



**ocm** is now entering its thirteenth year as an advocate for open, transparent, fair and competitive markets. I offer this somewhat lengthy manuscript to show our early vision and mission and that we have remained true to these precepts over the years.

## The Changing Structure Of American Agriculture

### WILL THE FAMILY FARM SURVIVE?

THOMAS F. "FRED" STOKES, EXECUTIVE DIRECTOR  
SUMMERVILLE, TENNESSEE — MARCH 16, 2000



I'm Fred Stokes from Porterville, Mississippi, a little withering rural community some two hundred miles south of here. I want to thank Don Dowdel and everyone else who had a part in setting this meeting up. I want to thank each of you for taking the

**"The companies don't own farms, they'll own the farmers."**

trouble to come. I also want to thank those in the press who are covering the meeting. I hope that my remarks and the discussion afterwards will make it all worthwhile.

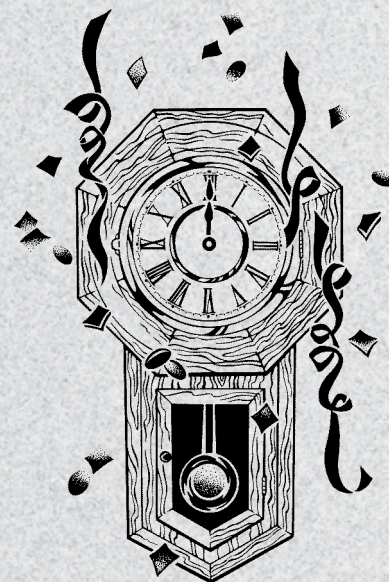
I believe we are about to put in place a new agricultural system in this country and to some extent around the world. I am very concerned about what I see emerging as a replacement to the tried and proven private agricultural system; — that has given this country the most abundant, lavish and affordable food supply in the history of man.

Bill Bishop, formerly an editorial writer for the *Lexington Herald Leader* and is now working for a paper in Austin, Texas wrote; "In the new agriculture everyone works

for the man; they'll raise his crops and livestock. They won't farm they'll fulfill contracts. They will be tractor drivers for Cargill and hog-house janitors for Smithfield. The companies don't own farms, they'll own the farmers". Clearly, he was a keen observer of what's going on. These things are happening in order to enrich some at the expense of others. It's about money and power rather than the claimed efficiency and better service to consumers.

I spent twenty years in the Army and had two tours in Vietnam (John Brannon was in the same outfit) before returning to my home county in Mississippi in 1972 to go in the cattle business. Unlike some, I did not have a problem with the purpose behind our being in Vietnam. Containing the spread of communism was a worthy cause in my book. Perhaps we could have conducted that conflict in a better way, but I did not disagree with our purpose in being there. Certainly not as a result of Vietnam; but today the icons of global communism are in shambles. The Berlin wall, the Soviet Union; they're now fading memories. Castro, North Korea and Vietnam are still

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**2011!**

What's

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*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.*





# Free Clothes

BY RICHARD OSWALD

The worst thing about being a farmer is free clothes. Let me explain;

In the city awhile back I shopped around for new car deals. I was just looking when up walked a salesperson. When her eyes locked on my corporate logo I received an unsolicited offer right there in the showroom. "Would you like to know more about the fleet discount?" she asked seductively.

Being a city gal, she didn't realize I was only a sheep in wolfs clothing.

I should explain. In exchange for buying lots of 'stuff' and paying big expenses, farmers get giveaways to sweeten the deal. It helps take their minds off the high price of inputs. Other than outdoor thermometers and rain gauges, some of the most popular giveaways are things we wear.

Need seed? Get a cap. Buying a new tractor? A jacket is mine...even a shirt...

## "The worst thing about being a farmer is free clothes."

all with the company name and logo of the product I bought printed across my forehead and over my heart. The way the world works is that corporate America always has a sweetheart deal for its best customers. The more products we buy the cheaper they all get...right along with free clothes. I'm labeled just like the discounted products I use.

That's the outfit I had on that day in the showroom.

I thought she was pulling my leg. So I asked my new car dealer friend how she could possibly sell more for less.

"Shouldn't it be the other way around?" At first she looked puzzled. That's when I tried to clarify my remark by explaining the cattle market.

Based on the way fed cattle are bought and sold, a car maker-like GM or Chrysler- should pay more for steel, tires, and plastic in bulk...not less...and fleet cars should cost more than single units.

That must make sense to packers and their big feedlot buddies who say buying that way delivers better uniformity and advantages in the marketplace—just like buying a fleet of overpriced yellow sedans would somehow help keep the cab company from going broke. Based on the US beef trade, giving out big buyer fleet discounts is just the opposite of good business.

"It's the American way," I said, "proven in livestock markets year round, across this great land, where real cash trade price discovery takes place for 5 minutes once a week"

She looked at me like I must be nuts.

"Look" I said, "you gotta try to understand. The way to make money is by starving your bread and butter clientele into making bad deals. Stop this insanity of staying open 12 hours a day, 7 days a week. Operate like the cash beef trade. Open no more than once a week for just a couple of hours. When customers show up, no negotiation, no bartering, take it or leave it with 5 minutes to decide. Remember, all sales are final, no exceptions (except for just a few who help you control the market), disputes will be settled through mandatory binding arbitration. But all of it has to be kept secret...or else."

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STOKES (continued from page 1)

around, but communism is a discredited political and economic system and destined for the ash-heap of history. Central planning did not work. **COMMUNISM FAILED!**

That said; one would have to ask why we would want to consider adopting an American version of the failed Soviet collective farm system for this country. Feedstuffs Magazine ran an article in their September 13, 1999 edition which should have caused rioting in the streets. It said in part;

**“American agriculture must now quickly consolidate all farmers and livestock producers into fifty production systems. These corporate production systems will control the money and inputs costs while the farmer will supply the land, labor, equipment, and infrastructure to produce grains, meat, and fiber.”**

Feedstuffs is a respected and widely read publication. This is not some idle notion but rather a concept that is discussed at some very high levels. There are people that seem to really believe we should scrap the family farm and install a system of collective farms.

As much as I feel for those who are being decimated by this farm crisis, — and I am fully aware of the many horror stories out there, — the financial pressures, the domestic violence, problems with alcohol, the suicide rate among farmers and all the trauma, I am more concerned about what we are doing to the fundamental structure of our country. At issue is freedom and liberty and justice and full citizenship. People are being exploited by the powerful who want to make huge profits anyway they can. Farmers are being subjugated to these big agribusiness interests and forfeiting their rights as free American citizens in the process.

*“BEYOND AGRICULTURE; New Policies for Rural America”*, is the title of a conference to be held in Kansas City, April 27-28. The conference is being sponsored by the Federal Reserve Bank of Kansas City Center for the Study of Rural America. The Director of the Center for the Study of Rural America is one Mark Drabenstott, also Vice President of the Federal Reserve Bank of Kansas City.

Mr. Drabenstott is perhaps the most biased and vocal proponent for the industrialization, concentration and vertical coordination of American Agriculture. By any objective measure, his views are at the radical end of the industrialization side of the debate over the future of agriculture.

The Center for the Study of Rural America, by its title implies an objective pursuit of solutions. But, Mr. Drabenstott is the Director and clearly has his mind already made up. Accordingly, it is extremely unlikely that the positions and conclusions emanating from the Center will be a significant departure from the extremist philosophy of its director. The family farm is not going to be any part of the remedy for the problems of Rural America!

A major concern is the ethical implications of the Federal Reserve's role in the debate over the future structure of agriculture. It smacks of “big brother”! The title of the conference itself, “Beyond Agriculture”, conjures up images of a country side devoid of farms and farm culture. The presence of Alan Greenspan at the conference inappropriately confers his personal prestige to the event and its message. It might be said that the fed is being used as a soapbox to propagandize the public with Mr. Drabenstott's views; and that The Center for the Study of Rural America is not a center of study at all, but rather an *indoctrination center*.

Mark Drabenstott must be exposed as the icon for a goofy idea! This conference on April 27-28 must be answered with a contrasting vision; one that acknowledges

the multidimensional benefits of independent agriculture, provides for a secure food supply for our people and preserves the rural culture.

There is an effort, well along in planning that would do just that. Stay tuned!

It used to be said that the remedy for low prices was low prices. That is not true anymore. Concentration and the global marketplace have changed that. Now prices go down and — then go down even further. Giant transnational corporations comprise the New World Order and global economy. They use their market power to leverage the underprivileged of the world against American producers to drive commodity prices lower and lower and lower; and to make vast fortunes for themselves in the process.

Concentration and vertical integration has destroyed functional markets. These days, prices are pegged in boardrooms by edict rather than being the product of marketplace dynamics. Aided and abetted by government policy, these bullies of global commerce exact undue fortunes with their “sell it or smell it” approach to prices discovery. Proud and independent farmers are brought to heel and rural communities are ravaged by this rapidly emerging *“seamless vertical structure”*.

The poultry industry broke trail thirty years ago and now it seems that all farm commodities are queuing up to travel the same path.

It is ironic that we are helping the Russians establish competitive model for their markets at the same time we are in the process of destroying competition in markets here at home.

John Helmuth, was a founding member of The Organization for Competitive Markets and a fine economist. John passed away shortly after this past Thanksgiving. He spent a couple of years in the Ukraine helping establish commodity markets.

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OSWALD (continued from page 2)

I guess that was enough car shopping for one day. She accused me of being a corporate imposter and had Security escort me off the premises.

Of course, GM doesn't buy the iron it needs from steel mills with the highest bid. Wal-Mart doesn't stock shelves with the most expensive Asian made TVs. With consumer goods, cars, seed, or commodities, purchasing in bulk always nets savings for buyers.

Well- almost always.

For the biggest meat packers only, selling volume nets big premiums. That's why packer-friendly feedlots get more bling than littler guys even if though different people's cattle may all grade just alike. For big packer and retailer profits to come true, cattle need to trade quietly, behind closed doors on hush-hush contracts where no one, especially the cash market, will ever know exactly how they sold. When packers are allowed to own cattle and keep them off the open market, real price discovery, the kind of thing that takes place between 7 different automobile dealers when they bargain with the same customer, never happens. Without that, regular cattle producers are never sure exactly how much their cattle should be worth.

Wouldn't that be a great way to sell cars?

America once had loads of raw food suppliers. Farmers worked hard every day to make sure dinner tables—including their own—were always full. The harder we worked the cheaper food was. Back in the fifties and sixties, poultry still came from family farmers who produced for competitive markets. Up through the eighties we got pork the same way. Into the 90's things started to change faster for dairy as Food Corporations looked for ways to control costs, supplies, and profits. That's why today fewer family

farmers still produce chicken, pork, or milk.

Now the US cowherd is in decline even though beef consumption and consumer numbers are up.

In the meantime producer contracts based on obscure pricing formulas from spotty markets paint pictures of a cattle market that's anything but pretty. Farmers and ranchers who take pride in safe, healthy, quality products never know for sure if their cattle were purchased fairly or picked off in a secret market.

Agricultural production is becoming a commercial closed loop farmers can't seem to break. Now the noose is tightening on beef. That's why we need government help and voter support for better rules and enforcement of the 90 year old Packers and Stockyards Act. Without that, independent farmers and ranchers might as well wear corporate uniforms to work every day.

Come to think of it, I guess some of us already do.<sup>RO</sup>

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John lectured us with a single fundamental premise:

***"When fewer and fewer individuals make more and more of the economic decisions, whether those individuals are in government or big business, the result is anti-competitive, inefficient and harmful to the society as a whole. But when more and more individuals make more and more of the economic decisions, the result is more competitive and more beneficial to society as a whole"***

This essential idea was presented another way in a recent *New Yorker Magazine* article. Economics writer John Casidy wrote:

***"By allowing millions of decision-makers to respond individually to freely determined prices, it allocated resources – labor, capital, and human ingenuity – in a manner that can't be mimicked by a central plan, however brilliant the central planner."*** Competition is almost magic! Competitive markets are the missing essential aspect in "freedom to farm". The "counter cyclical mumbo-jumbo" aside, the FAIR Act of 1996 can not be made to work without competitive markets. At this point, this farm program is a dismal failure. We should scrap it and start with a blank page.

***"This program is getting more and more expensive with fewer and fewer satisfied customers," Sen. Bob Kerrey, D-Neb.***

I just came back from Washington last week. Practically everyone in government agrees that we will have another multi-billion dollar bailout this year. That's three in a row and a damning indictment of the current farm program. Farmers cannot get their livelihood from a marketplace that does not exist.

Representative Larry Combest and his House Agriculture Committee are holding field hearings in Memphis tomorrow morning. I hope he is told over and over again that farmers don't want handouts that are viewed as welfare. They just want to be fairly recompensed from a market system that works. The committee should be told to save the tax-payers money; – just stop the big agribusiness mergers, enforce the antitrust laws and restore competition to the price discovery process.

Dr. Neil Harl, a well known and highly respected agricultural economist and attorney from Iowa State calls ***concentration and vertical integration*** a deadly combination. I would agree. These are the devises being used to bring a modified collective farm system to America. It is sold based on efficiency, – but be



assured it is all about market power and money.

This gimmick was used by the poultry industry thirty years ago to destroy the open market system and bring producers to heel. The instrument used was the **contract**. At a recent legislative hearing in Mississippi there were some five hundred disgruntled contract poultry producers that showed up. Hopefully we are going to pass and get the Governor to sign a Contract Poultry Growers Bill of Rights this year.

The *Baltimore Sun* ran three large, front-page articles last year about the oppression of contract growers by integrators. This is the new plantation system.

Producers of all stripes need to realize that **when they choose to deliver their goods by a contract rather than the open market, the open market soon disappears and then contracting; – under the integrator's terms becomes the only option.** I know that there are some contract growers who are happy with their arrangement. I suspect that many of these people get a special deal; but the other explanation that occurs to me is that some folks just take to servitude more readily than others.

A red herring that is being dragged around these days is that the farm crisis was caused by the collapse of foreign trade. An objective examination will show that these folks are fudging the facts. **NAFTA has not been the farmer's friend and the Asian Flu was not the cause of the farm crisis.** Increased exports will not help producers if prices remain below production costs. Be assured that increased exports do not necessarily mean higher prices at the farm gate. It's all about how the pie is being sliced. The producer needs to get what he has earned.

Let me say a few words about one effort to change these things. The Organization for Competitive Markets is a small

and young nonprofit, 501(c)(3) organization. It is focused on the marketplace and competition issues. We believe that farmers are going broke primarily because they are getting shortchanged in the marketing process.

It is silly to contend that we have a functioning supply and demand situation, when producers go broke while the other players make record profits, – handing the same volume, – of the same commodity. So we want to stop mergers, enforce antitrust laws, label food products as to country of origin, deny packers the right to own and control livestock inventories so that they can break the market at will, and we want to reclaim for producers the right to go to court when there is price fixing at the retail level damages them. If the government is not going to enforce the law, they could at least untie our hands and let us go to court. The Illinois Brick Decision needs to be repealed. A \$600 retail margin on a single carcass of beef is powerful evidence that something is wrong.

This is not some protest movement or another general farm organization. This is a fight about freedom, fairness and social justice. There is certainly no guarantee that we will win. There are big guns on the other side and it is late in the day. I would just say that it will be to our eternal shame if we don't try to avert this new feudal order that looms over Rural America. What will you say to your grandkids? What will history say of us? Good men have paid the ultimate prices for less than what's at stake here! <sup>FS</sup>



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## DAVID KRUSE

PRESIDENT, COMMSTOCK INVESTMENTS  
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Selling pork was profitable last fall. You couldn't tell that by looking at producer margins as they didn't receive a share of it. Packer margins reached \$30 head at one point based upon the pork trade voluntarily reported by packers. Only 3-4% of the product trade is reported, likely the 3-4% that packers who voluntarily report, want reported, so the pork margin is likely even larger.

New reporting rules will reportedly expand pork trade reporting to 30-40% of total volume, which would be a little harder to manipulate. A lot of hogs are priced upon the sliver of pork trade voluntarily reported by packers. Very few hogs are traded in a true price discovered competitive market any more as one really does not exist. They turned boars who were independent hog producers into barrows some time ago.

The structure of the hog industry favors integrated producers today. I was amused to hear the NPPC use the argument against new GIPSA rules that they would force more integration upon the industry. How do you force integration any harder than when packers make \$30 head and pro-

ducers nothing? Believe me, Triumph Foods is going to build that new plant. It is the only way that they can make money from the hogs that they produce the way the current pork industry is structured today. Hog cycle upon hog cycle, the integration of packers owning hogs has advanced to the point that integrated producers control so much production they control the market.

They control both ends. They slow hog marketings so carcass weights set records controlling pork production so that they can sell pork profitably while keeping the hog supply burdensome. They make \$30 head from pork processing using the hogs they raise while buying the few they do, cheaper. One industry insider who is a Pork Powerhouse says that Smithfield took the lead changing its market focus from being a hog producer to being a pork packer using integration as a lever to move the market rather than for diversification.

The problem is that independent producers are being squeezed to the point where the grapes become raisins. You can only juice them for so long before the industry structure changes again shifting toward full contract hog production as packers totally monopolize the industry. Independent producers are on their last

legs with no future in an industry structured like this.

They are told that Ethanol is the cause of all their problems. Yeah, right! Producers were first terrorized with the threat of being denied shackle space for their hogs forcing them to contract with packers to have market access at all. The next step is for the integrators to control how much of the pork margin that producers get. They have proven this fall that the pork margin can be very good and they will keep it all. Independent hog producers are also being told to watch out for those new GIPSA rules as packers may not be able to pay what hogs are worth. Really! As if they are giving producers any of the pork margin now!

The new FTA with South Korea opens up that pork market to the U.S. Will the benefit of improved pork values go to producers or packers? We have not seen it go to producers so the promise of pork export growth goes to the packer's bottom line first and hog producers get what they are given.

I see the battle as lost. Nobody defends independent hog producers, not NPPC or IPPA anymore. In fact, the integrators are using those organizations to keep the hog producers in line where they

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want them. The packers love the status quo, so they don't want new GIPSA rules to upset the racket they have established.

The argument that the rules will stop them for paying more for high quality meat rings pretty hollow against the example they set this fall where they failed to share value from pork with producers at all. Usually when they get caught stealing they let up on the market for a while so the tension subsides. We have had no interest in hedging hogs in an artificially depressed hog market. Producers have tried to make money from productivity but what this has done is maintain burdensome supply. The culling of sows has been offset by herd productivity so fewer sows still produce more pigs.

Pork is sold by the pound not by the head and record heavy carcass weights have kept pork production relentlessly high. Bulls see poor quality corn and heat impacting breeding programs last summer creating a hole in hog supply ahead. That could be, but they will push some marketings back into the hole. The hog industry is tied into production by contracts, so that it is difficult to really get bullish supply news anymore.

China is going to buy more pork next year. Dr. Glenn Grime's domestic pork demand index improved late year. The hope is hinged on export demand growth and that packers will share pork margins with producers, at least enough to keep them in business as their indentured servants, if you call that hope. The hog industry is now solidly structured to give packers and integrators the commercial advantage over producers and they will continue to exploit it with the full force of their market power.<sup>DK</sup>

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