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Wool yet again

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Wool growers are about to suffer a serious decline in their incomes and some will, no doubt, go out of business. It is, nevertheless, past time that grower politicians stopped pretending that there is an alternative to reducing the wool reserve price. Since it was the grower politicians' management and not that of the government, nor even bad luck, that ordained an unwise reserve price set at a level far higher than the long-run trend, they ought to be men enough to shoulder the blame for the debacle. Instead, they are pretending to their constituency, the wool growers, that the wool reserve could have been maintained if only the Federal Government had not intervened. Similar behaviour is not unknown in politics but it is cowardly and dishonest.

Maintaining the charade to the end, the Wool Corporation presented the Minister with a 'Marketing and Floor Price Proposal'. It did this in the almost certain knowledge that Mr Kerin would reject it and that few growers would read it. The proposal itself is such arrant nonsense that I do not believe that the grower politicians themselves can be taking it seriously. Before we look at the AWC proposal, two points of background:

First, the only way that the Federal Government can stop interfering with the wool industry is if the Parliament were to repeal the legislation that raises the wool tax. That might be a good idea, but it is not what grower politicians have in mind---they want the government to interfere more completely by raising the tax to 25%. So long as the wool tax is raised by the authority of the Federal Parliament the Minister is responsible for it.

Kerin's mistake, which was the most serious of his ministerial career, was to virtually hand over day-to-day management of the reserve price scheme to people who have proved to be no better than incompetent gamblers. I do not, for a moment, suggest that Kerin should escape criticism on that count, but to criticise him for not raising taxes to finance even more speculation is ridiculous.

Second, it is time the media stopped giving democratic status to the so called 'wool industry representatives'. The grower politicians do not represent the wool industry: they represent the members of various grower's organisations.

The AWC Marketing and Floor Price Proposal compares four combinations of the present 870 cents/kilogram floor, additional marketing initiatives and 25% wool tax with a 700 cents/kg reserve price financed by a 17% tax. 17% is estimated to be the tax requirement with a 700 cents reserve. The paper's bias towards an 870 cents reserve is ridiculous. It suffers at least these objections:

- The marketing initiatives, which are to be targeted to the price-sensitive US market, are assumed to achieve a demand response that is larger than has ever been achieved before. This unlikely response to promotion is presented as applying only to wool sold over an 870 cent reserve. The paper does not evaluate the effect of the same 'market initiatives' on wool sold over a 700 cent floor.

- The AWC does not compare like with like. The 700 cent reserve is assumed to increase over time but the 870 cent reserve is assumed to be constant!

- Supply: The Corporation assumes that growers will reduce production in response to the lower prices they will get after paying a 25% wool tax on a price of 870 cents. That is reasonable. However, it is not reasonable then to assume that a price that is some 10% lower again---i.e. 700 cents less a 17% tax---will reduce production by only the same amount. I do not know whether it is reasonable to predict that a 25% tax will reduce supply by 21.5%, but we should note that the AWC estimate is rather more optimistic than that of the Australian Bureau of Agriculture and Resource Economics (ABARE).

- Demand: The Corporation predicts that, during 1990/91, trade clearances under the 700 cent regime will be some 12.5% greater than under the 870 cent reserve regime---an estimate not much less than the ABARE estimate. The Corporation cannot, however, at the same time claim that demand is unresponsive to price in the short term. As Australian wool, particularly the wool that is stronger than 21 micron and which comprises the bulk of the stock pile, is in direct competition with wool from other countries and with synthetics, we should expect it, in fact, to be price sensitive.

- Over the next five years, sales to processors are projected by the Corporation to increase by more than they have over the past 40 years---I wouldn't count on it, however.

- Finally, grower income in 1990/91 is fudged. The Corporation estimates that the debts of the Market Support Fund will be some $600 million less under the 700 cent option than under an 870 cent option. In other words, to achieve the same balance in the Support Fund, grower taxes would be lower and grower income some $600 million higher under the 700 cent proposal than the Corporation has estimated that it will be---another example of not comparing like with like.

For all of these reasons the AWC's Marketing and Floor Price Proposal gives a false impression, not in any minor way that is debatable or might be attributed to a slip, but in a way that is shonky. The truth is that, in the short term, the demand for wool, particularly from Eastern bloc countries, is not bright and the long term is, as always, shrouded in mist. And on the supply side, far more wool may be produced than the Corporation estimates. The Australian wool industry will have to export considerably more wool in 1990-91 than the previous record in 1986/87, just to prevent the stockpile increasing. Should demand fall by 10%, as is not at all unlikely, the situation would then be disastrous.

Many growers and their, so called, representatives are critical of the government's interest and exchange rate policy. They are calling for a lower exchange rate---that is they are asking that the floor be lowered in buyers' currencies. Indictment of the government's poor economic management, particularly its failure to reform the micro economy and the inappropriate and inflexible floor price set for wages under the terms of the Accord, is entirely fair. It is, nevertheless, not rational to demand that a reserve price in Australian currency should be maintained while at the same time calling for devaluation.

What really annoys me, however, is not want of logic but an attempt by the same men who raised the floor price (by 77% in buyers' currencies since July 1988) to blame anybody but themselves for the injury now done to woolgrowers.

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