Pickett vs. IBP/Tyson Fresh Meats

- Pickett vs. IBP was originally filed in 1996 by 10 cattlemen and went to trial in January 2004
- The jury returned answers in favor of the plaintiffs on all five counts and determined that the defendant's use of captive supply damaged the cash market of fed cattle sold to the defendant by $1.281 billion.
- Alleging that the defendant's use of captive supply transactions to acquire fed cattle for slaughter violated the Packers and Stockyards Act (PSA)

Pickett vs. IBP continued

- The first case ever in the history of the Packers and Stockyards and the history of the United States to be certified as a national class action lawsuit in which the operative statute is the Packers and Stockyards Act of 1921.
- Mike Calicrate a cattle producers that I personally know who was involved with this trial stated, “Having to pay the court fees for the packers sure discourages anyone from try to take a packer to court”

Pickett vs. IBP continued

- Judge Lyle E. Strom who was the trial judge overturned the verdict based on technicalities and not the finding that captive supplies harm prices
- The Eleventh Circuit Court of Appeals held that the plaintiffs, a class of cattle producers who sold to a meat packer exclusively on the cash market, failed to show that the packer's cattle marketing agreements violated the Packers and Stockyards Act
- Cattle producers had to pay the court costs for IBP/Tyson Fresh Meats in 2009

Methods

- Look at how several firms function in a market when there is perfect competition
- Look at how one firm acts in a monopolistic/monopoly way
- Questions that oneself asks
- What consequences may the industry structure have on economic efficiency and welfare?
- How are the inefficiencies due to non-completion behavior in an industry measured?

Methods Continued

- What do the measures of anti-competitive behaviors in the beef processing industry reveal?
- Why have the regulatory agencies let the beef packers become so highly concentrated again?
- Do packing companies have to be so big and highly concentrated to make a profit?

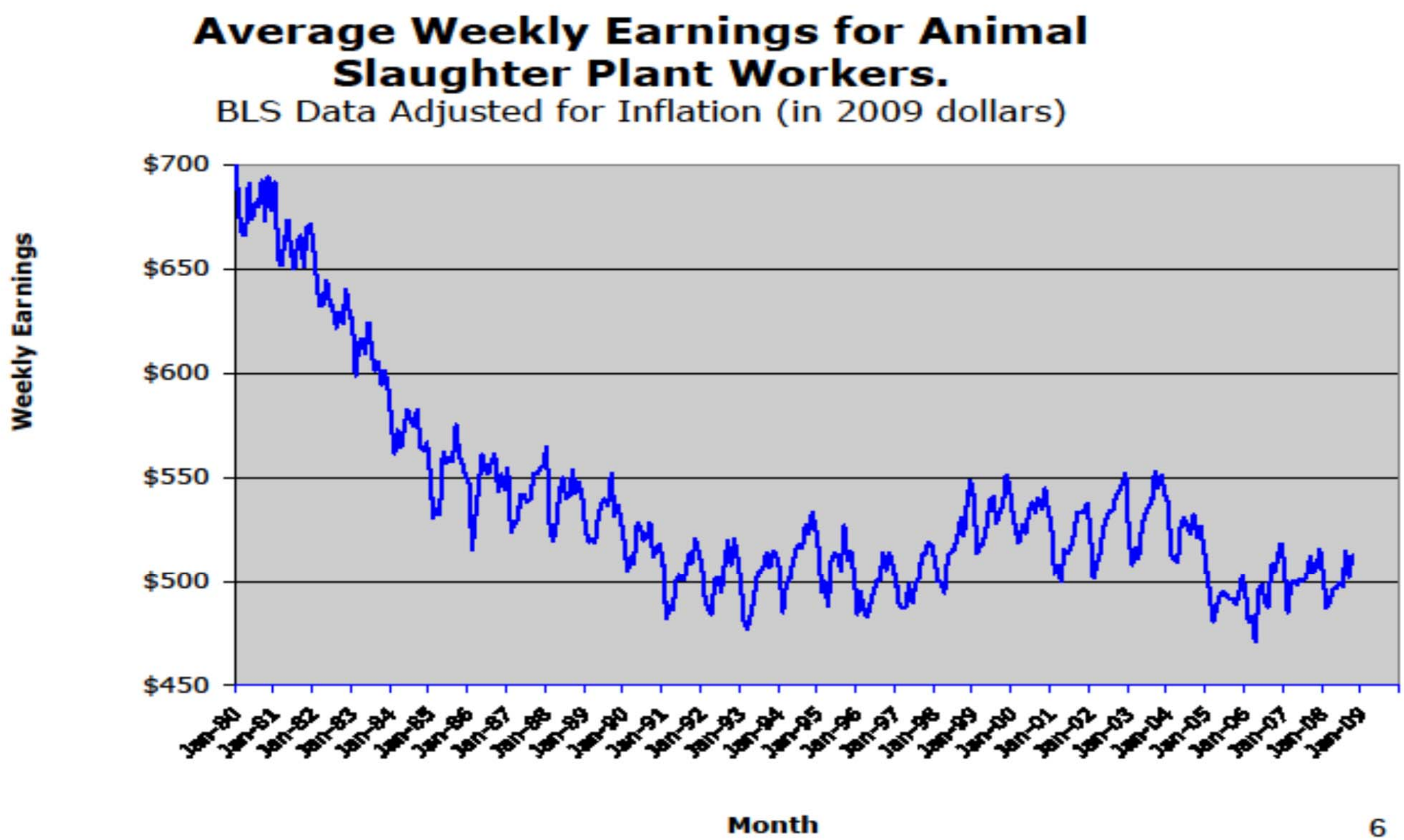
Results

- Why has the beef processing industry has again become so highly concentrated again? The beef processing industry has become highly concentrated again due to several different reasons such as the evolution of boxed beef, lack of enforcement of anti-trust laws that were put in place to protect producers or economies of size.
- What consequences may the industry structure have on economic efficiency and welfare? The one major consequence that can be seen from data looked at is that competition between who is the biggest and quote in quote the best packer will not stop due to every time a merger takes place a packer gains greater scales or economy or reduces their costs.

Results Continued

- How are inefficiencies due to non-competitive behavior in the beef packing industry measured?

  Inefficiencies due to non-competitive behavior in the beef packing industry are measured can be measured by looking at the price spread between the retail price of beef and the price paid to cattle producers. The spread between the retail price consumers pay and what cattle producers get paid for their cattle have grown substantially. Cattle producers are receiving less for their cattle and consumers are paying more for their favorite cuts of beef.


Average Weekly Earnings for Animal Slaughter Plant Workers.
BLS Data Adjusted for Inflation (in 2009 dollars)
Weekly Earnings
$700
$650
$600
$550
$500
$450
Jan-80
Jan-81
Jan-82
Jan-83
Jan-84
Jan-85
Jan-86
Jan-87
Jan-88
Jan-89
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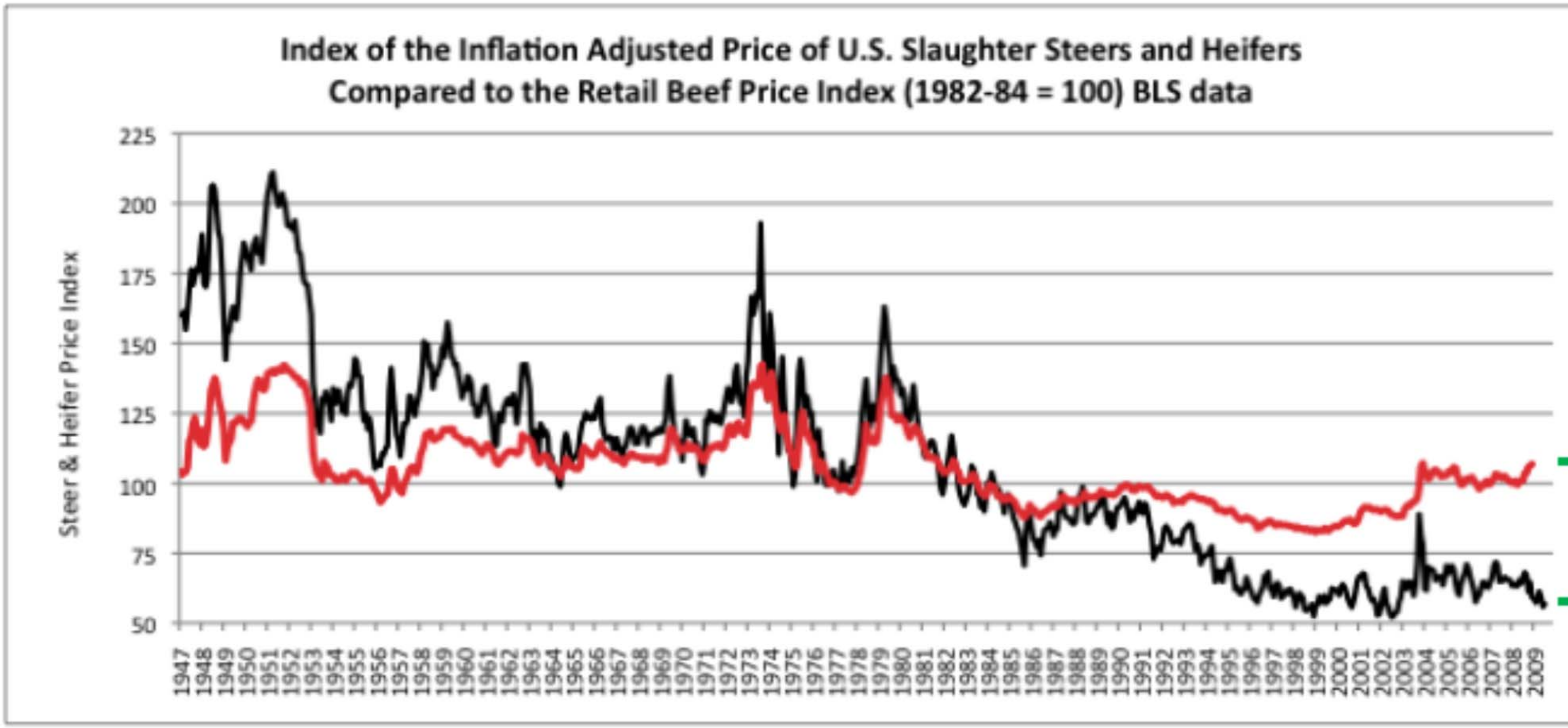
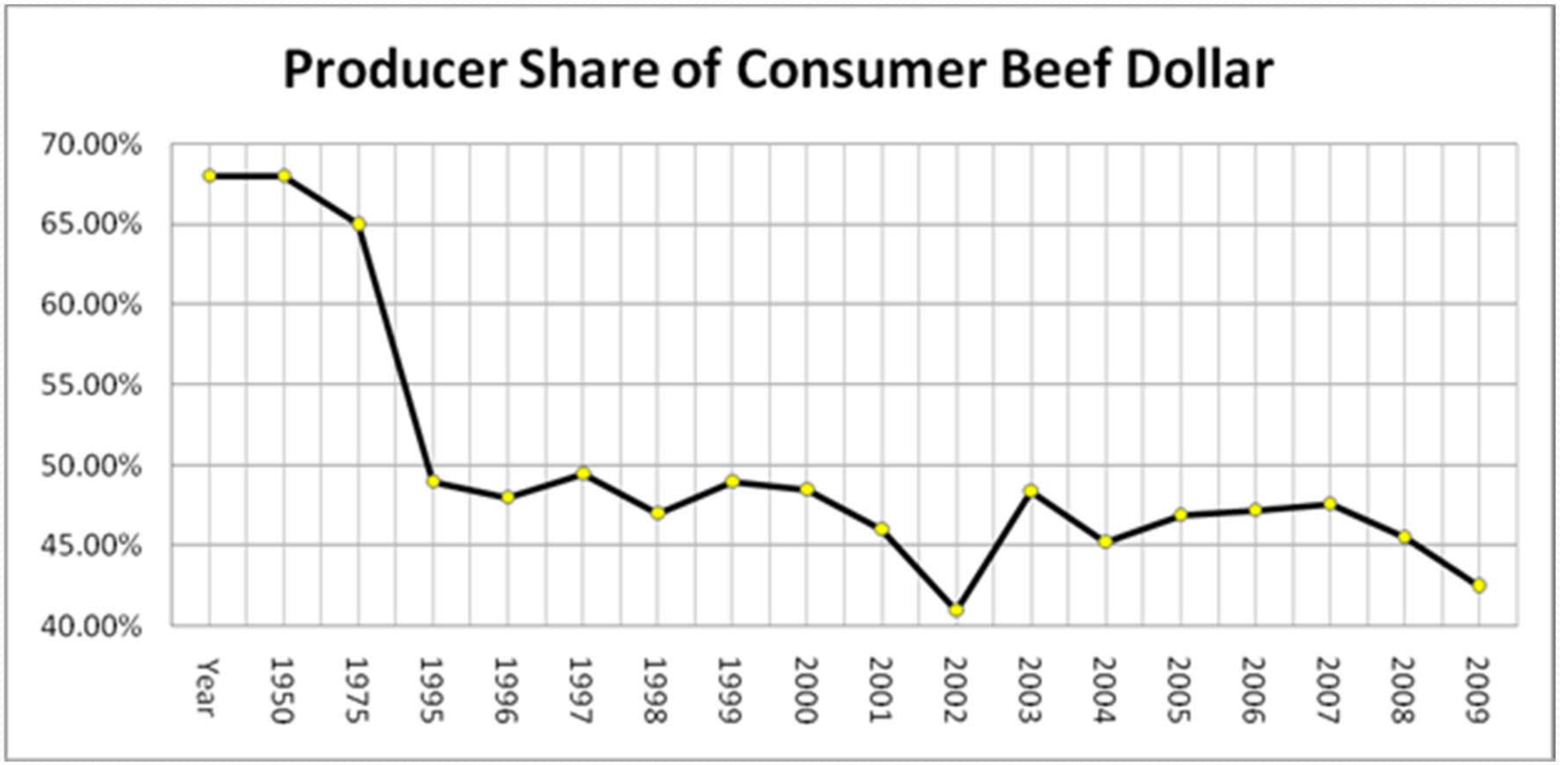
Month

Producers receive less and consumers pay more as retailers and packers exert market power…



The expanding gap between the price at the ranch gate and the price consumers pay represents over $400 per head loss to the producer.



Data is based on the All Fresh Choice Beef price –USDA –ERS

Conclusions/Recommendations

- When looking at the issue of market power in beef packing industry it is a difficult topic to get a grasp of due to multiple studies that have been conducted looking at the issue of market power. The results of the studies that were conducted vary from finding results that market power is being exercised to there is no market power being exercise and even to finding not results at all which probably came to this because it is such a confusing topic that can be over whelming.

Conclusions/Recommendations Continued

- Through analysis of a plethora of data that I have gathered gives support that market power is being exercised in the beef packing industry. Which give reasoning that USDA and Department of Justice (DOJ) should review mergers between beef packers more carefully before they let these mergers go through. The Packers and Stockyards Act was created for a several reasons but one was to help prevent beef packers exercising manipulative practices that affect prices paid to cattle producers. Cattle producers will have to fight to make sure that they receive a fair price for the cattle they produce.

Pictures and Jokes

Pictures and Jokes Continued

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Any questions or Comments