Cooperation in agriculture, livestock marketing

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Cooperation in Agriculture
Livestock Marketing

PAUL L. MILLER AND GEOFFREY SHEPHERD

AGRICULTURAL EXPERIMENT STATION
IOWA STATE COLLEGE OF AGRICULTURE
AND MECHANIC ARTS
R. M. HUGHES, Acting Director

AGRICULTURAL ECONOMICS SECTION

AMES, IOWA
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FOREWORD

The partial paralysis of the economic world today has thrust many new and strange problems upon the American farmer which require group action for solution. Such problems as deflation and inflation; banking reforms; international trade and credit readjustments; unequal tax burdens; national land use problems—these problems cannot be handled by the individual farmer. They require action by farmers as a group, or by the nation as a whole, for solution.

But not all of the problems require “group action.” Many of them must be handled on an individual farm basis. For instance—whether to rent more or less land, whether to raise more or less livestock, whether to feed this or that ration, how to handle this field and that field—these are individual farm management questions. They have been accentuated by the depression. And in the main they have to be dealt with by the individual farmer acting alone.

MARKETING PROBLEMS ACCENTUATED BY THE DEPRESSION

What about marketing problems? They also have been made more acute by the depression. They are partly individual problems like the farm management questions just mentioned, but they are partly group-action problems, too. Free individual competition might regulate all our marketing activities, but in many areas full and free competition does not exist. Government regulation is often required to maintain fair competition. Examples of this form of regulation are the Packers and Stockyards Act of 1921, the Grain Futures Act of 1922, and the Perishable Commodities Act of 1929. Grades and standards need to be set up and maintained, as for example by the Federal grain inspection service which maintains uniform grades for grain at numerous markets over the country.

In addition to marketing problems that call for governmental regulation, others call for a more direct form of group action. The question may arise whether farm products can be sold effectively by the individual farmer acting independently. The evidence often indicates that farmers could do a better job if they cooperated and sold their products through a salesman representing the group. And when it is found that cooperative action is needed, further questions arise as to the concrete objectives to be sought through cooperation, the ways and means of attaining those objectives, the forms of organization and the business practices required.

This bulletin deals briefly with the important purpose of cooperative marketing in agricultural agencies as exemplified in the marketing of livestock, particularly hogs.
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THE LIVESTOCK MARKETING SYSTEM

The livestock marketing system has passed through some revolutionary changes during the past 20 years.

For about 75 years previous to the World War, the livestock marketing system was predominantly a terminal or central market system. Some of the Corn Belt livestock moved direct to packers, mostly to the local packers out in the country, but the bulk of it was consigned to the large terminal markets such as Chicago, Kansas City, Omaha and Sioux City. It was concentrated there and sold by the commission men to the large national or terminal packers—the “Big Four”—to smaller slaughterers, and to order buyers for packing plants at eastern markets.

The main marketing procedure through which Corn Belt livestock moved from the farmer to the packer consisted of three separate steps. First, the farmer drove or hauled his livestock to town and sold it there to the local buyer (sometimes he sold it first and hauled it in afterwards). That was step No. 1. Then, when the local buyer had accumulated a carload of livestock, he loaded the stock and consigned it to a commission man located at the terminal market. That was step No. 2. Finally, when the carload arrived at the terminal market, the commission man sold it to one of the packer buyers. This was step No. 3.

CHANGES DURING THE WAR

From the beginning of the century onward, an important modification of this three-link marketing system gradually developed.

1The authors wish to acknowledge their indebtedness to D. A. FitzGerald, of the Agricultural Economics Section of the Iowa Agricultural Experiment Station, for his helpful suggestions and criticisms.

2These few paragraphs set forth only the broad outlines of the pre-war livestock marketing system. For reasons of brevity, no reference is made to the many short-cuts by which hogs reached the packer without passing through the main marketing channel described.

For instance some farmers raised hogs in large enough quantities to make up individual carloads, which they consigned straight to the commission man without going through the local buyer. Again, the local packers located in Iowa bought most of their hogs direct from the farmers or local buyers in their immediate territory; some of them in addition had reload stations located in other parts of the state. Then, too, for many years, a string of reload stations, mostly situated along the eastern border of Iowa, has been buying hogs for direct shipment to eastern packers.

The volume of these direct hogs before the war, however, was small. The great majority of Iowa’s hogs were marketed through the three-link system described above.
Farmers began to feel that the local buyers were taking too large a margin, and were not rewarding the producer of high quality livestock by paying premium prices for premium quality. Accordingly, local cooperative shipping associations began to be organized at different points in the state. The organization movement reached its peak during the World War. By 1921, about 600 associations were operating in the state; this number increased by 1925 to nearly 700.

These associations, in a sense, played the same role as that of the local buyer. The associations handled the livestock of their members, making up carloads of stock and consigning them to commission men at the terminal markets, much as the local buyer did.

There was an important difference, however, between the local association and the local buyer. The local buyer bought the farmer’s livestock outright. The farmer was through with the stock as soon as it left his hands. He could go home with the buyer’s check in his pocket. But the association was different. The association manager did not buy the livestock from the farmer. He simply handled the livestock, made it up into carloads and consigned it to the commission man at the terminal market. When the terminal market commission man sold the stock, he remitted the money to the association manager. The manager then pro-rated the returns to its farmer members, deducting only its handling expenses.

These cooperative shipping associations increased in numbers, until from 1920 to 1925 they handled about 25 percent of Iowa’s livestock. It appeared then that they had a permanent and perhaps increasing part to play in the livestock marketing system.

The cooperative movement in the country was paralleled by the development of cooperative commission houses at the terminal markets. These quickly grew to a commanding position in the trade. Like the local shipping associations, the cooperative terminal commission firms did not attempt to change the structure of the marketing system into which they came. In the main, they simply performed the same services as were rendered by the private commission companies, returning any savings to their farmer patrons.

**GROWTH OF DIRECT PACKER BUYING SINCE THE WAR**

From 1920 on, however, revolutionary changes began to take place in the livestock marketing system. Livestock began to move in trucks instead of wagons, and a good roads program that “pulled Iowa out of the mud” gave this new method of shipping livestock a speed, range and flexibility that made it very attractive to farmers. Furthermore, the Corn Belt was
steadily moving northwest. The hog belt moved with it, and the packing industry followed. The local packing plants also benefited from changes in freight rates which were made at that time; these changes in rates favored the interior plants in the disposal of their meat. As a result of these developments, the local or interior packers prospered. Their volume of business trebled from 1920 to 1932.

The terminal packers soon began to feel the pressure of this increased competition. By 1926 they began to talk about "their hog supplies being cut off at the source." In 1928 and 1929 they went out into the country and set up a system of country hog buying stations, or concentration points, in the heart of the hog belt. This simply extended their buying system out into the country. At their concentration points, the packer buyer bought hogs outright, graded and sorted them into carload lots, and shipped them straight to the terminal packing plant.

Direct packer buying of hogs increased rapidly from 1922 onward. By 1932, two-thirds of Iowa's hogs moved direct to the packer. These "direct" hogs did not follow the three-link marketing channel that was prevalent before the war. Instead, they took a short cut direct from the farmer or local buyer to the packer.

The growth of this direct marketing is shown in fig. 1. The chart shows that part of the "direct" hogs go to packing plants.
located in Iowa, and part of them go to the terminal packers, through their buying stations or concentration points located in Iowa.

**EFFECT OF DIRECT PACKER BUYING ON LOCAL SHIPPING ASSOCIATIONS**

During the past 12 years, therefore, the structure of the marketing system has radically changed. The buying and selling of hogs is no longer concentrated or centralized at a few major terminal markets like Chicago. It has become largely decentralized; it is carried on at dozens of local market points all over the country. Two-thirds of Iowa's hogs now move direct to the packer without going through a terminal market.

Accordingly, the demand for the services of the old-style local shipping association has, at least quantitatively, decreased. The cooperative shipping association was originally set up to assemble the farmer's small lots of livestock into carload lots for shipment to the terminal market and to get the livestock from the farmer through the commission man to the packer at the lowest possible cost. All the packer had to do was to stay at the terminal market and buy the hogs as they came in.

But now the situation has changed. The public market packer has gone out to the country and is buying an increasing proportion of his livestock there. The packer, by setting up reload stations and concentration points out in the country, has extended his section in the marketing channel out closer to the farmer's hog lot. The mountain has gone out to meet Mahomet. And the local packers, who have always bought the bulk of their supplies "direct," have expanded their business until they now take a third of Iowa's hogs. The situation which originally called local cooperative shipping associations into being seems to be rapidly passing. Is the need for them passing, too?

This question needs to be squarely faced. The answer depends upon the conditions existing in the livestock marketing system today. It may be found that recent changes in livestock methods have rendered cooperative livestock shipping associations less necessary than they were a generation ago. If so, that situation should be recognized. But if a study of the existing marketing system shows that, in spite of recent changes in that system, cooperation in livestock marketing is as necessary today as ever before, and perhaps even more so, that conclusion should be set forth in unmistakable terms.

**CONCRETE PROBLEMS CONFRONTING LIVESTOCK SELLERS**

When we begin to appraise our livestock marketing machinery, the first fact that strikes us is that direct packer buying
alone, in its present stage of development, cannot be considered a complete marketing system. The direct packer buying system may limit the farmer, as long as he sells individually, to a relatively restricted market. It does not give him access to more distant markets; it does not insure that the price he receives for his hogs at his local markets is in line with prices elsewhere. The price at his local market is only as good as the competition there. In the majority of cases, probably, the local competition is keen, and prices are bid up as high as the hogs would net anywhere. But in some cases this is not so. There may be only one buyer at the local market. There may be only two or three buyers, perhaps with some form of "gentlemen's agreement" among them. Under those circumstances, a low price pocket is likely to form in that area, and farmers will receive less than their hogs are worth.

The only way the farmers in a low price pocket can protect themselves is to keep one eye on the prices at their local market, and the other eye on the prices at other markets. If, for example, they have lost access to the terminal market, they have lost that measure of protection against low prices resulting from sluggish local competition.

**PRICE DISPARITIES: IRREGULAR DAILY FLUCTUATIONS**

But there is a broader reason why farmers need to preserve wide outlets for their livestock. Even where competition is keen at the local market (as it is in most cases), the price at any one market point represents only one outlet to the farmer. There are over 50 concentration points, local packing plants and other such local markets for livestock in Iowa, each with its own price for hogs. There are dozens of other markets farther east. These other markets may be paying higher prices for hogs than the farmer can net at his local market.

It makes a good deal of difference which market the farmer chooses, because the prices for hogs at the different markets do not stay closely in line with each other. Sometimes one market will net 10 or 20 cents higher than another; sometimes it will net 10 or 20 cents lower. The extent to which interior prices vary among themselves, and also vary with relation to Chicago prices, is illustrated in fig. 2. This figure shows the daily fluctuations in the prices of 240-260 pound butcher hogs at Cedar Rapids, Waterloo and Chicago during January and February, 1933.

This chart shows that prices at Cedar Rapids, for instance, are sometimes higher, and sometimes lower, than prices at Waterloo. On Jan. 6, prices at the two points were the same. But on Jan. 7, Cedar Rapids prices were 20 cents higher than Waterloo prices; they remained higher for several days. Then on Jan. 12, they fell 5 cents below Waterloo prices, and for 2
or 3 days after Jan. 13, remained below Waterloo. Through the latter half of February, however, they ranged from 5 to 20 cents above Waterloo. These relative fluctuations occurred in spite of the fact that Waterloo and Cedar Rapids are only 70 miles apart—a comparatively easy trucking distance.

Furthermore, the prices at Cedar Rapids and Waterloo varied in their relation to Chicago. The price at Cedar Rapids, for example, ranged from 53 cents below Chicago on Jan. 7, to $1.00 below on Feb. 8. This is a difference of 47 cents. The prices quoted at the three markets, and their differences, are shown in tabular form in table I. The original data are taken from the daily market page in the Des Moines Register.

The data charted in fig. 2 show how the prices of hogs at different markets vary in relation to each other. There is a rough tendency for hog prices at the various markets to level out over the country, except for differences due to transportation costs.

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*These prices are not strictly comparable. The Chicago prices are the average of the day's sales, whereas the local packer prices are the "board" prices posted at the different plants. These "board" prices are usually lower than the average prices actually paid during the day. The packer usually pays 5, 10, 15 or 20 cents more than the "board" price, depending upon distance and time en route.

Local packer's "board" prices have numerous other characteristics. (1) The packers do not all use the same weight classifications. (2) All packers pay more for hogs that have been trucked in some distance than they do for local hogs. (3) Some packers add more to their board prices for quality hogs than others do, and may add different amounts on different days.

It is difficult to measure the effect of these characteristics and to make the "height" of the local market prices strictly comparable with the "height" of the Chicago prices. The local market prices just as they stand, however, represent with substantial accuracy the changes in the prices at one market relative to those at others; and that is the purpose for which they are used here.
But the tendency is only rough. The price of hogs at different markets over the country, like water in the ocean, seeks a general level; but there are waves and tides in the ocean, and there are irregularities in the height of hog prices at different points. These irregularities are not like mountains and valleys, which remain fixed. Rather they are like waves; they keep constantly changing.

The prices at different markets fluctuate in relation to each other because of the fluctuations in local supply and demand at

**TABLE I. PRICES FOR 240-260 LB. HOGS AT CHICAGO, WATERLOO AND CEDAR RAPIDS.**

Jan. 1 to Feb. 28, 1933

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<td>2.55</td>
<td>3.85</td>
<td>3.90</td>
<td>-.05</td>
<td>.60</td>
</tr>
</tbody>
</table>
each point. The packer’s sales of product, which are the basis of his demand for hogs, fluctuate from day to day and from week to week. His receipts of hogs fluctuate in response to changes in local supply conditions. The only way he can keep the supply of hogs adjusted to his demand for them is to raise or lower his prices relative to the prices at other markets.

**PRICE DISPARITIES: SEASONAL CHANGES IN PRICE RELATIONSHIPS**

Irregular day-to-day changes in price relationships are part of the picture. In addition, there are *seasonal* changes to be taken into account. These seasonal changes occur with some regularity.

The most striking example of regular seasonal changes in hog prices at one market compared with those at another is shown in fig. 3. This chart shows how hog prices at two points in Iowa—Mason City and Cedar Rapids—move with respect to prices at Chicago. The chart shows the average movement over a period of 5 years from April, 1926, to March, 1931.

In this chart, the straight line at the top of the chart represents the Chicago price, and the lower lines show how far the Mason City and Cedar Rapids prices were below the Chicago price. That is, suppose that the price of hogs at Mason City during the first week in January averaged 75 cents a hundred below the Chicago price. That would be shown in the chart by measuring 75 cents down from the top line in the graph.

The chart shows that during September the prices of hogs at Mason City and Cedar Rapids ranged about $1.00 a hundred

![Fig. 3. Average weekly prices of medium hogs at Mason City and Cedar Rapids compared with Chicago.](image-url)
below Chicago. During January, however, they rose to about 35 cents below Chicago prices. That is, local market prices in Iowa ran about 65 cents farther below Chicago in the summer than they did in the winter.

These two charts, fig. 2 and fig. 3, show how prices at different markets vary with respect to each other. The charts show that one day, one market will be high; another day, that same market may be low; and at one season of the year, prices at Iowa markets will come closer to Chicago prices than they will at another season.

This means that if a farmer is restricted to one market for his hogs, he will often miss higher prices than he could have secured at other markets. As long as different packers’ demands for hogs fluctuate, different packers’ prices for hogs will fluctuate, too. And until hogs move from each locality to the highest paying outlets, these price irregularities will continue to occur. The relatively few packers buying in a given locality will only occasionally be paying the highest prices available anywhere. To make certain of reaching the best outlets at a particular time, farmers and local dealers must be prepared to sell to distant packers as well as to their local packers.

GRADING AND SORTING FOR SELLING

But picking out the highest (net) market for hogs is not as simple a job as it may appear. Prices are not quoted just for “hogs;” they are quoted for different weights of hogs, and the relation between the prices for the different weights of hogs varies.

The price that a particular packer may be offering for light hogs may be relatively high at the same time that his price for other weights may be relatively low. At one time a packer may be paying $1.00 a hundred more for light hogs than for heavy hogs; at another time he may be paying no premium for light hogs.

The way prices for one weight of hogs fluctuate with respect to the prices for other weights is shown in fig. 4. This chart shows the average weekly premiums paid for light hogs over heavy hogs at three different interior markets. The price averages cover a period of 5 years from 1926 to 1931.

The chart shows that the packer at Mason City, for example, paid practically no premium for light hogs over heavy hogs in the winter months. But in August he paid on the average, a premium of $1.25 per hundred pounds for light hogs. The situation is similar, but less pronounced, at the other markets shown.

This means that the individual farmer with a mixed lot of hogs ready for market has to choose between different outlets,
not simply on the basis of their relative prices for "hogs," but on the basis of their relative prices for the different grades or weights of hogs that he has for sale. Then, if he has volume enough, he can grade and sort his hogs accordingly. On the terminal markets the commission man used to do this job for him. Under direct selling the farmer or local dealer must do the job himself.

The most obvious difficulty here is that very few farmers have volume enough to permit effective grading, sorting and delivering to different markets. This point has further ramifications that will be developed later in this bulletin.

TIMING SHIPMENTS

Finally, there is the question that is always present in the mind of the man who is feeding hogs or cattle for market. That question is: "When shall I send this stock to market? Shall I ship it tomorrow, or next week, or shall I hold it for another month?"

The importance of this question is obvious. Everybody knows how hog prices go up one day or one week and down another. Figure 2 shows the short-time fluctuations in the price of hogs at Chicago and other markets during January and February, 1933. It shows that the price of hogs fluctuated...
freely, sometimes 20 cents a hundred, sometimes 30 cents, sometimes 40, 50 or 60 cents, within a few days.

Livestock shippers, of course, have always had to face this problem of short-time fluctuations in the price of hogs. But in the old days, not much could be done about it. Farmers could not time their shipments very accurately. Market information was scanty, and did not always come in promptly. Furthermore, after the farmer got his market information and made up his mind to ship, it took some time for him to haul his stock to town, make up a carload, and get it to a distant terminal market. By the time the livestock reached the market, it was about as likely to hit the bottom of a price trough as to hit the top of a price peak.

Nor was there likely to be much profit in holding the livestock over for a few days after it arrived at the terminal market, in the hope of prices strengthening in the near future. The cost of feeding and caring for the stock was so high that the general rule was to sell the stock the day it was received, or at most, hold it only one day.

The rapid expansion of direct packer buying since the war, however, has placed the livestock shipper in a better position to take advantage of short-time changes in price. Market news is plentiful, and comes in almost instantaneously over the radio; livestock moves by truck, over good roads, and the market is usually close at hand. Within a few hours after a market report has been received, the stock can be on the market and sold. Or if the farmer "doesn't like the looks of the market" he can hold his hogs for a few days or for a week or two in his own feedlots, simply prolonging their feeding period. Thereby he escapes the heavy cost of holding that would be incurred if the hogs were on the terminal market.

**CAN FARMERS MEET THESE MARKETING PROBLEMS INDIVIDUALLY?**

The problem confronting the farmer who has livestock ready for market, therefore, is made up of two or three problems. The one problem is to decide when to sell his hogs—whether to ship them at once, or to hold them for another week or for another month. Another problem is to survey "the market for hogs" which covers the whole country, and to decide which point or points in that widespread "market" will net him the highest price for his hogs. A third problem is to sort and deliver his hogs so as to get the most for each kind.

Can each farmer handle these tasks individually and alone? Obviously, he cannot. There are two very good reasons for this.
TIME AND MONEY REQUIRED

In the first place, these tasks require a breadth of information that costs more money to secure and takes more time to digest than any individual farmer can afford to give.

To do a good job of selling at the best place, the livestock shipper needs to be in telephonic or telegraphic touch with numerous markets. That costs money. To do a good job of selling at the right time, the shipper needs a full range of information as to the present and prospective demand and supply situation. This does not cost much money, because most of this information can be obtained free from governmental sources. But it does take time. It is a full-time job for any man to digest, analyze and interpret this information. A farmer who did this job well would have no time left for any other work.

VOLUME OF LIVESTOCK REQUIRED

The second reason why an individual farmer cannot properly handle his marketing job alone is this: He hasn't enough volume of livestock to make full use of market information, even if he could get the information. Anyone who has less than a carload of hogs and has to ship by truck is clearly limited to the markets that are within the radius of his truck. Only the livestock feeder, livestock buyer or the shipping association with enough volume to make up carloads of livestock can reach the more distant markets by railroad.

Furthermore, the larger the number of carloads (within limits) the better. It is only when hogs are handled in considerable volume that they can be graded and sorted into different grades, and a carload of each grade can be sent to the market paying best for that grade. The fullest utilization of market opportunities requires a large volume of hogs, far greater than the number that the average farmer raises.

There is a further reason why a volume of hogs is required. Effective selling involves establishing definite trading relations with prospective buyers. Casual and hit and miss shipping is usually unsatisfactory to both buyers and sellers. But the building up of definite trading relations depends upon a volume sufficient for economical handling and for proper filling of orders.

COOPERATIVE ACTION CALLED FOR

The disadvantages under which the individual farmer labors in the sale of his products are clear. The benefits of large scale marketing are so evident that the question arises, why have not large scale private livestock buyers risen to a commanding place in the trade? By virtue of the advantages resulting from their large size, they should be able to pay better prices than the small local dealers and thereby crowd them out of business.
The answer lies in the conditions under which farmers sell their livestock. Any one local buyer finds it difficult to build up a large volume of business, for this reason: Each farmer who sells his livestock individually, naturally wants to have several dealers bidding on his stock. The more the better, so it seems to him. Then, when the bids made are much alike, as they usually are, he feels that he really is getting all that the market affords. Buyers trying to hold their own in such a market cannot do otherwise than to meet each other’s competition. Under such conditions, each buyer usually manages to secure a share of the business, some more and some less. But any one buyer finds it difficult to attract and hold an increasing proportion of the business, because he knows that his competitors will meet his bids as long as they leave any operating margin at all. The business therefore remains split up among several small dealers, instead of going to one or two.

A few apparent exceptions to this rule are known in Iowa. In these cases, an exceptionally able dealer has for a time been able to secure the lion’s share of the local business, because of his ability to gain the confidence of the local farmers and his knowledge of good outlets and trade connections. But as such a dealer increases his volume of business and becomes the principal operator in a market, he encounters increasing difficulty in holding the confidence and patronage of farmers. As he shakes off his competitors, he becomes more and more exposed to the suspicion of sellers. Farmers lack other dealer’s bids with which to compare his bids, and they do not feel sure that he is paying them all that he should, now that he has outdistanced his competitors.

This entirely reasonable attitude on the part of farmers makes it difficult for even a very able dealer to hold the lion’s share of the business. The farmers feel that he is now in a position to treat them unfairly, as indeed he is. As long as the trader appears to farmers merely in the role of a buyer seeking to make as much money as he can in handling their product, they naturally view with apprehension his rising influence in their market. Individually, they begin to look for other bids and invite other buyers to compete for their product. Any other attitude on their part must be based upon their willingness and inclination to regard the dealer more or less as their own agent, in a manner acting for them, rather than in the customary role of a market operator with whom they must trade.

In those rare cases where farmers have accepted a dealer on such a basis, more or less as their own agent, they have practically departed from individual selling of their livestock. To the extent that they come to regard a particular dealer as their salesman, working in their interests, in so far as they rely upon his ability and integrity instead of upon competitive local bids,
they are in effect selling, not individually, but collectively. They are selling cooperatively in fact, though not in name. All that the formation of a cooperative would do in this situation would be to recognize and make explicit a relationship that already existed in actual fact.

These cases, however, are rare. In most instances, the only way in which farmers can approach the benefits of large scale marketing is to form cooperative associations with volume great enough (1) to attract good bids, (2) to permit grading and sorting into separate lots, and (3) to bear the overhead of an experienced sales manager to do the grading and sorting and select the best markets in time and place.

The need for cooperative action is clear. It is not the same need as that which existed a generation or more ago and called the local livestock shipping association into being. But it is as pressing, or more pressing, than that need. The individual livestock farmer cannot sell his livestock to best advantage, acting alone. Effective hog selling calls for a large volume of hogs. In the great majority of cases this can be secured only by cooperating and combining the product from many farms in the hands of one capable livestock sales manager.

THE GENERAL OBJECTIVE OF AGRICULTURAL COOPERATIVE MARKETING

We come now to a most crucial question. In the light of our preceding discussion, what broad philosophy of cooperation should dominate cooperative associations set up to handle livestock marketing problems? What should be the general objective of cooperation in marketing livestock, or for that matter in marketing any agricultural products?

Agricultural cooperatives have pursued various goals in the past, and not all of these goals have been sound. We will deal with the three most important ones—first, with "cooperation for monopoly control;" second, with "cooperation to sharpen competition;" and third, with "cooperation to improve market connections."

COOPERATION FOR MONOPOLY CONTROL

"Cooperation for monopoly control." This objective has led many a cooperative organization into trouble. It was the objective of the "commodity control" philosophy advocated 10 or 12 years ago.

This idea of monopoly control through cooperative action is now discredited, but it still crops out occasionally in discussions of cooperative livestock marketing. According to this theory, the objective of cooperative livestock marketing is to organize the bulk of the growers into one single system. The aim is to
get the bulk of the commodity into strong hands. Such a coöperative would then "have something to say about the price of hogs," or in bolder statements, "would be able to dictate the price of hogs."

The fallacy of this objective should be obvious. Without control of production, a coöperative cannot arbitrarily set the price. The most that it can do is to secure the best price that the market affords for the supply produced. The coöperative can only get a higher price than this by withholding part of the supply of hogs. Unless the hogs withheld were destroyed, they would shortly come on the market, heavier than before, and reduce the price of hogs to still lower levels. It is useless to try to raise the price of hogs arbitrarily without reducing the production of hogs or increasing the demand; and in the past this essential element of production control has not been included in the "coöperative monopoly" objective dangled before coöperators' eyes.

The fallacy of attempting to hold prices up simply by "getting all of the commodity into strong hands," without also controlling production, is illustrated by the failure of the British monopoly of rubber (the Stevenson plan), by the collapse of the Brazilian coffee valorization plan, and by the disastrous experience of the Federal Farm Board with its recent market stabilization activities in wheat and cotton. During the past few months, the necessity for reducing production or increasing demand, or both, as part of a program for raising prices has been recognized by the Federal government in the Agricultural Adjustment Act of May, 1933, which makes specific provision for reducing agricultural production and increasing demand as an essential part of its plan for raising farm prices.

COOPERATION TO INCREASE COMPETITION AND NARROW MARGINS

A second objective, inadequate rather than false, is the "coöperative competition" objective.

The idea here is that coöperatives, by going into competition with private dealers, will narrow the margin between the price the consumer pays and the price the producer receives, and will therefore raise prices to the farmer.

The reasoning underlying this objective is that private dealers include profits in their handling margins, but that coöperatives do not seek profits; they operate at cost; not only that, but their costs are lower than dealers' costs. They will therefore be able to pay better prices to their farmer members than private dealers can.

Unfortunately for many of our associations, this line of argument is erroneous at several points. When we come right down to reality, we find that coöperatives cannot operate on much
narrower margins than private dealers, when they (the coöperatives) must compete with private dealers for the patronage of farmers. Under such circumstances the functions performed by the coöperatives are identical to those of private concerns and their costs, on the average, cannot be greatly different. With operating costs substantially the same as those of its competitors, the coöperative enjoys no advantage over them in contending for the business of the farmers. There are a few exceptions, such as the coöperative livestock commission firms, some of which have resulted in reducing commission charges at the terminal market. But in the great majority of cases, especially in the local market, coöperatives that must compete with private dealers for the patronage of farmers are found to require practically the same margins and handling charges as private dealers.

The result is that in most cases the livestock coöperative fails to get the bulk of the local business and establish most economical marketing arrangements in the community. It is usually forced to content itself with only a modest share of the business to be had. In getting this it may be able to raise the local price level, if the community is suffering from inadequate competition. But it cannot do so in all cases. It all depends upon the competitive conditions that may exist and the outlets and trade relations already effective in the community. Usually the coöperative can about equal the prices of competitors. If it is able to out-pay them for a period, it will most likely be unable to retain the advantage for long. The net result is that it does well if it can succeed in taking its place among the other dealers of the community.

By so doing it does not necessarily improve local marketing conditions for the farmers. Such coöperation results merely in adding so-called coöperative enterprises to those already in the private trade. It is not calculated to reconstruct the trade in any essential respect. Nor does it hook up the individual farmer any closer with his market than he was before. It is as likely as not to lower the efficiency of marketing in the community by splitting up the business among more traders than existed before the coöperative was organized. This results in higher marketing costs and less effective trade relations for the locality. While the coöperative may appear to be holding up prices by offering competition to other traders, it may in effect lower prices by lowering the efficiency of marketing in the community. Instead of reducing the number of middlemen, it may actually increase the number; instead of reducing the amount of excess equipment and facilities for handling and marketing the product of the community, it may increase them; instead of eliminating the competitive wastes of carrying competition for
livestock clear to the farm, it may actually accentuate them. This is a perversion of cooperative marketing.

Where this is the accepted notion of cooperative marketing the association manager soon comes to realize that he is in reality a competing buyer. In order to secure patronage he must compete with all buyers with whom the individual farmer has contact. Instead of representing farmers in the sale of their product, he competes with buyers for the product of the farmers. From any angle this does not look like cooperative selling; in reality the members acting individually are the sellers and the association is on the other side of the fence. Struggling to maintain itself as a cooperative sales agency while in reality it is in the position of a buyer, the association is likely to contract various disorders, such as the speculative cash basis of operation, over-grading and over-paying, and, in spite of everything, declining patronage, mounting costs, and general financial debility. It would appear that cooperative marketing couched in this form and embodying this theory not only defeats its own purposes but also contains the seeds of its own destruction.

**COOPERATION TO INCREASE THE EFFECTIVENESS OF FARM MARKETING**

Then what is it that farmers hope to accomplish by cooperative marketing? "Monopolizing the market" is a false hope, and "offering more competition to dealers" is an inadequate goal; what then is a sound objective? What is the proper place and purpose of cooperatives in agricultural marketing?

There are two different views as to the place of cooperatives in the marketing structure. The first view is that a cooperative marketing association takes the place of its individual members. The cooperative represents its members in the sale of their products. It is a group of farmers working as a unit instead of as individuals.

This view seems obvious enough, but it conflicts with the second view, which is that cooperative marketing agencies are a species of middleman. If this latter view is correct, cooperatives do not represent farmers nor perform the part of farmers in marketing; they come in between farmers and the buyers of farm products as middlemen.

These two views cannot be reconciled; one or the other of them must be rejected. If cooperatives are groups of farmers selling as units they are in no sense middlemen. A cooperative may either represent farmers in marketing or serve as a middleman with whom farmers trade; it may function in either role, but not in both.

The question is, which role should it take?

An illustration of the difference between the two roles will
help to clarify the answer. Milk producers' associations are good examples of coöperatives which represent their farmer members. Through these associations, dairymen sell their milk to city dealers and distributors. The dairyman does not consider his association as one of several to be traded with; he in the plural sense is the association. Through it he plans his production program, brings his product to the proper standard of quality and uniformity for the market, and gets on to a satisfactory trading basis with the milk distributor. The work of coöperatives of this character begins in the plans and methods of production on the farm, carries through the preparation of the product for the market and into the selling of it on the market.

Many other coöperative marketing associations in Iowa conform more or less to this pattern. Most local coöperative creameries belong to this type. The most successful farmer's marketing associations in the United States are built along these lines. Among them may be mentioned the California Fruit Growers' Exchange, the Washington Coöperative Poultry Producers' Association, Land O'Lakes Creameries, Inc., the Iowa State Brand Creameries, the Staple Cotton Growers' Association, the Western Cattle Marketing Association, and others.

Examples of the other kind of coöperative, the middleman kind, are to be found on every hand. Most farmers' elevators and a good many livestock marketing associations are of this type. They operate as middlemen rather than as the marketing agents of their members. The majority of the farmers who are members of these associations continue to conduct their farm marketing in the same manner as before. The only difference is that they have one more agency with which to trade. They continue to do their own trading; sometimes they deliver to the coöperative, but in most cases only after they have failed in their bargaining for a better price elsewhere. They regard their coöperative simply as another middleman. This is natural enough, since the assistance which such coöperatives give to their members in planning and carrying out their individual farm production and marketing activities is practically the same as that which is offered by independent dealers. And the reason for this is, not that the management of the coöperatives is at fault, but simply that they are designed to serve only as middlemen, and do so. Serving only as middlemen, they can operate only on the same basis as other middlemen. They can only take part in the marketing system as it exists. They can do little to improve it.

It is obvious that of the two objectives for coöperative action, the "farmer representative" objective versus the "middleman" objective, the former holds by far the greater promise for agriculture. A coöperative formed with this objective in mind
knows what it is after, and knows that as a large scale marketing unit it can bring the farmers which compose it one long step closer to their markets. It cuts through the overlapping small-scale local middlemen who find their place in a system whereby farmers trade individually with as many local dealers as they can; it handles a volume of livestock sufficient to command the best bids available in the country; having that volume it can grade and sort its livestock into uniform lots, and send each lot where it will get the best price; and it can help its members to plan the production and market preparation of their commodity, so that their members can time their sales and bring in the kind and quality of product most in demand.

In finding the place that cooperatives can play in the process of marketing agricultural products, we have also indicated the important purpose of these associations. In a word, their true purpose is to enable farmers to produce and dispose of their market commodities more effectively. Cooperatives that are designed to enable farmers more effectively to plan the production of the product and to dispose of it in the trade serve to bring farmers into more favorable and profitable relation to their markets; they pave the way for the market distribution of products from farms to processing and consuming centers at a minimum of trading and handling risk and expense; and, finally, they open the door to group action on a broader scale—group action to deal with the difficult problems affecting agriculture as an industry.

This last point is important. The new "governmental partnership" plan, embodied in the recent legislation for industrial control calls for strong and well organized trade associations to represent each industry in working out its economic problems. The industrial control bill was passed at the end of a comparatively brief period of discussion, and many industries found themselves without a comprehensive trade association to represent them. Agriculture is one of these industries. Some branches of agriculture, for instance, the producers in some milk sheds, were already well represented by coöperative marketing associations, and have already begun working with the Federal government. Other branches of agriculture that are less well organized are making less progress in articulating themselves with the new movement.

Here is a wide sphere of usefulness for cooperatives which represent their farmer-members in the marketing of their products—a sphere which extends a long way beyond the relatively near-at-hand and specific tasks outlined in this brief bulletin. Agriculture now has a better opportunity than ever before to carry into effect a broad program of coöperative action, long conceived by forward looking coöperative leaders—a program for strengthening and stabilizing agricultural business.