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THE Stevenson REPORT

A Comparative Advantage
(The Strong vs the Weak)

BY RANDY STEVENSON, PRESIDENT

I would like to indulge in a rewrite of history just to make a point. Since I'm rewriting history, I may take some liberties with some facts that don't exactly match the way things really happened, but remember, this is all just to illustrate a point.

Suppose the South had prevailed in the Civil War. Also, suppose it really was only about slavery, not states' rights, and imagine that the South became a new single nation neighbor to the North. We won't bother with the niceties of figuring out what western states went North and which ones went South. We will also assume that slavery continued to exist in the South.

In the beginning, the South was agricultural while the North was industrial. Because of the need for one another's goods, trade began to trickle both ways. The trickle grew and the South's agricultural produce filled the north's needs while the South depended on the North's industrial output. It stayed this way for a long time.

Then an enterprising Southerner had a brilliant idea. He started a factory and had his slaves produce the industrial goods that had previously come from the North. This worked well. At first, they were inferior, but the quality increased and the output became as good as that from the North. Soon this Southerner was sending goods North. His biggest customer there was a Northerner who owned a factory producing the same goods. The Northerner already had a distribution system and found that he could get the goods from the Southerner cheaper than he could from his own factory. Other Northerners and Southerners took up the same idea. Trade exploded. Northern consumers were happy because they were getting their goods cheaper. Northern businessmen were happy because they were making more money. Southern businessmen were happy because they were getting rich. Almost everybody was happy.

Then some Northerners began to notice that their paychecks were shrinking. They woke up to realize that, even though goods were cheaper, their wages had gone down, too. Unemployment increased as Northern factory owners closed their factories and contracted with factories in the South. When they objected, politicians and economists shouted them down with unending rants about the benefits of free trade. Economists proved free trade was good with their formulas, theories, and mumbo jumbo. The now-alert Northerners got nowhere.

The North was still staunchly anti-slavery. Its factories could have competed with those of the South if only it embraced slavery. But, that would not happen. Then the Northerners had an epiphany. They realized that their trade policy enabled Southern slavery. They realized that Northern wages crept ever closer to those of Southern slaves. But, most of all, they realized that trade was not just an issue of economics. It was not just about finding the lowest prices. It was also about the ethical, social and political consequences brought about by trade policy. It was all tied together. The South was

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What's
INSIDE...

Disclaimer

The opinions of the authors presented in our newsletter are their own and are not intended to imply the organizations position. OCM has membership with diverse viewpoints on all issues. OCM is committed to one and only one principal; competition.

Maybe it's the Stockholm Syndrome

by Fred Stokes, Executive Director

A basic function of government is to protect its citizens against force and fraud. With force a robber takes overtly what is not rightfully his. Through fraud the robber surreptitiously takes what is not rightfully his. The result is the same: the wrongful appropriations of someone's property.

I don't know of any case where a meat packer has taken cattle at gun point but there is reason to believe that they routinely perpetrate fraud. They have a variety of devices at their disposal, the most common and effective being captive supply. Captive supply is when a packer either owns the cattle outright or controls them through sweetheart deals and contracts (more politely referred to these days as "alternative marketing agreements"). With captive supply, the packer does not have to go into the cash market and compete for cattle to meet his needs. As a result, he buys cattle cheaper and in the process defrauds producers.

In 1921, the congress acted to curb this sort of thing with enactment of the Packers and Stockyards Act. The act has been little-used but in February of 2004, a jury in Montgomery Alabama unanimously found that Tyson Foods violated the P&S Act by using captive supply to shortchange a class of producers some $1.28 billion. Regrettably, the judge used "business reason" for reversing this unanimous jury. He did not challenge the contention that the producers were shortchanged, but rather, held that Tyson had a business reason for shortchanging them. I suppose Willie Sutton would have liked this sort of judicial intervention.

Almost twenty years ago Bob Peterson, longtime CEO of IBP, warned that captive supply worked against the interests of producers and urged lobbying for legislation against it. He made it clear that if the practice continued, that IBP, who killed almost a third of the fat cattle, would be forced to adopt the practice. Well, producers did nothing, captive supply continued (even increased) and IBP became a significant captive supply practitioner.

The result has been that the producer's share of the beef dollar has steadily declined. In recent months, it has stayed in the 40% range. It is absurd that when a 18-24 month old fat steer or heifer leaves the feedlot, the producers (collectively-rancher, backgrounder, feeder) share less than half of its value, realized less than two weeks later as beef and byproducts. It appears that the retailer makes off with the lions share but it is the packer who decides the price paid to producers.

Every year at State Farm Bureau and Cattlemen's conventions, there are heated debates over packer ownership and formula contracts. The same people predictably parrot the same lines; "This is America and you ought to be able to do anything you

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OCM 12th Annual Conference

Tuesday, August 10 and 11, 2010
Doubletree Hotel, Omaha, NE

Pre-Convention Highlights

speaker – BARRY C. LYNN

Barry Lynn has accepted our invitation to be a speaker for the OCM Convention this year. He is the Director of the Markets, Enterprise, and Resiliency Initiative, a senior fellow at the New America Foundation and author of "Too Big to Fail" about the dangers of monopoly capitalism. He expands on the threat in his newest book titled, "*Cornered: The New Monopoly Capitalism and the Economics of Destruction*," explaining today's peril given the power of predatory giants. Lynn calls his book "a sort of tour of monopoly in all its many guises, in the United States today… how monopolists rip us off as consumers, raising the prices we must pay" for everything including essentials become more unaffordable. Please google his name on the internet and read about his comments on consolidated corporate power, monopolization dangers, non-enforcement of antitrust laws, production outsourcing, off-shoring of high-paying jobs, the power of Wall Street and other issues. **He is a speaker you won't want to miss.** Watch for more details about OCM's 2010 Convention program.

STEVENSON (continued from page 3)

strong. Slavery was more firmly entrenched than ever. The North's own economy was precarious. And, worst of all, they now recognized they were guilty of supporting the Southern policies they despised so much.

The historical rewrite ends here. I want to use this speculative venture into hypothetical history to demonstrate a couple of things. One is how we ought to view Communist China. China holds its people in virtual slavery, a slavery now supported economically by our trade policy. Trade policy is not just purely economic in nature; it has social and political dimensions, too. Why don't we view China like the North finally did the fictional South in my illustration. The strength of the Masters keeps the Slaves in submission. Why are we helping them stay strong?

The other thing we can see in the story is the economic advantage captive labor provides. True competition would not allow such a practice. This is very little different from the captive supply techniques used by mega packers and others who use such tactics to forestall competition and maintain their advantageous position. In this situation also, the strength of the Masters keeps the Slaves in submission. And again, we ask, why are we helping them stay strong?[RS]

FOR YOUR INFORMATION

Acres Interviews OCM Vice President Mike Callicrate.

For more details go to:
http://www.acresusa.com/toolbox/reprints/May10_Callicrate.pdf

Langdonomics

by Richard Oswald

It was a beautiful March evening. Sidewalk cafes were open. Young people were sitting along the sidewalk texting and laughing. Arm-in-arm lovers were walking and talking. I was in the city for a big meeting the next day, just taking it all in.

I was thinking that if this is what it would be like to be an urban farmer, city life might not be so bad. Then, as I hiked to my hotel I noticed a familiar looking furry four legged pedestrian up ahead just as he dove into a bush in the landscaped greenery at the base of my hotel.

It was so pleasant even the rats were out.

One of the worst things that can happen on the farm is rats. Rats in the corn crib, rats in the barn, rats are bad news just about anywhere you find them[3] … except maybe in poorer parts of the world[1] where they're on the menu.[2]

If we have to I suppose we can always eat them in self defense.

Rats have no restraint, no sense of decency. They will breed like there is no tomorrow and pass on the worst possible habits to their young. They have no qualms about anything right down to destroying the very infrastructure where they live. As if all that's not bad enough, rats burrow so deeply and hollow out such intricate mazes that basic foundations have been known to collapse.

There must be a burrow connecting Washington and Wall Street, because for the last several years the foundations of democracy and capitalism are settling at about the same rate.

I'm thinking we have rats.

Don't get me wrong, I'm not throwing a tea party. I've heard way too many retired people cuss taxes as they cash their publicly funded retirement check on the way to a doctor appointment paid for by Medicare. Some are even retired from government jobs. Through the miracle of television I've seen trouble brewing on the concrete curb of public streets as signs wave, saying "No More Taxes". Chances are everyone took a drink from the public water system and flushed into a public sewer before attending a protest guarded by public law enforcement.

I think I'd give up tea before I gave up all that.

To top it off, even after the worst financial collapse since 1929, some tea bag waving legislators don't' seem to realize (or alarmingly, maybe they do) that government mandates for Wall Street investments[4] just shove more of our money down a rathole. During his first term even a former president called for privatizing Social Security so we could get big government out of the way of profit and free enterprise in retirement savings.[11] That failure in judgment is one of his proudest accomplishments.

But if that sounds good to you I have some nice cheap derivatives for sale at bargain prices….

Wall Street bankers[10] say that Washington legislators, particularly Arkansas Senator Blanche Lincoln, don't understand the ramifications of limiting the use of derivatives. That's because derivatives alone contributed $29 billion to their bottom line last year.[7]

Of course, at least some of that came from selling completely worthless contracts to unknowing consumers.

The best definition of derivatives I could find was that they are valueless bets based on something someone might or might not do in the future that is totally unconnected to anything else.

That sounds more like a rat race than stable predictable investment.

At least (in off Wall Street races) bookies give odds for winning.

Compare that to commodity futures and options contracts which are based simply on "things" --like corn or soybeans--and their value at a certain point in time in an openly traded market.

It seems derivatives have a lot in common with rat droppings.

I for one am tired of giving my money away to rich men. Unfortunately as a US farmer a lot of people think that I fit the same description because I collect farm subsidies.

At least everything I deal in is real.

USDA grain subsidies guarantee production of a real, cheap supply of raw agricultural materials to well fed corporations[8]. That's mostly because corporations have burrowed into USDA all the way down to the footings. That lets them help decide which policies are passed and which are ignored. Some people think that a more sustainable and healthy food supply[5] could be the result of restructured farm programs[6] that favor a different type of un-infested farming.

With debate over the new 2012 farm bill just beginning, arguments about who gets a bite out of downsized USDA budget dollars are just beginning. It may take an exterminator to eliminate the bad policies before new ones can be put into place. Either way, lots of other people's money is at stake.

Basic Langdonomics (that's the measure of economic gains on the farm here at Langdon) state that it is better to profit and be taxed than never to have profited at all. With fair profits, taxes can be paid for the good of everyone. Without profitable farms our schools, our roads, and everything we have in rural Midwestern communities starts to crumble like vermin infested third world tenements.

Our farm economy has become dependent in part on grain subsidies and big agribusiness instigated quotas of a few products at the expense of a broader economy. That's one reason why bioenergy is such a big deal in rural America. It's a chance to sell more products into a new independent marketplace.

In our livestock markets, a limited number of big corporations are responsible for such a huge part of the trade that it's hard to tell if values are based on anything that's real.

Now we face increasing competition from otherworld free trade competitors.[12] They say our subsidies aren't fair and we have to buy more from them or they will tax our exports into oblivion.

Anyone care for tea?

Even though exports account for only about 15% of production, under WTO rules US farmers are told that they have to give up a chunk of our best market right here at home just to keep the least valuable part of theirs.

I think we've given up way too much already because cotton production and textile jobs have migrated to other continents along with a lot more manufacturing jobs. We already know about the doubtful safety of foreign food. And livestock diseases in other parts of the world imported through WTO trade mandates could sicken herds and break the backs of independent producers here at home.

I smell a rodent, because US farmers lose as US consumers are being told to give up a hefty chunk of food safety in the bargain.

Most of us can only take so much. But a rat just keeps on taking.
It's all about other people's money and watered down laws.

Sort of reminds me of a neighbor from the late 40's and early 50's who drove an aged Packard[9] sedan. In the days before powerful diesel engines, modern farms kept a big barrel of gasoline on hand to power the farm tractor. Back then, everyone went to town on Saturday night. That's when the neighbor would roam the countryside looking for a likely place to fill his car's gas tank. Apparently one tank of gas per week wasn't enough, so after awhile he removed the back seat from his car and installed 2 fifty gallon barrels which he also filled at someone else's expense.

One wily farmer who'd had enough of it loaded his gas barrel with water, and the Packard died before making it home that night. Next day, all the neighbors smiled a little as they drove past the stalled car on their way to church.

I guess that proves there's more than one way to kill a rat, but someone still has to set the trap.

(1) http://news.bbc.co.uk/2/hi/7557107.stm
(2) http://beta.thehindu.com/arts/radio-and-tv/article425596.ece
(3) http://blogs.villagevoice.com/runninscared/archives/2010/04/rats_reveal_que.php
(4) http://gopleader.gov/News/DocumentSingle.aspx?DocumentID=115658
(5) http://www.huffingtonpost.com/paula-crossfield/a-new-vision-for-the-2012_b_549257.html
(6) http://www.nffc.net/Issues/Corporate%20Control/USDA%20INC.pdf
(7) http://www.washingtonpost.com/wp-dyn/content/article/2010/05/07/AR2010050704897.html
(8) http://voices.kansascity.com/node/8909
(9) http://en.wikipedia.org/wiki/Packard
(10) http://www.nytimes.com/2010/05/10/business/10lobby.html?th&emc=th
(11) http://thinkprogress.org/2009/01/05/bush-social-security-accomplishment/
(12) http://www.huffingtonpost.com/garrett-johnson/slouching-towards-neofeud_b_568972.html

The Blowout Preventer Has Failed

by Randy Stevenson and Terry Stevenson

By looking at the cattle prices we've seen in the last little while, some people might conclude that the cattle market has been fixed. Has it? We have to respond with a resounding "No!" Just because we see higher prices does not mean that the tools of market manipulation have been removed. Every means of manipulation that packers have used in the past is still available.

What remains true is that neither a monopoly nor oligopoly can completely control market prices. Even in monopolistic situations, supply and demand affects prices. The existence of supply and demand in a market is not a guarantee that there is no manipulation.

What has happened in the last few years is that packers have been able to depress the price of cattle more than prices would have been in a non-manipulated market. As a result, producers received a strong, continuous, and lengthy signal to reduce supplies. In response, they greatly reduced supplies. Now with greatly reduced supplies prices have responded like the gusher on the ocean floor in the Gulf of Mexico.

The packers still have all the tools to depress prices, but the lack of supplies is so significant compared to the demand that the resulting impetus for increasing prices currently overpowers the effectiveness and usefulness of those tools. They also have the DOJ and GIPSA looking over their shoulders, and in the current situation, glaring attempts to depress prices would be fatal, legally speaking. The investigative actions by these agencies probably got the gusher started in the first place.

With these things in mind, we need to keep at the job of eliminating the market manipulating abilities of every player in the cattle and beef markets, so that when the current price gusher plays out, we don't end up right back where we were before. We need to continue our efforts until the task is finally and completely done.RS/TS

David Kruse
President, ComStock Investments

The long view is that speculative panics or crisis' and regulation leap frog each other. Government puts together regulatory rules that the financial wizards eventually circumvent and another bubble of speculation is unleashed that eventually morphs into a new financial crisis. Each new crisis is followed by another attempt at regulation. Then the banks creativity is put into the next effort to evade the new regulation allowing speculation in something/somewhere/somehow that the regulators missed.

That means that the regulations are always behind, responding to the last financial crisis instead of where the next one will occur. That's the natural order of human endeavor and likely cannot be changed. Some of the regulatory laws passed after the Great Depression were moderated as bankers argued that their sophistication with managing risk had evolved so that past mistakes would not be repeated.

When Congress fails to reign in spending and interest rates soar, and taxes explode because the politicians can't do the right things, who will hold the hearings to investigate them?

Fed Chairman Alan Greenspan believed that. He has since expressed surprise and some regret at trusting in banks to manage risk. Most pre-recession energy for regulation was coming from outside the Federal government from places like New York, AG Elliott Spitzer. Wall Street loved his political demise and exit. Political direction did contribute to results. In fact, history would suggest that Republicans deregulate giving Wall Street a new length of rope to hang us with and then Democrats have to chop down the tree. Republicans don't like government and view regulation as unwanted government intervention in the private sector.

That's why financial crisis's tend to happen on their watch. The Justice Department, CFTC, SEC - all dampened their regulatory zeal under George W. The roaring 20's ran up to the first Depression. They now call booms, "bubbles," and one preceded the Great Recession of this decade. Now Congress has to take its historical turn at attempting to restore limits that keep banks from becoming casinos that bet taxpayer money on derivatives that neither they nor anyone else understands.

Another obvious need is to change the system so that when banks go broke, they are allowed to fail, but only hurt themselves in the process, instead of pulling taxpayers and the entire economic system into the black hole with them. This new paradigm has to be created first before they make it illegal to bail out a failed bank. It will be interesting to see if they are really ready to change the entire landscape or just rearrange the deck chairs on the Titanic.

Banks make money speculating, but as proven, end up losing taxpayer money. Yet, they fight the Volcker rule that would separate traditional and investment banking as a firewall to protect the taxpayer's interest. Right now, the effort to legislate financial reform is about 80% politics, 20% substance. It's mostly posturing for re-election.

It's hard to find anyone running for office that would actually vote for TARP. I would. TARP avoided a financial Armageddon, one of the best interventions and low cost relative to returns program that the Federal government has ever executed. To think that even after regulatory oversight is tightened, that a big bank will not find a way to commit suicide is hubris. Some mechanism needs to be put in place deal with it. "Just let them fail". . . like that can occur in a vacuum without systemic ramifications is ideologically naive. The Democrats idea of establishing an FDIC like fund financed by the investment banks so taxpayer funds are never again used, was a good idea. Carl Rove argued, however, that a fund financed with the bank's own money somehow gave them a leg up on Main Street because they would somehow be able to borrow money cheaper than traditional banks. Baloney!! The net cost of the big banks borrowing would include what it costs them to sustain the fund.

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Treasury Secretary Geitner called such charges "nonsense," saying, "The financial reform proposal that Democrats are advocating would give the government power, should banks once again get into trouble, to 'put them out of their misery by winding them up.'" Better to use the banks' money then taxpayers'.

While Goldman Sachs execs had to sit for 10 hours in the Senate hearing, most Senators only came in to get their time in front of the camera and then left. It was said at the Goldman hearings the smart people being asked the questions were trying to act dumb, while the dumb people asking the questions were trying to act smart. I doubt either one succeeded. The irony of congressional hearings is that the competence, expertise, and proficiency of the politicians asking the questions is never any higher than whoever they have on the hot seat.

Congress is consumed by partisanship, incapable of real problem solving so they take shots at others like Goldman Sacks because they need a villain to deceive the public over who the real failures are here. No entity in the U.S. has been more fiscally irresponsible than the U.S. Congress. Goldman Sachs is easily fixed. Congress is not. Goldman Sachs clients are sticking with the firm because irrespective of them not being perfect, they are very good.

When Congress fails to reign in spending and interest rates soar, and taxes explode because the politicians can't do the right things, who will hold the hearings to investigate them?[DK]

STOKES (continued from page 2)

like with your own cattle" or "The packer is my customer and friend and the deal we make is no one's business". I find it hard to suppress saying, "Wake up Bubba, they're screwing you boy!" Like the battered wife who clings to and defends a cruel, abusive spouse, these people persist in this irrational behavior.

Puzzling!

Recently, during a discussion with some friends, we may have discovered an explanation of this conduct. The suggestion was made that perhaps it was the Stockholm Syndrome. Someone went to the internet via their blackberry and found this definition of the disorder.

"Stockholm syndrome is a term used to describe a paradoxical psychological phenomenon wherein hostages express adulation and have positive feelings towards their captors that appear irrational in light of the danger or risk endured by the victims.

Hostages who develop Stockholm syndrome often view the perpetrator as giving life by simply not taking it. In this sense, the captor becomes the person in control of the captive's basic needs for survival and the victim's life itself."

The behavior of hostages who develop Stockholm syndrome is difficult for a rational observer to understand. The behavior of producers who continue to defend a captive market is just as difficult to understand. Maybe it is because they both suffer from the same psychological malady. With a little luck, a cure will be discovered during the course of the joint USDA/DOJ workshops. Let's all hope so.[FS]

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