U.S. WOOL POLICY AND ITS EFFECTS ON APPAREL WOOL IMPORTS

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The United States occupies a rather unique position in the world wool trade — besides being one of the world's largest apparel wool producers, she also needs to supplement her requirements by sizeable imports from wool surplus countries. However, wool imports into the U.S. have a strong competitive advantage over domestic wools, not only price-wise but also on account of their uniformity and generally better preparation. For this reason the ability of the wool exporting countries to enlarge very substantially their markets in the U.S. by displacing some domestic wools is largely dependent on the American policy of sheltering and fostering the domestic wool industry. For decades, the traditional means of achieving this has been by levying specific tariff duties of varying height on fine apparel wools which proved to be a potential threat to finer Territory (i.e. domestic) grades. Non-competitive carpet wools, on the other hand, imported mainly from Argentina and Uruguay, have been exempt from duty. More recently, with the aim of stimulating wool production to a level compatible with the strategic raw material needs of the U.S., an incentive subsidy program administered by the U.S. Secretary of Agriculture has been superimposed on the existing tariff structure. It is the purpose of this paper to discuss the rationale of the new wool program against the background of the traditional American wool policy, and at a later stage, to explore its implications for American apparel wool imports in general and from Australia in particular.

The Traditional U.S. Wool Policy

Prior to World War II, government assistance to the U.S. wool-growing industry by measures other than tariff protection was rather limited, despite the severely depressed market conditions in the early thirties. A notable exception was the ill-fated loan program carried out by the National Wool Marketing Corporation under the sponsorship of the Federal Farm Board during the marketing seasons of 1931 and 1932. Although the Marketing Corporation was originally created as a co-operative selling agency, the developments set off by the stock-market collapse in 1929 soon forced it to assume the role of a price stabilizing authority. In most respects the scheme proved a failure. The Corporation acquired large holdings of slowly moving stocks, and suffered the heaviest loss ever incurred in a co-operative venture, with the exception of the efforts to stabilize America's important crops, wheat and cotton. While the support program had some braking effect on falling wool prices, the efforts of the Corporation to strengthen the market in the face of declining demand had no visible effect on

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over-all returns to growers, except for the $12.5 million subsidy which was the amount of nonrecourse loans provided by the Farm Board.[1]

In the annals of American agricultural policy this brief episode is recorded as the only major attempt to stabilize farm prices of wool in the pre-war period. This seeming lack of concern for price stability in an important and notoriously unstable primary industry appears in strong contrast with the general tenor of U.S. agricultural policies towards other major crops in the thirties. It was in that period that the concept of price parity which first found legislative expression in the Agricultural Adjustment Act of 1933 was gradually evolved as a criterion for determining the level of support of a number of agricultural commodities.[2] Yet, in this atmosphere of concerted federal effort to aid depressed agricultural industries by price stabilization programs and other direct benefit payments, the wool industry remained outside the sphere of direct federal assistance.

One reason for this is suggested by the behaviour of U.S. domestic wool prices in the thirties. Having reached an all-time low in 1932, wool prices were depressed in 1935 and 1938, but were substantially above parity in other years so that over the whole period they showed a much better average than the general level of farm prices.[3]

But the main reason for this attitude towards the sheep industry in the thirties seems to have been the widely held view that by raising domestic wool prices above the world level, the American wool tariff provided a measure of price support not open to other crops which were not on an import basis, or exportables which were traded at very low world prices. Furthermore, since the American tariff was a specific and not an *ad valorem* duty, it could become virtually prohibitive when world wool prices declined to a very low level. And with domestic prices also declining, the contribution of a fixed tariff in maintaining a higher domestic price level would have increased, as it should, if the price supporting effect of the tariff were to work in the right direction. Thus the American wool tariff came to be regarded as a measure having both a salutary effect on domestic wool prices as well as providing protection to the import sensitive wool industry:

> "The tariff on wool is a method of maintaining prices of domestic wool above the world market level, and the sheep industry in the United States has become established with this protection provided, and on the assumption that it would be continued. Although a price support program for wool is in effect, growers continue to look to the tariff as a more basic factor influencing the economic stability of their industry."[4]

1. Benedict, M. R., *Can We Solve the Farm Problem,* New York, Twentieth Century Fund, 1955, p. 97.

2. In essence, a parity calculation involves a comparison of the change in the price level of the commodities which farmers buy from the non-farm sector with the rise in prices of specific farm commodities, relative to some base period in which farm and non-farm commodities were on the basis of "fair exchange". Initially, the base chosen was the period between August 1909 and July 1914, but since 1933 the concept and measurement of parity has undergone many modifications. See Benedict, *op. cit.,* Appendix A, pp. 532-551.

3. Benedict, M. R., and Stine, O. C., *The Agricultural Commodity Programs,* New York, The Twentieth Century Fund, 1956, p. 338.

4. U.S. Department of Agriculture, *Domestic Wool Requirements and Sources of Supply.* Government Printer, Washington D.C., June 1950, p. 23.

While the wool tariff benefited U.S. growers at the expense of consumers of woollen products, it could neither stabilize farm prices of wool from one period to another, nor be relied upon to bring wool into a desired price parity relationship during any particular marketing period. The level of U.S. wool prices is to a large extent determined by autonomous forces of world demand and supply since any changes in world wool prices are readily transmitted to the American market through fluctuations in import prices. This was clearly evident in the twenties and the thirties when U.S. wool prices exhibited wide fluctuations under both high and low tariffs. The effect of these exogenous market influences on wool parity is best seen in the thirties when wool prices often moved from below parity to well above it from one year to another. Indeed, in 1939 when the world wool market reacted very strongly to the declaration of war in Europe, domestic wool prices jumped from 90 percent parity to 120 percent in less than a year.[5]

By and large, then, the traditional wool policy did not attempt to stabilize the erratic course of American wool prices, nor did it endeavour to influence the volume of wool production by means of a price support program or production directives. Its limited objectives, protection and higher domestic prices relative to the world level, were served by changes in the wool tariff.[6] Under these circumstances, free market forces and the influence of the tariff were responsible for the favourable over-all parity ratio of wool in the thirties.

Under war-time regulations, entire U.S. wool production in any year was to be consigned to a government appointed agency which in effect supported wool prices at a level considerably in excess of parity. The price supporting operations sanctioned by these regulations were successively extended to 1949. However, with the resumption of free trading they became ineffective as wool prices received in the market in 1948 and 1949 remained above support levels. Nevertheless, the retention of price supporting machinery and a great deal of uncertainty about the future of the wool market in the early post-war years, aroused by the huge carry-over of wool stocks from the war, gave a strong indication that there was little prospect of the American wool policy returning to its pre-war course. The change was already foreshadowed by the National Wool Act of 1948. This provided for direct subsidy payments to growers and was calculated to guarantee them an agreed unit price for all the wool they sold. At the same time, increased protection in the form of higher tariffs or import quotas was recommended for the wool growing industry by the U.S. Tariff Commission, in accordance with Section 22 of the Agricultural

5. Benedict and Stine, *loc. cit.* p. 338.

6. Since the turn of the century, the height of the wool tariff has varied a great deal. The duty averaged 11 cents per pound in the grease shortly before W.W.I., but during the war apparel wool was placed on the free list. The Emergency Tariff of 1921 reimposed the duty at 15 cents per pound, greasy basis. This was changed in 1922 to 31 cents on the clean content. The Hawley-Smoot Act of 1930 raised the tariff to 34 cents per pound clean, and at this level it remained until January 1, 1948, when tariff concessions under the Trade Agreements Program reduced it to 25 ½ cents per pound, clean basis. See Benedict and Stine. *op. cit.*, p. 331, and Humphrey, D. D., *American Imports,* New York, The Twentieth Century Fund, 1955, pp. 129-142 and 407.

Adjustment Act.[7] Both measures failed to obtain Presidential approval and did not come into effect, despite the former's successful passage through Congress. The tariff recommendation was blocked by the President as it would have been inconsistent with the U.S. policy of promoting freer world trade. Moreover, even with the tariff concession made effective on January 1, 1948, wool still ranked high on the dutiable list, despite the marked trend towards trade liberalization in the U.S. since the enactment of the Trade Agreements Act of 1934. This trend has been further endorsed by the recent passage of the Trade Expansion Act of 1962. While giving very little hope of a reduction in the wool tariff, this Act at least promises restricted future use of Section 22 which since 1935 has been rightly looked upon as a potential threat to apparel wool exporters to the United States.

The outbreak of the Korean War once more dispensed with the need to support farm prices of raw wool, and it was not until wool prices weakened in 1952 that active price support on a significant scale was provided for the first time in twenty years. The Commodity Credit Corporation offered loans to growers at 54.2 cents per pound in the grease, and in the course of 1952 and 1953 acquired substantial stocks which could not be disposed of until several years later.[8] Despite the large scale of price support, the scheme came under fire from both growers and officials. They argued that while stabilizing producers' prices in the short run, the scheme could not, over time, guarantee prices above the support level. Since the stocks held by the Commodity Credit Corporation had to be disposed of in the U.S., only a sustained increase in domestic prices would ensure that both the backlog stocks, as well as current production, were absorbed by the open market at prices significantly higher than the official support level.[9] To overcome this difficulty without resorting to a commercial policy which would run counter to the avowed objectives of U.S.

7. Benedict and Stine, *op. cit.*, p. 347n; and Benedict, M. R. and Bauer, E. K. *Farm Surpluses,* University of California. 1960, p. 123. Under Section 22, the President has the authority to impose higher tariffs when the inflow of imports endangers the operations of American farm price support programs. This could happen if wool support prices got out of line with import prices including the tariff. Because foreign wools enjoy a considerable competitive advantage over domestic wools in the absence of price differentials, such a lack of price alignment could result in excessive accumulations of domestic wools. In 1949, a change in the method of computing the parity price of wool was introduced following urgent claims by wool growers that the old formula failed to reflect adequately increases in wage costs which constituted a much greater proportion of total costs in wool growing than in other lines of agricultural activities. These claims were probably primarily responsible for the 1948 attempts to invoke Section 22.

8. The Commodity Credit Corporation is a government agency empowered to carry out the agricultural policy of the Congress and the Secretary of Agriculture. It was established originally to offer loans to farmers so as to enable them to hold their crops before marketing them. The loans have been such that if the farmer surrenders the crop instead of liquidating the loan, he is not responsible for any resulting loss to the CCC. Since the loans have been mainly of a price supporting nature, the CCC has often come to own large quantities of agricultural products acquired under a loan arrangement. See Benedict and Bauer, *op. cit.*, p. 36; also Benedict, *op. cit.*, pp. 381-4.

9. Estimated stocks of raw wool held by and on behalf of the U.S. Government, excluding wool under loan, at the beginning of the seasons 1953-4, 1954-5 and 1955-6, were 50, 55, and 68 million pounds, clean basis, respectively. These were completely liquidated by 1958-9. Commonwealth Economic Committee, *Industrial Fibres,* 1960, Table 26.

trade policy, the Administration responded to increasing demands for more effective assistance to the wool growing industry by setting up a new program which soon afterwards became public law.

The National Wool Act of 1954

Although the new wool program departed from the traditional policy in a number of ways, it followed the precedent established in the Agricultural Act of 1949 in one important respect. Its *raison d'être* was not so much price stabilization as encouragement of a volume of production sufficient to meet the strategic raw material needs of the nation:

> ". . . as a measure of national security and in promotion of the general economic welfare, to encourage annual domestic production of approximately three hundred million pounds of shorn wool, grease basis, at prices fair to both producers and consumers in a manner which will have the least adverse effects upon trade."[10]

One innovation, however, was that price supporting activities by means of loans and government purchases were abandoned, to be replaced by direct incentive payments to growers. As their name implies, these payments were to be set at a level consistent with the production objectives envisaged in the Act subject to the condition that they should at no time exceed 110 percent of parity. This upper ceiling was to be reduced to 90 per cent of parity if annual domestic production increased beyond 360 million pounds but the actual level of support was not to fall below the lower limit of 60 per cent of parity. More interestingly, however, the support price under the new procedure was to be announced in advance, so that growers would always be certain of the average price support level in the forthcoming season. Such a forward pricing scheme is really quite different from the use of a fixed percentage parity formula in the calculation of support prices. While parity programs of the latter type may result in production being either too large or too small in relation to some over-all production objectives, forward pricing schemes based on some production target may well relegate parity objectives to the rank of policy residual. It is in this respect that the traditional policy of adjustable wool tariffs and the incentive subsidy scheme are similar in their effect. Under both regimes the percentage level of parity support has been to a large extent the residual factor in policy decisions.

The 1954 Act is administered by the U.S. Department of Agriculture so that shorn-wool subsidy payments to each grower are equal to a nominated percentage of his cash returns from wool sales within the given marketing period. This percentage is calculated in such a way as to raise the national average price received by all producers up to the predetermined incentive level. Since wool prices are allowed to find their own level in the U.S. market, given the existing tariff structure, the percentage applicable in any given year may vary substantially from one season to another.

The Wool Act of 1954 further requires that the payments to growers authorized by the Secretary of Agriculture be linked to the proceeds of the wool tariff in such a way that the cumulative amount of the subsidy does not exceed 70 percent of the duties collected on imports of wool

10. *Public Law* No. 690, 83rd Congress, "Agricultural Act of 1954".

and woollen manufactures since January 1, 1953. In the view of some writers, this is an important provision as it "tends to give the incentive payments scheme a permanence it might not have otherwise possessed."[11]

But it is conceivable that this provision may have precisely the opposite effect if displacement of wool imports by domestic wools and/or synthetic fibres is carried to a point where the cost of the wool program can no longer be met from accumulated tariff revenue. Even so the permanence of the scheme need not be threatened for the wool program may be easily divorced from its present relationship with the wool tariff by legislative action. The fact which emerges is that under the aegis of the new Wool Act, the interests of U.S. wool growers are protected and are likely to remain protected by a coalition of commercial policy and domestic price supports in place of adjustable wool tariffs which would no longer be consistent with a much broader national trade policy.

Results in the Incentive Scheme

The incentive price was originally set at 62 cents per pound, greasy basis, and remained at that level through to 1961. In parity terms, this was quite favourable — 106 percent of parity as of September, 1954, compared with 90 percent parity prior to the Act.[12] Since then, however, the parity rating of the pegged incentive price would have deteriorated somewhat due to generally rising prices in the U.S.

As evidenced by the production and price data of Table 1, the production objectives of the Act did not materialize, although the gap narrowed markedly in the later years. But this implies that the fixed incentive price was not effective in stabilizing wool production at any particular level. After a short lag, production seems to have been brought to a slightly higher level in 1955, but the incipient upward movement in the last two years is too pronounced to be explained away by the presence of natural factors causing autonomous variations in agricultural production. Since this increase was associated with increasing numbers of sheep and lambs shorn, rather than improvements in yields, the explanation appears to lie in the direction of changing profitability of wool growing and marketing of lamb and mutton. The prices of both lambs and fat sheep declined relative to their 1958 level, and even though they were not much lower than in most years, their downward movement since 1958 may have been quite effective in increasing the number of lambs and sheep shorn.[13] Thus the recent increases in wool production can be partly attributed to the changing price relationship between wool and its joint products,

11. Bidwell, P. W., *Raw Materials: A Study of American Policy*, New York, Harper Brothers, 1958, p. 257.

12. Benedict and Stine, *op. cit.*, p. 353.

13. This is certainly true of sheep, but the marketing of lambs is further complicated by the possible influence of parity prices for lambs. Effective and legally applicable parity prices for lambs in 1958, 1959 and 1960 were 25.9, 25.7 and 25.6 dollars, respectively (U.S. Department of Commerce, *Statistical Abstract of the United States*, Government Printer, Washington D.C. 1958, p. 634; 1959, p. 634; 1960, p. 635). If these prices were actually applied, the influence of lamb prices on production decisions of wool growers would have been much weaker because of the smaller spread of parity prices.

TABLE 1

Prices Received by Farmers and Wool Production, U.S. 1951-1960

Year	Shorn wool production	Wool price per lb. greasy	Wool incentive price per lb. greasy	Price of fat sheep[a]	Price of lambs[a]
	mill lb.	cents	cents	dollars	dollars
1951	228.1	97.1	—	16.00	31.00
1952	233.3	54.1	—	10.00	24.30
1953	232.3	54.9	—	6.67	19.30
1954	235.8	53.2	62.0	6.14	19.10
1955	241.3	42.8	62.0	5.78	18.40
1956	242.2	44.3	62.0	5.61	18.50
1957	239.1	53.7	62.0	6.05	19.90
1958	243.7	36.4	62.0	7.20	21.00
1959	259.9	43.3	62.0	6.00	18.70
1960	266.5	43.2	62.0[b]	5.62	17.90

(a) Per 100 pounds liveweight. (b) In 1961 the incentive price was continued at 62 cents. (U.S. Department of Agriculture, *The Wool Situation,* Government Printer, Washington D.C., October 1960, p. 9).

Sources: U.S. Department of Agriculture, *The Wool Situation,* August, 1960, p. 24; U.S. Department of Commerce, *Statistical Abstract of the United States,* Government Printer, Washington D.C., 1961, pp. 676 and 806.

so that the data of Table 1 are not incompatible with a fairly high degree of stability in wool production under the existing price support scheme.

Although the controlled supply function of wool in the U.S. leads into many of the perennial issues of American farm policy, these cannot be considered here. Instead, we shall focus our attention on the implications of the 1954 Wool Act for American wool import demand.

Import Demand Effects of the Program

The present U.S. wool policy is a good example of how a domestic commodity program can introduce rigidities and inelasticities into international trade, and so reduce the effectiveness of the price mechanism in bringing about desirable adjustments in the flow of trade. It is primarily in this respect that the interests of the countries exporting wool to the U.S. will be affected by the continued operation of the wool program. The long run elasticity of demand for their combined exports to the U.S. depends not only on the elasticity of U.S. domestic demand for raw wool but also on the price elasticity of U.S. domestic farm supply of raw wool.[14] The present subsidy program, however, has effectively insulated domestic wool supply from market prices of shorn wool received by farmers which, by being closely linked to wholesale prices of wool paid by woollen textile manufacturers, must find their own level on the open market, compatible with prices established in world markets and the height of the existing tariff. Thus if changes in farm stocks of wool are not a very important component of supply, the long run supply function of shorn wool will be completely inelastic with respect to the ruling market prices. And we saw earlier that so long as the subsidy price of wool and the relative prices of its joint products remain unchanged, it can be reasonably expected that domestic supply will not depart significantly from the established level of around 250 to 260 million pounds per annum, greasy basis. Under these circumstances, the price elasticity of import demand for apparel wool will be a function only of the import share in total consumption and the domestic price elasticity of demand.[15] This import elasticity will evidently be lower than it would be in a situation in which farm

14. Import demand is an excess demand function when domestic consumption exceeds domestic production. Accordingly, it may be expressed as $E_m = [E + (1 - r) E_s]/r$, where E_m is price elasticity of import demand, r the share of imports in total domestic consumption, E price elasticity of domestic demand, and E_s price elasticity of farm supply of shorn wool. This equation appears to have been first derived, in a slightly different form, by Yntema, T.O., *A Mathematical Reformulation of the General Theory of International Trade,* Chicago, University of Chicago Press, 1932, pp. 43-45.

15. With E_s equal to zero, the import elasticity equation of footnote (14) reduces to $E_m = E/r$. An empirical analysis based on recent U.S. market data yielded an estimate of E equal to −0.557. By substitution into the above equation, estimates of E_m were obtained. For the period of relatively high domestic mill consumption during 1955-1957, the average value of E_m was approximately −1.2. In 1958 and early 1959 the level of mill consumption was markedly lower, and the estimated value of the import elasticity coefficient (weighted average of quarterly estimates) was −1.4. For the intermediate level of wool consumption during 1959 and the first half of 1960, the import elasticity coefficient was estimated at −1.32. See Ferguson, C. E. and Polasek, M. "The Elasticity of Import Demand for Raw Apparel Wool in the U.S.", *Econometrica,* Vol. 30, 1962.

production adjusts to domestic prices which are constantly under pressure from changing supply prices of foreign wools.[16]

But the absolute value of the import elasticity coefficient might still be quite high in the new situation, depending on the production goals envisaged by the program relative to the state of domestic demand. If substitution of synthetic fibres reduced demand for raw wool, while the domestic producers of wool are sheltered by a subsidy scheme which guarantees them an adequate return irrespective of domestic demand and world prices, the loss arising from displacement of wool would be borne entirely by foreign suppliers. These would evidently derive little comfort from the knowledge that the demand for their products in the U.S. has become relatively more price sensitive.[17] This case should be clearly distinguished from a situation in which the free price mechanism is allowed to bring about full adjusments in the volume of trade. Otherwise misleading empirical results may easily be obtained if no cognizance is taken of the changes that have taken place in the routine of import demand since the introduction of the new U.S. wool policy.

In this light, what is the significance of the present U.S. wool tariff? If the specific rate of duty were reduced, American wholesale wool prices would fall in line with the world price level, and farm prices would also need to adjust downwards in order to retain the price differential which enables them to compete with the much better prepared foreign wools. But if the U.S. Secretary of Agriculture is ready to support farm prices at any level that they may reach to the full extent of the incentive price, the gain to exporters from a tariff reduction depends entirely on the extent to which American manufacturers increase raw wool consumption in response to lower import prices. Depending on the nature of the domestic demand function, this effect could be very slight.[18] This is in strong contrast with the traditional U.S. policy which recognized the tariff as the strategic parameter of the U.S. import demand for wool by virtue of its potential impact on the profitability of the wool growing industry and its consequent effects on the allocation of resources. Although the wool

16. The difference in import elasticities in the two situations would be substantial even if the supply elasticity of U.S. produced wool were quite low If r is 0.4, as it has been in recent years, and E_s is assigned the value of 0.5, the resulting value of E_m is 2, as compared with 1.25 under conditions of controlled supply. (In the equation of footnote 14, E and E_m are defined as positive values).

17. This was the U.S. experience in late 1957 and 1958, except that the sudden decline in domestic demand appears to have been brought about by a world-wide textile recession. As a result, the share of imports in domestic mill consumption declined, and the absolute value of the import elasticity coefficient was correspondingly higher (see footnote15).

18. On the basis of recent U.S. market data, the price elasticity of domestic demand was estimated at –0.557 (for method of estimation see Ferguson and Polasek, *op. cit.*). On the assumption that the underlying demand conditions continue to hold, a tariff reduction equivalent to a 10 per cent fall in domestic wool prices could be expected to lead to an increase in consumption of about 5 to 6 per cent. With apparel wool consumption running in recent years at the average annual rate of about 250 million pounds, clean basis, the absolute increase in consumption could be expected to lie between 12 to 15 million pounds annually (see U.S. Department of Commerce, *Survey of Current Business,* Government Printer, Washington D.C., 1959-1961). The effect of this change on the fortunes of wool exporters to the U.S. would of course be more substantial as it would lead to a larger proportionate increase in the volume of imports.

program now in force is linked with the tariff proceeds on wool and wool manufactures, this link is only nominal and could be easily removed so as to free the wool program from any dependence on the tariff whose protective functions it has largely replaced.

Implications for Australia

Australia's interest in the U.S. wool market stems from her long standing as the largest apparel wool exporter to the U.S.[19] In the years immediately following the Korean War wool boom, Australian exports of fine and medium wools to the U.S. averaged about 75 million pounds per annum, actual weight. Since 1955-6, however, the volume of Australian wool exports to the U.S. has been steadily declining, so much so that in the marketing seasons 1959-60 and 1960-61, they amounted to 38.8 and 36.3 million pounds, actual weight.[20] At the same time, no clear downward trend is discernible in the volume of Even though the average annual imports for the calendar years 1959-60 were lower than in 1953, they remained roughly at the same level of about 350 million pounds, actual weight, as in the triennium 1954-56, and were markedly higher than during the textile recession in 1957 and 1958.[21] On the other hand, mill consumption of apparel wool declined from the annual average of 386 million pounds, clean basis, during the period 1953-57 to 310 million pounds in 1958, and 261 million pounds in 1959.[22] These figures suggest the presence of market forces unfavourable to apparel wool relative to carpet wool imported to the U.S. from Latin America and New Zealand. Consequently, Australian wool exports which have been almost exclusively of the fine apparel variety have lost a good deal of ground in the U.S. market.

It is beyond the scope of this paper to discuss fully the forces responsible for these developments, except to point out how they may be related to the wool policy currently in force. Australian wool exports to the U.S. and fine Territory grades have always been strongly competitive, and any U.S. policy which shelters the domestic sheep industry in the face of declining mill consumption is bound to discriminate against Australian exports. This was recognized by both the Administration and the Congress in relation to the past recommendations in favour of a higher wool tariff. It was felt that such increases would have serious destabilizing effects on the incomes of Australia and New Zealand and so jeopardise U.S. security efforts in the Pacific area.[23] But statistical evidence suggests that the "adverse effects on

19. In recent years the principal source of U.S. wool supplies has been Argentina. However, as much as 75 percent of Argentine wool exports to the U.S. have been carpet wools (e.g. in 1958). New Zealand has also been a significant supplier of carpet wools. In 1957, nearly 30 percent of her U.S. exports were coarse carpet wools; in 1958 this percentage almost doubled (U.S. Department of Agriculture, *The World Carpet Wool Situation,* Government Printer, Washington D.C., p. 23, and Commonwealth Economic Committee, *Industrial Fibres,* London, 1959, Table 18, p. 37).

20. Actual weight is obtained by adding exports of greasy and scoured wool. See Bureau of Agricultural Economics, *Statistical Handbook of the Sheep and Wool Industry,* Canberra, A.C.T., 1961, Table 81, p. 94, and Table 85, p. 98.
total American imports (i.e. apparel and carpet wools combined).

21. Bureau of Agricultural Economics, *op. cit.,* Table 100, p. 113.

22. Commonwealth Economic Committee, *Industrial Fibres,* London, 1960, Table 24, p. 46.

23. Benedict and Stine, *op. cit.,* p. 352n.

trade" which the National Wool Act of 1954 hoped to minimize by implementing the new wool policy have nevertheless proved quite substantial, especially for Australia compared to other wool surplus countries.[24] The rigidity which the 1954 legislation imparted to the wool program, combined with subsequent developments in the field of synthetic fibres, appear to have contributed significantly to the recent contraction of the Australian share of the U.S. market. And any future downward adjustments in U.S. apparel wool consumption coupled with the present policy of inflexible price supports can be expected to lead to a further deterioration in Australia's share of the U.S. wool market.

Concluding Remarks

For almost three decades the United States has been pursuing a policy of gradual trade liberalization which, with the enactment of Mr. Kennedy's Trade Expansion Act of 1962, is unprecedented in the country's history. The American wool policy, however, has far from conformed to these broader aims of American trade policy. In the pre-war period, a high tariff not only served to protect the vulnerable domestic industry, but was also looked upon as a measure of price support to domestic wool growers in the absence of direct federal aid to their industry. In the early post-war years, apparel wool narrowly escaped increases in import duties due to the fact that such action would have been in conflict with the efforts of the U.S. to promote conditions for the establishment of multilateral trade. Soon afterwards this policy constraint was obviated by the passage of the National Wool Act of 1954. The Act was designed to stimulate domestic production to a desired level and to guarantee domestic growers stability of returns on all the wool they produced.

In its objectives and effects, the 1954 Act has transcended the traditional U.S. price support program (which merely looks to past price relationships for policy guidance) and inaugurated an era of effective protection for U.S. wool growers by means of incentive subsidies determined in advance of the marketing season. In this sense, therefore, the rationale of U.S. wool policy has not deviated from its traditional course. But the present approach is open to the serious objection that its many-sided economic effects have become entirely dependent on an arbitrary assessment of what constitutes the strategic apparel wool needs of the U.S. Whether it is for reasons of national security, or for an ulterior protective purpose, rigid adherence to a fixed production target virtually removes the domestic wool industry from the sphere of market influences. From the point of view of wool exporting countries, this rigidity has emerged as a strongly onerous feature of the present wool policy, and some measure of relaxation of its inherent inflexibility would contribute effectively towards expansion of the U.S. wool trade.

24. It is interesting to note that while Australia's wool exports to the U.S. declined sharply between 1956-7 and 1957-8, South Africa, which ranks next to Australia as a producer and exporter of fine wools, maintained her exports to the U.S. at the same level of 18 million pounds, actual weight. See Commonwealth Economic Committee, *Industrial Fibres,* London 1959, Table 18, p. 37. Some American buyers are known to favour South African wools on account of their lower freight costs to the U.S.