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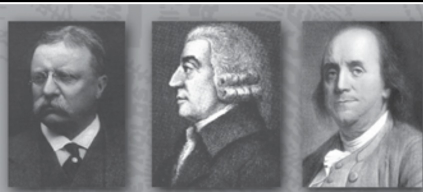

Honesty. Prosperity. Economic Liberty.

Humanistic Capitalism Has a Flaw

RANDY STEVENSON
PRESIDENT

[Humanism as used in this article is that philosophical approach that is either atheistic or otherwise effectively exalts humanity above measure. Applied to economics its faulty views of human nature prevents its theories from working in the real world.]

On October 23, 2008, Alan Greenspan confessed to a Congressional committee that the free market model he has been following has a flaw. He has been astounded that the flaw exists. While some are suggesting that Greenspan's admission is tantamount to admitting that the free market does not work, that conclusion is far from the facts. What Greenspan had believed that he admitted did not reflect reality was that banks operating in their own self-interest would protect their shareholders interest and their own equity. Instead, it is now apparent that certain banks acted in ways that now prove to have been irrational and have led to their own demise.

BANKS ARE NOT PEOPLE; THEY ARE RUN BY PEOPLE.

Greenspan's flaw is simple to explain. Banks are not people; they are run by people. In other words, banks don't have the capacity to act, only the management of the bank acts. Greenspan's flaw was to assume that the self-interest of the bank and the self-interest of the bank's management was exactly the same. It is not.

Many times in the last few years we have seen the management of companies act in such a way by making decisions that have short-term benefit, greatly rewarding management through stock option bonuses, while proving to be a detriment to the long-term well-being of the company. After Congress put a cap on top corporate salaries, companies found a way around it by granting stock option bonuses. That provided an incentive for corporate managers motivated by their own self-interest to make sure that for the short-term stock prices would go up, regardless of the long-term effect on stockholders and company equity.

This is not to say that the free market doesn't work. In fact, we can safely say that the wrong kind of regulation (in terms of salary caps) contributed to the problems. But like an athletic contest, the free market must have rules of conduct that level the playing field and provide a balance of competition for all.

We can see a similar flaw in some of the thinking that underlies policies of free trade. Those most interested in free trade are multinational corporations. If we can assume for the sake of argument that the multinational corporate managers act in the best interest of their own corporations we can easily see what can happen. Multinational corporate interests are not identical to American interests. Those leaders of multinational corporations who have helped write trade agreements, who have lobbied members of Congress to pass trade agreements, and who remain silent while foreign governments cheat on existing trade agreements, have actually harmed America's self-interest.

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STEVENSON (continued from page 1)

Self-interested multinational corporations do not care in the long-term whether America survives or not. It is not sufficient for them to recognize that Americans are their best customers. Their short-term focus prevents them from seeing the damage a chronic trade deficit inflicts. By nature, they are the wrong ones to be the guardians of our economy.

On the other hand, we cannot turn the operation of our economy over to socialistic bureaucrats. Ironically, what is true of corporations is also true of government. The government does not "do" things; people in the government do them. From the lowest official to those elected to the highest offices in our country, members of government have a strong tendency and incentive to act in their own personal self-interest and not for the good of our country. While we can all find exceptions, this is the rule.

What we have in economics is a tug of war between two opposing theories, neither of which works in the real world. On the one hand, we have socialism, with the assumption that everyone can be made to work for the collective interests of society. It's grossest error lies in the fact that it assumes that those in charge of the government are not plagued with self-interest, but that those in charge of corporations are saturated with its evil. On the other hand, we have the capitalists (who should accurately be called humanistic capitalists) with their assumption that if everyone works for his own self-interest we will live in an economic utopia. Ayn Rand promoted this last view. Her philosophy was epitomized when she said, "Man—every man—is an end in himself, not the means to the ends of others. He must exist for his own sake, neither sacrificing himself to others nor sacrificing others to himself. The pursuit of his own rational self-interest and of his own happiness is the highest moral purpose of his life." Alan Greenspan was a good friend of the militantly atheistic Rand for many years. His recent confession marks an admission that he has found at least some key elements of her philosophy unreliable.

In contrast to Rand's self-focus, founding father George Washington stated, "[T]here exists in the economy and course of nature, an indissoluble union between virtue and happiness; between duty and advantage; between the genuine maxims of an honest and magnanimous policy, and the solid rewards of public prosperity and felicity." The market does not produce its own virtue nor happiness. Virtue must be imposed upon it.

While it is beyond the scope of government's ability to change mankind's self-interested nature, it is very much within the scope of government to limit the power of individuals (or corporations) to completely fulfill their self-interest when it is either destructive to the interest of a free market or when it is contrary to our country's interests.

Like an athletic contest, the market needs a referee. The government must be that referee. There also must be rules for the market. It is important in making the rules that rulemaking does not help pick winners and losers in the market. The rules should only guarantee honesty, openness, and an equitability of market power. And the government must equitably enforce those rules.

Greenspan was wrong. The market cannot be its own referee. That does not mean that capitalism does not work. It only means that Greenspan's humanistic version he learned from Ayn Rand does not.

It also doesn't mean that the solution for Greenspan's failure is to move toward a socialistic approach. That, too, is humanistic and has failed. We just need an impartial governmental referee who will force all competitors to play within a set of rules that guards our markets from manipulation and requires us to put our American interests first.[RS]

FRED STOKES
EXECUTIVE DIRECTOR

BLOCKING A MAJOR BEEF PACKER MERGER; IS THAT A REAL POSSIBILITY?

OCM has a record of opposing all the major agribusiness mergers that have occurred since it's founding in 1998. These include the Cargill acquisition of Continental Grain; Smithfield acquisition of Murphy Farms, Carroll Foods and Premium Standard Farms; Tyson acquisition of IBP; Monsanto acquisition of Delta Pine Land Company and the multitude of others. Regrettably, our previous attempts to block these mergers have all failed.

We are presently engaged in opposing the "Mother of all Agribusiness Mergers", the JBS/Swift acquisition of National Beef Packers, Smithfield Beef and Five Rivers Feeders. JBS SA is based in Brazil and is the world's largest beef packer. In mid-2007, JBS acquired Colorado-based Swift Foods Company, then the third largest beef packer in the United States. JBS has recently announced the acquisition of Smithfield Beef Group and Five Rivers Feeders. Smithfield is the fifth largest beef packer. This acquisition not only significantly increases horizontal concentration, but also provides two million head per year of captive supply through Five Rivers Feeders. These captive cattle will allow JBS to withdraw from the market for an extended period and put severe downward pressure on fat cattle prices.

With the acquisition of Smithfield Beef and Five Rivers Feeders complete, JBS now proposes to acquire National Beef Packers. Presently, the four major packers (JBS/Swift, Tyson, Cargill and National) control the slaughter of 81% of all the finished steers and heifers in this country. If this merger is allowed to go through, the top four packers will become the top three, with the largest being a Brazilian company with a history of antitrust violations. JBS paid an $8.5 million dollar penalty for engaging in anti-competitive practices against cattle producers in Brazil. Swift and Smithfield have also been fined for illegal practices. Swift currently stands accused by the USDA of underpaying on hot carcass weights. Smithfield recently paid $325,000 in penalties involving improper rounding of hot carcass weights.

On October 20th, The U. S. Department of Justice and 13 state attorneys filed in the United States District Count in Chicago to oppose the JBS/Swift merger with National Beef Packers. OCM and R-CALF USA have been working with DOJ and others since March to prompt them to act against the JBS/Swift merger with Smithfield Beef, Five Rivers Feeders and National Beef Packers. We have had several meetings with the DOJ staff and have facilitated their deposing a number of feedyard operators. On May 7, 2008 OCM and R-CALF also testified before U.S. Senate Judiciary Subcommittee on Antitrust, Competition Policy, and Consumer Rights. As a result of this subcommittee hearing, Chairman Herb Kohl from Wisconsin wrote a very strong and direct letter to the U.S. Department of Justice (DOJ) urging that the JBS merger be blocked.

That DOJ chose not to oppose the Smithfield/Five Rivers merger was most disappointing. However, OCM and R-CALF USA have reached a formal agreement to partner in an attempt to become joint plaintiffs in a parallel suite to block the National Beef Packers portion of the merger. OCM has agreed to be responsible for raising the necessary funds for the suite and R-CALF is to provide the services of Bill Bullard and other staff in support of the effort.

We are also considering whether to intervene in court or attempt legislative action regarding the recently consummated Smithfield and Five Rivers Feeders acquisition by JBS. Since DOJ and the 13 states elected not to oppose the Smithfield/Five River portion of the Merger, the likelihood of prevailing in court would appear to be slim. However, we consider the Smithfield and Five Rivers merger with JBS as very injurious to the interests of cattle producers and may well decide to bring suit to unwind the deal at a later date; especially if a number of state attorneys general are willing to join with us in the suit.

R-CALF has developed a series of some seven white papers on the various aspects of the JMS/Swift merger with Smithfield, Five Rivers and National Beef. One of the more compelling points made by Bullard in the papers is that if JBS/Swift, Smithfield Beef and National Beef were to collaborate on cattle buying prior to the merger, such would be illegal. After the merger is consummated and these inanities are part of the same company, such collaboration would be expected and perfectly legal.

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Keith Mudd

SEED CONCENTRATION PROJECT – WHO KNEW?

I never knew. Chances are most farmers don't either or at least haven't given it a lot of thought. The OCM seed competition project has opened my eyes. What is it that has been a revelation? Well one thing, how little competition there is in the seed industry "trait" business.

The list of seed suppliers continues to diminish each time Monsanto's American Seeds Incorporated (ASI) group devours another independent but, you still have a few to choose from.

According to a Monsanto press release ASI is "a new holding company established to support regional seed businesses with capital, genetics and technology investments." What they forgot to mention was ASI is also a captive customer for Monsanto's biotechnological traits.

So, you still have a choice of seed companies when you purchase your supply of corn, soybean and cotton seeds for next spring but chances are pretty good the trait component comes from one of two or three biotechnology companies. That isn't all too surprising when you consider the enormous cost of bringing new traits or events to the market. What is surprising, even alarming, is how one company has intervened to curtail development of competing technology for over a decade.

Two glaring examples of this uncompetitive marketplace have already become evident.

First, as stated earlier the cost to develop and market biotech events is increasingly expensive. Even the largest seed companies need access to other companies in the business to license their trait packages to. This out-licensing encourages research and development leading to new innovations.

How many traits do you suppose any of the twenty-six ASI seed companies buy from anyone besides Monsanto?

Now, what happens when a company does make the capital investment to try and bring a new trait to the market? Well, according to a lawsuit filed in Texas, if it is a trait that competes with a Monsanto trait, chances are pretty good Monsanto will buy out one of the collaborating parties and shut down the research.

In 1996, Monsanto acquired a minority interest in DeKalb Genetics Corporation (DeKalb). In 1998, Monsanto acquired the remaining shares in DeKalb and terminated existing projects that DeKalb had for developing glufosinate-tolerant (Liberty Link) corn traits. Liberty Link chemistry is a non-selective herbicide that competes with Monsanto's RoundUp herbicide. As a result of its acquisition, Monsanto effectively suppressed the development and commercialization of a seed trait that would have directly competed for market share with a Monsanto trait.

Additionally, according to the Texas lawsuit, in the late 1980's DuPont began working with Asgrow, a soybean and corn seed company, to develop sulfonylurea-resistant soybean (STS). STS beans would have also competed with RoundUp Ready soybeans. Monsanto acquired complete control over Asgrow in 1997, and then caused Asgrow to breach its soybean research and development agreements with DuPont. When DuPont signed a second agreement with Asgrow in 1998 regarding the development and marketing of STS soybeans, Monsanto caused Asgrow to breach that agreement as well.

The lawsuit further states that AgrEvo (a Bayer predecessor) was also trying to develop a glufosinate-based seed trait through a collaboration agreement with Asgrow. Had EgrEvo been able to develop and successfully market such seeds, growers could have sprayed glufosinate over glufosinate-tolerant crops, and thus had a choice in both herbicide-tolerant seeds and herbicide. In or about February 1997, however, Monsanto promptly killed the glufosinate project as well, after acquiring Asgrow.

In September 1997, Monsanto acquired Holdens Foundation Seed, another large seed and technology company, and in 1998 similarly caused Holdens to withdraw its support for glufosinate-tolerant corn traits.

In a side note. Next year, limited supplies of Liberty Link soybeans will be available. Liberty Link corn has been around for several years. So, here we are, ten or so years later and finally products exist that compete with RoundUp Ready corn and soybeans. It would seem that Monsanto has done a pretty good job of protecting its monopoly control of herbicide resistant traits. Kind of puts a new twist on the old if you can't beat em – join em line. Someone at Monsanto decided that if you can't beat em – buy em out! KM

Monsanto Transgenic Trait Dominance in US Market 1996-2007

YEAR OF PRODUCTION	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Corn (millions of acres planted)*												
Single-Trait Acres	0	2.3	12.3	17.5	17.2	17.7	23.8	27.3	33.6	31.1	25.4	31
Double-Trait Acres	0	0	0	0	0.1	1.2	2.2	5.1	8.7	13	16.1	17
Triple-Trait Acres	0	0	0	0	0	0	0	0	0	1.3	5.8	18
Total US Corn Acreage with Monsanto transgenic traits (TT)	0	2.3	12.3	17.5	17.3	18.9	26	32.4	42.3	45.4	47.3	66
Total US Corn Acreage*** (transgenic and non-transgenic)	79.9	79.5	80.1	77.3	79.5	75.7	78.8	78.6	80.9	81.6	78.5	93.6
Percentage of US total corn acreage planted in Monsanto TT	0%	2.90%	15.35%	22.63%	21.76%	24.96%	33%	41.22%	52.28%	55.63%	60.25%	70.51%
Soybeans (millions of acres planted)*												
Total US Soy Acreage w/ Monsanto transgenic traits (all single-trait)	1.2	7.9	29.1	40.5	45	54.8	60	63.6	67.2	66.4	71.7	63
Total US Soybean Acreage *** (transgenic and non-transgenic)	79.59	80.23	72.02	73.73	74.27	74.08	73.92	73.4	75.21	72.03	75.52	63.63
Percentage of US total soy acreage planted in Monsanto TT	1.50%	9.80%	40.40%	54.90%	60.60%	74%	81.20%	86.60%	89.30%	92.20%	94.90%	99%
Cotton (millions of acres planted)*												
Single-Trait Acres	1.8	2.6	4	5.8	5.6	5.6	5.5	4.8	3.6	3.2	2.9	3.5
Double-Trait Acres	0	0.1	0.7	2.4	4.1	5.6	4.8	5.4	7.4	7.7	8.6	5.5
Total US Cotton Acreage with Monsanto transgenic traits	1.8	2.7	4.7	8.2	9.7	11.2	10.3	10.2	11.1	10.9	11.5	8.5
Total US Cotton Acreage *** (transgenic and non-transgenic)	14.6	13.8	13.4	14.8	15.5	15.8	13.9	13.5	13.7	14.2	15.3	10.8
Percentage of US total cotton acreage planted in Monsanto TT	12.32%	19.56%	35.07%	55.40%	62.58%	70.88%	74.10%	75.55%	81.02%	76.76%	75.16%	78.70%
NOTE: in 2007 Monsanto acquired Delta & Pine, increasing their cotton percentage to over 97% in 2008												
Total US Acres Planted in Monsanto Transgenic Traits (all crops)	3	12.9	46.1	66.2	72	84.9	96.3	106.2	120.6	122.7	130.5	137.5
Total US Acreage Planted in Field Crops	174.09	173.53	165.52	165.83	169.27	165.58	166.62	165.5	169.81	167.83	169.32	168.03
Percentage of US Acreage of Major Field Crops in Monsanto Transgenic Traits	1.72%	7.43%	27.85%	39.92%	42.54%	51.27%	57.80%	64.17%	71.02%	73.11%	77.07%	81.83%

*Monsanto 3rd Qtr report - June 2007
**Monsanto Investor Day Report - November 8, 2007
*** USDA NASS Statistics 1996-June 10, 2008

For more information on the OCM Crop Seed Concentration Project please go to www.competitivemarkets.com

Data Compiled June of 2008

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David Kruse
President, ComStock Investments

I think that we are going to find out that the hog industry is structured today just as badly as some aspects of the banking industry was for an economic recession. The hog industry has become integrated by contracts and commitments to the point where it can't respond effectively to market signals. It is contractually obligated to produce hogs regardless of profitability.

Integration is the death of the independent hog producer. Smithfield Foods has not been doing well as of late, but they are doing a lot better selling pork than traditional producers marketing hogs are. Pork processing profits have not fully offset hog production losses but they still buffered production losses to give integrated producers an edge over independent non-integrated hog producers.

This trend of integrated advantage has been going on for a few hog cycles now so the independent producers left are tough birds, but the flock has been thinned to a few hens. Integrated producers have the market leverage to make non-integrated producers quit first and that is what happened in previous hog cycles. Integrated producers have come through past hog cycles with a larger market share than when they started, pushing independent producers to the wayside. They went into this cycle expecting the same result but the difference is that there are too few independent producers left to quit to make room for the corporate expansion. Those still around are locked into production by facilities, debt, or contracts so that production is mandatory, not discretionary. Those that can "choose" to quit did so last hog cycle. That means that this cycle could be a death grasp where everyone suffocates. The industry needs to recognize that its adolescent ways unnecessarily drain industry equity.

Smart people like Dr. Glen Grimes and AgStar Consultants have informed producers that they need to reduce the breeding herd by 5-10% in order to regain profitability. It's not going to matter what price corn is. Liquidation is necessary to align supply with demand. So far, the integrated industry has been stubbornly resisting downsizing, considering it to be a concession of market share, something they are loath to losing. They are more worried that this competition will succeed than that they will go broke.

Fixing what's wrong with the hog industry is not that complicated. In a concentrated integrated industry, there are only a few making decisions. That largely dictates the supply of the industry. The industry has been hoping to get a free pass this cycle, helped out by strong export demand. Export demand has helped avoid what otherwise would have been a huge supply disaster to date. Production efficiencies are phenomenal, so that they need to reduce the sow herd 2% just to avoid hog expansion. The last hog report showed fewer sows but even the lightest hog weight category still showed hog numbers 100% of a year ago. The industry is suffocating under the weight of production in part because of its phenomenal production success.

The crux of the problem if no one responds and herd size is maintained, is it will bleed the industry of equity. It will bleed out like a stuck hog. Yet, I don't believe the industry has yet agreed on an alternative. The big hog companies are strengthening the fort. Smithfield is selling its beef division to raise cash to stubbornly fight on in the war of attrition. In some ways, the smaller hog producers now have some advantages. The big hog companies are likely the most impacted by the credit crunch. Local banks who finance smaller producers still want good loans. Ironically, I'd not be surprised to see integrators lean on their contract producers harder to mitigate some of their credit problems.

Smaller producers are most often diversified. There is no guarantee that it will continue, but crop production has been more profitable so that producers can afford to raise a few hogs at a loss for the manure benefit. There are not a lot of those kind of hog producers left. Most "farmers" don't own the hogs but get the manure which is the best of all worlds. Hog numbers will moderate slightly into 2009, but not enough to regain profitability, impaired by a consumer recession. $7 corn was just round one of what the hog industry has had to endure to sort out who survives. The overleveraged ones already failed that test. Some saw a tick up in farrowing intentions following surprising profitability in August, so the underlying psychology was/is not set toward liquidation but toward full production at even a hint of market recovery.

The global economy will bring on round two of liquidation pressure. It would seem wise for the industry to grow up and act like adults, voluntarily moderating production for the benefit of all in the industry. Somehow, I don't see that happening. DK

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STOKES (continued from page 3)

The point being that in either case, cattle would be bought at less than a truly competitive price and cattle producers would be shortchanged. **Concentration harms competition and shortchanges cattle producers!**

Beef packers have a rich history of shortchanging cattle producers. Competition in the industry is presently minimal; if these mergers are allowed to stand, competition in the fat cattle market will become essentially non-existent.

Turning back these mergers is likely to be a major undertaking, but there are reasons to be hopeful. This is the first time in memory that DOJ has intervened in court to block a merger in the highly concentrated beef packing industry. The involvement by the 13 states lends considerable strength to the suit. In addition, the trial attorneys are taking the case on a contingency basis; if they don't win, they don't get paid. This is all encouraging and we now have a good chance of **finally** turning back a major agribusiness merger.

Even though we will not have to pay trial attorney fees, the expenses for expert witnesses, deposition taking, travel and other incidentals will be considerable. **However, this is our fleeting chance to finally win one! Please give us your support.** FS

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