December 14, 1953

To the Graduate Council:

I am submitting to you a thesis written by Erice H. McDonald entitled "A Study of Livestock Dealers in Tennessee". I recommend that it be accepted for nine quarter hours of credit in partial fulfillment of the requirements for the degree of Master of Science, with a major in Agricultural Economics.

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A STUDY OF LIVESTOCK DEALERS IN TENNESSEE

A THESIS

Submitted to
The Graduate Council
of
The University of Tennessee
in
Partial Fulfillment of the Requirements
for the degree of
Master of Science

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by
Erice H. McDonald

March 1954

ACKNOWLEDGEMENT

The writer expresses his appreciation to Professor E. J. Long, Head, Department of Agricultural Economics and Rural Sociology, for making this study possible and for guidance given in planning and completing this project. Deepest gratitude should also be given to M. B. Badenhop, Associate Professor of Agricultural Economics, and to T. J. Whatley, Associate Agricultural Economist, for assistance in planning the study and editing the manuscript. Helpful suggestions were also received from J. L. Fischer, Assistant Professor of Agricultural Economics.

Acknowledgement is also due the livestock dealers, producers, and other persons interviewed for furnishing the marketing information presented in this thesis.

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CHAPTER I

INTRODUCTION

Significant changes have occurred in agricultural production in Tennessee during the last two decades. The history of this period reveals that among the more important changes have been a decreasing interest in row-crop farming and greater interest and emphasis on a grassland-livestock economy. Also, during this time, farmers, livestock marketing agencies, and processors have become more interested in a better marketing system for livestock.

Prior to the 1930's, livestock production on most Tennessee farms was a minor enterprise with emphasis on production for home use. Sales were mainly surpluses above home needs and were made with little attention to market considerations. The small volumes of livestock did not warrant the effort involved in market selection. Even where commercial production developed, livestock was a secondary enterprise, in most cases, and only little interest was shown in ways of increasing income from livestock production.

With the expansion of livestock numbers during the last decade, the need for increased attention to livestock marketing practices and facilities has been realized and has led to the development of a long range livestock marketing research program by the Tennessee Agricultural Experiment Stations and other Agricultural Experiment Stations of the South. Individual states are conducting their research programs, but are coordinating their efforts through a Southern Regional Technical Committee

in cooperation with the Bureau of Agricultural Economics of the United States Department of Agriculture. The present long range program as developed by the Southern Regional Committee is comprised of three broad objectives. These are to determine:

(1) Existing livestock marketing practices and facilities.

(2) Price-grade differentials paid for livestock and livestock products.

(3) Means of reducing cost and increasing the efficiency of marketing livestock.

This study is concerned with one phase of the objective relating to marketing practices and facilities and deals with the activities of dealers or traders at the livestock auction market.

Purpose and Scope of the Study

A wide variety of ideas exist among farmers, agricultural workers, and others concerning economic aspects of the developing livestock production and marketing system of the present time. These ideas, however, are not always based upon a sufficiently wide range of facts to make them of value in formulating problems, or in offering solutions to problems. One way of developing an understanding of the functions and activities of the livestock market is to systematically collect and analyze pertinent observations on the physical characteristics of the market, the product marketed, and the type of middlemen operating in the market.

This study is concerned with the importance, or the position, and the activities of one of these middlemen in the market, namely the livestock dealer. A brief survey studying dealer activity in the livestock

auction market was made in the Upper East Tennessee counties of Cocke, Hamblen, Greene, Sullivan, and Washington. This study provides an insight into the activities of the livestock dealer and gives further knowledge of his position relative to the livestock auction market. Specifically, the objectives of this study are: (1) to determine the place of the livestock dealer in the livestock market; (2) to describe the existing marketing practices and methods of the dealer; and (3) to obtain a clearer knowledge of the problems of livestock marketing as related to dealer activities in the market.

Method of Research and Source of Data

The first phase of the research consisted of becoming familiar with the available sources of material related to general problems associated with the marketing of livestock. Numerous studies on various phases of the livestock auction market have been completed; however, little research has been accomplished in the general area of livestock dealers as a buyer of livestock in local marketing areas. Studies conducted by other research agencies were also reviewed to provide a background for studying dealer activity in the market and to aid in formulating the problem.[1]

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[1]Some of the more important studies reviewed were: (a) California Agricultural Experiment Station, Mimeographed Report No. 123, The Dealer at California Livestock Auctions, September 1951. (b) Washington Agricultural Experiment Station, Bulletin 537, Trade in Western Livestock at Auctions, June 1952. (c) South Dakota Agricultural Experiment Station, Bulletin 365, Marketing Livestock in the Corn Belt Region, November 1942.

The second step consisted of developing objectives and formulating hypotheses applicable to the problem. At this time an outline of the study was prepared to serve as a guide to the research.

The third phase involved collecting the necessary data for analysis. Data on the economic position of livestock in Tennessee and the South were obtained from various reports by the United States Bureau of the Census, statistics published by the Bureau of Agricultural Economics of the United States Department of Agriculture, published reports of the Tennessee Department of Agriculture, and numerous other bulletins and pamphlets published by Agricultural Experiment Stations.

Data studying the importance of the livestock dealer in the marketing of livestock were obtained through direct interviews with livestock dealers from 10 June 1953 to 17 July 1953. The sample taken was large enough to satisfy the primary objectives of the study, but did not permit technical break-down or the making of reliable comparisons of various practices and methods of marketing employed by different types of dealers.

In developing the study, numerous conferences were held with personnel of the Department of Agricultural Economics and Rural Sociology of the University of Tennessee. Also, personal interviews were held with county agents, vocational agriculture teachers, a county judge, representatives of packing firms, and other agricultural leaders in the area.

Organization of the Study

This thesis is organized into four chapters. Chapter I describes the setting of the problem, gives the purpose and scope of the study, indicates the method of research and source of data, and the organization of the report.

Chapter II discusses the economic position of the livestock industry in Tennessee and some of the factors affecting its development.

Chapter III contains an analysis and description of the characteristics of livestock dealers operating in the Upper East Tennessee area studied. It also contains an analysis of practices and handling policies of livestock by dealers in the area, an appraisal of the auction market by livestock dealers, and a discussion of the problems resulting from dealers' activity in the auction market.

Chapter IV contains a summary of the results of the study.

CHAPTER II

ECONOMIC FACTORS AFFECTING THE POSITION OF THE LIVESTOCK DEALER IN TENNESSEE

Important Economic Factors

The outstanding problem in the rural South is the low average income per farm. The low farm income is intimately related to the high ratio of population to productive land resources that has developed because of the need for hand labor in the production of cotton and tobacco.[2] Evidence indicating this relationship shows that in 1945 the East-South Central States (Kentucky, Tennessee, Alabama, and Mississippi) had a farm operator family level of living index of 45, as compared with an index of 145 for the states of Indiana, Illinois, and Iowa.[3]

In periods of high farm prices the relative returns for the use of land in alternative enterprises favored specialization in high value crops such as cotton and tobacco, and the resulting income in those years provided somewhat more adequately for the farm population. At the same time, with high percentages of land in row crops, there developed a soil erosion problem that increased in seriousness for many years.[4]

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[2]United States Department of Agriculture, Yearbook of Agriculture, 1940, (Washington: Government Printing Office, 1940), p. 503.

[3]U. S. Bureau of the Census, United States Census of Agriculture, 1945, (Washington: Government Printing Office, 1945), Part 20.

[4]United States Department of Agriculture, Op. cit., p. 504.

With lower returns from cash crops, and little or no alternative employment for the farm population, the pressing need for cash income makes it extremely difficult to establish a type of farming that will maintain soil resources. Soil conservation requires the use of winter cover crops and the retention of part of the land in grass and other close-growing crops. To establish such a rotation requires cash outlay, and the immediate cash returns are likely to be much less than for cotton or tobacco. Thus the extreme pressure for cash income has furnished an effective resistance to change and the smaller the farm, the more difficult it is to effect the adjustment.

Agricultural extension programs in the South on methods of improving pastures by both fertilization practices and better grasses have led many farmers to recognize that grassland and livestock farming can be combined with row crops to yield a higher income than will row crops grown alone. Future developments in technology appear destined to further advance the relative position of livestock production.

Another important factor in Tennessee and the South in recent years has been the rapid progress of mechanization on the farm. The introduction of the small tractor and complementary equipment has hastened this mechanization process. The forces of mechanization operate in the direction of labor displacement. The need for conservation dictates less intensive farming and, therefore, also encourages labor displacement. More power and equipment are needed to carry out soil-conserving practices. Thus a combination of forces are exerting pressure on the old established economy.

Though cotton prices have remained relatively high throughout the last decade, the ability of the market to absorb cotton at these prices has been sharply curtailed. With the exception of what may be called unusual circumstances (World War II and the programs initiated by Congress immediately thereafter, such as the European Recovery Program) surpluses of cotton have accumulated. Foreign markets for American cotton have diminished as this commodity has essentially been priced out of the market. In addition, the development and use of synthetic fibers has made significant inroads in the domestic market for cotton. To recover these markets, the price of synthetic fibers and foreign cotton must become higher or the price of American cotton must become lower. Neither of these conditions appear likely in the near future.

In contrast to this situation, increased industrialization in the South and the accompnaying trend toward greater urbanization, the expected further increases in population, anticipated high income levels, and a continuing desire of the American people for a diet high in protein add up to an increasing demand in the market for meat (Tables I, II, and III).

The Livestock Situation

Approximately 14 percent of the cattle of the United States, other than those kept for milk, in 1950 were in 11 southern states. Six million of the 43 million beef cattle of this country were in the South, and approximately 17 percent of the nation's hogs in 1950 were in the

TABLE I

PERCENT FARM POPULATION IS OF TOTAL POPULATION, UNITED STATES, 1910-1952

Year	Percent Farm is of Total
1910	34.9
1920	29.7
1930	24.0
1940	22.0
1945	17.9
1950	16.1
1952	15.0*

*Approximate

Source: United States Department of Agriculture, Agricultural Statistics, 1910 to 1952, Washington 25, D. C.

TABLE II

GROWTH OF THE VARIOUS INDUSTRIES
IN TENNESSEE, 1930-1950

Industry	Percent Change 1930-1950
Agriculture	-34
Manufacturing and Construction	58
Trade (wholesale, retail, finance, insurance, and real estate)	138
Other (transportation, communication, professional, domestic, etc.)	21

Source: United States Department of Commerce, Bureau of the Census, Census of Population, 1930 and 1950.

TABLE III

PERCENT OF THE WORKERS EMPLOYED IN VARIOUS INDUSTRIES IN TENNESSEE, 1930-1950

Industry	Percent of Total Employment	
	1930	1950
Agriculture	39.4	21.7
Manufacturing and Construction	21.0	28.2
Trade	9.6	19.3
Other	20.0	30.8
Total	100.0	100.0

Source: United States Department of Commerce, Bureau of the Census, Census of Population, 1930 and 1950.

South as compared with 16 percent in 1946.[5] In addition, the South produced slightly more than four percent of the sheep and lambs of the United States in 1950.

Tennessee has also increased its number of cattle in recent years and at a more rapid rate than has the United States as a whole. To compare 1940 with 1951, farmers in Tennessee increased beef cattle numbers by almost 27 percent while the nation experienced an increase of only 22 percent. Some of the factors limiting the development of the livestock industry in Tennessee are the lack of experience in producing livestock on a commercial scale, and the lack of sufficient capital.[6] Many farmers produce livestock for home use, but relatively few have experience in commercial livestock production. Many farmers in general, are reluctant to change from enterprises with which they are familiar. However, farmers who change to the production of livestock provide others with the opportunity to observe and become interested in livestock.

The shift to increased livestock production has of necessity been slow. Livestock production requires more capital in relation to labor and possibly other resources than does production of row crops. Tennessee agricultural workers have pointed out that the credit system of the State is based primarily upon a cotton-tobacco economy. Bankers and

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[5] United States Department of Agriculture, Production and Marketing Administration, Statistics and Related Data, 1950, Mimeographed, November 1951, p. 1.

[6] M. F. Galal, Skills as a Factor of Livestock Production, Unpublished Master's Thesis, University of Tennessee, Knoxville, Tennessee, August 1952.

TABLE IV

ACREAGE OF TENNESSEE'S LEADING CROPS,
SELECTED YEARS, 1925-1951

	Acres in Thousands						
	Year						
Commodity	1925	1930	1935	1940	1945	1950	1951
Cotton	1,163	1,152	757	729	605	644	805
Tobacco	129	161	105	116	124	103	110
Corn	3,162	2,872	2,802	2,704	2,125	2,141	2,012
Wheat	356	213	468	360	345	244	195
Soybeans	170	222	173	316	306	330	381

Source: Tennessee Department of Agriculture, Department of Statistical Service, Nashville, Tennessee, Agricultural Trends in Tennessee, 1866-1952, August 1952.

utilize land, labor, and capital resources, provide more adequate incomes, and gear farm production to the changing demands of the consumer market.

That livestock has been of increasing importance in Tennessee may best be illustrated by data taken from "The Farm Income Situation".[7] A study of these data reveal that during the period 1945-1952, the value of livestock and livestock products sold annually in Tennessee increased from $161,205,000 to $258,596,000, an increase of $93,391,000 or approximately 61 percent. During this same period, the value of field crops and forest products sold annually increased from $162,395,000 to $225,811,000, an increase of $63,416,000 or approximately 39 percent (Table V). The income from livestock and livestock products increased from 49.8 percent of Tennessee's total farm income to 54.6 percent in 1951. However, in 1952, primarily through the influence of suddenly decreased livestock prices, the income from livestock decreased to 49.4 percent of the total farm income. The total farm income per annum has increased from $323,600,000 in 1945 to $523,275,000 in 1952.

The increase in size of farms in Tennessee has also been of significance to the development of livestock enterprises. From 1930 to 1950 the number of farms in Tennessee decreased from 245,657 to 231,631.[8] This decrease in numbers of approximately 14,000 permitted the average

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[7] United States Department of Agriculture, Bureau of Agricultural Economics, The Farm Income Situation, February 1947 and Subsequent.

[8] U. S. Bureau of the Census, United States Department of Commerce, Statistical Abstract of the United States, 1931 to 1952, (Washington: Government Printing Office).

TABLE V

CASH RECEIPTS FROM FARM MARKETINGS
TENNESSEE, 1945-1951

Year	Cash Receipts (Thousand Dollars)			
	Livestock and Livestock Products	Percent of Total	Field Crops and Forest Products	Percent of Total
1945	161,205	49.8	162,395	50.2
1946	182,113	45.5	217,466	54.5
1947	227,470	48.0	246,182	52.0
1948	242,806	48.3	260,049	51.7
1949	215,067	47.5	216,894	52.5
1950	216,811	50.4	213,533	49.6
1951	261,783	54.6	225,811	45.4
1952	258,596	49.4	264,679	50.6

Source: United States Department of Agriculture, Bureau of Agricultural Economics, The Farm Income Situation, February 1947 and subsequent.

size of farms to increase from roughly 73 to 80 acres. This increase of approximately seven acres per farm is not of too much importance in itself, but this acreage available for allocation among the farmers of the state becomes of significance when one realizes how it has been distributed. In 1930, farms of less than 100 acres comprised approximately 76 percent of the total number of farms, farms between 100 and 499 acres made up approximately 23 percent of the total, and farms of more than 500 acres less than one percent. In 1950, farms of less than 100 acres comprised 74 percent of the total, farms of 100 to 499 acres had increased to nearly 25 percent and farms of more than 500 acres to slightly more than one percent (Table VI).

As farms become larger, the amount of labor required per 100 acres declines, as does the investment needed for machinery and power units. In a study of Iowa farms, only half as many man-hours of labor were required per 100 acres on the 440-acre farms as were required on the farms of 120 acres.[9] These reductions in labor and equipment costs obtained by the larger farms are among the most important to be gained from an increase in size of operations.

As one moves from one size group of farms to another, the relative numbers of different types of livestock, like the crops grown, decrease in favor of enterprises requiring less labor and attention. The number of milk cows, litters of pigs, and hens per 100 acres all decline as acreage increases. These other cattle consist largely of

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[9] J. A. Hopkins, Elements of Farm Management, (3d ed.; New York: Prentice-Hall, Inc., 1947), p. 184.

TABLE VI

PERCENTAGE OF TENNESSEE FARMS IN SELECTED SIZE GROUPS, 1930-1950

Size Groups	Year			
	1930	1940	1945	1950
	Percent	Percent	Percent	Percent
Less than 100 acres	76.4	75.8	74.8	74.5
100 to 179 acres	15.5	15.9	16.5	16.2
180 to 499 acres	7.4	7.5	7.8	8.3
More than 500 acres	0.6	0.8	0.8	1.0

Source: U. S. Bureau of the Census, United States Department of Commerce, Statistical Abstract of the United States, 1931, 1941, 1946, and 1952, (Washington: Government Printing Office).

TABLE VII

NUMBER OF TENNESSEE FARMS AND ACREAGE
1910-1950

Year	Number of Farms (Thousands)	All Land in Farms (Thousand Acres)	Average Size (Acres)
1900	225	20,342	90.5
1910	246	20,042	81.5
1920	253	19,577	77.2
1930	246	17,555	73.3
1940	248	18,493	74.7
1945	234	17,789	75.9
1950	232	18,530	80.0

Source: U. S. Bureau of the Census, United States Department of Commerce, Statistical Abstract of the United States, 1931, 1941, 1946, and 1952, (Washington: Government Printing Office).

stock cattle, young beef cattle, and fattening cattle which can be handled with much less labor per head than can milk cows.[10] The shift to a more extensive type of livestock production is reflected not only in labor requirements on the cost side of the equation, but also in lower returns per $100 of feed fed to the livestock enterprises.

If livestock is to be a competitive enterprise for agricultural resources of Tennessee, the necessary knowledge of modern production and marketing practices must be acquired. This may prove to be an advantage in that new and modern methods and practices will perhaps be more readily adopted than in areas where customs or habits retard rapid application of knowledge available on better production and marketing practices.

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[10] Ibid., p. 184.

CHAPTER III

CHARACTERISTICS OF LIVESTOCK DEALERS

The term dealer as used in this study refers to those buyers who buy, contract for, or obtain possession or control of livestock from producers, other dealers, or other persons, and resell such animals. These men are usually independent operators who buy and sell livestock for a profit. These dealers are important middlemen in the livestock marketing channel and many farmers, particularly the smaller producers, choose to sell their livestock to them. No exact data are available as to the number of livestock dealers operating in the state or in the major marketing areas. A recent Tennessee Agricultural Experiment Station bulletin states:

> Nearly one-half of the cattle producers' sales are made through auctions. Local dealers, terminal markets, other producers, and packing plants follow in that order as additional outlets. Purchases of cattle and calves for replacement stock and feeders are also made through the same market outlets with about two-fifths of the total number being purchased from auctions, less than one-third from other producers, about one-fourth from local dealers, and the remainder from other sources.[11]

Although these people are variously referred to as "traders", "scalpers", and "pin hookers", they undoubtedly perform a service in assembling livestock from farms which are remote from markets and are selling a limited number of animals.

Unlike many states, the livestock dealer in Tennessee has no

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[11] M. B. Badenhop, Selling and Buying Livestock by Tennessee Farmers, June 1953, Tennessee Agricultural Experiment Station, Bulletin 233, p. 26.

legal status or bond requirements. Due to this laxity of regulations, many dealers are constantly entering and leaving the business without serious consideration. During periods of increasing prices and expanding markets it becomes relatively easy to profit from buying and selling livestock and a great number of dealers appear in the market. However, when conditions are less favorable, prices are decreasing and the market is contracting, these less experienced dealers requiring wider margins than are most often found are hurriedly forced out of business.

To better understand the activities of these livestock dealers, this study was conducted in several local markets of the Upper East Tennessee area. As few of the dealers interviewed devoted full time to dealer activity and many had more than one source of income, they were greatly aided in entering or leaving the market as they chose. The most common supplementary activity was farming. Other enterprises in which dealers were found to be engaged are wholesale slaughter and the feed-seed supply business. In some instances it would be almost impossible to clearly segregate the functions performed by some dealers or to determine in what capacity they were acting. For example, one versatile dealer interviewed often purchased cattle at one sale in three different capacities; (1) as a breeder-feeder, (2) as a wholesale slaughter, and (3) as an agent for a nearby local slaughterer.

Time spent in trading varied greatly among the dealers interviewed. Some spent only one-half day weekly in the market, whereas others spent five days weekly (Table VIII). It is not difficult and does not involve excessive travel for a dealer in the Upper East Tennes-

TABLE VIII

PERCENT OF TIME SPENT IN DEALER ACTIVITY
BY LIVESTOCK DEALERS INTERVIEWED

Percent of Time	Number of Dealers
Less than 25	3
25 to 50	8
50 to 75	8
More than 75	5*
Total	24

*These five dealers averaged four or more days per week in the livestock market.

see Counties to attend a different auction market each day of the week (Table IX). Even within the five counties in which dealer activity was studied, it is possible to attend different auctions daily and on some days to have a choice of markets.

During the period of study, dealers frequently commented that "Since prices have been so low, I haven't been buying anything". This was in part, verified by observation. Though these dealers appeared at auction sales it was often as a spectator rather than as an active participant. Even though it is the dealer's margin of profit that is of importance, rather than actual prices being paid, it is most difficult to maintain this margin during periods of decreasing prices. As many dealers base current prices on market prices of the previous day, an inventory loss results as the market continues to decline. In addition to this factor, with unfavorable price conditions, the producer is more reluctant to accept a price that may be less than the maximum obtainable, whereas with prices increasing, the producer is inclined to attach less importance to the amount that may be obtained through more selective marketing.

The dealers interviewed may be roughly classified within two categories, "hookers" and "non-hookers". "Hookers" are usually thought of as those dealers who buy most of their livestock on the auction yard as it is delivered to the market by the producer, whereas the "non-hooker" buys in the country from the producer or through the sales agency. It is not unusual for a dealer to function entirely as a "hooker", using the place of market merely as a means of contacting the producer and as an

TABLE IX

DAYS AUCTION SALES ARE HELD
IN THE AREA STUDIED

Day of Week	County				
	Cocke	Hamblen	Washington	Greene	Sullivan
Monday	X				
Tuesday		X		X	
Wednesday			X		
Thursday				X	
Friday	X				X

*Though not within the area studied, nearby Kingsport conducts an auction sale on Saturday and the Asheville, North Carolina market on Friday is one of the larger in the East Tennessee-North Carolina area.

outlet for the cattle purchased by him during that day's operation.

Transportation to the market was accomplished primarily by privately owned vehicles with dealer's trucks playing only a minor role. Many dealers stated that they did no hauling for others. Other dealers indicated that they hauled for neighbors only as a matter of convenience, and others admitted hauling in considerable quantities (Table X). Trucks owned by many farmer-dealers were licensed only as farm trucks to haul livestock produced and were not licensed as commercial carriers or other professional activities. It seemed that this factor was of primary importance in determining the response to the questions concerning numbers of livestock hauled for others.

The majority of dealers operated only one truck ranging in size from one-half to one and one-half ton capacity. Commercial livestock truckers in this area are clearly defined from dealers as they do not buy livestock in the market buy merely transport livestock for buyers. These truckers haul primarily for the larger packer buyers in the area, often to distant Northern or Eastern markets such as Detroit, New York, Pittsburgh, and Jersey City.

Only one dealer interviewed reported auction affiliation. This dealer, who is not buying at present, is employed as a calf-grader at an auction market. During the period of study, only one auction manager was observed actively buying livestock offered for sale through the auction. Frequently some other person, however, buys livestock for the auction management at the auction sale. This practice brought forth comments from producers of a most diverse nature. Typical comments are:

TABLE X

NUMBER AND KIND OF LIVESTOCK HAULED
FOR OTHERS BY NINE DEALERS

Individual Dealers	Kind			
	Cattle	Calves	Swine	Sheep
1	120	76	40	0
2	108	150	70	0
3	100	162	50	0
4	24	36	18	0
5	72	120	24	30
6	60	75	48	0
7	45	50	0	0
8	75	60	0	0
9	150	100	200	0
Total	754	829	450	30

The management can ship livestock just as cheap as anyone. Why shouldn't he buy through the ring if prices aren't right?

We pay to run livestock through this auction. It is his duty to see that we get a fair price.

Not bad, we pay him to buy our livestock.

It's a good thing. Someone should be ready to make bidders pay what it's worth.

How can he lose? If he can't make money buying and selling, he still has the selling charge as profit.

As was to be expected in this area, dealer activity was greatest in veal calves, followed by dairy cattle, and then beef cattle. Hogs and sheep are not marketed at the auctions in this area in sufficient quantities to be of significance.

Since 19 of the 24 dealers interviewed devoted less than 75 percent of their time to dealer activity, the size of operations was small in most cases. An average of approximately 450 cattle and calves were handled per dealer. Due to the recent drop in cattle prices, both the quantity of livestock purchased per dealer, and the number of dealers actively engaged in buying and selling livestock during the interview period was not very great or important in terms of total livestock marketed. Comments on this situation made by dealers thoroughly familiar with all aspects of the livestock market were as follows:

Since recent price drops, the dealer has been forced out of the market. A tight or dropping market squeezes out all the hookers.

Dealers buy mostly on the basis of yesterday's or last week's market. Recently they have been losing $1.00 to $2.00 per head.

Hooker buying and trading through auctions is now largely eliminated by the presence of packer-buyers who buy in several auction markets.

TABLE XI

NUMBER AND KIND OF LIVESTOCK HANDLED
BY DEALERS REPORTING

Individual Dealers	Kind				
	Dairy Cattle	Beef Cattle	Calves	Sheep	Swine
1	80	131	120	40	60
2	250	60	225	0	45
3	274	60	224	0	36
4	54	40	268	0	24
5	75	120	65	30	45
6	52	52	416	0	104
7	45	150	160	0	120
8	0	400	120	180	0
9	55	46	480	0	0
10	84	70	24	0	0
11	100	85	330	0	20
12	225	71	260	0	220
Totals	1294	1285	2692	250	674
Average Number*	108	107	224	83	75

*Average number handled by dealers reporting specific kinds. Example: As only three dealers handled sheep, this figure is the average of the three.

The hog market is picking up a little, now there is more trading done on the yards than on the floor.

Also of significance was this opinion heard expressed many times during the study, "Very few dealers pick up cattle in the country but buy on the yard". With the rapid increase in the number of motor trucks on farms accompanied by Tennessee's Rural Road Project and its effect on farm transportation, it seems logical that the livestock dealer and his farm purchases of livestock are of diminishing importance as a market outlet. This fact was also mentioned by one of the larger wholesale slaughterers in the area. Whereas he formerly spent practically all his time in the country buying cattle, he now obtains the required number of cattle from a much greater selection in two afternoons per week at local auctions. Improvement in transport, roads, and communications have been largely responsible for this change.

During the ten year interval, 1940 to 1950, the number of motor trucks on Tennessee farms increased by more than 300 percent. Meanwhile, the farms on hard surface roads increased from 14 percent of the total to 27 percent, and those located on other improved roads (gravel, shell, or shale) increased from 46 percent to 52 percent (Tables XII and XIII). This change made possible and practical, the owning of motor trucks by farmers and the transporting of their own livestock to the market.

Handling Policies of Dealers

Only one dealer in the area studied reported shipping his purchases to terminal markets in significant quantities. The principal outlet for dealer's livestock was through the local auction market. In

TABLE XII

NUMBER OF TRACTORS, TRUCKS, AND AUTOMOBILES ON TENNESSEE FARMS, 1940-1950

Item	Year 1940	1945	1950
Tractors	11,817	23,979	59,798
Trucks	18,908	28,742	60,272
Automobiles	85,233	94,434	113,072

Source: U. S. Bureau of the Census, United States Census of Agriculture, 1950, (Washington: Government Printing Office, 1950), Part 20, p. 7.

TABLE XIII

PERCENTAGE OF VARIOUS TYPES OF ROADS ON WHICH TENNESSEE FARMS ARE LOCATED, 1925-1950

Type of Road	Year 1925	1930	1940	1950
		Percentage		
Hard Surface	8	10	14	27
Gravel, Shell, or Shale	15	25	46	52
Dirt or Unimproved	77	65	40	21
Total	100	100	100	100

Source: U. S. Bureau of the Census, United States Census of Agriculture, 1950, (Washington: Government Printing Office, 1950), Part 20.

addition, only one dealer reported buying livestock on order for packers or slaughterers. In most cases the packer was represented at the market by an agent who worked full time in a buying capacity.

The facilities of most dealers interviewed consisted primarily of a truck. None owned the scales they used when weighing livestock. The most common practice is to use the scales of the auction, coal dealers, or grain markets. Few dealers had holding pens or isolation areas for use by transient livestock. In addition, none of the dealers maintained an office, kept detailed records, or had an established center of operations other than his home.

Some degree of specialization exists among livestock dealers. Of the 24 dealers interviewed, it was observed that four were primarily interested in feeder pigs and could be found at auction sales several days weekly with pigs for sale in varying quantities and prices. Five other dealers were primarily "cow traders" and spent a great deal of their time examining, buying and selling milk cows on the yard before the auction sale began. These men usually left the sale immediately after dairy animals had been sold through the auction.

It should be noted that approximately 20 percent of the dealers acted solely as "hookers", buying only on the auction yard and selling immediately through the auction's facilities. These men usually buy on a per head basis and expect to profit on their better judgment of either weight or grade, or both. As such they perform no useful marketing function. In a recent North Carolina study it was determined that country buyers were the first purchasers of one-fifth of all cattle and calves sold by farmers. About 60 percent of these were paid for on a

per head basis.[12] Thus the farmer who is an occasional seller of cattle and calves, and is relatively limited in knowledge on both the weight and grade of his animals, may unknowingly sell his livestock for less than the market price.

The dealers interviewed who function only as "hookers" buy primarily veal calves and slaughter hogs, veal because of the quantity available and hogs because of their favorable prices at this time. It is of interest to note that these individuals, present in numbers at every auction, prefer to buy from producers selling mixed or small lots of livestock. It is assumed that the reason for this preference is that these producers are less well informed as to the quality of livestock for sale and its market value. At no time during the six weeks of this study was a hooker observed attempting to buy a truck load or a large number of uniform livestock.

The farmer's appraisal of hooking was occasionally found to be somewhat biased as many had at one time or another engaged in this practice. An explanation offered by one dealer-farmer who sometimes "hooks" is this, "Someone has to make a market for the farmers' livestock". The logical consistency of this remark need not be discussed. In my opinion a much more relevant comment on hooker activity was offered by a retired dealer of Abingdon, Virginia, while watching a number of hookers race for a truck remarked, "Look at 'em run - but you don't see them bidding

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[12] W. P. Cotton, Livestock Marketing Agencies in North Carolina, November 1951, North Carolina Agricultural Experiment Station, Bulletin 377, p. 39.

against each other".

Farmers who are of the opinion that they have profited by selling to hookers have no complaints to make, but others who have lost money in the transaction are often found to be somewhat dissatisfied. Examples are these opinions expressed by farmers:

> I sold two hogs a few weeks ago for $90.00, figuring they would weigh about 185 pounds - they weighed 225 and I lost $19.20 on the two hogs. These are long bodied and grain fed, that makes a difference when trying to estimate weight. Today, they are going to be sold by the pound and weighed.

> That calf just selling for $19.00, I sold it this morning for $15.00.

> Dealers in the market every day can sure judge weight, I'm through trying to outguess these darn hookers.

In practically all instances the farmers questioned disapproved most emphatically the marketing practices of hookers. Yet these farmers annually sell many animals to them.

Another practice of dealers that was disliked by farmers was the lack of practicing sanitary measures. No dealer reported that his trucks were ever thoroughly cleaned or chemically treated as a sanitary precaution. The usual practice is to occasionally remove and replace the sawdust or straw used to provide a safe footing for the animals hauled. These comments made in two of the cities may be considered typical.

> You'd better not buy any of these pigs here on the yards. Some of these guys haul pigs ever day and the trucks are never cleaned out.

> I'd like to buy some feeder pigs, but I don't want to get 'em through the auction. Four of my neighbors have lost pigs bought that way from cholera. However, I don't guess it makes a lot of difference, (where they are purchased) these dealers haul pigs ever day and never clean up a truck.

To illustrate the range of prices offered for livestock, a North Carolina study of prices received by farmers for lambs under six months of age indicated that sales directly to packing plants resulted in the greatest average price per hundredweight, $25.90, and sales to trucker-dealers the lowest average price, $20.30, a difference of $5.60. Another comparison of prices received from sales through different market outlets indicates that an even greater range of prices exists for dairy type veal calves. An average of prices paid by three agencies, July 1949 to June 1950, was as follows: packing plants, $25.40, auctions, $22.70, and trucker-dealers, $18.70. These prices have a range of $6.70 per hundredweight.[13]

It should be recognized that animals sold to trucker-buyers at the farm would be expected to bring lower prices than those sold directly to packing plants or through auction agencies, because of transportation, shrinkage, and risks cost incurred by country trucker-buyers on farm sales. Whether relative prices received by the different agencies are in line with costs incurred in marketing remain to be determined.

The source and outlet of livestock handled by dealers indicates that the dealer plays a dual role in the livestock market. Though dealers purchase from farmers approximately 75 percent of the hogs handled, 60 percent of the veal calves, and 42 percent of the dairy cattle, only 25 percent of the beef cattle are purchased from farmers (Table XIV). A superficial examination of this data indicates that the dealer

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[13] W. P. Cotton, Livestock Marketing Practices, September 1951, North Carolina Agricultural Experiment Station, Bulletin 376, p. 30.

TABLE XIV

NUMBER, SOURCE AND OUTLET OF LIVESTOCK
HANDLED BY 12 DEALERS INTERVIEWED

Kind of Livestock	Purchased from				Sold Through			
	Farmers	Dealers	Auct.	Totals	Farmers	Dealers	Auct.	Other*
Dairy Cattle	546	66	682	1,294	502	108	669	15
Beef Cattle	370	63	852	1,285	144	52	602	487
Calves	1,608	74	1,010	2,692	266	93	2,011	322
Hogs	534	21	119	674	146	8	449	71
Totals	3,058	224	2,663	5,945	1,058	261	3,731	895

*Packers, local slaughterers, and terminal markets.

performs an extensive assembling function of calves and hogs. However, data is not available as to the numbers that were purchased at the farm and on the auction yards by these dealers. If this data were available, the results would possibly reduce to some extent these excessive indications of the assembly function.

The time livestock is held by dealers is also of importance to an understanding of dealers' practices. This holding time varied from 100 percent of the hogs held less than two weeks to 79 percent of the calves (Table XV). This variation is in part, accounted for by dealers buying "day old" or very young calves and keeping them until they weigh 200-220 pounds.

Changes in the local marketing system has been initiated by the development of the packing industry in Tennessee. The number of slaughter establishments has steadily increased. In 1951 there were 90 licensed slaughter houses, including packing plants, in the State.[14] Of more importance than the increase in numbers has been the increasing size of the individual establishments and the corresponding increase in employment and output (Table XVI).

Wholesale livestock slaughtering establishments and the larger packing companies have their representatives in all markets of the Upper East Tennessee area. This makes it possible for the producer to sell directly to the packer/slaughterer through the auction's facilities. A number of local slaughterers not enumerated in Table XVI are also active

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[14] M. B. Badenhop, Op. cit., p. 3.

TABLE XV

HANDLING POLICIES OF LIVESTOCK DEALERS

Kind of Livestock	Number of Dealers Reporting	Percentages		
		Resold Same Week	Resold Second Week	Held on Pasture Feed
Dairy Cattle	11	68	17	15
Beef Cattle	12	64	22	14
Calves	12	67	12	21
Hogs	8	99	1	0
Sheep	3	83	12	5

TABLE XVI

NUMBER OF WHOLESALE LIVESTOCK SLAUGHTERING ESTABLISHMENTS AND NUMBER OF EMPLOYEES, SELECTED YEARS, TENNESSEE, 1921-47

Year	Number of Establishments	Number of Employees	Average No. of Employees	
			Tennessee	U. S.
1921	12	275	23	98
1925	16	617	38	93
1931	14	644	46	88
1935	18	1,445	80	95
1939	19	2,232	117	84
1947	31	2,891	93	96

Source: U. S. Department of Commerce, Bureau of the Census, Biennial Census of Manufacturers.

in East Tennessee. Though the output of these small establishments is not of great importance, the presence of their buyers in the market helps to maintain prices of livestock. These factors make it increasingly difficult for the dealer to profit by handling the slaughter grades of livestock.

Auction Appraisal by Dealers

Dealers' appraisal of the auction market was both favorable and critical. It was the opinion of the majority of dealers that the auction performed a valuable function in providing an assembly point and outlet for livestock but that this service could be improved. One opinion often expressed was that too many auctions were being established, the result being that cattle were not sold in sufficient quantities to attract the number of buyers necessary for a competitive sale. Other complaints in the frequency of occurrence are:

> Time consuming - takes too long to unload livestock when delivering and when purchasing to check livestock, settle accounts, and load.
>
> Facilities - inadequate space. Buyers, sellers, and spectators crowded together. Buyers can't examine animals or get in favorable position to bid.
>
> Rates - handling charges too high and unequal. Preference shown to larger dealers.
>
> Grading - unequal between markets. Sometimes thought to be discriminatory.

These comments expressed by dealers are not unlike the problems pertaining to livestock marketing reported in a recent Tennessee Agricultural Experiment Station bulletin.

> Of the farmers who expressed opinions as to their principal problems in marketing livestock, nearly 40 percent of the farmers indicated problems centering around grade and price. Only a limited few had experience selling in either graded or mixed pen lots. Further questioning in this general area indicated nearly two-thirds of the farmers thought the use of an official grader would be beneficial; however, only half of them would be willing to pay a nominal fee for an official grading service if it was offered.[15]

Another criticism that should perhaps be mentioned here is the resentment often found toward "outsiders" or the "family" auction that is found in some localities. One dealer told of being persuaded not to attend a local auction as dealers in the area would not permit him to buy livestock as a price possible to profit. He had attended this sale for three or four consecutive weeks and had purchased cattle at profitable prices, but as his operations were extended in this area he suddenly found himself the victim of severe discrimination. If he made an offer for an animal, one of the local dealers immediately raised it, this would continue until the price was increased to the point that it was impossible for him to profit. The dealers of the area, however, had little competition and could buy at a price yielding a profitable margin. Local dealers would accept a slight loss on some animals to prevent this "outsider" from buying them. By spreading the loss incurred equally among them, dealers of this locality were enabled to quickly discourage his attendance at this sale and revert to their more profitable method of conducting business.

This feeling of "belonging" and the accompanying feeling of cooperation and resentment toward "outsiders" appears to prevail in many

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[15] Ibid., p. 25.

auctions. It was observed that in the very small auctions, or those attended by a small number of buyers, that the bids for animals often lacked competitiveness. This may also be assumed to be characteristic of the "family" auction and isolated market areas.

A wholesale slaughterer cooperating in this study, made the following remark upon discovering the home addresses of two dealers, "I was surprised to learn that they are from different areas, I have suspected them of occasionally running a hot market".

At one of the seven auctions visited, hooking and trading on the lot was prohibited by the management. The overall effect of this policy could not be ascertained, but the immediate result was the withdrawal of hookers and traders to the street on which the auction was located and to a vacant lot across the street. Hooker activity was not visibly reduced, but was at least removed from the auction yard. Farmers, in general, expressed approval of the manager's action. Common expressions were as follows:

> When this guy took over the sale, the first thing he did was to stop hooking and trading on the lot. Buyers wouldn't come here because they couldn't do business for the hookers - the market was really sewed up. "X" auction is gonna get the same way, that's headquarters for every hooker in this corner of the state.

> Well, I don't know whether it helps the sale much or not. There is one thing it does though, it keeps hookers and traders out of the way so that trucks can get in to the chutes and unload.

> Yeah, I think it's a good idea. It keeps some of the people out of the way of the trucks. You can buy anything at an auction from a pocket knife to a hay rake.

Another phase of auction activity that was discussed both favorably and unfavorably was that of some member or agent of the auction purchasing

livestock through the sale ring. In one auction it was not unusual for both the auction manager and a bookkeeper of the auction to bid against each other, and dealers of the area, for veal calves. This practice was favored by producers and opposed primarily by those unaffected, namely, the dealers of the area whose small scale operations do not permit the buying of calves in carload lots.

The suggestion was made that more uniform grades for slaughter animals, with particular reference to veal calves, be established and grading accomplished by trained and licensed graders hired by the State or the United States Department of Agriculture. Although involving some additional cost, it is not likely that this cost would be prohibitive as auctions must hire the services of a grader. For the area studied, this plan offers many advantages to the producer over the present system of individual auctions providing their own grader.

CHAPTER IV

Summary

This study describes the marketing practices of twenty-four livestock dealers in five counties of East Tennessee during the period June 10 to July 17, 1953. Eleven of the twenty-four dealers interviewed spent less than one-half of their time in buying and selling livestock and only one reported auction affiliation. None of the dealers maintained an office, kept records of livestock transactions, or owned the scales used for weighing livestock. The facilities of most dealers consisted primarily of a truck.

Though the data presented in this study is perhaps inconclusive, it indicates that the relative importance of the livestock dealer is declining. This appears to be true for the area studied due to the unusually large number of auctions operating in this area. Two of the major factors contributing to fewer dealers are the increasing number of auction markets and the development of local packing plants. The development of the packing industry has placed buyers from these firms in the local auction markets and made possible the selling of livestock directly to packers. These factors have combined to make it increasingly difficult for livestock dealers to obtain the margin of profit necessary for their operations.

This increase in numbers of the auction market is not altogether advantageous. Within some areas too many auctions have been established. The inevitable result is that the volume of sales is not sufficient to

attract enough buyers to provide a truly competitive market. This frequently results in lower prices paid to producers. In some instances, low sales volume makes necessary the assessment of higher selling charges.

Formerly one of the primary functions of the dealer was that of assembly. However, due to the improvement of rural roads, the increased number of motor trucks on farms, the increase in number of auction markets, and a reduction in the distance to market, this assembly function is presently of much less importance. Data presented in Table XIV indicates that the principal outlet for livestock purchased by dealers is the local auction. Since this is true, it is most difficult to determine why producers continue to market their livestock through dealers.

It was the opinion of many producers that more exacting laws should be passed requiring livestock dealers, truckers, and marketing agencies to carry out certain sanitary practices. These producers thought that not only was additional legislation required but that the present regulations pertaining to livestock sanitation should be enforced.

Recommendations

As livestock production in Tennessee is of increasing importance, an investigation of legislation with particular emphasis on sanitary precautions, livestock dealer license or registration and bond requirements, would be beneficial.

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