



Is Australia Still Riding On The Sheep's Back?

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This article from the [May 2013 edition](#) of the [IPA Review](#) is written by President of the HR Nicholls Society from 1989 to 2009, Ray Evans.

John Macarthur, supported by his wife Elizabeth, is rightly recognised as the father of Australia's merino wool industry—an industry which made the colony self-supporting and, even before the gold rushes of the 1850s, provided a standard of living which was more generous than the mother country could offer.

Two commodities, wool and whale oil, made Australia important for Britain, particularly during the Napoleonic wars. This conflict, culminating in the great battle at Waterloo on 18 June 1815, made it impossible for the English textile industry to obtain supplies of Spanish wool on which its prosperity was founded. So Australian wool, thanks to Macarthur's energy and entrepreneurship, was able, at least in part, to fill the gap and the high prices generated a flood of immigrant squatters and a huge increase in sheep numbers. Careful breeding (the GM of the 19th century) led to major increases in wool production per sheep. Of course, whale oil was subsequently made

obsolete by the discovery and exploitation of kerosene.

There is an extensive literature on Australia's wool industry, but no book enlightens the reader more about the rise and fall, and perhaps the inevitable demise of this once great industry, than Charles Massy's recent book *Breaking the Sheep's Back*.

When I was a primary schoolboy in the immediate post-war period, everyone knew that Australia rode on the sheep's back. The size and value of the annual merino wool clip, more than any other economic indicator, determined whether Australia would enjoy prosperity or suffer balance of payments difficulties which required reducing imports and belt tightening generally.

In those days Australia produced 80 per cent of the world's wool supply. And the Korean wool boom, when wool prices reached 375 pence per pound—way beyond the fabled 'pound for a pound' of 240 pence—caused great inflationary pressures. Capital flows were controlled as were imports. The tariff wall was very high. The Australian pound was tied to the pound sterling and thus unable to appreciate. Despite the impact of the wool boom, the Menzies government lost five seats in the April 1951 election and was only 0.6 per cent ahead (50.3 – 49.7) in the overall vote. When the boom busted and wool prices halved, and would halve again by 1970, the world's textile industry had changed forever.

Charles Massy tells us that soon after the Korean War started (June 25, 1950), the US government secretly approached the Menzies government seeking to acquire the entire Australian wool clip at a guaranteed price (as the UK had done both in WWI and WWII). Despite Roland Wilson's advice in August 1950 warning cabinet to take the American offer seriously and 'not offend American opinion on this' and not 'encourage them to build up their flocks or substitutes,' the Menzies government spurned the American proposal and as a consequence the US textile and chemical industries, encouraged by the US government, geared up to develop substitutes for wool. The Korean wool boom was thus a boom from which the Australian wool industry never recovered. Massy tells us

'After the Korean War boom, therefore, the Australian wool-growing industry had two choices. The first was to adopt the approach that had led to such success for the wool textile industry over the previous eight centuries: meet increased competition with healthy competitive means via improving fibre and cloth quality and also production and manufacturing efficiencies, so as to meet customer needs at the right price. However, the Australian wool industry, confronted by such a massive disjunction in competition, took the other choice with which it could attempt to meet its competition: to seek a political path to combat competition.'

Australian wool producers were divided between the graziers who ran large flocks and who mostly supported free markets and were hostile to government intervention into the wool industry; and smaller cockies, many of whom were often trying to make livings from soldier settler blocks which were too small to be viable. The figures are startling. In 1923, half the sheep population lived on 3,000 holdings with an average head count of 13,298 sheep. The remaining half lived on 75,000 holdings with an average count of 734 sheep. It was these farmers who provided the support base for the agrarian socialists of the Country Party, notably Black Jack McEwen, and his close allies

within the wool industry, the most important being Sir William Gunn and Sir William Vines. These men wanted complete acquisition of the wool clip and total control of the wool industry by the commonwealth government. McEwen was, in some aspects of policy, more powerful than Menzies. Despite his unrepentant agrarian socialism, and his disastrous protectionism, he had strong supporters within the Liberal Party, and when Menzies retired as PM in January 1966, they moved strenuously to try to get McEwen in as Menzies' long-term successor.

So the agrarian socialists of the Menzies government got their Reserve Price Scheme, and with it they built a wool mountain of 4 million bales and debts of nearly \$4 billion. This all collapsed in February 1991 when then prime minister Bob Hawke refused to guarantee any further Commonwealth government backing for the debts which the Wool Corporation had incurred in defending the Reserve Price Scheme.

The fallout from this de facto bankruptcy was world-wide and far-reaching. Many wool growers were forced off the land. Many traders who bought and then resold to manufacturers were bankrupted. Manufacturers who held large stocks of wool were likewise seriously affected and Australia's reputation was greatly damaged.

In 1890 wool held about 20 per cent of the world's textile market, (cotton 80 per cent). Today Australia still produces nearly 80 per cent of the world's wool clip, but wool's share of the world textile market has declined from 20 per cent to about 2 per cent, and it continues to fall year by year. Cotton is still in great demand, holding 40 per cent of the market, but synthetics dominate with more than 50 per cent. It is a much bigger world market today than in 1890, and Australian wool production is approx 1,500,000 kg per annum, little different from 1890. Textile consumption will continue to rise as living standards improve in countries such as India, China and Indonesia. But Australia's wool industry is ill equipped to participate in this growth, and synthetics and cotton will increase their dominance.

The ghosts of Black Jack and his socialist comrades Gunn and Vines still haunt the industry. Until they are exorcised, little can be done to bring the changes that will have to be made if wool is to survive. Charles Massy has made a very great contribution to this exorcism.