REGULATION IN THE LIVESTOCK TRADE:

THE ORIGINS AND OPERATIONS

OF THE KANSAS CITY

LIVESTOCK EXCHANGE

1886-1921

By

O. JAMES HAZLETT

Bachelor of Arts
Kansas State University
Manhattan, Kansas
1969

Master of Arts
Oklahoma State University
Stillwater, Oklahoma
1982

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Thesis Approved:

W. David Baird
Thesis Adviser

Joseph A. Stout, Jr.

H. James Henderson

George F. Jewsbury

Edward D. Crane III

Norman N. Durham
Dean of the Graduate College

PREFACE

This dissertation is a business history of the Kansas City Live Stock Exchange, and a study of regulation in the American West. Historians generally understand the economic growth of the late nineteenth and early twentieth centuries, and the business institutions created during that era, within the perspective of "progressive" history. According to that view, Americans shifted from a public policy of laissez faire economics to one of state regulation around the turn of the century. More recently, historians have questioned the nature of regulation in American society, and this study extends that discussion into the livestock industry of the American West.[1]

This dissertation relied heavily upon the minutes of the Kansas City Live Stock Exchange. Other sources were also important, especially the minutes of the Chicago Live Stock Exchange, which made possible a comparison of the two exchanges. Critical to understanding the role of the Exchange but unavailable in Kansas City, financial data was

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[1]Morton Keller, "The Pluralist State: American Economic Regulation in Comparative Perspective, 1900-1930," in Thomas K. McCraw, Regulation in Perspective: Historical Essays (Boston: Harvard University Press, 1981), pp. 56-94; Thomas K. McCraw, "Regulation in America: A Review Article," Business History Review 49 (Summer 1975):159-183.

obtained in chattel mortgage records in Texas, Oklahoma, and Kansas. This material outlined much of the involvement of commission merchants in financing the cattle trade. The records of the Wichita Cattle Loan Company, in Wichita, Kansas, clarified the processing of "cattle paper" out of the Southwest and filled in where other sources were unavailable.

I wish to express my sincere gratitude to all those who assisted me in completing this dissertation and during my stay at Oklahoma State University. In particular, I am indebted to my major adviser, Dr. W. David Baird, for his intelligent guidance, concern, and invaluable help. I am also thankful to the other committee members, Dr. H. James Henderson, Dr. George F. Jewsbury, Dr. Joseph A. Stout, and Dr. Edward O. Price III, for their advisement in the course of this work.

Other faculty members, librarians, and data processing personnel contributed to the study. It owes much to Dr. Charles W. Cheape, now associate professor of history at Loyola University, Baltimore, Maryland. The initial ideas for this study originated in Dr. Cheape's research seminar in business history at Oklahoma State in the fall of 1983. Dr. James L. Huston, an economic historian, also read the dissertation and made helpful suggestions. Dr. Richard C. Rohrs, graduate advisor, was always available for an insightful critique on historical methodology. Heather Lloyd, John B. Phillips, Mary H. Evans and Mary R. Dean at the Edmon Low Library helped find many of the primary sources. Jack Haley of the Western Historical Collection at the University of Oklahoma, Norman, made helpful suggestions on the location of sources and microfilmed the records of the Chicago Live Stock Exchange. Paul P. Woods, Tom R. Buttress, and Roger Stevens of the University Computer Center at Oklahoma State assisted in the completion of the dissertation by providing easy access to, and technical advice on, the University's word processing equipment.

The livestock merchants assisted in answering questions on the nature of their trade. Most helpful were Delbert Fields, and Ray Davis of Kansas City, Missouri, August Riser of Omaha, Nebraska, and Darrel Overman of Joliet, Illinois.

Special thanks are due to the Department of History at Oklahoma State University for the financial support I received in the form of the Townsend Dissertation Award in 1985.

Appreciation is also due to Vernie C. and Eva Reed Hazlett, Kansas farmers for four decades in Norton County, Kansas, who taught me most of what I know about livestock. Their generous financial support enabled me to finish this dissertation.

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CHAPTER I

INTRODUCTION

An organizational revolution occurred in the United States in the latter half of the nineteenth century. Historians have recognized the era as one of combination and merger of business organizations in the industrialized sections of the United States. In that sector the transportation and communications revolution resulted in the creation of large industrial firms by the 1880s. In fact, the railroad and telegraph companies were the first modern business enterprises in America. As a consequence, the changes concentrated business firms into a few large corporations after the turn of the century. Inevitably, this revolution led to the impersonalization of American society, and a search for new ways to regulate the American economy.[1]

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[1]For a general treatment of these trends see Robert H. Wiebe, The Search for Order, 1877-1920 (New York: Hill and Wang, 1967); for a review of the literature see Louis Galambos, "The Emerging Organizational Synthesis in Modern American History," Business History Review 44 (Autumn 1970):279-306, and "Technology, Political Economy, and Professionalization: Central Themes of the Organizational Synthesis," Business History Review 57 (Winter 1983):471-493.

A similar transformation occurred in the distribution of agricultural products in the American West. Commodities exchanges reflected the trend, especially the Chicago Board of Trade, the Merchants Exchange of St. Louis, and the New Orleans Cotton Exchange.[2] Although not discussed in the historical literature, livestock exchanges also appeared in major market centers of the West. Within five years, they were organized in Chicago (1884), St. Louis (1885), Kansas City (1886), and Omaha (1889).[3]

Focusing upon one of those exchanges, this dissertation examines the origins and operations of the Kansas City Live Stock Exchange as well as the commission firms based there. The Exchange reformed and regulated the livestock trade of the American Southwest from 1886 to 1921. In the absence of a strong positive government, the Exchange became in essence a regulatory agency that promoted democratization of the trade rather than consolidation.[4]

Historians generally associate regulation with the power the twentieth century state. But the Kansas City Live

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[2]Emory R. Johnson, ed., "American Produce Exchange Markets," The Annals of the American Academy of Political and Social Science 38 (September 1911):319-664.

[3]William H. Thompson, President of the Chicago Live Stock Exchange from 1888 to 1901 understood the connection between livestock and commodity exchanges. See, "Livestock Exchanges," Proceedings of the National Live Stock Association (Denver: The Smith-Brooks Printing Co., 1900), pp. 232-236.

[4]The Kansas City trade area varied from decade to decade, but covered primarily Missouri, Kansas, Oklahoma, southern Nebraska, eastern Colorado, northeastern New Mexico, and northern Texas.

Stock Exchange from 1886 to 1921 performed all the functions of a regulatory agency, at least as defined by Kenneth Davis in Administrative Law Treatise. An administrative agency, according to Davis, was an organization other than a court or a legislative body that affected the economic activities of private parties through adjudication, rulemaking, investigating, prosecuting, negotiating, settling, or informally acting.[5]

Within the context of regulation, the history of the Kansas City Livestock Exchange remains within the scope of business history. Traditionally, business historians have analyzed their field either from the "robber baron" or the "industrial statesmen" perspective. These views represent sharply contrasting interpretations of the problems created by the economic growth during the late nineteenth century in the United States. A maldistribution of wealth, urban slums, farm distress, and a growing impersonalization of society accompanied the economic growth. The stewardship of the nation passed from politicians to a group of business leaders whose actions historians still evaluate and debate. Those who subscribe to the "robber baron" school have condemned these entrepreneurs as little more than greedy parasites on society; those who accept the "industrial

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[5]Kenneth C. Davis, Administrative Law Treatise, Vol. I (St. Paul: West Publishing Co., 1958), pp. 1-5.

statesmen" interpretation have emphasized their creative ability.[6]

In recent years, business historians have rejected both views as extreme and have concentrated instead on understanding why business institutions developed in the American economy. Alfred D. Chandler, Jr.'s The Visible Hand (1977) represented the latest summation of this approach. Rather than adhere to the "robber baron" or "industrial statesman" line, Chandler looked beyond moral philosophy and searched for explanations as to why (as well as when, what, and where) modern business enterprises developed in the United States.[7]

Chandler argues that the questionable tactics of nineteenth century businessmen do not adequately explain the organizational revolution. Rather, he believes that the modern business enterprise was an administrative response to the challenges of an industrializing society. Chandler points out that businessmen rarely changed their daily routine, positions of power, or organizational forms except under the strongest of pressures. The rapid expansion of the American economy in the late nineteenth century brought those pressures to bear upon business organizations.[8]

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[6]Thomas B. Brewer, ed., The Robber Barons: Saints or Sinners? (Huntington, New York: Robert E. Krieger Publishing Company, 1976), p. 1.

[7]Alfred D. Chandler, Jr., The Visible Hand: The Managerial Revolution in American Business (Harvard University Press, 1977), pp. 1-5.

[8]Ibid., pp. 6-12.

Although the Visible Hand concentrates on the development of large industrial corporations, it also describes the organizational changes which occurred in the distribution of agricultural products in the nineteenth century. The discussion covers only grain and cotton. The livestock trade, however, followed a similar pattern of transformation. A comparison of the changes in the grain and cotton trade with the livestock trade provides the background against which the Kansas City Live Stock Exchange and the livestock commission merchants operated.[9]

According to Chandler, railroads and telegraphs initiated the first move toward an organizational revolution. Among other things they created a national market for some agricultural products by the 1850s. These concerns provided fast, regular, and dependable transportation and communications essential to high volume distribution. For the first time in the history of commerce, a man could transport grain and cotton overland faster than a horse could walk.[10]

As a result of the increased speed and volume, new administrative organizations were created. Prior to the 1840s, the traditional mercantile firm marketed and distributed the nation's goods. Within a generation the modern commodity dealer replaced the mercantile firm by utilizing the railroad and telegraph. Of particular

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[9] Ibid., pp. 207-223.

[10] Ibid., pp. 79-80.

importance was the appearance of various ancillary organizations and facilities in the trade: grain elevators, cotton presses, and commodities exchanges. This new administrative coordination reduced the number of transactions in the flow of goods, increased the speed and regularity of that flow, and consequently, lowered costs and improved the productivity of the American distributive system.[11]

To a degree the development of the livestock trade paralleled the commodity markets. Instead of the mercantile firm, the drover was the primary distributor of live animals. The railroad and telegraph were central to the transformation of the livestock trade, as it was with grain and cotton. Moreover, the livestock commission merchant replaced the drover in a generation.

Although the animal trade lagged behind the other commodities by thirty years, the railroads created a national market for livestock. Such a market was not possible until the railroads penetrated the grasslands of the American West in the 1870s and regional specialization of livestock occurred. The trade in cattle, calves, hogs, and sheep flowed easily in and out of the cattle producing regions of the West, the corn feeding regions of the Midwest, and the dairy regions of the North. In this market the livestock commission merchants were the dominant middlemen by the 1890s.

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[11] Ibid., pp. 209-215.

Despite the similarities with other commodities, the nature of live animals channeled the livestock trade along different organizational patterns from grain or cotton. While bulk commodities graded and standardized easily, and were sold electronically through futures markets, live animals were not. Animals were alive, mobile, disease prone, and easily injured; each animal was unique in weight and quality of meat. Not until the late 1960s did livestock producers resolve these problems by the use of feed yards, selective breeding, and modern veterinary science. It was only in 1974 (over 100 years after the grain or cotton trade) that the Chicago Mercantile Exchange commenced trading in live cattle futures.[12]

In the nineteenth century the buyer had to actually "see" the animal. Since some animals were so sick or injured that they could not walk off the scales in the stockyards, the livestock markets remained a "spot cash" market. Instead of the wheat pit or cotton pit, the marketing of live animals took place in the "livestock pit" or stockyards. Unlike the commodity dealer, who never left the mercantile exchanges and only saw samples of the actual commodity traded, the livestock commission merchant traveled

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[12]Henry H. Bakken, ed., Future Trading in Livestock: Origins and Concepts (Madison, Wisconsin: Mimir Publishers Inc., 1970), p. 59; Arthur G. Peterson, "Future Trading with Particular Reference to Agricultural Commodities," Agricultural History 7 (April 1933):68-80; William L. Black discussed future trading in cattle in the mid-1880s, see Texas Livestock Journal, 25 August 1888 or Kansas City Livestock Indicator, 9 July 1888.

between the livestock producing areas and the market centers and monitored the actual movement of specific animals.

There are no historical works which describe either the operation of a livestock commission merchant or a livestock exchange. This seems puzzling since the literature on the cattle trade of the American West is so vast. The lack of adequate sources partially explains this neglect, but the bias of historians also contributes to it. Their preoccupation with the "romance" of the cattle industry has been detrimental. As William W. Savage, Jr., concluded in The Cowboy Hero, this preoccupation virtually eliminated any serious examination of the trade. As a result, business historians know far more about the distribution of wheat and cotton than of live animals.[13]

The livestock trade took place in an emerging national market and included much more than cattle. Admittedly, there was little romance in sheep, and even less so in hogs, but both were essential to the operation of the American livestock trade. A study of the Kansas City Livestock Exchange is a study of hog traders, sheep herders, and cattlemen, and their relationship with middlemen. The traditional themes of "rugged individualism, unadorned masculinity, and ultimate heroism" has little to do with the development of the trade.[14]

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[13]William W. Savage, Jr., The Cowboy Hero: His Image in American History & Culture (Norman: University of Oklahoma Press, 1979), p. 15.

[14]Ibid., pp. 3-4.

That there was no "romance" in the stockyards undoubtedly discouraged historians from searching there for records. Indeed, the stockyards were a symbol of industrialization in the American West, and they did not fit into the idyllic image sought by historians, novelists and artists. In contrast, the stockyards were a world of loud noise, dirt, smoke, manure, offensive smells, and the unpleasantness of the slaughtering took place in nearby packing plants.

As a consequence, no chronicler of cattlemen, cowboys, ranches, drovers, or longhorns, consulted the records of the livestock exchanges in the United States.[15] Yet the commission merchants in Chicago, Kansas City, and Omaha carefully preserved the minutes of their Exchange meetings; the records provide a rich commentary on the livestock trade. Of the three exchanges, Kansas City kept the best records and its secretary recorded aspects of the trade not found in Omaha or Chicago.[16]

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[15]The literature is covered in Don D. Walker, Clio's Cowboys: Studies in the Historiography of the Cattle Trade (Lincoln: University of Nebraska Press, 1981) and Henry E. Fritz, "The Cattlemen's Frontier in Trans-Mississippi West: An Annotated Bibliography," Arizona and the West 14 (1972):45-70, 169-190.

[16]Kansas City Live Stock Exchange, Records, 1886-1958, Joint Collection, University of Missouri, Kansas City, Western Historical Manuscript Collection, State Historical Society of Missouri Manuscripts herein cited RKCLE (Microcopy Collection KC158); Chicago Live Stock Exchange, Proceedings of the Exchange, 1890-1986, and Proceedings of the Directors, 1890-1986, Microfilm, Western History Collection, University of Oklahoma, Norman, Oklahoma, herein cited RCLSE (Microcopy Collection, University of Oklahoma);

Indeed, the first secretary of the Kansas City Live Stock Exchange was the organization's first historian. R. P. Woodbury, secretary from 1886 to 1925, poured years of creative talent into his records. A graduate of Amherst College in 1878 and a newspaper reporter in Kansas City until 1886, the Exchange records are a tribute to Woodbury's education and literary skills. He not only recorded the minutes of meetings, but he also copied into the record many of the letters and telegrams sent to and from the board of directors, the proceedings of the commercial courts, full length depositions presented as evidence in the trials, and much of the discussion surrounding the resolutions.[17]

If R. P. Woodbury was the first historian of the Kansas City Exchange, Edwin Snyder, a populist from Oskaloosa, Kansas, was its first "robber baron" historian. Of all the granger critics of the Exchange, Snyder was the best informed, publishing numerous attacks in Kansas newspapers in the 1890s. Eventually, his criticisms appeared in the Annual Reports of the Kansas State Board of Agriculture. Snyder served on the Board as a director in the 1890s, and

Omaha Live Stock Exchange, Records, 1889-1986, Livestock Exchange Building, Omaha, Nebraska.

[17]Cuthbert Powell, Twenty Years of Kansas City's Live Stock Trade and Traders (Kansas City, Missouri: Pearl Printing Co., 1893; Microfilm, New Haven, Conn.,: Research Publications Inc., 1975), pp. 112-113; Minutes of the Board of Directors, 9 July 1925, RKCLE (Microcopy KC 158).

his articles accurately reflected the sentiment felt by many livestock producers.[18]

Snyder considered the commission merchants at Kansas City "robber barons" and believed the purpose of the live stock exchange was "fraud." He argued that the Exchange rules discriminated against the producer, and the commission charges of members were "inequitable and exorbitant." Snyder declared that the Exchange "had no soul, nor bowels of compassion," but was rather a "combination" to prevent competition and a "conspiracy in restraint of trade."[19]

The Kansas City Live Stock Exchange celebrated its 100th anniversary in 1986 and enough time has passed to examine the formative years of the institution (1886-1921). This dissertation is more than an examination of the Exchange; it is also an attempt to more fully understand the role of regulation in the American society. Indeed the study of regulation in the American economy remains deficient. Early students like Solon J. Buck and John D. Hicks focused entirely upon state regulation. They argued that the public outrage at abuses committed by the railroads and middlemen brought federal intervention.[20] Nor have

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[18]United States Biographical Dictionary: Kansas Volume (Chicago: S. Lewis & Co., 1879), pp. 139; Herbert Myrick, How to Cooperate (New York: Orange Judd Co., 1912), p. 226.

[19]Edwin Snyder, "Livestock Exchanges: Their Influence Upon the Markets," Quarterly Report of the Kansas State Board of Agriculture for the Quarter Ending March 1892 (Topeka: Hamilton Printing, 1893), pp. 49-50.

[20]Solon J. Buck, The Granger Movement: A Study of Agricultural Organization and Its Political, Economic, and

historians such as Gabriel Kolko or Louis Kohlmeir fully explained the history of regulation. Their argument suggested that federal regulation arose merely as an exercise in collusion between the interests involved and the federal government.[21]

Only recently have historians recognized the importance of private regulation. Jonathan Lurie's pathbreaking study entitled The Chicago Board of Trade was the first thorough study, and provided, in addition to Chandler's Visible Hand, a model for understanding the Kansas City Live Stock Exchange. Lurie, an administrative and legal historian at Rutgers University, demonstrated that the Chicago board effectively regulated the worst features of the commodities trade. The greatest abuses were the "bucket shops" and the trade in options. Lurie concluded that private mercantile regulation was more effective in the late nineteenth century than has generally been assumed.[22]

The following chapters examine the development of regulation in the livestock trade. They emphasize the self-reforming and self-regulating nature of the Kansas City Livestock Exchange. A full appreciation of those

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Social Manifestations (Cambridge: Harvard University Press, 1913); John D. Hicks, The Populist Revolt (Minneapolis: University of Minnesota Press, 1931).

[21]Gabriel Kolko, Railroads and Regulation, 1877-1916 (Princeton: Princeton University Press, 1965); Louis M. Kohlmeir, The Regulators: Watchdog Agencies and the Public Interest (New York: Harper & Row, 1969).

[22]Jonathan Lurie, The Chicago Board of Trade, 1859-1905: The Dynamics of Self Regulation (Urbana: University of Illinois Press, 1979).

characteristics, however, first require an explanation of the operations of the commission merchants.

CHAPTER II

THE LIVESTOCK COMMISSION BUSINESS

The Kansas City livestock commission merchant revolutionized the distribution of live animals in the American Southwest. The speed and volume in animal traffic fostered by the railroads forced entrepreneurs in the trade to seek new business methods. This revolution began as the Kansas Pacific Railroad pressed into Kansas and Colorado in the 1860s and as the Missouri, Kansas, and Texas Railroad (MK & T) opened the Texas overland trade in the early 1870s. Utilizing the railroad and telegraph, the livestock commission merchant eliminated the drover as the dominant middleman in the trade in a generation. The operations of livestock commission merchants from the producing areas in Kansas and Texas to the stockyards in Kansas City explains why they competed so effectively with the drovers.[1]

Newspapers recorded the movement of the commission merchants as they followed the railroads into the livestock

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[1]For a description of a similar transformation in the wheat trade, see Thomas D. Odle, "Entrepreneurial Cooperation on the Great Lakes: The Origins of the Methods of American Grain Marketing," Business History Review 38 (1964):455-489.

producing areas of the Southwest. In 1872, a special correspondent for the St. Louis Daily Globe reported several "cattle dealers" on their way into Cooke, Denton, Parker, and other north central Texas counties to find livestock even before the MK & T crossed the Red River.[2] The first advertisement of a commission merchant appeared in the Fort Worth Democrat on 3 May 1873. John Finn, cattle and stock broker, solicited "consignments of Texas cattle and guaranteed satisfaction in every particular."[3]

The merchants also competed for the livestock trade in the Kansas cowtowns. In the Abilene Chronicle of Abilene, Kansas, there were similar advertisements to those in Texas. Joseph G. McCoy, proprietor of the Great Western Stockyards at Abilene, advertised: "having decided to do a commission business exclusively, I will buy, sell, or ship and sell livestock on commission."[4]

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[2]St.Louis Daily Globe, 1 September 1872; a brief description of the commission merchants in Chicago in the 1850s was included in Rudolph A. Clemen, American Livestock and Meat Industry (New York: Ronald Press Co., 1932), p. 88.

[3]Fort Worth Democrat, 3 May 1873; the idea of using advertisements as a source of business history came from Don M. Dailey, "The Early Development of the Note Brokerage Business in Chicago," Journal of Political Economy 46 (April 1938):202-217.

[4]Abilene Chronicle, 3 May 1870; McCoy was the author of Historical Sketches of the Cattle Trade of the West and Southwest (Washington D. C.: Rare Book Shop, 1874; reprint 1932); see also Robert R. Dykstra, The Cattle Towns: A Social History of the Kansas Cattle Trading Centers, Abilene, Ellsworth, Wichita, Dodge City and Caldwell, 1865 to 1884 (New York: Atheneum, 1979) for the development of the Kansas cattle towns.

The old and new methods of business interacted on the Kansas frontier. The buyers from "California, Colorado, Nebraska, Illinois, and Missouri," met the Texas cattle droves at the rail head on the Kansas Pacific. The Texas drovers generally sold cattle to numerous buyers, but they were never certain of the value of their stock (the best indicator of price was the Chicago market). The commission merchants convinced some Texas drovers to retain title to their stock and ship them to market on consignment.[5]

Livestock commission merchants learned there were ways of commanding the trade. The firm of Hunter, Evans & Co. proved adept at trying new methods. It learned by the example set by Joseph G. McCoy in Abilene. When the Kansas Pacific reached the town of Ellsworth, Hunter, Evans & Co. was there. R. D. Hunter was in charge of the stockyards which "could load 200 rail cars a day." Hunter lived in Chillicothe, Missouri, but in the summer of 1873 he monopolized the trade at Ellsworth through his control of the stockyards.[6]

At the same time, Hunter, Evans & Co. sought consignments in north Texas. The company advertised in the local Texas papers in 1877, but learned that in a livestock producing area the critical contact for a commission firm

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[5]Abilene Chronicle, 29 September 1870; for an inadequate study of drovers see Jimmy M. Skaggs, The Cattle Trailing Industry: Between Supply and Demand, 1886-1890 (Lawrence: University of Kansas Press, 1973).

[6]Ellsworth Reporter, 17 April, 8 May, 10 July, 23 October 1873.

was the local cattlemen's association. Neither R. D. Hunter nor A. G. Evans could cover all of the producing areas of north Texas, so they hired a "drummer or solicitor" well-connected with the cattle raisers to make contacts. Hunter, Evans & Co. convinced George B. Loving of "Lost Valley, Jack County" to work as its solicitor. There could not have been a more important contact for Hunter, Evans & Co., as Loving was the secretary of the Northwest Texas Cattle Raisers' Association (the largest and most influential in Texas).[7]

Even so, Hunter, Evans & Co. did not monopolize all the Texas trade with this influence. Other solicitors of commission firms attended the meetings of the Northwest Texas Cattle Raisers' Association. L. G. Cairns, agent at Denison, Texas, for Gregory, Cooley & Co. Livestock Commission Company of Chicago, was among the "foreigners" in attendance at the association meeting in Graham, Texas, in 1878. Nor could Hunter, Evans & Co. maintain a continuing relationship with their most important solicitor. Loving left the employment of the firm in 1879, whereupon he became the agent for Mulhall & Calling of St. Louis. Later, Loving established his own commission company.[8]

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[7]Frontier Echo, 9 March, 23 March 1877; for the history of the association see Mary W. Clarke, A Century of Cow Business: A History of the Texas and Southwestern Cattle Raisers Association (Fort Worth: Texas and Southwestern Cattle Raisers Association, 1976).

[8]Frontier Echo, 15 March 1878; Fort Griffin Echo, 17 May 1879; Minutes of the Texas and Southwestern Cattle Raisers' Association, 15 March 1878, p. 13, Microfilm, Barker Texas History Center, Archives & Manuscripts, University of Texas, Austin, Texas herein cited (Microcopy

The livestock commission merchants learned how to utilize market information to their advantage. They were in constant contact with the markets and became experts at judging the value of livestock on any particular day. In addition, commission firms published circulars quoting the markets. These reports were the first reliable information on price trends in the marketplace drovers and shippers could get (short of telegraphing for market information every day). In the Abilene Chronicle in November 1870, there was a note that "Texas stock is quoted in Chicago by W. T. Kennan & Co.'s circular of the 17th."[9] The Ellsworth Reporter received an update on the Kansas City market from Rogers Powers & Co.[10] In 1875, Irwin, Allen & Co. offered "all information regarding the markets gratuitously."[11]

The livestock commission merchants learned they could direct more business to their firms by giving "advances" on shipments. For example, Irwin, Allen & Co., working out of Kansas City, promised "liberal advances" on cattle consigned to their house.[12] Rogers, Powers & Co. also advertised

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Collection, Barker History Center); James Cox, Historical and Biographical Record of the Cattle Industry and the Cattlemen of Texas and Adjacent Territory (New York: Antiquarian Press, Ltd., 1895; reprint 1959), vol. 2, p. 216.

[9] Abilene Chronicle, 14 November 1870.

[10] Ellsworth Reporter, 14 May 1874.

[11] Ibid., 17 June 1875.

[12] Ibid.

advances.[13] This money was not a loan of any duration; it became a "general custom" for the shippers to draw upon the commission firms for a part, at least, of the purchase price of the animals shipped. The draft accompanied the bill of lading.[14]

In the mid-1870s the Kansas City livestock commission merchants left the cowtowns and operated out of the Kansas City Stockyards. The trade centered at Kansas City because it was a railroad terminal and a packer location. There were eight rail lines which funneled livestock into the city, and ten packing plants competed for the incoming livestock. The rise of the Kansas City market caused a decrease in the Chicago market. According to Charles H. Taylor in <u>History of the Chicago Board of Trade</u>, beef packing "dwindled into comparative insignificance in Chicago because of the increasing number of cattle slaughtered at Kansas City." Indeed, Plankington & Armour and Morrison Packing Co. moved to Kansas City in 1870 creating a large demand for meat.[15]

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[13] <u>Ibid</u>., 3 June 1875.

[14] U. S. Department of Agriculture, Bureau of Animal Industry, <u>Annual Report, 1884</u>, pp. 245-270; <u>Texas Livestock Journal</u>, 7 May 1890.

[15] Eva L. Atkinson, "Kansas City's Livestock Trade and Packing Industry, 1870-1914: A Study in Regional Growth" (Ph.D dissertation, University of Kansas, 1971), pp. 253; Charles H. Taylor, <u>History of the Chicago Board of Trade</u> (Chicago: O. Law, 1917), Vol. I, p. 442; the most recent history of the packers is Mary Yeager, <u>Competition and Regulation: The Development of Oligopoly in the Meat Packing Industry</u> (Greenwich: Jai Press, Inc., 1981).

The operations of a livestock commission merchant became more specialized over time. The merchants operating in the early 1870s were commission merchants, shippers, as well as speculators.[16] They received livestock on commission, but they also traded "on their own account." This "speculating" aspect of the business caused deep resentment among the livestock producers. The Kansas City Live Stock Exchange eventually defined a livestock commission merchant as "one who receives, sells, or buys livestock and charges a commission for the same."[17] But the definition did not stop the speculating. The Exchange only decided "by a unanimous vote of the Directors" as late as 1915, that it was a violation of the rules for an employee of a commission firm to speculate on the yards, "hence the same is forbidden."[18]

The commission merchants in Kansas City were overwhelmingly cattle merchants, although hogs and sheep were a significant part of the trade. If computed in terms of the total pounds weighed at Kansas City, and not the number of animals, the ratio between cattle, hogs, and sheep averaged near a 75:20:5 ratio from 1871 to 1915.[19]

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[16]The next chapter describes the activities of the shippers and speculators.

[17]Minutes of the Board of Directors, 14 March 1892, vol. 3, RKCLE (Microcopy KC 158).

[18]Minutes of the Board of Directors, 9 September 1915, vol. 4, Ibid.

[19]Atkinson, "Kansas City Trade," pp. 336-337.

The actual number of animals determined the amount of work involved in marketing. One hog or sheep took as much work in handling, transporting, and selling as one steer. The number of hogs often outnumbered either sheep or cattle, and the number of sheep increased astronomically in the late 1890s. In the 1870s, the yearly average of cattle received was 351,000, the average receipt of hogs was 268,400, and the average of sheep was 29,800. From 1906 to 1915 the number of hogs averaged more than the receipts of cattle: 2.7 million hogs, 2.2 million cattle, and 1.8 million sheep.[20]

The Kansas City livestock commission merchants dominated certain areas of the Southwest in large part because of the direction of the railroads. Historians have generally explained the development of institutions in the American West as due to the frontier or environmental factors.[21] This was not the case in the livestock commission business. According to a Bureau of Animal Industry report in 1890, the direction of two railroads through the Southwest determined where livestock was marketed. Albert Dean, a Bureau official at Kansas City, posted inspectors along the Atchison, Topeka & Santa Fe

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[20]Ibid., pp. 328-331.

[21]The foremost frontier historian in the cattle trade was Edward E. Dale, The Range Cattle Industry: Ranching on the Great Plains from 1865 to 1925 (Norman: University of Oklahoma Press, 1960; for an environmental interpretation see James C. Malin, History and Ecology: Studies of the Grasslands (Lincoln: University of Nebraska Press, 1984).

Railroad (AT & SF) and the MK & T to monitor the movement of tick infested cattle out of the Southwest. An inspector stationed at Argentine, Kansas, along the AT & SF recorded 8,988 rail cars of cattle shipped out of the Southwest from 1 April to 1 December 1890. Of these, waybills indicated that 85 percent of the cars (7,640) went to Kansas City. Fifteen percent (1,348) went to Chicago, while none traveled to St. Louis. These figures suggest that the Kansas City livestock merchants dominated the trade out of Southwest Kansas, Indian Territory, the Panhandle of Texas, and New Mexico.

But the Chicago market, because of the route of the MK & T, dominated the trade from Texas. An inspector at Parsons, Kansas, reported that for the same months in 1890 there were 8,500 cars shipped out of the north Texas area. Sixty-nine percent of these cars (5,865) went to Chicago, seventeen percent (1,445) traveled to St. Louis, and only fourteen percent (1,190) went to Kansas City.[22]

These figures pointed out a major problem for the Kansas City market; railroads out of Kansas City were slow getting into Texas. Prior to 1887, the only access Texas cattle had to Kansas City was via the overland trail to the Kansas rail heads. Not until 1887 was a link established directly between Kansas City and Texas. In that year the Chicago, Rock Island, and Pacific (CRI & P) completed a rail

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[22]U. S. Department of Agriculture, Bureau of Animal Industry, Annual Report, 1889-1890 (Washington: Government Printing Office, 1891), p. 339.

line to Amarillo, Texas. It was two years later that the MK & T established a direct link into Texas. Even then, the shippers in north central Texas shipped to the St. Louis and Chicago market, refusing to change their habits to accommodate the Kansas City market.[23]

The railroads impacted the livestock commission business in other ways. Moving live animals great distances from some areas of the Southwest to the stockyards emaciated the livestock. The producers closest to the stockyards were at an advantage in as much as they were only a few hours away from Kansas City by train and the livestock experienced little "shrinkage" of weight. For this reason, Indian Territory was a favorite holding area for southern cattle. Drovers grazed their herds on the rich grasses of Indian Territory south of Caldwell, Kansas, until the price of cattle in Kansas City rose to an adequate level. They then quickly loaded their herds on the stock trains and shipped them to Kansas City to take advantage of the price change.[24]

But shippers farther to the Southwest were not so fortunate. A trip from Las Animas, Colorado, to Kansas City in 1873 lasted two days; the trip to Chicago took five days.[25] The law required the trains to rest the livestock every 28 hours, which increased the cost of transportation.

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[23]Terry Lynch, <u>Railroads of Kansas City</u> (Boulder, Colorado: Pruett Pub. Co. 1984), p. 71.

[24]<u>Texas Livestock Journal</u>, 9 March 1889.

[25]<u>Las Animas Leader</u>, 9 August 1873.

Trains moved at an average speed of ten miles per hour. Ten years later in 1883, the journey to Kansas City could be made in one 28 hour trip, for the average speed of the stock trains increased from 10 to 18 miles an hour. To reach Chicago took three days. Nevertheless, the cattle prices changed too frequently for these shippers to take any advantage of the periodic high prices in the market.[26]

The trains also injured livestock. The use of link and pin couplings to connect the rail cars, and hand brakes to stop them, jerked and shoved the animals about the car. The stock trains ran over short, light, iron rails joined together by "iron chairs" spiked into wooden railroad ties. Moreover, the railroad beds were rough and poorly ballasted, and the trains pulled up excessive grades and over wooden bridges and trestle works. The consequence was further battering of the animals. The bumping and rolling of the train knocked the weaker animals down, and the other animals trampled them until helpless or dead. Also, the range cattle had long and sharp horns which gouged the flesh of many steers.[27]

The frequency of injured stock was higher when shippers sent a rail car containing cattle, hogs, and sheep. In

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[26] Texas Live Stock Journal, 29 May 1889.

[27] George T. Angell, Autobiographical Sketches and Personal Recollections (Boston: Franklin Press: Rand, Avery & Co., 1884), pp. 1-3 (Angell was the president of the American Humane Society); Breeder's Gazette, 25 August 1921; Daily Drovers Journal of Chicago, 27 February, 22 October 1883.

addition to injury, the smallest animals were inevitably "dirty" and required extra effort to clean before selling. Consequently, the stock arrived at the stockyards in various conditions. The unloading gangs carried ropes for the purpose of dragging out dead and crippled livestock. The American Humane Society reported that 1,000 dead hogs were taken off a single train on a hot day in Chicago in 1881. It also reported: "hardly a cattle train arrives that horned cattle are not found lying on the floors, their limbs crushed, sometimes their bodies flattened out by the trampling of their fellows in misfortune."[28]

The stock eventually arrived at Kansas City. The Kansas City Stockyards were on the banks of the Kansas River and extended over the boundary line from Kansas into Missouri. The exchange building was in Kansas until 1913 when the stockyards company completed a new structure in Missouri. (The move was due in large part because of the hostility the Kansas State Legislature exhibited towards the commission merchants.) In 1886 2,234 employees worked at the seven packing plants. In 1893 there were 12 scales in the yards, the alleys and pens were floored with three-inch cypress plank, and the yards covered about 100 acres of land. The daily capacity of the yards in 1893 was 20,000

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[28]Angell, Recollections, p. 3.

cattle, 35,000 hogs, and 15,000 sheep, and 300 men yarded and fed the stock and cleaned up the pens.[29]

Upon arriving at the stockyards, the employees of the stockyards company unloaded the trains. They then delivered the livestock to the alleys and pens assigned to the commission firm. The employees of the commission company fed and watered the stock preparatory to sale the following day. This process took place 24 hours a day, and 7 days a week, until 1892 when the Kansas City Livestock Exchange limited the hours of marketing.[30]

Each morning the commission merchant stood at the entrance of the alley in which he had stock. Packer's buyers, order buyers, feeders, and farmers rode horses through the alleys or walked along the catwalks constructed over the pens, and selected the stock they wanted. Upon observing a lot of cattle they desired, the buyer approached the commission merchant and tried to "arrange a deal." Such contracts were private treaties and transacted orally (there were no auctioneers). The notes taken by either buyer or seller were the only paperwork in this process. Many commission men kept the figures in their head until they

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[29]Atkinson, "Kansas City Trade," pp. 121-123; U. S. Department of Agriculture, Bureau of Animal Industry, Annual Report, 1884, p. 247; Kansas City: An Illustrated Review of Its Progress and Importance, May 1886, p. 19; Snyder, "Livestock Markets of Kansas," pp. 53-54.

[30]Minutes of the Board of Directors, 4 January 1892, vol. 3, RKCLE (Microcopy Collection 158).

returned to the commission office in the exchange building.[31]

Similar processes occurred throughout the stockyards. After the sale, yardmen herded the animals to the scales and weighed them. There the first record of the transaction occurred. The employees attached the "scale ticket" to the waybill and delivered it to the Stockyards Company; the animals went to the buyer. The commission merchant received payment for the livestock from the purchase at the stockyards company office in the exchange building. The company charged the commission firm for the rail freight and the yardage fees. The latter then remitted the revenue from the stock sale less commission, freight, and yardage fees to the producer. The banks in the stockyards handled the deposits.[32]

The commission firms had little difficulty transferring funds into the frontier areas, such as Texas. Some drovers carried cash back to their home region, but there were safer ways of doing it. He could, for example, buy exchange in Kansas City and sell it in Texas.[33] Private banks followed

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[31]Interview, Delbert Fields, National Livestock Commission Company, 18 June 1985, Kansas City, Missouri; American Live Stock Commission Company v The Chicago Live Stock Exchange, Clerk of the Supreme Court, Supreme Court Building, Springfield, Illinois, "Brief for the Appellee," p. 18; this method of marketing is still used in Joliet, Illinois and Omaha, Nebraska.

[32]American Live Stock Commission Company v The Chicago Livestock Exchange, p. 19; U. S. Department of Agriculture, Bureau of Animal Industry, Annual Report, 1884, p. 265.

[33]McCoy, Historical Sketches, p. 324.

the livestock producer into frontier areas and handled this exchange. In Ft. Worth in February 1873, Tidball & Wilson advertised "a general banking" business. They received on deposit and paid out coin, Treasury and National Bank Notes, and currency. The company bought and sold exchange and drafts on New York, New Orleans, and Kansas City banks. Their correspondents in Kansas City were the Exchange Bank, and in New York City, they used Northup & Clark.[34] In Graham, Texas, ninety miles west of Ft. Worth, a local merchant was the private banker who handled these transactions.[35] Upon receipt of the cash from the commission merchant, the process of marketing livestock from the livestock producing areas in the Southwest was complete.

The only competitor for the commission merchant was the drover. Before the arrival of the railroad, the drover was the only middleman in the trade. He was a factor in the American livestock economy dating back to the colonial era. Anytime the distance to market was too great for the producer to sell his own livestock, a drover appeared to serve that function. Drovers in the Connecticut river valleys supplied Boston with livestock in the 1750s;

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[34] <u>Fort Worth Democrat</u>, 8 February 1873.

[35] <u>Fort Griffin Echo</u>, 26 June 1880; for an explanation of private banks and correspondent banks see John A. James <u>Money and Capital Markets in Postbellum America</u> (Princeton: Princeton University Press, 1978); or see Richard Sylla, "Forgotten Men of Money: Private Bankers in Early U.S. History," <u>The Journal of Economic History</u> 36 (March 1976):173-188 and Larry Schweikart, "'You Can Count It': The Birth of Banking in Arizona," <u>Journal of Arizona History</u> 22 (Autumn 1981):349-365.

Pennsylvania Dutch drovers bought thin cattle in the Carolina piedmont and drove them to Philadelphia after several months of corn feeding in the 1790s; drovers herded cattle over the Appalachian Mountains from west to east in the 1840s; and drovers from the Midwest delivered cattle to St. Louis and Chicago in the 1850s. The Texas drover operated little differently than his colonial antecedents; he purchased livestock in Texas and sold them in Colorado, Wyoming, Nebraska, or Kansas in the 1860s and 1870s.[36]

The Texas drover easily succumbed to the competition of the livestock commission merchants. The exorbitant profits of the drover in periods of high prices brought about their demise. The average rate of profit per drive from Texas to Kansas on a four year old steer in 1873 was 219.9 percent! More specifically, a four year old steer in 1873 cost a drover in Texas $10.12. When he delivered that steer to Kansas, it marketed for as high as $36.40, earning a profit of $26.28. Put differently, the Texas producer received only one-third of the sale price, while the middleman received two-thirds. The producer was justifiably irritated and open to a new method of doing business.[37]

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[36]Paul C. Henlein, Cattle Kingdom in the Ohio Valley, 1783-1860 (Lexington: University Press, 1959), pp. 32-35; David C. Smith and Anne E. Bridges, "The Brighton Market: Feeding Nineteenth Century Boston," Agricultural History 56 (January 1982):1-15; Troy J. Cauley, "Early Business Methods in the Texas Cattle Industry," Journal of Economic and Business History 4 (May 1932):461-486.

[37]David Galenson, "The Profitability of the Long Drive," Agricultural History 51 (October 1977):752; Galenson calculated profits for all the years between 1867 and 1885.

The livestock commission merchant was the solution. For a consignment of cattle the commission merchant charged 50 cents per steer, but large shippers forced the commission charges down to 25 cents a head. Instead of extorting 66 percent of the value of the animal, the commission merchant received one percent or less. In addition, he provided more services.

The merchant also multiplied the possibilities for marketing other types of livestock. He could handle swine, as well as cattle and sheep. Historically, the drover seldom operated in the swine trade. Hogs traveled long distances only with great difficulty. Before the railroad, pork packers went to the producers and built plants in hog producing areas, but the supply area was local. Consequently, producers had few options other than the local packer.[38]

The railroad and the commission merchant opened new options for the pork producer. Any producer in the Corn Belt could easily market hogs in either Chicago, St. Louis, or Kansas City. The railroads did not open a swine trade in the Southwest, for the climate was too hot and dry. That "Uncle Charlie Adair" could drive over 500 hogs out of

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[38]Margaret Walsh, <u>The Rise of the Mid-Western Meat Packing Industry</u> (Lexington: University of Kentucky Press, 1982), pp. 23-24, 45.

Jacksboro, Texas, 60 miles to Denison in 1876 was an exceptional feat, one not generally followed in the trade.[39]

The livestock commission merchant not only reduced the cost of marketing and multiplied the types of animals a producer could market, but he also presented the small producer with the opportunity to market his own livestock. The records of the cattle driven out of Palo Pinto County, Texas, dramatically illustrated this possibility. Texas law required the county clerk to register any cattle moved out of the county. Before 1873 and the arrival of the MK & T at Denison, the small farmer or rancher sold his livestock to the local drover. These middleman gathered all the newly purchased cattle into one herd and drove them out of the region. Most of the "long drives" into Kansas numbered from 1,000 to 1,500 cattle.[40]

Ranchers started circumventing the drover in the Palo Pinto County area in 1874. Leo W. Vaughn, a county rancher, drove 108 cattle to the MK & T rail head at Denison on 14 July 1874.[41] Other small herds did the same that year: J.

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[39]J'Neill La Verne Pate, "Livestock Legacy: A History of the Fort Worth Stockyards Company, 1893-1982," (Ph.D dissertation, North Texas State University, Denton, 1982), pp. 125-149; <u>Frontier Echo</u>, 14 April 1876.

[40]Mary W. Clarke, <u>The Palo Pinto Story</u> (Fort Worth: The Manney Co., 1962), pp. 4-15; Dale, <u>Range Cattle Industry</u>, p. 46.

[41]Bill of Sale, 14 July 1874, p. 106, Palo Pinto County Clerk, Palo Pinto, Texas.

Z. Butler drove 100 "mostly cows";[42] J. W. McDonald sent 50 head;[43] S. J. Strawn shipped 70 head.[44] With the MK & T, therefore, the small producer had the option of marketing his own livestock. This process marked the beginning of the end of the Texas drover, a process which took a generation to complete.

While the commission merchants permitted the producer to by-pass the drover, they also marketed the livestock in Kansas City. As long as the Kansas City Stockyards remained small, a producer could find a buyer on his own. Over time, however, as the volume of animals increased and the markets became large, impersonal, and confusing, the occasional producer could not effectively market his livestock.

The confusion in the stockyards was well recognized. A. P. Bush, a rancher from Colorado, Texas, testified before the Vest Committee on 21 November 1888. The committee, chaired by Senator George Vest of Kansas City, was the first investigation of the meat packing industry in the United States. Vest invited cattlemen to testify before the committee and while they blamed the packers for their troubles, they also described the operations of the livestock trade in Kansas City. Bush testified that before

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[42]Bill of Sale, 12 July 1874, p. 191, <u>ibid</u>.

[43]Bill of Sale, 17 August 1874, p. 206, <u>ibid</u>.

[44]Bill of Sale, 19 April 1874, p. 212, <u>ibid</u>.

he shipped cattle to Kansas City, he found it necessary to board the train and go to the market himself. In 1877, Bush stayed in Kansas City the entire summer so that he could watch the markets in Chicago and St. Louis through telegraphic reports. Only in this way could he make the best decisions as to where to ship. Ironically, even though Bush remained in the market all summer, he used a commission merchant to sell his cattle when the decision was made.[45]

The increased volume and speed of animals moving through the market caused problems. Eastern shippers realized the Kansas City market offered a better selection of animals, and at better prices, than those markets at Buffalo, New York, or Philadelphia, Pennsylvania, and they traveled to Kansas City in large numbers. With the concentration of buyers and sellers in the Kansas City yards, prices changed dramatically, sometimes 30 percent in one day. A producer who attempted to market his own livestock frequently sold for less than market value--no one but an expert could detect the shifting values within the Kansas City market.[46]

Additionally, when a producer brought a load of livestock into the market, he had to find numerous buyers, not just one. For example, there were 14 classifications of cattle alone: fancy cattle, choice cattle, good shipping

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[45]U.S. Congress, Senate Report no. 829, <u>Transportation and Sale of Meat Products</u>, 51st Cong., 1st sess., 1889-1890, p. 44.

[46]<u>Ibid</u>., pp.30-31.

steers, medium shipping steers, common to fair steers, common to choice bulls, good to choice cows, poor to medium cows, stocker and feeders, northern range steers, Texas steers, Texas cows, veal calves, and milch cows. This myriad of classifications meant the seller had to find multiple buyers.[47]

For a Texas rancher to find all the necessary buyers was a complicated process. Export buyers from Boston or a packer from Kansas City or Chicago were in the market for the fancy or choice cattle. Corn Belt feeders looked for the shipping steers which weighed less than 1000 pounds (and most Texas steers did), who after purchase fattened the steers for six months and re-marketed them as choice or fancy cattle. Cows, in times of low prices, went to canners. For the veal calves, the rancher looked for a Pennsylvania farmer or an order buyer. Finding all these buyers was increasingly difficult, and only the commission merchants operating in the market at all times knew the buyers and what class of cattle they sought.

The operations of a livestock commission merchant were simple but revolutionary. The merchant was a new business institution created in the American West, resulting from the speed and volume brought to the livestock trade by the railroad and telegraph. Ironically, there was no protest from the producer at the passing of the drover or with the advent of the commission merchant. Producers appreciated

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[47] Ibid., pp. 47-48.

the lower costs and greater flexibility granted by the new business institution in the initial phases of the organizational revolution in the American West.

CHAPTER III

THE LIVESTOCK COMMISSION FIRM

Although the livestock exchanges were part of the late nineteenth century revolution in business organizations, the livestock commission firm remained a very traditional enterprise. This chapter discusses the organization of the firm, the background and training of the personnel, and the reasons for the domination of the Kansas City trade by a few firms.

The livestock commission firms were all small enterprises in the 1880s. The advertisements in a Blue Book, published by the Kansas City Stockyards in 1887, described their organization and detailed various aspects of the Kansas City market.[1] All of the 40 commission firms operating in the stockyards advertised in the edition. From the advertisements we learn how the firms were organized, how many employees were in a firm, how many were family firms, when the firms were established, and the different divisions within the firm.

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[1]Kansas City Stockyards, Blue Book (Kansas City, Missouri: Bishop Bros. Printing, 1887), pp. 28-41.

All of the commission firms listed were either a single proprietorship or a partnership--with one exception. Fish, Keck & Co. was the only incorporated firm in 1887 but other commission firms followed its example in later years.[2] Two reasons account for the exceptions: firms loaned its own money to producers and desired the limited liability protection granted a corporation; it incorporated to by-pass the rules of the Kansas City Live Stock Exchange (explained in detail in Chapter 9).

Commission firms organized to conform to the peculiarities of the animal trade. To maximize the opportunity presented by the commission business, a firm covered both the hog and cattle markets at the same time. Consequently, there was a minimum of two specialty areas in each business. Furthermore, the hog pens and cattle pens were in different locations in the stockyards and required two people to cover them. In 1887, few commission firms employed full time sheep traders.

The majority of the firms, however, had more than two members. The 40 firms under examination averaged five employees each. The four largest houses (also the oldest) listed nine employees, while the younger ones had the least number. I. B. McFarland & Co. was the only business with one employee, but it shared an office and administrative expenses with Winstead & Custer, and Stephens & Dobyns.[3]

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[2]Ibid.,pp. 12, 33.

[3]Ibid., p. 30.

The majority of the commission firms in Kansas City were not family firms. Forty-five percent (18) of those listed in the Blue Book had at least one member with the same last name as a managing partner. These family firms comprised either a father and son team (C. C. Means & Sons) or one of brothers (Nutter Bro.). One firm, Dunham & Roberts, had one family member in Wray, Colorado, as a solicitor.[4]

Of the 40 firms at Kansas City, only six were branch offices of commission firms in other markets. Hunter, Evans & Co. and James H. Campbell & Co. listed offices in Chicago and St. Louis.[5] J. M. Emmert & Co. was a branch of a St. Joseph firm, and C. M. Keys & Co. had their home office in St. Louis.[6]

The years the firms were established indicated a high turnover rate. The founding dates of the four oldest firms (1870) predated the founding of the Kansas City livestock market. The financial crisis of 1873 was a watershed year for the firms. Since they were speculators as well as commission merchants, and the prices of cattle dropped so precipitously, they went bankrupt along with many drovers and banks in the cattle trade. Two firms, Quinlan, Montgomery & Co., and Irwin, Allen & Co., organized after

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[4]Ibid., pp. 28, 40.

[5]Ibid., pp. 35, 36, 56, 85.

[6]Ibid., pp. 29, 35, 96, 97, 116, 117.

the market eliminated many of the traders in Kansas City.[7] Two livestock commission firms at Kansas City were also formed by Texas drovers. Hunter, Evans & Co. and Quinlan, Montgomery & Co. herded cattle from Texas to Kansas as well as selling on commission.[8]

The firms at Kansas City were young relative to the age of the Kansas City Stockyards. Twenty-six of the 40 commission firms (65 percent) were six years old or less; half of the 26 organized in 1886 and were only one year old.

Although the minimum number of personnel needed to effectively function as a commission firm were salesmen for hogs and cattle, there were generally four divisions in the firm. These included the salesmen, the office men, the yard men, and solicitors. Of the 40 firms, there were 58 cattle salesmen, 46 hog salesmen, and four sheep salesmen. One sheep salesmen was also a hog salesman, and another doubled as a cattle salesman. There were twenty five solicitors listed, 47 office men, and 30 yardmen.

The managing partners of any one firm were generally the lead cattle salesman and the lead hog salesman. The cattle commission merchants frequently traveled from the country to the stockyards, but the hog merchants operated principally in the stockyards.

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[7] Ibid., pp. 28, 32, 81.

[8] Ibid., p. 82; George W. Saunders, The Trail Drivers of Texas (Austin: University of Texas Press, 1924; reprint 1985), pp. 240, 289, 873, 936; Caldwell Commercial 28 April 1881.

The solicitors were a significant part of the livestock commission business. That the commission firms listed only 25 solicitors in the Blue Book understated their importance. The solicitors lived in the livestock producing areas, most often they were employed at other occupations, and used their influence upon shippers to consign stock to specific commission houses for half of the commission. These solicitors were a controversial part of the business, and commission firms rarely identified them. Solicitors had little loyalty to any one commission firm; they easily switched firms for a better deal.

In a rare display of openness, Hunter, Evans & Co. published a circular throughout Texas regarding the solicitor. As published in the Texas Live Stock Journal in 1888, Hunter, Evans & Co. declared that

> The soliciting agent has always been the expensive part of the commission business. Heretofore we have paid the soliciting agent a large share of the commission earned on business secured by him, but we very much prefer to dispense with all agents.[9]

Hunter, Evans & Co. offered to rebate the commission normally given the solicitor to the "patron." The trade, however, did not follow the lead of this large commission house.

The office men were the administrative and financial arm of the commission firm.[10] The titles carried by these

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[9] Texas Live Stock Journal, 18 February, 14 July 1888.

[10] Blue Book, pp. 74-80.

47 were either office men, cashier, bookkeeper, or assistant bookkeeper. They rarely dominated the firm. In only one case was the office man a managing partner: F. O. Fish of Fish, Keck & Co. was the office man for Andy Snider & Co. before 1886. When Snider sold his commission firm to James H. Campbell & Co., Fish left and formed a new commission firm with G. O. Keck (also previously employed by Snider as a cattle salesman).[11]

The yardmen handled the livestock consigned to the commission firms in the stockyards. They fed and watered the stock in the pens assigned to the company and also delivered the stock to the buyer. There were no yardmen who were partners of any of the commission firms, as the job was often held by a man wanting to learn the livestock commission business.[12]

While the advertisements of the Kansas City firms described their organization, Cuthbert Powell's <u>Twenty Years of Kansas City's Livestock Trade and Traders</u>, published in 1891, provided biographical data on personnel. This source identified the commission merchants and explained how they got into the business. Specifically, Powell detailed the biographies of 64 commission merchants men in the Kansas City Stockyards from the 1870s to 1890.[13]

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[11]<u>Ibid</u>., p. 33.

[12]<u>Ibid</u>., pp. 44, 46, 48.

[13]Powell, <u>Kansas City Traders</u>, pp. 195-340; suggestions on this composite biography came from Burton W. Folsom, "The Collective Biography as a Research Tool," <u>Mid-America</u> 54

The livestock commission merchants were not "retired cowmen-bankers" as Edward E. Dale, historian of the range cattle industry, surmised in an article in the Cattleman in 1923.[14] A typical commission merchant at Kansas City in 1886 was not retired but a thirty-nine year year old white male. Although he most likely had contact with livestock in his earlier years, the typical commission merchant did not come from the range cattle regions of the Great Plains; instead, he was more apt to be born in the Midwest. There was little possibility of the typical commission merchant being a banker; instead, he was most likely a livestock shipper, speculator, yard trader, or salesman before becoming a commission merchant.

The barriers to entry into the commission firm were in part cultural. The business, for example, was the province of white males--all others needed not apply. The majority of the merchants at Kansas City in 1886 were in their late thirties or early forties. Their ages ranged from 18 to 58, but the average age was 39.[15]

(April 1972):108-122 and Richard C. Rohrs, "The Study of Oklahoma History during the Territorial Period: An Alternative Methodological Approach," Chronicles of Oklahoma 60 (Summer 1982):174-185.

[14]Edward E. Dale, "Passing of the Range: Cattle Business in Oklahoma," Cattlemen, vol. 11, no. 6, November 1924, p. 15.

[15]Among business historians Thomas Cochran is the best on the cultural influences, see 200 Years of American Business (New York: Basic Books, Inc., 1977); more specifically see Richard H. Peterson, The Bonanza Kings: The Social Origins and Business Behavior of Western Mining Entrepreneurs (Lincoln: University of Nebraska Press, 1972).

There were no women among the merchants listed in Powell's Traders. Nor were there any women merchants mentioned in the Exchange records from 1886 to 1921. Women acquired memberships in the Kansas City Live Stock Exchange only upon the death of a family member who was also part of the Exchange.

There was one exception. In 1895 Jennie Goodwin applied for membership in the Exchange. She was also a clerk in the office of the secretary and worked for R. P. Woodbury. The board voted to accept her application "by eight yea votes" in September.[16] However Jennie Goodwin failed to follow through with the board's approval so the body invited her to "show cause for not securing a membership" in November 1895.[17] Goodwin was given until January 1896 to take out a membership. In the meantime 13 members signed a petition for a special meeting. The petitioners wanted the Exchange to "give her a membership." At the meeting, with 50 members present, Jennie Goodwin addressed her supporters and explained that she did not want the Exchange to make a precedent by giving her a membership and that she had decided not to pursue a career as a merchant.[18]

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[16]Minutes of the Board of Directors, 9 September 1895, vol. 3, RKCLE (Microcopy Collection 158).

[17]Minutes of the Board of Directors, 3 November 1895, Ibid.

[18]Minutes of the Exchange, 19 December 1895, Ibid.

Although there was no evidence of a Black or Hispanic livestock commission merchant, ethnicity worked to the advantage of some merchants. Henry Theis (who started a commission firm in 1885) was the son of German immigrants. Theis spent his childhood on the "west bottoms" in Kansas City near the stockyards where his father worked. Theis remembered the children of Irish immigrants ridiculed and beat him, but years later, Theis discovered that being a German had commercial advantages. His first major contacts with producers were among the German communities in central Kansas; he was one of the insiders in these ethnic communities, and the Kansas Germans trusted Theis with their livestock.[19]

The birth place of the merchants was not a barrier to entry to the commission business, but most of the Kansas City merchants were from the same geographical region. Fifty-nine percent of their number (38) came from the Corn Belt; 25 percent (16) came from the Dairy Region. There was only one Kansas City merchant born in Texas, the largest cattle producing state in the nation. There was only one commission merchant born outside of the United States.[20]

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[19]Henry Theis Testimony, 1 February 1892, Ibid.; Carl Theis, Interview, Henry Theis & Sons, 13 June 1985, Kansas City, Missouri.

[20]Charles O. Paulin, Atlas of the Historical Geography of the United States (Washington: Carnegie Institution, 1932), plate 142; the birth places and number of merchants in the Corn Belt were Iowa (2), Illinois (6), Indiana (6), Kansas (2), Missouri (12), and Ohio (10); in the Hay and Dairy Region were New York (4), Pennsylvania (7), Vermont (2), and Wisconsin (3); other states included North Carolina

Thirty-seven of the 64 merchants in Kansas City came from a farm background, or had experience with livestock as a child. Of these, 33 merchants listed their father's occupation as a farmer. Three fathers worked in the stockyards of Chicago or St. Louis. Only one father had been a Kansas City commission merchant. But failure to acquire training in livestock at an early age proved no barrier to three merchants. George Barse's father was a steamboat captain;[21] David Tuckerhan's was a dealer in billiards;[22] and Frank Siegel's was a glass blower.[23]

An analysis of the occupations of these commission merchants before they entered the business revealed a significant pattern for training a livestock commission merchant. Powell listed 14 different occupations.[24] The career path of each trader generally included more than one occupation. For example, Frank Cooper was a school teacher, a clerk in a mercantile firm, an attorney, and then a livestock commission merchant. While Powell identified 14

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(1), Tennessee (1), Texas (1), Virginia (1), Kentucky (5), and New Hampshire (1).

[21]Powell, Kansas City Traders, p. 201.

[22]Ibid., p. 337.

[23]Ibid., p. 311; Siegel ended his career in 1901 by defrauding an endorser of a note for $21,000, see Trial of Frank Siegel, 23 May, 1 July 1901, vol 4., RKCLE (Microcopy Collection 158).

[24]The occupations and the corresponding number of commission merchants are shipper (30), trader (21), salesman (22), farmer (9), rancher (6), freighter (2), grain trade (2), stockyards employee (12), government contractor (5), merchant (14), miner (7), bookkeeper (7), drover (9), teacher (7).

occupations, the 64 commission merchants listed them 153 times.[25]

The essential qualification for a commission merchant was to have some familiarity with the livestock markets at the stockyards. Over half of the 64 traders in Kansas City were shippers, speculators, yard traders, or salesmen in the livestock trade prior to entering the commission business, or they had worked as a stockyards employee at one period in their lives. Of the 153 times that the 14 occupations were listed, 55 percent (85) of the occupations were one of these five categories. These occupations brought the entrepreneur into constant contact with the operations of the stockyards, familiarized him with the functions of the commission merchants, and provided the opportunity to watch closely the changing nature of prices within the stockyards market.

Of the occupations mentioned in the five categories, the livestock shipper was the most frequent (30 out of 153 times). Shippers were middlemen, like the commission merchants, who appeared in the livestock trade concurrently with the railroad. They speculated on making a profit by buying cattle, hogs, or sheep at a low price in the "country" and selling high in the Kansas City market. The shippers operated much like the drover, except they dealt in hogs and sheep, as well as cattle, and they shipped livestock on the railroad instead of "driving" them

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[25]Powell, <u>Kansas City Traders,</u> p. 261.

overland. Unlike the commission merchant, the shipper took possession of the livestock.[26]

Shippers operated in areas occupied by small farmers. Any producer who had enough animals to fill a rail car could ship his own stock to market, but many farmers (especially in Kansas) did not have enough animals to ship at any one time. Thus there was an opportunity for a middleman in the trade. The shippers generally traveled throughout the livestock producing areas buying livestock. They gathered the stock at shipping stations near the railroad and shipped to market when they regarded the price adequate to make a profit. Although there was no precise data available on the number of these shippers, one trader estimated that 90 percent of the stock shipped to Kansas City in the 1890s came from them. Shippers were less frequent in Texas where producers generally had enough cattle to fill several rail cars (20-22 Texas steers filled a rail car).[27]

Another "prior" occupation listed by the Kansas City commission merchants was that of livestock trader. Twenty-one merchants claimed they had been traders either in Chicago, St. Louis, or Kansas City. The trader was scurrilously called a "scalper" or a "speculator," but unfairly so. Any cattle merchant who took possession of the livestock he traded, from the producer, drover, to the shipper, was speculating in livestock. Most commission

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[26]McCoy, <u>Historical Sketches</u>, pp. 298-299.

[27]<u>Kansas City Livestock Indicator</u>, 23 February 1893.

merchants speculated "on their own account," but it was not the major focus of their business.[28]

These traders stayed in the stockyards at all times and made money principally by taking advantage of the volatility of the prices in the market. Traders seldom held stock in their possession more than a few days. When the receipts for livestock were heavy in the stockyards, the packer could force the price of livestock down below market value. The trader then bought as many livestock as he could, competing with the packer, anticipating that in a few days the receipts in the stockyards would decrease, and the prices would be forced back up to market level or above. The trader made his money trading on these margins and when the market was brisk and the prices were volatile, the trader made more money on the market than the commission merchant. Like the drover and the shipper, the trader took possession of the stock.[29]

Although not recognized as such, the yard trader was the ally of the producer, and the enemy of the packer. Without these speculators in the yards, the packer could have controlled the prices of livestock at critical times. In the mid-1880s, the packers, in fact, tried to force the traders out of the stockyards. In 1885 the Daily Drovers

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[28]McCoy, Historical Sketches, pp. 292-293

[29]August Riser, Interview, Riser & Sons, 15 August 1986, Omaha, Nebraska; Proceedings of the Sixth Annual Convention of the National Livestock Association (Denver: Smith Brooks Printing Co., 1903), pp. 301-302.

Telegram of Kansas City reported "the packers precipitated their semi-annual row with the scalpers today by refusing to buy any of their holdings." The traders accumulated from 8,000 to 10,000 hogs in the stockyards that the packers refused to purchase. Eventually the packers lost the gamble, and the traders remained a vital part of the business. K. B. Armour later admitted to the Vest Committee in 1888 that the packers in Kansas City circulated a black list of scalpers from time to time, but they were never able to force them out of the market.[30]

The yard trader also sorted livestock into marketable groups for the small producer. When a farmer from Kansas or Missouri traveled to the Kansas City market to purchase stock, he looked for small lots, not the large consignments received by the commission firms, and he looked for a specific type of cattle or hog. Generally, the farmer needed around 100 animals, and he preferred them all uniform in size and weight. For example, the farmer frequently sought shipping steers all weighing approximately 1,000 pounds.

Before the mid-1870s the farmer went from pen to pen selecting a few animals out of each. In the mid-1870s the traders started sorting the livestock in advance of the farmer, and so the farmer went straight to the trader's pens to find the livestock he desired. A. W. Gillette innovated

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[30] Daily Drovers Telegram, 7 December 1885; U. S. Congress, Senate Report no. 829, Transportation and Sale of Meat Products, 1889-1890, p. 365.

this practice 1878, and later became a commission merchant on the Kansas City yards.[31]

An aspiring livestock commission merchant often worked for a commission firm before becoming an actual merchant. Twenty-two merchants were salesmen for others prior to forming a firm of their own. Five had been salesmen sent to Kansas City to start a branch office for a Chicago firm in the early 1870s. W. A. Rogers went to Kansas City as a representative of Strahorn & Co. of Chicago, while George R. Barse was a representative of Kennan & Co. Two years later Barse started his own firm.[32]

Other occupations aided in training of a livestock commission merchant. Of the 64 traders, nine were farmers and six were ranchers. Seven of the older commission merchants had gone to California or Colorado to mine gold, and two had been freighters in the West before the arrival of the railroad. Seven mentioned they had been teachers, and seven others indicated they had been book keepers.

While the commission firms remained small in size, and the personnel in the firms received their training through other occupations related to the livestock industry, extant records indicate that a few firms dominated the cattle commission business. Gene Gressley noted this pattern in Banker's and Cattlemen for the years 1880 to 1886. He

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[31]Powell, Kansas City Traders, p. 121.

[32]Ibid., pp. 200, 201; McCoy, Historical Sketches, pp. 282-283.

pointed out that A. J. Snider controlled as much as 40 percent of the cattle trade out of Kansas City. But Gressley provided no figures on the rest of the firms in the Kansas City market.[33]

Nevertheless, appropriate data is available. The Kansas City Livestock Indicator published the price and number of animals which each commission firm marketed from 1882 to 1885. Unfortunately, the Indicator stopped printing the sales by commission firm in December 1885, leaving later information impossible to retrieve from any source. Doubtlessly, the Kansas City Livestock Exchange (organized in February 1886) stopped publication of sales by commission firm because the smaller firms did not want the information transmitted to the producers in the "country." The publication of sales helped the larger firms. For example, A. W. Penny entered the commission business in 1885 and tried to expand his operations. The Indicator published that Penny sold only 71 cattle in October 1885, while A. J. Snider sold 18,790. Producers could rightly question Penny's ability to market cattle.

Information recorded in the Indicator reflected which firms dominated the trade (see Table I). The number of cattle and hogs marketed in October 1885 established the sample. October was the month when most of the range cattle

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[33]Gene M. Gressley, Bankers and Cattlemen (New York: Knopf, 1966), pp. 181-182.

arrived in Kansas City. Western cattle producers marketed their cattle only after a summer's fattening on grass.

There was a striking difference between the firms in the cattle and hog trade. Four commission companies out of 26 dominated three-quarters of the cattle trade, but no one firm controlled the hog trade. A. J. Snider & Co. marketed 18,790 cattle or 44 percent of the 42,602 cattle in October 1885! That confirmed the figure reported by Gressley in <u>Bankers and Cattlemen</u>. Three firms followed Snider in livestock sales: J. R. Stroller & Co. sold 4,686 cattle or 11 percent; Irwin, Allen & Co. sold 4,454 or 10 percent; and Quinlan, Montgomery & Co. marketed 3,871 or 9 percent of the total cattle marketed in Kansas City.

The hog trade was more democratic. The three largest firms controlled only a third of the business. C. C. Means & Co. received the largest number of hogs (17,762 out of 113,246), but that constituted only 16 percent of the total trade. Only two other firms handled a significant portion of the hog market. White & Holmes marketed 11,888, or 10 percent, while Gillespie & Co. sold 10,506, or 9 percent. The remaining 23 firms competed for the other 66 percent of the hog trade, but no one firm received more than 6 percent of the trade.

These figures permit some conclusions. Vigorous competition made the cattle trade more difficult for new firms to enter. At the same time, competition in the swine trade, less than in the cattle trade, made it easier to gain

TABLE I

NUMBERS AND PERCENT OF CATTLE AND HOGS
MARKETED BY COMMISSION FIRMS
OCTOBER 1885

		CATTLE	%	HOGS	%
1.	J.R.STROLLER & CO.	4,454	11.0	6,235	5.5
2.	IRWIN,ALLEN & CO.	4,387	10.0	4,852	4.3
3.	GILLESPIE & CO.	523	1.0	10,506	9.2
4.	GEO.R.BARSE & CO.	531	1.0	5,543	4.9
5.	MCCOY & UNDERWOOD	636	2.0	5,963	5.3
6.	QUINLAN,M. & CO.	3,871	9.0	4,360	3.9
7.	A.J.SNIDER & CO.	18,790	44.0	5,609	5.0
8.	GREGORY & STEPHEN	1,666	4.0	2,939	2.6
9.	GILMAN,REED & CO.	113	0.0	1,526	1.3
10.	ROGERS & ROGERS	686	2.0	5,229	4.6
11.	METCALF & MOORE	118	0.4	4,722	4.2
12	CAMPBELL,L.& CO.	935	1.0	6,136	5.4
13.	C.M.KEYS & CO.	146	0.3	4,599	4.1
14.	D.THOMPSON	651	2.0	232	0.2
15.	WORDEN & CO.	015	0.0	000	0.0
16.	WHITE & HOLMES	2,779	7.0	11,888	10.4
17.	HOUSTON & CO.	041	0.0	610	0.5
18.	MOUNTJOY & CO.	1,182	3.0	1,788	1.6
19.	EMMERT & CO	060	0.1	1,915	1.7
20.	D.L.JONES	554	1.0	1,060	0.9
21.	W.J.DILLINGHAM	016	0.0	3,035	2.7
22.	A.W.PENNY	071	0.1	1,095	1.0
23.	LARMON & CO.	064	0.1	1,373	1.2
24.	C.C.MEANS & CO.	246	1.0	17,762	15.7
25.	NUTTER BRO.	000	0.0	3,030	2.7
26.	HOUSTON & PENNY	000	0.0	1,239	1.1
	TOTAL	42,602	100.0	113,246	100.0

Source: Kansas City Livestock Indicator, October 1885.

a respectable portion of the trade, because no firm dominated the market.

The age of the firm explained in part the difference between the cattle and hog trade. The four controlling cattle firms were the oldest commission houses in the Kansas City Stockyards. And all the successful cattle commission merchants started after the Panic of 1873. Snider, Quinlan, and Montgomery began in 1873; Irwin and Allen started in 1874; Stroller followed in 1875.[34]

The pattern in the hog trade was different. C. C. Means & Co. only entered the commission business in 1880, yet it was the leader in Kansas City. The second and third ranking hog commission firms were older firms, yet they ranked far behind Means in their sales. White & Holmes and A. J. Gillespie & Co. had opened operations in 1870 and 1871 respectively.[35]

The age of the firm, however, did not fully explain why A. J. Snider dominated the cattle markets. Biographical data on Snider, as well as J. R. Stroller, L. A. Allen, Peyton Quinlan, C. C. Montgomery, and J. N. and S. D. Irwin points to another factor: early association with western cattle producers. While a composite biography of all the commission merchants in 1886 contradicted the conclusion of Edward E. Dale that the commission merchants were "retired

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[34]Powell, Kansas City Traders, pp. 32, 81, 100, 212.

[35]Ibid., pp. 28, 30, 34.

banker-cowmen," an examination of the more successful merchants suggests he may have been at least half right.

All of these Kansas City livestock commission merchants spent considerable time in their earlier years developing contacts in the West. Snider carried the mail across the plains long before the railroad arrived, and later became a cattle drover. As with Hunter, Evans & Co., Snider also made the essential contacts with cattle associations. In 1874, Snider and Andrew Drumm bought a ranch in Indian Territory; Drumm later became the secretary of the Cherokee Strip Livestock Association, while Snider was the treasurer and marketed the association's cattle.[36] Quinlan, Montgomery & Co. were Texas ranchers long before entering the commission business; they were drovers and financiers of the trade as well as commission merchants.[37]

J. R. Stoller moved to Denver, Colorado in 1873 and engaged in "stock raising on the plains." In 1875, he created a commission firm in Kansas City to market the cattle of Colorado producers, and 12 years later he moved there.[38] J. N. and S. D. Irwin became familiar with the trade in the West as freighters from Leavenworth, Kansas to Salt Lake City, Utah in the 1860s. In Leavenworth, the Irwin brothers made important contacts with a private

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[36]Prose and Poetry of the Livestock Industry of the United States (New York: Antiquarian Press, Ltd., 1959), pp. 747-749.

[37]Blue Book, p. 81; Powell, Kansas City Traders, p. 212

[38]Blue Book, p. 101.

banker, J. W. Powers, who later financed them in the livestock commission business.[39]

L. A. Allen followed a similar pattern. At fourteen years of age, Allen traveled west from Kansas City as a cow hand to Bent County, Colorado. While in southeastern Colorado, Allen entered a partnership with a local rancher "on shares" and accumulated "a little capital." He played an active role in the formation of the Bent County Stock Growers' Association (the first cattlemen's association in the West) in 1867. He proved popular with the local ranchers, who trusted him to market the Bent County cattle in Kansas City from 1868 to 1873. Allen also spoke Spanish fluently and marketed the cattle of Hispanic producers in southern Colorado. In 1874, Allen moved to Kansas City and formed with the Irwin brothers Irwin, Allen & Co.[40]

There were other reasons these cattle brokers succeeded. At various times, commission merchants at Kansas City complained that the business was difficult to break into because "a few wealthy firms" dominated the trade. They accused the larger firms of rebating commissions to the

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[39]Powell, Kansas City Traders, pp., 239; 224-227; Ellsworth Reporter, 17 June 1875; McCoy, Historical Sketches, p. 333.

[40]C. Hurd, Boggsville: Cradle of the Colorado Cattle Industry (Boggsville, Colorado: Bent County Democrat, 1957), pp. 11; Kansas City Live Stock Indicator, 6 August 1884; Allen and Stoller retired poor men. The Kansas City Live Stock Exchange confiscated their memberships for non-payment of debts, see Minutes of the Board of Directors, 6 August 1900, 6 May 1914, vol. 4, RKCLE (Microcopy Collection 158).

shippers, undercutting the younger firms even to the point of taking a loss. The railroads also reduced freight rates for larger shipments. Their contacts with cattle associations consolidated the larger firm's positions.[41]

This concentration of the trade into a few firms did not take place in the hog trade. Hogs came out of the Corn Belt and were widely dispersed. No "hog associations" controlled the supply of animals, and numerous railroads ran through the region. So the opportunity for concentration never presented itself.

In sum, the livestock commission firms in Kansas City generally were small enterprises. They were usually single proprietorships or partnerships; few commission firms incorporated. The average number of employees was five, and less than half were family firms. These firms were Kansas City based, although a few were branch offices of concerns in Chicago, St. Louis, or St. Joseph. The majority of the firms were less than six years of age in 1886. The commission business was essentially a marketing organization with little administrative backing, although the office men and yardmen served an important role in the firm.

The personnel of the commission firm were white males of an average age of 39 in 1886. They were from areas east of Kansas City. The commission merchants generally got into the business through other occupations related to the

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[41] American Live Stock Commission Company v Chicago Live Stock Exchange, "Brief for Appellee," pp. 18-24.

livestock trade, such as livestock shippers, yard traders, and speculators or as working as an employee of the stockyards. Some commission merchants learned the trade as salesmen for another commission firm.

A few commission firms dominated the cattle trade. They were the oldest firms, but the merchants associated with them also made earlier contacts in the West with cattle associations. The older firms dominated the business through these contacts and by rebating commissions to shippers when necessary. The hog trade, on the other hand, resisted any domination on the part of commission firms. There were no livestock associations which controlled the supply of hogs and the railroads provided a greater choice of transportation than afforded to cattle producing areas.

Despite the fact that the livestock commission merchant revolutionized the trade, there were various "evils and abuses" which became prevalent in the mid-1880s. The next chapter describes these problems and how they brought about the first organization of livestock exchanges in the American West.

CHAPTER IV

"EVILS AND ABUSES" OF THE LIVESTOCK TRADE

Various "evils and abuses" attended the revolution in livestock marketing in the late nineteenth century. These problems eventually led to the regulation of the middlemen in the form of the livestock exchanges. Angry hog traders in the Corn Belt and dissatisfied cattle raisers from the Southwest forced the organization of the Chicago and Kansas City Livestock Exchanges. The foremost issue was a national epidemic of livestock diseases, but producers also demanded regulation of the buyers and commission merchants in the market place. This chapter examines the timing and the forces behind the organization of the livestock exchange as a regulatory body.

The organization of the Chicago and Kansas City Exchanges were part of the same movement. Any discussion of the abuses in the Kansas City livestock trade must take into account the Chicago market; both organized their trade within two years of one another. So when the Chicago merchants created an exchange in 1884, the Kansas City merchants were under pressure to do the same two years later. Nevertheless, the precise issue which sparked the organization of these two leading livestock exchanges was different. The Chicago Exchange responded primarily to a national crisis in disease control, although it was also under pressure to reform the buying practices commonly known as "hog dockage." While the issues of disease control and hog dockage were significant factors in Kansas City, the Exchange there formed in response to the actions of cattlemen's associations in the Southwest.

The nature of live animals predetermined the organizational pattern of the livestock exchanges. Contrary to grain or cotton, as the railroads carried live animals from the producing regions of the West to the urban centers in the East, and back again, livestock diseases followed, and reached epidemic proportions by the mid-1880s. Until then, the United States remained relatively free from epidemics among livestock; animals were driven in small herds over short distances, and diseases did not spread in any significant manner.[1]

The railroad obviously changed all that. The first movement of large herds of cattle from one section of the United States to another, and through concentrated market points, occurred when the Texas cattle herds trailed north to the Kansas railroads in the 1860s. These longhorns carried ticks which transmitted Texas fever to northern

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[1]J. F. Smithcors, The American Veterinary Profession: Its Background and Development (Ames: Iowa State University Press, 1963), p. 439.

herds. The disease threatened devastation upon the northern plains livestock trade as well as Corn Belt feeding operations.[2]

The railroads carried other diseases more damaging than Texas fever. In the 1870s hog cholera, pleuro-pneumonia, and tuberculosis appeared throughout the nation's livestock producing areas. The origins of these diseases was little understood, but some scientists believed the railroad was the primary reason for the wide distribution. The market centers of Chicago and Kansas City were possible transmission points for the diseases nationwide.[3]

The United States had no stated policy on the control of animal diseases before 1884. There was no department within the federal government empowered to act, yet infectious diseases placed at risk urban populations in Chicago and Kansas City as the livestock trade grew. Scientists counted twenty-three diseases transmitted between animals and humans, but tuberculosis and anthrax were the most serious.[4]

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[2]Smithcors, The Veterinarian in America, 1625-1975 (Santa Barbara, California: American Veterinarian Publications, 1975), pp. 45-46.

[3]Smithcors, Profession, p. 444; U. G. Houck, The Bureau of Animal Industry of the United States Department of Agriculture: Its Establishment, Achievements and Current Activities (Washington D.C.: Hayworth Printing, 1924), p. 31.

[4]U. S. Department of Agriculture, Bureau of Animal Industry, Annual Report, 1885, p. 348.

In addition to the danger to the human population, these diseases threatened the very existence of the national livestock trade. Hog traders were reluctant to buy feeder hogs in the urban markets for fear of transmitting hog cholera onto their farms. Cattle feeders in Illinois and Iowa were increasingly unwilling to purchase dairy calves shipped out of Wisconsin for fear of tuberculosis. (Tuberculosis was a problem with dairy cattle because farmers confined them in barns.) Western ranchers were uncertain as to whether the expensive pure bred bulls purchased in the East carried pleuro-pneumonia. Following suit, England, France, and Germany stopped importing American beef and pork.[5]

Livestock producers laid aside their economic individualism and demanded that the federal government intervene. In response, U. S. Commissioner of Agriculture George B. Loring invited stock breeders to meet Department of Agriculture officials in Chicago in November 1883. The place and time for this meeting coincided with the annual conventions of numerous livestock associations. A sampling included the Hereford Cattle Breeders, Berkshire Association, Holstein Breeders' Association, Durock-Jersey Red Swine Association, and the National Association of Swine

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[5]Richard Perren, "The North American Beef and Cattle Trade with Great Britain, 1870-1914," Economic History Review 24 (August 1971):430-431; Bureau of Animal Industry, Annual Report, 1885, p. 330; Houck, Bureau of Animal Industry, p. 86.

Breeders. Cattlemen's associations from Wyoming, Colorado, Texas, and Nebraska were also present.[6]

The convention demanded the United States Congress pass legislation to stop the spread of animal disease within the nation. They agreed that no individual state could effectively eliminate contagious diseases spread by an interstate transportation network. From this convention came the impetus to create the Bureau of Animal Industry. In March 1884, three months after the Chicago meeting, an Animal Industry Bill passed in the U. S. House of Representatives and was sent to the Senate. The bill gave the head of the proposed Animal Industry Bureau broad powers in identifying and destroying diseased animals. It also gave the Bureau the ability to quarantine any stockyards it determined infected. In short, the Bureau would have the power to shut down the Chicago Union Stockyards if circumstances warranted it. The measure therefore, threatened the livelihood of the livestock commission merchants.[7]

The announcement of how the proposed legislation would be implemented moved the Chicago livestock commission merchants to organize into the Chicago Live Stock Exchange in March 1884. Commissioner Loring announced that Dr. D. E. Salmon, a veterinarian, would head the new department once

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[6]Smithcors, Profession, p. 440; Kansas City Livestock Indicator, 22 November 1883.

[7]Houck, The Bureau of Animal Industry, p.38; Kansas City Livestock Indicator, 25 February 1884.

it was established. The merchants supported the concept of the Bureau of Animal Industry but wanted it headed by a commission of livestock producers. That a veterinarian would have the power, without recourse, to shut down the livestock trade of Chicago alarmed the businessmen.[8]

They had good reason. In the 1880s livestock producers of the nation held veterinarians in low regard. "Quack" veterinarians outnumbered professionally trained ones, and livestock producers insisted they knew more about livestock diseases than these "doctors." In addition, a bitter controversy over the infectious nature of pleuro-pneumonia and hog cholera raged between leading veterinarians in the United States. The outcome of the dispute affected the entire livestock economy; if scientists proved pleuro-pneumonia and hog cholera were not contagious, there would be no need to arbitrarily close the Union Stockyards. The Chicago livestock commission merchants knew Salmon was the leader of one faction to that controversy, holding (correctly) that pleuro-pneumonia and hog cholera were highly infectious. Moreover, Salmon had made it clear that the proposed Bureau under his supervision would quarantine any livestock yards necessary.[9]

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[8]Daily Drovers Journal of Chicago, 11, 26 February 1884; 18, 21, 23 March 1884; Kansas City Livestock Indicator, 17 April 1884.

[9]Daily Drovers Journal of Chicago, 23 September 1884; Ellis P. Leonard, A Cornell Heritage: Veterinary Medicine, 1868-1908 (Ithaca: New York State College of Veterinary Medicine, 1979), p. 61; Bureau of Animal Industry, Annual Report, 1885, p. 348.

The other faction in the scientific dispute, led by Dr. H. J. Detmer of Illinois, purportedly "proved" that pleuro-pneumonia and hog cholera were not infectious. An advisor to the Union Stock Yards, Detmer warned the Chicago merchants about Salmon. Consequently, they demanded that a commission of "practical livestock producers" administer the Bureau of Animal Industry rather than an antagonistic veterinarian.[10]

Dr. H. J. Detmer was not a quack practitioner, in fact, he was one of the leading veterinarians in the United States. A native of Germany, he received scientific training at the Royal Veterinary Colleges in Hanover and Berlin which were considered the best veterinary colleges in the world. Detmer emigrated to the United States in 1862 and lectured at the University of Illinois, University of Missouri, Iowa State College, and Kansas State College, respectively, from 1869 to 1879. In 1884 he accepted the chair of professor of medical science at Ohio State University. The veterinary profession considered him as an eminent pioneer bacteriologist and pathologist.[11]

Upon the advice of Detmer, the Chicago merchants led the fight opposing the organization of the Bureau of Animal

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[10]Daily Drovers Journal of Chicago, 18 March 1884; B. W. Bierer, A Short History of Veterinary Medicine in America (East Lansing: Michigan State University Press, 1955), p. 63; U. S. Department of Agriculture, Report of the Commissioner of Agriculture, 1878-1879 (Washington: Government Printing Office, 1878-1880), pp. 364-435.

[11]Bierer, Short History, pp. 62-63; Leonard, Veterinary Medicine, p. 61.

Industry. They found allies among the Texas livestock associations. The bill declared Texas fever a contagious disease and therefore empowered the Bureau to shut all Texas cattle out of northern markets. The Texas producers and Chicago merchants succeeded in getting Texas fever redefined as not contagious and they emasculated the final legislation by reducing the appropriations for the Bureau and sharply limiting the power of the department head.[12]

The western cattle associations were furious. The Wyoming Stock Growers' Association threatened to boycott Chicago as a market. The Colorado Cattle Growers' Association and the New Mexico Cattle Raisers' Association counselled together on how they might best eliminate the obnoxious commission merchants from the livestock trade entirely. These events convinced the Chicago merchants that they could no longer act as individuals.[13]

In brief summary, the coming of the railroad to the livestock industry in the American West was both a blessing and a curse. It established a national market for livestock, but it also threatened to destroy the very market it created. The United States Department of Agriculture had new powers of quarantine, and livestock producers were increasingly hostile, pressing the national government for vigorous action. The timing of the organization of the

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[12] Daily Drovers Journal of Chicago, 11 February, 18 March 1884.

[13] Ibid., 18 March 1884.

Chicago Exchange coincided with the organization of the Bureau of Animal Industry in March of 1884, but there were other "evils and abuses" which had accumulated for a number of years; all of them related to the unique aspects of marketing live animals. The events of March 1884 were simply the ones which finally moved the commission merchants to act.

Hog dockage was an "abuse" of the trade in both Kansas City and Chicago. Along with an increasing involvement in the livestock trade by the national government, hog dockage added fuel to the drive toward regulation and to the formation of the livestock exchanges. Hogs sold at both stockyards by the pound and were subject to shrinkage or dockage. Buyers docked 40 pounds off the actual weight of a "piggy (pregnant) sow" and 80 pounds off each "stag" (castrated boar). This reduction occurred because consumers considered the flesh of both unfit for consumption. The dockage system existed in the Union Stockyards as early as 1865. It flourished later in the Kansas City market. An employee of the buyer (called a docker) docked the animals after the sale. As an inevitable result, this practice became arbitrary and grossly unfair to the hog producer over time.[14]

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[14]American Live Stock Commission Company v Chicago Live Stock Exchange, "Brief for the Appellee," p. 17; H. R. Davidson and W. E. Coey, The Production and Marketing of Pigs (London: Longmans, Green and Co., Ltd., 1966), p. 96; Powell, Kansas City Traders, p. 265; Daily Drovers Journal of Chicago, 23 December 1885.

The inequities occurred because of the peculiarities of the livestock trade, especially the volatility in hog prices. They changed as much as 30 percent in one day. Dockers easily adjusted the high price of hogs bought early in the day to a lower price if the "scale tickets" were not marked. The farmers noticed the dock was fairer if the price worked against the packers and went up during the day. It did not take the farmers long to figure out why: the buyers were manipulating the prices.[15]

Buyers and sellers never had a true picture of how many hogs were ready for market in the "country." For example, livestock traders had no statistics on the number of hogs in Iowa, let alone how many were on the way to market. Therefore, the supply of live animals in the stockyards determined the "spot" price. If all the pens were full of fat hogs, the packers were never in a hurry to buy. According to one account, they arrived in the yards about three o'clock in the afternoon to fill their requirements, putting pressure on the shippers to sell. (Each day a shipper's hogs were in the yards, it increased the yardage and feed charges.) But if the supply of fat hogs in the yards was small, the packers rushed to the stockyards early in the morning and competed with the other buyers, although

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[15]U. S. Congress, Senate Report 829, Transportation and Sale of Meat Products, p. 31.

they could always dock the hogs if they price were too high.[16]

This dockage of hogs reached a crisis point in 1884. After attaining a peak of $9.35 per hundred pounds in 1882, the prices fell to a low of $3.20 in 1885, a 66 percent decline. Beginning early in 1883, letters to the editor of the Daily Drovers Journal of Chicago from traders throughout the Corn Belt described different aspects of the dockage issue.[17]

For example, Charles R. Luther, a hog shipper from Valparaiso, Indiana, shipped 168 hogs to Chicago in January 1883 "mostly of my own feeding." He had carefully inspected his herd before loading them on the train and "none were piggy." Anticipating trouble from the packers, Luther asked "several old shippers" from Valparaiso to inspect his stock; they found only one "piggy sow." With that assurance in mind, Luther boarded the train with his hogs and traveled to the Union Stock Yards in Chicago.

When Luther arrived at the Stockyards, he encountered the dockage problem. The stockyards employees unloaded the hogs into a sorting pen, and the commission merchant invited bids from buyers. One packer's buyer bought forty-six of Luther's heaviest hogs. As the hogs moved off the weighing scales, Luther heard the "docker" cry out "five piggy sows, two hundred pounds off!" Luther wrote that he

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[16] Daily Drovers Journal of Chicago, 3 January 1883.

[17] Ibid., 30 December 1884.

"remonstrated" loudly at the buyer and asked the commission merchant to arbitrate the matter. The buyer defiantly walked off, looking for another herd of fat swine. Luther's hogs headed toward the packing house for slaughter, and there was nothing Luther could do about it.[18]

Another hog trader, Z. W. Montague from LaMotte, Iowa also wrote to the Drovers Journal with another aspect of the dockage system in the Chicago yards. In his case, the commission merchant sold the hogs early in the morning, but the stockyard employees weighed and docked late in the afternoon. During the day the price of hogs declined 25 cents a hundred weight. During the afternoon the buyer decided "he had paid too much for this load of hogs," and reported to the commission merchant "the hog producer must stand for a big dock." To make his actions less obvious to the hundreds of buyers and sellers in the yards, the buyer hurriedly rushed the load of hogs out of the pen six or eight abreast and had the docker cry out his dockage.

Montague was astonished. He followed and watched the hogs closely through several gates and alleys. In Montague's opinion there was "one straight dockable hog" in the lot, but the packer managed to reduce the price of this lot 25 cents from the high morning price to the low afternoon price. As with the Luther example, Montague found

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[18]Luther's letter appears in Daily Drovers Journal of Chicago, 23 January 1883. Other letters not quoted in this chapter appear in Ibid., 3 January 1883; 27 May 1884; 5 July 1884; 6 August 1884; 30 December 1884.

his efforts to find a remedy to this "outrage" were "fruitless."[19]

This system was not entirely a matter of the "robber baron" exploiting the poor farmer for the hog traders were partly responsible for the very dockage system they hated. Farmer L. G. Heaps from Galena, Illinois wrote to the Drovers Journal and explained the custom of dockage had evolved over time. Both hog traders and packers agreed, in principle, there was a legitimate dock for imperfect hogs. While Heaps was quick to condemn the packers, he urged his fellow agrarians to admit that

> ...we all know that we used to turn the boars among our fattening hogs, so that the sows would fat (sic) better, and if they go piggy they would weigh more.[20]

The letters in the Drovers Journal during the mid-1880s from such hog traders as Luther, Montague, and Heaps, highlighted the imperfections of an outdated business system. As the Chicago market grew from a local market in the 1850s to a national one in the 1880s, the pressure forced businessmen to find new ways of conducting the trade. It was no longer adequate for buyer to meet seller in the market place: there was a need for some system of administrating the disputes between all parties concerned in a fair and expeditious manner. The livestock industry elected regulation by a livestock exchange over the regulation by the state in 1884.

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[19]Ibid., 12 August 1884.

[20]Ibid., 16 January 1883.

Part of the encouragement to organize the Chicago Live Stock Exchange also came from the threat of state interference. The legislature of Illinois considered intervention, but failed to act. The Western Rural, the leading agricultural newspaper, sharply criticized the legislators. The Farmers' Club of Tiskilwa, Illinois, considered hog dockage a "shameless robbery" and threatened the General Assembly with political consequences if it did not declare the practice of dockage a misdemeanor. Nevertheless, the farmers organizations in the Midwest remained ambivalent to the question and permitted private regulation to solve the problem.[21]

These producers viewed the dockage question in the livestock trade and the warehouse "swindle" in the grain trade as one and the same issue. By the 1870s in the grain trade, Chicago elevator operators extracted high fees from producers for storing their grain. Farmers remembered that the Chicago elevator men were as "imperious and high minded then as the packers are now." The Chicago Board of Trade unsuccessfully applied private regulation to this warehouse "swindle"; the State of Illinois then addressed the issue and created a system of public inspection for grain elevators.[22]

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[21]Ibid., 6 August 1884.

[22]Guy A. Lee, "The Historical Significance of the Chicago Grain Elevator," Agricultural History 11 (January 1937):23, 28-29.

While the question of dockage brought the attention of farmers to the "evils and abuses" of the packers, there were equally reprehensible actions on the part of unscrupulous commission firms. Fraud in the commission business was easily practiced. The unique nature of marketing live animals created opportunities for abuse in the trade.

Commission merchants committed these frauds in the confusing activity of the stockyards. Thousand of livestock changed hands every day in both Kansas City and Chicago. Hundreds of buyers and sellers moved in and out of the yards at all times during the day; stock trains arrived hourly, while others left the yards for points throughout the United States. All the contracts between the buyers and sellers were oral (there were no witnesses to the oral contract and therefore unenforceable in a court of law); only the integrity of the commission merchant protected the shipper from fraud. Only when the commission merchant rendered the expense bills at the office of the Stockyards Company was there an identifiable contract.[23]

Unscrupulous merchants and buyers took advantage of the time lag between the oral contract and the time for payment. By the 1880s, dishonest buyers frequently denied agreements made with the commission merchant in the yards when the price of livestock declined during the day. Consequently, the commission man re-marketed the producer's stock at lower

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[23]American Livestock Commission Company v Chicago Live Stock Exchange, "Brief for Appellee," p. 18.

prices. Neither the buyer nor the commission merchant reported these frauds to the shipper, the end result of which was that the producer was at a disadvantageous position in the market.[24]

The absence of the producer presented other opportunities for fraud. The commission merchant frequently traded "on his own account," and inevitably, poorer quality stock came into his possession (injured or diseased animals). An unscrupulous commission agent easily substituted his own inferior stock for his customer's high quality stock. The commission merchant only reported the sales of the number of livestock, and a few inferior animals placed in a large load went undetected.[25]

An unscrupulous commission merchant could also falsify the account of sales. An example surfaced in Chicago in 1886. J. S. McFarland was a merchant who operated out of the Union Stock Yards. The Chicago Live Stock Exchange discovered McFarland habitually returned fraudulent accounts to his unsuspecting shippers. On 4 February 1886, McFarland sold for D. P. Taylor of Avoca, Iowa, 66 heavy cattle weighing 93,030 pounds at $4.70 a hundred weight to T. C. Eastman. McFarland returned to Taylor only $4.60 (short changing the producer 10 cents per hundred weight) on the sale and pocketed $93.03 as a reward for his fraud. McFarland dealt a double fraud against Fred Eaton, of

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[24]Ibid.

[25]Ibid., pp. 18-19.

Kellogg, Iowa. He substituted a crippled steer for a healthy one, but also returned to Eastman $40.00 of the $50.00 received in payment for the cripple. The Chicago board discovered further, in auditing McFarland's account books, that he conducted similar illegalities upon four other shippers from Iowa and Nebraska totaling $138.50.[26]

The cutting of commission rates was the greatest abuse of the market according to the traders. The problem was the absence of any uniformity in rates charged among the commission merchants. The unscrupulous commission merchant offered shippers commission rates below the costs of operations; he made up the loss by defrauding the shipper in returning a false return of sales.[27]

As with the problems of disease control and the "dockage swindle," shippers eventually discovered the deeds of unscrupulous livestock commission merchants. In the mid-1880s they pressed for reform. The Kansas City livestock commission merchants felt an increasing pressure to follow the example of the Chicago merchants in organizing an exchange, but delayed it for two years. In 1886, powerful cattlemen's associations in the Southwest forced them to act.

The organization of the Kansas City Live Stock Exchange flowed directly from the activities of the cattlemen's

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[26] Daily Drovers Journal of Chicago, 14, 15 September 1886.

[27] American v Chicago, p. 21.

associations. In the Southwest, the latter had organized as early as the 1860s. In the absence of a positive government in frontier areas, these private associations organized and controlled the livestock industry.[28] Unique forces in the mid-1880s encouraged a movement toward organization of regional cattle associations. As already mentioned, the first was disease control. The second was an industry-wide depression from 1883 to 1887. In this period the cattle business suffered heavy losses through cold winters and severe droughts; the ranges were seriously overgrazed; quarantines from western states hindered the flow of livestock traffic to market; and foreign meat markets were demoralized. During this time of crisis, cattlemen reevaluated the marketing of cattle and beginning in 1883 organized regional associations on a national level. By such mechanisms cattlemen from Colorado and New Mexico hoped to invigorate the weak attempts of the Bureau of Animal Industry to deal with pleuro-pneumonia that still endangered western herds. Increasingly intolerant of the middlemen in the trade, they determined to eliminate them entirely. Galvanized into action: western cattlemen's associations formed the International Range Association.[29]

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[28]Dale, The Range Cattle Industry, pp. 11, 58, 85, 89, 105-106; Earnest S. Osgood, The Day of the Cattlemen (Minneapolis: The University of Minnesota Press, 1929), pp. 114-118.

[29]Dale, Range Cattle Industry, pp. 171-185; Louis Pelzer, The Cattlemen's Frontier (New York: Russell & Russell, 1936), pp. 138-150.

The organizers of the International Range Association believed the Bureau of Animal Industry would act too late to save western cattle herds from pleuro-pneumonia. Taking matters into their own hands, they established an association of cattle producers in 1885 to quarantine all of the range country against livestock shipped from states east of the Missouri River. As a result of those efforts, the New Mexico Territorial Cattle and Horse Growers' Association, the Colorado Cattle Growers' Association, and the State Livestock Association of Texas invited rangemen from Mexico, British Columbia, and the United States to meet with them on 27 January 1886 in Denver, Colorado, to formulate a plan of action.[30]

A radical venture, the International Range Association lasted only two years. It and other cattle associations lacked effective power. Other than appealing to the unsympathetic legislatures (which more often than not ignored them), there was little they could do. By 1886 the fate of national cattlemen's associations was clear: high hopes were doomed to failure. This fate inevitably forced cattlemen to consider ideas about internal control and centralization. These were the notions which threatened the Kansas City livestock commission merchants.[31]

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[30]Kansas City Livestock Indicator, 12 November 1885.

[31]Cattlemen and farmers made several attempts at constructing a trust, see Gene Gressley, "The American Cattle Trust: A Study in Protest," Pacific Historical Review 30 (February 1961):61-77; for the American Beef Pool, see Kansas City Live Stock Indicator 15 September 1887; for

The movement towards centralization came out of New Mexico. In November 1885, J. W. Dwyer, president of the New Mexico Cattle Growers' Association, launched an attempt at controlling the industry from a producer's perspective. He argued the inability of cattlemen's associations to act in unison and with force hindered them. Dwyer reorganized the New Mexico Cattle Growers' Association and delegated all authority to an Executive Committee. The International Range Association, because of the influence of Dwyer, even copied this organizational pattern.[32]

The membership had few checks upon the Executive Committee, which administered the Association through a series of bureaus. One bureau timed, adjusted, or regulated the shipments of cattle from different regions in order to prevent a surplus in the markets. To prevent the spread of contagious disease another could formulate quarantine regulations without consulting the members affected. A third bureau was to control stock thieves by prosecuting violators throughout the range areas.

The association created a black list of every stock owner and cowboy deemed dishonest. They prohibited members of the International Range Association from employing, or cooperating with, those on the blacklist. The Executive

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the Farmers' Trust see <u>Texas Livestock Journal</u>, 31 March 1885.

[32]<u>Breeders Gazette</u>, 3 December 1885, 4, 25 February 1886; <u>Kansas City Livestock Indicator</u>, 10 December 1885, 17 February 1886; <u>Daily Drovers Journal of Chicago</u>, 30 January 1886.

Committee threatened to expel any person divulging their actions. As the editor of the Breeders' Gazette opined, these actions meant that the committee members determined all questions concerning the manner in which cattlemen conducted their business, the health of their animals, their own morals, and the kind of people with whom they would associate.[33]

Although these actions foreordained the International Range Association to failure, the organization had an impact beyond its own membership. This new radicalism disturbed the Kansas City livestock merchants, especially the threat to eliminate the commission firms. The International Range Association discussed their tactics in open session in January 1886. Reporters from the Kansas City Livestock Indicator stenographically recorded, and later reported, the sessions in detail. This was the stimulus which brought about the organization of the Kansas City Live Stock Exchange one month later in February 1886.[34]

In short, there were reasons the livestock exchanges organized in the mid-1880s. The technological revolution brought by the railroad created a national market for livestock, but it also created problems never before experienced. These new pressures called for new administrative institutions. The railroads spread diseases nation wide and threatened the collapse of the national

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[33]Breeders' Gazette, 4 February 1886.

[34]Kansas City Livestock Indicator, 4 February 1886.

livestock economy. Livestock producers pressured the national government for assistance in the area, but the potential solutions threatened the existence of the livestock markets, particularly in Chicago. In response the Chicago livestock commission merchants organized the first livestock exchange in the West.

The creation of some administrative organization was inevitable, for there were other abuses in the trade which demanded attention. Buyers in the hog market manipulated the pricing mechanism through the use of hog dockage, and unscrupulous livestock commission merchants took advantage of the impersonalization of the marketplace to defraud producers. Finally, the cattlemen's associations in the Southwest moved to control the spread of diseases into their areas on their own, and also determined to eliminate the middlemen from the trade. These actions forced the commission merchants in Kansas City to follow the example of the Chicago Exchange and organize the Kansas City Live Stock Exchange.

When the Exchange organized in February 1886, the merchants followed a pattern of organization long established in the history of commerce. The next chapter discusses the ideas and precedents behind the organization of the Kansas City Live Stock Exchange.

CHAPTER V

ANTECEDENTS, IDEAS, AND ASSUMPTIONS

There was more to the formation of the Kansas City Livestock Exchange in 1886 than materialistic forces. Ideas, rooted in the commercial history of Western civilization and in the unique thinking on public policy in nineteenth century America, also directed and molded the specific organizational form. The Kansas City livestock commission merchants were not "robber barons" conspiring to create monopolies or combinations of trade; they were nineteenth century liberals following a pattern of regulation commonly accepted during that era.

The struggle between the livestock exchanges and the producer associations from the 1870s to the 1920s was a contest of two differing concepts of public policy. Beginning in the granger era in the 1870s, economic doctrines took a new turn in the United States. The agricultural agitators borrowed ideas from the physiocrats of eighteenth century France: they believed the land was the source of all wealth, and consequently, only agrarians created real wealth because they worked the land. The physiocrats considered middlemen engaged in the distribution of the agricultural products as a necessary evil. The grangers in the United States adapted these ideas to their own struggle of economic survival and came to view commission merchants, in all commodities as well as livestock, as enemies. In the opinion of the grangers, the commission merchants controlled the market and fixed the prices; any method found to eliminate the menace was laudatory.[1]

Historians have generally written the history of the conflict between the various agricultural interests from the point of view of the grangers. The "common man" did battle with the "interests" after the Civil War and gained victory only during the progressive era from 1900 to 1917. Indeed, the struggle ended in the livestock trade with the passage of the Packers and Stockyards Act of 1921. With that measure, the historians write, the grangers won their point: the act declared the stockyards a public market subject to state control. But to view the conflict simply within the context of a struggle between "good and evil" overlooks the nineteenth century views of public policy which explained why the Kansas City merchants acted as they did.[2]

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[1]Solon J. Buck, The Granger Movement: A Study of Agricultural Organization and Its Political, Economic, and Social Manifestations (Cambridge: Harvard University Press, 1913), pp. 16-17.

[2]For the latest argument along this line see Charles Wood, Kansas Beef, pp. 159-185; also see John T. Schelbecker, Cattle Raising on the Plains, 1900-1961 (Lincoln: University of Nebraska Press, 1963), pp. 77-78; for an agricultural economist's point of view see Austin A.

Consequently, it is appropriate to ask questions aimed at understanding the Kansas City commission merchants within the context of their own assumptions about economic regulation. For example, were there organizational antecedents which pre-dated even the nineteenth century? What was the intellectual framework within which these merchants organized the Exchange? What were the accepted assumptions of nineteenth century public policy which granted the merchants the right to act on their own? How much of the organization was a new innovation, or was it patterned after similar organizations in the trade?

The Kansas City Live Stock Exchange had roots in the commercial development of medieval Europe. The livestock exchange was a descendant of the international fairs and markets in the eleventh and twelfth centuries in Europe. An agricultural revolution occurred there and significantly increased the production of agricultural products. Inevitably, this change brought about new institutional arrangements in the business community. A new class of commercial merchants appeared in Europe and marketed the new agricultural surpluses. There was also a dramatic rise in the number of cities. Prior to this, in the ninth and tenth centuries, commercial relations existed only on a limited scale. Traveling merchants sold some agricultural products, and there were fairs and markets, although not a great

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Dowell and Knute Bjoka, Livestock Marketing (New York: McGraw-Hill, 1941), pp. 389-413.

number. A hundred thousand agrarian villages and manors made up the Western economy.[3]

The agricultural revolution in the eleventh and twelfth centuries also created the need for a new system of commercial law. Great international fairs assembled regularly in scores of cities and towns throughout Europe. For the first time, merchants carried trading goods over long distances. The question of how to enforce contracts over a wide trading area with different governmental units became a problem. These complexities called for a new legal system to handle international trade.[4]

The law merchant evolved out of the conflicts of this new trade, and they developed a commercial code which transcended local trade. The code included the customary law of fairs and markets, maritime customs relating to trade, and the commercial laws of cities and towns. The law merchant governed a special class of people (merchants) in special places (fairs, markets, and seaports). Between 1050 and 1150, the merchants reduced the obligations of commercial law to writing. The emphasis was upon the impartial adjudication of commercial disputes and the emergence of new forms of commercial courts.[5]

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[3]The discussion of the law merchants was taken from Harold J. Berman, Law and Revolution: The Formation of the Western Legal Tradition (Cambridge: Harvard University Press, 1983), pp. 333-356.

[4]Ibid., p. 333.

[5]Ibid., pp. 334-335.

The merchant laws became universal and trans-national. Merchants traveled to London, Paris, or Cologne, and proceeded on the assurance that any disputes encountered in these cities would be settled according to a universal code among merchants. The disputes were processed quickly, and lengthy litigation was unnecessary. The commercial courts were non-professional community tribunals, and the merchants elected the judges by themselves.[6]

The organizational pattern of the Kansas City Live Stock Exchange was similar to the European fairs. The railroads carried livestock commission merchants across state boundaries and into unorganized territories in nineteenth century America. State and local governments did not address the problems faced in the interstate marketing of live animals. Nevertheless, there were opportunities for fraud and dishonest gain; there were no rules or uniformity in the conduct of the business. So when the Exchange organized in 1886, the major function became making rules and adjudicating disputes. The Kansas City Live Stock Exchange governed the conduct of the commission merchants more than the state and local governments.

Nineteenth century Americans adapted these concepts to their own thinking on regulation of agricultural products. The concept of an exchange to regulate the flow of grain,

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[6]Ibid., pp. 341-344; see a similar argument in Thomas L. Haskell, "Capitalism and the Origins of the Humanitarian Sensibility," American Historical Review 90 (April 1985):339-361 and (June 1985):547-566.

cotton, produce, and livestock were accepted. They looked to Europe for organizational antecedents, yet a unique view of public policy held by nineteenth century Americans reinforced these concepts.

Agrarians questioned this view of regulation as industrialization proceeded into the American West through the railroads. Edwin Snyder, the robber baron historian of the Kansas City Livestock Exchange, raised these questions about the Exchange, questions that would be asked again and again in the twentieth century. In an article entitled "Livestock Markets," he queried as to why the "community" allowed an "irresponsible, voluntary association of less than 200 men" to arbitrarily dictate to hundreds of thousands of livestock producers the terms and conditions upon which their livestock were sold. Neither Snyder nor other Kansas agrarians offered an explanation beyond the conspiracy thesis. Yet the question was a perceptive one.[7]

James W. Hurst's concept of "release of energy" explained the answer. In Law and the Condition of Freedom published in 1956, Hurst set forth the nineteenth century thinking on public policy. Using as a case study the Pike River Claimant Union on the Wisconsin frontier, he illustrated the "release of energy" concept. The Pike River Claimant Union was a land claims club of the 1840s. Members

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[7]Edwin Snyder, "Livestock Markets of Kansas," Quarterly Report of the Kansas State Board of Agriculture for the Quarter Ending 31 March 1892 (Topeka: Hamilton Printing, 1892), p. 51.

of the Union were land squatters who had illegally moved on to unsurveyed government land to claim a homestead. Inevitably there were conflicts over boundaries which a court of law could not settle because the pioneers were on the land illegally. So how did they resolve the conflicts? Primarily, Hurst argued, on the basis of assumptions frontier Americans made about the organization of society common to nineteenth century Americans, assumptions of fairness and justice which governed their construction of economic order on the Wisconsin frontier.[8]

Of prime importance was the assumption that union and cooperation, not economic individualism, should determine economic order. To that end and well in advance of the United States government, these pioneers assumed the role of regulating the land claims, settling disputes, and securing claims against speculators. The Pike River constitution stated the reason cooperation was essential: "neighbors were driven from their homes, and land procurement was unjust." A society built on the concept of every man for himself was "calculated to produce anarchy, destroy fair prospects, subvert the good order of society, and render our homes the habitation of terror and distrust."[9] The Claimant

[8]James W. Hurst, Law and the Conditions of Freedom in Nineteenth Century United States (Madison: University of Wisconsin Press, 1956), pp. 1-20; for another view of the claims clubs see Allan G. Bogue, "The Iowa Claims Clubs: Symbols and Substance," Mississippi Valley Historical Review 45 (1958):231-253.

[9]Ibid., p. 8.

Union, in fact, created an extra legal government on the frontier which followed nineteenth century thinking. They elected their own officers to record their land claims, and the members of the association abided by the records and decisions of their elected officials.[10]

Hurst believed the Pike Creek document implied the "base lines" of nineteenth century public policy. Since human nature was creative, it was socially desirable for society to insure broad opportunity for the release of this creative energy. Liberty meant citizens should possess as wide a range of options as possible.[11]

From these premises, the Wisconsin pioneers assumed that the legal order would accept their land claims. They believed that the law was for the benefit of the people; the legal order should protect and promote their own "release of energy" to the greatest possible extent compatible with the broad sharing of opportunity. The Pike Creek Claimant Union wanted the "community" to guarantee its claims and to be let alone in working the land. Yet, the membership desired the community to lend its force to support their dealings with the land. They wanted the general government to use its resources positively to enhance their opportunity, and they wanted preference given to the settler over the speculator.[12]

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[10] _Ibid_.

[11] _Ibid_., pp. 5-6.

[12] _Ibid_., pp. 7-8.

Hurst argues that nineteenth century public policy was more than laissez faire. It was not the jealous limitation of the power of the state, but the "release of energy" that was the dominant value. Where legal regulation might promote the greater release of energy, nineteenth century Americans had no hesitancy in making affirmative use of the law. Under a federal constitution committed to limited government, Americans loaned the organized force of the community to private planners, and the courts sustained the rights of these planners to act. As the market expanded, private associations increasingly assumed the role of regulating the marketplace.[13]

The Kansas City Livestock Exchange operated under these assumptions. No clearer statement by a commission merchant regarding their attitude toward the economic order was made than that of M. L. McClure, president of the Exchange in 1914

> There are those who criticize our Exchange, claiming it biases competition with the declaration that 'competition is the life of the trade.' But at the same time we must all agree that unrestrained, ignorant, dishonest, unfair and expensive competition destroys trade and disorganization comes.[14]

The livestock commission merchants at Kansas City from 1873 to 1886 operated in a market whose volume grew astronomically and without control. The "evils and abuses" of the trade restricted opportunity and diminished

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[13]Ibid.

[14]Presidential Address, 10 July 1914, vol. 4, RKCLE (Microcopy Collection 158)

competition. Like the Pike Creek Union, the Kansas City Livestock Exchange acted alone; it created a voluntary association of 144 members in 1886.

In organizing a commercial exchange, the merchants "assumed" the right of regulation from the "community." They "assumed" the right to organize their trade, to put a stop to the anarchy, and to promote uniformity in business conduct. They "assumed" the right to set rates in the livestock trade for any livestock consigned to Kansas City. And they "assumed" the community delegated to them the right to settle disputes in a speedy and equitable manner outside the normal judicial system.

The Kansas City Exchange did not incorporate during the period under examination. Thus, it did not follow the pattern of the Chicago Board of Trade explained by Jonathan Lurie in his study of that organization. Lurie linked private regulation to the corporate charter. He argued that in the mid-nineteenth century legislatures granted corporate charters to business organizations quite freely. Originally, state aid and public credit backed these charters. The aim was the construction of turnpikes and canals, the improvement of harbor facilities, and the building of railroads.[15] These corporations generally failed, and by the Civil War, virtually every state had erected its own rigid constitutional barriers against further involvement in construction projects. Consequently,

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[15]Lurie, Chicago Board of Trade, pp. ix-x.

according to Lurie, state governments developed a narrowly defined view of their own power.

This experience paved the way for private associations such as the Chicago Board of Trade. The state delegated to the Board the right to regulate the grain trade through the corporate charter. A similar pattern developed in the livestock trade in Illinois. The State of Illinois delegated to the Chicago Live Stock Exchange via a charter granted in March 1884 the power to regulate aspects of the livestock trade.

The Kansas City merchants followed the Chicago example in organizing an Exchange in 1886, but they did not apply for a corporate charter. With no stipulated authority from the state, they simply "assumed" they had the right to regulate the livestock trade of the Southwest. The Omaha Live Stock Exchange followed the Kansas City example, and remained an unincorporated private association. The corporate charter played no role in the delegation of the right of regulation from the "community" to the Exchange in either Kansas City or Omaha.

Implied in the constitution of the Kansas City Live Stock Exchange was the answer to Edwin Snyder's question concerning the right of the Exchange to regulate interstate commerce. Southwesterners believed it socially desirable that broad opportunity exist among the middlemen of the livestock trade for the "release of creative energy." Competition resulting from this opportunity benefited the producers, shippers, the national economy, as well as the commission merchants. The Kansas City merchants, in turn, wanted the legal order to protect their right to regulate the trade from aggressive producers or shippers, to decide who would participate in that trade, and who would not.

These were not laissez faire individualists; they had no hesitancy in asking the "community" to allow them to regulate the livestock trade. The courts sustained the right of the Kansas City Live Stock Exchange to regulate its trade in cases brought before state supreme courts in 1889 and 1906. The Packers and Stockyards Act of 1921 ended that grant of power.

CHAPTER VI

THE ORGANIZATION OF THE KANSAS CITY LIVE STOCK EXCHANGE

The Kansas City Live Stock Exchange organized in February 1886 and permitted the "release of energy" for the maximum number of participants within a controlled community. Instead of following the pattern of industrial corporations which concentrated economic power into the hands of a few, the Kansas City Live Stock Exchange decentralized power from the few to the many. Its government was not oligopolistic as it encouraged widespread participation from the membership.[1] The organization of the Exchange was a reform in itself, but its rules also reformed the most pressing concern in the first months of operation--hog dockage.

The initial organizers moved quickly to avoid past mistakes. The conflict between the large and small cattle

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[1]This is in contrast to most private associations, including labor unions and trade associations; see Lurie, Chicago Board of Trade, pp. 36-37; Seymour M. Lipset, The Political Man: The Social Basis of Politics (Baltimore: John Hopkins University Press, 1966; reprint 1981), pp. 357-399; Grant McConnell, "The Spirit of Private Government," American Political Science Review 52 (September 1958):754-770.

commission firms had heretofore blocked any organizational effort. As early as 1873 the traders at Kansas City recognized the need for an organization. All attempts failed, however. An 1877 effort met the same fate because the larger cattle commission firms refused to sign the by-laws and constitution. Of paramount importance to the initial organizers was the participation of all the commission firms, the packers, and the Kansas City Stockyards Company. For that the first resolution committee had included five commission merchants, one packer, and one representative from the Stockyards Company.[2]

The Kansas City Live Stock Exchange was not a carbon copy of the Chicago or St. Louis exchanges. Its merchants borrowed ideas on organization from these earlier precedents, but the Kansas City Exchange was unique in that it received most of its animals from the Southwest while the Chicago and St. Louis markets received livestock primarily from the Corn Belt.[3]

The members of the Kansas City Live Stock Exchange delegated the government of their body to a Board of Directors. The members initially delegated the power to

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[2]Walter Prescott Webb, The Great Plains (New York: Houghton Mifflin Co., 1936), p. 232; St. Louis Globe, 29 January 1973; Daily Drovers Journal of Chicago, 21 March 1884; Kansas City Live Stock Exchange, History of the Kansas City Livestock Market and the Kansas City Stock Yards Company, (n.d. n.p.), p. 5; Minutes of the Board of Directors, 29 January 1886, vol. 3, RKCLE (Microcopy Collection 158).

[3]Annual Report of the Board of Directors, 25 January 1886, Ibid.

administer the Exchange to 11 Directors, but they revised the number down to 9 in 1893. The members elected a President and Vice President annually. For the first seven years the 9 Directors served a one year term, but in 1893, the Exchange extended the term to three years.[4]

There was no evidence any one faction controlled the Kansas City Live Stock Exchange between 1886 and 1921. The most any president served was four years. To be sure G. M. Walden was the chief executive officer from 1900 to 1903, but the normal pattern was a two year term.[5] The most any one commission merchant served as a director was six years. The Kansas City Stockyards Company and the packers appointed representatives on the Board of Directors, and their terms were longer than the elected Directors. For example, A. E. Beggs was a buyer for the packers and served nine years as a director;[6] the Stockyards Company appointed J. W. Martin for

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[4]Constitution, Rules, and Bylaws, 1903, vol. 8, Ibid., p. 2.; Annual Report, 9 February 1893, vol. 3, Ibid.

[5]Powell, Kansas City Traders, p. 210; Report of Elections, 4 June 1900, 3 June 1901, 2 June 1902, vol. 4, RKCLE (Microcopy Collection 158)

[6]Powell, Kansas City Traders, p. 202; Report of Elections, 11 February 1889, 8 February 1890, 8 February 1892, 5 February 1895, 7 February 1896, 15 February 1897, 14 February 1898, vol 3; 3 June 1901, 2 June 1912, vol. 4, RKCLE (Collection 158)

nine years.[7] Nevertheless, the commission merchants always controlled the board.

The Board of Directors generally conducted the affairs of the Exchange without interference from the membership. The board met a minimum of 12 times a year, but held special meetings for unexpected situations. The number and reason for special sessions varied from year to year; the highest number was 18 in 1906. In that year, the Exchange raised the charge on commissions on hogs and sheep, a decision that encountered strong opposition from the membership. The result was a number of crisis meetings. In contrast, the year 1912 was an uneventful year, and the Exchange held no special meetings.[8]

The membership never delegated total power to the board, however. By signing a petition ten members could force the Directors to call a general meeting. On 27 June 1898, such a petition came before the board. One hundred and twenty-six angry members (out of 298 total) showed up at the general meeting and expressed their sentiment concerning a new ruling made by the board the previous week which lessened the restrictions imposed upon solicitors in the country. The petition stated: "in our opinion the ruling

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[7]Powell, Kansas City Traders, p. 190; Report of Elections, 8 February 1890, 9 February 1891, 3 February 1892, 9 February 1894, 5 February 1895, 7 February 1896, 15 February 1897, vol. 3; 4 June 1900, 2 June 1902, vol. 4, RKCLE (Collection 158)

[8]Constitution, 1903, vol. 8, Ibid. p. 6; Annual Report, 1 June 1907, 27 July 1913, vol. 4, Ibid.

was contrary to precedents passed by previous Boards and menace the better interests of the Livestock Exchange." By a vote of the membership, the rule was repealed.[9]

As with special meetings, the number of general meetings of the membership varied from year to year. Since there were no such gatherings in 1891, the Board directed the Exchange without interference. But in 1896 there were 14 general meetings. At issue was the price of membership. The Board wanted the price of a membership at $2,500, while the members fought for a reduction to $1,000.[10]

Nineteen hundred and two was another crisis year for the Exchange. Two issues produced 14 general meetings. First, the commission merchants wanted the Stockyards Company to clean up the Kansas City facility. Embarrassed because shippers considered it a disgrace, the commission firms requested the company to make the necessary improvements. Stockyard officials, however, deemed the work unnecessary. After the commission merchants threatened to boycott the facility, the company made the requested changes.[11]

The second issue producing general meetings was the conflict with the National Live Stock Exchange over the

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[9]Constitution 1903, vol 8. Ibid., p. 7; Minutes of the Exchange, 27 June 1898, vol. 3, Ibid.

[10]Annual Report, 8 February 1892, 14 February 1889, ibid.

[11]Minutes of the Exchange, 3 February-6 July 1902, vol. 4, Ibid..

national organization's ineffectiveness. The members demanded the Kansas City Exchange withdraw from the national organization. Contrary to the advice of the Board of Directors, the Exchange withdrew from the national body upon a vote of the membership.[12]

The degree to which members participated actively in the Kansas City organization depended upon the issues before it. Generally participation was greater during years of crisis. The highest participation in elections was 89 percent of the membership in 1886, the founding year of the Exchange. Out of 144 memberships, 128 voted. In 1895 (the first year government inspectors moved into the stockyards) 69 percent of the membership voted, or 201 out of 293. The lowest percentage of participation in an annual election was in 1911. In this year of rising livestock prices and relative calm in the industry, only nine percent of the membership voted, 25 out of 285 members.[13]

The members always retained control of the of the Kansas City Live Stock Exchange. Rumors that the packers and the Stockyards Company exercised pervasive influence were unfounded. Only during four administrations of the Exchange did a packer or officer of the Stockyards Company possess executive power. C. F. Morse and H. P. Child were managers of the Stockyards Company while they were

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[12]Minutes of the Exchange, 1 January-14 May 1902, Ibid.

[13]Report of Elections, 8 February 1886, 5 February 1895, vol 3; 5 June 1911, vol. 4, Ibid.

presidents of the Exchange; Morse in 1886 and Child in 1893. K. B. Armour, president of Armour Packing Co., was the second president in 1888; S. B. Armour was the vice president of the Exchange from 1886 to 1887. W. S. Hannah, an independent packer, was president for a short time in 1899.[14]

Historian Edwin Snyder understood the implications of having the Stockyards Company and major packers as the first presidents of the Kansas City Live Stock Exchange. He suggested the commission men were powerless to organize the Exchange themselves and that they had to have the Stockyards Company and packers do it for them. Later historians retained this view. Even Charles Wood in Kansas Beef, published in 1980, believed the commission merchants had no autonomy in the stockyards. He wrote that the Stockyards Company dominated the Exchange until 1913, and after that the packers. Wood notes that in 1913 Edward Morris of Morris Packing Co. bought control of the Stockyards Company and became the new master of the Exchange.[15]

The records of the organization relate a different story. From 1886 to 1921 there was a growing antagonism

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[14]Report of Elections, 8 February 1886, 13 February 1887, 13 February 1888, vol. 3; 13 February 1899, vol 4, Ibid.

[15]Edwin Snyder, "Cooperation," Quarterly Report of the Kansas State Board of Agriculture for the Quarter Ending 31 March 1892 (Topeka: Hamilton Printing, 1892), p. 119; Charles L. Wood, The Kansas Beef Industry (Lawrence: The Regents Press of Kansas, 1980), p. 159-185; Kansas City Live Stock Exchange, "History..Market..Yards Company," p. 11.

between the Exchange on the one hand and the Stockyards Company and packers on the other. The only amiable years experienced by those parties were from 1886 to 1888. Ironically, the years of greatest antagonism in the stockyards were after 1913 when the packers controlled the Stockyards Company.

In the initial organizational stages in 1886 the commission merchants understood that unless they got the cooperation of the packers and Stockyards Company, the Exchange would not work. They wanted to avoid another disaster similar to 1877. Although there was a feeling of deference on the part of the merchants for men such as S. B. and K. B. Armour, that did not translate into subservience. In 1888 the records indicated that some of the commission merchants so irritated K. B. Armour that he resigned after only one month as president of the Exchange. Armour resumed office only after a committee begged him to stay on. He, however, never functioned as president; Vice President H. P. Child chaired all of the meetings in 1888.[16]

The Exchange made a second attempt at having a packer as president in 1899. Elected in that year was W. S. Hannah, a small independent packer in Kansas City, who had served as a director from 1894 to 1898. For him the

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[16] Minutes of the Board of Directors, 8 March 1888, vol. 3, RKCLE (Collection 158).

conflict of interest was too great: like K. B. Armour, Hannah resigned while in office.[17]

There was a natural antagonism between the Stockyards Company and the Live Stock Exchange also. It was there from the beginning. In 1887 the Exchange deliberated on how to prevent the larger commission firms from violating the rules and undermining the institution. It understood that unless it obtained appropriate evidence, it could never prove, for example, that Hunter, Evans & Co. was "cheating." A committee hired detectives to track down the necessary evidence to convict these firms. It also passed a resolution that the Stockyards Company should pay for the detectives. C. F. Morse, manager of the Stockyards Company and the first President of the Exchange found himself in a quandary. As expected, Morse sided with the Stockyards Company; he declared emphatically that the company would not fund the business of the Exchange.[18]

This conflict with the Stockyards Company reached its zenith between 1913 and 1917, at the very time the packers owned the stockyards. The commission merchants took pleasure in sending the Stockyards Company insulting resolutions. In September 1913, for example, they accused the Stockyards Company of incompetence, charging that employees of the yards frequently lost track of animals for

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[17]Minutes of the Board of Directors, 13 March 1899, Ibid.

[18]Minutes of the Board of Directors, 3 April 1887, Ibid.

which they were responsible. There were too many stray animals in the yards for which there were no owners! The commission merchants threatened to go to the Public Utilities Commission of Missouri if better service was not rendered. The company, for the first time in the history of the Exchange, submitted the disagreement to an arbitration committee.[19]

While the government of the Kansas City Live Stock Exchange resided with a Board of Directors, appointed committees accomplished much of the work. In 1886 the directors appointed an Executive Committee, an Arbitration Committee and an Appeals Committee. In 1899, they formed an Investigating and Judiciary Committee as the prosecuting arm of the organization, which in the twentieth century overshadowed all others.[20]

There were five members of the Exchange on each committee, including one member from the Stockyards Company and one member from the packers. The constitution required commission merchants to submit all disputes of a commercial nature to the Arbitration Committee (a shipper could also force a member to arbitrate a dispute), although any award or finding could be appealed. The Appeals Committee reviewed such cases, and decisions were final and binding. When a member refused to pay an award settled upon, the

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[19]Minutes of the Board of Directors, 4 September 1913, vol 4, Ibid.

[20]Constitution, 1903, vol. 8, Ibid., pp. 11-15, 29-30.

Board of Directors convened a court session and tried the transgressor. The rules of the Exchange barred any member from taking these commercial disputes into any court of law.[21]

The Investigating and Judiciary Committee was the prosecuting arm of the Exchange. From 1886 to 1899 the Board of Directors found it could not prosecute an offending member, and at the same time, effectively serve as an impartial panel in the case. So when the Exchange reorganized in 1899, it created a new committee for this purpose. The board wanted this committee investigating violations of the rules aggressively (even a rumor of a violation was enough to precipitate an investigation), and to present the charges against the offending member during the commercial trials.[22]

The Executive Committee provided the solution to the problem of hog dockage. This question dominated the attention of the Exchange for the first few months of 1886. After inviting all of the packers and shippers (no shippers came) to Kansas City for consultation, the directors created an ad hoc committee in the stockyards to solve the question. The packers, however, at first opposed any inspection system, but yielded under pressure from the commission merchants. An ad hoc committee of one commission merchant, one member of the Stockyards Company, and one representative

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[21]Ibid., pp. 8-11.

[22]Ibid., p. 10, 29-30.

of the packers reviewed and made final judgment upon the dockage in question. Any buyer or seller could call for an arbitration of the decision. But this system proved inconvenient, the personnel on the committee were often not in the yards. Thus the process slowed the traffic through the stockyards down and created more problems than it solved.[23]

After one year of trial, the Exchange junked the idea of an ad hoc committee and created an Executive Committee in 1887 to adjudicate dockage issues. The packers, Stockyards Company, and the Exchange were also represented on this committee, but instead of performing the inspection themselves, they merely supervised. The Executive Committee hired "public inspectors" and placed one at each of the 12 scales in the yards. For these posts the committee sought personnel "experienced" in identifying "imperfect" animals.[24]

The job of the inspector was to watch all hogs as they crossed the scales and to mark the imperfect ones. If the inspector spotted "piggy sows" or "stags," he deducted 40 pounds from the weight of the piggy sow and 80 pounds from a stag, and recorded it on the scale ticket. Other hogs considered unmarketable were "boily," crippled, badly cut, or "frozen" hogs. The Exchange also ruled that hogs under

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[23]Report of the Executive Committee, 26 January-31 May 1886, vol. 2, Ibid.; Minutes of the Board of Directors, 15 February, 1 May 1886, vol. 3, Ibid.

[24]Annual Report, 12 February 1887, Ibid.

150 pounds were of lesser quality (called skip stags and skip sows) and instructed the inspectors to deduct 40 pounds and 20 pounds respectively from each category.[25]

Inevitably there was conflict over the decision of the inspector. In 1887 the Executive Committee appointed a chief inspector to adjudicate all disputes. There was no appeal from his decision. This was done to expedite the flow of live animals through the yards. Surprisingly, this simple reform worked satisfactorily and remained in place from 1887 to 1921 with few alterations.

The U. S. Bureau of Animal Industry later pointed out a major flaw in this system. The inspectors hired by the Exchange could not necessarily spot a diseased hog. That was a task better left to a professional veterinarian. Accordingly, the United States Congress passed legislation and placed qualified professionals in all the major markets. These veterinarians did not replace the inspectors, but merely stationed themselves near the scales and watched for diseased animals while Exchange personnel monitored the remaining imperfect animals.[26]

The first government inspectors appeared at the Kansas City Stockyards in 1894. Initially, the Exchange opposed these professionals on the grounds that they were unneeded

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[25]Report of the Executive Committee, 8 March 1887, Ibid.

[26]Houck, Bureau of Animal Industry, pp. 29; Testimony of T. Fitzhugh, 2 January , 9 February , 10 May, 7, 9, 21 June, 1894, vol. 3, RKCLE (Collection 158).

but that attitude changed over time. In 1906 the federal government increased the inspection in the yards, but with the cooperation of the commission merchants. By then the government veterinarians had convinced the Exchange members that their services were essential. In 1920, when the appropriations for the Bureau were cut, the Kansas City Live Stock Exchange sent an urgent message to Congress setting forth the need for these inspectors. When the appropriations were not forthcoming, the Exchange hired their own veterinarians and paid for them by levying a 20 cents a car tax on each rail car of hogs received at the Kansas City market.[27]

The numbers of hogs inspected illustrated the magnitude of this inspection system. From February 1890 to February 1891, for example, there were 3,932,575 hogs inspected. Among this number, there were found 108,592 piggy sows, 28,469 stags, 5,501 skip sows, and 150 skip stags. Of the decisions made by the inspectors, only 464 were arbitrated.[28]

Although the packers initially opposed the system of inspection, over time they came to use it more than the sellers. From 1886 to 1921 the number of arbitrations called by the buyers gradually increased over those called

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[27]Speech by Bureau of Animal Industry Inspector, 4 January 1894, Ibid.; Minutes of the Directors, 5 July 1907, vol. 4, Ibid.; Minutes of the Exchange, 30 June 1920, Ibid.

[28]Report of the Executive Committee, 5 February 1891, vol 3, Ibid.

by sellers. For example, in 1901 of the 1,069 arbitrations called, 531 were by the buyers and 538 were by sellers. By 1921, the buyers called twice the number of arbitrations as the sellers, that is 979 to 475.[29]

The idea of having inspectors in the stockyards overseeing aspects of the market place was not new nor did it change the traditional system of marketing. Indeed, inspectors had always been present in the stockyards. All of the cattlemen's associations had brand inspectors looking for stolen cattle, and the humane society kept an inspector in the yards to prevent cruelty to the animals.[30]

City and state governments also had inspectors in the yards. In 1888, Harry P. Child, superintendent of the Kansas City Stockyards, reported to the Vest Committee that there were five inspectors appointed by the State of Kansas, and two from the Bureau of Animal Industry to insure that rail cars received from the tick infested areas of Texas were disinfected. The two cities of Kansas City, Kansas and Missouri had two inspectors each in the yards to insure that diseased meat did not get onto the local market.[31]

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[29]Report of the Arbitration Committee, 1 May 1901, 25 May 1921, vol 4, Ibid.

[30]Dale, Range Cattle Industry, p. 21; Minutes of Texas and Southwestern Cattle Raisers' Association, 1894, (Microcopy Collection, Barker Texas History Center), pp. 21-24; General Meeting, 26 March 1894, vol 3, RKCLE (Collection 158); A. P. Bush, President of the Cattle Raisers of Texas, to President of Chicago Live Stock Exchange, Proceedings of the Directors, 2 April 1894, RCLSE (Microcopy Collection, University of Oklahoma).

[31]U. S. Congress, Senate Report no. 829, pp. 376-379.

It is also instructive to note that public inspection in the yards was overwhelmingly a problem with hogs, and not cattle or sheep. The nature of the animal made the critical difference; cattle and sheep endured the transportation system better and were less susceptible to injury, and it was easier to spot a diseased cow or sheep than a hog.

There were minor problems with cattle. Periodically, cattlemen complained the Exchange docked injured cattle in the stockyards unfairly. George B. Loving, former solicitor for Hunter, Evans & Co. and secretary of the Northwest Texas Cattle Raisers' Association, complained of a "broken rib steal," but this question never became a major issue. Injured cattle received an adjustment (broken ribs were only one problem) or dockage like that of hogs, the number of inspections did not run into the thousands as with hogs.[32]

The only special system of inspection for cattle concerned animals afflicted with "lump jaw." An open cancer on the animal's jaw, "lump jaw" was offensive to look at but not infectious. The sores offended the public, their Congressional representatives passed legislation and required a special quarantine area constructed, and the packers butchered the cancered animals separately. If the state appointed veterinarian found the animal diseased, the carcass was saturated with kerosene oil and "immediately

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[32]Minutes of the Texas and Southwestern Cattle Raisers' Association, 1893, (Microcopy Collection, Barker Texas History Center), pp. 193-194.

tanked" so irresponsible butchers could not buy the animal and sell it in the local meat market.[33]

The constitution of the Kansas City Livestock Exchange granted the Board of Directors the power to prosecute and discipline violators of the rules. The board of directors fined, censured, suspended, or expelled offending members, but it could not discipline a member without a trial by the board of directors. The member had the right to defend himself, but he could not use professional counsel.[34]

The constitution also restricted the rights of Exchange members. Refusal to appear before any "committee or tribunal" or to answer any questions brought an automatic suspension from the Exchange. The constitution stipulated that if a member got an injunction from any court of law against the Exchange, the members considered them to have

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[33]Bureau of Animal Industry, Annual Report, 1893, "Investigations Relating to the Treatment of Lumpy-Jaw, or Actinomycosis in Cattle," pp. 109-176; Committee Report, 9 February 1893, vol 3, RKCLE (Microcopy Collection 158); Instruction of the Bureau of Animal Industry, 23 May 1894, RCLSE (Microcopy Collection, University of Oklahoma).

[34]Constitution, 1903, vol. 8, Ibid., pp. 7-11; As an example of the disposition of cases in Chicago, the board reported in 1902 there were 2 acquitted, 2 awaiting further evidence, 1 decision withheld pending the outcome of the preceding case against the defendant, 5 dismissed, 1 awaiting trial, 3 awaiting decision, 9 dismissed upon recommendation of the prosecuting committee, 1 arbitrated and settled, 3 in hands of prosecuting committee and 2 settled before the trail, Minutes of the Board of Directors, 1 February 1902, RCLSE (Microcopy Collection, University of Oklahoma).

"forever and irrevocably resigned and surrendered their membership herein."[35]

The Kansas City Live Stock Exchange exercised discipline over its membership frequently. This was in sharp contrast to the Chicago Board of Trade, the only commodities exchange examined by a historian on this question. According to Jonathan Lurie the Chicago Board rarely exercised discipline, and when it did the fines were no more than five dollars. The actions they disciplined were for provoking disorder on the trading floor, pushing, cursing, and throwing sample bags of grain. In the Kansas City Live Stock Exchange, the punishment was harsher and the fines much higher.[36]

Undoubtedly, the reason for this was the difference between a grain pit and the stockyards. The commodity dealers interacted on a daily basis within the same building. Moreover, social pressure controlled the ethics of the traders. The livestock commission merchants encountered one another infrequently, and they spent much of their time on the railroads or in the "country." The impersonal nature of their business weakened any social responsibility traders felt to their fellows.

In the first year of operation, the Kansas City Exchange meted out remarkable discipline. It expelled N. M.

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[35]Constitution, 1903, vol. 8, RKCLE (Collection 158), p. 11.

[36]Lurie, Chicago Board of Exchange, p. 35.

Nutter for "uncommercial conduct." This action imposed a supreme hardship upon Nutter, and he requested re-admission to the Exchange each year for two years. In 1889, the Board of Directors re-admitted him but only on the condition that he take the rules seriously. The Exchange also expelled James C. McFarland. Earlier the Chicago Live Stock Exchange convicted McFarland of returning to shippers false returns. He then moved to Kansas City and joined the Exchange there. When word from Chicago on the nature of the charges against McFarland were received, Kansas City expelled him immediately.[37]

The suspension of a member was less severe than expulsion. The Board of Directors suspended Greer, Mills & Co. in 1896 after they were tried, found guilty of over charging commissions, and fined $1,000. When Greer, Mills & Co. refused to pay the fine, the board suspended the firm from the Exchange. At that point the commission firm committed the most offensive act possible. Greer, Mills & Co. sought an injunction from the District Court of Wyandotte County, Kansas against its suspension. The Board of Directors thereupon expelled the firm. To make the expulsion order more effective, the Board directed the Executive Committee not to dock any of the firm's hogs. It even posted the expulsion order upon the Exchange bulletin

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[37]Charges against N. M. Nutter, 1 February 1887, 6 May 1889, vol 3, RKCLE (Collection 158); Petition for Re-admission, 6 June 1887, Ibid.; Minutes of the Board of Directors, 1 August 1887, Ibid.

board where it remained for two years. Greer, Mills & Co. ceased operations in the Kansas City Stockyards during that time.[38]

The board used censure less frequently than other forms of discipline, but it was not afraid to take that action against their most esteemed members. It censured L. A. Allen, pioneer in the trade and a charter member, in 1904 while he was on the Board of Directors itself. The board charged the L. A. Allen Cattle Commission Company of not filing the name of a salesman with the secretary of the Exchange "even after attention had been called to the violation."[39]

Although the discipline of the board was rarely abused, one case recorded in 1907 and 1908 was a blatant exception. On 9 August 1907, the Board of Directors "ordered the Secretary to pay J. P. Peters & Co. the sum of $250 upon the presentation of an order from the Circuit Court." The charge against the Exchange was never disclosed, but Peters obviously won a judicial decision against the Exchange. The manner in which the officers treated Peters in the following months suggested there was an intentional effort to discipline him without incurring the wrath of the judicial

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[38]Trial of Greer, Mills & Co., 7, 17 September, 7 October 1896, Ibid; Minutes of the Board of Directors, 7 November 1898, Ibid.

[39]Minutes of the Board of Directors, 9, 14 January 1904, vol 4, Ibid.

system. To the Exchange's credit, this action was the only one of its kind recorded in the records from 1886 to 1921.[40]

Four months after paying the fine to Peters, the Investigating and Judiciary Committee preferred charges against J. P. Peters Live Stock Commission Company on a matter completely unrelated to the circuit court case. It alleged that "on or about" 16 December 1907 the Fowler Packing Company bought 20 head of cattle of J. P. Peters and that before the cattle were weighed Peters had ordered two cattle of inferior quality added to the twenty head. The committee determined that Peters took this action with the intent of defrauding the Fowler Packing Co. and was an act of bad faith against the Exchange. In short, it was "attempted extortion and dishonorable and uncommercial conduct."[41]

The Board of Directors refused to accord consideration to Peters generally extended to any commission merchant on trial. On 6 February 1908, J. P. Peters asked for further time to prepare a defense in the case. In all cases previous to this one, the board was conciliatory to members who requested additional time before a trail. Not so in this case. The secretary notified Peters that on 14 February 1908 at 2 p.m. in the rooms of the Exchange the

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[40]Minutes of the Board of Directors, 9 August 1907, Ibid.

[41]Charges of the Investigation and Judiciary Committee, 2 January 1908, Ibid.

trial would be held and that J. P. Peters must be ready, "as no further continuance could be granted."[42]

On the following day, the Investigating and Judiciary Committee charged Peters with further violations of the rules. Claiming the original charges excluded relevant material, the committee filed eight further specifications of dishonorable and uncommercial conduct. The board believed one charge was adequate to make its point and they found Peters guilty of the original charge, and dropped the others. The fine was $1,000. Peters paid it and quietly resumed business. Few commission merchants seriously considered taking the Exchange to court after observing the example made of Peters.[43]

The Kansas City Live Stock Exchange began the process of regulating the Livestock trade in the Southwest in early 1886. The government of the Exchange permitted the "release of energy" for the livestock traders. Unlike most modern business enterprises, the Exchange was not oligopolistic. The power within the Exchange was disbursed widely throughout the membership, and no one faction dominated. In consultation with the packers and the Stockyards Company, the Kansas City Live Stock Exchange instituted a major reform in the trade. Specifically, it created a system of

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[42]Petition of J. P. Peters, 6 February 1908, Ibid; Secretary to J. P. Peters, 6 February 1908, Ibid.

[43]Charges of the Investigation and Judiciary Committee, 7 February 1908, Ibid.; Trial of J. P. Peters, 17 February 1908, Ibid.

public inspection. The Exchange also used the powers under its constitution to discipline members. Indeed, it moved quickly and harshly to insure that the system worked properly for all, and not just the few.

Hog dockage was a major reform implemented by the Kansas City Livestock Exchange, but there were minor reforms and changes which the Exchange also implemented. All were of major consequence in the industry. The next chapter describes those minor reforms and administrative changes.

CHAPTER VII

ADMINISTRATION AND REFORM

The organization of the Kansas City Live Stock Exchange in February 1886 began the process of reforming the livestock trade of the Kansas City market. Hog dockage was the first concern, but there were other reforms implemented without pressure from producer's associations. The Exchange performed an administrative role with the railroad traffic in the Kansas City market not appreciated by producers, or even anticipated in the initial organizational phases of the Exchange. It also acted as a lobby group on questions important to cattle producers in the Southwest. Additionally, the Exchange implemented reforms in the use of market information, controlled the hours of the stockyards, taxed producers for its services, audited the books of commission firms, forced traders to put up a bond to insure payment to the producer, and prevented other abuses in the trade.

The first task the Exchange undertook was in coordination. As noted previously, much of the traffic from the Southwest by-passed Kansas City and went to St. Louis or Chicago. Although the Kansas City commission merchants could not reconstruct the railroads, they redirected traffic in various ways. They sought, for example, to get new rail mileage into Kansas City. From 1886 to 1893, the number of rail cars of hogs, sheep, and cattle increased from 63,224 cars in 1886 to 90,727 in 1893 (a 44 percent increase). The significant change did not come from an increase of receipts from existing railroads. In fact, the Southern Kansas, Union Pacific, Kansas City, Fort Scott & Memphis, and the Kansas City, St. Joseph & Burlington railroads carried less livestock in 1893 than in 1886. The greatest increase came from new railroad mileage.[1]

Mileage and traffic data illustrate the growth. In 1886, ten railroads funneled traffic into Kansas City; in 1893, they numbered 16. The number of rail cars received in 1893 was 27,483 greater than in 1886; over half (52 percent) increase coming from new railroad mileage Thirty percent of the increase came from one railroad alone, the Chicago, Rock Island and Pacific Railroad opened rail connections to the Panhandle of Texas in 1887. By 1893, the CRI & P rivaled the AT & SF for the livestock traffic of the Southwest.[2]

The Kansas City commission merchants also exerted significant influence to get the MK & T Railroad into Kansas City. Built in 1865, it traveled from Denison, Texas to Junction City, Kansas or to St. Louis, Missouri. Before 1886, the line sent no traffic to the Kansas City market.

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[1] Constitution, 1903, pp. 19-41.

[2] Ibid.

Due to their efforts, however, by 1893 there were 10,405 MK & T rail cars received, some 6 percent of the rail traffic in 1893 and 20 percent of the increase over 1886.

This increase occurred after commission merchants joined livestock producers of southern Kansas to get the new trade route open. The producers around Yates Center, Girard, and Independence, Kansas had sent committees in 1886 to Kansas City, to solicit the help of the Exchange to persuade the railroads and national government to allow live stock traffic directly into Kansas City from the south. In response the Exchange raised $3,000 and lobbied for the project. Both the producers and the commission merchants aided in the creation of the "Paola Extension" linking the Kansas towns. The MK & T was able to acquire a charter previously issued to the Kansas City & Pacific Railroad that allowed the line to enter Kansas City by way of a trackage agreement with the Kansas City, Fort Scott & Gulf Railroad from Paola, Kansas.[3]

The shippers and commission merchants soon discovered there were "dead spots" along the railroads from southern Kansas, spots that delayed livestock trains. For example, both the St. Louis, Fort Scott & Wichita Railroad and the Missouri Pacific Railroad stopped stock trains at Yates Center, LeRoy, Harrisville, and Pleasant Hills, Kansas to wait for other freight trains coming from the opposite

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[3]Petition of Committee, 13 April 1886, vol. 3 , RKCLE (Microcopy Collection 158); Minutes of the Board of Directors, 12 February 1887, Ibid.

directions. The delays caused shrinkage loss and additional charges for feed along the route. Shippers complained a day lost on these side tracks prevented them from getting their stock to market when the price was high.[4]

Once the livestock commission merchants got a new rail channel open to Kansas City, they continued their efforts to enhance traffic. On the opening of the Kansas City, Wyandotte & Northwest Railroad in 1889, for example, the merchants launched a typical campaign that budgeted $200 to entertain stockman living along the railroad line. In this manner, the merchants created the good will in the new territory, solicited new customers, and diverted the stock traffic away from the Chicago, Omaha, and St. Joseph markets.[5]

In the late 1880s, the Southwestern sheep herders complained of an inadequate number of double-deck cars to cover their shipping needs. Producers noted the railroads kept most double-deck cars east of the Mississippi River for hog producers. By 1890 the issue became a crusade against the railroads. Both the Kansas City and Chicago Livestock Exchanges joined forces with the sheepmen to demand that roads allocate more double-deck cars for Southwestern sheepmen. When the lines accommodated their requests, the

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[4]Complaint of Shippers, 6 September 1886, Ibid.

[5]Minutes of the Board of Directors, 4 February 1889, Ibid.

Exchanges considered the achievement a milestone in their relationship with the railroads.[6]

The Kansas City Exchange also discovered in 1887 the freight rate to Kansas City for sheepmen in the Southwest was higher than to St. Louis or other "Mississippi River towns." The Exchange promptly protested to the Chicago and St. Louis Exchanges against the discrimination, and together, the Exchanges convinced the railroads to eliminate the problem.[7]

The Kansas City Exchange also coordinated efforts between the shippers and railroads on the timing of stock trains into Kansas City. In February 1887, the commission merchants pointed out to officials of the Kansas Pacific Railroad that their schedule of trains into and out of Kansas City was a burden to livestock producers. Hundreds of cattle arrived too late in the day for sale and were held over until the next day. Subsequently the railroad changed the arrival of its 10 a.m. and 3 p.m. trains to 8 a.m. and 10 a.m. The alteration increased the flow of livestock into and out of Kansas City.[8]

A similar problem occurred in 1900. By then, the Kansas City Stockyards was overcrowded, but the railroads ruled (without consulting other parties involved) all

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[6]Texas Live Stock Journal, 6 February, 15 May 1886; Minutes of the Board of Directors, 12 February 1887, vol. 3, RKCLE (Microcopy Collection 158).

[7]Annual Report, 12 February 1887, Ibid.

[8]Ibid.

stockers and feeders not ready for shipment by 3 p.m. would be held in the stockyards for the next day's shipment. The commission merchants explained to railroad officials the action would bring the market to a halt. By the railroads holding their trains an extra few hours, the overcrowded conditions were alleviated, and the action kept the cost to the shipper at a minimum.[9]

The flow of paperwork through the stockyards impacted the speed with which the livestock passed through the yards. Prior to the organization of the Exchange, there was no coordination of the paper flow from the railroads to the stockyards company. In 1887, the Exchange began conferences with both the railroads and the Stockyards Company to change that system. It asked the railroads to send the expense bills (detailing the freight charges) along with the bills of lading through the stockyards. By keeping the two together, the time the paper flow took through the yards was reduced by half.[10]

The administration and coordination of the flow of livestock traffic through the concentrated market at Kansas City made it more effective and increased the productivity of the producers. But the Kansas City Exchange also used its united strength to lobby for alterations of policy set by the United States Congress and the Department of

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[9]Meeting of the Exchange, 1 October 1900, vol. 4, Ibid.

[10]Speech of the President, 12 February 1887, vol. 3, Ibid.

Agriculture. In 1892, for example, the national government ordered the cattlemen out of the Cherokee Strip in Indian Territory by October. The Exchange sent a letter to Commissioner of Agriculture J. M. Rusk condemning the decision. It argued that it was in the "general interest of western agriculturalists" to delay the expulsion. Because the Cherokee Strip contained from 125,000 to 170,000 cattle, the expulsion order would glut the Kansas City market by throwing at least 100,000 cattle on it. The Cherokee Strip cattlemen had no other choice inasmuch as Kansas, Colorado, and Texas forbade the movement of cattle into their areas before 1 December because of "Texas fever."[11]

The Exchange directors, moreover, argued that if cattlemen dumped their animals on the Kansas City market, it would be destroyed for all the producers in the Southwest. Also, since the summer had been unusually dry in Indian Territory "producing a shortage of grass" and their condition led to "thin and unmarketable" cattle. The recent rains would improve the pastoral conditions and the the conditions of the herds. To delay the expulsion order would enable the ranchers to market "fattened" cattle instead of "green" cattle. It would also assure continued employment of drought stricken farmers turned cowboys. The petition of the Exchange met with some success. The government delayed the execution of the order by two months. The intervention

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[11]Secretary to J. M. Rusk, Commissioner of Agriculture, 25 August 1892, Ibid.

of the Exchange had not only prevented losses to the producer, but also increased the efficiency of the trade.[12]

Although lobbying activities of the Kansas City Exchange had an indirect influence upon the livestock trade, that was not true in other areas. Control of the market reports and limiting the hours for marketing directly improved market conditions.[13] Consider the use of the telegraph, an integral part of the modern marketing of live animals. At the expense of the shipper, commission merchants notified the shippers by telegraph when the prices were high. The Texas Live Stock Journal reported on 9 February 1889, for example, that "last Friday and Saturday" the cattle market advanced 15 to 25 cents a hundred weight. Simultaneously, several thousand telegrams quoting the advance had gone out from the Exchange building. The Texas Journal regretted that Texans were not close enough to the market to take advantage of these shifts in prices, that only "nearby men would have a chance to get in before the rush." The Journal took perverse pleasure in that all the shippers acted at once, loaded nearly 17,000 cattle onto rail cars, and rushed them to market. As a consequence, the advance in prices was lost, and few reaped the expected returns.[14]

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[12] Ibid.

[13] Constitution, 1903, vol. 8, Ibid., pp. 22-23.

[14] Texas Live Stock Journal, 9 February 1888.

The use of the telegraph, as with other aspects of the commission trade, was subject to misuse. Some merchants misquoted the market, falsely reported high prices, and encouraged shipments during periods of low prices. This activity eventually brought the reputation of the commission merchants and the Exchange into disrepute. In the early months of the Exchange, the directors counselled together on how to deal with the problem. They could not force the Western Union Telegraph Company to report the prepaid telegrams sent to the shippers without the permission of the commission merchant involved. So the Exchange passed a rule in 1887 that no commission merchant could be a member unless he signed an agreement granting the telegraph company permission to furnish the secretary of the Exchange a copy of all prepaid telegrams quoting the market. The rule limited the quoting of the market by a commission merchant to only those sales made by the merchant himself.[15]

In truth the Exchange took over all reporting functions. They provided a telegraph report on the major markets (such as Chicago and Omaha) in the Exchange. A shipper could remain in the Exchange building and read the reports daily as they came in from the other centers. In this manner a commission merchant could not fraudulently

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[15]Minutes of the Board of Directors, 7 February, 6 August 1888, 14 March 1892, vol. 3, RKCLE (Microcopy Collection 158); Committee Report, 17 September 1887, Ibid.; Resolutions on Telegraph, 6 September 1886, vol. 1, Ibid.

quote the market, and the information became available to all shippers at the same time.[16]

The Exchange also regulated the hours the Kansas City Stockyards remained open. Underlying this decision was the abuse of the trade which took place after hours. Fraudulent commission merchants conducted their business during the evening hours because there were fewer people in the yards to observe it going on. Also the livestock shipped in on night trains were often sold before all the buyers appeared in the market during the day. It gave an unfair advantage to some buyers. Some members of the Exchange wanted to control the hours of the stockyards as early as 1886, but they did not have enough votes to do so until 1893.[17]

The Kansas City Live Stock Exchange anticipated financing their regulatory activities through assessments on the members. For example, it assessed members $5 in 1887 and 1890, and $10 in 1891. But in 1894, the president of the Exchange reported "for almost 3 years there has been no assessments made, and there are liable to be none for as many years to come" because merchants were in such poor financial condition. In 1893, the president asked the approval of the membership for a levy of $20 per member to "cover possible expenses of an extraordinary nature which

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[16]Annual Report, 8 February 1895, vol. 3, Ibid.; Committee Report, 29 March 1895, Ibid.

[17]Petition to Directors, 19 May 1886, Ibid.; Minutes of the Exchange, 4 January 1892, Ibid.; Minutes of the Board of Directors, 26 January 1893, Ibid.; Report of Election, 13 February 1893, Ibid.

may be incurred." He explained that since 1886 the members had been assessed an average of $3.45.[18] Nevertheless, the membership voted against the assessment.

Since merchants were reluctant to pay for the activities of the Exchange themselves, the organization found other means to fund its business. The sources came from three different areas: taxes upon each carload of livestock received at the Kansas City Yards, fees for membership and arbitration, and fines levied upon members for rule infractions. The cost of running the exchange was inexpensive. In 1908, for example, there were $14,559.54 collected by the exchange treasurer and $12,028.54 disbursed. The income for the exchange that year included $6,541.63 from taxing rail cars of hogs (45 percent of the income), $2,742 from taxing rail cars to run the Transportation Department (18 percent), $597 from arbitration fees (4 percent), $952 collected as membership fees (7 percent), $766.55 from interest and other sources (5 percent), and $3,000 from fines of the members (21 percent).[19]

For the Kansas City Live Stock Exchange to perform the functions of a regulatory agency, it had to have the power to audit the books of the commission firms without their

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[18]Minutes of the Board of Directors, 28 February 1887, 20 February 1888, 3 March 1890, 6 April 1891, Ibid.; Speech of the President, 9 February 1894, 10 February 1898, Ibid.; Annual Report, 1 June 1906, vol. 4, Ibid.

[19]Annual Report, 29 May 1908, Ibid.

permission. For the first 32 years of the Exchange, the merchants only "assumed" they had the right, but in 1918 the Exchange formally ruled that "the board is empowered to examine or audit the books of any individual, firm, or corporation."[20]

Auditing procedures were established early in the history of the Exchange. In 1892 S. M. Z. Long, a shipper from Brooks, Kansas, complained that a commission firm had rendered a false account of sales on cattle consigned to Foster, Conrad & Co. in Kansas City. The intent of the action, according to Long, was to defraud. The Board of Directors invited G. W. Foster to appear and answer to the charges. Foster stated "the testimony of my bookkeeper would be better." The bookkeeper, H. M. Baker, appeared with the account of sales book. The Board observed that the posted account was different from that rendered to Long and found Foster, Conrad & Co. guilty of a technical violation of the rules. It also ordered the bookkeeper suspended from employment for 30 days for being a party to a transaction to defraud a customer on the market.[21]

Another example of regulation by audit occurred in 1902. The Investigation and Judiciary Committee inquired into certain misconduct rumors on the part of S. A. Cooper, a member of the Exchange. The committee asked Cooper to

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[20]Minutes of the Board of Directors, 21 June 1918, Ibid.

[21]Trial of G. W. Foster, 18 April 1892, vol. 3, Ibid.

furnish his books as evidence of his denial of any wrong doing. Cooper refused. The committee requested a second time, but was refused again. At this point the board suspended Cooper from the Exchange and fined him $500.[22]

The Kansas City Live Stock Exchange recognized early that shippers had no guarantees. They had no security against crooked transactions. The "shingle of a commission house" was no sign of reliability, integrity, or sovereignty. This problem was not addressed until 1918 when the Exchange forced commission firms to put up a bond to insure that merchants returned all monies to shippers.[23]

Although few people thought in terms of a bond before the twentieth century, the circumstance it was designed to remedy the Exchange had addressed as early as 1893. If a commission merchant did not return the money received from the sale of livestock to the producer, it stipulated, he would be expelled and his membership sold in order to reimburse the shipper.[24] But this was not always effective. The problem of traders not paying for livestock became serious in late 1911. In response, the Exchange created the Kansas City Live Stock Exchange Clearing House where members were to pay for all livestock. Four cents per rail car was

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[22]Trial of S. A. Cooper, 1 August 1902, vol. 4, Ibid.

[23]Texas Live Stock Journal, 30 March 1889; Meeting of the Exchange, 21 June 1918, Ibid.

[24]Atkinson, "Kansas City Livestock Trade," p. 288; Annual Report, 7 February 1893, vol 3, RKCLE (Microcopy Collection 158).

levied on all consignments received to defray expenses. The organization also forced all non-member speculators and order buyers to obtain an open bond, surety, or bank guarantee before they could conduct business in the Kansas City Stockyards.[25] Then in 1912, it created a Collection Agency to insure that all buyers and sellers produced the cash for the sales of all livestock in the yards.[26]

But these efforts did not close all of the loop holes; commission firms continued occasionally to short shippers money. Thus in 1918, three years before the passage of the Packers and Stockyards Act, the Exchange provided a blanket bond for all commission merchants. It levied five cents per rail car on all incoming and outgoing shipments for the "creation of a fund to protect the patrons of the Kansas City market from the dishonest acts of members of the Kansas City Live Stock Exchange."[27]

The Exchange first used the fund to reimburse shippers who lost money as a result of the insolvency of some commission firms forced by the economic depression of 1919. When Zook & Zook failed to return to A. H. Rouse some $6,537 in early 1920, Rouse won a court settlement to recover the

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[25]Minutes of the Board of Directors, 22 December 1911, vol. 4, RKCLE (Microcopy Collection 158).

[26]Minutes of the Board of Directors, 1 December 1911, vol 4, Ibid.; after the economic depression of 1919 it became popular for producers to irroneously claim that the exchanges had no provision for an audit or a bond, see U. S. Department of Agriculture, Packers and Stockyards Administration, Annual Report, 1922, pp. 4-5.

[27]Minutes of the Exchange, 21 June 1918, Ibid.

loss of the money. The court attached all of the real property of the commission firm, including the certificate of membership. The Exchange directors then ordered that $2,500, the price of a membership, be paid to the federal court on behalf of the membership of T. J. Zook.[28]

The Kansas City Live Stock Exchange went far beyond the expectations of shippers in regulating the livestock trade. It increased the productivity of the trade simply by coordinating the activities of the railroads with the other participants in the stockyards. It also acted as a lobbying force, urging and pressuring the national government to modify or change its decrees. The Exchange reformed aspects of the trade little understood by outsiders. It recognized that unless the organization controlled the issuing of market information and regulated the hours that traders conducted business the activities of unscrupulous livestock commission merchants would discredit the Kansas City market. It even assumed the power to audit the books of commission merchants against their will in an effort to insure that the shippers received a correct return of funds. Finally, the Exchange wrestled with the concept of a bond, and arrived at a solution in 1918.

The livestock producers in the Southwest were not pleased with all aspects of the Kansas City Live Stock Exchange upon organization in 1886. When the Exchange

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[28]Minutes of the Board of Directors, 5 August 1920, _Ibid_.

determined for the shipper the cost of marketing his livestock, the producers became alarmed. The next chapter describes the first attempt of shippers and the larger livestock commission merchants to resist the power of the Exchange.

CHAPTER XIII

RESISTANCE TO REGULATION FROM THE SOUTHWEST

The Kansas City Live Stock Exchange carried out initial reforms and organized its governmental structure in 1886 with little attention from the shippers of the Southwest. By contrast, the regulation of commission rates created a storm of protest with the cattle associations which led the resistance to rate regulation. But the Kansas City livestock merchants did not capitulate: instead, they aggressively continued their goal of regulating the Southwestern livestock trade. Their success depended upon their ability to force the larger cattle commission firms to join the Exchange.

Setting uniform commission rates for all livestock shipped to Kansas City was no easy task. The Exchange used the same rates in 1886 for cattle, hogs, and sheep as was "common" in the trade. The basic rate was 50 cents per head for cattle and 10 cents per head for hogs or sheep. All the major livestock markets unofficially recognized these rates in 1877, and the rates established a guide for the industry. The larger cattle commission firms generally disregarded the rates, but the commission merchants marketing hogs and sheep followed the schedule closely.[1]

As the livestock industry increased in complexity throughout the 1880s, the simple charge per head became inadequate. The volume of animals shipped to Kansas City (3 million in 1886) made a charge per rail car an easier method of rate assessment. This required some calculations for no two cars carried the same number of animals. Indeed, rail cars in the 1880s differed in length, some were 28 feet long, but others were 34 feet; shippers squeezed more range cattle (20-24) into a rail car than corn fed animals (17-19); for hogs, sheep, and calves, shippers used double-deck as well as single-deck cars and some shippers sent in mixed cars of cattle, hogs, and sheep. The Exchange members adjusted the rate schedules for every possible combination of shipment.[2]

The Kansas City Live Stock Exchange published the rates in 1886. A merchant's commission for selling a single-deck carload of hogs or sheep was $6; for a double-deck car it was $10. The Exchange set the rate for cattle at $12 for a carload of 24 or more animals; set it at 50 cents a head for loads of less than 24 animals; and assessed $10 per car for calves and yearlings. If a shipper sent in a mixed carload, the charge was 50 cents per head for the cattle, 25 cents

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[1]Minutes of the Board of Directors, 22 February 1886, vol. 3, RKCLE (Microcopy Collection 158).

[2]U. S. Congress, Senate Report no. 829, p. 45.

per head for the calves, and 10 cents per head for the hogs or sheep. For these $12 per carload was the maximum rate.[3]

The Exchange also set the rate of commissions for order buying. Livestock commission merchants received open orders from eastern packing houses and corn belt feeders for specific types of animals. The packers wanted heavy ones while the feeders wanted lighter animals. The Exchange set the charge for order buying at 50 cents a head for cattle with a maximum charge of $12 per carload. For sheep the charge was $6 for a single-deck car and $10 for a double-deck one. For live hogs the charge was $4 per single-deck, $5 per double-deck, or 3 cents per head.[4]

The Kansas City Live Stock Exchange made exceptions to the rate schedule for "inside traders." The Exchange assessed yard traders in the Kansas City Stockyards one half the commission rate charged a shipper and permitted a rebate to commission merchants at Omaha, St. Joseph, Denver, and Wichita on stock forwarded to Kansas City from those markets.[5]

The Board of Directors decided which markets qualified for a division of commissions, and which markets did not. In 1886, the Exchange charged the markets at Fort Worth, Texas and Pueblo, Colorado, full rates but enabled smaller

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[3]Minutes of the Board of Directors, 22 February 1886, vol. 3, RKCLE (Microcopy Collection 158).

[4]Articles of Association and Rules and Bylaws (Kansas City: Lawton & Burnap Printers, 1892), pp. 18-19.

[5]Ibid., p. 20.

markets to apply for special rates. Two years later both Forth Worth and Pueblo applied for and received a more favorable rate. Gradually, the Exchange recognized additional markets as the livestock trade developed in the West. By 1903 eleven markets received a rebate on stock forwarded to Kansas City. They were Chicago, East St. Louis, St. Louis, Omaha, Wichita, Denver, Pueblo, St. Joseph, Sioux City, Milwaukee, and Fort Worth.[6]

The Board of Directors set down rigid guidelines on the use of solicitors in the market area. From 1886 to 1921 these agents caused considerable irritation. Controlling their activities was difficult as solicitors lived as far away from Kansas City as New Mexico, and the commission firms rarely revealed their identity. The Exchange rules barred the payment of solicitors by commission and they required solicitors to register with the secretary of the Exchange by name and address. Moreover, the organization wanted all solicitors to be employed on a full time basis. No commission house, for example, could employ a solicitor who was also a live stock agent for a railroad.[7]

The Exchange dictated how many solicitors a firm could put in the field. In 1892, it limited a commission firm to three traveling solicitors. In 1895 no firm solicitor was to operate in Kansas, Oklahoma Territory, Indian Territory,

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[6]Minutes of the Board of Directors, 20 July 1895, vol. 3, RKCLE (Microcopy Collection 158); Constitution, 1903, vol. 8, p. 20.

[7]Ibid., pp. 18-19.

Missouri, or Nebraska, although any number of agents could operate outside of that trade area. In 1903 five men could act as solicitors and travel anywhere; ten years later the Exchange reduced the number to one.[8]

The trade area and the rules within which a solicitor operated were more specifically defined by 1921. The Kansas City solicitors were limited to an area bounded on the east by the Mississippi River, on the south by a line from the southern border of Arkansas through Fort Worth to the southeast corner of New Mexico, on the west by the eastern borders of New Mexico and Colorado, and on the north by the Platte River and the south boundary of Iowa. By 1921, an approved solicitor had to register all his movements with the secretary of the Exchange, unless he anticipated a trip of less than 30 days. There were also certain feedlots in the Kansas City trade area a solicitor could not visit without a written request from the owner. The solicitor filed the request with the secretary of the Exchange.[9]

Upon the publication of commission rates in 1886, there was an explosion of protest from cattle raisers in the Southwest. Producers' associations, normally antagonistic to one another, united into a front against the Exchange. Even the Farmers' Alliance of Parker County, Texas, (the

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[8]Minutes of the Board of Directors, 14 March 1892, 9 May 1892, 27 June 1895, vol. 3, RKCLE (Microcopy Collection 158); Minutes of the Board of Directors, 8 April 1902, 6 June 1913, vol. 4, Ibid.

[9]Minutes of the Exchange, 20 December 1922, vol. 5, Ibid.

progenitor of Texas Populism) joined with the Texas and Southwestern Cattle Raisers' Association to declare the action "oppressive and unjust." The International Range Association sent a committee to Kansas City and argued against the actions of the Exchange.[10]

The protest rested upon economic considerations. Producers claimed the transportation, feed, and yardage charges levied by the railroads and stockyards exceeded the cost of producing range cattle. The feed charges in Kansas City were $1 per bushel for hay and 75 cents per bushel for corn. The yardage charge was 20 cents a head for cattle, 8 cents for hogs, and 5 cents for sheep. This was cheaper than Chicago, however, for there producers paid $1.50 per bushel for hay and $1 per bushel for corn. The yardage charges in Chicago were 25 cents for cattle, 8 cents for hogs, and 8 cents for sheep.[11] Producers demanded retrenchment in expenses regardless, including a reduction in marketing charges. Complicating the problem was a decreasing demand for range beef in the United States. The range steer rarely weighed over 1,000 pounds in 1886, and the eastern consumer had no taste for lean beef. Instead, they wanted the fattened corn fed beef from the Midwest.

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[10]Minutes of the Southwestern Cattle Raisers' Association, 1886, p. 108; Texas Livestock Journal, 6 February, 13 March 1886; Daily Drovers Telegram, 30 January 1886.

[11]Ibid., 5, 8 February 1886

Consequently, while the price of range cattle dropped, the demand for corn fed beef remained high.[12]

The protest was also ideational. The argument of the producers changed very little from 1886 to 1921, yet there was little relationship between the commission rates and the economic problems of the shippers. The rates were not new and changed little over time. The commission charges on cattle, for example, remained the 50 cents a head for 36 years. During that same era the price of cattle varied from a low of $3.65 a hundred pounds in March 1889 to a high of $9.60 in August 1912, an increase of 263 percent. What really offended the producers was that a small body of commission merchants in Kansas City affected them at all.[13]

The protest against the Exchange in the 1880s did not come from the Corn Belt feeders. They tolerated the system. Feeders from the Midwest bought cheap cattle from the Southwest at bargain prices, fed them corn for six months, and then marketed them at top prices. Thomas Sturgis, secretary of the Wyoming Stock Growers' Association, in an address to Southwest cattle producers, noted the results:

> The major problem of the range cattle business is how to get our range steer, after his 4 years of buffalo grass and alkali water, into such condition that he can look, without humiliation, across the pens of the

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[12]Texas Livestock Journal, 1 May 1886; Kansas City Live Stock Indicator, 17 February 1887.

[13]Edward E. Dale Manuscript Collection, Western History Collection, University of Oklahoma, Norman, Oklahoma, Box 106, Folder 7, doc. 1, pp. 8-9.

stockyards at his sleek and pampered brothers from Illinois.[14]

The agitation against the Exchanges continued in Southwest throughout the late 1880s. In a Convention of Interstate Cattlemen in Ft. Worth, Texas, in 1890, the cattle raisers summed up their charges. J. L. Brush, president of the Colorado Stock Growers' Association, spoke for the group when he charged the commissions of 50 cents per head were too much for range steers. It was laudable the Exchanges sought uniformity in rates, but said Brush, there was a difference between the Southwestern and Midwestern livestock trade. He argued that the eastern feeder rarely shipped more than one consignment of stock to market, while the southwestern producer often shipped large trains of cattle, a volume that alone established a basis for a rate reduction.[15]

Brush offered an alternative to published commission rates. He wanted full grown cattle charged at 25 cents a head. If the animal brought over $25 at the market, he said the rate should be 1 percent of the gross amount, with a maximum charge of 50 cents per head. These changes, Brush reasoned, more accurately reflected the value of the animal. Let the corn fed steers carry the higher commission charges.[16]

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[14]Texas Livestock Journal, 1 May 1886.

[15]Proceedings of the Interstate Convention of Cattlemen (Washington, Government Printing Office, 1890), p 25.

[16]Ibid., p. 28.

Brush also pointed out inconsistencies in the actions of the Exchanges. He noted that livestock commissions were never fixed charges as the Exchanges claimed. Unwilling to give consideration to the producer, the Exchanges willingly permitted members to divide their commissions with firms from other markets. In this, opined the producer, 25 cents was a satisfactory profit for the commission firm! Brush chided that "the commission merchants did not seem to suffer from degradation and are not proposing to go out of business." Exchange members were willing "to divide with another firm, but not with the owner" who shipped directly to them.[17]

The commission merchants also reaped an excessive treble commission charge on range steers Brush complained. The merchant received a commission from the producer for selling the steer, but he also received a commission for executing an order to buy. The commission firm received a third fee from the packer when the fattened steer returned to the market. "Instead of being a misfortune to the commission merchant, the whole system of trade, Brush concluded, was "a picnic."[18]

The Fort Worth meeting had no effect. The Exchanges refused to capitulate. According to W. H. Thompson, president of the Chicago Live Stock Exchange, a 25 cents commission per steer was not a living wage for a commission

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[17]Ibid., p. 32.

[18]Ibid., pp. 33-34.

merchant. The purpose of exchanges was to bring uniformity of commission rates and the problem was the Southwestern cattle trade. Midwestern livestock producers, Thompson pointed out, were not in sympathy with their Southwestern counterparts. In fact, they supported the rate structure. The exchanges certainly appreciated the range cattle business, but in the case of Chicago, it consisted of only 10 percent of the trade. But range cattle were the lowest grade of animal and the hardest to market. Therefore, Thompson explained, the larger shipments from range cattle raisers meant larger expenses for commission merchants.[19]

It was one thing to publish standard rates; it was something else to enforce them. The Kansas City Live Stock Exchange understood that enforcement depended upon the cooperation of larger commission houses. Firms such as James H. Campbell & Co. (successor of Andy J. Snider & Co.) and Hunter Evans & Co ignored the wishes of the Exchange and rebated commissions back to the shippers, thus undercutting the power of the Exchange. So instead of directing enforcement efforts at the shippers, the Exchange singled out the offending commission firms.

In September 1886 (six months after the Exchange organized), the Board of Directors reported an increase in complaints from smaller commission firms concerning the rebate practices of their larger competitors. They could not compete against such unfair tactics. In 1887, the

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[19]Ibid., pp. 28-29.

Exchange sought to address the problem. Such evidence was difficult to collect, the board requested suggestions from the members. Nor was there a model to follow from St. Louis or Chicago; those two markets were the major violators of the Kansas City rules. So the Kansas City Exchange innovated its own approach to this unique problem.[20]

The Chicago Live Stock Exchange was the major difficulty. Because it refused to control the rebating of commissions, Chicago firms with branch offices in Kansas ignored the Kansas City rules. The Chicago market received four times (2,015,000 versus 491,000) the volume of cattle as did its competitor and viewed the entire livestock producing areas of the United States as their domain. They looked with disdain, contempt, and amusement upon their Kansas cousins. Moreover, the Chicago Exchange placed no restrictions on its solicitors nor did it divide commissions on stock forwarded from Kansas City. Also, Chicago competed vigorously for consignments in the Kansas City trade area, while the Kansas City merchants were not competitive in the Corn Belt except for eastern Kansas and Missouri.[21]

An opportunity to deal with commission rates and rebates came through the back door. The Chicago Exchange

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[20]Complaint of J. H. Payne, 6 September 1886, vol. 3, RKCLE (Microcopy Collection 158); Minutes of the Exchange, 12 February 1887, Ibid.

[21]Atkinson, Kansas City Trade, pp. 329-331, 349-358; Minutes of the Board of Directors, 22 November 1894, vol. 3, RKCLE (Microcopy Collection 158); Minutes of the Directors, 1 December 1890, Ibid.

proposed in 1887 that all livestock exchanges should unite in a national organization to "consider the general interests of the livestock commission men of the West." It suggested the formation of the National Live Stock Exchange to facilitate uniformity in rules and to provide a united front against the producers associations. This proposal stemmed from an immediate grievance Chicago had against Kansas City. Consignments of cattle on their way to the former stopped at the latter for rest and water. There the Chicago merchants believed the Kansas City merchants substituted dead, diseased, or injured stock in their possession for healthy animals on the Chicago bound stock trains. Chicago, therefore, received a disproportionate number of worthless animals from the Southwest. Merchants there wanted their Kansas City counterparts to join the National Live Stock Exchange so that the two exchanges could reconcile these problems.[22]

The Kansas City merchants happily accommodated them. Meeting in Chicago in March 1887, they promised reforms in the manner in which Chicago trains were handled, but they also demanded concessions. Specifically, they wanted Chicago firms doing business at Kansas City to terminate commission rebates to shippers, and they wanted Chicago merchants to split commissions with them on stock forwarded. Upon the latter the Chicago group choked. It divided the

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[22]Minutes of the Directors, 12 February 1887, Ibid.; Minutes of the Exchange, 7 January 1889, Ibid.

ranks of the larger Exchange, delaying passage of any resolution regarding split commissions until 1891, or 4 years later.[23]

It also delayed implementation of a strong National Live Stock Exchange. The Kansas City merchants did not join the national organization until Chicago started splitting commissions. Moreover, they were only casually interested in making sure than no merchant substituted any dead, diseased, or injured animals on stock trains bound for Chicago.[24]

Applying pressure on the Chicago Live Stock Exchange brought no immediate solution to the problem of split commissions. Nevertheless, the Kansas City Exchange on its own began blacklisting firms guilty of commission rebates. This action eventually led to resolutions of the split commissions question. To obtain evidence on rules violations on suspected firms, the Exchange hired detectives to board stock trains moving in and out of the Southwest. The detectives took depositions from Iowa to New Mexico on the activities of the livestock commission merchants at Kansas City. These produced information pertaining to split commissions involving a Chicago firm. After investigating

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[23]Minutes of the Directors, 1 December 1890, Ibid.; Kansas City Live Stock Indicator, 24 February 1887; Minutes of the Board of Directors, 18 April 1893, RCLSE (Microcopy Collection, University of Oklahoma).

[24]Meeting of the Exchange, 2 January 1890, vol. 3, RKCLE (Microcopy Collection 158); Meeting of the Exchange, 5 February 1891, Ibid.

the matter further, the Kansas City Exchange notified Harrison & Co. of Chicago that half commissions were due D. Thomson & Co. of Kansas City on 6 August 1887. When there was no response, the Board of Directors notified the offending Chicago firm that shipments of live stock from commission men at Kansas City to them would cease until the claim was settled. Promptly, Harrison & Co. wired D. Thompson the money in question. The threatened boycott had been effective.[25]

The Board of Directors at Kansas City pressed their Chicago counterparts further. When complaints of unfair treatment on the question of split commissions continued, the Kansas City board recorded that Chicago "sedulously refused" to change its rules and prepared to do battle with Chicago's largest commission firms individually.[26]

An opportunity soon presented itself. When the Kansas City firm of J. R. Stoller & Co. complained that Chicago firms refused to cooperate on stock forwarded to them, the Board held a special meeting, examined the correspondence and the bill of lading on the cattle in question, and acted. It requested that Clay, Robinson & Co. and Evan, Snider & Buel divide commissions with Stoller.[27] When the Chicago

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[25]Meeting of the Exchange, 21 June 1887, Ibid.; Meeting of the Directors, 1 August 1887, 20 February 1888, Ibid.

[26]Annual Report, 5 February 1890, Ibid.

[27]John Clay did not mention these activities in his autobiography, My Life on the Plains (Norman: University of Oklahoma, 1923; reprint 1963).

firms refused, the Kansas City merchants responded by boycotting them, refusing to forward livestock to the two firms in Chicago until Stoller received compensation. Other Chicago firms boycotted were Rappal, Lamb & Co., Hunter, Walter & Co., and Anderson, Patterson & Co.[28]

As earlier, the boycotts made the point. In 1891, the Chicago Board of Directors adopted rules authorizing split commissions. In response, the Kansas City Exchange joined the National Live Stock Exchange in 1891.[29]

But the rivalry between the two exchanges continued. In 1895, the Kansas City Exchange withdrew from the National Exchange over questions of representation. The Kansas City organization believed correctly that Chicago controlled the National Exchange through its membership rules. The feelings between the two exchanges became strident at times. President J. C. McCoy, in his address before the exchange accused the Chicago merchants of being "greedy of gain" and of having a "grasping eagerness of gain" in 1897. McCoy vowed, "we bow not to this idol, let us turn to something better."[30] Kansas City returned to the larger organization in 1903 when they needed the support of Chicago to justify increasing commission rates. Throughout the formative years (1886 to 1921), it used its membership in the National Live

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[28]Meeting of the Exchange, 13, 18 January 1890, Ibid.; Annual Report, 5 February 1891, Ibid.

[29]Meeting of the Directors, 1 February 1891, Ibid.

[30]Presidential Address, 28 June 1897, Ibid.

Stock Exchange as a way to coerce concessions from the Chicago Exchange.[31]

The Kansas City Live Stock Exchange also innovated ways to stop the Kansas City firms from rebating commissions to shippers. In early 1887, the Board of Directors reported rumors of "questionable transactions" on the part of members but it took them a year to act.[32] To defend themselves A. G. Evans of Hunter, Evans & Co. (based in St. Louis), G. W. Campbell of James H. Campbell & Co. (based in Chicago), and C. G. Means of C. C. Means & Co. (of Kansas City) were invited to appear before the Directors in August 1888. They appeared as requested. G. W. Campbell (apparently unaware of the rules) admitted James H. Campbell & Co. rebated $5 per car for all consignments of stock from shippers in the range cattle sections, whether the consignments went to Kansas City, Chicago, or St. Louis.[33] A. G. Evans was more cautious; he stated Hunter, Evans & Co. did not cut commissions "to his knowledge." The firm employed all solicitors by the month and paid them a stipulated salary, whether they sent in a "thousand hoofs or not one." Evans confessed he had recently paid $120 to a party sending in 24 cars of cattle.[34] C. G. Means denied any cutting of

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[31]Minutes of the Directors, 14 January 1895, Ibid.; Minutes of the Directors, 11 July 1903, vol. 4, Ibid.

[32]Minutes of the Directors, 12 February 1887, vol. 3, Ibid.

[33]Testimony of G. W. Campbell, 15 August 1888, Ibid.

[34]Testimony of A. G. Evans, 15 August 1888, Ibid.

commissions on the part of his house "since the Exchange was inaugurated."[35]

The Board of Directors acted quickly upon the confession of G. W. Campbell (brother of James H. Campbell).[36] It held a special meeting and notified the home office that "your house is constantly violating the rules of the Kansas City Live Stock Exchange." The board notified the Chicago firm it would investigate the charges formally on 18 December 1888 at 3 o'clock p.m. The Board invited James H. Campbell & Co. to make a defense on its own behalf.[37]

The Exchange detectives contacted the shippers involved in the case. One shipper from Kiowa, Kansas, provided a clear deposition of how the commission firms avoided the rules of the Exchange. In his case, he wrote, he had initiated the contact with the firm of James H. Campbell & Co. and notified it of his desire to ship. He was then telegraphed to "see our agent, L. B. Collins." Instead of Collins, a Tom McGee appeared at his hotel at Kiowa, and stated that he represented James H. Campbell & Co. in Collin's absence. McGee then wired "both directions" along the CRI & P railroad to locate Collins, who then surfaced at Amarillo, Texas. Both McGee and the shipper boarded the

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[35]Testimony of C. G. Means, Ibid.

[36]Powell, Kansas City Traders, p. 262.

[37]Minutes of the Directors, 8 December 1888, vol. 3, RKCLE (Microcopy Collection 158).

train at Kiowa for Amarillo (using the free passes provided by the railroad for shippers and commission merchants), arriving in that Texas town about midnight.[38]

The next morning McGee and the shipper met Collins at the Amarillo stockyards. The shipper asked Collins what "kind of a deal" could be arranged on cattle consigned to Kansas City from Kiowa. Collins offered either a rebate of $5 per car, or a commission charge of 25 cents per head. Collins empathized with the shipper and stated that "he saw some time ago that the shippers of cattle were getting the worst of the commission business." Collins promised the Kansas cattleman a check at Kiowa when the cattle were shipped or cash "at his place" at Kansas City.[39]

The shipper explained to the Board of Directors that commission firms intentionally evaded the rules of the Kansas City Livestock Exchange. Collins had openly admitted that James H. Campell & Co. preferred the rebate method rather than the lower commission rate of 25 cents. Collins had explained that the commission firm would enter the commission rate into the books at Kansas City at the rate set by the Kansas City Live Stock Exchange, but the rebate would be paid in cash. If the Exchange audited the books of the commission house at Kansas City, the books would show the required rate, not the actual rate.[40]

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[38]Deposition of Shipper, 13 December 1888, Ibid.

[39]Ibid.

[40]Ibid.

Collins explained to the shipper he did business in this way with all the "big syndicates." He had just sent the "manager" of the Spur Ranch a draft for a rebate and charged the amount to his expense account. Collins asked permission to notify his house that he had made the arrangements and wanted to know how many cattle would be consigned. He took the shipper to the freight agent and arranged for a number of cars to be placed at his disposal. During the trial, G. W. Campbell "denied none of these charges" and the Board of Directors fined the firm $400.[41]

Another deposition concerning Hunter, Evans & Co. led to a fine of $400 for that firm also. In this case the shipper testified that on 17 October 1888, while on a train between Canadian and Panhandle City, Texas, W. R. Curtis of Hunter, Evans & Co. asked if he had made arrangements for transporting his cattle. The shipper replied that he had not. Curtis proposed to handle the 1,500 animals (70-75 rail cars) at a commission rate of 25 cents per head, but he cautioned the shipper that the proposition was confidential. Hunter, Evans & Co. would enter the transaction as 50 cents a head in their books in Kansas City, but the shipper would receive a 25 cents rebate upon shipment or in Kansas City. "That is the way we fix it," Curtis admitted, "so as not to conflict with an arrangement which was existing between the commission houses in Kansas City." Hunter, Evans & Co. made

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[41]Ibid.

no defense against the rebate charges, and A. G. Evans paid the $400 fine.[42]

The trial of C. C. Means & Co. revealed similar transactions in 1888. According to a signed deposition, M. H. Snyder, a solicitor for C. C. Means, told a shipper the standard commission for handling cattle was 50 cents per head. But when Snyder discovered there were 1,900 steers ready for shipment (90-95 rail cars), he offered a rebate of $5 per car even though Means & Co. "deprecated the cutting of rates." After the presentation of this evidence, merchant C. G. Means requested time to find an important witness to refute the charges. When the Board inquired as to the nature of the evidence he expected to obtain, Means replied, "that is my business." The Board of Directors summarily refused to hear the witness and fined Means $400.[43]

The Kansas City Live Stock Exchange set an important precedent in the trial of these three large commission firms. It asserted successfully the right to regulate commission rates and to discipline violators of the rules; it also prevented the more powerful commission firms, which traditionally insisted on "going it alone," from undermining the functions of the Exchange.

But rebating and cutting of commissions were only part of the problem. The Exchange also moved to control the

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[42]Deposition of Shipper, 22 December 1888, Ibid.

[43]Deposition of Shipper, 22 December 1888, Ibid.

unfair activities of solicitors in the market area who destroyed competition and gave unfair advantage to the commission firms which used them. To this end the Exchange filed charges against several firms for flagrantly violating the rules governing solicitors. J. R. Stoller & Co., who earlier had received assistance from the organization on split commission from Chicago, was accused of violating rules by secretly using G. E. Lyon as a solicitor at Raton, New Mexico. Lyon was the cattle inspector for the New Mexico Sanitary Board and an employee of the New Mexico Cattle Raisers' Association. The Exchange charged that Lyon gave the Stoller company an undue advantage in New Mexico.[44] The Kansas City board also believed Evans, Snider & Buel gained competitive advantage by hiring J. M. Chittim, the livestock agent for the MK & T railroad, as a solicitor.[45] The same was true of James H. Campbell & Co. who hired Jerome Harris as a solicitor in San Antonio, Texas. Harris was also employed by Jarvis, Conklin Mortgage and Trust Co., a firm that financed cattle in southern Texas.[46]

The Exchange also convicted smaller firms of violating the rules on solicitation. Both White & Rial, and Larimer, Smith & Bridgeford retained solicitors at Glasco, Kansas. The former paid J. N. Haddock, Jr., the owner of the general merchandise store, to send stock to its house, while the

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[44]Minutes of the Directors, 6 June 1892, Ibid.

[45]Minutes of the Directors, 17 October 1892, Ibid.

[46]Minutes of the Directors, 1, 6 June 1892, Ibid.

latter employed D. H. Geirger, a vice president in the Glasco Bank. Both firms were tried, convicted, and fined for their activity.[47]

The regulatory efforts of the Board of Directors of the Kansas City Live Stock Exchange were successful. Despite vigorous protests from shippers from the Southwest, it held to its rate structure and refused any variation on the use of solicitors. When the Chicago Live Stock Exchange proved unwilling to cooperate in changing its own rules to regulate the activities of the larger cattle commission companies, the Kansas City Exchange boycotted the guilty firms and forced them to abide by the Kansas City rules. After the cases of James H. Campbell, Hunter, Evans & Co., and C. C. Means & Co., all the commission firms doing business at Kansas City joined the Exchange. The Exchange continued to try, convict, and fine violators for rebating commissions and misusing solicitors but it had established its right to regulate the cattle trade in the Southwest.

The Exchange also had to prove to shippers that it had the right to control and regulate the membership of the Exchange. The next chapter describes the membership regulations established by the organization, and the attempts of producers to break those rules.

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[47]Minutes of the Directors, 6 June 1892, Ibid.

CHAPTER IX

AMERICAN LIVE STOCK COMMISSION COMPANY

The Kansas City Live Stock Exchange successfully resisted the efforts of shippers and a few merchants to undermine the commission rate structure set in 1886. Two years later a group of Southwestern shippers made another attempt, joined in this case by the Kansas Populists, to destroy the power of the Exchange. They created a "cooperative" house called the American Live Stock Commission Company, the aim of which was to bypass the commission merchants of the Kansas City Exchange. The issue centered on the right of the Kansas organization to control and regulate its own membership. In 1889, the Exchange locked the upstart American group out of the stockyards. The cooperative sought injunctive relief from the District Court. The ensuing court case determined the right of the livestock exchanges to regulate the trade.

At stake was the right of the Kansas City Live Stock Exchange to determine who could be a livestock commission merchant and how many would operate out of the Kansas City Stockyards. The constitution of 1886 vested that power in the Exchange. In practice, however, the organization far exceeded that authority. Unlike either Chicago or St. Louis, it understood that anything short of the total participation of all interests in the stockyards within the confines of the Exchange would undermine its purpose.[1] Upon this premise the organization frequently resorted to coercion to enforce its will.

As already noted, the largest firms joined the Exchange only under duress. When, for example, Hunter, Evans & Co. refused to sign the rules and bylaws of the Exchange in 1886, the Board of Directors sent a hand picked committee of five members to "request that" A. G. Evans take out a membership.[2] When Evans failed to do so, the committee called again to inform that without a membership the firm would not enjoy the privileges of the Exchange. Specifically the Exchange would not provide any inspection service for hogs sent in by the firm nor would it act on the firm's behalf in commercial disputes with other members or shippers. Hunter, Evans & Co. joined the Exchange.[3]

The Exchange also pressured Andrew Drumm to take out a membership. Next to Andy Snider, Drumm was the most powerful cattle merchant in Kansas City from 1889 to his death in 1919. He accumulated vast wealth as a drover, banker, and rancher in Kansas and Indian Territory in the

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[1] Constitution, 1903, vol. 8, RKCLE (Microcopy Collection 158), pp. 7-11.

[2] Minutes of the Board of Directors, 12 February 1887, vol. 3, Ibid.

[3] Minutes of the Board of Directors, 8 March 1888, Ibid.

1880s and for years was the Secretary of the Cherokee Strip Livestock Association and ranching partner with Andy Snider. He had entered the commission business in Kansas City in 1889.[4] Seeing himself as an individualistic entrepreneur, Drumm avoided the Exchange when he first arrived at Kansas City. He believed that he could successfully carry out a commission business without "cooperating" with other merchants. Drumm formed a commission house in 1889 with F. O. Flato, the former office man for Hunter, Evans & Co.[5]

The credentials of Drumm, Flato & Co. failed to impress the directors of the Kansas City Live Stock Exchange. They sent a committee to interview Andrew Drumm, and "requested" that he take out a membership in the organization by 1 April 1889. When Drumm ignored the request, the secretary of the Exchange notified him that if a membership was not purchased immediately, the inspectors of the Exchange would stop docking hogs from his firm. Drumm, Flato & Co. thereupon joined the Kansas City organization.[6]

After a thorough check of all traders operating as commission merchants in the yards, the Board of Directors discovered in 1890 that there were still 44 merchants who were not members. A list of those in non-compliance was then posted on the bulletin board with a notation that the

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[4]Minutes of the Board of Directors, 1 April 1889, Ibid.

[5]Berkemeir, Major Andrew Drumm, pp. 1, 57.

6Minutes of the Board of Directors, 1 April, 6 May 1889 Ibid.

organization would not tolerate further evasion of the membership rules. In response the offending commission merchants either left the yards or joined the Exchange.[7]

The Exchange not only forced all commission merchants operating in the Kansas City market to become members, it also regulated the number of livestock commission merchants that could operate there. The instrument for controlling the number of members was the membership fee. In 1886 the cost for a membership was $10, but the board raised it to $100 in 1887. Due to difficult times in the livestock trade, the number of commission merchants decreased from 144 in 1886 to 136 in 1892. The board, however, believed there were more merchants needed in the Kansas City yards. In 1892 it notified prospective merchants that the price of membership would increase to $1000 in a year. In response, 157 new memberships were purchased. That constituted the largest increase in new memberships in the history of the Exchange between 1886 and 1921. By this ploy there were 293 members in 1894.[8]

Thereafter and until 1921 the Board of Directors kept the number of licensed commission merchants at Kansas City close to 300. If the membership fell below that number, the Board added others by suspending the rules and foregoing the

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[7]Minutes of the Board of Directors, 1 March 1890, Ibid.

[8]Minutes of the Board of Directors, 6 February 1886, 11 January 1892, Ibid.

$1,000 fee. Where this was done, the following note was made in the records:

> By unanimous consent of the Board the rules were suspended and the Secretary was instructed to cast the vote of the Directors in favor of the following parties becoming members and to issue certificates for each on on his compliance with the conditions prescribed in the rules and bylaws.[9]

Conversely, when the number of active commission merchants approached 300, the Board refused to affirm a prospective member's application, or it required the new applicant to pay the full $1,000 membership fee.

Despite the control the Board of Directors had over the number of members, the actual process of membership was not difficult. Any white male, resident of Kansas City of "good character, good credit, and of legal age" could apply. The rules required a written application, an endorsement of two members of the Exchange, and a deposit of $25. The secretary posted the application on the Exchange bulletin board for 10 days, after which time the board voted on the application. Final elections required seven affirmative votes from the nine members on the board. The new member then signed an agreement to abide by the rules and by-laws of the Exchange, paid the necessary fees, and took his seat on the Kansas City Live Stock Exchange.[10]

If the Board of Directors was not accepting new memberships, a prospective member could gain admittance by

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[9]Minutes of the Board of Directors, 6 July 1896, Ibid.

[10]Constitution, 1903, vol. 8, Ibid., pp. 15-18.

purchasing a certificate of "unimpaired or unforfeited" membership from an inactive member. If the latter had paid all the assessments, and had no outstanding, unadjusted, or unsettled contracts, the board generally allowed the transfer for $5. The membership of a deceased member was transferred in a like manner. Between 1886 and 1917 the number of memberships transferred greatly outnumbered original memberships. During those 31 years, there were 1,753 new members added to the Exchange; 736 merchants purchased original memberships, and 1,017 merchants bought their memberships from an inactive member.[11]

The Board of Directors used its power over the transfer of memberships to regulate the members in other ways. No one, for example, could sell his membership or use it as collateral for a loan until all his obligations were fulfilled. The Board rejected the application of W. H. Rayburn to transfer his membership because Rayburn owed considerable money to another member of the Exchange.[12]

In 1889 the American Live Stock Commission Company challenged the right of the Board of Directors to determine who could and could not be a livestock commission merchant in Kansas City. Historians have generally interpreted the American as a part of the late nineteenth century "cooperative crusade." Herbert Myrick and Keach Johnson

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[11]Annual Report, 7 June 1917, vol. 4, Ibid.

[12]Minutes of the Board of Directors, 4 February 1889, vol 3, Ibid.

described it as an example of a mighty struggle in the stockyards between the grangers and the trusts.[13] Actually the American Livestock Commission Company was the brain child of large cattlemen from the Southwest--not agrarian crusaders, although Kansas Populists later did lend it support.

The firm originated in secret meetings held in the Midland Hotel in Kansas City in early 1889. The Chicago Daily Drovers Journal reported that "leading cattlemen of the West" quietly arrived in Kansas City over a period of time in late January. An alert reporter for the Journal originally believed the meeting related to the Cherokee Cattle Company, but as it turned out, that was only a guise to obscure the real purpose of the meeting. The Journal reported "there is something far more important in the wind."[14] And indeed there was. The cattlemen aimed to organize a gigantic commission company for the sale of livestock. Andy Snider, millionaire rancher of Kansas City and former head of the Andy Snider Cattle Commission Co., was one of the active promoters of the new company. He, it was rumored, would be the manager of the Kansas City office. The three day meeting gave birth to the American Live Stock Commission Company. Selected as its Board of Directors were

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[13]Herbert Myrick, How to Cooperate (New York: Orange Judd Co., 1912), pp. 220-245; Keach Johnson, "Struggle in the Stockyards: The Rise and Fall of the Cooperative Livestock Commission Company," Arizona and the West 18 (Winter 1976):332.

[14]Daily Drovers Journal of Chicago, 2 February 1889.

Samuel Lazarus of Texas, A. Gregory of Illinois, and Nicholas T. Eaton and Thomas B. Bugby of Kansas City.[15]

Organizers justified their actions in language employed by the populist and robber baron historian Edwin Snyder. They believed that "for a long time" the cattlemen had been "losing out" in the livestock business because of a "combine" of the commission men and large packing houses. This conspiracy had forced the sale of cattle at "ridiculously low" prices. Contrary to what was later understood, these cattlemen viewed the Exchange as one of the evil "interests" in the stockyards. In their view, the Kansas City commission merchants coerced the packers into joining their Exchange and then forced them to buy only from members.[16]

The American Live Stock Commission Company was envisioned as a means to break down the power of the Kansas City Live Stock Exchange. Indeed, the American threatened to boycott Kansas City if the commission firms and packing houses discriminated against it. The new organization promised not ship "a head of stock" to Kansas City, but instead to ship their cattle to Chicago. Anticipating opposition from the Kansas City "combine," the Directors of the firm even incorporated the American in Illinois.[17]

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[15]Ibid., 31 January, 23 February 1889.

[16]Ibid.

[17]Roy V. Scott, The Agrarian Movement in Illinois (Urbana: University of Illinois Press, 1962), p. 75; Daily Drovers Journal of Chicago, 23 February 1889.

The Kansas City market, ironically, received by far the largest number of shipments to the American. In 1890, members sent 5,065 rail cars (or 52 percent) to Kansas City, 3,710 rail cars (or 38 percent) to Chicago, 531 rail cars (or 5 percent) to St. Louis, and 497 (or 5 percent) to Omaha. The percentage of the total receipts was also higher in Kansas City. These figures, however, did not indicate an overwhelming support for the dissenting organization. In 1890, the firm received 10 percent of the cattle at Kansas City and 4 percent of the hogs. In Chicago the American's trade comprised 4 percent of the cattle market and less than 1 percent of the hog trade. And the American apparently rebated $101,346 to its members.[18]

The new livestock commission company was hampered by internal division from the start. The initial promoters wanted a pledge from every stockholder binding them to transact all of their business through the cooperative. Many objected to this. E. M. Hewins, president of the Cherokee Strip Live Stock Association in 1889, left the meeting in protest and thereafter refused to take part in the organization.[19]

Nor did the rebate practice of the American Live Stock Commission Company endear it to the older Kansas City Exchange. By the terms of its charter, the American rebated

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[18]Myrick, Cooperate, p. 225; Atkinson, "Kansas City Trade," pp. 140-141.

[19]Daily Drovers Journal of Chicago, 2 February 1889.

65 percent of the net earnings back to the shippers in proportion to the number of rail cars shipped. The remaining 35 percent it distributed among the stockholders in proportion to the number of shares held.[20]

Controversy swirled more intensely after the Kansas Populists joined the "cooperative" effort. Controlling 9 percent of the stock in the American, the Kansas Alliance sent to Kansas City as its agent Edwin Snyder, the populist vice-president of the Kansas State Board of Agriculture and robber baron historian. Snyder in time also represented the Nebraska Alliance and the Kansas State Grange, both of which also became stockholders in the commission firm.[21]

Despite the Populist connection, the officers and managers of the American Live Stock Commission Company were not poor grangers. Director Samuel Lazarus, for example, was a part owner in the huge Pitchfork Land and Cattle Company in the Panhandle of Texas and ranked as one of the wealthiest men in the state.[22] The president of the American, H. W. Creswell, had prospered as a drover and ranch owner in Texas for years; in 1890 he owned a large ranch in Colorado.[23] Nor was Eli Titus, the general manager

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[20] Myrick, Cooperate, pp. 222-224.

[21] Kansas City Livestock Indicator, 3 April 1890; Myrick, Cooperate, p. 226.

[22] David J. Murrah, The Pitchfork Land and Cattle Company: The First Century (Lubbock: Texas Tech University, 1983), pp. 5, 7, 70.

[23] Dodge City Times, 19 April 1879.

of the American, a poor man. On the contrary, Titus was the "largest cattle speculator" at the Kansas City Stockyards. He formed a partnership with E. M. Hewins, secretary of the Cherokee Strip Live Stock Association, in the 1870s while Titus was the livestock agent for the AT & SF railroad. The chattel mortgage records of Sumner County, Kansas reflect the magnitude of the partnership's capital wealth: ten years before the American organized the firm of Hewins & Titus had loaned to A. M. Colson $12,000 for 11 months on 1,300 head of Texas cows.[24]

W. F. Peters was the only member of the American who was not a large cattle dealer. Peters was the commission merchant hired by the cooperative because it needed an agent who was already a member of the Kansas City Livestock Exchange. In so doing, the American hoped to avoid applying (and being turned down) for a membership. Although the Kansas City Exchange was not aware of the arrangements made in the first months of 1889, the American feared that its mode of operation would be discovered and the cooperative would not be able to function in the stockyards. Hopefully Peters would smooth the way. He had a good reputation in the Kansas City yards, he had been a charter member of the Exchange and even a director in 1887.[25]

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[24]U. S. Biographical Dictionary: Kansas Volume, pp. 632-633; Chattel Mortgage Record, 7 October 1881, vol. 5, p. 190, Sumner County Register of Deeds, Winfield, Kansas.

[25]Powell, Livestock Traders, p. 269; Kansas City Livestock Indicator, 29 November 1890; Report of Election, 13 February 1887, vol. 3, RKCLE (Microcopy Collection 158).

The Kansas City board began receiving reports of the improper business methods of the American in late 1889. It wanted clear evidence of a violation of the rules of the Exchange before acting. Not disposed to let the cooperative go unchallenged, the board on 11 June 1890 instructed the Secretary of the Exchange to notify H. W. Creswell, the President of the American Live Stock Commission Company, that charges had been preferred against the American for violating the rules of the Exchange on rebating commissions to shippers.[26] He was requested to attend a hearing on the charges. Creswell refused to participate. Nevertheless, at the scheduled hearing the charges against the cooperative were read into the record--by none other than Chester A. Snider. Ironically Chester was the son of Andy Snider, one of the promoters of the American.[27] He cleverly turned the rhetoric of populism against the cooperative. The American, he charged, was a "combination" among various "wealthy" cattlemen formed to regulate the supply of cattle and control prices. The design of the Company was to "oppress and drive from business the smaller independent dealers." As evidence Snider pointed to advertisements of the "trust" which claimed no railroad would dare dispute its damage claims for fear of reprisals by the large and powerful membership. The American, he said, obviously sought to

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[26]Minutes of the Board of Directors, 11 June 1890, Ibid.

[27]Powell, Kansas City Traders, p. 215.

acquire control of the entire livestock transportation business. Because of the immense number of cattle it controlled and the aggregate wealth of the stockholders, the cooperative, Snider concluded, would regulate the offerings of cattle on the principle markets and thus "steady" prices to consumers.[28]

Upon receipt of the charges filed against them, the American Live Stock Commission Company sought assistance from the Kansas Populists. The Populists controlled the legislature in Kansas in 1890, and sympathized with the grangers. Eli Titus, general manager of the American, traveled to Topeka and sought legislation to prevent the Kansas City Live Stock Exchange from expelling the "cooperative" commission company from the Kansas City market. Titus had enough influence with the populist legislature to pass the "Roe Bill." The bill declared the regulation of commissions on the sale of livestock in the State of Kansas unlawful, and thus, effectively outlawed the Kansas City Live Stock Exchange.[29]

In response, the Board of Directors of the Kansas City organization revoked the membership of the American Live Stock Commission Company. They also expelled all members of

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[28]Speech of Chester A. Snider, 2 March 1891, vol. 3, RKCLE (Microcopy Collection 158).

[29]Minutes of the Board of Directors, 31 March 1891, Ibid.; Kansas Farmer, 11, 18 March 1891; Raymond C. Miller, "The Populist Party in Kansas," (Ph.D Dissertation, University of Chicago, 1928), p.62; Kansas, Session Laws of 1891 (Topeka: Kansas Publishing House, 1891), pp. 294-295.

Exchange associated with the cooperative. The board insolently declared that the Exchange would "have nothing to do" with the Roe Bill or "with any laws which may be enacted" by the Kansas Legislature.[30] They further adopted a new rule, no. 16, which gave them more disciplinary power over members--the authority to black ball a member. This power was immediately employed against the American. Previously, the Board could do nothing more than refuse to dock any of an offending firm's hogs. Now it could prevent commission merchants, traders, packers, and railroads at the Kansas City Stockyards from doing business with an offending party. The implementation of Rule 16 against the American effectively shut it out of the Kansas City market. No packer would buy its livestock, and no trader would buy its animals for speculation.[31]

With the Roe Bill in the statute books, the American Live Stock Commission Company sought an injunction against the Kansas City Live Stock Exchange to prevent the expulsion. Attorneys for the cooperative filed the case of William G. Peters v Frank Cooper, et. al. in the Wyandotte County District Court in Kansas City, Kansas, on 2 March 1891. They challenged the membership rules of the Exchange on the grounds that the Kansas City market was a "public market," and, therefore, not subject to interference or

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[30]Minutes of the Board of Directors, 2 March 1891, vol. 3, RKCLE (Microcopy Collection 158).

[31]Minutes of the Board of Directors, 14 March 1891, Ibid.

regulation by a private agency. Since livestock shipped to Kansas City was an interstate trade from various states in the West, charges levied upon shippers by the Exchange constituted a "restraint." The American believed that the Exchange rules were an injury to the shippers and the public at large. Furthermore, they were in violation of the Roe Bill recently passed by the Kansas legislature.[32]

Attorneys for the American also cited the 1876 case of Munn v Illinois. In this case the court ruled in favor of state regulation of grain elevators in the Midwest. Grain elevators stood at the very "gateway of commerce" and the elevator warehousemen took a toll from all who passed. As the "system" tended towards conspiracy and monopoly, the court affirmed the appropriateness of placing warehouseman in the grain trade under public regulation so "that they take but a reasonable toll." The same principle, the attorneys argued, should be applied to the stockyards. The yards stood at the "very gateway of commerce" to the Southwest, and these commission merchants took a toll in the guise of a commission upon livestock. As a consequence, "public interest" should be entitled to protection via the power of the state and the courts.[33]

The attorneys of the Kansas City Live Stock Exchange challenged all of the arguments made by the plaintiffs.

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[32]Petition and Precipe, William G. Peters v Frank Cooper et al, 2 March 1891, Wyandotte County District Court, Kansas City, Kansas, pp. 1-14.

[33]Ibid., pp. 15-17.

They maintained there was no price fixing on the part of the Exchange, and that any shipper could sell his own stock. Moreover, the Kansas City market was "not affected with a public interest" because all of the sales were "private affairs" between the individual buyer and seller. They argued, also, that the Exchange had a right to regulate its own members. Since the officials of the American Live Stock Commission Company had signed an agreement to abide by the rules and by-laws of the Exchange when they became members, failure to comply was grounds for expulsion. Rather than meet their good faith commitments, the American had actually launched a secret conspiracy to undermine the Exchange. Its representatives had made false and defamatory statements about the Kansas City market and brought discredit upon it. The Exchange, argued its lawyers, had the "constitutional and civil rights" to be left at "liberty to refuse business relations with the American without being required to assign any reason whatsoever." And as the Kansas City Exchange had rules which allowed it to expel any member who was guilty of extortion, the "dishonorable, deceitful, and fraudulent" acts of the American justified expulsion.[34]

The livestock exchanges at Chicago and Omaha also brought suit against the American Live Stock Commission Company. Both the Kansas City and Omaha cases were dropped in order that the case in Illinois could be taken to the State Supreme Court. The Illinois court ruled in favor of

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[34]Plaintiffs Reply, Ibid., pp. 1-11.

the Exchanges on 31 October 1892. It acknowledged that the Exchanges did have the right to regulate their own membership, a right that legalized expulsion. However, the court conceded that there was a good basis for declaring the stockyards a public market by reason of their magnitude and far reaching influence on the consumer. Nevertheless, the court declared that until legislatures specifically determined that the stockyards were public markets the exchanges had the right to regulate the livestock trade. On the question of membership of a private organization, the court agreed that exchanges could discipline their membership.[35]

The court case involving the American Live Stock Commission Company had monumental implications for the Kansas City Livestock Exchange. Previously the Exchange had merely "assumed" that the community granted it the right to regulate the livestock commission trade out of Kansas City. The American case implied that the courts accepted this premise and would grant it protection under the law. The Exchange was safe from the aggressive assaults of shippers from the West as long as a legislature did not declare the yards a "public market." That it took 32 years before a legislature so declared suggests an ambivalence on the part of the grangers concerning who regulated the livestock trade. Not until the agricultural depression of 1919 did

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[35]American Live Stock Commission Company v Chicago Live Stock Exchange, Northwest Reporter 274-283 (1892).

the shippers press for federal regulation and a declaration of the stockyards as a "public market."

CHAPTER X

FINANCING THE CATTLE TRADE OF THE SOUTHWEST

The Live Stock Exchange and the commission firms at Kansas City were essential links in the financing of the cattle industry in the Southwest in the late nineteenth and early twentieth centuries. The commission merchants made money available in capital scarce areas, and the Exchange served as a watchdog over their activities. Commission merchants left few records that detail the extent of their involvement in cattle finance. Chattel mortgage records in Texas, Oklahoma Territory, and Kansas counties, however, record this activity. Furthermore, the correspondence of the Wichita Cattle Loan Company describes the processing of "cattle paper" from the cattle ranges to eastern banks. The next two chapters outline the background for cattle finance, the extent that commission merchants were involved, how the Kansas City Live Stock Exchange regulated that activity, how the commission firms assisted in getting capital into frontier areas, and the procedures used in transferring "cattle paper" from capital scarce to capital intensive areas.

The history of financing the livestock industry in the Southwest was a story of cattle finance, not hogs or sheep. The Kansas City Live Stock Exchange records contain no references to difficulties encountered in financing hogs or sheep. Several reasons account for this. Hogs production in the nineteenth century required little capital, and local banks provided what little financing was necessary. Also hog producers rarely sought sources of capital outside their local areas. The financing of the sheep industry bypassed the livestock exchanges also. Sheep herders were primarily wool producers. The sale of sheep for mutton was only a secondary interest, and, therefore, the short-term financing for sheep came through the wool trade, and not the livestock trade.

The potential for fraud in cattle finance was great. As with other "evils and abuses," the absence of the producer in many of the transactions made it difficult to check these transactions. But the Kansas City Live Stock Exchange had the power to act quickly and decisively on the behalf of the producers. It audited commission firms account books; it forced repayment of misused funds; it expelled fraudulent merchants; and it recommended prosecution when criminal activity was uncovered. Surprisingly, there were few cases of fraud which came to light in the history of the Exchange. The most frequent mention of these problems occurred in the years 1897 to 1902.[1]

Historians have long recognized the importance of financing the cattle trade. Edward E. Dale, the historian of the range cattle industry, admitted in 1924 that "the financial side of the cattle business is a subject upon which comparatively little has been written, and yet it was the most important." Neither Dale, nor his students, pursued the study; undoubtedly the reason was a lack of sources.[2]

The intriguing question is how did the cattle raisers get the money to finance operations in areas where there were few sources of capital. Historians have provided two answers to that question. Gene Gressley, in Bankers and Cattlemen, wrote that the major source was eastern capital. He describes the formation of joint stock companies on the cattle ranges of Wyoming and how they raised capital through Wall Street. According to Gressley, the livestock commission merchant was an important "steward" of eastern capital. Gressley's work is helpful in understanding the financing on the Wyoming cattle ranges from 1880 to 1885, but he tells only part of the story.[3]

Other historians have argued that much of the capital for the cattle trade was self-generated. This was

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[1]Daily Drovers Journal of Chicago, 24 October 1899.

[2]Dale, "Passing of the Range," p. 16.

[3]Gressley, Bankers and Cattlemen, p. 183.

particularly so in the Southwest. The dissertation by David B. Gracy II, entitled "George Washington Littlefield: A Biography in Business," relates how a Texas entrepreneur accumulated sufficient capital as a frontier merchant and cattle drover to finance his own cattle deals, and those of others as well. A similar published study by David J. Murrah, entitled C.C. Slaughter: Rancher, Banker, and Baptist, describes how another southwestern entrepreneur slowly accumulated his own capital as a merchant, drover, and banker without resorting to eastern capital.[4]

Both the "eastern capital" and the "self-generated capital" hypotheses are correct. Chattel mortgage records in the Southwest demonstrate that self-generated capital financed the early cattle trade. By the early 1880s, however, those same records reflect that cattle producers looked to outside financing. In this quest the commission merchants in Kansas City played an integral part in the flow of eastern money into the Southwest.

The chattel mortgage was not new in the history of American finance. As Southwestern entrepreneurs migrated from East to West, they naturally carried with them ideas and concepts concerning business, and the chattel mortgage was one of them. They simply adapted a European business institution to the cattle trade of the American Southwest.

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[4]David B. Gracy II, "George Washington Littlefield: A Biography in Business," (Ph.D dissertation, Texas Tech University, 1971), pp. 3-93; David J. Murrah, C.C. Slaughter: Rancher, Banker, Baptist (Austin: University of Texas Press, 1981), pp. 60-73.

The "chattel" was of French-Norman origin and referred to mobile property such as animals, money, jewelry, or grain. The word "mortgage" was also French; it meant "an active or living pledge" given as security for paying money. A person of small capital (or who was real estate poor) generally utilized the chattel mortgage; entrepreneurs used it only out of necessity and replaced it by superior means of financing when they became available. It was no accident that the states of Texas, Kansas, Colorado, New Mexico, and Oklahoma all passed chattel mortgage laws, although Missouri did not.[5]

Chattel mortgage records stored in County Clerk's offices in Texas counties and the Register of Deeds offices in Kansas and Oklahoma counties detail cattle financing. For the purposes of this study, the records of six counties were examined, but only in part. Documents are so voluminous that only selected years of each county could be examined. Furthermore, not all counties had records for the same years. For example, the County Clerk in Palo Pinto County, Texas, only made available the years from 1870 to 1877; the Young County records were complete only after 1877; information on Day County, Oklahoma, existed only for 1897 and 1898. But Roberts County, Texas, and Ford and Sumner Counties, Kansas, had a complete set of chattel mortgage records.

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[5]Joseph E. Cobbey, Chattel Mortgages (St. Paul: West Publishing Co., 1893), I:1-3.

There was limitation as to the comparative value of the documents. The interest rates were seldom mentioned, and the release dates of the mortgages were not consistently recorded. Therefore, a comparison of interest rates charged in these frontier counties with the cost of money in the East was impossible. It was also impossible to tell which mortgages were paid off and those that remained unpaid. Nevertheless, all counties recorded the terms of the sale, the mortgagee, the mortgagor, the amount loaned, and a description of the property. The records made it possible to find out who was financing cattle in what years, when outside financing first appeared, and what were the other sources of capital. Most importantly, these records traced the involvement of the Kansas City livestock commission merchants in financing cattle in the different counties.

Cattle sales in the Palo Pinto County County from 1870 to 1877 relied upon chattel mortgages. Not only did capital come entirely from local sources, but the chattel mortgage was a vehicle of long term financing. The latter was unique, for ordinarily such mortgages were a means of short term finance. The earliest recorded chattel mortgage was in 1867, but the greatest number occurred in 1871 and 1872.[6]

Of the $226,074 in cattle sales recorded in 1871, chattel mortgages secured 58 percent of them. The average

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[6]Bill of Sale, 1870, Bill of Sale, Mortgages, Personal Property, Book A, 1871, Bill of Sale, 1872-1877, Palo Pinto County Clerk's Office, Palo Pinto, Texas; in this county for these years the bill of sale and chattel mortgage were entered in the same register.

size of the loan was $6,271, and the average term on the loan was 12 months. The largest loan with the most generous terms was a sale made by Palo Pinto rancher and drover John Hay to Whatley & Daniels for $40,000 on "cattle running in Palo Pinto and adjacent counties." Hay received three notes: one was for $5,000, due in 8 months; two notes were for $17,500 each, the first due in 20 months, and the second due in 32 months.[7]

In 1872, there were fewer cattle sales than in 1871. Cattlemen, however financed a higher percentage of the $168,639 in sales. Sixty-nine percent of the transactions were made on borrowed money. The average size of the loan also increased by $1,000 over the 1871 figure to $7,271, although the average length of the loan was again 12 months. As in 1871, John Hay sold the most cattle, financed the sale himself, and granted the longest terms. On 6 February 1872, he sold to I. Conater cattle worth $25,000 in "Palo Pinto and adjacent counties." Hay received five notes of $5,000 each with terms of 8, 20, 23, 44, and 54 months.[8]

The heaviest borrowers were drovers. John Gage, John Hittson, Jack Daniels, John Hay, John Dalton, and O. Lynn drove cattle out of North Central Texas to Kansas, Colorado, and Wyoming. All purchased at least part of their cattle on

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[7]Bill of Sale, Mortgages & Personal Property, 10 May 1871, Book A, p. 49, Ibid.

[8]Bill of Sale Record Book, 6 February 1872, p. 210, Ibid.

credit. The rancher was both producer and the financier. The drover brought back to North Central Texas gold, specie, or U.S. Currency. Both the drover and rancher accumulated considerable capital through this exchange. The terms of the contract could be complicated. C. C. Slaughter, both a drover and a rancher, recorded the following mortgage:

> Know all men by these presents that I, C. C. Slaughter, of the County of Palo Pinto and State of Texas for and in consideration of the sum of $12,000 to me secured by Mr. P. Johnson of the County of Stephens...$2,000 gold dollars secured by bond...the deed to a certain tract of land being 1 1/2 miles northeast of Palo Pinto and known as the Johnson Place, and $4,000 in gold secured by promissory note of the said Johnson due and payable on 1 July 1872...$16,000 by gold by promissory note of said Johnson due and payable on 1 May 1873...have bargained, sold, and conveyed...all that certain stock of cattle now running and ranging in Palo Pinto and adjacent counties...marked and branded...(with C.C. Slaughter's brand)...dated 1 April 1872.[9]

Such mortgages ceased in 1873 in Palo Pinto County. Drovers Jack Daniels and John Hay purchased several herds of cattle on credit, but they never returned to pay their debts. According to W. C. Cochran, a small rancher who first registered a brand in Palo Pinto in 1858, the Hay and Daniels "swindle" bankrupted a good many ranchers. Daniels and Hay had been ranchers in Palo Pinto as early as 1862, but unlike most who remained producers, they also engaged in trading and droving cattle. According to Cochran, the two drove numerous herds out of the county in the early 1870s and always returned to pay off their debts. Over time they "established a good credit," a rating that naturally aided

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[9]Bill of Sale, 11 April 1872, p. 103, Ibid.

their swindle. Daniels later surfaced in California, but Hay was not heard from again. No wonder that all cattle sales in Palo Pinto County from 1873 to 1877 were for cash![10]

Records of Young County, Texas, and Ford County, Kansas, detail the first outside financing in their local areas, and the first appearance of commission firms. Graham, the county seat of Young County was 60 miles northwest of Palo Pinto County and south of Wichita Falls, Texas. In southwest Kansas, Ford County was the termination point for the cattle drives out of Texas from 1877 to 1886. Dodge City, the largest town in the county, was an important entrepot for the trade.[11]

In Young County the capital for cattle finance was self generated until 1897. From 1880 to 1883 eighteen ranchers transacted loans and signed a total of 59 notes. The average size of a loan was $23,024, and the average size of a single note was $7,021. While the amount of the note remained about the same as ten years earlier in Palo Pinto County, the amount of money loaned to one rancher jumped 300 percent from $7,271 in 1872 to $23,024. The largest loan

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[10]W.C. Cochran, "Story of the Early Days Indian Troubles and Cattle Business of Palo Pinto and Adjoining Counties," (Barker History Center, University of Texas, Austin, Texas), pp. 34-35.

[11]Alyce M. Bradshaw, "From Pioneer to Prosperity, 1876-1926: A Narrative of Growth and Development in Young County, Texas, as Reported in the Graham Leader (Masters Thesis, Midwestern University, 1969), pp. 1-10; Robert R. Dykstra, The Cattle Towns, pp. 56-62.

was made on 5 July 1881 when James D. Reed, a former drover, loaned $110,000 to Saul & Armstrong on "cattle running in Fisher, Stonewall, and Haskell counties, in addition to a ranch wagon and equipment."[12] Of the 18 sources of capital listed in the chattel mortgage records from 1880 to 1883, moreover, 17 were from Young County. There were no commission firms and only one bank involved. On 29 August 1881, the City National Bank of Dallas loaned to William Rusk $3,165.55 for 12 months on "all of the Wise cattle running in Young and Throckmorton County."[13]

The first livestock commission firm to bring outside capital into Young County was C. C. Daly of Chicago in 1890. It loaned J. W. Wilcox of Clay County, Texas $12,000 on 27 November 1890 for six months on 800 three year old steers.[14] But this transaction was an exception. It was another four years before Evans, Hutton, Hunter & Co., a commission firm, loaned $16,000 for 60 days. Not until 1897 did the financing of cattle by commission firms become a common occurrence.[15]

Between 1877 and 1887 there was a somewhat different pattern in Ford County, Kansas. As in Texas, local ranchers

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[12]Register of Chattel Mortgages, 15 July 1881, vol. 1, p. 2, Young County Clerk's Office, Graham, Texas.

[13]Register of Chattel Mortgages, 29 August 1881, vol. 1, p. 3, Ibid.

[14]Register of Chattel Mortgages, 27 November 1890, vol. 1, p. 33, Ibid.

[15]Register of Chattel Mortgages, 12 November 1894, vol. 1, p. 83, Ibid.

and merchants transacted the major financing. From 1877 to 1887, there were 44 notes recorded; the average size of which was $16,237 and the average terms of which were 12 months. Thirty-three of the lenders were Ford County residents; six were from banks; five were from commission firms. The first record of a local bank loaning money on cattle was the Bank of Dodge City on 16 January 1884.[16]

But the Kansas City livestock commission merchants financed cattle in Kansas much earlier than in Texas. The livestock commission firm, Quinlin, Montgomery & Co., was a party to the first three financial transactions in Ford County, 13 years before a commission merchant financed cattle in Texas. On 23 August 1877 it loaned $60,000 for three months;[17] on 12 July 1878 it loaned 20,000 for four months;[18] and on 23 May 1879 the firm loaned $20,000 for three months.[19] Quinlin, Montgomery & Co. then sold these notes--a pattern common in the trade in the 1890s--to eastern sources of capital. The $20,000 note from John Fraser, dated 12 July 1879, received the following endorsement: "Kansas City, Missouri, July 6, 1878. For value received we hereunto assign the within mortgage to

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[16]Chattel Mortgage Register, 9 September 1884, Book A, p. M-12, Ford County Register of Deeds , Dodge City, Kansas.

[17]Chattel Mortgage Register, 23 August 1877, Book A, p. F-1, <u>Ibid</u>.

[18]Chattel Mortgage Register, 12 July 1878, Book A, p. E-1, <u>Ibid</u>.

[19]Chattel Mortgage Register, 23 May 1879, Book A, p. C-3 , <u>Ibid</u>.

Plankton & Armour."[20] As in Young County, Texas, Kansas City livestock commission merchants were little involved in cattle finance until 1897, but the extent of their involvement was better detailed in other counties for the years 1897 to 1902.

Chattel mortgage records for Day County, Oklahoma Territory (in west central Oklahoma later organized as Ellis and Roger Mills Counties), Roberts County, Texas (in the Panhandle of Texas), and Sumner County, Kansas (south central), demonstrate the importance of livestock commission merchants in Kansas City in financing the livestock business in capital poor areas. In Day County, Oklahoma Territory, between 1 June 1897 to 1 June 1898 ranchers borrowed $255,398. Of that amount the Kansas City merchants loaned an amazing $227,760 or 89 percent of the capital, while local banks supplied only $27,538, or 11 percent.[21]

The percentage of involvement by commission merchants in the other counties was not so dramatic. In Roberts County, Texas in 1900, cattle raisers borrowed $400,802; the Kansas City commission merchants supplied $197,695, or 49 percent of the capital, while banks supplied $179,529 or 45 percent. Unidentified lenders supplied the remaining 6

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[20]Chattel Mortgage Register, 12 July 1878, Book A, p. E-1, Ibid.

[21]Day County Real and Chattel Mortgage Register, 1 June 1897-1 June 1898, vol. 1, pp. 1-114, Ellis County Clerk's Office, Arnett, Oklahoma; Mrs. Owen W. Lentz, local historian, assisted in finding these records.

percent of the money.[22] In Sumner County, Kansas, for 1897 producers borrowed $218,155 on cattle, of which $122,195, or 56 percent, came from the commission merchants. Only $86,001, or 39 percent, came from local sources. Unidentified lenders supplied the remaining 5 percent of the capital.[23]

Comparing the size of loans made by local sources with those made by the commission firms reflects the importance of the commission merchants in financing the cattle trade in capital poor areas. In Day County, if a cattle rancher had substantial financial requirements, he had to utilize outside financing. The local banks could only loan an average of $724 to a rancher. Use of a commission firm in Kansas City could increase a ranchers potential capital eight times. The average loan made by a commission merchant in Day County was $5,673. In Roberts and Sumner Counties the figures were less striking, but nevertheless significant. The commission firms loaned two times as much as the local sources. In Roberts County the average size of a loan was $7,060, while the local banks loaned an average of $3,452. In Sumner County, the Kansas City Commission firms loaned $3,302 on the average, while the local banks loaned $1,720.

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[22]Chattel Mortgage Register, 11 January-5 December 1900, Roberts County Clerk's Office, Miami, Texas.

[23]Chattel Mortgage Register, 1 January 1897-30 December 1897, vol. 27-28, Sumner County Register of Deeds, Winfield, Kansas.

The commission firms also gave the producers better terms on the money borrowed in two out of the three counties. In Day County, the firms granted 2.1 months longer on money borrowed: 6.2 months compared with 4.1 months for local banks. In Sumner County, the commission firms granted livestock producers 1.9 months longer than local sources, while in Roberts County, there was no difference in the terms, 5.5 months granted livestock producers between the outside financing and local capital.

In all three counties the largest loans came from commission firms at Kansas City. In Day County the firm of Offutt, Elmore & Cooper loaned $10,665 for 9 months;[24]; in Sumner County, Fish, Tower & Doyle loaned $15,000 for 3 months;[25] in Roberts County the Kansas City Livestock Commission Company loaned $29,183 for 6 months.[26]

One striking pattern concerning the financing of cattle in the Panhandle of Texas emerges from a study of the chattel mortgage records. The Emporia National Bank of Emporia, Kansas, loaned more money to cattle raisers in Roberts County, Texas, than any single bank, in or outside of the county. In 1900 it loaned $64,706, or 16 percent of all money loaned. This reflected an important pattern in

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[24]Day County Real and Chattel Mortgage Register, 20 October 1897, vol. 1, p. 79, Ellis County Clerk's Office, Arnett, Oklahoma.

[25]Chattel Mortgage Register, 23 July 1897, vol. 27, Sumner County Register of Deeds, Winfield, Kansas.

[26]Chattel Mortgage Register, 31 October 1900, Roberts County Clerk's Office, Miami, Texas.

the livestock trade of the Southwest. The Flint Hills ranchers around Emporia looked to the Panhandle of Texas for feeder steers. These ranchers grazed the Panhandle steers on the grasses of eastern Kansas, and then shipped them to market. Thus the Panhandle ranchers got special treatment from Emporia. The Emporia National Bank appears to have given cattle producers the longest terms of any financing institution. It never stipulated the terms of the loan in the chattel mortgage records, but the date the loan was paid off was always 12 months after the loan was made. This bank granted Texas ranchers twice the time to pay back a loan than the 5.5 months required by other financial sources in the county.[27]

The chattel mortgage records from Day, Sumner, and Roberts Counties also helped to answer questions concerning competition among any number of commission firms operating in local areas. With obvious limitations, the record reflects that competition in the trade, was generally dominated by one or two commission firms. However, it was rare that the same commission firm was dominant in all six counties.

Cattle producers had the widest choice of commission firms in Sumner County. In 1900, there were 10 commission firms from Kansas City supplying funds on cattle, but two firms were the most active. Fish, Tower & Dial controlled

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[27]Chattel Mortgage Register, 30 April, 12 May, 27 July, 3, 19 October, 7, 14 November, 5 December 1900, Ibid.

39 percent of the trade in Sumner County; Siegel & Sanders had 31 percent; eight other firms competed for the remaining 30 percent of the trade.

In Roberts County the pattern was similar. Whereas there were five commission firms operating in the county from 1897 to 1901, Tamblyn Live Stock Commission Company financing 43 percent of the contracts. Seven commission firms operated in Day County, but Offutt, Elmore & Cooper conducted 69 percent of the business. Drumm & Flato loaned 20 percent of the funds with three loans, one of which was in the amount of $40,373. The largest amount loaned by Offutt, Elmore & Cooper was $21,232.

Although a limited sample, the chattel mortgage records of the six counties suggest that a pattern existed in the trade. In the early 1870s and early 1880s the primary sources of capital were local. The commission firms infrequently loaned money in the 1880s and early 1890s, if at all. They entered the field vigorously only in 1897. After 1902 the banks and cattle loan companies replaced the commission firms as a source of outside capital.

The records of the Kansas City Livestock Exchange substantiate this pattern. Before 1897 there was little mention of financing cattle. The only question that came before the Board of Directors from 1886 to 1897 concerned the liability of stolen cattle that were also mortgaged. The courts decided that any sale of stolen mortgaged cattle was the liability of the commission firm, placing the Kansas

City commission firms at considerable risk. It was impossible to tell if a load of cattle was stolen, and even more difficult to determine if the cattle were mortgaged. So the Exchange passed resolutions and offered rewards for the conviction of persons sending mortgaged cattle through the stockyards. The dilemma was resolved in 1898 when the Kansas Supreme Court ruled that commission merchants were not liable for stolen cattle.[28]

After 1897 Exchange records reflect considerable involvement of commission merchants in livestock finance. For the Board of Directors this involvement generally meant adjudication of disputes involving members of the Exchange and efforts to provide protection for offended parties. For example, in 1899, the commission merchant W. H. McCallister of Kansas City arranged a loan for James Brody of Lebanon, Kansas. McCallister endorsed or guaranteed payment of the note and discounted it with the Painesville National Bank of Painesville, Ohio. When the note came due, Brody sent a check for $2,500 to McCallister in Kansas City as full payment. McCallister, however, failed to transfer the funds to the Painesville National Bank. On 13 June 1900, James Brody applied to the Directors of the Kansas City Live Stock Exchange for assistance. The Painesville National Bank brought a legal suit against James Brody for payment of the note. It was discovered that McCallister had endorsed

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[28]Minutes of the Board of Directors, 31 January 1889, 3 February, 21 November 1892, 7 July 1897, vol. 3, RKCLE (Microcopy Collection 158)

the note, but it was meaningless--he had no financial capital and was bankrupt. The Kansas City Live Stock Exchange tried the case and found McCallister guilty of dishonorable and uncommercial conduct and expelled him from the Exchange. Sadly, the case demonstrated that the weak link in transferring capital from the East to the West often was the commission merchant.[29]

That fact was demonstrated as well in the case of McKee, Zook & Whitford. This firm misapplied money on four notes. The first note, dated 25 February 1901 and due on 25 October 1901, was made by Aaron H. Marton of Toronto, Kansas for $534.60. Marton sent $300 to Kansas City to be applied against the note, but McKee, Zook & Whitford failed to do so. Another note was from F. M. Vermullion of Lemonville, Missouri for $2,999, while two others were from J. H. Hutchinson & J. R. McQuigg of Grand, Oklahoma Territory for $2,174 and $1,029. All of these producers sent money into McKee, Zook & Whitford, but the money was not applied to the notes assigned to banks in the East.[30]

The Board of Directors tried the case against McKee, Zook & Whitford. On 20 January 1902 it suspended the offending commission merchants from the Exchange until the misapplied funds had been properly credited. The suspension notice appeared on the bulletin board of the Exchange and

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[29]Trial of W. H. McCallister, 6 August 1900, vol. 4, <u>Ibid</u>.

[30]Minutes of the Board of Directors, 11 August 1902, <u>Ibid</u>.

the members refused to handle any of the live stock coming into the Kansas City Stockyards consigned to McKee, Zook & Whitford. Josia Baker, a salesman for the firm, later paid the Exchange 20 percent of the misapplied funds. The Board erased his name from the names of the suspended members and reinstated him to full privileges. The other merchants left the commission business.[31]

In sum, the Kansas City livestock commission merchants were essential in financing cattle in the late nineteenth and early twentieth centuries. Although commission firms financed some of the trade before 1897, it was unusual. After that date commission firms financed from 50 to 90 percent of the trade in local areas of the Southwest. After 1902 they lost the opportunity to finance the trade to larger banks in urban areas and the cattle loan companies. The Kansas City Live Stock Exchange regulated this activity as a watchdog agency. When shippers or other commission firms protested of unfair dealings on the part of a member of the Exchange, the organization brought corrective pressure to bear upon the offending member.

Although chattel mortgage records leave the picture still incomplete, the correspondence of the officers of the Wichita Cattle Loan Company illustrates further the process of financing the cattle industry.

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[31]Trial of McKee, Zook & Whitford, 20 January 1902, 5 March 1902, Ibid.

CHAPTER XI

THE WICHITA CATTLE LOAN COMPANY

The Wichita Cattle Loan Company financed cattle in the Southwest much like the livestock commission merchants in Kansas City. The Cattle Loan Company secured short-term funds on cattle in the West and sold the cattle paper to eastern banks. Both cattle loan companies and commission merchants were transition institutions in the development of the Southwest from frontier to commercial agriculture. Both provided needed financial services to cattle producers, although they were soon replaced by more competitive financial institutions as the region developed economically.[1]

While no papers or correspondence of a Kansas City commission firm survived over the decades, those of the Wichita Cattle Loan Company did. The latter gave a rather complete picture--albeit indirect--of the financial activities of commission merchants. Additionally, they explain in much greater detail the processing of cattle

[1]See U. S. Federal Reserve, Bulletin, Cattle Loan Companies, October 1922, vol. 8, p. 1171, for the connection between financing between livestock commission firms and cattle loan companies.

paper out of the Southwest, why commission merchants supplied funds in capital scarce areas, the changing nature of the cattle business, and why the cattle industry was so difficult to finance.[2]

The Wichita Cattle Loan Company was one of many loan companies organized from the 1890s to the 1910s in the nation's livestock market centers. The Wichita Company formed in 1910 to make the Wichita, Kansas, market competitive in relationship to Kansas City. The president of the loan company explained to an official of a Chicago bank in 1913 that

> Within the last 60 days our Bank and Loan Company influenced the shipping of at least 4,000 head of cattle to Wichita that would not have come here were it not for our operations.[3]

The Union Stock Yards National Bank in Wichita owned the Loan Company; the officers of the two were identical. The bank created the loan company to get around the restrictions placed upon a national bank. Unlike a national bank, a loan company could loan an unlimited amount of money to any one lender. And it did not have a reserve requirement. The loan company was not a permanent institution. Indeed, the officers planned to use it only

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[2]Correspondence, 1911-1918, Wichita Cattle Loan Company, Union Stock Yards, Wichita, Kansas.

[3]J. F. Ebersole, "Cattle Loan Banks," Journal of Political Economy 22 (June 1914):577-580; F. T. Ransom to F. H. Rawson, Union Trust Co, Chicago, Illinois, 15 November 1913, Correspondence, 1911-1918, Wichita Cattle Loan Company, Union Stock Yards, Wichita, Kansas.

until the reserves of the Union Stock Yards National Bank were adequate to cover all loans.

This arrangement was common among stockyards banks in the early twentieth century, as the chattel mortgage records in Wallace County, Kansas illustrate. The Interstate National Bank of Kansas City, Missouri loaned $30,292 on 26 September 1913 to a rancher in Sharon Springs, Kansas. The rancher needed another $20,800, but the extra funds were in excess of the limitations placed on the Interstate. So the officials at the Interstate National Bank simply loaned the extra money through the loan company created for that purpose. On the same date as the first transaction (26 September 1913), the Interstate Cattle Loan Company loaned the extra $20,800 to the same rancher. In this manner, the Kansas City Bank remained competitive in the cattle trade in the Southwest.[4]

Officials in Wichita found that producers preferred the Kansas City market over the Wichita market because the Interstate National Bank and the Interstate Cattle Loan Company provided short term money on their livestock. When financial institutions in Kansas City were loaned up, the producers sought assistance from the commission merchants in Kansas City, such as Andrew Drumm or the Clay, Robinson &

[4]Chattel Mortgage Register, 26 September 1913, Wallace County Register of Deeds, Sharon Springs, Kansas.

Co. So to establish a competitive market in Wichita, officials in the stockyards created a cattle loan company.[5]

The two principals in the Wichita Cattle Loan Company were the President F. T. Ransom and the Cudahy Packing Company. The Cudahy family owned 25 percent of the stock in the Loan Company, but they did not control it. The share Ransom controlled was not clear. The Cudahy Packing Co. used the Cattle Loan Company to attract a supply of livestock to their Wichita plant. Previous to this time, the stock trains passed through Wichita without stopping, with the trade following the credit channels. The Cudahy competitors in Kansas City--Armour, Swift, and Morris--drew the supply of livestock away from Wichita.[6]

F. T. Ransom became the President of the Wichita Cattle Loan Company and the Union Stockyards National Bank on 24 May 1910. Ransom was an experienced loan officer in the cattle business. He started loaning money on cattle at the Tootle-Lemon National Bank in St. Joseph, Missouri, and then moved to the National Stockyards National Bank in St. Louis, before arriving at Wichita.[7] He had an uneasy relationship

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[5]Ransom to D. A. Siegfried, Boatman National Bank, 22 November 1910, Correspondence, 1911-1918, Wichita Cattle Loan Company, Union Stock Yards, Wichita, Kansas.

[6]Ransom to M. R. Sturtevant, Central National Bank, St. Louis, Missouri, 15 September 1911, Ibid.; Ransom to F. H. Rawson, Union Trust Co., Chicago, Illinois, 15 November 1913, Ibid.

[7]Ransom to G. C. Lacy, Tootle-Lemon National Bank, St. Joseph, Missouri, 2 November 1917, Ibid; Ransom to A. T. Collier, National Shawmut Bank, Boston, Massachusetts, 7 June 1911, Ibid.

with the Cudahy Packing Company, the character of which he described to a close friend in Pennsylvania:

> . . . there is going to be a real great time at our next Board meeting (10 April 1917), three times within the past 7 years I have built up an organization here and have had it wrecked by the butting in of the Cudahy interests, trying to run a bank as they would a packing house. Either they sell to me or I sell to them because I do not intend to fool my life away under such circumstances.[8]

Ransom won the control of the loan company in 1917, but it had served its purpose. The following year it ceased to exist. In 1918 the Federal Reserve Bank in Kansas City began to rediscount the notes from the Union Stockyards National Bank, relieving one need of the latter to seek funds from eastern banks. The Bank was able to handle all of the loan business without the assistance of a loan company.[9]

If the Cudahy Packing Company or F. T. Ransom formed the Wichita Cattle Loan Company for profit, they were sorely disappointed. The years 1915 and 1917 should have been profitable years for any cattle-related institution. The "golden age" of agriculture, they were the years livestock prices escalated due to the war in Europe. But a vice president of the loan company wrote in January 1916:

> During the last six months of 1914 we carried an average of over $1 million of paper, never lost a dollar on account of bad loans, and yet our profits for those 6 months were $684.00. We could have carried 1/3

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[8]Ransom to C. F. Shaw, Fourth Street National Bank, Philadelphia, Pennsylvania, 31 March 1917, Ibid.

[9]"Proceeds to Your Credit," Federal Reserve Bank, Kansas City, Missouri, 6, 19 June 1918, Ibid.

> the volume we did and have made a considerable profit, but we preferred to pay as high as 8 percent in order to take care of our business, and there was no competition.[10]

Ransom himself apologized to the National City Bank of New York City for the poor showing: "you will observe that we paid no dividends in 1917 on account of the heavy loss of the Wichita Horse and Mule Auction Commission Company."[11]

The method of operation for the the Wichita Cattle Loan Company was essentially the same as the livestock commission firms at Kansas City. The Loan Company re-discounted the excess and surplus notes of the Union Stockyards National Bank in capital intensive areas of the United States. These cattle notes were similar to commercial paper, except the collateral was livestock. Ransom sent most of the Wichita cattle paper to the National City Bank and Liberty National Bank of New York City, or the Continental & Commercial National Bank of Chicago. The Loan Company also re-discounted notes at the National Shawmut Bank, and First and Second National Banks of Boston, the Central National Bank and the Boatman National Bank of St. Louis, and the Union Trust Company of Chicago.[12]

The Wichita Cattle Loan Company had considerable advantage over a commission firm. It was able to guarantee

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[10]Vice President to Glen Woods, Newton, Kansas, 29 January 1916, Ibid.

[11]Ransom to Thos A. Reynolds, National City Bank, New York City, New York, 22 April 1918, Ibid.

[12]Ransom to F. H Rawson, Union Trust Co, Chicago, Illinois, 15 November 1913, Ibid.

the cattle paper it sold in the East. An endorsement by a commission firm rarely meant anything, unless it was Andrew Drumm or Clay, Robinson & Co, for the commission merchants had little equity.

Although it procured cattle paper from 80 country banks in Oklahoma, Texas, New Mexico, and Kansas, the Wichita firm did not handle the paper unless the local bank endorsed and guaranteed it. When President Ransom sold notes to eastern banks, the Wichita Cattle Loan Company also endorsed it. He explained to F. C. Waite of the Merchants National Bank in Boston: "we absolutely guarantee the payment of these notes in your bank at maturity."[13]

The process that a rancher or farmer had to go through to secure a loan through Ransom was rigorous. He wrote in November 1913 that the Wichita firm extended credit only to "cattlemen and farmers of unquestioned financial standing and credit." That specifically excluded tenant farmers, for Ransom did not loan to anyone who did not own land. Indeed "we do not loan to renters no matter what the security," he declared.[14]

According to Ransom, the loan company took a chattel mortgage sufficient to pay the loan at its maturity as security for the credit advanced to the producer. The

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[13]Ransom to V. R. Thayer, Merchants National Bank, Boston, Massachusetts, 15 May 1914, Ibid; Ransom to F. C. Waite, Merchants National Bank, Boston, Massachusetts, 1 April 1914, Ibid.

[14]Ransom to F. H. Rawson, Union Trust Co, Chicago, Illinois, 15 November 1913, Ibid.

company required a financial statement from the borrower, and Ransom obtained from the Register of Deeds or County Clerk an abstract of all the relevant chattel mortgages on file in the county where the producer lived. Although these loans were based primarily upon the integrity of the maker and were good without any security, Ransom took a chattel mortgage simply as a "form of segregation of a part of the farmers' assets to insure the liquidation of the loan at maturity."[15]

Two examples illustrate the type of producer to whom the Wichita Cattle Loan Company loaned money. C. D. Leonard lived north of Saxman, Kansas and was one of the Saxman State Bank's better customers. Leonard owned 1,300 acres of the "best land in this county" and $10,000 worth of personal property. He was 60 years old in 1917 and had lived near Saxman for "the past 30-40 years." The Saxman State Bank had loaned Leonard $2,100--"which is nearly our limit," wrote the cashier--he needed additional funds to purchase corn for his livestock. Leonard owed "a little on a part of his land, but very little considering the value." The Saxman State Bank had always accepted Leonard's notes unsecured and was anxious to "take care of our good customers even if they want more than the bank can handle." The bank urged the Wichita Cattle Loan Company to handle Leornard's note for additional funds. Ransom was happy to

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[15] Ibid.

handle this cattle paper, although as security he also executed a chattel mortgage on Leonard's cattle.[16]

The second example of a producer worthy of a loan involved a cattle speculator by the name of Thompson in Mooreland, Oklahoma. According to Ransom Thompson expected to buy livestock in February and sell them in March or April. In the vicinity of Mooreland "there have been two successive crop failures and a number of small farmers are pretty hard up for cash." These small farmers had various types of stock which Thompson wanted to buy "back 5 to 20 miles off the railroad." He then planned to hold them until the demand for "grass cattle" began to rise. In the meantime, he had "plenty of rough feed and a rail car load of cotton seed cake to round them out." With regard to collateral, Ransom wrote:

> As far as the land is concerned, Thompson is willing to make a Quit Claim Deed to be held as additional security. Besides that each of his notes would be endorsed by J. C. Krauth, of Mooreland, Oklahoma. Krauth is worth only about $12,000, and I have his endorsement on $6,000 worth of paper so I do not consider that his endorsement would add much in the way of financial strength, but it does add considerable when you know that he right on the spot watching things and that his record is A-1. Krauth came from Iowa and I traced him there and found that his reputation was of the best and he has maintained it while in the banking business at Mooreland.[17]

The Wichita Cattle Loan Company employed an "inspector" to assess loan qualifications and to insure repayment. Such

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[16]O. L. Cully, Cashier, Saxman State Bank, Saxman, Kansas to Ransom, 7 February 1917, Ibid.

[17]Ransom to D. A. Siegfried, Cashier, Boatman National Bank, St. Louis, Missouri, 7 January 1918, Ibid.

an office existed in Kansas City livestock commission firms, although a paucity of records leave the duties assigned to the position unclear. The activities of the inspectors or loan agents of the Cattle Loan Company, however help to clarify those responsibilities.

First, loan agents evaluated the collateral offered by those seeking to borrow money. J. L. Pryor, Vice President of the Union Stock Yards National Bank, wrote to J. T. Wheeler in Des Moines, New Mexico to ask him to serve in that capacity. A New Mexico rancher near Des Moines, Bruce Gentry, applied to the Wichita Cattle Loan Company for "a loan of $2,200 on 65 head of cows," a herd that Pryor wanted Wheeler to inspect before the loan was made. For his services Pryor promised Wheeler $5 a day and expenses as well as keeping Wheeler's own loans at 8 percent. Although interest rates had gone up 1 percent, "we will continue your loan at the old rate," Pryor wrote, "if you will help us a little with loans of these kind there." But he added "please do not recommend anyone to us unless you know him to be absolutely A-1 and a land owner."[18]

Second, inspectors for the Wichita Cattle Loan Company checked on the "progress" of loans already made, especially in areas close to Wichita. When the Mechanic American National Bank in St. Louis wanted an update on some notes it had purchased on cattle in Oklahoma in 1913, the Wichita

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[18]J. L. Pryor, Vice President, Wichita Cattle Loan Company, to J. T. Wheeler, Des Moines, New Mexico, 4 December 1917, Ibid.

firm provided it with confidence. The loans in question involved stock in Blaine and Dewey counties, Oklahoma, where the firm itself held paper valued at $40,000. Most of this amount had been endorsed by F. C. Hoyt, President of the Union State Bank in Wichita and of the First National Bank at Seiling, Oklahoma. Moreover, loan inspector L. M. Hyre had recently been in the area for an entire week checking over every loan "even down to as low as $100." Hyre had not made a single unfavorable report.

"Progress" inspections were generally very thorough. On one L. M. Hyre found all of the 177 cattle mortgaged by F. L. Fenton accounted for, as well as all of the hogs, horses, and mules described in the loan. In addition to the security, Fenton had from $3,000 to $4,000 in personal property, 160 acres of "good bottom land" (on which there was a mortgage of $2,000), and another 160 acres clear. Inspector Hyre reported that Fenton was in good credit standing locally as well as regionally. His farm "gave every evidence of thrift and good management."[19]

The Leonard and Thompson transactions in addition to the rigorous inspections reflected the conservative lending practices of the Wichita Cattle Loan Company. Marginal borrowers could not obtain funds. The latter class usually turned to livestock commission firms, a fact that accounts for why 89 percent of the Day county in western Oklahoma

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[19]J. L. Pryor to Frank O. Hicks, Mechanic National Bank, St. Louis, Missouri, 23 September 1913, Ibid.

turned to commission merchants for money. As President Ransom wrote in 1917:

> In the development of a new country, capital is a scarce article. It will be some time before banks in this new section will be in a position to supply funds to properly take care of the demand.[20]

Prudent financial institutions had good reason to be skeptical of conditions in Oklahoma. That state "would absorb the whole output of the United States mint if it could get a hold of it." Ransom declared because "speculators and boomers" had settled Oklahoma, he had "been fighting shy of Oklahoma loans unless they have a strong local endorsement." Kansas had gone through the same stage, but it "had settled down to a legitimate farming and cattle business." They made money from their efforts but in Oklahoma "this is entirely a side issue." According to the Wichita banker, "increase in values is what Oklahomans are looking for, and from this more than their own industry, they expect to obtain their own profit." Ransom believed it took a good banker "right on the ground" to tell the difference between a legitimate farmer and a speculator.[21]

To Ransom F. M. Overstreet, President of the Bank of Cherokee in Cherokee, Oklahoma, was not such a banker. Overstreet had hoped to use the Wichita Bank to help cattlemen in Northwest Oklahoma to develop their business.

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[20]Ransom to R. L. Templeton, Austin, Texas, 29 March 1917, Ibid.

[21]Ransom to D. A. Siegfried, Boatman National Bank, 12 December 1910, Ibid.

He was rebuffed by Ransom who instructed him "permit your customers to buy only a few head...."[22] The Cherokee banker had no alternative but to turn elsewhere. As he explained it to his Wichita antagonist:

> You cut us off on the loans. That caused us no little amount of trouble, as you know. I remember that you said you could take care of us for most any amount we would want. The only condition was that we pay 6 percent and keep an amount on deposit in your bank equal to one half of the amount of paper given to you. On this basis we promised our people cattle money. All at once you cut us off and would not even renew the paper you already had out. Because of our promise to them to renew their notes, we fell back on the commission men, rather than disappoint them, and lose their business, or compel them to sell their cattle at a loss to themselves.[23]

Oklahoma producers had to pay a higher interest on loans than Kansas bankers. In 1911 E. A. Cudahy asked why the Wichita Cattle Loan Company charged Kansas banks 8 percent and the Oklahoma banks 10 percent or more. Suspecting the conservative Wichita banker might prevent shipments to the Cudahy packing plant from a large cattle producing country, he wrote:

> I note that the Continental Bank charged you 4 to 5 percent, and I think you ought to have at least a rate that would not exceed over half of one percent.[24]

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[22]Ransom to F. M. Overstreet, Bank of Cherokee, Cherokee, Oklahoma, 21 September 1914, Ibid.

[23]F. M. Overstreet, Bank of Cherokee, Cherokee Oklahoma to J. M. Reynolds, 8 December 1914, Ibid.

[24]Edward A. Cudahy, Cudahy Packing Company, Omaha, Nebraska to Ransom, 23 May 1911, Ibid.

Ransom replied that the interest rate in Oklahoma was based "to some extent on the security, but largely on the ability of the local banker to obtain whatever rate he asks."[25]

J. L. Pryor, vice president of the Union Stock Yards National Bank and the Wichita Cattle Loan Company recommended that the Interstate National Bank of Kansas City stay out of Oklahoma. Also the president of the Bank of Shattuck in Ellis, Oklahoma, Pryor advised that the conditions in western Oklahoma were bad. There had been a wheat failure in 1917 "and the banks there are on the bum and are borrowing a lot of money." Country banks in Oklahoma would not have any balances until after harvest in 1918. But, Pryor cautioned, "it is dry down there now and we may not have a wheat crop there next year."[26]

The Wichita banker was also uneasy about the social unrest in western Oklahoma. The cashier of the Bank of Shattuck had just written:

> ...there is some excitement here today. The other day our city officials arrested a socialist preacher, and now there are about a hundred socialists here to get him, so they say. However, so far they have not done anything.[27]

The activities of the Wichita Cattle Loan Company reflected the changing nature of cattle finance. As

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[25]Ransom to E. A. Cudahy, Cudahy Packing Company, Chicago, Illinois, 31 May 1911, Ibid.

[26]Pryor to M. J. Heeling, Interstate National Bank, Kansas City, Missouri, 24 October 1917, Ibid.

[27]W. H. Lathman, Cashier, Bank of Shattuck, Shattuck, Oklahoma to Pryor, 2 August 1917, Ibid.

indicated, its officers believed that only bankers familiar with the producer made good decisions on credit. Generally loaning money depended upon the operations of specific cattlemen, the economic conditions of the area, and the extent of disease. It was difficult, Ransom observed to M. R. Sturtevant of the Central National Bank, at St. Louis in 1911, to generalize about cattle loans unless the banker knew the man and how he operated. Several customers, he reported, bought nothing but yearling steers "of the very highest quality." Ransom loaned them the purchase price of the cattle; the cattlemen fed the stock 4-6 months; and the herd was then marketed as "baby beef." Other cattlemen operated differently, yet were excellent credit risks. Three farmers bought only the "cheap class of old cows and cast offs," and fed cattle continually from 90 to 120 days. Since one buys cattle before one feeds them, they had silos and molasses mills, and their profits were "remarkable."[28]

The financing of cattle also depended upon the availability of grain. The Wichita company always anticipated a heavy demand for money in the fall of the year, but the success of the grain crop determined how the money would be used. If there was a poor corn crop, there would be an abundance of rough food, in which case the demand would be for young cattle. On the other hand, if

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[28]Ransom to M. R. Sturtevant, Central National Bank, St. Louis, 15 September 1911, Ibid.

there was a good grain crop, there would be considerable demand for two and three year old steers.[29]

The availability of wheat also dictated loaning conditions. In 1914 the wheat crop in Kansas was good. Awaiting a rise in price, farmers stored their grain and took out loans to meet expenses. In December 1914 the country banks had to borrow money from the Wichita Cattle Loan Company to meet customer demands. Shortly the price of wheat rose, the farmers sold their grain, and paid off their loans. So the demand for credit was very light by February 1915. Consequently, country banks in Kansas requested short-term cattle paper in which to invest their excess funds.[30] But a "tremendous feed crop" produced in the summer a changed credit picture. The country banks experienced a strong demand for credit to buy cattle and quickly were loaned up again. This condition caused the Wichita Cattle Loan Company to sell cattle paper in St. Louis.[31]

Other factors than the availability of grain affected the credit picture. Some farmers moved wheat to the railroads in November 1915 because of an increase in wheat prices. But so many of the farmers in the area tried to

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[29]Ransom to E. A. Cudahy, Cudahy Packing Company, Chicago, Illinois, 19 July 1913, Ibid.

[30]Vice President to Jefferson Park National Bank, Chicago, Illinois, 1 February 1915, Ibid.

[31]Vice President to R. S. Haines, Third National Bank, St. Louis, Missouri, 22 October 1915, Ibid.

sell their wheat at the same time that there was a "rail car famine." Since farmers could not get their wheat to market, they asked the banks for extensions of 30 to 60 days. This dried up the money available for cattle loans.[32]

But other farmers did just the opposite. J. L. Pryor declared:

> . . . the recent rise in the price of wheat will shut off the shipping entirely because it appears to be an iron clad rule of the farmers never to sell on a rising market for fear that they may not get the top price. They generally wait until the high point has been passed, and then rush in on a falling market.[33]

The quarantining of cattle also interfered with financing. The Commercial & Continental Bank of Chicago bought a note through the Wichita Cattle Loan Company from H. K. Frederick & Co of Mulvane, Kansas for $9,482 in 1915. The Chicago bank inquired as to why the note was not paid on time. Wichita parties reported that the Frederick cattle had been exposed to foot and mouth disease by registered Holstein cows imported from Wisconsin. Subsequently veterinarians from the Bureau of Animal Industry had placed them, along with other herds in a 12 square mile tract, in quarantine. After the herds were cleared, preventive isolation ceased and the Frederick cattle were marketed. The Chicago bank was paid. Even the owers of the slaughtered cattle were compensated by the State of Kansas and the United States government.

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[32]Vice President to C. H. Dwinnell, First National Bank, Boston, Massachusetts, 13 November 1915, Ibid.

[33]Ibid., 15 November 1915.

The activities of the Wichita Cattle Loan Company illustrate much about the financing of the cattle trade in the Southwest. They give considerable insight into the actual processing of the chattel mortgage and cattle paper, and they help explain why areas like Oklahoma frequently relied upon financing by the commission merchants. Finally, they demonstrate that each particular area had its own needs for capital and that the availability of wheat or corn substantially affected those credit needs. Also that animals were alive made them susceptible to contagious diseases which could slow payment on notes.

CHAPTER XII

TWENTIETH CENTURY TRENDS

In the twentieth century, the Kansas City Live Stock Exchange entered a new era. By 1900, it had won the right to regulate the middlemen in the livestock trade of the Southwest. There were no new organizational innovations within the Exchange from 1900 to 1921, but there were new trends in the livestock trade in general. The packers began bypassing the Stockyards and buying their requirements directly from the country. The shippers organized more effectively and increased pressure upon the national government to declare the stockyards a "public market."

The important change was not political, it was technological. The invention of the internal combustion engine, and its application to the transportation of live animals in the form of the motor carrier, brought a second organizational revolution in the livestock trade. The motor truck freed the livestock industry from dependency upon the railroad, and the ancillary organizations which evolved because of it, e.g. the livestock commission merchant and the livestock exchange. In the 1920s, the Kansas City

Stockyards declined in influence as the trade decentralized in the Southwest.

The first indication of these new changes appeared in the records of the Kansas City Live Stock Exchange as early as 1896. The Fowler Packing Company opened and operated a stockyards on the Missouri Pacific Railroad north of the Kansas City Stockyards; they sent circulars to the country and encouraged hog producers to send their stock directly to these "Mistletoe Stockyards." The Fowler Packing Company promised to pay the producer the current market price for their animals based upon the latest reports from the Kansas City Stockyards a few hundred feet to the south. The circulars justified the change to the producer--it eliminated the middlemen.[1]

This activity alarmed the livestock commission merchants. Until 1896, animals marketed in and out of much of the Southwest went through the Kansas City Stockyards. The commission merchants became complacent and assumed their livelihood would continue. They little understood how much their prosperity depended upon the railroads, or that when a new means of transportation replaced the railroad that new business methods would replace their own. Through the organization and operations of the Live Stock Exchange they succeeded from 1886 to 1896 in thwarting the challenge to

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[1]Minutes of the Board of Directors, 28 November 1896, vol 3, RKCLE (Microcopy Collection 158).

their livelihood. Yet the motor truck brought the changes long sought by the grangers.

The success of the Fowler Packing Company encouraged the trend away from the Kansas City market. The packers started going directly to the country to purchase their requirements. Although the Kansas City Live Stock Exchange took notice in September 1903, it was powerless to do anything about it. In February 1904, the Exchange did send letters to the different railroads centering at Kansas City asking them "to allow but one location for the unloading of livestock and that location to be the place commonly known as the Kansas City Stockyards." The railroads were all members of the Exchange, but they ignored the request.[2]

The receipts of livestock reported by the Kansas City market indicated the success of these competing operations. In 1904, 818,787 hogs, 37 percent of all those received went directly to the packer and bypassed the stockyards. The initial enthusiasm of the producers for this new method of marketing abated somewhat, for in 1914 only 21 percent of the hogs received went directly to the packers. Nevertheless, there was a definite trend away from the Kansas City Stockyards.[3]

The use of the motor carrier encouraged the trend of selling directly to the packers. The motor truck increased

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[2]Minutes of the Board of Directors, 7 September 1903, 18 February 1904, vol 4, Ibid.

[3]Atkinson, "Kansas City Trade," p. 181.

the flexibility of the producers in that they were no longer bound to the railroad. The clearest demonstration of the effect of the truck was in Iowa. In that state the number of hogs marketed directly to the packers increased from 32 percent in 1920 to 49 percent in 1927. Of course every hog that by-passed the stockyards represented less income for the commission merchant.[4]

At the same time, packers shifted their operations from the railroad terminal markets farther into the livestock producing areas. Freight rates for shipments east were advantageous to the new interior slaughtering points, and direct marketing grew in popularity among the livestock producers. The development of livestock auction markets in local areas (made possible by the truck) accelerated the move away from terminal markets.[5]

Although the use of the motor carrier and bypassing of the stockyards were major changes in the distribution of live animals, the twentieth century also witnessed a rise in cooperative organizations. These too trimmed the business of the commission merchants. In 1915, U. S. Secretary of Agriculture D. F. Houston saw "cooperation" as the "new

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[4]Country Gentlemen, 25 September 1915; Paul L. Miller, "Direct Packer Buying in the Marketing of Livestock," Journal of Farm Economics 9 (April 1929):287.

[5]U. S. Department of Agriculture, Marketing Research Division, Research Report 223, Livestock Auction Markets in the United States (Washington: Government Printing Office, 1958), p. 5; U. S. Department of Agriculture, Marketing Research Division, Report 299, Livestock Terminal Markets in the United States (Washington: Government Printing Office, 1979), p. 2.

faith" of American farmers. The Secretary counted 7,500 organizations in the nation which, he said, were "more or less cooperative." These included 2,500 cooperative elevators, 2,500 cooperative creameries, and more than 1,000 cooperative fruit and produce associations.[6]

In the livestock trade, cooperative shipping organizations and livestock commission agencies organized and attained considerable success in the early twentieth century. But it is possible to overemphasize the cooperative "faith" among agrarians: American livestock producers cooperated with each other because it was good business, not because it was ideologically sound. The first cooperative shipping associations were, for example, the cattlemen's associations organized in the late 1860s and early 1870s. The nature of the range cattle business forced the cattle raisers to cooperate. That the range steer was mobile, and there were no fences on the ranges, insured that cattle raisers cooperated in controlling the movement of livestock. The cattlemen's associations won concessions from the railroads on freight rates because of their united efforts.[7]

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[6]Missouri, State Board of Agriculture, Yearbook of Agriculture, 1915, pp. 81-82.

[7]Ernest S. Osgood, The Day of the Cattlemen (Minneapolis: The University of Minnesota Press, 1929), pp. 114-115; William W. Savage, Jr., The Cherokee Strip Livestock Association: Federal Regulation and the Cattlemen's Last Frontier (Columbia: University of Missouri Press, 1973), p. 8.

The first cooperative shipping association in hogs began in 1884 in Superior, Nebraska. The Farmers' Shipping Association started when 92 farmers banded together and eliminated the cost of the shipper. In their first year of business, the association shipped 39 cars to market and made $92,537. Prior to shipping stock in this manner, the owners sold their animals to the local buyer or shipper. A single hog farmer rarely had enough animals to fill a rail car, and consequently, freight rates were prohibitive. By shipping the stock to market cooperatively, the producers minimized transportation costs and sold their hogs in a competitive market rather than a local market monopolized by the shippers.[8]

Despite these early precedents, cooperative shipping associations only organized on a large scale after the turn of the century. The first cooperative organization for shipping livestock in Minnesota organized in 1908; by 1916 there were 200 organizations in the state. The first cooperative livestock marketing association in Missouri emerged in 1911. The Missouri Farm Management Association organized a lamb shipping club in Boone County and saved $84 on the first carload of lambs. As important, the members reported, was that the local buyers in the county increased

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[8] Successful Farming, February 1918, p. 72.

the price they paid on hogs and operated on a narrower margin.[9]

Commission merchants at the Kansas City Live Stock Exchange began discussing cooperative shipments in 1905. They noted an increasing number of shipments from shipping associations in the country, and that the associations requested the commission merchants make returns to each of the farmers individually, and not to the shipping association alone.[10] By 1919, the cooperative movement among shippers was well developed, and a national organization tied the them together. In the same year the National Federation of Livestock Shipping Associations reported over 2,000 cooperative livestock shipping associations: the largest number were in Minnesota (700), Wisconsin (600), and Iowa (400); the states reporting the least number were Nebraska (250), Michigan (200), and Illinois (60). There were no shipping associations reported in the cattle producing regions of the Southwest.[11]

The livestock producers organized shipping associations in states where dairy and hog farming prevailed. Dairy farmers made their livelihood from producing milk, not beef,

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[9]Ralph, Loomis, "Status of Cooperative Livestock Marketing in Missouri," Journal of Farm Economics 9 (July 1927):142; U.S. Department of Agriculture, Farmers' Bulletin, no. 718, Cooperative Livestock Shipping Associations (Washington: Government Printing Office, 1916), p. 2.

[10]Minutes of the Board of Directors, 29 November 1905, vol. 4, RKCLE (Microcopy Collection 158).

[11]Successful Farming, December 1919, p. 74.

and consequently, each year herds produced dairy calves which were of no use to the dairy farmer. There was little local demand for these calves, so the milk producers shipped them into corn or grass feeding regions. These farmers organized shipping associations for the same reasons the Farmers' Shipping Association of Superior, Nebraska did in 1884: reduced freight rates as a result of cooperatively sharing the freight costs, by-passing the local buyer, and gaining accessibility to the more competitive markets in Chicago, Kansas City, or Omaha.[12]

Shipping associations also promised a higher return to the producer by sorting and grading the livestock before loading the trains bound for market. The producers learned this technique from the yard trader. As discussed previously, the yard traders began sorting and grading hogs and cattle in the Kansas City Stockyards in the 1880s. Livestock of similar grades, weights, and types brought higher prices on the market. The cooperative shipments allowed the producers to perform this function and reap the benefit instead of the speculator.[13] The shipping associations were short lived, not because the farmers lost the cooperative faith but because the motor truck rendered them less competitive. The case of Missouri illustrated this phenomenon. By 1921, there were 275 shipping

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[12]U. S. Department of Agriculture, Farmers Bulletin no. 718, p. 1.

[13]<u>National Stockman and Farmer</u>, 30 October 1920.

associations in the State. But those in counties within trucking distance of the livestock markets of Kansas City, St. Joseph, or St. Louis soon disbanded. The farmer preferred to truck his own produce to market.[14]

Inevitably, producers tried to organize another cooperative livestock commission firm similar to the American Live Stock Commission Company. The opportunity presented itself in 1906. From 1902 to 1905 commission merchants discussed the advisability of raising the commission rates on hogs and sheep. This issue caused heated debates within the Kansas City Live Stock Exchange, with many members warning that the hog and sheep producers would not permit it. They did not consider raising the price on cattle, for the commission merchants knew from experience the pressure the cattlemen's associations could bring to bear. If the cattle producers united in opposition to the commission merchants, along with the hog and sheep producers, the livestock commission merchants anticipated political repercussions.[15]

They had good reason to want an increase in commission rates. The competition in the commission trade was intense by 1900, the prices of livestock were steadily increasing, the commissions on sheep had not changed since 1877, and the commissions on hogs were last changed in 1886. Although the number of commission merchants at Kansas City remained

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[14]Loomis, "Cooperative Marketing," pp. 143-144.

[15]Johnson, "Struggle in the Stockyards," pp. 315-332.

stable, merchants from other markets encroached upon the Kansas City territory and reduced the number of shipments per commission firm.[16]

The increased competition created dissension among the merchants. One admitted "that it was a lamentable fact that the commission men are going around as a roaring lions seeking whom they may devour." He referred to the practice known in the trade as "body snatching." This practice of directors characterized as commission men who stood "in and about the lobbies of the Exchange, hobnobbing with prospective customers of other firms, and striving to subvert them to their own benefit." The dissension and determination of their position caused the board to take action.[17]

The merchants first considered ways to reduce their own costs. In these they hoped to act in concert with other exchanges who, like the one in Omaha, expressed interest in "reducing expenses of conducting the business." They understood that all the livestock exchanges had to act in unison on reducing costs or changing prices, for if one acted alone it would loose trade to competing markets.[18] Thus in December 1903, in conjunction with the National Live Stock Exchange, the Kansas City merchants adopted the

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[16]Ibid., p. 318; Minutes of the Board of Directors, 15 June 1903, vol 4, RKCLE (Microcopy Collection 158)

[17]Minutes of the Exchange, 21 January 1903, Ibid.

[18]Minutes of the Board of Directors, 12 January, 15 June 1903, Ibid.

solicitor-telegram-meals rules. In order to reduce costs, they agreed to eliminate all solicitors, to refuse to pay for any telegrams sent or received, and to stop paying for the meals and lodging of feeders, buyers, or shippers while at Kansas City.[19]

These rules the directors of the Kansas City Exchange vigorously enforced. On 18 January 1904 they charged Campbell, Hunt & Adams with paying for and furnishing three livestock customers with three noonday meals. The firm pleaded guilty, and the board fined it $55. The rule was so effectively policed that hotel keepers adjacent to the stockyards complained about the detrimental effect it had upon their business and asked the board to rescind the restriction.[20]

Reduction of costs did not materially improve profits. Thus after two years of deliberation the livestock exchanges increased commission charges on hogs and sheep in 1905. The American National Livestock Association, the Wyoming Wool Growers Association, the Arizona Wool Growers Association, and the Corn Belt Meat Producers Association immediately complained.[21] Charging that the increased commission rates were "unreasonable, unwarranted, and arbitrary," producers

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[19]Minutes of the Board of Directors, 14 December 1903, Ibid.

[20]Minutes of the Board of Directors, 18 January 1904, Ibid.

[21]Minutes of the Board of Directors, 23 February 1906, Ibid.

commenced organizing another cooperative commission firm called the Cooperative Live Stock Commission Company. The commission merchants in Kansas City promptly retaliated by entering into an agreement with the Kansas City Traders' Exchange (yard traders) to boycott the cooperative. The boycott caused the new commission firm to have trouble selling its consignments.[22] The Exchange also suspended those commission merchants who worked for the Cooperative. Among these was the firm of Frederick Ehrke and S. G. Burnside which was deemed guilty of bad faith in that it had "entered into a contract with the so called Cooperative Livestock Commission Company." The directors believed that the cooperative was guilty of practices harmful to the welfare of the Exchange.[23]

Before the new commission firm was forced to cease operations in 1909, it filed a law suit against both the livestock and the traders exchange for restraining trade in violation of the anti-trust laws in Missouri. The case went to the Missouri Supreme Court which ruled on 24 May 1914 that the Kansas City Live Stock and Traders Exchange were not in restraint of trade because the commission merchants and yard traders acted as a middleman, buying and selling for others, and had not engaged in trade as defined by

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[22]Johnson, "Struggle in the Stockyards," p. 315.

[23]Minutes of the Board of Directors, 6 August 1906, vol 4, RKCLE (Microcopy Collection 158).

law.[24] In addition to its economic failure, the cooperative also lost its legal point.

The fortunes of cooperative commission agencies changed during World War I. The demand for meat was strong, and the receipts of livestock at the Kansas City market reached an all time high. Additionally, the War Industries Board exercised control over stockyards traders. In this context the Farmers' Union perceived an opportunity to inaugurate a new business method.[25]

The Nebraska Farmers' Union provided the model. In 1917, it had organized the Farmers' Live Stock Commission Company which had borrowed $2,000 from the the parent organization and opened for business on the Omaha stockyards. When their application for membership into the Omaha Live Stock Exchange was rejected bought out a restaurant across the street from the Exchange and set up an office. The members of the Farmers' Union faithfully consigned their stock to the new commission company, and the cooperative marketed the livestock beyond the control of the Exchange.[26]

Cooperative commission agencies succeeded in other markets as well. The Farmers' Union Livestock Commission Company at Kansas City and Chicago operated under the joint

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[24]Johnson, "Struggle in the Stockyards," pp. 327-331.

[25]U. S. Department of Agriculture, Bureau of Markets, Annual Report, p. 2.

[26]Missouri, Yearbook of Agriculture, 1921, p. 135.

supervision of the Farmers' Union and the Missouri Farmers' Association. In the St. Joseph market, the Farmers' Association successively operated a cooperative commission firm.[27]

While the increased demand of World War I for livestock products allowed the cooperative commission firms their first success, the collapse of agricultural prices in 1919 insured their continued operation. Livestock producing associations pressured their congressional representatives to make changes in the way livestock were marketed. Several congressmen introduced bills in 1919 in Congress calling for government ownership and control of the stockyards. That proposed legislation failed, but on 15 August 1921 the Packers and Stockyards Act passed and declared the major stockyards of the nation "public markets."[28]

Economists have generally agreed that the Packers and Stockyards Act was a failure. This assessment stems from the fact that the packers, through endless litigation in the courts, escaped regulation under the statute until 1932. Still the Act brought to an end an era of private regulation on the part of the livestock exchanges. Administrators who

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[27]Theodore Saloutos, "William Hirth and the Missouri Farmers' Association," Mississippi Valley Historical Review 44 (October 1949):19.

[28]C. R. Fay, "The Success of Cooperation Among Livestock Producers in the United States of America," Southwest Political and Social Science Quarterly 9 (1928-1929):452; Minutes of the Board of Directors,, 29 January, 29 August 1919, vol 4, RKCLE (Microcopy Collection 158); Wood, Kansas Beef, p. 265.

implemented the law eventually subverted the regulation of the exchanges and over time rendered the Board of Directors powerless.[29]

Ironically, the federal bureaucracy in achieving the goals of the Packers and Stockyards Act employed the system of operation worked out by the exchanges. It supervised the setting of commission rates, regulated the membership, disciplined commission merchants and traders, and conducted audits. The only significant difference was that the shippers and producers had direct input into the operations of the "public market."[30]

At the same time, the commission merchants learned to use the statute to their own advantage. The first hearing conducted by the bureaucracy saw the Kansas City Live Stock Exchange pitted against Armour & Co. and Fowler Packing Company with respect to the operation of the latter's Mistletoe Stockyards. The Exchange wanted the competing yards declared a public market also. Where the Exchange had failed previously to win access to the Mistletoe Yards, under the force of their own argument, its lawyers now

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[29]Richard J. Arnould, "Changing Patterns of Concentration in American Meat Packing, 1883-1963," Business History Review 45 (Spring 1971):18-34; Robert M. Aduddell and Louis P. Cain, "The Consent Decree in the Meat Packing Industry, 1920-1956," Business History Review 55 (Autumn 1981):359-378 and "Public Policy Toward 'The Greatest Trust in the World,'" Business History Review 55 (Summer 1981):217-242.

[30]U. S. Department of Agriculture, Packers and Stockyards Administration, Annual Report, 1922, pp. 1-2.

succeeded. By using the new law the Exchange forestalled its own decline.[31]

Public regulation became part of the livestock trade as the markets in Kansas City and Chicago began to decline in importance. The motor truck eventually rendered the regulation meaningless, for as the livestock trade decentralized, the marketing of livestock by-passed the major stockyards. Nevertheless, the formative years of the livestock trade, from 1886 to 1921, were regulated by private institutions, imperfectly to be sure but still quite effectively.

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[31] _Ibid._, p. 14.

CHAPTER XIII

CONCLUSION

The Kansas City Live Stock Exchange was a part of the organizational revolution which transformed the United States in the late nineteenth century. While some industries concentrated into a few large firms, the Kansas City Live Stock Exchange decentralized the trade and enabled livestock commission firms to remain small enterprises. The Kansas City organization both reformed and regulated the livestock trade of the Southwest.

A business historian must inquire as to why particular institutions appear in the American economy at specific periods of time. If placed within the context of the organizational revolution, the history of Kansas City Live Stock Exchange supplies several answers to that question. The Exchange was first and foremost a response to industrialization in the American West. It emerges in the wake of the changes wrought by the railroad and telegraph in livestock producing regions of the nation. As the new transportation system brought higher speed and volume in livestock traffic and placed new pressures on old business institutions, livestock entrepreneurs innovated new ones.

The livestock commission merchant was the first such institution in the livestock trade. By utilizing the railroad and telegraph, he eliminated the drover and democratized the trade in a generation. The marketing of livestock was no longer the domain of a few large drovers. In the new scheme the producer retained ownership of the livestock until a commission merchant marketed the animals in competitive urban markets.

The Kansas City Live Stock Exchange was a response to industrialization, but it developed a unique organizational pattern. The livestock industry needed a regulatory agency; along with the new transportation system came new problems. The nature of marketing live animals created difficulties never before encountered and predetermined the organizational pattern of the Exchange. The railroads carried animals farther and faster than ever before, but they also carried animal diseases in the same manner, diseases that reached epidemic portions by the mid-1880s. The search for a solution to this disease problem eventually precipitated the organizational revolution in the livestock trade.

It was no accident of history that the livestock exchanges organized in the mid-1880s. There were structural changes taking place in the trade. Under pressure from shippers and producers, the Department of Agriculture created the Bureau of Animal Industry, the first administrative agency in its history, and aggressively pursued the quarantine of infectious diseases. This move spawned a controversy which resulted in a counter movement among the livestock commission merchants and in turn began the organization of the livestock exchanges, first in Chicago in 1884, and later, in Kansas City in 1886.

But there were "evils and abuses" prior to the crisis in disease control which brought pressure to bear on the marketing system. The impersonalization of the market place permitted unscrupulous buyers and sellers to flourish in the stockyards. There was no authority in the marketplace to administer the trade and correct abuses. An economic crisis in the livestock industry in the mid-1880s caused western cattlemen to seek ways to eliminate the middlemen in the livestock trade. These efforts caused the organization of the Kansas City Live Stock Exchange

But the Kansas City Live Stock Exchange was more than merely a response to industrialization: ideas were also influential. The stimulus for regulation did not come from the livestock commission merchants themselves, but rather from the producers. Aware of their need to intervene in the marketplace, cattlemen's associations shed their economic individualism and pressed for changes through their own cooperative economic power. At the same time the producers learned how to exert political pressure on the national government for concessions they demanded. This changing conviction on the part of the producers regarding the role of a positive state in regulating the economy was a major factor in the history of the commission merchants and the Exchange.

Other ideas guided the livestock commission merchants at Kansas City. They shared a conviction with the producers that there was a need for some regulation in their trade and the commission merchants looked for earlier precedents. Consequently ideas rooted in the commercial history of Western Civilization directed and molded the specific organizational form the exchange followed. The Kansas City Live Stock Exchange was thus a descendent of the international fairs which first appeared in medieval Europe, but it operated within an intellectual framework common to nineteenth century America which delegated the power of regulation of specific industries to private associations. Within the context of that unique perspective, the economic community at large granted to the Exchange the right to regulate aspects of the livestock trade. It responded by reforming the abuses prevalent in the trade; by determining who and how many commission merchants operated in the Kansas City market; by setting the rates charged for marketing livestock; and by monitoring the loaning of money.

How successful was the Kansas City Live Stock Exchange in regulating the livestock trade of the Southwest? Only partially.

The Exchange was an aberration among organizations. Unlike most private associations, labor unions and industrial corporations, it did not become oligopolistic.

No one interest group in the Kansas City market dominated the organization--neither the packers, nor the Stockyards Company, nor the large commission houses. Since the Exchange effectively eliminated the domination of the larger cattle commission houses, entrance into the trade was easier.

Even the shippers and producers had access to the Exchange. They had not attended the initial organizing sessions, but their absence did not suggest impotence. That commission charges for cattle did not change for 36 years, sheep for 29 years, and hogs for 20 years, was due to pressure from the shippers and producers.

The Kansas City Live Stock Exchange brought effective reform to the hog trade. The arbitrary use of the dockage system had created a crisis in the industry. The Exchange prevented state intervention by creating a private system of public inspection which worked well from 1886 to 1921. The inspection system failed to accurately monitor diseased animals, a failure that caused the establishment of the U. S. Bureau of Animal Industry to assume responsibility for that function. But the idea of other parties inspecting animals in the stockyards was not new, it was very much a part of the system of regulation envisioned by nineteenth century Americans. Cattlemen's associations, the states of Kansas and Missouri, and the cities of Kansas City in both states had inspectors in the yards. All inspectors monitored different aspects of the trade without interfering with the operation of the Exchange.

The concept of of regulation envisioned by the merchants at Kansas City was more than setting commission rates, controlling membership, and performing a watchdog function over the financial aspects of its members. The Exchange administered the use of telegraph reports and controlled the hours of the stockyards effectively. The Exchange paid for these services in a way similar to a state agency, they taxed the shippers and producers, although early on it had assessed the membership for the funds. The Exchange audited commission firms in the Kansas City market as early as 1887 and required a bond on the part of commission merchants to insure the shipper received payment. It also set and enforced rates on commissions charged on livestock consigned to Kansas City.

Inevitably the courts would rule on the right of the Kansas City Live Stock Exchange to regulate the trade of the Southwest. The first opportunity arose in 1889 in a law suit with the American Live Stock Commission Company. Prior to this time, the Exchange merely assumed it had the right of regulation, but after 1889 it had a precedent from the Illinois State Supreme Court, and that remained unchanged until the U. S. Congress passed legislation and declared the stockyards of the nation public markets in 1921. Until that time, the Exchange had absolute control over its own membership, and the ambivalence of the agrarians to that system implied they preferred private regulation over state regulation until 1921.

The livestock commission merchants were effective in supplying needed capital in livestock producing regions of the Southwest. In some areas that ranged as high as 90 percent of all the funds executed. It can be concluded that ranchers in Oklahoma Territory in the late nineteenth century could not have operated without the aid of the commission merchants in financing their business. The Kansas City Live Stock Exchange was less effective in controlling the abuses in the financing of the trade than they were in other areas. At such times shippers sought relief in the courts of law.

The twentieth century ushered new trends into the livestock trade. The most important was the invention of the internal combustion engine, and its application to the motor carrier. The mobility of the motor truck granted the producer other options of marketing livestock, and the industry as a whole began to decentralize. No longer could the commission merchant dominate the trade; producers were no longer bound to the railroad. The Kansas City market reached a peak of hog receipts in 1901 (3.7 million), of sheep receipts in 1911 (2.1 million), and of cattle receipts in 1918 (3 million) after which it began to decline.

Secondary changes also occurred. In the twentieth century the packing firms at Kansas City began by-passing the stockyards and purchasing livestock directly from the producers. The Exchange and the commission merchants were not a part of the new trend. At the same time cooperative shipping associations became popular.

A new interest in cooperation in general motivated the producers. During the First World War the first cooperative livestock commission firm operated in the Kansas City Stockyards against the will of the Exchange. The Farmers' Union was the first agrarian organization to succeed under the protection of the War Industries Board. For the first time in its history, the Exchange was powerless to do anything about it. There was no going back after the war, producers wanted permanent changes.

By 1920, under pressure from livestock associations, both the states of Kansas and Missouri passed laws which made the stockyards a public market and the commission merchants subject to state regulation. But the national depression in agriculture which followed the First World War started a national movement for the regulation of the stockyards by the national government. With the passage of the Packers' and Stockyards Act of 1921 the livestock trade became subject to national supervision. The era of private regulation ended.

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VIII. INTERVIEWS

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Thies, Carl. Henry Thies & Sons. Kansas City, Missouri, 13 June 1985.

VITA

O. James Hazlett

Candidate for the Degree of

Doctor of Philosophy

Thesis: REGULATION IN THE LIVESTOCK TRADE: THE ORIGINS AND OPERATIONS OF THE KANSAS CITY LIVESTOCK EXCHANGE

Major Field: History

Biographical:

Personal Data: Born in Norton, Kansas, 30 October 1947, the son of Vernie C. and Eva Reed Hazlett.

Education: Graduated from Norton Community High School, Norton, Kansas, in May 1965; received Bachelor of Arts Degree in Economics from Kansas State University in May, 1969; received Master of Arts degree from Oklahoma State University in July, 1982; completed requirements for the Doctor of Philosophy degree at Oklahoma State University in May, 1987.

Professional Experience: Officer in the United States Army 1969-1972; Office Manager of Bryan Manufacturing, Tulsa, Oklahoma 1972-1976; Accounting Manager at Telex Computer, Tulsa, Oklahoma, 1976-1979; Teaching assistant, History Department, Oklahoma State University, 1980-1986