CHAPTER XVI

THE WOOL PURCHASE

THE Great War made larger demands upon the material resources of the nations engaged in it than any previous war in history had done. It was a war not only of men and money, but of all the things which armies require to keep them fit for fighting, and which non-combatants require to keep them alive. Governments were compelled to assume control of these resources, to ration them, to take stock of the quantities available, to provide as far as could be done against shortage, in order that war might be waged. Cotton, wool, wheat, sugar, all kinds of food-stuffs, and all varieties of materials, were hardly less important than were metals and the chemical constituents of which explosives were made. It became apparent that these supplies could not, consistently with national safety, be left in control of private individuals and bought for military purposes through the ordinary commercial channels. The demand was so large, the necessity for making them available when and where they were wanted was so urgent, that departments responsible to the governments had to be created to manage their purchase and utilisation. The necessity for this kind of control in Great Britain was first made apparent through the break-down of private enterprise in the supply of munitions. Manufacturing firms which had hitherto been entrusted with contracts were failing to make at the proper time deliveries of the quantities ordered. That is why a Ministry of Munitions was created, which soon took within its grip the whole of the iron and steel resources of the United Kingdom, operating existing works and creating vast new factories wherein prodigious quantities of munitions were produced.

The process which commenced with the government control of iron and steel was perforce extended to the control of railways, shipping, coal, foods, and the raw materials for manufactures. The Raw Materials Department in Great Britain, of which Sir Arthur Goldfinch[1] was the director, was just as much a necessity of the war as was the Munitions

[1] Sir Arthur Goldfinch, K.B E. Director of Raw Materials, War Office, 1917/21; Chairman of London Board, Brit.-Aust. Wool Realisation Assn., 1921/26. Merchant banker; of Valparaiso and London; b. Valparaiso, 10 May, 1866.

Ministry; and it was that department which, in 1916, found itself compelled to make enquiries with a view to obtaining supplies which involved securing the whole of the Australian wool clip. Sir Arthur Goldfinch himself has explained how his department was driven to this course through the enormous demand for wool created by the war:[2]

> In the second year of the war it became apparent that the rapidly increasing requirements of woollen clothing for the Allied troops demanded extraordinary measures adapted to the emergency conditions. Before we interfered with freedom of trade in wool, France and Italy had commandeered the home clips at a small percentage above pre-war prices.

The negotiations of Mr. Hughes with Lord Milner have been mentioned in a previous chapter.[3] The British Government at first intended to secure only the wool required for uniforms, and, as British wool was suitable for this, it was hoped that the only additional supply with which the Government need concern itself was that of crossbred wool. The British supply, therefore, was purchased, and the Raw Materials Department suggested that the crossbred clip of Australia and New Zealand, which also was suitable, should be acquired. Mr. Hughes had now left England, but the Australian High Commissioner and the Prime Minister of New Zealand, Mr. Massey, objected on behalf of the wool-growers to a discrimination between merino and crossbred wools, the effect of which probably would have been to create the anomaly of the finer classes of wool selling for less than the coarser classes, while also the shortage in shipping facilities would have led to an unfair differentiation in marketing between the growers of different classes of wool. The Raw Materials Department therefore, on the 14th of November, 1916, submitted by cable an offer to purchase—after allowing for local needs—the whole wool clip of Australia and New Zealand. The message stated that the British Government had already requisitioned the whole clip of the United Kingdom at an increase of 35 per cent. on 1913-14 prices. In conformity with the scheme of Mr. Hughes and Lord Milner, it was suggested that the prices for Australian and New

[2] Goldfinch, *State Control in War and Peace, p. 38.*

[3] *Chapter XIV, "Australian Trade during the War," Section iii.* A good account of the transaction is given in *Experiments in State Control* by E. H. M. Lloyd (Carnegie Endowment Series).

Zealand wool should be 1913-14 prices plus 55 per cent. If this sale involved loss to the purchaser, the United Kingdom would bear it; if a profit, this would be shared with the seller.

For the next few days Mr. Hughes was constantly in conference with representatives of the wool industry in Australia. On November 20th and 21st fifty of them met him, and a representative committee was appointed, and on the 25th it was announced by the War Office that the purchase of the wool of both dominions had been agreed to and the details were being arranged. The price was 15½d. a pound for greasy wool (with an equivalent rate for sheepskins). Mr. Hughes afterwards claimed that he secured for the pastoralists ½d. more than they had been prepared to ask.[4]

The committee appointed at the conference on November 21st was thenceforward charged with managing the supply of Australian wool to Great Britain. Its chairman, nominated by the Commonwealth Government, was Mr. John Higgins, who by that time had been appointed Honorary Consulting Metallurgist and had organised the Metal Exchange. The remaining eight members were: Mr. Edmund Jowett[5] and Mr. John Archibald Campbell[6] (and, on his death, Mr. Franc Brereton Sadleir Falkiner[7]), representing the growers; Mr. Walter James Young,[8] Mr. Andrew Howard Moore,[9] and Mr. William Stevenson Fraser,[10] representing the wool sellers; Mr. Robert Bond McComas,[11] representing the wool-buyers;

[4] The price was based on 15d. per pound for greasy wool (50 per cent. on the 1913-14 average rates of 10d. per pound greasy) At the date of the Imperial Government contract there had been shipped or sold a quantity of 1913-14 wool of somewhat lower than average quality, and an addition of ¼d. per pound was therefore made to cover the better quality of the balance of the Australian wool to be delivered under the contract for the 1913-14 clip In addition ⅛d. per pound was added to cover the usual delivery, storage, appraisement, fire insurance, and other charges. Later this charge was increased to ¼d. Sheepskins were rated according to the variety of their wool.

[5] E. Jowett, Esq. M.H.R., 1917/22. Pastoralist; of Toorak, Vic.; b. Manningham, Bradford, Eng., 6 Jan , 1858. Died 14 Apr., 1936

[6] J. A. Campbell, Esq. Pastoralist; of South Yarra, Vic.; b. Bullock Creek, Vic , 28 June, 1854. Died 9 Dec., 1916.

[7] F. B. S. Falkiner, Esq. M.H.R., 1913/14, 1917/19. President, N S.W. Sheepbreeders' Assn., 1919/25. Pastoralist; of "Haddon Rig," Warren, N S W.; b. Ararat, Vic , 18 June, 1867 Died 29 Oct., 1929

[8] Sir Walter Young, K.B.E. Managing Director, Elder, Smith & Co. Adelaide, 1912/40 Of Adelaide and Mt Pleasant, S Aust , b Moonta, S Aust , 2 April, 1872 Died 5 Jan , 1940

[9] A. H. Moore, Esq. General Manager, Harrison, Jones & Devlin, Ltd., Sydney, 1882/1922; subsequently Chairman, Sydney Board, Goldsbrough, Mort & Co. Ltd. B. Adelaide, 25 Nov., 1851. Died 19 Jan., 1930.

[10] W. S. Fraser, Esq. Chairman and Managing Director, Younghusbands Ltd , Melbourne. B. South Yarra, Vic , 23 Sept., 1863. Died 21 Feb , 1928

[11] R. B. W McComas, Esq , C M.G. A director of C'wealth Bank, 1924/35. Merchant and wool-buyer, of Hawthorn, Vic.; b. Fitzroy, Vic., 2 Aug., 1862 Died, 19 Aug , 1938

Mr. Burdett Laycock,[12] representing the manufacturers; and Mr. Frederick William Hughes,[13] representing the scouring industry. Mr. J. M. Balfour[14] was the secretary. Valuable assistance was rendered by State committees, elected by conferences of growers in each State.

From the 21st of November, 1916, till the 30th of June, 1920, when the contract with the British Government expired, the Central Wool Committee had complete control of the wool industry of Australia in all its branches. It drew its authority from regulations issued under the War Precautions Act.[15] These regulations provided that the members of the Central Committee should be "appointed by the Prime Minister" and should "hold office during his pleasure." In each State a committee was to be constituted on the same representative basis, with the same number and proportion of members as the Central Committee, and was also to be appointed by the Prime Minister and hold office during his pleasure. Regulation 10 provided that "No person shall sell any wool or tops except through or to or with the consent of the Central Wool Committee or otherwise in accordance with these regulations." This regulation was the mainspring of the system, since it embodied the authority under which the Committee acted. It prohibited the private sale of wool, and entrusted the whole business of selling to what was substantially a government department functioning under the direct supervision of the Prime Minister. Power was given, for the purpose of carrying out the regulations, to enter any premises and inspect any documents, books, or papers, and make extracts therefrom, and whoever obstructed the performance of duties of this nature was guilty of an offence. The chairman was entrusted with power to

> authorise any person to ask questions of any person who has, since the commencement of these regulations, dealt in wool, and any person who refuses or fails to answer any such question or who makes a false answer to any such question, shall be guilty of an offence.

[12] B. Laycock, Esq. Wool merchant and woollen manufacturer; of Balwyn, Vic., b. Yorkshire, Eng., 25 Oct., 1861.

[13] F. W. Hughes, Esq. Wool merchant; of Sydney; b. Brisbane, 12 Sept, 1869

[14] J. M. Balfour, Esq Secretary, Central Wool Committee, 1916/22; Secretary, Brit.-Aust. Wool Realisation Assn., 1921/22; Chairman Vic. Dried Fruits Board, since 1924. Public servant; of Brighton, Vic; b. Melbourne, 30 Jan., 1874.

[15] See *Manual of War Precautions*, 1918 edition, *p 187*: "War Precautions (Wool) Regulations"

By universal acknowledgment the signal success of the Central Wool Committee was due in large measure to the skill, energy, and intimate knowledge of the wool industry and of financial affairs possessed by the chairman; but he also recorded his appreciation of the support accorded by the members of the committee:

> One and all have given unreservedly their best efforts, years of experience, and loyal assistance. Time and services were never considered by them; there was only one object in view, *viz.*, to administer the Wool Scheme—a war measure—to the satisfaction of the Imperial Government, the Commonwealth Government, and the Wool Industry of Australia [16]

The Central Wool Committee handled 2,274,164,123 lb. of wool (or 7,127,090 bales), having a value of £159,896,396; and was able to claim that "every bale of wool shipped overseas was in marketable condition." Of this huge quantity, 55,623,294 lb., at the appraised value of £3,312,966, were purchased by Australian manufacturers, who were permitted to have priority of selection. At one time £35,000,000 worth of wool, fully insured, was being stored in Australia, awaiting shipment; and every bale of it had been paid for by the British Government after appraisement.

Centralised control enabled the wool to be handled economically. Special care was taken to improve methods of storing and shipping, a matter of great importance at a time when freights were high and shipping space restricted. One improvement which had a lasting effect was that known as double-dumping, thus described in the final report of the committee:

> Shipping freight on wool is charged at so much per pound weight, and it is therefore to the advantage of the shipping companies that it should occupy as small a space as possible. The practice in pre-war days was to reduce the cubic measurement of a bale by means of hydraulic pressure, and to maintain the wool in the compressed condition by strong steel bands. This is known as single-dumping. In the process of double-dumping two bales are placed end to end in a machine, subjected to great pressure, and whilst in the compressed state bound together by steel bands or wires. Double-dumping is now general in all wool centres, and, although it was adopted to meet the exigency of the war period, its continuance is assured.

[16] Sir John Higgins's addendum to *Report of Central Wool Committee, 30 Aug., 1920.* See also reports of the Committee in *Commonwealth Parliamentary Papers, 1917-19, Vol. V, pp. 1229-1259.* The figures here quoted are from the Central Wool Committee's Report; they differ slightly from those supplied by the Liquidators of Bawra, but the differences are immaterial

The gain in shipping space effected through this improvement during the period of the Central Wool Committee's control was estimated at 1,132,500 bales, equivalent to 113 shipments, each averaging 10,000 bales.

As most of the wool clip was purchased by one buyer, the British Government, it was obvious that the normal method of determining prices, by auction, could not continue during the continuance of the Central Wool Committee's control. Wool sales had their own very interesting traditions and conventions. and the old Yorkshire proverb, "A wool seller knows a wool buyer," indicates that the two parties were shrewdly matched in striking their bargains. But auction being now perforce abandoned, the values of different classes of wool were determined by the committee's staff of appraisers. These experts were in fact men who had been in the employment of the established brokers' firms and wool houses of Australia, experienced in the classification and valuation of wool. None better could have been found for the purpose anywhere in the world. The policy of the committee was as far as possible to utilise the machinery and ability of the trade, and, the wool industry being so thoroughly established, it would have been impossible to work the new system otherwise.

The well-known wool firms consequently carried on as they had always done, taking delivery of the wool of their clients, and arranging for its sale; only, instead of the bales being offered at sales, they were bought at a flat rate by the Central Wool Committee. The wool was then examined and appraised, and the grower received or was debited with the difference between the flat rate and the appraised value. The committee's policy enabled the wool houses to carry on as usual, dealing, however, with one buyer instead of hundreds, and not a single branch of the wool trade was disorganised or afflicted with unemployment during the whole term of the committee's operations. This method had the further advantage that a producer of a high class of wool who had always sold through a particular firm, continued to send his clip to the same house, where it was handled by the experts who had been accustomed to look after the grower's interests

The committee's operations showed that no fewer than 848 types of wool were produced in Australia;[17] and as enormous quantities of wool had been sold by hundreds of firms of brokers, merchants, and agency companies, and shipped by scores of shipping houses, it was inevitable that there should have been differences between the many documents used in transacting wool business, such as catalogues, invoices, weight-notes, &c. These differences did not matter while the wool trade was being conducted through many separate firms, each of which did its business in its own way, but it was a cause of confusion when these documents had to be dealt with by the staff of the Central Wool Committee Efficient administration necessitated the standardisation of all documents used in connexion with the wool trade. The reform thus initiated may perhaps seem not to have been very important—a mere office matter, some might, rather heedlessly, say—but in fact it was extremely salutary. The committee's officers prepared model copies of every kind of document, sent them to the State committees, and gave instructions that the papers used for all transactions were to correspond exactly to these copies. This standardisation of documents was one of the unforeseen difficulties of bringing a great industry, continent-wide in its ramifications, and a century old in its traditions, under one governing body.

The method of arriving at the value of the various grades of wool was described by the Chairman of the Central Wool Committee in the 1918 report. Calculations were based upon a flat rate of 15½d. per pound, which was the estimated average of the whole clip. Before any wool was handed over to the British Government, it was appraised with the object of ascertaining the real value of each bale. The appraisement was carried out in a thoroughly systematic manner, by sworn appraisers.[18] These represented both the Commonwealth Government—acting for the British Government—and the growers. The appraisers were paid salaries, and it was a condition of their employment by the Committee that they should

[17] *See plate at p. 563.* These types are described in detail in Sir John Higgins's book, *The Stabilisation or the Equalisation or the Insurance of Wool Values, pp. 124-204.*

[18] Tables of limits were prepared by the experts, merino wool having its fixed bases of limits, crossbred wool and English types having separate tables, and sheepskins being graded at a generally lower level according to the varieties of wools and breeds of sheep.

not receive commission or brokerage from any source. Generally, the appraisers who acted for the Government were selected from among the buying brokers; those representing the growers were usually chosen from the staffs of the selling houses. "The wool," as the Chairman explained, "is first received from the grower, catalogued, displayed, and made ready for appraisement by the selling brokers. Appraisers then go through the catalogues and examine the wool. This is called the preliminary appraisement. The results of the preliminary work, when special experts deal with the types of wool of which they have the best technical knowledge, the types, yields and valuations, are entered into special catalogues called final appraisement catalogues, for the use of the final appraisers. Two final appraisers then go through the wool with the selling brokers' appraiser, the latter also representing the interests of the wool growers. These, after consultation, determine and fix the type, yield, and resultant price of each lot over the bale. This decision is final and without appeal."

Of the 7,127,090 bales handled by the Central Wool Committee, 4,326,137 bales were shipped direct to the United Kingdom, and 1,336,613 bales to other countries. The balance remained on hand or was sold in Australia. The shipments were regulated by the instructions of the Director-General of Raw Materials in London, whose requirements varied according to the demand.

The British Government sold in the open market all wool which was not required for military purposes, and under the agreement made between the two governments this profit was divided between the British Government and the Australian wool growers, 50 per cent to each. Each thus received £6,486,992. In addition, the Central Wool Committee made a profit of £1,667,469 during the years 1916-20 on its own administration, and from these combined profits an interim dividend of £7,333,700, or 5 per cent, on all wool appraised for the four seasons, was in October, 1920, distributed among the wool growers, and was of course additional to the price received by them for their wool at the appraised values.

The magnitude of these operations makes the work of the Central Wool Committee rank among the greatest commercial schemes of modern times. It gave to the Australian wool

industry, at a period when the trade of the world was disorganised by war, co-ordinated management; and that management proved itself to be masterly in its competence, its knowledge, its alertness, and its systematised energy. The Committee did not escape criticism, but one kind of criticism answers another. It was said by some that individual growers of high class wool might have obtained better prices than were derived through the Central Wool Committee. In a few instances, and in limited markets, this may have been the case, but it is not clear that it would have been so. On the other hand, the committee was charged with "profiteering" because it shared in the high profits realised through the sale by the British Government of surplus wool. The committee, however, acting as trustee for the growers, was bound to obtain such prices for the commodity it had to sell as could be realised in the open market. Both of these charges could hardly be justifiable; and in fact neither was. The advantage to Great Britain was that she had a certain, abundant, and regular supply of a raw material which was of the utmost importance to her as a belligerent nation; the advantage to Australia was that it secured for wool a sure market, good prices, sufficient freight, and regular payments. Indeed, Great Britain paid for all wool by the time it was shipped.[19]

The distribution of the Australian share in the British Government's profit was the cause of a dispute between those firms which sold wool on the sheep-skin—that is to say, the wool of sheep slaughtered for mutton—and the pastoralists who sold only the wool shorn from their sheep. For two years a share in the profit was paid in respect of the wool on sheep-skins; but the Central Wool Committee had grave doubts of the equity of this, on the ground that the sellers of the sheep-skins were not wool growers or wool producers but middlemen, who took none of the risks of rearing sheep, but bought the skins and sold the resultant wool. In 1918 it was accordingly resolved that skin wool should be paid for at the flat rate of 15½d. a pound, but should not participate in any

[19] It is interesting to know that during the war Japan, which the British purchase of the Australian clip prevented from securing her wool supplies from Australia, turned to the South African supply, which was not similarly restricted. The Japanese made an effort themselves to produce tops, and their manufacture of woollen fabrics greatly increased during the war—*The Effect of the World War on Commerce and Industry of Japan (Carnegie Endowment Series), pp. 25, 332.*

profit subsequently made, and this decision was confirmed by the Acting Prime Minister, Mr. Watt. An immense amount was involved, and about a hundred fellmongers and others at once protested and eventually brought an action in the High Court of Australia, claiming in the aggregate £1,346,435. The High Court (December, 1922) gave judgment against them[20] on the ground that the Australian Government sold the wool as the result not of a contract to purchase from the suppliers or to sell as the suppliers' agent, nor yet by requisition or compulsory acquisition,[21] but by a political arrangement creating no legal rights or duties, but forced on the Government by reason of the war and necessary for military purposes. Still less was there any contract between the suppliers and the British Government. The position was that the wool suppliers knew that the arrangement between the two governments would be carried out in good faith, and were content to act upon that assumption. The manner of distribution of profit therefore lay in the discretion of the body administering the scheme. On appeal this judgment was upheld by the Privy Council.

This book is not concerned with the operations of the British Australian Wool Realisation Association Limited ("Bawra") which was formed to dispose of the wool carried over after the expiration of the contract with the British Government in 1920. But, inasmuch as Bawra grew naturally out of the Central Wool Committee, it is necessary to refer to its formation. A wool conference was held in Melbourne in September, 1920, at which Sir John Higgins explained the situation and suggested the formation of a company, whose object should be to sell the carry-over wool in behalf of the Australian growers, and to act as agent for the British Government in the disposal of its stocks. Bawra was registered as a company on 27th January, 1921, sold its last bale of Australian wool in 1924, and finished its difficult work in 1932. By the desire of the British Government, the Association controlled not only the Australian wool carried over,

[20] *Commonwealth Law Reports, Vol. 31. 1922-23.*

[21] The court held that, although the Commonwealth doubtless could have "commandeered" the wool, it preferred to act with the owners' consent, and merely ensured that any who did not hand over their wool should not be allowed to sell it elsewhere without the Central Wool Committee's sanction

but also the New Zealand wool and a small quantity produced in the Falkland Islands, the total quantity being 2,611,277 bales of which 1,836,005 bales were Australian. Later, the British Government also handed over to the association 80,550 of South African wool to be sold under an agency agreement.

Sir John Higgins became chairman of the directors of Bawra as well as chairman of its Australian Board, and there was a British board as well. The work of Bawra makes a separate and extremely interesting story, not the least important part of which relates to the rejection of the proposal made for the continuance of an organisation for the marketing of Australian wool, chiefly, it is asserted, owing to the influence of the wool-selling brokers, who were naturally interested in the maintenance of their position in the wool trade.[22] When Bawra was wound up, every bale of wool handled by it and by the Central Wool Committee was accounted for, but one bale too many appeared in the record. Enquiry revealed that one bale had been counted twice over: it was dropped in the sea during the process of loading a steamer; and the officer superintending the loading had entered it in his book when it was ready to be slung on board, and entered it again when it was hauled from the water. An accidental error of one in a total of millions was a trifle; for the Central Wool Committee and Bawra from 1916 to 1932, when the final distribution was made by the liquidators, paid out £242,370,597; the total expenses of the Imperial Government Wool Purchase Scheme for the sixteen years of its existence were £1,921,983. The profit made on the sales amounted to £33,659,011 for the British Government and £36,109,333 (over and above the price of 15½d. per lb.) for Australian growers.[23]

[22] See E. C. Dyason, "Bawra," in *The Economic Record*, Feb., 1928, *p. 66*, and Sir John Higgins. *The Stabilisation of Wool Values, p. 114.*

[23] The growers' profit (over 15½d.) averaged 3.69d. per lb. and that of the British Government 3.44d. In other words the growers thus received a total of 19.19d. per lb. for the wool and the British Government 22.63d.