OCM
Organization for Competitive Markets

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THE Stevenson REPORT

The Merger of Government and Business

BY RANDY STEVENSON, PRESIDENT

Quite some time ago I came to the conclusion that the merger of business and government is just about the worst economic situation this country can face. I have not changed my mind. In fact, further observation just reinforces the premise. I have also contended that this undesirable merger can take place by business dominating government or by government dominating business. Either way is bad. One flows from the absurd extension of certain conservative ideologies, while the other flows from the extension of certain liberal ideologies.

We have seen both of these kinds of things happen, sometimes simultaneously, in the recent past. As an example of a business dominating government, we can look to Monsanto. That is a multinational corporation that has for the most part been given free rein to do what it has wished to do. Sometimes it has lobbied and exerted an inordinate legislative influence, and sometimes it has been in the rulemaking and enforcement process. These accomplishments by Monsanto have worked to the detriment of competition.

We can also see the heavy hand of government in some of the bailout activities. The government picked winners and losers. Bear Stearns and Lehman Brothers were losers while Goldman Sachs and J P Morgan were winners. In a competitive market, perhaps all of them should have lost, and some newer or smaller firms should have won. We might also argue that the presence of many former Goldman Sachs executive in high positions in the government may indicate that Goldman Sachs was dominating the government. In the world of revolving door personnel changes between big corporations and government positions it's hard to decide which way the power flows. With that being the situation, we could say that a merger of sorts has effectively, although not officially, taken place.

... our founders came up with principles of governance that formalized a balance of power so that no entity could abuse and oppress the citizens of our country.

When left and right agree on something, it is either tremendously good, or it is tremendously bad. What seems to be the outcome, regardless of rhetoric, is that the government gets bigger and more powerful, while at the same time big corporations get bigger and more powerful.

What is even more disturbing is when even the rhetoric starts to sound the same. Mike Callicrate has recently pointed out that a speech given by Secretary of Agriculture Vilsack at the Rural Summit in Hillsboro, Missouri, could have been given by any Secretary of Agriculture in the last 50 years. It seems some things never change.

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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.

Is The Beef Cattle Industry to become Chickenized?

by Fred Stokes, Executive Director

Professor Neil Harl, a prominent Iowa State University attorney and agricultural economist, often says that concentration and vertical integration are a deadly combination. This is a condition that characterizes today's poultry and swine industry. Just how deadly this deadly combination can be was made plain at the Joint DOJ/USDA Poultry Workshop in Normal, Alabama on May 21st.

A precession of contract poultry growers lined up to tell their stories to a panel which included USDA Secretary Vilsack, U. S. Attorney General Holder and Assistant Attorney General for Antitrust, Christine Varney. Many prefaced their remarks by saying that their very presence at the event could prompt severe reprisal action (contract termination) by the company they were under contract to. The stories were similar; detailing how the companies (integrators), wielded their abusive power over them.

In the contract poultry business, the chickens and feed are furnished by the integrator while the grower provides the facilities, utilities and labor. The grower is paid based on the pounds of chicken produced. The integrator's leverage over the grower results primarily from the large, long term debt (frequently for more than a million dollars) growers incur to build their facilities and their dependence on profits from contract growing to pay the note. They have a long term mortgage but are assured of only one batch of chickens. In some cases, there are multi-year contracts but Dr. C. Robert Taylor explained that, regardless of the length of the contract, the integrator is only contractually obligated to provide one batch of chickens. Returns to the producer for his investment and labor have historically been slim and this arrangement hardly provides the freedom and independence that attracts most to farming.

Many say that the cattle business can not be vertically integrated since a cow costs much more than a chicken or pig. They say that packers simply would not have the vast financial resources to own the cattle they need. I believe packers have the ability to impose integration without having to own the cattle. The four big packers control more than 80% of the fat cattle slaughter. This gives them the power to make all sorts of demands on producers in exchange for market access. As an example, a packer could stipulate that he can only use cattle meeting specific specifications; verified by their people conducting on-farm visits/inspections. This sort of market concentration conveys this kind of power.

The best near term prospects for fending off vertical integration of the beef cattle industry lies with restoring the original intent for the Packers and Stockyards Act of 1921. This piece of antitrust law is unique in that it protects producers rather than consumers. Over the years, this law has been gutted by ideological judges who ignored or misapplied its plain language. In

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OCM

12TH ANNUAL CONFERENCE

TUESDAY-WEDNESDAY

August 10 and 11, 2010

Doubletree Hotel, Omaha, Nebraska

– PRE-CONVENTION HIGHLIGHTS –

Peter C. Carstensen, Speaker

Mr. Carstensen has been invited to join us as a panel speaker at our convention. We are presenting a panel on the Broken Cattle Market System: Part 1-The Problem, and Part 2 – The Solution. Mr. Carstensen will be on The Solution Panel. He will give us a summary and analysis of the Packers and Stockyards Act and answer any questions.

Peter C. Carstensen is the George Young-Bascom Professor of Law. From 1993 to 2002 he served as Associate Dean for Faculty Research and Development at the UW Law School. He is a graduate of the University of Wisconsin, and received his law degree and a master's degree in economics from Yale University. From 1968 to 1973, he was an attorney at the Antitrust Division of the United States Department of Justice assigned to the Evaluation Section, where one of his primary areas of work was on questions of relating competition policy and law to regulated industries. He has been a member of the faculty of the UW Law School since 1973.

His scholarship and teaching have focused on antitrust law and competition policy issues. He has published a number of articles in the field, including a number analyzing aspects of the relationship of antitrust law and regulation. He has also done extensive research on the operation and regulation of markets for agricultural commodities. He served as co-editor and primary author of four chapters of the ABA Antitrust Section's monograph, Federal Statutory Exemptions from Antitrust Law (2007). His other areas of teaching and scholarly interest are tort law, energy law and insurance law.

Neil E. Harl, Speaker

Neil Harl is the 2009 recipient of OCM's Helmuth Award. He has been invited to join us as a panel speaker on Seed Concentration at our convention in August. He talked about how deadly the combination of concentration and vertical integration can be at the Joint DOJ-USDA Poultry Workshop in Normal, Al, on May 21.

Neil E. Harl is a Charles F. Curtiss Distinguished Professor in Agriculture and Emeritus Professor of Economics at Iowa State University. He received a Bachelor of Science degree from Iowa State in 1955, a Juris Doctor (law) from The University of Iowa in 1961, and a Ph.D. in economics from Iowa State University in 1965.

His main areas of interest include organization of the farm firm, taxation, estate planning and legal and economic aspects of farm finance. Dr. Harl is author or co-author of more than 450 publications in legal and economic journals and bulletins and more than 800 in various farm and financial publications

Langdon Diary, May 1, 2040

by Richard Oswald

Dear Diary:
Today there is only one farm left in America.

An old farmer once said: “This is how it is with the kingdom of God; it is as if a man were to scatter seed on the land and would sleep and rise night and day and the seed would sprout and grow, he knows not how. Of its own accord the land yields fruit, first the blade, then the ear, then the full grain in the ear. And when the grain is ripe, he wields the sickle at once, for the harvest has come”

Mark made it sound simple. You reap what you sow.

In spite of Biblical warnings to the contrary, all the farmers in America have finally been replaced by a wholly owned subsidiary of The Seed Company Inc., which in turn is owned by The Chemical Company Inc. The single giant limited liability farm corporation will be called simply, The Farm Inc.

Thanks in part to unlimited government support for any farm, no matter how large, we have reached this ultimate pinnacle of success. If critics of small farm agriculture are correct in saying that large farms are more efficient, it can’t get any better than this.

That doesn’t leave us much to look forward to, does it?

Diary, many may have forgotten how The Farm Inc. came to pass. I remember that it was planted in our farm and food policies eons ago.

Back in 2010, a different old farmer told me, “What we need isn’t more cows, we need more cowboys. And we don’t need ten, 10,000 acre farmers as much as we need one hundred 1,000 acre farmers.”

In those days everyone was free to soak up as much Federal money as they could. The only chance little guys had was by getting bigger. And when farmers got bigger, rural towns just got smaller and smaller as 1,000 farmers became 100, then 10, and now only one.

It was all done in the name of efficiency and profit.

Eventually we turned livestock operations over to the The Packer Inc. who worked with The Retailer Inc. to the point that today, only the biggest can pay to play the game. All they really had to do to make it work so well was keep profits at the upper end of the food chain. When they took profit away from growers, the growers gave them what they wanted all along —total control. But even after all that consolidation, there are still people in the world who are hungry. That’s because the hungriest people are also the poorest people.

> “What we need isn’t more cows, we need more cowboys.

Efficiency and profit have nothing to do with feeding the underprivileged.

It’s like those games of keep-away we used to play in grade school. The little kids never had a chance against the big kids unless somebody dropped the ball. That didn’t happen much on school playgrounds, or on the farm either.

First I’m it. Now I’m out.

My farmer neighbors have all moved away here in 2040. There’s no reason to stay. Rural is just another name for ghost when it comes to our towns.

Whatever farm labor isn’t done with robots is accomplished by nomad immigrants who come and go with the seasons from China or Korea. Next year they may come from India or South America. It all depends on where labor is the cheapest for The Farm Inc.

Of course without cheap labor, corporations can’t make the dough they want, and so we have to buy our bread from countries where work pays less. No matter where the food comes from, however, the same corporations control it. Back when we had family farms, income may have left something to be desired, but the people who did the work took pride in what they did. We didn’t have to go far to buy their products, either.

We’ve gone from having the brotherhood of man to the smaller brotherhood of global businessmen.

This is what I call progress.

In the early 20th century a Russian dictator named Stalin decided that in the name of efficiency, all of Soviet agriculture should be collectivized. Stalin envisioned huge fields worked by fleets of state owned farm tractors.

In an almost biblical purge, Stalin kicked farmers off their land. Some of them he killed, others he relocated far from home. Loading huddled masses onto cattle cars doesn't look good on the six o'clock news, so in more modern times we've seen economics and farm programs used as means to the same end.

I suppose I should be grateful for small favors.

But Stalin failed, because output fell on his big farm collectives while production on small plots of land by individual peasant farmers increased. Stalin didn't realize that the best way to enslave people is by convincing them they want to work for almost nothing, not by telling them they have to.

About a century later there was a study done at Stanford University showing that when land is readily available, more small farmers go to work. But if land becomes expensive and hard to get, small farms tend to disappear.

Stalin used his political power to do the same thing that focused government subsidies did for large farms. Both deprived farmers of the opportunity to farm by limiting the availability of land and income.

Nothing remains the same, of course. The latest news out of Washington is that America's one big farm isn't efficient enough to compete with the one farm in Asia, where labor is dirt cheap. Too much competition limits profit and threatens production which in turn, they say, means more of the world's people will go hungry.

There's talk of a merger.

Combined, they should be very efficient.[RO]

STEVENSON (continued from page 1)

Fortunately, there are some individuals from both sides of the aisle who see the light, or at least some of the light. The antitrust related activities of GIPSA and DOJ are a refreshing difference from business as usual. Some of the objections to free trade policies have come from individuals with diverse backgrounds ideologically speaking. The quandary seems to be that the more power an individual possesses, as an executive of a big business, or as a power broker in government, the more they seem to like the idea of a merger of government and business.

I have always described myself as an equal opportunity political agitator. I will continue to throw metaphorical rocks at real situations and people who help create those cozy relationships between government and business that bring devastation to competition.

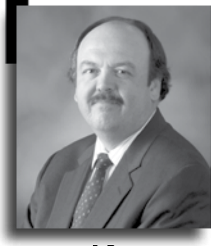
The populist unrest that swept the current administration into power and the Tea Party movement have something in common. Neither likes the seemingly unchangeable fact that big government and big business have too many cozy relationships. Popular opinion chafes at the oppression of the big entities. Two hundred years ago, those two big entities were King George III and the East India Company. As a result, our founders came up with principles of governance that formalized a balance of power so that no entity could abuse and oppress the citizens of our country. That balance of power needs refreshed today with the restoration of competition.[RS]

STOKES (continued from page 2)

several cases tried under this act, unanimous jury verdicts were overturned with absurd judicial rulings. While the jury found for the plaintiffs and prescribed a sizeable award, the judge not only took the award away but saddled the plaintiffs with court costs.

But maybe relief is in sight. The U. S. Department of Agriculture (USDA) was designated by congress as the administrator of the P&S Act. This means that USDA is the one to not only enforce but also interpret the act; the one to say what it says and what it doesn't. The current farm bill required USDA to issue rules clarifying several aspects of the P&S Act. These rules have now been written and their release is imminent. Hopefully, they will satisfy our high expectations. But in any event, OCM will be commenting publically on them when they are released.

OCM will address these and related issues at our upcoming conference in Omaha on August 10th and 11th. We have designed the conference as a run-up to the Joint DOJ/USDA Livestock Markets Workshop to be held in Ft. Collins, CO on August 27th. We see the current joint efforts of DOJ and USDA as the best hope for effectively dealing with concentration and lack of market competition and securing a viable future for independent agriculture. We encourage your attendance at our conference and urge you to help generate an overwhelming crowd for the Ft. Collins Workshop. We can fix things if we make the necessary commitment. This is an historic opportunity that we must not squander![FS]



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DAVID KRUSE
PRESIDENT, COMSTOCK INVESTMENTS
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Contract livestock production where there is no public market is not for me. The poultry industry adopted contract production first and the pork industry has for all intent and purpose, followed, thinking that it had to become like the poultry industry in order to compete with it.

The chicken industry was the featured topic of discussion in the USDA's on going competition hearings, this one held at Alabama A & M University. The poultry industry developed its contracting system with USDA looking the other way as ordered by the political bosses in Washington. Those bosses have changed, so now we will see if anything other than attitudes will be different.

Clear rules for fair play need to be established for contract producers, ...

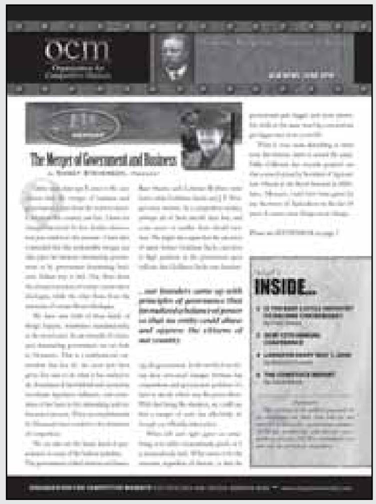
FeedStuffs Magazine says that 75% of all chicken growers surveyed said they were satisfied with being contract growers and were willing to expand. It would be interesting to research whether these growers are really making any money or just suffer, as OCM Executive Director Fred Stokes suggests, from "Stockholm Syndrome."

The Top Four integrators control 53% of poultry production. The top 20 control 92.8% and the top 38 control it all. . .100%. The industry touted a study done by FarmEcon LLC that concluded there was intense competition between the 38 integrators. It's not consumer to farm gate competition, just a contest to see who controls the oligopoly. Clear rules for fair play need to be established for contract producers, but beyond that, the industry structure is unlikely to be changed, so the ball game will continue with whoever wants to play it.

USDA says that it will release new rules updating the USDA's application of P & S statues this month. Changes were mandated in the 2008 farm bill. New regulations may include but not be limited to, "1.) Preventing packers from price discrimination in buying livestock. Farm activists say small and medium size producers do not get as good a price as big producers. 2.) Giving poultry producers the right to refuse arbitration in a contract dispute and take the issue to court. 3.) Requiring poultry processors to warn producers if they will delay delivery of a new flock of birds. 4.) Mandating poultry processors to tell producers in advance of improvements that will be required in feeding houses. 5.) Giving swine and poultry producers a reasonable amount of time to correct problems that could lead to termination of a production contract."

The hearings will continue. The next round on livestock will be held in Fort Collins, Colorado on August 27th.DK

David Kruse is president of CommStock Investments,Inc., author and producer of The CommStock Report, an ag commentary and market analysis available daily by radio and by subscription on DTN/FarmDayta and the Internet. CommStock Investments is a registered CTA, as well as an introducing brokerage. Mr. Kruse is also president of AgriVantage Crop Insurance and Brazil Iowa Farms, an investor owned farming operation in Bahia, Brazil. (Futures Trading involves risk. Past performance is not indicative of future performance.) For information on subscribing to the daily CommStock Report, contact: CommStock Investments, Inc., 207 Main St., Royal, IA, 712-933-9400, www.commstock.com. E-mail to: info@commstock.com



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OCM's Annual Business Meeting will be held on Wednesday afternoon, August 11, 2010 - 1:00 PM MTG following the Convention at the Doubletree, Omaha.

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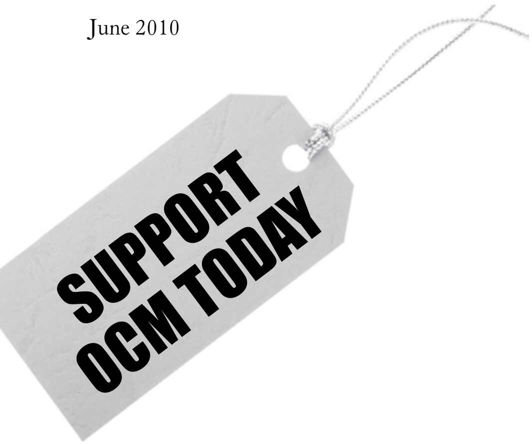

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