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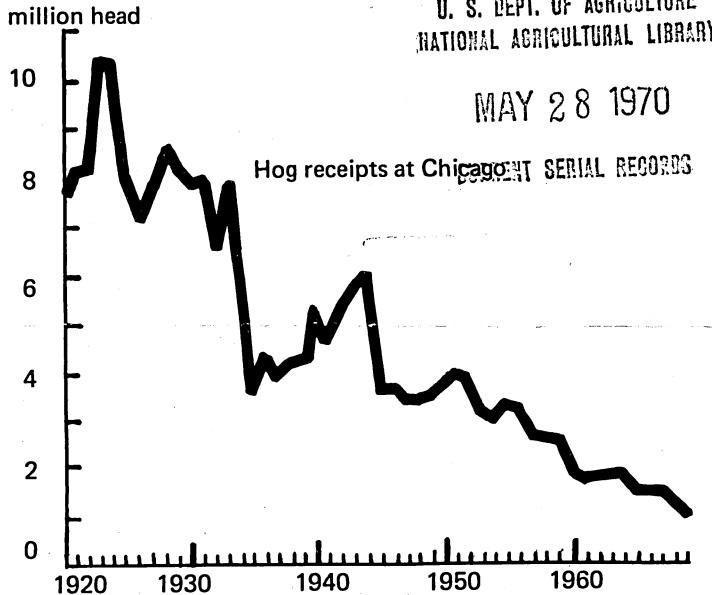
Federal Reserve Bank of Chicago - -

May 15, 1970

THE HOG MARKET AT CHICAGO ceased to exist as of May 15, 1970. Chicago, once dubbed "Hog-Butcher for the World," received over ten million hogs annually during peak years nearly half a century ago. Last year, the number marketed at Chicago had declined to less than one million head.

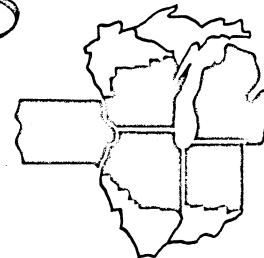
The closing of the Chicago market is indicative of the general decline of the central or terminal markets—a trend that has been going on for more than 40 years. In the late 1920s, around half of the hogs and cattle slaughtered in commercial establishments were sold through nine major city markets. Last year, only 13 percent of the hogs and 15 percent of the cattle slaughtered were sold through those same markets. The large centralized markets developed in an era when the railroad was the only means of long distance transportation. Communication facilities were poor, requiring buyer and seller representatives to meet face-to-face in order to establish price and exchange title. Products varied greatly in quality, requiring physical inspection by purchasers. And finally, production of nearly all agricultural commodities was in the hands of many small widely scattered farmers. It was more efficient to have a central concentration point where buyers could fill their needs.

Chicago Hog Market Draws to a Close



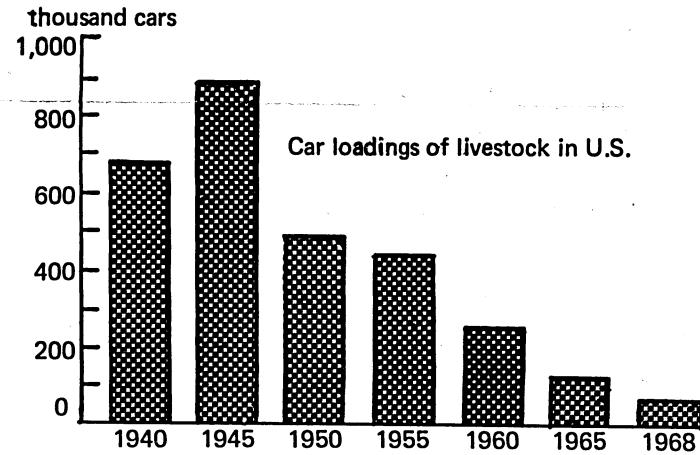
By the end of the 1920s, enormous changes were occurring in the areas of transportation and communication. In succeeding years, good highways and fast trucks eliminated dependence on the railroad. The telephone, teletype, and most notably, the radio vastly improved the dissemination of market information, putting local buyers and sellers in touch with other market areas. With the advent of farm mechanization, farms have become larger, fewer in number, and more specialized. This has made a large volume of products available in a limited area. This, along with improved refrigeration and transportation, has led to the recent development of modern slaughtering plants in livestock production areas.

Agricultural Letter



Number 1065

Rail Transport Declines



SOURCE: Association of American Railroads.

Probably one of the greatest problems stemming from the decentralization of farm product markets has been the proliferation of price discovery points. Most of the market reporting services and regulatory authorities still focus on the old central markets. In some cases, prices at local markets are based on those established at terminal markets, even though these markets account for only a very small part of total sales. A case in point is the pricing of eggs.

Since the 1950s, an increasing volume of eggs has been bypassing the central wholesale markets. Today, most eggs are sold directly by producers to the warehouses of large retailers. Egg prices, however, are still tied through a formula system to a relatively few cash transactions at key wholesale markets in New York and Chicago. Earlier this year, the Chicago Mercantile Exchange, recognizing this problem, announced it would discontinue cash trading of eggs.

As more and more sales are negotiated directly between individual buyers and sellers, multiple pricing and private arrangements make assembly of accurate pricing and other market information difficult. A recent innovation by large cattle feeders involves the cooperative effort of members in reporting sales and price information which is instantly disseminated via teletype. Farmers may have their own teletype machines installed or may telephone designated offices to get the latest market information. This and other marketing innovations will be needed in the future to give farmers equal bargaining power with buyers as the trend toward specialized production and decentralized marketing continues.

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