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TRENDS IN LIVESTOCK MARKETING

P. L. MILLER

IOWA STATE COLLEGE, AMES, IOWA

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DURING the past ten years there has been a marked trend toward what is termed "direct" marketing of livestock. For many years livestock marketing tended to become more and more centralized at public stockyard trading centers to which farmers and country dealers shipped the stock for sale and where packers secured cattle, hogs, and sheep for their slaughtering operations. Since 1920 an increasing proportion of livestock, particularly of hogs and cattle, has reached the packer without passing through public stockyards. By various methods of buying and selling, such stock has passed directly from the hands of farmers or country dealers into the hands of packers. Instead of consigning livestock to public stockyard centers for sale, farmers and country dealers have sold increasing numbers of stock at near-by packing plants and packer buying stations or shipped to distant packers on order. Instead of depending upon receipts at public stockyard centers for their supplies, packers have secured increasing numbers of livestock directly from local dealers and farmers. This form of trading is more direct in that farmers and country traders deal directly with packers and their buying agencies. Not only are the trading relations between country sellers and packer buyers closer in this marketing channel, but the movement of stock from feed-lots to slaughtering plants is also more direct. The stock moves from the point of assembly and even from the feed-lot in more direct relation to packers' bids than when consigned for sale to public market centers. Before it moves from the assembly point and even from the farm it is sold, or the terms of sale agreed upon.

However, this marked trend toward direct trading between country shippers and packers in livestock marketing has been closely related to other significant changes in the livestock trade. Prior to 1920 direct packer buying of hogs was not unknown. Far from it. At times when hogs were relatively scarce, packers with slaughtering plants at public market centers bought hogs in the country in sufficient numbers to attract considerable attention in trade circles.¹ But, with the upward swing of the hog production

¹ Monthly Letter to Animal Husbandrymen, Armour's Livestock Bureau, page 5. The Meat Situation in the U. S., Report No. 113, Part V, page 26.

cycles, country buying by packers ceased. Only since the period of the World War has direct packer buying of hogs shown an unmistakable upward trend. Circumstances in the livestock trade of the past decade, not so much in evidence earlier, have furnished the impetus and provided the conditions for the continual and rapid growth of this practice. These circumstances represent in themselves most important progressive changes, underlying, and in a large measure accounting for, the rapid development of direct buying by packers and of another form of direct trading which we shall later differentiate as direct selling by farmers. These underlying trends are:

1. Changing competitive relationships in the hog slaughtering industry.
2. Rapid improvement in rural transportation.
3. Integration of local and terminal trading centers ensuing from, (a) progress in market communication, featured by highly developed market news reports widely and quickly disseminated, (b) wide spread development of farmers' cooperative local shipping associations and terminal selling agencies.

This paper will present a survey of the direct marketing of livestock in terms of the forms it has assumed, with a brief account of the underlying factors responsible for it or favorable to its development. Mr. Ashby's paper which is to follow, will, I believe, present a more thorough report of the remarkable developments in transportation and market communication and also of the progress of farmers' cooperative terminal sales agencies, which have been most influential factors in the evolution of livestock trading methods.

EXTENT OF DIRECT MARKETING OF LIVESTOCK

Direct marketing has increased most rapidly during the past decade in the Corn Belt States, where, in an earlier period, public livestock trading centers had become dominant. In other important livestock producing sections of the country—in the West and Southwest—public stockyards trading centers have not developed as they have in the Corn Belt States. As the slaughtering industry has grown in the cattle producing regions of the West and Southwest, packers have secured their supplies of meat ani-

mals by purchase at shipping points and even on the ranges. Here, direct marketing has always been the rule rather than the exception. A study by the United States Department of Agriculture, published in 1916, sums up livestock marketing methods in the United States as follows: "It appears from the investigation herein reported that there is a wide variation between one agricultural and livestock producing section and another with respect to marketing methods, shipment to the centralized markets being practised most generally in the Central States, and the local utilization of meat animals being most common in the East and South, while selling to packers or dealers at shipping points is characteristic of large sections in the West."² According to this study from 80 to 90 per cent of the livestock marketed in the Corn Belt States passed through public market centers. At that time these trading centers were supreme in the livestock trade of the paramount producing section of the United States and to the authors of this report their supremacy appeared to be secure.³ Other investigators of that period and even several years later shared this opinion.⁴ Yet, since 1918, a constantly and rapidly increasing proportion of the livestock produced in the territory tributary to these stockyard trading centers has found its way from farmers and country dealers to packers, without the assistance of the facilities and services of these trading centers.

A cursory examination of statistical data will suffice to indicate the headway gained by this significant departure from the well entrenched and generally accepted public market method of livestock marketing. That the proportion of hogs reaching the packer over the public market route has declined, appears at once from the data on public stockyard receipts and on total annual slaughter. If all hogs slaughtered were purchased by packers at public stockyards, total annual receipts at these centers would exceed total annual slaughter because many animals are counted twice and some even more than twice in the receipts, due to the fact that they are shipped from one market to another. Then too, available annual data on slaughter only refer to federally inspected slaughter, which amounts to from 60 to 65 per cent of total commercial slaughter. For these reasons we are unable from these data to

² Ibid. page 16.

³ Ibid. page 28.

⁴ The American Livestock and Meat Industry, Rudolf A. Clemen. Page 534.

deduce the percentage of all hogs slaughtered annually that were marketed through the public stockyards. We are able to infer from them only the change in relative importance of the public stockyards as sources of packers' supplies. For 1920, public stockyard receipts of hogs were 1.11 per cent of federally inspected slaughter.⁵ By 1926 they had declined to 0.98 per cent of slaughter and in 1929 they were only 0.91 per cent. These data roughly indicate a decline of 18 per cent in the proportion of hogs moving through public stockyards.

The United States Department of Agriculture has published more specific data on sources of livestock slaughtered in the United States.⁶ They show the proportion of each species of livestock slaughtered under federal inspection which were secured at the public markets, and the proportion secured from "other sources." The "other sources" indicate the extent of direct marketing. According to these data, in 1922, packers secured 76.4 per cent of their hogs from public markets and in 1929 only 59.8 per cent. Conversely, direct marketing of hogs increased from 23.6 per cent of all hogs slaughtered under federal inspection in 1922, to 40.2 percent in 1929.

In the Corn Belt States where hog production centers, and where it has increased most rapidly since 1920, direct marketing has made the greatest increase. Data supplied by the Bureau of Agricultural Economics, United States Department of Agriculture, indicate that 20.2 per cent of the hogs produced in 8 north central states were marketed directly in 1920 and approximately 35 per cent were marketed directly in 1928.⁷ Similar data for Iowa, the premier hog producing state, clearly indicate that where the hog trade has the greatest relative importance, direct marketing has rapidly gained the upper hand. In 1920, a little less than one-third of the market supply of hogs from Iowa were marketed directly and a little more than two-thirds were sent to public market centers.⁸ In 1929 this situation was reversed; approximately two-thirds were

⁵ Yearbook, 1930, U.S.D.A.

⁶ 1925 Yearbook, U.S.D.A., p. 1186, for years 1922-1925. Monthly Crops and Markets, U.S.D.A. for years 1926-1929.

⁷ The states included are North Dakota, South Dakota, Nebraska, Kansas, Missouri, Iowa, Minnesota, and Wisconsin. These data do not include hogs shipped directly to packers at public market centers. Consequently, they under-estimate the extent of direct marketing.

⁸ Iowa Monthly Crop Report, January issues, 1920-1928. Infor. for 1929 compiled from data supplied by Des Moines office of Bur. of Agr. Ec., U.S.D.A.

marketed directly and the remaining one-third shipped to public market centers.

Direct marketing of slaughter cattle, calves, sheep and lambs in territory tributary to public market centers has not kept pace with that of hogs. In the case of sheep and lambs there appears to be no tendency toward direct marketing. But in the case of slaughter cattle and calves, the statistics disclose a tendency toward direct marketing in the central states. Data published by the United States Department of Agriculture, referred to above, show that in 1924 packers secured 9.23 per cent of the cattle and 12.92 per cent of the calves, slaughtered under federal inspection, from sources other than the public stockyard centers. In 1929 the percentages had increased to 11.1 per cent for cattle and 16.55 per cent for calves. It has already been noted that direct marketing of slaughter cattle has always prevailed in the West and Southwest. The increase here noted in direct marketing of cattle and calves must have occurred in the Corn Belt States. Direct evidence of this is supplied by data for Iowa. In 1929, 12-14 per cent of the slaughter cattle and calves from Iowa were marketed directly as compared with only 2.4 per cent in 1920. While these increases in direct marketing of cattle and calves are not as impressive as in the case of hogs, they seem marked and persistent enough to furnish additional testimony to the declining relative importance of public stockyards trading centers as media in livestock marketing.

Data at hand for studying methods of marketing feeder cattle, calves, sheep and lambs are very meager. The only statistics are for stock moving through public market centers. There is no doubt concerning the continued importance of these centers as gateways through which feeder stock moves from producing regions to the feed lots of Corn Belt farmers. Yet, considerable feeder stock is marketed directly. Experienced feeders visit the ranges for the purpose of selecting and purchasing stock for their feed lots and those of their neighbors. Local dealers import stock directly from the ranges to supply their local trade. It is not unlikely that this method of marketing such stock is increasing. At any rate the feeder cattle and lamb pools of the National Livestock Producers' Association is a significant instance of direct livestock marketing in recent years.⁹

⁹ Annual Reports, National Livestock Producers' Association, 1926-1929.

DIRECT PACKER BUYING IN LIVESTOCK MARKETING

In the Corn Belt States where direct marketing has made extensive inroads into the public stockyards system of marketing, the prevailing form is direct buying by packers. Under this form of buying packers secure their supplies through a country buying system which enables them to bid directly for their livestock, accept delivery at the plant, concentration station, or even on track at shipping point, and in accordance with bid prices upon inspection of the stock. The following is a classification of methods of direct packer buying:¹⁰

- I. Operation of country buying agencies.
 1. Packer track buyers.
 2. Packer concentration stations.
- II. Buying through private operators delivering to plant.
 1. Local stock dealers.
 2. Private concentrators.
- III. Buying from producers delivering to plant.
 1. Farmers.
 2. Farmers' local associations.
 3. Farmers' concentration and sales agencies.

At the present time all types of packers are buying hogs directly from farmers in the areas of dense hog production. Only the so-called interior packers buy cattle directly. With plants located at centers within livestock producing regions, far from public stockyards, these packers have always depended for their supplies almost entirely upon stock which they could buy from farmers within hauling distance and at shipping points on railroads serving their plants. During the past ten years these packers have greatly increased their slaughtering operations. While they are principally hog slaughterers and pork packers, many of them are slaughtering some cattle and apparently are gradually building up a trade in beef. It has only been within the last five years that the national packers, with extensive slaughtering facilities at public stockyard centers, have entered the arena of country buying. Already they have extensive country buying systems through which they secure many hogs for their plants at public stockyard centers. Eastern

¹⁰ Taken from my paper entitled, "Direct Packer Buying in the Marketing of Livestock," published in the *Journal of Farm Economics*, Vol. XII, No. 2, April, 1929. p. 300.

slaughterers, located at important consuming centers and catering to the fresh pork trade, are also represented by their buying agencies in the country hog trade of the heavy producing regions. Apparently though, only a few of such packers secure many hogs through their own country buying agencies. Most of them rely upon the public market centers where they place their orders. More recently, farmers' direct selling agencies (discussed later) have supplied packers of this sort with all or a part of their requirements.

If the direct packer buying situation in Iowa is typical of that of other heavy producing areas, it would appear that interior packers have played the leading rôle in its development. Iowa packers alone, exclusive of those at the Sioux City terminal market, took 30 per cent of the Iowa hog supply in 1929.¹¹ In 1920 they took just one-half of this proportion or 15 per cent of the supply. This was about half of the hogs bought directly from farmers and local dealers in 1920. The other half was taken by other interior packers and eastern slaughterers operating reload stations in Iowa. In 1929, the proportion going to eastern packers through their own buying stations was about the same, approximately 12 per cent, while mid-western interior packers, outside of Iowa, alone took 12 per cent of the Iowa supply of hogs. Altogether then, interior packers located in Iowa and adjoining states bought directly from farmers 42 per cent of the Iowa hogs in 1929 as compared with about 19 per cent in 1920. Country purchases by public stockyard packers in 1929 accounted for 10 per cent of Iowa hogs while four or five years ago there was practically no country buying by such packers. The latest entries into the field, they have from all indications taken up the business in earnest. Together with interior packers they have been responsible for the exceedingly rapid extension of direct buying of hogs in Iowa during the last few years which now reaches into practically every hog producing locality of the state.

On the face of it, direct packer buying appears to have grown to its present proportions in large part because interior packers have, within the past ten years, greatly expanded their operations. If their location with reference to hog supplies has been a contributing factor to their rapid growth within this recent period, it

¹¹ Iowa Crop and Livestock Reports, January, 1920-1928. Comparable data for 1929 made available by Des Moines Office of the U. S. Bur. of Ag. Economics.

must have become much more advantageous during this period than formerly. This has undoubtedly been true. Most important developments have reduced the costs and inconveniences of country buying. But, there must be other reasons for the great increase in their slaughtering operations since 1920, because after all, they must sell their products in competition with other packers. Public market packers, who have also become extensively engaged in country hog buying, have given as a reason the shortage of hog supplies at these trading centers, due to the country buying on the part of interior packers, and the great increase in buying on order at the public markets adjacent to regions of increasing hog production.

Trends in the packing industry since the period of the war throw some light upon the situation.¹² Until 1918 hog slaughtering and pork packing tended to become more and more centralized at the primary public market centers—those in closest proximity to regions of increasing hog production. But since 1918 a reversal of this tendency has been manifest. In 1918, local hog slaughter at all the public markets was about 74 per cent of total federal inspected slaughter. Since then it has declined until in 1929 it was only 57.6 per cent of federal inspected hog slaughter. Practically all of this decline in the relative importance of public market slaughter has occurred at seven principal markets, Chicago, St. Louis, Kansas City, Omaha, St. Joseph, Sioux City, and South St. Paul. Local slaughter at these markets declined from 49 per cent of all hogs slaughtered under federal inspection in 1918 to 32.9 per cent in 1929, a decline of 16 points.

This no uncertain decline in the relative importance of hog slaughtering at these primary public market centers has been offset by a correspondingly rapid increase at interior packing centers within territory tributary to them. What may be termed interior slaughter in contrast to local slaughter at the stockyards markets, has increased about the same in proportion to total hog slaughter under federal inspection, as market slaughter has declined. The increase in interior slaughter has been most pronounced in the central and northwestern Corn Belt States. At the present time about one half of the hogs slaughtered in these states are killed by interior packers; interior hog slaughter equals market slaughter.

¹² See paper by the author entitled "Direct Packer Buying and the Marketing of Livestock," *Journal of Farm Economics*, Vol. XI, No. 2, April, 1929, pp. 289-300.

While this decentralization of hog slaughtering in the most important hog producing states has been in process, slaughtering in the important pork consuming sections of the country has had a tendency to increase. In proportion to total hog slaughter under federal inspection, slaughter in eastern and northeastern states has changed but little since 1919. In the southeastern states a marked increase has occurred during this period. The same is true of hog slaughter on the Pacific Coast. It is therefore evident that in relation to slaughter at the principal public market centers of the Corn Belt States, hog slaughter in pork consuming territory has made substantial gains. To put it more accurately, hog slaughtering in pork consuming territory has maintained its relative importance in the industry while slaughtering at the principal public markets has failed to do so by a considerable margin.

It requires no stretch of the imagination to apprehend the effect of these extensive readjustments in the localization of hog slaughtering upon competitive relationships in the packing industry. The packing industry is in quite a different relationship to the source of its raw material from that existing ten years ago. While it has become thus decentralized, hog production has become more and more localized within the central and northwestern sections of the Corn Belt.¹³ Elsewhere with few exceptions, hog production has fallen off sharply since 1915. East of the Mississippi Valley declines have been general. Packers in this territory have seen their local hog supplies dwindle and in order to maintain their operations have been obliged to reach into the mid-western market centers and producing regions for hog supplies. Conclusive evidence of this is furnished by the sharp upward trend of shipments of slaughter hogs from these market centers since 1918. Taking the seven principal stockyards markets together, shipments in percentage of receipts increased from 19.3 per cent in 1918 to 34.5 per cent in 1929. While eastern packers have come to these markets for increasing numbers of hogs, interior packers have been busy cutting off receipts at these centers. Caught between these forces, local packers at these centers have faced a precarious supply situation.

Slaughterers in pork consuming territory on the one hand, and interior packers on the other, have been able to conduct such ex-

¹³ O. E. Baker, Address on "Do We Need More Farm Land?", Mimeographed publication of Bureau of Agricultural Economics, U.S.D.A.

tensive forays into the sources of supplies of mid-western public market packers because of peculiar advantages in the meat trade enjoyed during the post-war period. Eastern slaughterers have been able more than to hold their own in the pork trade even in the face of a receding hog supply because of two apparently favorable circumstances. These are relatively favorable freight rates and the increased demand for fresh pork. Since 1918, the rate between Chicago and New York on dressed pork has been generally higher in relation to the hog rate, than in the period before and during the early years. Probably of greater influence have been the opportunities of the fresh pork trade. This trade has assumed a much greater relative importance in later years than formerly. Fresh pork can be produced economically in comparatively small plants. Since it is such a highly perishable product, producers in consuming territory have had sufficient advantage in competition with those located nearer hog supplies to overcome their relative disadvantages in procuring hogs for their operations.¹⁴ In passing it may be noted that packers in consuming territory may lose some or all of their relative advantage from location if new methods of freezing and refrigeration, now under experimentation, become perfected and successfully adapted to pork. Experimenters with this process in the meat trade appear to be convinced that it is destined to revolutionize the preparation and marketing of fresh meat.

Circumstances of the post-war period have been even more favorable to the interior packers of Iowa, Minnesota, and neighboring states, than to the eastern packers, in their competition with the national packers, the bulk of whose facilities were located at the principal public market centers. Emerging from the period of the war in a relatively strong position in the domestic pork trade, gained while national packers were occupied with export business, these interior packers have been able to forge ahead under beneficial adjustments in hog and pork railroad rates, the advantages of rapid progress in rural transportation, and developments in the country hog trade. Well established in the trade of important pork consuming centers, they have been able to widen their sphere in the local pork trade by means of the motor truck as the mileage of hard-surfaced roads has increased. But the truck has played a

¹⁴ Merchandising Packing House Products, E. L. Rhoades, p. 80.

more important rôle in their behalf as a means of livestock transport. This and other developments in the country trade have sufficiently reduced the costs and inconvenience of buying from farmers and local dealers, to enable interior packers to procure adequate supplies for large-scale slaughtering operations. Of nine packing plants in Iowa only three killed fewer than 25,000 hogs in 1929, two others were under 500,000 and 3 of them slaughtered between 700,000 and 1,000,000 head each.

This survey of trends in the pork producing industry, even though kaleidoscopic, has made it evident that during the post-war period two important types of hog slaughterers have emerged to contend with the national packer in the competitive struggle for hog procurement. Each, in a different position with reference to sources of raw material, would be most likely to exploit any advantages peculiar to his situation. Interior packers, always dependent upon country procurement, were destined, under pre-war conditions in the country hog trade, to remain always relatively small-scale operators. But the past decade has brought developments greatly extending their horizon. Among these, perhaps of greatest importance, have been progressive developments in local hog marketing. Such developments as improved rural transportation, improved market communication, and better organization of the local hog trade have enabled them to draw adequate supplies for large scale operation against the pull of the public market centers. As a result, large-scale packers, depending upon receipts at these centers, have found their source of supplies no longer adequate at prices which they could afford to pay. Like Ulysses of the legend, they have found it precarious sailing between Scylla of eastern packers and Charybdis of interior packers. Unable to meet the prices of eastern slaughterers for select butcher hogs and unable from public market receipts to secure hogs on a competitive basis with interior packers, they have attempted to meet their situation by engaging with interior packers in country procurement. Since they have rapidly extended their facilities for direct buying, it would appear that they have accepted it as the best way open to them for meeting their interior competitors.

Concerning the developments that have made it feasible for packers to carry their competition for hogs even to the farmers' feedlot, little more than mention can be made in this paper. The remarkable developments in truck transportation and in market

communication will be passed over with only the comment that they have been fundamental factors in the development of direct trading in livestock. The former materially reduces trading and assembling costs by widening the sphere and increasing the volume of a buying enterprise, and of a cooperative selling enterprise too, for that matter. Interior packers were naturally the first to take advantage of this new and efficient method of transport. In 1927 twenty-six per cent of Iowa hogs were delivered to packing plants by truck. Since then truck receipts at these plants have declined because stockyards packers have cut into their trucking territory by means of strategically located buying stations. In 1929, thirty-nine per cent of the receipts of such concentration stations in Iowa were truck deliveries. Improved market communication has provided a relatively satisfactory basis of information without which, large-scale country buying would be practically impossible. Even munificent bids would not deter farmers and country dealers from shipping to public markets if they felt unable to formulate a fair judgment of values on the basis of information readily available.

Another important development of the past decade has prepared the ground for direct marketing, first in the form of direct packer buying and perhaps later, in the form of direct farmer selling. This development has been a step in organization for marketing rather than, as in the case of the other developments mentioned above, a perfecting of external facilities available to traders, whether buyers or sellers. The development referred to is that of the cooperative livestock shipping association and the cooperative commission agency. Strange as it may seem, these farmer marketing agencies, designed to adapt farmers to the public market system, have prepared the local trade for the reception of direct packer buying. Perhaps in time these agencies, revised and reorganized, will succeed in recasting direct marketing in the form of direct farmer selling in place of its presently prevailing form, that of direct packer buying. This possibility will be later considered. Here we are concerned with the influence of the cooperative livestock marketing movement of the past ten years upon the local livestock trade. Briefly, it appears to have had two important effects. First, as it gained momentum, it put local livestock dealers upon the defensive and forced them to look to their connections and outlets. In many communities they could not maintain themselves in

competition with shipping associations, for farmers, through such agencies, could assemble and ship on even narrower margins than they. As merely assemblers and shippers, dealers were in a measure superseded in the country trade. In order to hold their position, new and better outlets were required. These were made available in many communities by the interior packers, who as we have seen, were seeking wider connections in the country hog trade for their expanding operations. With interior packer connections, local dealers have had little trouble in holding their own, and shipping associations in their turn have, after much hesitation and objection, turned to interior market bids. Second, the cooperative agencies, although not designed for country trading, have in a measure prepared farmers for it. While it remains to be seen how promptly and thoroughly they will adapt their organizations for a more complete exploitation of direct marketing, they have already acquired, through their organizations, not only information concerning market values and requirements but also a certain degree of sophistication in livestock trading. For these reasons the wide-spread development of farmers' local shipping associations and terminal selling agencies have helped to prepare the way for direct packer buying. Together with other technological developments they have brought about a measure of integration of local and terminal trading sufficient to enable direct packer buying to take root and flourish.

If our observations are correct, packers have, through direct buying, merely taken advantage of these progressive changes in the country hog trade, in order either to enlarge their operations or to fortify themselves against the vagaries of public market receipts. The stimulus was supplied by changing competitive relations in the packing industry. Whether direct buying enables those packers who have formerly depended upon public market receipts to procure hogs at lower costs is perhaps an open question. Our main contention is merely that direct buying is much more economical and feasible than it used to be. But such studies as have been made indicate that a packer's buying station with a good volume can deliver hogs to a public market plant at costs somewhat lower than prices paid at the yards, even after paying prices at local shipping points higher than those realized by shippers from consignment to the stockyards center.¹⁵ Of course some

¹⁵ See paper by B. B. Derrick, published in *American Cooperation*, 1927, Vol. I.

stations are more efficiently operated than others. In general, it is reasonable to suppose that if direct buying were too expensive for public market packers they would support prices at their centers rather than engage directly in the country trade.

DIRECT SELLING BY FARMERS

Direct packer buying implies direct farmer selling. In a sense they are merely the opposite sides of the same thing. When the packer buys directly the farmer sells directly, and to the same extent. But as already explained, direct marketing of livestock has assumed various forms differing from each other with respect to the technique for trading. On the one hand packers have established facilities for buying directly from individual farmers. This is direct buying. On the other hand farmers have established facilities for selling hogs directly to packers, delivering them on order in accordance with quantity and quality specifications. This is direct selling. Under the former system, packers buy hogs mostly upon inspection, at prices adjusted somewhat to meet local competitive conditions. If they can find some cheap hogs they will not refuse them. Under the latter system, by means of proper organization, farmers offer packers an opportunity to buy hogs on a competitive basis and in accordance with their requirements. In between these two opposite forms of direct marketing, variations are found partaking of the nature of each.

Farmers have had the same opportunities to develop facilities for direct selling that packers have had for establishing facilities for direct buying. But there has not been the same urgency in the case of farmers. Packers have obviously been greatly concerned with competitive buying while farmers have been little concerned with competitive selling. In fact they have commonly regarded cooperative organization as a means of enhancing prices by eliminating competition in selling, or eliminating middlemen, and have generally overlooked its practical value as a means of preparing and offering their livestock for sale in the market in such a way as to enable packers to bid highest prices for it; higher prices than they could pay under other conditions. This reason, coupled with a certain apathy and ineptitude with respect to problems of efficient marketing, explains, perhaps, why farmers have not taken as full advantage of improved transportation, communi-

cation, and commodity standardization in their selling as packers have in their buying.

However, the rapid projection of direct buying by packers has given farmers a real concern with the problems of direct marketing. Many of them, accustomed to shipping, either independently or cooperatively, to public markets, were inclined for a time to ignore the country bids of the packers. But when the bids appeared particularly attractive they were able to overcome their prejudice enough to take advantage of local offers and finally many have come to depend entirely upon country bids. Such farmers not only considered packers' prices attractive but also welcomed the opportunity, afforded by direct trading, of having a price agreement before the stock left the feedlot. It would appear that the majority of farmers have always preferred to avoid market risks by selling locally. For cash on the spot, whenever they were ready to let the stock go, they have been willing, if not quite contented, to patronize local dealers. Yet, while these farmers as well as those formerly consigning to public markets appreciate the advantages of having a definite bid before they move the stock, they view with some misgivings the thrusts by packers into producing territory.¹⁶ Among farmers there is some apprehension lest the situation may hold in the making a buyer's market. Contemplating such prospects from direct marketing in the form of direct packer buying, farmers in many localities have manifested an interest in organization for the purpose of broadening their markets sufficiently to afford protection against domination by any given packer interest.

Moreover, there is evidence that farmers are coming more and more to regard organization as a means of dealing more efficiently and effectively with packers in direct trading as well as at the public market centers. Experience has taught them that there are many things to consider in direct marketing that someone else looked after for them when they consigned their stock to public markets. There is the matter of getting in touch with as many packers as possible in order to secure the very best bid. An individual farmer at best, has limited trade connections. Then there is the question of grades. Some packers are bidding stronger on one grade at a particular time than on another. Unless a farmer

¹⁶ See contribution by Dr. E. G. Nourse, in *Recent Economic Changes*, Vol. II, p. 580, National Bureau of Economic Research.

is within trucking distance of several buying centers or at a shipping point where several packer buyers are operating, he has little or no opportunity to sell his hogs on a well sorted basis. Usually he must content himself with the best price offered for the bunch. Such considerations and others, involved in country selling, are leading farmers toward, and actually into, organizations for direct selling of hogs to packers.

It almost seems as if direct buying must eventually more or less give way to direct selling. There would appear to be economies in direct trading, already demonstrated by a few exceptionally enterprising cooperative sales agencies, that lie wholly within the province of direct selling as distinguished from direct buying. These may be said to fall into two classes; economies of distribution, and economies of standardization. They are, of course, closely interrelated. If efficient distribution of hogs may be taken to mean movement at minimum costs from a given community to the plant of the packer paying relatively highest prices, it is clear that farmers must assume certain functions and responsibilities in bringing it about. It is evident enough that competing buyers cannot be relied upon to find for the hogs, produced in a given locality, the highest paying outlets. Business merely requires packers to meet competition. And it is unreasonable to expect that buying competition will be maintained in full force with respect to all portions of the supply under a trading system that leaves it to the packer to bid for the hogs at the farm or at the shipping point. If packers must come to the farm for the hogs, it may be expected that some communities will pay rather dearly for the service. If farmers would receive maximum prices, let them offer their hogs to the trade in such a way as to give those packers who are willing to pay highest prices a chance to buy them.

Likewise, for efficient trading, quality considerations are most important. When the packer must take some chances on the quality and condition of the hogs, naturally the prices offered must be lower than they might be for hogs guaranteed to be free from defects. If the merits of slaughter hogs could be precisely determined while the hogs are on the hoof, standardization would be a comparatively simple matter. But slaughter tests have revealed considerable variation in the value of hogs, graded as closely as possible by inspection. So, when the packer must rely entirely upon inspection in buying, he must allow for certain defects, that, on

the average, the hogs may be expected to have. Most of these defects are under the control of the producers and the handlers of the animals. Farmers could therefore offer their hogs to packers in such a way as to give assurance to packers concerning the slaughter condition of the animals. This is not done at the public markets. There the packers must take their chances.¹⁷ The result is that all producers selling at these markets are penalized by lower prices because a comparatively few of them have shipped hogs below standard with respect to these concealed qualities. At these markets, too, the general practice of "filling" complicates the situation and tends to defeat the purpose of efficient selling. Buying hogs in the country, directly from farmers, packers undoubtedly are able to realize a higher pork yield than from public market hogs. There they are better able to control the practice of "filling." They also may more readily learn the localities from which the poorer hogs come and pay accordingly. But even there, they are not able to buy on the basis of quality and condition most advantageously unless farmers have taken steps to make their hogs available strictly on this basis. This farmers cannot do effectively without organization for selling. It would therefore appear that the problem of standardization in livestock marketing may be most effectively dealt with by farmers' direct selling agencies.

In the cattle producing regions, where packers have customarily sought their requirements on the ranges, direct buying has, in a measure at least, given way to a system of direct selling. Twenty-five hundred stockmen in the states of California, Arizona, Nevada, New Mexico, and Oregon are now members of the Western Cattle Marketing Association. This organization commenced operation in 1925. Since then it apparently has established a splendid sales service for its members, which enables them to meet packers' demand much better than formerly. Shipments are commonly made directly from the shipping points on packers' orders. It is significant that this organization gives careful consideration to applications for membership, and that one of the important qualifications is the quality of stock produced. The Texas Livestock Marketing Association is another organization of the same character. Organized later, it has already become well established.

¹⁷ See paper by E. M. Wentworth, entitled, *Elements of Speculation and Risk in Livestock*, American Cooperation 1927, Vol. I, p. 557, American Institute of Cooperation.

Among the cooperative livestock marketing agencies of the Corn Belt States, direct selling of hogs has gained much headway within recent years. Undoubtedly, the most important recent developments in the cooperative livestock marketing movement of this region have been adjustments for direct selling of hogs. When it is recalled that the characteristic cooperative livestock marketing agencies of this region were originally designed for the public market method of selling, there is little occasion to wonder at the apparent confusion in the movement created by the rapid progress of direct packer buying of hogs. Direct packer buying was, so to speak, a flank attack upon this movement of organized selling, delivered before the organizations, local and terminal, had been able very clearly to establish their line of march toward more efficient farm marketing. For this reason it is not surprising that fatalities among local shipping associations were rather heavy in those districts where the attack by direct marketing was most vigorous. In spite of these losses, local associations as a class have pretty well held their ground by taking steps to be of service to members in direct selling to packers. Many successfully established connections with country buying packers and quickly developed into effective local sales agencies. A few of these have already become fair sized concentration stations, drawing hogs from the territory of surrounding shipping points. Others have had indifferent success in making this transition from shipping to selling. At the present time the vitality of these local agencies is manifested by district agencies created by them for larger scale handling and selling.

By federation, reorganization, or absorption, local shipping associations are forming themselves into larger business agencies designed to take full advantage of the truck for assembling hogs in larger numbers for grading and sorting, as well as to broaden connections with packers. In order to provide themselves with more efficient distributive and sales service, these growing assembly or concentration agencies are already laying plans for regional, state, and even national overhead organizations. In Ohio, where shipping associations were organized on the county basis, large-scale assembly or concentration agencies most quickly and readily took shape in response to improved transportation and the advantages of closer grading and sorting for market distribution. Among these local agencies in Ohio is the Fayette Producers' Association

which deserves special mention in any report on farmers' cooperative livestock marketing agencies in the Corn Belt. One of the first to engage in direct selling to packers, it has been most successful, securing for its members substantial premiums for all high quality hogs.

The terminal cooperative sales agencies, too, have contributed to the development of facilities for direct movement of hogs from country points to packing establishments. Becoming well established as farmers' commission agencies at the public market centers by 1925, and much earlier in several cases, these agencies have, generally speaking, been alert to opportunities open to them for developing more direct and satisfactory trading relations between their farmer members and the packers. While a few have felt impelled to resist the trend toward direct marketing, joining in defence of public market methods with the interests concerned primarily with maintaining the prestige of their respective stockyards markets, the majority have recognized the validity of direct trading and lent their efforts to the formation of direct selling agencies in their territory. Besides assisting local agencies in their efforts to secure direct contacts with packers, and more recently, actually establishing concentration stations in their territory, these terminal agencies, or a group of them, were instrumental in the organization and development of the National Order Buying Company. This agency provides an overhead sales service for farmers' local marketing associations as well as an order service for terminal agencies. By establishing contacts with eastern hog slaughterers, the National Order Buying Company has provided direct outlets for local agencies too small to maintain wide market connections. Another example of the development of direct marketing service by cooperative terminal agencies is furnished by the feeder pools of the National Livestock Producers' Association. Through these pools many thousand head of feeder lambs, cattle, and calves have been moved directly from the ranges to the feedlots of Corn Belt farmers.

In conclusion it may be said that direct marketing of livestock in the Corn Belt States has already proceeded far enough to give promise of amounting to something more than merely a deviation from established methods. But since its progress is limited by the very conditions out of which it has grown, certainly it is not destined entirely to supersede the public market method. Fundamen-

tally its progress has been due to underlying progressive developments, which have paved the way for closer trading relations between farmers on the one hand and packers on the other. Initiated by packers in their competitive efforts to expand or to fortify their sources of raw material, it may be perfected by farmers in their efforts to reduce to a minimum, risks and wastes in the market distribution of their livestock. It would appear that the future of direct marketing will depend largely upon the facility that farmers are able to acquire in making their livestock available to packers in accordance with the latter's requirements and to the extent that, in so far as possible, quality is guaranteed.