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## CONDITIONS IN THE CATTLE INDUSTRY

In a study of the trust problem the packing industry affords more suggestive material than is to be found elsewhere. The conditions in the meat trade also vitally affect more people than those in any other industry, and the extent of the interest felt by great numbers in the price of cattle, the price of meat, and the conditions under which the business is carried on is greater than is the interest in oil, sugar, or any other monopolized commodity. The meat bill is measured in dollars where the oil bill is measured in cents.

The same facts which make the packing industry one which could throw so much light on the trust question make it difficult to secure the light. Where raw sugar or crude oil comes from one plantation or a dozen wells, cattle come from a thousand hills, and no one is compelled to count them and furnish us the record of their numbers. In the census of 1900 we are told that the cattle have decreased in numbers by five million in a decade. As population increased during this period by eleven million and export trade in meats grew rapidly, how could a higher level of prices for cattle be avoided? The time seemed to be at hand when the law of diminishing returns would operate. Overstocked ranges had caused great loss and failure. Increase in demand for

other products had so raised the price of lands throughout the corn belt that cattle could no longer be profitably grown there. The extremely high prices paid for cattle in 1902 seemed to confirm this conclusion, and the great profits which that year brought to ranchmen and farmers who had fat cattle ready to market at \$7-9 per cwt. led cattle-feeders everywhere to enlarge their operations and induced hundreds of men who had never fed cattle to embark in the business.

In most instances the enlarged scale of operations was made possible by the free extension of credit. The commission firm that can sell a farmer a drove of cattle from the range to be fed from three to six months can get the farmer's note for the entire purchase price discounted by the banker who deals in live-stock paper, and ordinarily such paper is a safe investment. If the farmer buys thrifty cattle to consume the products of his farm, even if the price of cattle should decline somewhat, the cattle will increase in weight more than enough to make them bring as much when they are returned for slaughter as they did when they were shipped out to the feed lots. For the past two years, however, this ordinary condition of the business has been so much disturbed that ranchman, feeder, commission man, and banker have lost enormous sums of money. With one accord they turn against the packer and charge the packing-house combine with manipulating the cattle market to such an extent as to leave no profits for anyone but the packer. This is a most serious charge and deserves the closest investigation, both because of the magnitude of the interests involved—the ranchmen, farmers, and commission men who are vitally interested in this question are numbered literally by the millions—and because of the light which this case can throw on the general trust problem. If it be possible for a combination to get sufficient control of the cattle trade to enable it to dictate the prices at which a million farmers shall sell their cattle, then what industry is there which cannot be controlled?

The task of securing a monopoly of any commodity is not necessarily more difficult when there are a million sources of supply than when there are but one hundred. If all sellers can be

compelled to go to one buyer, it may be easier to deal with a million than with a thousand, because a counter-combination of the sellers is more difficult. But when the seller can use part of his own products instead of selling them, monopolization becomes increasingly difficult in proportion to the increase of the number of sellers whom it is necessary to control. Not only can the farmer eat his own beef, but he can sell it direct to his neighbors instead of shipping it to Chicago, paying the railroad a heavy freight for carrying the live cattle, paying the commission man toll for selling them, paying the workmen in the yards union wages for slaughtering them, paying the railroad another freight for bringing the dressed beef back for consumption by the farmer or his neighbors. Surely the monopoly profit which the packer can get out of a business in which anyone can engage with no capital and little skill is closely limited; or, if such a business can be and is profitably monopolized, the hope for a continuation of the competitive régime is an "iridescent dream."

Perhaps this is not a fair statement of the case; certainly it is not a complete statement. It leaves out of account that great part of the cattle which is consumed in industrial centers so remote from the farms that direct trade between producer and consumer is impossible. While it is true that many farmers butcher their own cattle and local butchers in almost every town are in active competition with the packers for the cattle which the farmer has to sell, the proportion of cattle which comes to the central markets, is there converted into beef, and is sent back to the country towns for consumption is increasing. The law of substitution has full play here. If the monopolist packer presses the cattle-grower too hard — i. e., offers him a price for his cattle that is too low in comparison with the price asked for beef — the farmer can substitute country beef for dressed beef. He can kill and eat his own cattle, or he can sell them to the local butcher. The only way the packer can get the cattle is by offering more for them than they are worth to the farmer for home consumption, or than he can get from the local butcher. This is the theoretical minimum below which a monopolist purchaser could not depress the price. If the farmers and the country towns could consume

all the cattle raised, the theoretical minimum would be the practical minimum. Because the country is in a position to slaughter and consume a very large part of the cattle raised, monopolizing the industry is more difficult, and the limit of monopoly profits is narrower than is the case in any industry in which the source of supply is more localized and producers fewer in number. Even that part of the supply which goes to the large cities or to foreign countries does not necessarily pass through the hands of the packers. It is possible for any farmer to ship dressed beef to the city if he can find a customer for it; and it is easy to establish a packing plant in any cattle-producing region. The amount of capital required is moderate, and the skill needed to operate it is not great. Indeed, a number of small plants exist at many points in the corn belt. Altogether the small plants and local butchers probably handle as many cattle as the large packers do. No one has charged that all these local butchers and small packers have been taken into the combination and allowed a share in the exorbitant profits which the combine is supposed to be making.

Besides, there are about ten important firms which buy cattle at Chicago for the export trade or for eastern markets. It is not suggested that they act in collusion with the packers. They compete in the market for such cattle as are needed to fill their orders. But after their orders are filled about 80 per cent. of the beef cattle coming to the Union Stock Yards remain unsold. Formerly the packers competed with these "order buyers" for cattle. Then by so manipulating things that most of the cattle were received on Monday and Wednesday of each week, making practically a two-day market, it was possible for the packers to keep out of the bidding till the "order buyers" had filled their orders, and secure what remained at reduced prices. Frequently prices would drop twenty to thirty cents as soon as the orders were filled and the market left to the packers. Since the strike a serious attempt has been made to spread the receipts over the week, and a five-day market has been resumed. But the salesmen in the yards maintain that the packers still keep out of the market till the outside orders are filled, and that the buyers for Armour, Swift, Morris, and the National Packing Co. never bid against each

other. It is common for buyers for these firms to ask the salesman: "Who is bidding on these cattle?" An outsider's bid will sometimes be raised, but if told that the bid is by one of the combine, the reply is: "Better sell them." The buyers for the four firms in the combine seem to agree with mathematical accuracy on the value of any drove of cattle. At least their bids are remarkably similar. A few years ago there was greater difference in their estimates of the value of cattle. Perhaps greater experience has rendered them more skilful in estimating values. Perhaps the conferences which the buyers not infrequently hold as they ride through the alleys looking at the cattle affect the conclusions reached. Possibly the fact that three of the most important representatives from each of the big firms—Armour, Swift, and Morris—meet together frequently as directors of the National Packing Co., discuss the trade situation, and determine upon prices and policy for this firm which they own jointly, may explain the harmony of action by representatives of the three firms. Whatever be the explanation, there seems to be no doubt, among those best informed, that the great difficulties in the way of monopolizing this industry have been overcome, and that the big packers are working in harmony.

Although the members of the combination kill less than half the cattle produced, they buy perhaps three-fourths of the cattle which come to the public markets. Careful and combined action enables them to control and manipulate the market as their interests dictate, and the butchers and buyers throughout the country make their bids and conduct their business on the prices current in the Chicago market, so that the producer everywhere has the value of his cattle determined by the action of the packers. Since combination has given them this power, prices to the farmer have been from 15 to 30 per cent. lower than they were before, and it is easy to convince the farmer that the packer is the cause of his losses.

The absence of reliable statistics showing the total number of cattle in the country, the number being fed at any given time, or the number slaughtered by the local butchers keeps the business on a highly speculative basis and makes it possible for anyone to

reach a conclusion in accord with his own interests or inclinations.

If a loss of five million cattle really occurred between 1890 and 1900, as the census showed, a very effective combination is required to keep prices as low as they have been for the past two years. If the fact that market receipts have been greater than ever before be accepted as proof of inaccuracy in the census reports, no monopoly theory is required to explain the low prices which prevail. The conclusion reached depends largely on the data selected. It is easy to find plenty of data to make a strong case for either side. The need for complete and unquestionable statistics of the cattle industry, constantly kept up to date, is probably greater, and felt by more people, than is the need for any other kind of agricultural statistics. This is true because the growing of crops is more an agricultural than a business problem, while the buying and feeding of cattle is a highly speculative business venture. Especially is this true where the farmer buys both corn and cattle.

In earlier years the production of beef was also an agricultural problem. The farmer kept a number of cows which at least partially paid their board bill in milk and butter, and produced calves which were grown two or three years on the grass, hay, straw, corn stalks, or other farm products of little market value. The corn which was used to finish the steer for market would bring much less cash than it has commanded in recent years. If the farmer had sold everything marketable that the cattle of ten or twenty years ago consumed, his bank account would not have been much enlarged. If he did not raise the calves, he usually bought them when a few months old, with a small cash outlay, and when they were sold his low-priced farm products were converted into a goodly bank account.

In most sections of the United States this condition is largely changed. The farmer keeps a few Jersey cows and raises no calves. If he wishes to feed cattle, he goes to the stock yards and buys a drove that came from the range of Texas, Nebraska, Dakota, or Montana, pays \$25-50 per head for them, puts them in the feed lot, gives them corn or other feeds which now have a high cash value, and when the cattle are turned over to the packer,

the farmer is quite fortunate who finds himself in possession of as much cash as he would have if he had sold his corn.

Why, then, does the farmer feed cattle? The conservative farmer who keeps at it every year feeds cattle for the manure. He knows of no way to maintain the fertility of his soil save by returning to it in other forms as much as has been taken from it. He has learned how difficult it is to get something for nothing, even from the land. So he sells his corn, hay, and other products in the form of beef, when he knows he could for a few years obtain more cash by selling them direct from the field.

A large proportion of the feeders though, are simply optimistic speculators. They gamble on the chance of the market going up between the time they buy and the time they sell the cattle. They venture most numerous to fill their feed lots after high prices have prevailed for some time, and if they meet with a little success, operations are rapidly extended by the use of credit.

Both classes of feeders are in a position to be squeezed by a combination of the packers. The conservative farmer who strives to maintain soil fertility will not quit steer-feeding until the price of cattle drops so low as to leave him much less than the market price for his corn. The speculative feeder keeps coming back with the gambler's hope and optimism, until his cash and his credit are both exhausted.

Range cattle-production is also carried on under conditions which make manipulation of the market highly profitable to the manipulators. Cattle-production on the ranch is a gamble where you cash in five years after you put up the "ante." Twenty-five years ago, when beef prices were very high, free range abundant, and the men in the business were cashing in on their earlier investments with very good profits, it was easy to organize cattle companies or induce the unsuspecting eastern investor to take tickets in the cattle lottery. So long as breeding stock for the range was in demand the supply of cattle sent to market was diminished. The demand increased by the call for range stock in addition to the regular market needs, and the supply correspondingly curtailed, kept prices up so long as the range investment continued. The heifers sent to the range in 1882 would drop calves in 1883.

These calves could come to market as three-year-olds in 1886, but were more likely to come as four-year-olds in 1887 or as five-year-olds in 1888. For the four or five years until the cattle were ready for market it was possible for the promoter to keep organizing new companies and make his investors believe in the large paper profits till the test of marketing the cattle was applied. By the time the range cattle were old enough to market in considerable numbers three or four crops of calves were on bonds, the ranges were overstocked, the streams of cattle which had been turned to the range for breeding purposes were again thrown onto the market, and the supply from the range was added. The inevitable break in price blasted the hopes of many who had invested in ranching companies, and led them to go out of the cattle business as suddenly as they had gone in. Thus the supply of cattle thrown on the market was further increased, causing prices to fall still lower. Destruction of grass on the overstocked ranges and the rapid development of the range sheep industry drove additional range cattle to the market and depressed prices even more.

The panic of 1893, with the depression which followed it, came about the time the cattle industry had reached the condition described above, and consumers ate less meat, so prices were very low for a few years. With the return of business activity, meat-consumption increased, and prices were on the upward trend from 1898 till 1901. The short corn crop of that year caused a good many cattle to be prematurely marketed in the fall and winter of 1901, and depressed prices temporarily, while curtailing the supply that would normally have reached market in 1902. The high price of corn caused many cattle to be held over and fed in 1903 that with corn at normal price would have been marketed in 1902. Thus the 1902 supply was cut short at both ends, and as workmen were fully employed at good wages, the price of cattle reached a higher point than had been seen in twenty years. The high prices, with the official statement of a shortage, encouraged many to enter the cattle-feeding and breeding business, as stated at the beginning of this article. But the number of cattle which has reached market every month since November, 1902, indicates either that the census was inaccurate in reporting



a shortage, or that the low prices have discouraged cattlemen so much as to cause them to close out their herds, thus adding to the normal supply cattle which should have been kept for breeding purposes or not marketed for a year or two later.

Some men accept one of these explanations and some the other. There are no definite and indisputable data which will enable one to prove either position. The upward trend of prices during the past month lends color to the theory that low prices led to the sacrifice of breeding stock, and that a shortage is now impending. If prices should continue to advance and remain high for a year or two, that theory would be fairly established. If, on the other hand, prices drop back about the time the cattle now being put into the feed lots begin to come to market, then the combination theory of low prices receives support. If there be a combination of packers which is successfully manipulating the price of cattle, its interest would obviously be served by a high range of prices through October, November, and December, while feed lots are being filled. The farmer is more likely to act on the market data before him than on the forgotten data of last year. He sees "stockers" and "feeders" selling at three or four cents, and fat cattle bringing five to seven cents, per pound. The margin of difference looks attractive to him, and he gambles on another drove of "feeders," optimistically hoping the price of fat cattle will remain high till he can change his three-cent "stockers" into six-cent beef.

High prices for corn-fed cattle at this time of the year are not very burdensome to the packers, because the great bulk of their purchases are from the range or the pastures, and are bought at about half or two-thirds of the price which the market toppers bring.

Of course, the farmers could not be fooled by such a game forever. There are indications now that many of the farmers who have lost heavily on the operations of the past two years will stay out of the market this year. But there is enough uncertainty in the business, enough doubt about the extent of the combination's control, or the policy it will adopt if it does control, to cause many to venture. The hope also exists that there is a real

shortage, and, if so, the man who fills his feed lots now at the low prices will reap a rich reward when he sells next year at scarcity prices. Besides, the man who has his farms and barns arranged to feed cattle is losing interest on his investment if he does not use them. If he can get back operating expenses without interest on his plant, it is better than allowing the plant to remain idle. Also, if any considerable number of farmers in a section remain out of the market, and undertake to sell their corn instead of buying corn, the difference in the price of corn in that locality may drop enough to make feeding again profitable. In any section where cattle-feeding is developed sufficiently to consume a little more than the local supply of corn at home, the price is usually as high as the Chicago price. Let a few of the large farmers drop out of the market, and corn must be shipped to the central markets, paying five or ten cents per bushel freight, or even more. When this occurs, the whole crop of corn in that market must sell at the lower price, unless the lower price induces farmers to resume feeding operations.

The one known factor in the feeding business, when operations are begun, is the price at which cattle are bought. The farmer does not know how much they will gain; quality of cattle, skill in feeding, climatic conditions, and other causes determine that. He does not know how much the corn or hay he is to feed them will cost him. If he feeds cattle, feed will sell at a higher price in his locality than if he does not. He does not know what price he will get for his cattle when he has fattened them. If the market is under the control of the packers, he may have his cattle ready at a time when it is to their interest to have prices high, but the chances are against him. If prices are unregulated, the statistics of the past twenty years show variation enough from year to year to make cattle-feeding a very uncertain business. There was always the gambler's hope, though, that luck would favor him part of the time, and as prices are high some years and low others, the man who fed cattle every year won as often as he lost. With a manipulated market, however, that possibility is removed. It will be necessary for the combine to allow winnings often enough to keep the farmers in the game. It is very doubtful

if the cattle market can be so manipulated for any long period as to keep the farmers feeding cattle and allow the packers much larger profits than a competitive market will afford them. It is quite obvious that at any given time they have the seller at a disadvantage. He must sell most of his cattle when they are fat. Local demand will not take many of them. But the packer must also keep the supply coming, or his plants are of no value. If it becomes apparent that prices are to be fixed by the packer in his own interest, intelligent farmers will quit the game where the other man holds all the trumps.

One of three things will happen: (1) Some plan of government regulation will be devised. Difficult as that task is, there are already urgent calls for it. (2) Independent plants will be developed which will restore competition and again give the farmer some shadow of a chance to win occasionally at the gamble which cattle-feeding must always be under competitive conditions with no accurate statistics. (3) The packer will be compelled, directly or indirectly, to guarantee the farmer a certain price for fat cattle. This is now done to a slight extent by speculators. It is possible to go to the yards, buy "feeders" at, say, four cents per pound, and sell them to be delivered in ninety days at, say, five cents per pound. All things considered, this is the safest and simplest plan for the complete organization of the cattle trade, so far as the packer and the feeder are concerned. It leaves the rangeman or cattle-grower and the consumer to be dealt with. But if the industry is organized and in the complete control of the packers, the farmer is not asking too much in demanding this guarantee. Feeding can then be reduced to a business basis instead of a gamble, and will gradually fall into the hands of the men who can put corn and cattle together to best advantage, instead of into the hands of the most successful speculators.

Range conditions differ much from cattle-feeding, and are conducted on a scale much larger, and by men or firms with more capital and a better knowledge of the situation, so that they are in a position to organize and deal with the packers more successfully than the farmers can possibly do. Most of the range industry is conducted on government lands under conditions which

lead to destruction of the pastures. Some system of leasing or exclusive control is badly needed, and as the government now has the cattle industry under investigation, it is not too much to hope that a comprehensive report will soon be furnished showing more than has yet been made public about the status of the industry from the ranch to the consumer. With the facts that should be disclosed it ought to be possible to answer definitely the following questions :

1. How many cattle are there in the country? Is the number increasing or decreasing? Is the quality increasing or decreasing? How much improvement is the use of pure bred cattle producing?

2. What amount of cattle is being produced under range conditions today? What plan can be devised to improve the ranges and increase the supply from this source? How many of the range cattle should be kept there till they are ready for the butcher, and how many should be sent as calves, yearlings, or two-year-olds to the feed lots of the corn belt?

3. How much of a combination exists among the packers? What part of its power rests on railroad discriminations? What other advantages does it possess? How complete is its control over the price of cattle? What control does it exercise over the price of beef to retailers or consumers?

If from the government experts or some other source answers to the above questions can be obtained, it will be possible to work intelligently toward a solution of the packing-industry problem.

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