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WOOL IN 1980*

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Since the introduction of a reserve price scheme in 1970, the interest in wool marketing previously shown by agricultural economists has not been maintained outside the public service and the wool industry itself. Nor is the subject as divisive amongst wool growers with, in general, 'orderly marketing' now acceptable to all factions of wool growers. The history of wool marketing discussion in Australia is reviewed and some reasons for this changing climate of opinion are discussed. An attempt is made to assess the actual performance of the buffer stock scheme in the light of the academic literature of the 1960s.

A previous President, in his address to this Society, suggested that such addresses could be divided into two broad classes (Maiden 1963, p.1):

> On the one hand the products of detailed and often satisfying research for which the address provides an opportunity for public revelation. The other broad category embraces talks which, while not the result of much research as such, end up as dissertations on subjects which the speaker feels of some moment or on which he feels deeply.

By and large, subsequent experience has supported this dichotomy. Perhaps we can stretch it a little further now and recognise a distinction between what might be called the 'informative' and 'moralising' reactions to the task of presenting a presidential address. There can be little quarrel with the informative approach although we can all think of occasions when people were telling us more about some topic in agricultural economics than we really wished to know. Moralising has more hazards, especially for the audience, since the speaker confident enough to embark upon this course will remain serenely oblivious to its sensibilities. I might add that a little preaching on occasions such as this has been favoured by academics in the main, with advice on what needs to be done to get the agricultural economy onto a path of economic rectitude being offered to farmers, politicians, and those who advise them. Sometimes our public servant colleagues have responded, not without some justification, that their progress would be much easier if the staff that they had to recruit had been equipped better by their education to cope with the difficult job that was set before them. A variant of the moralising approach is to focus on the agricultural economics profession itself and evaluate its performance and prospects. Not unexpectedly, we have come out rather well from this informal peer review.

With this preamble, you will be wondering where my talk is placed in

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this classification. My intention was to review developments in the Australian wool industry in the past few years especially in relation to wool marketing. Although it started out to be informative, the end product contains its fair share of personal impressions and a few *ex cathedra* statements that would be difficult to defend line by line. The first part of the paper contains a brief sketch of the changing role of the wool industry in Australia. This is followed by a summary of the wool marketing controversy since the 1920s. In the final section of the paper some contemporary issues of wool marketing and policy are discussed.

Wool in the Australian Economy

Discussions of the place of wool in the economy have a decidedly old-fashioned ring because woolgrowing has lost its pre-eminence in the economy as it has in other aspects of Australian life. Indeed, there was academic interest in 'wool economics' long before agricultural economics emerged as an independent speciality. Nowadays, debates over wool's place in Australia's economic development have passed to the economic historian. Perhaps the view that 'the process of urbanisation is the central feature of Australian history' (Butlin 1964, p.6) will eventually displace such images as 'Australia rides on the sheep's back' or 'wool is the moral fibre of Australia' in our perceptions of our past. But the wool industry will still loom large because of its contribution to export income and the importance of export income for national economic growth and development. This is despite the fact that the fundamental position attributed by some to the wool industry is 'sometimes, but not necessarily, rooted in physiocracy and other outmoded but persistent forms of agricultural fundamentalism' (Lewis 1959, p.2).

Whatever argument there may still be about the relative importance of the wool industry in Australia's past growth and economic stability, there can be no dispute that its significance has declined substantially in the 1970s. The decline is marked even in absolute terms. Although there has been some increase in the past couple of seasons, sheep numbers and wool production now are less, by around one-quarter, than the peak levels of a decade ago. Most of the fall occurred with the collapse of expectations in the wake of the wool recession. There are straightforward explanations for this reversal of the more or less continuous growth of the previous quarter of a century. Substitutions, both between the sheep enterprise and other enterprises and within the sheep enterprise itself in response to changing relative prices, have been normal throughout the history of Australia's sheep industry. The average prices of lamb and mutton relative to wool have been 50 per cent and 100 per cent higher, respectively, in the past three years than they were (for example) in the first three years of the 1960s. These sorts of changes have major implications for the size and composition of the national sheep flock, in particular the relationship between inventory and turnoff (Reynolds and Gardiner 1979).

The wool industry has occupied an important position in Australian political and social history. From the earliest times of European settlement, the larger wool growers were politically, economically and socially powerful. In fact, the term *pure merino* was used in the 1820s to describe those who wished to exclude former convicts from their society (Inglis 1974, p.14). Some of these social and economic distinctions, real and imagined, persisted well into the twentieth century. It surprised me to learn that in 1923 almost 3000 holdings contained one-half of the Australian sheep population in flocks of more than 5000 sheep, and 75 000 holdings the other half in flocks of less than 5000 sheep. Another indication of the skewness of the distribution of ownership was the average numbers of sheep in each category of flock – 13 298 and 534, respectively (Higgins 1925).

Although the efficiency effects of closer settlement and tariff policies have been emphasised in recent years, there is not much doubt that these policies were inspired by concerns about the distribution of income. This is evidenced in the classic quotation from the Brigden Committee (1929, p.70):

> It is quite certain that without the tariff it would have been possible to have obtained a larger national income per head – but for a considerably smaller population. The maximum income per head for Australia would probably be obtained by reducing it to one large sheep-run with the necessary subsidiary and sheltered industries and a few rich mines – and a population of about 2 million people. This, however, is not a practical alternative, in view of the settled national policy in this respect.

Today, we could substitute, 'one large mine and a few rich wheat-sheep farms'. I leave it to the staff of the IMPACT project to come up with an appropriate population estimate; without much doubt, with modern aids to economic decision making, they could provide a few more significant figures than their predecessors. Tariff policies and opposition to government interference in land settlement can be regarded as the basis of the anti-interventionist stance adopted by the larger wool growers. The extension of this attitude to include a *laissez-faire* approach to wool marketing, however, has to be thought of as more a matter of ideology than of self-interest. Moreover, it established a cleavage between the graziers and small-farmer organisations that influenced wool marketing developments until the introduction of a buffer stock scheme in 1970.

Historical Overview of Wool Marketing

The marketing system that had evolved since the earliest times of woolgrowing in Australia had two outstanding features: the bulk of the clip was sold at auctions and each individual lot (or a sample from it) was inspected and appraised by buyers before it was sold (Watson and Parish 1981). The Australian wool marketing system has been described by Barnard (1958, p.47) as follows:

> The Australian wool trade is, above all, one in which the rationale of a highly developed chain of middlemen finds almost classical expression – long distances separating large numbers of small-scale, geographically scattered producers from a numerous body of small-scale consumers.

Although the auction system remains the dominant method of selling wool, its role in price discovery has been diminished by the existence of a 'reserve price' since 1970. Previously, the wool industry had been characterised by a virtual absence of government intervention – at least in peace time. Indeed, the wool industry was in the unusual position of dismantling on two occasions the regulatory apparatus that had been used during wartime. This contrasts with the wheat and dairying industries where regulatory institutions that emerged during wartime still have not been completely demobilised. The introduction of the reserve price scheme, therefore, was a turning-point in the political economy of the wool industry that marked the end of the old *laissez-faire* stance and traditional independence from government of the graziers' organisations. Even before the recent mergers between farmer organisations sealed their loss of separate identity, the graziers' peak organisation had expressed its wholehearted support for organised marketing (Australian Woolgrowers' and Graziers' Council 1977). This support went further than merely endorsing the existing reserve price scheme by approving the objectives of the Australian Wool Corporation's 1973 marketing plan that advocated an acquisition scheme.

These attitudes are a long way from the graziers' previous position, which had just been reflected in the vigorous opposition to the reserve price scheme during the 1965 referendum. It would appear that the union of the graziers and small wool growers in the National Farmers' Federation has resulted in an offspring with one characteristic of each parent. This is because the anti-tariff stance of the graziers has been fused with the orderly marketing predilections of the former small-farmer organisations, who have moved away from their equivocal attitude to Australia's policies of tariff protection. It is too soon, however, to judge the final outcome from what is a very chancy mixed marriage: we can only hope that the wool industry is spared an unfortunate future as a ward of the state.

Perhaps the most interesting personality in the whole history of the discussion of Australian wool marketing was Sir John Higgins, a businessman and metallurgist with wool industry interests who became chairman of the Central Wool Committee in 1916. Afterwards, he was Chairman of the British Australian Wool Realization Association (BAWRA) and attempted unsucessfully to have its operations continued beyond the liquidation of wartime wool stocks (Harman 1969). This was the first major conflict between graziers and wheat-sheep farmers and small wool growers over wool marketing. The latter were enthusiastic supporters of BAWRA especially because they believed that the relatively higher prices received for crossbred wools compared to fine wools were the result of the appraisement and marketing scheme rather than the pattern of demand for wool types that would be expected during wartime. This confusion between the level of prices and the efficiency of the marketing system *per se* has bedevilled wool marketing discussion ever since. The instinctive defence sometimes offered nowadays by supporters of wool marketing policies that, after all, the wool industry is lightly protected is another example of this muddle: although almost any measure that affects prices will have some effect on marketing institutions, it is still important to try to keep marketing policy and price or protection policy separate in our minds.

Sir John Higgins was almost certainly the first person to present a coherent case for a change in wool marketing methods, although complaints about wool marketing go back to the 1860s (Sturgess 1968). In keeping with the superior customs of the time, Higgins wrote his own manuscripts (1925, 1931); he did not need the public relations apparatus of latter-day wool reformers. His writings, therefore, are a model of clarity compared with more recent reports on wool marketing which have become progressively more dull and obscure with the expansion of the committee and bureaucratic paraphernalia surrounding the wool industry. Higgins was a generous benefactor of the University of Melbourne, and he must have been surely the first person who was a member of both the Adelaide and Melbourne clubs to campaign for significant changes in wool marketing.

It is a mistake to interpret the past with the ideas of the present. Some of the parallels, however, between arguments used by Higgins and those used more recently, especially in the 1973 report of the Australian Wool Corporation, are so striking as to make one suspect that Higgins provided a first draft that has been modified subsequently by like-minded people except that, as observed above, successive drafts have obfuscated rather than clarified the argument. In both the 1925 address given to a conference of wool growers and his 1931 address to the Empire Wool Conference, Higgins expressed four arguments that would seem to encapsulate the pro-orderly marketing view:

- Australia had a near-monopoly position in the production of fine wool which meant that prices could be raised by withholding stocks from the market.
- Speculators' profits could be captured for the benefit of wool growers (at the same time, however, Higgins acknowledged that these arose from the superior knowledge of merchant and specialist traders in the wool market).
- Wool manufacturers could benefit from a stable price.
- There were possible economies in marketing costs with a statutory wool marketing authority through savings in shipping, insurance, reconditioning (abolition of small lots), and in reducing jute contamination in wool bales.

Not only are these familiar arguments, the thinking behind them has a contemporary flavour because numerous analogies were drawn with other countries and other commodities to support orderly marketing in the wool industry. Again, although somewhat out of character with the serious approach taken by Higgins, he still felt it necessary to proclaim that his proposals were 'devoid of academic theories' (1931, p.60) in recommending them to wool growers. The proposals of Higgins as special delegate at the 1931 Empire Wool Conference were very close to what would now be called an acquisition scheme. Wool growers were to be paid a basic price derived from a ten-year average of wool prices as a first advance which was to be supplemented by further payments according to the trading outcome during the season. The statutory authority operating the export control scheme would be financed by levies on growers (of 5 per cent) that would replace the initial loans made under government guarantee (Higgins 1931). Following the Empire Wool Conference, an Official Committee of Inquiry recommended that the export of wool be prohibited unless it reached a fixed price, but this was shelved because of graziers' opposition, although they had been represented on the Committee (Harman 1969, p.91). These disagreements led to the formation of organisations that pressed the view of the smaller wool growers. The situation has been summarised by Harman (1969, p.91):

> The graziers' associations strongly resented attempts by wheat-sheep farmers' organisations to gain recognition as spokesmen for the wool industry, and consequently the conflict over marketing became even more of a struggle over power in the wool industry—a struggle to see whether wheat-sheep farmers' organisations should be recognised as a legitimate voice of woolgrowers' opinion, and later whether wheat-sheep farmers or graziers determine policy for the industry.

During the second world war, similar arrangements were introduced to those of the first world war to handle the wool clip. A 'Joint Organisation' of the United Kingdom, Australia, New Zealand, and South African Governments was established to liquidate wartime wool stocks. This was done 'successfully', in the sense that it proceeded faster than expected at the inception of the Joint Organisation although an alternative explanation could be that it set its reserves too low in what was a rising market in the early post-war period. A referendum was held in 1951 to consider a proposal for a continuation of these arrangements; as it turned out, in the face of the graziers' opposition, it was overwhelmingly defeated.

The Philp Committee of Inquiry

The 1950s were something of a hiatus in wool marketing discussion. Falling wool prices brought about fresh demands for 'orderly marketing' and an independent inquiry was established under the chairmanship of Sir Roslyn Philp (a judge of the Queensland Supreme Court) in January, 1961. The report of the Inquiry, published in March 1962, was notable in several respects. In the first place, it recommended against the introduction of a reserve price scheme. Not only did the Inquiry support that aspect of the graziers' side of the argument, it also endorsed their views on the expansion of promotion and research (p.xxi, para. 55).

> Promotion, which broadly speaking includes textile and market research, is the most promising means open to growers whereby world demand for wool can be stimulated. Effective promotion is costly, but in our view growers' leviable resources would be better directed to its achievement than to the introduction of a reserve price scheme. Growers have voted large funds for the promotion of Australian wool and they are being requested, in our opinion rightly, to vote still larger funds for this purpose.

The Philp Committee also recommended 'the erection of a central commission or board upon whose decisions Government could confidently rely and which could speak with final authority on all matters affecting the industry' (p.xxii, para. 64). In the event, the Australian Wool Bureau was replaced by the Australian Wool Board and the Australian Wool Industry Conference was established with equal representation from the two opposing factions. At least in the immediate future, this did not remove the disagreements on marketing issues even if it did simplify channels of communication for politicians and the bureaucracy.

In retrospect, the views of the Philp Committee on wool promotion can be seen to have had a pervasive effect on the course of future wool policy. The expanded International Wool Secretariat, assisted by government subventions after 1963, and with larger grower contributions following a compromise between the graziers and organisations of small wool growers, subsequently became a voice in favour of 'orderly marketing.' In effect, there was a leap-frogging situation where advocates of either 'marketing first' or 'promotion' were willing to compromise their objections to the other group's solution to wool's problems. The upshot was a recommendation from the Australian Wool Board in 1964 in favour of a reserve price scheme that led to the (subsequently defeated) 1965 referendum of wool growers, as well as the increased expenditure on promotion.

Although the detailed investigation of wool promotion undertaken much later by the Industries Assistance Commission (1976, p.71) concluded that 'although quantitative evidence is weak . . . the promotion of wool is profitable to woolgrowers' and that 'wool is under promoted', there was little in the International Wool Secretariat's early pronouncements that would have engendered much confidence in its future usefulness. In a report to wool growers issued by the Australian Wool Board (1964), one International Wool Secretariat spokesman claimed possession of the answer to almost every essential market research question concerning consumers' attitudes to wool and synthetic fibre competition. Despite this confidence, he went on to say that 'much as I should like to give here the answers to these questions, I hesitate to do so because they would be as valuable to our synthetic fibre competitors as they are to the Secretariat' (Zentler 1963). To assist progress in economic knowledge, the information would be worth releasing even at this late stage.

The other point of significance of the Philp Committee of Inquiry was the active participation of agricultural economists in the debates concerning wool marketing. This was also the case with the referendum that followed the Australian Wool Board report of 1964. Except perhaps for the divergent opinions expressed on the issue of 'tariff compensation' following the publication of the Green Paper on rural policy in Australia (Harris et al. 1974), the reserve price debate represented a high point of public debate by agricultural economists in policy issues. At issue were matters of both theoretical analysis and practical economic judgment. Futhermore, the economic judgments that were made included, perforce, implicit judgments about the workability of the institutions proposed to operate the reserve price scheme.

Economic Issues in Wool Marketing

Despite the controversies between wool growers and amongst economists, the economic issues involved in wool marketing are not very complicated because a buffer stock scheme does not involve activities that are much different from those occurring in the private trade. In essence, the varying strengths of belief in statutory marketing, and the various proposals for marketing changes represent judgments about which marketing functions can be performed better by a public body than by existing private firms. The proposals range from a modest degree of intervention in price discovery and storage functions, as in a 'conservative' reserve price scheme, to more ambitious proposals for acquisition whereby a statutory corporation would also be involved in financing, grading and classification, and the regulation, if not the performance, of transport and other distribution functions. Duloy and Parish (1964, p.5) were the leading local proponents of the view that 'although the objectives and operations of a reserve-price authority would differ somewhat from those of a private speculator, the scheme must be considered to be a speculative venture'. This is because a buffer stock scheme is intended to stabilise the price by 'buying cheap and selling dear'. At the core of the argument about intervention in wool marketing are disagreements about the adequacy of private speculation in the unregulated wool market and, in particular, the relative significance of stabilising and destabilising speculation. It is a controversy in which different conclusions can be drawn according to which evidence the individual economist finds convincing.

The most influential economic opinion in favour of buffer stock schemes was Keynes (1938, 1974) who was convinced that free markets for commodities like wool led to unwarranted price fluctuations. This conclusion was based on observations of commodity prices in the 1930s. Whether Keynes's views on commodity price stabilisation were influential in Australia is an interesting point; there is no doubt that other Keynesian ideas took hold quickly in Australia (Artis and Wallace 1967), and perhaps his favourable attitudes to agricultural price stabilisation were significant in the Canberra scene of the late 1940s, when economic decisions could be affected much more easily by the views of a few economists. As a general rule, however, Australian agricultural economists have tended to swim against the tide in their attitudes to stabilisation; there is a lot less scepticism overseas where 'stabilisation' is more readily accepted as a major goal of national and international agricultural policy (Campbell 1964).

Keynes's advocacy of buffer stocks did not 'mean fixed prices, but prices which followed reasonably closely the current long-period trend of demand and supply conditions' (Rowe 1965, p.156). How, in practice, the distinction between short-period aberrations and long-period trends could be drawn was a major thrust of Australian criticism of reserve price proposals (Duloy and Parish 1964). Two distinct issues were at stake with respect to forecasting. First, those who subscribed to the views of Working (1958) and his successors did not expect that prices could be forecast in a well-functioning commodity market where prices would reflect already the available information on supply and demand: a conviction that has been confirmed in subsequent research on the wool market (Praetz 1975). Second, administrative systems have to guarantee the independence of those making decisions about buying and selling prices. Keynes's 1974 paper was emphatic on the latter point: the producer-dominated boards that characterise Australian agricultural marketing arrangements do not even approximate his ideal of objectivity in this regard.

Keynes's influential judgments about private speculation, stockholding, and price variability were expressed in a rather obscure fashion. He stated that 'the competitive system abhors the existence of stocks, with as strong a reflex as nature abhors a vacuum, because stocks yield a negative return in terms of themselves' (1938, p.449). The idea of a negative return to stocks is a difficult one to come to grips with although it could be related to the 'theory of normal backwardation', in which it is hypothesised that speculators receive positive net returns for absorbing the risk of price declines of merchants and those holding physical stocks of commodities (Gray and Rutledge 1971; Tomek and Robinson 1972). If speculators are to make profits consistently, then the mirror image is that merchants and hedgers generally would make losses on average through their stockholding. Subsequent research has thrown considerable doubts on the empirical validity of this theory which rests on a rather narrow view of the motivations for involvement in futures trading; in any case, the theory of normal backwardation was not all that prominent in Keynes's thinking and it is merely conjecture that this theory is associated with his views on buffer stocks.

The major Australian contribution to the theory of buffer stocks was its emphasis on so-called 'hidden gains and losses' in which it was recognised that the purchase and sale of stocks by the buffer stock authority affected revenues from wool sales. The important implication of this discussion (Powell and Campbell 1962; Parish 1964) is that the trading profits or losses of the buffer stock authority are not an adequate criterion of success. Although subsequently tackled as an empirical issue (Campbell, Gardiner and Haszler 1980), the early discussion relied on *a priori* reasoning to decide whether conditions of demand as between buying and selling periods were favourable or unfavourable to buffer stock schemes. On balance, the judgment of Australian economists was negative on this point, relying in part on the analysis of Grubel (1964) who argued that, in a slump, it was difficult to raise commodity prices because substitution is easier when an industry is working below capacity whereas, in a boom, price rises of raw materials can be passed on readily to final consumers.

The case for government intervention in the wool industry has rested largely on an allegedly favourable relationship between wool price stability and the demand for wool. As a qualitative proposition, this is a very difficult case to criticise because there is no doubt that wool users would prefer stable prices to unstable prices, other things being equal. Whether this is quantitatively important is another matter. It is an empirical question as to whether the benefits of additional stability are exceeded by the costs of buffer stock schemes – notably, in this context, the fact that more stable wool prices almost inevitably mean more unstable throughput in the early stages of wool processing. But, it is an empirical question about which it is extremely difficult to collect evidence that can be tested in a satisfactory way. The approach in a succession of wool marketing reports has been to provide testimonials from wool textile manufacturers in support of the assertion that stable prices will encourage the demand for wool. Forgetting any doubts about the objectivity of information collected from, and by, parties whose own interests could be protected and advanced by an extension of intervention in marketing, a more serious question arises about economic methodology. It is arguable whether even a carefully constructed questionnaire and properly designed survey could yield useful information on this matter; Lipsey (1977, p.170) points out how misleading attitude surveys can be for economic questions where actual behaviour depends upon marginal utilities and not total utilities.

This inherent problem of survey methods of economic investigation melts into insignificance when the argument about wool price stability proceeds from knowledge acquired from the Australian wool textile industry. It is the behaviour of the world textile industry which is relevant to any decisions about Australian wool policy. It is yet another cost of the cosseted Australian textile industry that it has been influential in wool industry decision making through its over-representation on the boards and in the staff of Australian wool organisations. Unfortunately, some economists have fallen into these traps by relying on survey data of Australian firms to investigate the price stability thesis (Tisdell and McDonald 1977). The matter is of some seriousness when this evidence is used to lend support to the proposals for an acquisition scheme by the Australian Wool Corporation.

In any case, an appeal to simple economic reasoning would cast some doubt on the underlying idea that making the prices of wool or semi-manufactures more stable through some orderly marketing arrangement would influence wool purchasing decisions. This is because the main basis of wool price fluctuations is fluctuations in final demand which are amplified in the derived demand for yarn, tops, and raw wool. To assert that more stable prices will result in increased demand by processors is to neglect the more important effects of fashion and income changes.

The Wool Recession and the Reserve Price Scheme

Following the 1965 referendum, it was not long before a fresh report was prepared by its Wool Marketing Committee for the Australian Wool Board to present to the Australian Wool Industry Conference. This 1967 report represented the result of a series of compromises. Firstly, the wool industry had reached a stage where an uneasy peace could only be maintained by the fact that a wool marketing report was always in the process of being commissioned, being prepared, or being considered. Secondly, the proposals of the Australian Wool Board went a long way towards meeting the objectives of the smaller growers without completely ignoring the result of the recent referendum. The essential proposal of the report was for the elimination of small lots (less than four bales) with a common price to be paid for the interlotted and bulk-classed wools. The price averaging plan for small lots was coupled with supply management, with a statutory authority partly controlling the flow of wool onto the market. In other words, the proposal involved the pooling principle, a statutory authority and an attenuated buffer stock scheme, without interfering with established procedures for the larger clips.

The emphasis on the small lot 'problem' not only catered to the small wool growers, it also suited the wool selling brokers whose charges involved some cross-subsidisation in favour of the smaller clips (Sturgess 1968). Shifting the burden of interlotting and bulk-classing onto a marketing authority relieved the wool selling brokers of their unprofitable operations and avoided the odium of adjusting their charges to reflect costs. Furthermore, the 1967 report was very critical of private buying which also suited the wool selling brokers who were not keen to suffer further competition from this quarter. As it turned out, the principles were adopted finally by the Commonwealth Government, and the Australian Wool Marketing Corporation was instituted in 1970; as was the case with the beginning of government support for wool promotion in 1963, the decision was announced during a Federal election campaign.

The new arrangements were overtaken by events. Wool prices continued to fall throughout 1970 and, in an atmosphere of panic, a comprehensive reserve price scheme was instituted in November 1970 with the creation of the Australian Wool Commission. The Commission took over the functions (and staff) of the Australian Wool Marketing Corporation which had been operating for only a few months. Although the buffer stock activities of the Australian Wool Commission swamped the price averaging plan with its aggregation of small lots, the Randall Committee of Inquiry reported in 1972 that the premiums that were obtained under the price averaging plan were insufficient to cover the costs incurred in building up lots (Commonwealth of Australia 1972, p.59).

The buffer stock scheme had to support the market substantially during 1971 with up to 40 per cent of the clip being purchased at some times, and a total stockpile of around one million bales was accumulated. Nevertheless, orderly marketing was vindicated so far as its supporters were concerned by the disposal of these stocks in the 1972/73 wool boom. The rapid turn-round of events also had the effect of seeming to neutralise the critics of the reserve price scheme. Encouraged by the early operations of the Australian Wool Commission, a new debate was simmering, with the organisations of small wool growers pressing for an acquisition scheme. This was the major substantive issue discussed in the Randall report of 1972 which tended to be ignored as it was released to coincide almost with the unexpected wool boom. Despite the unenthusiastic response of the Randall Committee to the Australian Wool Industry Conference case for an acquisition scheme, much the same set of proposals surfaced in the 1973 marketing report of the Australian Wool Corporation, formed by a merger of the Australian Wool Commission and the old Australian Wool Board.

Contemporary Issues in Wool Marketing

So far as professional discussion was concerned, the 1973 marketing report attracted little attention. The main reason for this is that many of the economic issues involved in acquisition are no different from those of a buffer stock scheme. There are additional consequences in acquisition, in that the effects on the provision of marketing services are likely to be drastic, but the changes involved depend upon the precise regulatory devices introduced and are not amenable to academic discussion in the same way that forecasting and hidden gains and losses could be discussed in the earlier debate on the reserve price scheme. The major academic contribution on acquisition was that of Taffe (1977) who pointed out several serious errors in the technical appendixes to the Australian Wool Corporation report. The intellectual inspiration for the acquisition proposal came from concepts of 'marketing' that are different from the microeconomic basis of orthodox agricultural marketing literature. These ideas may have some relevance in designing sales and distribution strategies for consumer products but they have little relevance to commodities that are traded internationally like Australian wool. The favourite device of the advocates of acquisition is to put forward the notion of an 'idealised' marketing system and then compare this construct with the existing system. Not surprisingly, existing arrangements will not measure up on one or other of the arbitrary criteria and the deficiencies so discovered are used to justify reform. The fallacy behind this reasoning is to believe that there is some best marketing system only waiting to be discovered, instead of recognising that there will be a constant flux of different marketing arrangements according to the way economic changes over time affect the requirements of different producers, intermediaries and wool processors.

It would be too facile to attribute the drive for acquisition to empire-building within the Australian Wool Corporation and wool growers' organisations. However, part of the enthusiasm does come from the fact that an acquisition scheme means a more or less even workload whereas there is a good deal of spare time for staff with a buffer stock scheme when stocks are at low levels. As it turned out, the acquisition proposal was destined not to get off the ground because no Government since 1972 has wished to go further than continue the reserve price scheme. Moreover, the Labor administration shifted the burden of any miscalculation by the Australian Wool Corporation onto wool growers by introducing a 5 per cent levy on the gross proceeds of wool sales to establish a Market Support Fund. This has in effect substituted wool growers' equity for government loans and loans from Australian and foreign banks as the means of financing the stocks held by the Australian Wool Corporation. The Market Support Fund, therefore, has to bear any losses in stockholding operations. In fact, price stabilisation activities in Australia resulted in a net operating loss of \$91m between 1974/75 and 1977/78, the loss resulting from operating costs (interest, storage) outweighing wool trading surpluses (selling price minus purchase price) (Campbell, Gardiner and Haszler 1980). This trading position is also reflected in the balance of only \$241.1m in the Market Support Fund at 30 June 1979 compared with \$266.4m of growers' contribution from September 1974 but, so far, the 5 per cent levy and the trading losses have been accepted with equanimity as an acceptable price to pay for price stabilisation. In addition, Campbell, Gardiner and Haszler suggest in their analysis of the 'hidden' gains and losses effects that 'most probably, this reduced price variability has been won at a net cost to revenues from wool sales'. (1980, p.12).

The volatility of wool prices in the 1970s placed a greater burden first on the Australian Wool Commission and more recently on the Australian Wool Corporation than was envisaged in the wool marketing discussions of the 1960s. This is more likely to be related to the behaviour of the world economy in recent years than to any change in economic relationships between the wool and synthetic industries, as has been argued in some quarters (Tisdell and McDonald 1977). Shifts in the derived demand curve for wool generated by changes in consumers' incomes would have had a greater effect on price fluctuations than any change in the elasticity of demand for wool or change in wool's share of the textile market, in whichever direction such changes are postulated to affect price fluctuations.

A large part of the case for acquisition advanced in the 1973 report of the Australian Wool Corporation rested upon alleged inefficiencies in the provision of marketing services. It was argued that there was a greater potential for the introduction of cost-reducing innovations in the technology of grading and distribution if wool export was under centralised control. Without belittling the considerable technical advances made in the classification of wool and in handling procedures, it is still important to draw attention to two dubious economic propositions which lie behind this line of reasoning, even though acquisition is now a dead letter. This is because similar reasoning is being used to justify the high proportion of wool research funds being given to wool harvesting and handling research. Firstly, it does not follow necessarily that, because costs are high for some particular marketing function, payoffs will be high for research or development in this area. Attempts to reduce shearing costs over the years are a spectacular case in point. This preoccupation with an accounting approach to marketing costs is an example of focusing on the marketing margin as the difference between prices at two stages of the marketing process rather than as the price of a marketing service (Watson and Parish 1981). Secondly, innovation may proceed faster with a stand-off relationship between the Australian Wool Corporation and firms in the marketing and distribution system because all changes in the marketing system will affect the vested interests of some firms. Boyer (1979) has recently argued that a statutory body such as the Australian Wool Corporation is more likely to be protective of existing firms than to pursue wool growers' interests on all occasions.

Concluding Comments

Three main themes have been developed in this paper. At the risk of sounding trite, the first idea can be expressed familiarly as 'there is nothing new under the sun'. The wheel of wool economics has been lost and rediscovered several times in the past 50 years. Although a few of us are lucky enough to be able to work out economic puzzles from first principles, we would all benefit from at least some acquaintance with what has gone beforehand. There is just no sense of historical perspective in the continuum of wool marketing reports that have been churned out in the past 20 years.

Secondly, it has been noted that much of the economic discussion about wool marketing falls into the category of differences of opinion sustained by counter assertions. Without confronting claims with evidence, and careful consideration of what, in fact, constitutes acceptable economic evidence, rival views can be maintained for a very long time. The tenuous basis of the claim that greater wool price stability leads to an increased demand for wool is perhaps the most persistent example of this.

The third theme has been the emphasis on the characteristic of wool marketing policy in Australia to proceed in an *ad hoc* fashion, with most decisions eventually taken in response to short-term situations. This is despite the considerable investment in reports and committees of inquiry over the years. According to taste, this can be regarded as the normal working of the democratic process or as a tribute to the persistence of a few strategically-placed individuals who have been able to influence changes at critical times. Whatever one's opinion on that issue, there is no doubt that the wool industry is left with some unresolved problems that arise from past decisions and past conflicts. Three examples spring readily to mind. The first concerns the uncertain future of the Market Support Fund which has been accumulated with no clear guidelines as to its future use. It is even possible that, by default, the wool industry could emerge with an instrument which had some similarities to a buffer fund scheme if the rules for operating the flow into and out of the Market Support Fund are devised with income stabilisation goals (Watson and Parish 1981). The second is the encroachment of the Australian Wool Corporation onto the territory of the International Wool Secretariat by using its influence to tailor wool promotion activities to the exigencies of the size and composition of the buffer stock (Lewis 1979). Finally, the Australian Wool Corporation has embarked upon mini-acquisition activities by selling wool accumulated in its buffer stock operations under special arrangements to some processors under the guise of market development. These developments have not been the subject of much public debate so far and it is unlikely that they ever will be, because the information required to assess them cannot be expected to be available freely from the Australian Wool Corporation. This is but the natural defensive reaction we would expect from any large public body. What is more disappointing is the lack of real interest by the compliant rural press and farm organisations generally in what is going on in the wool industry.

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