

# THE WOOL MARKETING REPORT\*

R. M. PARISH

*University of Sydney*

One's judgment of an official report such as the *Report of the Wool Marketing Committee of Enquiry*,<sup>1</sup> is, I think, influenced by three main considerations: first by the nature of its recommendations — and whether or not one agrees with them; second, by the quality of the argument and reasoning presented in support of the recommendations; and third, by the amount of useful information that it contains. It is under these three headings that I propose to organize my remarks concerning the Wool Report.

## *Major Recommendations*

### *The Reserve-Price Scheme*

It will be recalled that the Wool Marketing Enquiry was instigated by the Federal Government largely in response to agitation by some growers' organizations for the establishment of a reserve-price scheme for Australian wool. The Committee's rejection of such a scheme must therefore qualify as its most important finding.

In justifying this decision the Committee emphasises that it is unlikely that the stabilization of wool prices would result in an increased demand for wool, that there is a risk that such a scheme, through the exercise of poor judgement on the part of its administrators, might destabilize prices, that the capital required to implement the scheme would be substantial (in the vicinity of £100,000,000 for a "conservative" scheme) and could be more profitably employed in other uses, that the major effects of the operation of a floor-price scheme on growers' returns would be hidden, and that there is no reason to believe that hidden gains would outweigh hidden losses. Of these arguments, the first is the most interesting, since, unlike the others, something more than simple economic analysis is needed to establish its validity. In rejecting what is virtually the only intellectually respectable argument for a reserve-price scheme, the Committee appears to have been crucially influenced by the attitude of overseas wool users. This attitude, as expressed at the 1961 meeting of the International Wool Textile Organization (attended by the Committee) is that "while price fluctuations are a disadvantage to many users of wool, they would prefer to suffer such a range of fluctuations as has obtained in the last two seasons rather than face the uncertainty arising from the accumulation of stocks in the hands of a marketing authority". The Committee adds that "the same view was expressed to us in all the countries we visited".

It could be argued, of course, that this attitude reflects scepticism

\*The style and content of this review have benefited from comments made by Professor Keith O. Campbell.

1. Commonwealth of Australia, *Report of the Wool Marketing Committee of Enquiry* (Canberra: Government Printer, 1962).

regarding the ability of any authority to stabilize prices successfully, rather than a lack of dissatisfaction with existing price fluctuations. However, the Committee goes further, and argues that “although manufacturers . . . prefer stable prices, few claim that such a degree of price fluctuation as has occurred in the past two years is, of itself, sufficient to cause them to use fibres other than wool. Their choice . . . depends rather on two other factors:—

- (a) The relative level of price of the raw material.
- (b) The qualities, demanded by the consumer, imparted to the product by synthetics.”

It will be noted that both of the preceding statements are carefully hedged by reference to price fluctuations such as have occurred “in the past two years”. However, the Committee argues — plausibly, in my opinion — that the reduced amplitude and shorter period of cyclical movements in wool prices, evident in recent years, stems from the increasing availability of close synthetic substitutes for wool and is thus likely to be a permanent characteristic of the market.

In essence, then, the Committee’s rejection of a reserve-price scheme is based on the following considerations:—

- (i) Increased competition from synthetics is stabilizing the price of wool and thus reducing or removing the need for a reserve price scheme.
- (ii) Users of wool generally oppose such a scheme.
- (iii) In view of (i) and (ii), the prospective benefits are too small to outweigh the undoubted costs and risks associated with a reserve price scheme.

### *An Acquisition Scheme*

In view of its fairly forthright rejection of a reserve-price scheme, it comes as something of a surprise to find the Committee flirting with a scheme whereby the entire clip would be compulsorily acquired by a central marketing authority and subsequently sold at quoted prices. True, it does not recommend the implementation of an acquisition scheme, but its judgement is significantly qualified: “we conclude that the introduction of such a scheme *at present* is inadvisable” (*italics added*). The Committee reports with apparent sympathy the view of “some persons” that “some such scheme may need to be introduced eventually in Australia to enable wool to be marketed in a way which will better meet the competition of synthetic fibres”, and suggests further that an acquisition scheme may be needed should imperfections in the auction system, such as undue concentration of buying strength, “so develop as to render it ineffectual”.

One advantage which the Committee sees in an acquisition scheme is the achievement of “as much price stability as can be had without resorting to production control”. Price stability is seen not merely — perhaps, not at all — as the consequence of the acquisition authority speculating on a larger scale than a reserve-price authority, but also (or only) as the consequence of the elimination of the auction system. The Committee expresses agreement with the commonly-held belief that there is a “tendency inherent in the open auction system of prices to ‘overshoot’ either upward or downward, due to the ‘psychological’ reactions of the auction market itself”. However, the Committee’s concern to eliminate these unwarranted price fluctuations — supposing

them to exist — appears hardly consistent with its view that price fluctuations such as have obtained recently do little to inhibit the demand for wool.

The key to the Committee's attitude lies in the following statement: "we think . . . that price fluctuations in wool would have to be reduced almost to nil before that factor would be of significance in determining the manufacturers' choice between wool and synthetics". In the context in which it appears in the Report, this statement constitutes an argument against the introduction of a reserve-price scheme, but equally, the Committee appears to consider it an argument in favour of an acquisition scheme. The returns, in the form of enhanced demand, from increasing price stability are thus seen by the Committee to be quite low up to some point at which they suddenly become substantial. The opposite view, that the pursuit of price stability is subject to diminishing returns is at least arguable, and, to my mind, more plausible.

### *Research and Promotion*

In Section 3 of the Report — dealing with research and promotion — the tentative, hedged and carefully non-committal statements which are characteristic of much of the discussion in earlier sections are replaced by confident assertion. This change in tone suggests that it was with a sense of liberation that the Committee moved from the somewhat technical and complex marketing area into a field where one man's hunch is as good as another's.

The Committee believes that promotion "is the most important area for immediate concentration of attention by wool-growers and the most important area for the expenditure of wool-grower funds" — in short, that there should be more of it. While this judgment may well be correct, it must be pointed out that the Committee does little to justify it by argument. Insofar as any argument underlies this recommendation, it seems to be as follows: wool is threatened by synthetics; synthetic manufacturers spend vast sums on promotion; therefore, to meet the competition, woolgrowers should do the same. This concept of "competition by imitation" begs the question as to whether some of the circumstances impelling synthetics manufacturers to spend heavily on promotion might not apply to wool. For example, there is undoubtedly a greater need to promote a new product than a well-established one.

Most of the recommendations made concerning the way wool should be promoted seem sensible. It is suggested that promotion should be based on the results of technical and market research, that staff should be available to give technical assistance to manufacturers adopting new processes, and that premature release of new technical processes should be avoided. The Report is highly critical of the Wool Research Committee's exclusive preoccupation with "pure wool" research: "it is ridiculous to ignore the fact that blends have acquired a large share of [the world] market. It is apparent then that the wool industry should aim to secure as large a share as possible of the blend market". To this end it is recommended that "adequate research should be directed to discover what is the least amount of man-made fibre which it is necessary to blend with wool to give the qualities required by consumers . . .".

### *The Establishment of a Wool Commission*

One of the surprising features of the Report is the detailed proposals made regarding the establishment of an Australian Wool Commission. The suggested Commission is conceived of as “a central organization charged with the duty of watching over the diverse interests of growers”, composed of, “say, eight knowledgeable persons free from the politics of the industry who will make final determinations solely on the basis of what is best for the industry”. As envisaged by the Committee, the Commission would serve two main purposes: first, to complete, or, with respect to some matters, put on a continuing basis, the Committee’s own investigational work, and, second, to enable the Committee’s recommendations regarding the integration of research and promotion to be effectively implemented.

For making this proposal for the further investigation of problems encompassed by its terms of reference, the Committee has been charged with evading its responsibilities. While it is doubtless true that the Committee found it more decorous to be able to refer many matters to the hypothetical Commission for further study, rather than baldly record its inability to arrive at any conclusive judgement concerning them, and while the Committee might have been a little too ready to adopt this convenient “out”, I think that this criticism is largely unwarranted. The Committee was surely right to recognize that many of the problems raised by its terms of reference *were* beyond its capacity to treat adequately, and, in drawing attention to problems needing further investigation, it has performed a useful service. Whether the proposed Wool Commission is the most appropriate body to do the investigating is, however, another matter.

The Committee apparently had some doubts as to the propriety of their recommending the creation of a Wool Commission (see paragraph 671). I think it a pity that they stifled these doubts, for the proposal strikes me as being presumptuous and somewhat naive. Both the quest for, and the possibility of obtaining — particularly through the Committee’s detailed organizational blueprint — a single voice speaking for the industry as a whole, seem to me dubious.<sup>2</sup> The two main functions envisaged for the Commission are the disbursement of funds for research and promotion, and the investigation — and possible regulation — of marketing practices. These functions seem somewhat distinct, and the entrusting of them to a monolithic organization not necessarily advantageous. The case for integrating the activities presently performed by the Wool Bureau and the Wool Research Committee seems strong, but the task of investigating and regulating marketing practices could, it seems to me, well be given to a statutory body free of industry affiliation.

### *The Analytical Quality of the Report*

The most competent piece of economic analysis to be found in the Report is the evaluation of reserve price schemes. It is true that the problem was not a very difficult one, but it is nevertheless useful to

2. The principle, “one industry, one voice”, has undoubted appeal to politicians and civil servants, since it simplifies their work. Hence it is not surprising that the Wool Commission proposal has found favour with the Federal Government.

have such elementary truths as the following stated without equivocation: that a reserve-price scheme is a speculative venture, that its operation involves an opportunity cost, that it cannot be operated so as to guarantee "cost of production" to growers, and that, in the absence of supply control and in the face of a fairly elastic demand for wool, the monopoly power of any wool marketing authority is extremely limited. The Committee should also be commended for grappling with the analysis of "hidden" losses and gains from a floor-price scheme" (a piece of analysis which, though fairly straightforward, can hardly have seemed so to members of the Committee) and for embodying it in the Report in a form readily understood by the lay reader.

The analytical quality of certain other sections of the Report leave much to be desired. A couple of "howlers" are perpetrated. The effect of private treaty selling in diminishing the demand at auction sales is stressed, but no mention is made of the effect on auction prices of the concomitant diminution of supply. The Report attempts to deny the incontrovertible fact that, at auction, "the final bidder might well have been prepared to pay more had he been forced to do so by other bidders"; the "rebuttal" is as follows: "but the wool auction market is continuous and in reality the price which buyers are prepared to pay is finally determined by the level of bids which are accepted in the market". It is not surprising that the Committee sees little merit in the Dutch auction method.

More serious than these occasional lapses, however, is the Committee's evasion of serious discussion of certain problems. Probably the most glaring example is its treatment of the genesis of wool price fluctuations. Before discussing this however, let me outline what I believe to be our present knowledge of this matter.

- (i) The derived demand for raw wool is likely to be much less elastic than the demand for woollen goods.
- (ii) The transmission of fluctuations in final demand to demand for wool will be accelerated insofar as desired levels of investment in stocks (of wool, tops, yarn, and cloth) are positively correlated with sales.
- (iii) Given (i) and (ii), the existence of an inelastic — and somewhat fluctuating — short-run supply of wool, will generate wide fluctuations in the price of wool.
- (iv) Insofar as expectations tend to be wrong, and insofar as speculation tends to be "unsuccessful", these fluctuations will be intensified. Conversely, they will be lessened insofar as speculation is "successful".

Some dim perception of (i) is implied in the following passage from the Report: "Through the operations of merchants and topmakers, wool tops prices are more stable than greasy auction prices, while

3. At the request of the Committee, the Bureau of Agricultural Economics undertook an analysis of the likely effects on woolgrowers' revenue of the implementation of a reserve-price scheme. This problem had also been tackled independently by Powell and Campbell, and their analysis was also put before the Committee. The Powell-Campbell study has since been published (see A. A. Powell and K. O. Campbell, "Revenue Implications of a Buffer-Stock Scheme with an Uncertain Demand Schedule", *Economic Record*, Vol. 38, No. 83 (September, 1962), pp. 373-385).

yarn prices, which have a higher labour content, are more stable than tops". Davis' totally unsupported conjecture that the "textile cycle" has its origin in the "cobwebby" behaviour of retailers — who, it is alleged, consistently over-and under-order in alternate years — is quoted approvingly by the Committee and it is suggested that this sort of behaviour may be characteristic of wholesalers and others as well. On the other hand, the Committee appears to lean to the view that the activities of merchants and topmakers tend, on balance, to stabilize prices. The Committee's considered statement on this whole subject is: "Changes in the volume of purchases of wool goods by the eventual consumers are accentuated by buying and stockholding policies at the various stages of distribution and manufacture". If this is intended as a paraphrase of Davis' argument, then it is most misleading of the Committee to suggest that an explanation in terms of destabilizing speculation is required in order to explain wool price fluctuations.<sup>4</sup> But perhaps the quoted statement should not be so interpreted: perhaps it is intended to cover all the possible elements of an explanation of price instability, so as to dispose of a contentious issue in a non-committal manner. In either case, the Committee's discussion of wool price fluctuations is hardly likely to enhance public awareness of the issues involved.

#### *Information — Useful and Otherwise*

Probably the most informative part of the Report — at least to one outside the wool trade — is the section entitled "Efficiency in Marketing of Wool". The various practices employed in the preparation and presentation of wool for sale are described, and information is given on such matters as wool-selling regulations, brokers' charges, and store-classing charges. With regard to classing, the basic difficulty is of course the heterogeneity of the wool fibre — a circumstance which allows a wide range of compromise, on the part of wool classers, between the conflicting goals of (i) building uniform lines of wool, and (ii) producing large lots — which are attractive to buyers. With the increasing size and fragmentation of the national clip, uniformity of classing has declined. Wool users overseas impressed on the Committee that "the classing and presentation of the clip as a whole leaves much to be desired from the point of view of the wool processor".

The Committee's suggested remedies — or, rather, palliatives — for this situation are none the less important for being, perhaps, obvious. First, the Committee sees considerable scope for tightening up and improving existing traditional procedures, by such means as demanding higher qualifications for wool classers and by central appraisal and rejection of poorly-prepared clips. (These and other suggestions are largely based on existing South African practice, which is described in Appendix 15). Second, the Report urges the need for scientific measurement of wool quality, but recognizes that, "at the present time . . . the experience and knowledge which a woolbuyer gains in his association with the processor can be assisted only to a limited degree by scientific means of assessing properties of wool". The suggestion is made, however, that the objective testing of wool for yield (by

4. I do not wish to deny that speculation may be inadequate, or perverse, but rather to assert that even if speculation on balance contributed to price stability, wool prices would still be likely to be rather unstable.

sampling and laboratory examination) might be adopted with respect to bulk-classed and blended wool in central stores. The ground for this suggestion is that it is the difficulty of assessing, by subjective means, the yield of bulk-classed wool which accounts for the significantly lower prices received for bulk-classed as compared with growers' brand wools.

The Report contains a hitherto unavailable classification of wool sales by type of transaction. This information, which is summarized in Table 6 (page 31) and given in detail in Appendix 11, was obtained by means of a questionnaire sent to all members of Australian wool-buyers' associations. The table purports to show that between 1956-57 and 1960-61, the percentage of wool shipped on a commission basis declined moderately (from 81 to 73 per cent of the total) while the percentage shipped on a firm offer basis, or in fulfilment of a forward sale, increased from 16 to 24 per cent of the total. These percentages must be viewed with considerable suspicion, since the survey on which they were based had three serious defects. In the first place, its coverage was restricted to members of the various state woolbuyers' associations, and there is reason to believe that the business of non-members of these associations contains a higher proportion of non-commission transactions, including forward sales. Second, there was a degree of non-response to the survey questionnaire: of 347 questionnaires distributed, 304 were returned, and of these, 60 were completely "Nil" returns — some of which may have constituted tactful refusals to respond. Third, the classification of transactions into "commission", "merchanting", "firm offer", "forward sale" and "other" is by no means unambiguous. In view of the fact that the approximate 25 per cent of transactions not accounted for by the survey probably included a higher than average proportion of forward sales, and because respondents may have felt constrained to understate their forward transactions, it seems very likely that the figures quoted in the report underestimate the importance of forward sales. While, in concluding that the dominant method of trading is still the commission basis and that the proportion of forward sales is substantially less than 60 per cent (a guess which had been put before the Committee), the Committee can hardly be accused of misusing the survey results, it can be criticised for in no way drawing attention to the possibly biased coverage of its survey.

### *Concluding Remarks*

It is clear from paragraphs 4 to 6 of the Report that the Committee conceived its main task as being that of adjudicating between the demands put forward by rival woolgrower organizations for a reserve-price scheme, on the one hand, and for greater expenditure on promotion, on the other. In rejecting the former, and in enthusiastically plumping for the latter, the Committee arrived at a decision that is unequivocal, and, in my view, almost certainly correct. However, the negative aspect of this decision is much more soundly based on argument than is the positive aspect. In addition, the Committee has made a number of useful suggestions as to how the marketing of wool might be made more efficient, and promotion more effective. There is clear merit in the recommendations that many of the matters touched upon by the Committee be investigated further, and that research and promotion be more closely integrated than in the past, but the further

proposal that all of these activities be entrusted to a Wool Commission is gratuitous, and perhaps ill-advised.

As for the general tone and quality of the Report, Milton Friedman's comment on another book — that "it is a rather longer version of the kind of eclectic survey that an efficient and competent civil servant might prepare for his policy-making superior: reportorial, nonrigorous, largely undocumented, self-consciously impersonal, concerned more with summarizing the current state of opinion and the range of views held than with presenting a thesis, yet at the same time peppered with personal normative judgements"<sup>5</sup> — serves admirably to characterize the Wool Marketing Report as well. But, so long as we continue to appoint lay committees who must inevitably lean heavily on their research staff, drawn largely from the civil service, have we the right to expect any more than this?

5. Milton Friedman, Review of *Inflation*, by Thomas Wilson, *American Economic Review*, Vol. LI, No. 5 (December, 1961), pp. 1051-52.