



IT'S THE BROKEN MARKET SYSTEM

BY FRED STOKES, EXECUTIVE DIRECTOR

INo doubt about it, the beef cattle industry is in big trouble again. Several friends and acquaintances in the feedlot business are being forced into bankruptcy and many others are teetering on the brink. The small cow/calf producer has been disappearing for years, seemingly without notice or concern. Today, many large and formerly successful large ranching operations have exhausted much of their equity, are in danger of losing the sacred trust (ranch) passed on to them from preceding generations. Everyone in the cattle business seems to be feeling pain. But, this may just be the needed motivation for producers at all levels to ban together and seize this fleeting opportunity to fix things.

We were supposed to have weeded out excess production and inefficiency during the bloody purge of the mid-eighties.

This being done, the industry would be restored to balance and fairness for all players. But, excessive and inefficient production is clearly not the cause of this crisis situation. The cliché, "the cure for low prices is low prices" has been debunked. A dysfunctional and totally broken marketing system is

Cattle producers at all levels need to rally around their common interests and agreements, put aside their differences and act to fix this broken market system.

coming into focus as the real culprit. Ranching and cattle feeding has always been tough. But today, even those who have traditionally been above the fray are feeling the pinch. In the past, many cattle feeders seemed to have believed that if they became friends with the packers and sided with them in lawsuits, they would be able to get preferable prices for their cattle. It didn't work! Even the major feeders, including those who had cozy relationships and special deals with pack-

ers, are now hurting and seem ready to work (albeit clandestinely) with others to reform the marketplace. However, they remain concerned that if their involvement in the ongoing market reform effort becomes known, they will be subject to reprisals by the packer.

This fear of packer reprisals brought to memory an incident years back in a local school here in Mississippi. A teenage boy was lying helplessly on his back with the school bully setting on his chest pounding him in the face. The surrounding kids yelled, "fight back Buddy", who replied "no that will just make him worse". Adults should have come to realize that when you have to deal with a bully, not resisting doesn't work. Ultimately, you're going to either have to be totally submissive or fight.

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The Basic Elements of a Solution

BY RANDY STEVENSON
PRESIDENT



What should the market look like? In general terms that is not difficult to describe. The market should possess three key elements in order to function properly. They are a balance of market power, good procedural rules to maintain the balance of power, and impartial enforcement of the rules.

The balance of power, in turn consists of elements that help describe and determine that feature. First, there should be no situation of asymmetric information. That is not to say that one side of the transaction may not be negligent and overlook available sources of information to his own detriment. But rather it means that, for example, a packer may not operate with information about how many cattle he has bought for next week's kill while the seller cannot know such information. That information should be available because the transactions to buy those cattle have taken place in the open, and not by contracts that are unavailable to other market participants. That suggests another feature that prevents an imbalance of power, and that is market transparency. When each individual transaction between buyers and sellers is open to the public, every market participant can evaluate the same market information. Nothing is hidden. Finally the absence of compulsion for either

buyers or sellers is necessary. Buyers and sellers may have their own internal compulsions to buy or sell cattle, such as pressing financial necessity, or a need to supply a restaurant contract. That is not what absence of compulsion means. Absence of compulsion means that the buyer is not giving the seller only 30 minutes to decide to sell today, or he doesn't get another opportunity to sell for another week.

The second major element of a competitive market is the presence of a regulatory scheme to guarantee the previously stated balance of power. Such regulation is limited to the market transactions and the market itself and not to any other feature such as safety and health. The desirability and extent of health and safety regulations is a debate that belongs outside the discussion of the marketplace. Rules for a marketplace are just as necessary as rules for a football game. The outcome is never determined or influenced by the rules. Rules that preserve honesty would be an example of something absolutely necessary in the marketplace. The rules simply make sure that the balance is maintained in terms of market power.

The final major element is the impartial enforcement of the rules. With-

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DIG BABY DIG

BY RICHARD OSWALD

One of the things I remember best about my Dad was his shovel, because Dad's shovel was eternally shiny and rust free. The last thing he always did when he finished digging on the farm was clean and oil his spade to perfection.

From irrigation ditches to postholes, Dad could dig about anything. But even he knew that when you're too deep in the hole, the first order of business is **Stop Digging**.

When oil was \$12 a barrel we thought we'd never see the end of it. America just kept right on excavating. Then oil went to \$70 a barrel and the hole got deeper. At \$150 a barrel we put the shovel down and started to think. That's when America decided that never again will we ever allow ourselves to be suckered into imported petroleum dependence. That didn't last long.

When oil fell in a crack at \$70 a barrel, we went right back digging. Dad would not approve.

If "Drill Baby Drill" is our best solution, then Baby's drill had better be shiny and oiled, because right now the United States of America imports 60% of the oil we use. In fact we've never imported more. Add to that the fact our Asian friends, the ones who loan us money and keep Wal-Mart stocked, are leading the pack in alternative energy development.

The dirt is really starting to fly.

While Chevrolet was negotiating a loan so they could make their delinquent payments, China was putting up factories to build electric cars,(2) solar cells, wind generators...just about everything anyone needs to be energy independent.

Like Daily Yonder Editor Bill Bishop says about China; "It helps when you can just decide something and tell everybody to get busy!!!"

Some say China's electric cars are get-

ting close to being the best in the world. They're building them by the thousands and selling most to their own people. But analysts say that will change as more Chinese products find their way into our markets. Some big US retailers like Costco may even have plans to sell them. (5)

That goes right along with our current trade policies that I call "Buy Baby Buy"

According to the folks at the January 27th Clean Energy Works Forum in Washington DC, (1) the US gets 60% of its oil from foreign sources. If Baby gets lucky and digs up a gusher, all that oil will be sold on the open market. America might never see a single gallon of it unless we outbid Europe and Asia. So supply is important to stabilizing world prices in the short run, but not helpful to our long term outlook as third world nations with expanding industrial bases have more money to spend.

Either way, it's pay Baby pay.

Both Senators John Kerry of Massachusetts and Lindsey Graham of South Carolina took time to visit with forum participants in the Russell Senate Office Building. Graham went out on a conservative limb by calling for carbon regulation, saying that only through cap and trade would America find the resolve to be truly energy independent. That's a fact some forward looking investors like Warren Buffet have recognized for quite some time. Not only do Buffet's newly acquired railroads offer shipping profits, they also offer right of way with some of the best opportunities for renewable energy--like solar and wind. (3)

But there were others who saw this coming too, like the company based in India that bought a down-on-it's-luck transformer factory in the Show-Me-State where Nick Nickelson works. Nick At-

tended the Clean Energy Forum as president of IUE-CWA Local 86114 in Washington, Missouri.

Nick said the place where he works was on hard times because of the recession. Business was bad even though the quality of the products Nick and his co-workers put out was second to none. Now with fresh investment in wind and solar power starting to pick up, the market for high quality transformers like those made at Nicks factory (4) are finding markets while safeguarding American jobs.

There were plenty of stories like Nicks, and other stories too. Like the one from Hawaii State Representative Cynthia Thielen, who came to remind delegates that 90% of the Aloha state's energy needs are provided by imported oil. Cynthia said that on the Islands, the military is the strongest proponent of renewable energy.

Some folks want to make this energy thing seem like a partisan issue, but as Representative Thielen and Senator Graham (both are Republicans) said, this is not a Republican issue, it is not a Democratic issue, it is an issue of national security.

While Graham believes that continued drilling for more fossil fuel supplies is an important part of our energy security, he still supports carbon regulation. It's kind of a one-two punch for energy independence.

That's what Cap and Trade does; it regulates carbon by establishing a market for it. In order to comply with EPA regulations, coal fired power generators don't need to modernize right away, but slowly over time as older equipment must be replaced. In the meantime they just partner with a farm or industry that removes carbon from the air.

Winston, a Farmer's Union friend of mine says "You hafta call it something else. Because all the farmers'll say 'we don't want cap and trade'".

Winston has a point. Thielen and

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It's The Pitts: Cattle Feeders Anonymous

BY LEE PITTS

My name is Lee Pitts and I was once a cattle feeder. Yes, I was addicted to cattle feeding. I have seen firsthand the impact this can have on families and their net worth so I am proud to say that I have been clean now for 20 years.

Since there is no Betty Ford Clinic for helping cattle feeding addicts I had to cure my own addiction by developing a 12 step program like those used in Alcoholics Anonymous, Sexual Compulsive Anonymous, Gamblers Anonymous and over 200 other such programs. (It may not have been just the 12 step program that enabled me to quit cold turkey; a 58 cent fat market and a balky banker also contributed.) I offer my 12 step program in hopes that it may help others become cattle-feeding-sober.

Step 1: Stand up in a gathering of fellow cattlemen, in a bar or at a convention, and admit you are an addict and your behavior is unmanageable. Admit that when you see a pen of green feeders enter an auction ring and hear the auctioneer's chant you are powerless in the face of your addiction and your hand automatically goes up.

Step 2: Because no one has yet developed a patch, drug, or chewing gum to rein in your cattle feeding addiction chew on alfalfa stems. You've already paid for them and you might as well put the hay to a better use than feeding it to cattle.

Step 3: If you absolutely must go to an auction take a person of higher

authority with you, such as your wife, banker or Cattle Feeders Anonymous (CFA) sponsor to stop you when you try to bid on a cheap set of preggy Corriente feeding heifers.

Step 4: Remove the enablers; those people or things that are enabling you to feed cattle. These would include your banker, order buyer and futures trader. Sell your cattle truck and airplane. Cancel your membership in the Texas Cattle Feeders.

Step 5: Sell your calves at auction and don't even consider retaining ownership. Let someone else have all the fun.

Step 6: Rediscover the other days in the week besides Thursdays when the price of fat cattle is usually established. Quit living solely for that 30 minute period when prices are set by the Big Three and admit that there is a higher power in this universe than Tyson, JBS and Cargill.

Step 7: Remove the temptation to be a farmer as well as a rancher. It is a short slippery step from growing your own hay or grain to building a set of corrals and having 3,500 head on feed.

Step 8: Cleanse your mind of the obsession. Quit reading articles au-

thored by university professors or economists that advise that you are leaving \$50 per head on the table by selling your calves instead of feeding them. Ask yourself, where are the teacher's and economist's feedlots?

Step 9: Break old habits. Don't check the DTN machine first thing when you get up in the morning and every ten minutes thereafter until the markets close. Don't let the price of corn ruin your day and rediscover a new life without margin calls, feed bills, mad cows, dairy buyouts and e coli outbreaks.

Step 10: Remove defects in your character. Become a CFA sponsor and don't enable anyone to become an addict by financing them. Help wives and children who have been hurt by your fellow cattle feeding addicts by forming a CFA-anon group in your area.

Step 11: Pay your taxes. Stop buying trainloads of grain in December just to avoid paying taxes. Burn the money instead and save yourself a lot of grief.

Step 12: Replace the risk-taking behavior and euphoria you feel when feeding cattle with other activities. You may find you get the same rush from less risky activities such as hang gliding, sword juggling, car racing or bull riding. ^{LP}





THERE'S NO LIGHTS ON IN THE BARN

LEWIS BAUMGARTNER

*Not so many years ago,
If you were to take a drive,
Across America's farmland
And thru the countryside;*

*If by chance your ride should happen,
As the day was nearly done,
Most every farmstead on the road,
Would have the barn lights on.*

*The farmer and a kid or two,
Or maybe even more.
Each one busy with a task,
Doin' up the evenin' chores.*

*Milk the cow, feed the chickens
And gather up the eggs.
Throw some hay down from the loft
And water the sow and pigs.*

*Sometimes my mind will wander back,
And I'll recall those days, now gone,
Of peaceful winter evenings,
And the lights on in the barn.*

*The smell of all the cattle,
Mixed with the grain and hay.
To me it was a pleasing smell,
Though, to you, it may not sound that way.
And while filling up the water tank,
I'd watch the cats at play.
A nearly perfect ending,
To another busy day.*

*Then gazing toward the house,
I could see the kitchen light.
Momma's fixin' supper,
To feed us all tonight.*

*And the warm glow from that window,
Made this country boy work hard,
To get in to that apple pie
And that chicken fried in lard.*

*But the trend today is larger,
And fewer family farms.
Not so many places left now,
With the lights on in the barn.*

*They tell us that it's progress,
And nothin' stays the same.
We must look toward the future,
And not the past from where we came.*

*And I know, that is true,
But tell me, what's the harm?
If I feel a twinge of sadness,
Cause There's No Lights On In The Barn.*

*Everything is gettin' big,
And no one seems alarmed,
That the chickens and the hogs now,
Are mostly raised on Factory Farms.*

*We've taken out the fences,
And...the barn....it's been torn down.
It takes a lot of room,
To turn 16 rows around.*

*My favorite memories take me back,
To the way we used to farm.
To a peaceful winter evening,
With the lights on in the barn.*





STOKES (continued from page 1)

I don't believe we're going to see any legislative relief from these rigged markets anytime soon. The regulatory agencies seem to be the only reasonable hope in the near term. I know that there is lots of cynicism and skepticism concerning DOJ and USDA moving against these big firms and their anticompetitive practices. Some dismiss the upcoming joint DOJ/USDA workshops as just the usual bureaucratic smoke-blowing.

But I believe these folks are sincere and that something good will come from this new cooperation between DOJ and USDA and the five workshops. I view the formal inquiry DOJ launched against Monsanto and Dean Foods and the \$900,000 fine against Smithfield for jumping the gun on its merger with Seaboard as pretty good evidence that they are serious.

Trial and appellate court judges seem to have a habit of legislating from the bench and encroaching on the established regulatory authority of GIPSA. In at least three cases they reversed jury verdicts that were sound and consistent with the facts and plain language of the P&S Act. But I am optimistic that the ongoing rulemaking process for the Packers and Stockyards Act of 1921 will reestablish the original intent of this act which is so vital for the protection of cattle producers.

I see this as a moment in time in which the stars are in proper alignment for bringing competition and fairness back to the marketplace. If there was ever an opportunity for market reform, this is it. Cattle producers at all levels need to rally around their common interests and agreements, put aside their differences and **act** to fix this broken market system. The survival of our industry and our national food security depends on it.^{FS}

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Graham haven't won over fellow conservatives who think "cap and trade" caps profits, too. But farms could be the biggest beneficiaries of carbon trading when they sell the greenhouse gas credits from their fields, ethanol refining, biomass pellets, methane capture, or farm based wind and solar energy.

In these troubled times with the domestic budget facing cutbacks, farmers can no longer be sure that low prices will get the same helpful subsidy consideration from USDA. That means new energy products and markets might make a difference between earning a profit, or going in the hole.

Retired military officers Marine Brigadier General Steve Cheney and Army Major General Paul Eaton both agree that climate and energy are important to national security. General Cheney said that sometimes our focus on current problems like energy costs, keeps us from focusing on problems down the road. Things like our climate-- and energy independence. General Eaton, whose three children serve their country in the military, agreed, saying "What happens to them depends on climate change (and US energy policy)".

A lot of farmers haven't made the connection that without an energy bill and carbon trading, there's no real fundamental support for the renewable energy products we rely on to make our farming profitable today. They, right along with General Eaton's offspring, are at the mercy of big oil and lobbyists.

Ethanol was struggling against competition from petroleum and the gasoline additive MTBE, until MTBE in ground water convinced EPA to require its removal. That left ETBE (ethanol) as the only oxygenate available for

blending. Big oil argued to have the entire oxygenate rule rescinded because they didn't want to buy our product. It was the only fuel additive they couldn't manufacture themselves. (6) EPA stuck by their guns, and blended gasoline remains a requirement, which is the main reason most US ethanol refiners are still in business.

Even if they don't want to, the petroleum companies have to provide us with a market. Let's face it, not many farmers own a filling station.

Anytime a farmer says there's nothing wrong with CO2 in the atmosphere, he's also saying we don't need biofuels. It's simple as that. The longer we oppose carbon trading, the deeper we burrow into big oil's control.

Sometimes digging isn't all bad. It gets the crops watered and holds the livestock in. It even keeps foxhole bound soldiers out of harms way.

But for farmers, digging for the wrong reason just makes the hole deeper.^{RO}

- (1) <http://www.cleanenergyworks.us/>
- (2) http://www.businesswire.com/portal/site/home/permalink/?ndmViewId=news_view&newsId=20100126006473&newsLang=en
- (3) <http://www.gurufocus.com/news.php?id=83089>
- (4) <http://www.pauwels.com/launch.cfm>
- (5) <http://gas2.org/2009/03/31/chinese-electric-cars-coming-to-costco-wal-mart/>
- (6) http://www.cato.org/pub_display.php?pub_id=4609

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STEVENSON (continued from page 2)

out enforcement, rules are meaningless. As previously stated transparency provides a head start in rule enforcement. When the eyes of the whole market are on each and every transaction, it makes it easier to enforce the competitive marketplace requirements.

We don't have to re-invent the wheel in order to find an example that has many of these features. The stock exchanges provide many examples of how to conduct a competitive market. There is seldom a debate about whether a stock price is the "natural" price. Adam Smith's "natural" price will occur anytime these features exist in the marketplace.

Of course there would be many tweaks to make such an exchange work for cattle. That remains to be addressed. The fact is that a competitive market is absolutely necessary for both consumers and producers. Whatever is needed to attain it should be done.^{RS}

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