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CONGRESSIONAL TESTIMONY

"Food Producers Should not be Scapegoats for Administration Blunders"

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Chairman Nadler, Ranking Member Jordan, and members of the committee: Thank you for this opportunity to testify today. My name is Peter St. Onge. I am a Research Fellow in Economics at The Heritage Foundation. I am a former professor teaching corporate strategy and have worked both at small companies and in senior strategy roles at large manufacturers. The views I express in this testimony are my own and should not be construed as representing any official position of The Heritage Foundation.

In my comments today I will make three key points.

- First, the data strongly suggest that food production, in particular meatpacking, is among the most competitive and efficient industries in America—indeed, in the world.

- Second, the historic inflation Americans are suffering is due to a series of Administration blunders that, unfortunately, they are making worse.

- Third, given these facts, this Administration should stand down their own inflation-driving policies rather than attacking the competitive industries that are trying to fix their mess.

Blaming workers and companies for this Administration's inflationary policies is an irresponsible distraction that threatens to worsen the crisis. In reality, this inflation is being driven by misguided policy, by trillions in spending, by reckless regulation and mandates, and by a war on production that threatens to knock out the critical providers to American factories and to American families.

The question at hand is: Does food industry concentration, especially in the meatpacking industry, explain food inflation?

There are several key data points that argue strongly against the claim that rising prices of meat and other agricultural problems are due to monopoly. Taking the meatpacking industry, today's level of concentration was reached almost 30 years ago; according to the USDA, four-firm concentration in the meatpacking industry, a standard concentration measure, is 84 percent today, and in 1994, it was 82 percent.[1]

It's not just meatpacking; food processing in general is concentrated in the United States partly because food production—ranching and farming—is itself concentrated. For example, 70 percent of fed cattle are raised in just seven states, while 55 percent of feedlot corn is produced in just four states.[2] Beyond these geographic reasons, two reasons why concentration is increasing in food processing are economies of scale and increasing regulation.

Economies of scale, where you can produce cheaper when you're producing bigger batches, are key to keeping prices low in most industries, including food. Because consumers want low prices, it's consumers that drive such industry concentration, meaning that oversight interfering with that process could actually raise prices to consumers, forcing them to use less efficient suppliers.

The other reason concentration is rising is less innocent: government regulation. Mandates and regulatory burdens are harder for small firms to negotiate,[3] while meatpacking, in particular, has suffered from disproportionate regulatory burdens: Changing inspection requirements and inefficiencies have caused significant disruption to the supply chain during the pandemic,[4] while COVID-related rules have imposed additional costs[5] on producers already facing high transportation, labor, and energy costs due to Administration negligence.

And yet during these three decades of high concentration, American food prices have remained exceptionally low; over the past decade, food prices in the United States as a percentage of

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[1] North American Meat Institute, "Unpacking Some Loaded Claims About Beef Industry Consolidation," *The Market Works*, http://www.themarketworks.org/meat-packing-structure/history (accessed January 17, 2022).

[2] Ibid.

[3] Diane Katz, "Regulatory Reforms for Protecting Livelihoods and Lives," Heritage Foundation *Backgrounder* No. 3556, November 3, 2020, https://www.heritage.org/government-regulation/report/regulatory-reforms-protecting-livelihoods-and-lives.

[4] See Deena Shanker, "There Aren't Enough Slaughterhouses to Support the Farm-to-Table Economy," Bloomberg, May 23, 2017.

[5] Daren Bakst, "How Covid-19 Is Affecting the Nation's Meat Supply," Heritage Foundation *Commentary*, Vox, May 1, 2020, https://www.heritage.org/agriculture/commentary/how-covid-19-affecting-the-nations-meat-supply.

incomes were one-third lower than in Canada and half the price in many European countries.[6] Visitors from these countries are often shocked by how cheap American food is: Sometimes they make fun of America's large portions. Indeed, our food industry is world-beating and has been for decades, with roughly 25 percent of annual production exported[7] specifically because our food is so cheap and abundant. So if concentration made producers and processors greedy, why did that greed wait 30-odd years? The Administration shouldn't be attacking these people; they should be learning from them.

For a farmer or rancher, it can be discouraging to look at these low prices after all the work that went into it. And, indeed, government has an important role to play here in proactively getting out of the way by minimizing the regulatory and tax wedges that soak up the consumer dollar. This is true not just for farmers, ranchers, and processors, but also for retailers and even input providers from truckers to energy. A rancher may not even be aware of some environmental mandate or regulatory burden placed on a grocery store, but the costs for those had to come out of the consumer dollar, squeezing incomes across the supply chain.

Beyond low prices, a second important data point in analyzing monopoly is profit margins. This is because big doesn't necessarily mean uncompetitive: Large companies often compete very fiercely, whether Coke vs. Pepsi or McDonald's vs. Burger King. So size alone tells you nothing. Instead, the hallmark of monopoly is excess profit rates above other firms or comparable industries. After all, that's the whole point of having a monopoly in the first place: to raise profits above market level.

The profit data clearly show that America's agriculture supply chain, including meatpackers and grocers, is exceptionally competitive, long surviving on exceptionally low profit margin. While manufacturers or service companies often register 20 percent or 30 percent profit margins, the comparable number among the big four meatpackers is between 5 percent and 8 percent. Taking one of the biggest meat processors, Tyson Foods—singled out in last year's White House report attacking the industry[8]—pre-pandemic, Tyson had a 5 percent margin of after-tax

[6] Brad Plumer, "Map: Here's How Much Each Country Spends on Food," August 19, 2015, https://www.vox.com/2014/7/6/5874499/map-heres-how-much-every-country-spends-on-food (accessed January 17, 2022).

[7] American Farm Bureau Federation, "Fast Facts About Agriculture & Food," https://www.fb.org/newsroom/fast-facts (accessed January 17, 2022).

[8] Brian Deese, Sameera Fazili, and Bharat Ramamurti, "Addressing Concentration in the Meat-Processing Industry to Lower Food Prices for American Families," White House Blog, September 8, 2021, https://www.whitehouse.gov/briefing-room/blog/2021/09/08/addressing-concentration-in-the-meat-processing-industry-to-lower-food-prices-for-american-families/ (accessed January 17, 2022).

income as a percent of revenue.[9] That rose to 6 percent in their most recent quarter,[10] largely because people bought different cuts since they were cooking at home, combined with COVID-related events that led to temporary oversupply of cattle and undersupply of beef.[11] The other three meat firms in that White House report currently have profit rates similar to Tyson's: Marfrig also at 6 percent, Seaboard at 8 percent, and JBS at 5 percent.[12] So, on average, 6 percent for the four big meatpackers.

Meanwhile, using that same method, Citibank has a margin of 30 percent, Apple is at 26 percent, and Berkshire Hathaway's collection of folksy businesses like See's Candies and railroads comes in at 25 percent.[13] Indeed, the 6 percent margin in meatpacking is substantially below the economywide average, suggesting meatpacking is more, not less, competitive than the economy as a whole. For grocery stores, which are also concentrated and also being scapegoated by this Administration's allies,[14] profit margins hover around 1 percent. Considering differential risks in manufacturing, the industry is about as competitive as possible.

In sum, the statistics suggest strongly that the companies that provide food to Americans are among the most competitive and most efficient on Earth.

Given this landscape, the Administration's effort to blame meatpackers, grocery stores, or other parts of the food supply chain amount to scapegoating to distract from their misguided

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[9] Profile, "Tyson Foods, Inc.," Yahoo! Finance, https://finance.yahoo.com/quote/TSN/financials?p=TSN (accessed January 17, 2022).

[10] Ibid.

[11] News release, "Tyson Foods Categorically Rejects Conclusions Drawn by White House," Tyson Foods, Inc., September 8, 2021, https://www.globenewswire.com/news-release/2021/09/08/2293881/7106/en/Tyson-Foods-Categorically-Rejects-Conclusions-Drawn-by-White-House.html (accessed January 17, 2022).

[12] Profile, "Marfrig Global Foods S.A.," Yahoo! Finance, https://finance.yahoo.com/quote/MRFG3.SA/financials?p=MRFG3.SA (accessed January 17, 2022); Profile, "Seaboard Corporation," Yahoo! Finance, https://finance.yahoo.com/quote/SEB/financials?p=SEB (accessed January 17, 2022); Profile, "JBS S.A.," Yahoo! Finance, https://finance.yahoo.com/quote/JBSAY/financials?p=JBSAY (accessed January 17, 2022).

[13] Profile, "Citigroup Inc.," Yahoo! Finance, https://finance.yahoo.com/quote/C/financials?p=C (accessed January 17, 2022); Profile, "Apple Inc.," Yahoo! Finance, https://finance.yahoo.com/quote/AAPL/financials?p=AAPL (accessed January 17, 2022); Profile, "Berkshire Hathaway Inc.," Yahoo! Finance, https://finance.yahoo.com/quote/BRK-B/financials?p=BRK-B (accessed January 17, 2022).

[14] Joe Lancaster, "Elizabeth Warren Blames High Food Prices on Grocery Chains' 'Record' 1 Percent Profit Margins," *Reason*, January 12, 2022, https://reason.com/2022/01/12/elizabeth-warren-blames-high-food-prices-on-grocery-chains-record-1-percent-profit-margins/ (accessed January 17, 2022).

policies that are actually driving inflation. What's driving meat prices and food prices is what's driving all prices: rising consumer spending paired with anti-producer and anti-worker policies. These costs hit food processors; they hit farmers and ranchers; they hit nearly the entire economy. To give a sense of what producers are up against, fuel costs are up 58 percent from a year ago, while wages in meatpacking have soared 52 percent amid labor shortages.[15] Transportation costs for food have doubled or even tripled.[16] Given the industry's already low profits and thin margins, all thanks to that very competitive structure, companies have no choice but to pass those costs on or risk bankruptcy.

So, rather than blaming food producers, it is Administration policies that are driving inflation, both in food and in the wider economy. These misguided policies fall into several categories, some of which I discussed in a recent report:[17]

The first is flooding the economy with trillions of dollars in unfunded deficits and asset purchases, which drives a wall of money up against a limping supply chain. Over the past two years, deficits have summed to nearly $6.4 trillion,[18] and Biden's Build Back Better agenda threatens to pour in yet more trillions. Not only does this spending form a wall of money chasing goods and driving inflation, but it can actually drain workers away from private-sector projects. For example, warehouses in Los Angeles are 99 percent full,[19] yet both steel and construction workers are already in short supply and could now be bid away to, as Secretary Buttigieg suggested, knock down and rebuild racist highway overpasses.[20]

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[15] Andy Puzder and Will Coggin, "Meatpackers Are Biden's Latest Inflation Scapegoat," *The Wall Street Journal*, January 9, 2022, http://wsj.com/articles/meatpackers-are-biden-latest-inflation-scapegoat-beef-pork-chicken-labor-fertilizer-fuel-bottleneck-work-force-participation-agriculture-11641759774 (accessed January 17, 2022).

[16] Kevin Hecteman, "Rising Prices Drain Farmers' Pocketbooks," *Valley Voice*, December 3, 2021, https://www.ourvalleyvoice.com/2021/12/03/rising-prices-drain-farmers-pocketbooks/ (accessed January 17, 2022).

[17] Peter St. Onge, "Blame Government, Not COVID-19, for Supply Chain Collapse," Heritage Foundation *Commentary*, October 18, 2021, https://www.heritage.org/transportation/commentary/blame-government-not-covid-19-supply-chain-collapse.

[18] Gerhard Peters, "Federal Budget Receipts and Outlays," University of California Santa Barbara, The American Presidency Project, last updated May 28, 2021, https://www.presidency.ucsb.edu/statistics/data/federal-budget-receipts-and-outlays (accessed January 17, 2022).

[19] Lydia O'Neal, "Tighter Warehouse Space Adds to the Supply-Chain Squeeze," *The Wall Street Journal*, October 22, 2021, https://www.wsj.com/articles/tighter-warehouse-space-adds-to-the-supply-chain-squeeze-11634896801?mod=article_inline (accessed January 17, 2022).

[20] Jennifer Epstein and Josh Wingrove, "Buttigieg Says U.S. Will Use Infrastructure Bill to Address Racist Highway Design," Bloomberg, November 8, 2021, https://www.bloomberg.com/news/articles/2021-11-08/buttigieg-targets-racist-road-design-with-public-works-bill (accessed January 17, 2022).

Staying with workers, a second major driver of inflation is government benefits paying millions of people not to work or to drop out of the workforce altogether, leading to over 8 million missing workers compared to the pre-pandemic trend.[21] Biden now threatens millions more with vaccine mandates, which not only is inhumane, but also could rob the supply chain of yet more essential workers.

The third is soaring regulation including on labor and environmental issues at the behest of activists. Regulation can shut out especially smaller companies, which have a harder time bearing compliance costs.[22] Every regulation or mandate can raise direct costs, distract from the core business of serving customers, and lead to unintended and inefficient outcomes that can reduce production or raise prices further.

The fourth is privileged union monopolies that effectively impose chokeholds over critical infrastructure. This has especially hit the Ports of Los Angeles and Long Beach that, because they handle 40 percent of container imports,[23] are essential to the flow of goods and inputs to American factories and American families. The longshoreman unions have long fought automation, rendering the ports among the least efficient in the world, behind Mombasa, Kenya, and Dar es Salaam, Tanzania.[24] To illustrate why this matters in food, if clogged ports delay delivery of imported resins used for food packaging, American food producers cannot ship that food, leaving empty shelves or even food left in the field to rot.

Finally, this Administration's war on production, including regulation, mandates, and distortionary subsidies, has already reduced supply, hiking prices in key areas including energy production.[25] Indeed, America has now plunged back to net importer of petroleum products[26] because of pipeline and land access mandates. Because energy is used for so many products, whether in production or shipping, this pushes prices up across the economy.

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[21] Table, "All Employees, Total Nonfarm (PAYEMS)," Federal Reserve Bank of St. Louis, FRED, updated January 7, 2022, https://fred.stlouisfed.org/series/PAYEMS (accessed January 17, 2022).

[22] Katz, "Regulatory Reforms for Protecting Livelihoods and Lives."

[23] St. Onge, "Blame Government, Not COVID-19, for Supply Chain Collapse."

[24] Lisa Baertlein, "California Ports, Key to U.S. Supply Chain, Among World's Least Efficient, Ranking Shows," Reuters, October 20, 2021, https://www.reuters.com/world/us/california-ports-key-us-supply-chain-among-worlds-least-efficient-2021-10-20/ (accessed January 17, 2022).

[25] U.S. Energy Information Administration, "Petroleum and Other Liquids: Crude Oil Production," December 30, 2021, https://www.eia.gov/dnav/pet/pet_crd_crpdn_adc_mbbl_m.htm (accessed January 17, 2022).

[26] U.S. Energy Information Administration, "Petroleum and Other Liquids: Weekly Imports & Exports," January 12, 2022, https://www.eia.gov/dnav/pet/pet_move_wkly_dc_NUS-Z00_mbblpd_w.htm (accessed January 17, 2022).

This war on production could next threaten the food industry via not just scapegoating, but also this Administration's mandate including environmental rules like water management or green mandates,[27] labor rules including punishing contract or independent workers,[28] and even equity mandates that can distort markets, impacting both price and supply—higher prices and empty shelves.

This Administration is not only behind the curve on the problem, but failing to recognize their own blame, they continue pushing policies making it worse, seemingly at the behest of activists rather than regular Americans. For example, if you have a critical nationwide shortage of trucks, you wouldn't think the solution is to mandate new emissions and ban thousands of existing trucks.[29] And if there's a national shortage of both steel and construction workers, you wouldn't hog inputs to knock down and rebuild overpasses. This Administration too often seems to choose activist-pleasing solutions at the expense of regular Americans trying to survive. This inflation will likely continue until that stops.

Biden's Build Back Better proposal is illustrative in ticking nearly every box for making inflation worse. It would spend trillions of dollars, driving demand-side inflation and bidding away resources, while it would raise taxes and regulatory mandates, punishing and potentially forcing out yet more suppliers and workers. The bill would deal a major blow to the workforce by separating benefits from work, which could put 5 million to 8 million out of work[30] on top of the already critical 4 million jobs unfilled and on top of potential job losses due to vaccine mandates. Finally, this Administration is pushing what it terms a "Whole of Government" regulatory flood on climate,[31] and it has announced or previewed at least 37

[27] U.S. Environmental Protection Agency, "Waters of the United States," last updated December 20, 2021, https://www.epa.gov/wotus/revising-definition-waters-united-states (accessed January 17, 2022).

[28] Sean Higgins, "With PRO Act, Congress Readies National Version of California's AB5 Fiasco," Competitive Enterprise Institute Blog, July 22, 2021, https://cei.org/blog/with-pro-act-congress-readies-national-version-of-californias-ab5-fiasco/ (accessed January 17, 2022).

[29] Sundance, "The California Version of the Green New Deal and an October 16, 2020, EPA Settlement with Transportation Is What's Creating the Container Shipping Backlog—Working CA Ports 24/7 Will Not Help, Here's Why," The Conservative Tree House, October 14, 2021, https://theconservativetreehouse.com/blog/2021/10/14/the-california-version-of-the-green-new-deal-and-an-october-16-2020-epa-settlement-with-transportation-is-whats-creating-the-container-shipping-backlog-working-ca-ports-24-7-will-not-help-here/ (accessed January 17, 2022).

[30] Rachel Greszler, "This Job Market Brings New Challenges. 'Build Back Better' Would Make Things Worse," Heritage Foundation *Commentary*, December 21, 2021, https://www.heritage.org/jobs-and-labor/commentary/job-market-brings-new-challenges-build-back-better-would-make-things.

[31] "FACT SHEET: President Biden Takes Executive Actions to Tackle the Climate Crisis at Home and Abroad, Create Jobs, and Restore Scientific Integrity Across Federal Government," The White House, January 27, 2021, https://www.whitehouse.gov/briefing-room/statements-releases/2021/01/27/fact-sheet-president-biden-takes-executive-actions-to-tackle-the-climate-crisis-at-home-and-abroad-create-jobs-and-restore-scientific-integrity-across-federal-government/ (accessed January 17, 2022).

major regulatory changes[32] that could distort important markets that underpin the entire economy, food included. This onslaught creates storm clouds on the horizon for producers, manufacturers, and supply chains already whipsawed by changing policy and surging inflation and now dreading what comes next.

In sum, if policymakers genuinely want to solve inflation, it's time to fix the policy-driven causes rather than scapegoating the people trying to fix it. Our antitrust laws should be respected for their intended purpose, not paraded as a side-show to distract voters and vilify essential supply chains. Early in COVID, President Trump met with companies across the economy and asked how government can get out of the way to ease access to supplies. If Washington is serious about ending inflation, that same liberalizing approach is needed: to first cast the beam out of one's eyes before looking for motes where they don't exist.

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[32] Daren Bakst, ed., "37 Biden Administration Regulations in the Pipeline that Americans Should Know About," Heritage Foundation *Special Report* No. 250, December 8, 2021, https://www.heritage.org/government-regulation/report/37-biden-administration-regulations-the-pipeline-americans-should-know.