

# **Breaking the Sheep's Back**

## **The political destruction of the Australian wool industry**

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UQP

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*This degradation both in the real and nominal value of wool, could never have happened in consequence of the natural course of things. It has accordingly been the effect of violence and artifice . . .*

Adam Smith, 1776, *The Wealth of Nations*

*The ruling ideas of the time are those by which people and governments are guided. Thus they help to shape history itself. What men believe about the power of the market or the dangers of the state has a bearing on the laws they enact or do not enact—what they ask of the government or entrust to market forces.*

J.K.Galbraith, 1977, *The Age of Uncertainty*<sup>1</sup>

# INTRODUCTION

In mid twentieth century the Australian wool-growing industry was the greatest wool economy the world had ever seen. It was the backbone of the nation's economy for 120 years, being the nation's largest export earner and wealth-builder for all but a decade in that period. This industry helped shape modern Australia, the national character, and the country's broader patterns of development since the 1840s. A Merino ram's head adorned the shilling coin, and wool industry icons were featured on the new decimal notes. Woolgrowers sat on Reserve Bank and tariff boards, and their often flamboyant leaders were famous Australia-wide. For their annual 'royal' sheep shows, pastoral society presidents could call upon the governor-general or the prime minister to conduct the obligatory grand opening.

Then, in a little over two decades at the end of the twentieth century, the wool industry self-destructed. How did this happen? What were the policies, the political, economic and social developments, and the leadership failures that led to this demise? And why wasn't such a collapse prevented when an imminent disaster had been obvious to so many for so long? This book seeks to answer these questions, and to articulate some of the important lessons that may be gained. It is an

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analysis—in lieu of an eloquent ‘public’ silence—is therefore also an attempt to prevent such a disaster ever occurring again, and to suggest a pathway for renewal of a once great industry.

Eminent historian Barbara Tuchman exposed in her 1984 book, *The March of Folly*, the poor decision-making behind a series of major political disasters dating back to the Trojan War in Classical Greek times. She defined folly as ‘the pursuit of policy contrary to the self-interest of the constituency or state involved’.<sup>3</sup> The egregious folly that was the Australian wool industry’s self-destruction culminated in the crash in 1991 of the Australian Wool Corporation’s reserve price scheme (RPS), a government-backed attempt to ‘stabilise’ prices. This precipitated what, in today’s monetary values, stands as the biggest corporate-business disaster in Australian history. It also precipitated an almighty smash for the global wool textile industry.

The chain of events leading to the spectacular collapse of the Wool Corporation’s RPS had been repeatedly predicted (and in precise and accurate detail) since the 1920s by international observers and by Australia’s best economic, business, academic and government departmental brains. These warnings gathered weight and momentum through each decade, reaching a crescendo in the year before the 1991 collapse. Yet the warnings were to no avail. A group of government ministers, agri-politicians and wool industry and statutory leaders ignored the perspicacious and prophetic advice as they led the industry down the path towards calamity.

The antecedents of the great wool crash of 1991 are indivisible from the core threads of modern Australian history. The country was a British colony and a young settler society at the end of European industrialisation. Australia’s wool assumed primacy in the nation’s colonialist-supply role to Britain. National and wool industry leaders, imbued with British imperial dependent attitudes, ceded the national wool clip to Britain in both World War I and II. The statutory control and administration of the giant Australian wool clip in turn allowed the government’s foot in the door of wool industry governance.

In parallel with this, Australia’s constitutional ‘fathers’ and then

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subsequent federal governments chose a path of industry and social protection. The ongoing inculcation of protectionist attitudes resulted in a relentless drive by leaders in government and the wool industry for protection of woolgrowers from harsher commercial realities, such as competition from other fibres. In just over five decades from the 1920s, this became manifest in a long-running drive to institute the RPS; a scheme, primarily through the management of supply, of which its *raison d'être* was ostensibly to 'stabilise' prices, but in reality was to become a mechanism to try and force customers to pay more.

Linked to the above development were the casualties of failed Australian land-settlement policies—large numbers of generally smaller-acre yeoman farmer types. This socio-economic group, when put through the ringer of tough economic and climatic times in the 1920s and '30s, aligned with the protectionist and increasingly powerful and agrarian socialist federal Country Party. In tandem these two elements, in the face of vehement free-market opposition, relentlessly pushed for the ideological Holy Grail of an RPS for wool.

The vehicle for the eventual imposition of such a scheme (in the hands of powerful wool emperors and leading Country Party cabinet ministers) was the compulsory imposition of statutory wool taxes (imposed to fund promotion and research) following the formation of the Australian Wool Board in 1936 and the International Wool Secretariat in 1937. The existence of these boards in all their evolving forms (especially as the Australian Wool Corporation from the 1970s) didn't just sanction ongoing federal government interference, it also encouraged the disastrous meddling of agri-politicians. These factors—compulsory taxes and concomitant agri-political representation—constituted a deadly political virus that proceeded to infect the body-politic of the wool industry. This virus slowly spread, resulting in widespread and ultimately deadly consequences for the industry.

The still largely unknown decision by the Menzies Government in 1950–51 to reject an offer by the USA government to acquire the Australian wool clip during the Korean War, and instead to turn to

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the 'mother-country', Britain, once again, marked the turning point for the Australian wool industry with the disastrous Korean War wool boom. It was from this time that the industry's fortunes turned down, and man-made fibres and cotton became the modern nemesis of the famous old wool textile fibre. In turn it led to the decision by protectionists in the Menzies Government, by agri-politicians, and by powerful wool industry 'emperors' to attempt to confront the wool industry's massive global fibre competitors with political and not commercial strategies.

By ignoring the defeats of two major national woolgrower referenda over the institution of a RPS (in 1951 and 1965), the result was a covert Country Party cabinet-led coup in 1970 that finally succeeded in imposing statutory intervention and the RPS. This scheme came under the Australian Wool Corporation in 1973. The Hawke–Keating float of the Australian dollar in 1983 and subsequent measures to dismantle the constricting chains of government and industry protection followed, exposing the wool industry to the international reality of a rapidly evolving and fiercely competitive market place, and to an inevitable fate if radical adjustments were not rapidly made. But no policy changes occurred—the statutory run industry seemed incapable of flexible change.

Following the spectacular collapse of the Wool Corporation and the RPS in February 1991, the opportunity to complete one more key economic reform and dismantle the remnants of statutory intervention in the wool industry was missed by the Hawke Government. And so the industry stumbles on, trapped in a non-commercial, non customer-focussed culture—and still under inept statutory governance.

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The prevailing governance continues to shackle the industry, which today has shrunk to one-third of its size (in terms of wool production and value) two decades earlier. This situation poses confronting questions for industry leaders, industry participants, agri-politicians,

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and for the current agriculture minister and federal government, including:

- Why does the anachronistic statutory intervention still continue in the Australian wool industry?
- As illustrated by the long-running sheep mulesing debacle, why do industry leaders and the present statutory industry body of AWI (Australian Wool Innovation) still nourish the old agri-political belief that holds that the customer is the enemy or continue pursuing long-proven failed strategies such as generic marketing?
- Why does the industry continue to spurn the key competitive approach of our fibre competitors: of a never-ending focus on investing in fibre quality improvement and subsequent branding and integrated value-chain marketing strategies?
- Above all, why is there still such faith in what philosopher-economist Friedrich von Hayek called the ‘Fatal Conceit’: the belief that people can order things better than the market—though this is not to say that the market has ‘inherent wisdom’, merely that hitherto (and like Churchill’s views on democracy) it has proven to be the best system we have to date?

Australia’s greatest corporate-industry disaster was precipitated because crass party politics corrupted proper political process and ignored sound cautionary economic and philosophical advice, principles and experience. The present reality is of an old industry trapped in a strait-jacket that is determined by historical events. This ‘path-dependence’—an existence where current behaviours, patterns, habits and culture are constrained by past historical processes and the institutions they spawned—clearly needs to be acknowledged and dismantled, piece by piece, if the wool industry is to be turned and so realise its enormous potential.

Perhaps the story unravelled here can shine a light on a pathway to a more vibrant future.



# **PART I**

## **THE RISE OF STATUTORY INTERVENTION**

**1940 TO 1987**

*Growers must understand that their security blanket is being used  
to suffocate, not to nurture and warm.*

*ACIL, Agricultural Marketing Regulation: Reality versus  
Doctrine, 1992*



# CHAPTER 1

## **'AN INEXORABLE CURRENT', THE POLITICAL ANTECEDENTS OF DISASTER—1840 TO 1951**

Riding off the competitive advantage of 'free' land—courtesy of Aboriginal dispossession—Australia was, by the 1850s, a massive producer of wool. By the 1870s Australian sheep breeders had reinvented the ancient Merino breed: an action that arguably saved the British wool textile industry from extirpation by cotton, and which involved for the first time in human history the re-engineering of an animal breed for industrial machines. This all culminated by the 1880s in the greatest wool economy the world had ever seen.

The squatting phase of Australian land possession and subsequent political fights led to huge inequities in land distribution and ownership, and resulted in an Australian 'squattocracy'. This exclusive group of landowners became politically powerful, with close connections in government, the legislature, and big business. For this influential group the English system of landed power, wealth and social position was successfully replicated. The squatters ruled their vast estates like lords and expected to be called 'Sir' or 'Mister'; they had teams of servants, along with city homes in Toorak, Bellevue Hill and Adelaide Terrace, from where they retreated into their mock-London clubs.

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They controlled vast acreages, much of the nation's stud Merino genetics, and, at critical stages, much of the power in the wool industry as well as the state and federal legislatures. Their hierarchical social system lived on in most established grazing districts until well after World War II. Generally well educated (it was expected that many squattocracy sons—never daughters—would study at Cambridge or Oxford) and often imbued with an ethic of *noblesse oblige*, they believed they had a duty to lead. Outside of parliaments and legislatures they could be found on the boards of leading companies (particularly those impinging on the pastoral industries, such as banks, pastoral broking houses, shipping and insurance companies), and they assumed positions on key government committees, and leadership and policy roles in areas of public wool industry governance. This was particularly so from the 1890s and through the twentieth century, as agricultural politics became more organised and more powerful. Also, such members of the squattocracy were almost invariably of a 'liberal', free-market persuasion. This in turn set up a clash with the radicalised and disaffected, more agrarian–socialist, small, yeoman–farmer types.

A blending of factors after World War I consolidated the dichotomy in Australian wool politics. First, upon Federation, Australia's 'fathers' chose a middle political and institutional path that leaned more to an 'interventionist–redistributive' state than an American *laissez faire* approach. Second, there was an influx of hundreds of thousands of yeoman farmers on either side of the Great War (and later after World War II) under various land–settlement schemes—most of which proved abysmal failures. There was also the colonialist ceding by Australia to Britain of essential strategic war commodities, including wool, during World War I and the beginning of concomitant government and agri-political interference in wool governance issues (which included the role of Sir John Higgins in a tireless effort to install a government-controlled empire reserve price scheme—Higgins being the officious, ambitious and slavishly imperial mining engineer chosen by Prime Minister Billy Hughes to run the World War I wool acquisition scheme from 1916 to 1922); the blind imperialism of Prime Minister

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S.M. Bruce through the 1920s as he took the nation deeper and deeper into an imperial quagmire of co-dependence, exploitation and industry protection (of the wool industry, he once famously stated in London in 1932 that ‘Australian and Bradford interests were identical’<sup>4</sup>); and, finally, the unremitting hard times for wheat and wool producers between the wars.

The result in rural Australia, and its large combustible constituency confronted by the abacus of debt, was not just the rise of farmers’ state and federal political parties, but the formation, too, of separate commodity-based organisations, including those representing the mass of hard-done-by, smaller-acre yeoman wheat-and-sheep ‘cockies’.

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Beginning in the 1920s and consolidated in the 1930s, there occurred the harnessing of the twin steeds in the protectionist carriage: the conservative federal Country Party and disaffected, radicalised and organised agrarian-socialist agri-politicians and their constituents. Out of this came an obsessive focus on collectivist ‘marketing’ and ever-mounting pressure for market protection, subsidies, ‘price stabilisation’ and, in the wool industry, a reserve price scheme.

The upshot of the 1920s and ’30s, therefore, were agri-political and Country Party organisations that, given the right circumstances, could be made to dance to the tune of agrarian socialism as conducted by a radicalised farming community. Such organised agricultural communities not only thought themselves as existing apart from the rest of Australian society, they also regarded politics as a ‘system of group warfare’ while they became extremely adept in the dark arts of lobbying and political influence.<sup>5</sup>

This group of radicalised smaller-acre farmers in 1939 finally formed their own specific agri-political organisation: the Australian Wool Producers’ Federation, later to become the Australian Wool and Meat Producers’ Federation (AWMPF). This organisation—‘the Producers’ Federation’—was led by radical wheat–sheep farmers and

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was specifically designed to combat the free-market philosophies of the graziers' organisations (led by the national Woolgrowers' Council, the forerunner of the future ADOGC), and to push for an 'Empire Marketing Plan', subsidies and a reserve price scheme.

To outsiders, the wool industry looked prosperous, industrious, and harmoniously unified. But below the surface there was a different reality. The formation of the Producers' Federation not only signalled the start of a vicious five-decade-long struggle over marketing reform within the wool industry, but also a deadly battle over power within Australia's largest export industry between members of grazier organisations and of the Producers' Federation.

This struggle would reignite with each wool price slump, and constituted a regularly occurring cycle that carried with it a 100 per cent correlation with political agitation. Fuelled by irreconcilable schisms in social, political and philosophical views, it also had powerful undertones of class consciousness and envy—especially when mixed with a single-minded zealotry about attaining the Holy Grail of a reserve price scheme. Ultimately, this was a battle over who should decide major questions of policy for the industry and who had the key say with government.

To the great frustration of succeeding governments (particularly a Country Party coalition partner desiring a reserve price scheme) who repeatedly sought clear direction, this agri-political dichotomy ensured that the policy process over wool marketing would remain a vicious and confused dogfight for decades to come.

The problem for the wool industry, however, was that successive federal governments were sucked into the maelstrom of wool industry politics and, worse, into direct involvement in industry affairs. This had begun with compulsory wool clip acquisition in World War I; was exacerbated by the Scullin Government's 'Grow More Wheat' campaign of 1930 (whose failure and perceived government betrayal was a key radicalising influence on wheat-sheep farmers); and became linked to British imperial plans for a RPS (first promulgated by Sir John Higgins after World War I).

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Sustained pressure for such an imperial wool marketing plan culminated in the 1931 Empire Wool Conference and a move to establish a body for research and promotion of Australian wool. This came to fruition in 1936 with the formation of the first Australian Wool Board, established under the Wool Publicity and Research Act that also provided for a compulsory tax of six pence per bale of shorn wool to fund its activities. Arising from the Conference was also the creation of the International Wool Secretariat (IWS) in 1937, comprising the three founding dominions of Australia, New Zealand and South Africa. Its charter was to act as an imperial wool publicity organisation. This too was funded by compulsory statutory grower levies. These compulsory taxes on all woolgrowers proved a fatal development because not only had the federal government inserted its foot in the wool industry’s door but agri-politicians—due to their official representative role—now also became involved in industry governance.

Through successive pieces of federal legislation, both grower levies and concomitant federal and agri-political involvement were increased over succeeding decades; first via the Australian Wool Board, and then its subsequent forms, including the Australian Wool Commission, the Australian Wool Corporation, and the long-lasting IWS. Such legislation and accompanying restructuring seemed to accompany every wool industry crisis, which in turn triggered an inevitable review or official inquiry, such as occurred in 1930, 1946, 1953, 1958, 1962, 1969, and beyond. With each successive escalation in statutorily sanctioned governance and its accompanying institutions came increased agri-political power, and with this an ever-intensifying dogfight over wool marketing between the two polarised camps.

Following the 1930s, this dogfight was further exacerbated during World War II and the period to the end of the Korean War. As had occurred with their predecessors in World War I, Australia’s two anglophile leaders, London High Commissioner S.M. Bruce and Prime Minister Robert Menzies, once more delivered to Britain what were vital strategic colonial war commodities of wheat and wool. This

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further entrenched government and agri-political interference in the running of the wool industry.

Because of their compulsory wool taxes first imposed in 1936 and 1937, agri-politicians had been designated and empowered as the woolgrowers' representatives, though the first statutory wool boards came entirely from the grazier-dominated Woolgrowers' Council. For the following years to 1945, the Australian Wool Board was a grazier and Woolgrowers' Council bastion, despite the protestations of leaders of the Producers' Federation. At the same time, the board of the large and well-funded global marketing body of the IWS (whose first effective chairman in London was Australian Ian Clunies Ross) had also become infected by warring Australian agri-politicians—though the main focus would be on the Australian Wool Board (in its various guises).

Just as had occurred with Sir John Higgins (the autocrat who ran Australia's World War I acquired wool clip), when the Producers' Federation succeeded in gaining equal representation on wartime wool boards from 1942, they began a strong push to commit Australian wool marketing to the socialistic scheme of total clip acquisition by the government and a reserve price scheme (RPS). As a result, when peace returned the Wool Board became equally divided between three agri-politicians from the Woolgrowers' Council and three from the Producers' Federation. With further supporting legislation for levied research and promotion, the respective wool boards became a honeypot to rent-seeking agri-politicians, while the split board representation became a recipe for ongoing dysfunction well into the 1970s.

As Australian woolgrowers enjoyed the brief Korean War wool boom (triggered by a run on global wool stocks and a secret ploy by the US government to acquire the Australian wool clip), the industry experienced its first major political battle: a national woolgrower referendum in 1951 over a British imperial RPS (key proponents of this being the new Menzies Coalition government, driven by Country Party members and the Producers' Federation). Eighty thousand woolgrowers voted to overwhelmingly defeat the RPS proponents,

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and the industry moved into the uncertain waters of the 1950s and 1960s.

The highly charged seven-month-long referendum battle only created further political tension and agitation in the industry, however, and, amongst a few key and powerful leaders, an unwavering drive to introduce a national RPS, irrespective of the democratic wishes of the woolgrower plebiscite. This combination of factors provided an inexorable power to the current on which the wool industry was now carried—driven by deep, deep springs of hardship, betrayal, identity, belief, ideology and emotion. And catalysing subsequent events were a few extraordinarily powerful and charismatic leaders: larger-than-life ‘Wool Emperors’, prime ministers, cabinet ministers and leading bureaucrats and agri-politicians.