United States General Accounting Office

GAO

Report to the Honorable Charles E. Shumer, House of Representatives

March 1990

WOOL AND MOHAIR PROGRAM

Need for Program Still in Question

GAO United States
General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-203829

March 6, 1990

The Honorable Charles E. Schumer
House of Representatives

Dear Mr. Schumer:

In response to your June 21, 1988, request, this is our report on the U.S. Department of Agriculture's wool and mohair program. It updates our 1982 report on the program and provides matters for congressional consideration.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after the date of this letter. At that time, we will send copies to appropriate House and Senate committees and subcommittees; interested members of the Congress; the Secretary of Agriculture; and the Director, Office of Management and Budget. Copies will also be made available to other interested parties upon request.

This work was performed under the general direction of John W. Harman, Director, Food and Agriculture Issues, (202) 275-5138. Other major contributors are listed in appendix V in the report.

Sincerely yours,

J. Dexter Peach
Assistant Comptroller General

Executive Summary

Purpose

In 1954, following a decade of dramatic decline in the U.S. sheep industry, the National Wool Act established a price support program for wool and mohair. From 1955 through 1988, payments made under this program totaled about $2 billion. In 1988 alone, producers received $41.4 million in wool payments and $47.1 million in mohair payments.

GAO, in 1982, reported that the wool portion of the program had a limited effect on its objectives and was not an effective means to solve the sheep industry's problems. Accordingly, GAO recommended that the Congress consider whether federal financial assistance should continue to be provided to encourage wool production and/or assist the sheep industry. As a result of current budgetary concerns, Representative Charles E. Schumer asked GAO to update its 1982 report. Although in 1982 GAO did not address the mohair portion of the program, it is included in this report because mohair payments have become an increasingly significant part of the overall program costs.

Background

The National Wool Act of 1954, as amended, requires the Secretary of Agriculture to implement a program to encourage the continued domestic production of wool at prices fair to both producers and consumers in a manner which will assure a viable domestic industry. This objective is established as a measure of national security (wool was considered a strategic material in 1954), and to promote the general economic welfare, a positive balance of trade, and the efficient use of the nation's resources. Although mohair is not cited in the wool program's broad objectives, the act also includes mohair in its payment provisions.

As an incentive to improve wool quality, the program was designed so that the higher the wool market price a producer receives, the higher the wool price support payment. The act limits program costs to an amount equal to a portion of the tariffs collected on certain imported woolen items.

In 1982, GAO reported that wool payments provided under this program from 1955 through 1980 totaled $1.1 billion, yet annual wool production declined during the period from 283 million pounds to 106 million pounds. Information GAO obtained indicated that, because producers received about 75 percent of their income from lambs sold for meat, production decisions were based primarily on the profitability of the lamb market, not the wool market and the wool payments. GAO recognized that the wool payments contributed to producers' income and helped to slow the production decline. GAO estimated, however, that in 1980 alone the additional output of wool attributable to the program cost the federal government $2.63 to $6.01 a pound, while the average market value of wool produced that year was only 88 cents a pound.

GAO further reported in 1982 that (1) the major reasons for establishing the program were no longer as important as they once were because wool was no longer classified as a strategic commodity for military and emergency purposes, and (2) wool quality had not improved as a result of the wool program.

Results in Brief

The principal findings in GAO's 1982 report are still valid. Domestic wool production has continued to decline. In fact, from 1981 through 1988, annual wool production declined to all-time lows and in 1988 was at 89 million pounds. While industry representatives and current studies contend that the wool payments have (1) provided continued assurance of income to producers, (2) had a stabilizing influence on the industry, and (3) helped slow the decline in wool production, GAO estimated that in 1988 the additional output of wool attributable to the program cost the federal government $3.04 a pound, while the average market price of wool produced that year was only $1.38 a pound.

The wool program is justified, in part, on the basis that wool is a strategic commodity for military and emergency purposes. However, as GAO reported in 1982, wool is no longer classified as strategic.

Trends in wool quality remain largely undocumented. Industry and U.S. mill representatives now believe, however, that some attributes of wool quality have improved.

At the time of GAO's 1982 report, mohair payments represented only a small portion of the overall program payments, but this situation has changed. In 1988, for example, mohair payments represented over 53 percent of the total payments made. Despite this fact, specific legislative objectives have not been established for mohair.

Principal Findings

Wool Production Continues to Decline

From 1981 through 1988, about $665 million in wool payments were made. During this period, domestic wool production continued its more than 30-year decline, from 110 million pounds in 1981 to 89 million pounds in 1988. To some degree, wool payments may have caused a slower decline in production than would have occurred in the absence of such payments. The most recent U.S. Department of Agriculture (USDA) report available on this issue estimates that, on average during 1977 through 1983, the payments likely boosted wool production by 18 percent. Using this figure, GAO estimated that, in 1988, the additional output of wool attributable to the program cost the federal government more than twice the average wool market price.

Wool Is Not a Strategic Material

Wool has not been listed as a strategic and critical material for military and emergency purposes since 1960. Although the military purchases about 8 percent of the annual domestic production of wool for its peacetime needs, future military use of wool could substantially decrease as new synthetic materials are used.

Wool Quality May Be Improving

Industry and U.S. mill representatives believe that some attributes of wool quality have improved during the 1980s. These representatives told GAO that wool contaminants had been reduced and the preparation of wool for market in some areas had significantly improved. While GAO was unable to determine to what extent the wool program influences wool quality, the payments are an incentive to improvement because they are directly tied to the market prices that individual producers receive for the wool they sell.

No Specific Program Objectives Are Directed at Mohair

The act established no specific objectives for mohair. From 1981 through 1988, mohair producers received $173 million in program payments. In 1988 alone, mohair payments represented over 53 percent of the total program payments made—$47.1 million of the total $88.5 million paid. The act's broad objectives, such as promoting the general economic welfare, a positive balance of trade, and the efficient use of the nation's resources, apply to wool and not to mohair.

Matters for Consideration by the Congress

Consistent with its views in 1982, and in light of the nation's current budget constraints, the high per-pound subsidy cost, the broad objectives for the wool portion of the program, and the absence of objectives for the mohair portion, GAO continues to believe that the Congress should consider the need for the wool and mohair program. If the Congress decides to continue the program, GAO believes that the Congress needs to consider, in light of current conditions, what it wants the program's objectives to be.

Agency and Other Comments

USDA agreed with most of GAO's findings and stated that the report was well prepared and adequately recognized the strengths and weaknesses of the program. Similarly, an economics professor whose study on the sheep and wool industry is cited in chapter 2 stated that the report provided a balanced, accurate appraisal of conditions in the sheep industry and the effects of wool policy.

The American Sheep Industry Association disagreed with the overall message of the report and stated that much of the report supports the conclusion that the program has fulfilled the act's objective of maintaining a viable sheep and Angora goat industry. Similarly, the Mohair Council of America stated that, while the report had been well researched and compiled, it disagreed with the report message regarding mohair. Both organizations asserted that, while the body of the report recognized some of the more positive contributions of the program, the report summary and conclusions lacked balance and were inconsistent with some of the information contained in the report.

GAO believes the report summary and conclusions are balanced and consistent with the more detailed information presented in the body of the report. In particular, GAO believes that the high per-pound subsidy cost of the program, the broad wool objectives, the absence of specific mohair objectives, the more than 30-year decline in wool production, and the fact that wool is no longer a strategic material as it once was, are the principal factors that the Congress needs to consider in its upcoming debates on the program. GAO highlighted these factors in the report summary and conclusions. Other factors of the program, as discussed in detail in the report, provide additional information for the Congress to consider during its debates.

USDA's, the American Sheep Industry Association's, and the Mohair Council of America's specific comments and our evaluation are discussed in the report and included as appendixes.

Contents

Abbreviations

ASCS	Agricultural Stabilization and Conservation Service
ASIA	American Sheep Industry Association
ASPC	American Sheep Producers Council
CCC	Commodity Credit Corporation
DPSC	Defense Personnel Support Center
ERS	Economic Research Service
GAO	General Accounting Office
NWGA	National Wool Growers Association
USDA	U.S. Department of Agriculture

Introduction

Sheep have been an integral part of American agriculture since colonial times, providing two useful products—meat for food and wool for use in clothing and other commodities. Before 1900, sheep were raised primarily to produce wool. Since that time, wool has provided a smaller portion of the overall income to the sheep industry, although producers, particularly those in the western states where about 80 percent of the sheep are raised, continue to consider both wool and lamb in their production decisions.

By 1942, the United States had become third in the world in wool production, with a record 56 million sheep producing 495 million pounds of wool. During the subsequent decade, the sheep industry suffered an unprecedented decline, and by 1953, the number of domestic sheep had been reduced to about 32 million head, producing 296 million pounds of wool. That level was sufficient to supply only about one-third of the normal U.S. peacetime requirements in 1953 and one-half of the rate of consumption for U.S. military use alone during World War II. As a consequence of the declining domestic wool supply, U.S. mills were becoming more dependent on foreign wool to make up the volume of wool needed to support their production.

Concerns about the effects of the declining sheep industry led President Eisenhower, in July 1953, to request the Secretary of Agriculture to study the factors contributing to the decline in the number of sheep and in wool production and make "suggestions which will promote the development of a sound and prosperous domestic wool industry and at the same time permit an expanding world trade." The Secretary's study Achieving A Sound Domestic Wool Industry, published in December 1953, determined that a number of factors had combined to contribute to the sheep industry's decline. The most significant of these factors included (1) a scarcity of competent labor in an industry that is exceptionally dependent upon specialized labor; (2) relatively low returns, high costs, and high risks associated with sheep production, as compared with cattle production; (3) the inability to increase the efficiency of sheep production at a rate comparable to other agricultural enterprises; (4) future uncertainties arising from adverse price-cost relationships, the threat of wool imports and tariff reductions, and the possibility of reductions in federal grazing allotments; (5) sheep losses to predatory animals and dogs at a time when competent help for protection against these hazards had become scarce and expensive; and (6) drought, especially in sheep producing regions of the Southwest.

In conjunction with his 1953 study, the Secretary drafted and proposed a National Wool Act that would provide assistance to sheep producers to enable them to compete with imported wool. The President accepted the Secretary's proposed legislation and forwarded it to the Congress for their consideration.

National Wool Act Addressed Concerns About the Declining Wool Industry

On August 28, 1954, the National Wool Act was enacted to address a broad scope of congressional concerns about the conditions and consequences of the decline in the sheep and wool industry. Those concerns included the following:

- Wool was an essential component used in military uniforms and other military items and, as such, was listed as a strategic material under provisions of the Strategic and Critical Materials Stock Piling Act. Additionally, because the gap between domestic production and consumption of wool was being filled by imports transported over long distances, predominately from Australia, New Zealand, and South Africa, proponents of the act believed that the situation posed a risk to our ability to supply a surge in U.S. military requirements for wool.
- The sheep industry, with its production and related jobs, was an important component affecting the general welfare and the rural economies in many areas where sheep were raised.
- The tariff on imported wool and woolen products was acknowledged to be too low to enable domestic wool to compete with cheaper foreign wool. However, increasing the tariff level could affect trade with the friendly countries from which U.S. mills imported wool and would be counter to our policy to expand foreign trade. Furthermore, such action would raise the price of wool in the United States and could affect its competitive position with other fibers.
- Sheep production was often carried out on harsh ranges where the character of the land, arid conditions, and available forage were less suitable for other agricultural enterprises.
- As a matter of national policy, the Congress believed that the United States should supply a substantially larger portion of its wool requirements from domestic sheep production.
- Sheep production on small U.S. farms, and by producers such as Indians whose income is derived from small numbers of sheep, represent an important part of the domestic sheep and wool industry.

Objective and Administration of the National Wool Act

The National Wool Act's objective is to encourage the continued domestic production of wool at prices fair to both producers and consumers in a manner which will assure a viable domestic wool industry in the future.[1] The act further specifies that this objective is established as a measure of national security[2] and to promote the general economic welfare, a positive balance of trade, and the efficient use of the nation's resources.

The National Wool Act authorizes the Secretary of Agriculture to support the price of wool through loans, purchases, payments, or other operations.[3] Since the act became effective on April 1, 1955, the Secretaries have opted for a payment program. The program has been designed so that the higher the wool market price a producer receives, the higher the wool price support payment. Each year, the U.S. Department of Agriculture (USDA) calculates a single payment rate for determining wool payments. This rate is the percentage required to bring the national average price for domestic wool sold up to a predetermined price support level. A wool payment to each producer is then calculated by applying this rate to the producer's net proceeds from wool sold during the preceding calendar (marketing) year. In 1988, 29 percent was calculated as the rate necessary to raise that year's national average price of $1.38 to a wool price support level of $1.78. Thus, producers received a wool payment of 29 cents for each $1.00 of wool they marketed. According to USDA, using this percentage method, rather than making a uniform flat payment per pound of wool sold, encourages producers to obtain higher market prices by improving the quality and marketing of their wool.

The wool payment program is administered by USDA's Agricultural Stabilization and Conservation Service (ASCS), with funds appropriated through the Commodity Credit Corporation (CCC). The program provides payments for both shorn wool and unshorn lambs. Shorn wool is wool that is actually sheared from sheep and lambs. Payments for unshorn lambs are made to maintain the normal practice of marketing lambs

[1]The policy statement in the National Wool Act of 1954 was amended in 1977, wherein an annual production goal of 300 million pounds of shorn wool was deleted, and other objectives, such as a positive balance of trade and the efficient use of the nation's resources, were added.

[2]At the time the act was passed, wool was listed under the Strategic and Critical Materials Stock Piling Act. As such, wool was stockpiled by the federal government for military and civilian needs during national emergencies.

[3]The act also includes mohair (which is the long silky hair of the Angora goat) in its program provisions. That part of the program is discussed in detail in ch. 4 of this report.

unshorn and are computed to give producers the same net returns they would have received if they had sheared the lambs and obtained shorn wool payments. Payments for wool marketed during one calendar year are made after March 31 of the following year.

Government expenditures incurred for the wool program include producer payments and operating costs (administrative and interest expenses). From 1955 through 1988, wool payments totaled about $1.8 billion. For the period of 1981 through 1988, which is the period covered in this report, about $665 million in payments were made. Those payments varied from a high of $116.9 million in 1983 to a low of $41.4 million in 1988. The program's average operating costs in recent years have amounted to about $6 million a year, of which one-third represents ASCS administrative expenses and two-thirds represents interest expenses incurred by CCC for borrowing funds from the U.S. Treasury.

The National Wool Act places no limit on the payment amount that each wool producer may receive, although the Secretary is authorized not to make individual payments if he determines the amounts are too small to justify the administrative costs. However, the act does limit the total amount that can be appropriated to the program during any fiscal year to 70 percent of the duties collected on certain imported wool and woolen manufactures during the calendar year preceding the beginning of the fiscal year in which the expenditures were made.

In 1982 We Reported That Wool Program Objectives Were Not Being Met

In 1982, we reported that the wool program (1) had a limited effect on encouraging wool production and improving wool quality and (2) was not designed as an income supplement program; therefore, it was not an effective means to solve the sheep industry's problems.[1] U.S. wool production had declined from 283 million pounds in 1955 to 106 million pounds in 1980. We also noted that, although no statistics on wool quality existed, USDA and industry sources generally believed that wool quality had not improved.

We concluded that the major reasons for establishing the program were no longer as important as they once were because wool was no longer classified as a strategic commodity for military and emergency purposes, and its importance for defense mobilization requirements as well

[1]Our 1982 report, Congressional Decision Needed On Necessity Of Federal Wool Program, (GAO/CED-82-86, Aug. 2, 1982), did not address the mohair portion of the program because mohair payments had not been made since 1972. Furthermore, mohair payments had been made in only 8 of 17 years preceding 1972.

as to the U.S. textile industry had declined. Furthermore, we concluded that program payments made to noncommercial producers[5] and for unshorn lambs were not effectively accomplishing their intended objectives.

On the basis of our 1982 findings, we recommended that the Congress consider whether federal financial assistance should (1) continue to be provided to encourage wool production and/or (2) be provided to generally assist the sheep industry. We also recommended, if the program was retained, that the Congress eliminate payments to noncommercial producers and payments for unshorn lambs. The Congress took no action to address our recommendations.

Objectives, Scope, and Methodology

As a result of budgetary concerns facing the Congress and the increasing costs incurred in the wool program in recent years, Representative Charles E. Schumer, on June 21, 1988, requested that we update our 1982 report on the program and determine what, if any, circumstances had changed. Specifically, as agreed with Representative Schumer's office, we addressed the following questions:

- Are our earlier conclusions that the program was not meeting its mandated objectives still valid? If so, are there any other justifications for maintaining the program?
- If the wool program payments were eliminated, what would be the impact on the wool import tariffs? Are the tariffs only justified to finance this program? Are there any trade agreements that would prohibit the collection of the tariff if the program were terminated?
- Is the statement made in our previous report still applicable—that in 1980, "over 60 percent of the program recipients were paid less than $100 and the balance of the payments averaged less than $1,000?" How much does it cost to administer the program payments, and what would be the impact on recipients if they no longer received those payments of less than $100 a year?
- What is our opinion on the need to continue this program?

These questions focus on aspects of the program we addressed in 1982, but since that time a related portion of the program—the mohair payments—has received increased funding. In 1988, for example, mohair

[5]According to USDA, a noncommercial producer maintains less than 50 sheep. We reported that, in 1980, this producer received wool payments of $100 or less and raised sheep for reasons other than income, such as for a hobby.

producers received $47.1 million, which represented over 53 percent of the total program payments made that year. Therefore, although we were not initially asked to address mohair payments, we agreed with Representative Schumer's office to include them in our overall program analysis.

As part of our review, we researched pertinent literature and documentation on the domestic wool and mohair industry, including legislative history files and USDA, sheep industry, and university studies and economic reports. Because of the limited data available on the impact of the wool payment program on the industry, we had to obtain much of our detailed information from industry representatives and producers who were most knowledgeable of the issues. We did not verify the accuracy of the information obtained from any of these sources. We did, however, obtain comments on a draft of this report from organizations representing wool and mohair producers, and from an economics professor at the University of Wyoming whose study on the sheep and wool industry is cited in chapter 2.

To update our earlier work on the key aspects of the program and the matter of small program payments made to noncommercial producers, we discussed these matters with (1) USDA officials in Washington, D.C., and at the Texas ASCS state office in College Station, Texas (the nation's leading sheep-producing state) and (2) sheep and goat industry representatives at the American Sheep Producers Council (ASPC) and the National Wool Growers Association (NWGA),[6] the Mohair Council of America, the Texas Sheep and Goat Raisers Association, and the National Lamb Feeders Association. These organizations represent the interests of most of the domestic wool or mohair producers.

We discussed the opportunities and limitations facing domestic sheep producers' efforts to increase production and improve wool quality and marketing with sheep and wool specialists at the Texas Agricultural Experiment Station, San Angelo, Texas; Texas Agricultural and Mechanical University, College Station, Texas; the University of Wyoming, Laramie, Wyoming; and the Yocom-McColl Testing Laboratories, Inc. (the only commercial wool testing laboratory in the United States), Denver, Colorado.

[6] In January 1989, producer members voted to consolidate the ASPC and the NWGA. The new organization is the American Sheep Industry Association, located in Denver, Colorado.

We also discussed the matter of wool production and quality with officials from three wool marketing organizations: the Utah Wool Marketing Association, Salt Lake City, Utah; the Sonora Wool and Mohair Company, Sonora, Texas; and the Eden Wool and Mohair Warehouse, Eden, Texas; and from two wool processing mills: the Columbia Wool Scouring Mills, a subsidiary of Pendleton Woolen Mills, Portland, Oregon; and Burlington Menswear, a division of Burlington Industries, Inc., Clarksville, Virginia. We selected the Utah association because it handles and markets wool produced by about 700 western-state sheep producers, while we selected the Texas companies because they also support a large number of producers and prepare and market both wool and mohair. We contacted the mills because they are major players in the U.S. wool processing industry—purchasing and processing both domestic and imported wool.

We attended the 1989 American Sheep Industry Convention in Las Vegas, Nevada, where we discussed sheep production and the role of the wool program payments with (1) individual producers representing state wool industry organizations from Texas, New Mexico, Colorado, Wyoming, Montana, South Dakota, Illinois, and Indiana; (2) representatives of the Navajo wool and mohair marketing industry; and (3) various representatives from U.S. wool processing companies.

We discussed the military's present and future need for woolen products with Defense Logistics Agency officials in Washington, D.C., and addressed the relationship specified in the National Wool Act between import tariffs and the wool program with USDA and International Trade Commission officials.

We conducted our work between August 1988 and August 1989 in accordance with generally accepted government auditing standards.

Key Aspects of the Wool Program

In our 1982 report, we discussed four key aspects of the wool program—the effect of the payments on domestic wool production, wool's strategic and military importance, and the program's impact on improving wool quality and maintaining normal marketing practices by providing unshorn lamb payments. In response to Representative Schumer's request, we reexamined these four key aspects of the wool program, as well as several other aspects that are important in weighing the overall effect of the program on the sheep industry. These other aspects, which are broad objectives of the act, relate to the program's contribution towards promoting (1) the general economic welfare, (2) a positive balance of trade, and (3) the efficient use of the nation's resources.

In summary, we found that since our 1982 report:

- Wool production has continued to decline. Some recent studies indicate that the wool program has helped to slow this decline and stabilize sheep producers' income.
- As we previously reported, wool is no longer considered a strategic and critical material and, while current defense needs are substantial, future requirements may decrease because of the availability of new materials.
- It appears that some aspects of wool quality have improved since 1980, although there is little documentation on trends in the attributes or quality of U.S. wool.
- As in our earlier findings, some industry representatives believe that the unshorn lamb payments are not a factor in lamb shearing decisions, while others believe that those payments are a factor. If, in fact, producers were to receive higher prices for unshorn lambs than for shorn lambs, it is unclear how the unshorn lamb payments would affect lamb shearing decisions.
- Although the program has done some positive things for the industry, it is unclear how the program could meet its broad, less measurable objectives of promoting a positive balance of trade, the general economic welfare, and the efficient use of the nation's resources.

Program's Impact on Encouraging Wool Production

A major objective of the National Wool Act is to support U.S. wool prices in order to encourage the continued domestic production of wool. Our 1982 report and our update efforts show that, overall, wool production has declined substantially since the wool payment program began in 1955. To some degree, however, the program may have caused a slower decline than would have occurred in the absence of the program, and it has helped to stabilize producers' income. The following section discusses the wool production aspect of the program in detail.

Our 1982 Report Findings on Wool Production

In 1982 we reported that domestic wool production had declined from 283 million pounds in 1955 to 106 million pounds in 1980. Although the wool program had not stopped that decline, we stated that the program payments, which at that time amounted to about $1.1 billion, had helped slow the decline by contributing to producers' income, thereby helping some producers to continue to stay in business. On the basis of an economic analysis we performed, we estimated that the payments' average annual effect on wool production between 1956 and 1979 was to increase output by 10.5 million to 24.2 million pounds (about 6 to 13 percent) above the level it would have been in the program's absence.

For 1980, we estimated that the wool payments increased output between 7 million and 16 million pounds. In effect, the additional output in 1980 cost the federal government $2.63 to $6.01 a pound,[1] while the average market value of wool produced that year was only 88 cents a pound.

Even though the program payments had helped slow the decline in wool production, information we obtained during our earlier review indicated that producers received about 75 percent of their sheep income from lambs sold for meat. As a result, their production decisions were based primarily on the profitability of the lamb market, not the wool market and the wool payments. Based on that information, we concluded that the wool program had not been effective in encouraging wool production.

Our Current Findings on Wool Production

Although domestic wool production, overall, has continued to decline since 1980, the rate of decline has been somewhat slower than in prior years and, according to USDA, the wool industry appears to be stabilizing. Recent studies we reviewed and industry representatives contend that wool program payments provide income stability to sheep producers and also appear to be important to wool production decisions. In addition, some industry representatives stated that the program payment level has not been allowed to increase as much as the act intended; thus, the program's potential to further influence production has been reduced.

[1] We calculated this cost by obtaining the wool program expenditures for 1980 and dividing them by the increased output attributable to the wool payments to arrive at a federal government cost per pound.

In 1981, wool production increased to 110 million pounds, which was a 4 million pound increase over the previous year. Wool production subsequently declined each year from 1982 through 1987, when it reached an all-time low of about 85 million pounds. In 1988, wool production again increased 4 million pounds over the previous year, to 89 million pounds. A March 1989 USDA report on the status of the U.S. sheep industry concludes that the industry's production is showing signs of stabilizing and may continue near the current level for several years.

Recent Studies Indicate Program Payments Affect Wool Production

Three recent studies that address the influence of the wool program on the domestic sheep industry suggest that the program payments may have a greater impact on production than was found in the past. First, a 1989 study conducted by two University of Wyoming economics professors concludes that (1) changes in the wool program could have serious implications for the domestic sheep industry and (2) reduction in the payments could substantially reduce the domestic output of both wool and lamb.[2] The study states that wool price (which includes the wool program payments) is an important decision factor for sheep producers and, in the intermediate run, it has a positive effect on the lamb and sheep supply.

Second, in 1988, the Virginia Polytechnic Institute and State University in Blacksburg, Virginia, statistically sampled and surveyed 1,000 domestic sheep producers regarding sheep and wool production. Over 69 percent of the survey respondents indicated that the wool program payments were a major factor in their decisions to continue sheep production. Furthermore, the respondents stated that the payments stabilized their income and provided a buffer against operating losses.

Third, a September 1984 USDA Economic Research Service (ERS) report, Wool and Mohair - Background for 1985 Farm Legislation, stated that the wool payments, on average during 1977 through 1983, raised sheep producers' receipts per pound of wool sold by 62 percent. This was based on the fact that the average wool program payment made during that period was about 48 cents a pound, compared with an average market price of wool of about 78 cents a pound. The report also stated that the payments had likely boosted wool production by 18 percent, i.e., during the 1977-83 period, production would have been 90 million pounds a year without the program and 106 million pounds a year with the program. In effect, this additional output of 16 million pounds a year

[2]Whipple, Glen D. and Dale J. Menkhaus, "Supply Response in the U.S. Sheep Industry," American Journal of Agricultural Economics, Feb. 1989.

cost the federal government $3.19 a pound, while the average market price of wool produced during that period was about 78 cents a pound. Assuming that this 18-percent impact on wool production continued, the wool payments in 1988 would have resulted in an additional 13.6 million pounds of wool production at a cost to the federal government of $3.04 a pound. The average market price of wool in 1988 was only $1.38 a pound.

Industry Representatives View Program Payments as a Stabilizing Influence

According to the American Sheep Industry Association (ASIA) representatives and other sheep specialists we contacted, the wool program payments have supported a higher level of sheep and wool production than would have occurred without the wool program. Furthermore, they believe that the assurance of wool income at the wool price support level provides a stabilizing influence on the sheep industry which benefits financial planning for the business. These representatives and specialists also indicate that the wool payments function as a positive factor in many financial institutions' evaluation of loan applications for sheep production.

In addition, these contacts said that in some years wool program payments enabled some producers to realize a positive rather than a negative cash flow from their sheep enterprises and to continue sheep and wool production. As shown in Table 2.1, USDA data on average sheep production cost and income indicates that during 3 of the 7 years from 1981 through 1987, production costs exceeded the revenue from lamb and wool sales by about $1.00 to $9.00 per ewe. In 2 of those 3 years, the wool payments enabled the sheep enterprise to realize a positive rather than a negative cash flow. In the remaining year, the wool payments substantially reduced the negative cash flow.

Table 2.1: United States Sheep Production Cost and Returns

Per ewe	1981	1982	1983	1984	1985	1986	1987
Cash receipts from sale of lambs, ewes, and wool	$40.21	$39.42	$37.58	$46.96	$52.96	$52.94	$60.78
Cash expenses for feed, labor, etc.[a]	41.29	48.39	43.03	40.90	39.27	43.27	44.66
Income prior to wool payments	−1.08	−8.97	−5.45	6.06	13.69	9.67	16.12
Total wool payments[b]	5.49	7.78	9.31	11.28	13.20	14.18	12.27
Income after wool payments	$4.41	$−1.19	$3.86	$17.34	$26.89	$23.85	$28.39

[a]Cash expenses do not include payments for own labor and own land.

[b]Wool payments are based on the previous year's marketing.

Source: USDA Economic Research Service.

Industry Representatives Believe Program Payments Influence Wool Production Decisions

The sale of lambs provides the larger portion of annual income to the average sheep enterprise. However, industry representatives we contacted during this review believe that income from the sale of wool and from the wool program payments are also important to the success of the sheep enterprise and are factors considered in wool production decisions. While the quantity and quality of wool produced by the sheep flock may vary somewhat each year because of such factors as climate and range conditions, the wool crop is relatively predictable because it is based on the number of sheep in the flock. The lamb crop, on the other hand, is less predictable because the flocks' level of reproduction of lambs can be lowered by environmental factors, such as storms, drought conditions, and health problems. For example, according to a sheep specialist at the Texas Agricultural Experiment Station, among the Texas range flocks, about 77 lambs on average are raised annually for each 100 ewes of breeding age. Thus, at least 23 percent of those ewes do not produce lambs that survive through marketing, so the income derived from wool sales and the wool program payments would likely become the primary source of revenue for that portion of the flock.

Furthermore, in those areas where predator loss is a problem, wool production and its income take on added significance to production decisions. The annual income from lamb sales (which provides many sheep enterprises their primary source of income) fluctuates because of the loss of lambs to predators. According to ASPC and NWGA representatives, this loss of lambs is a major problem for the sheep industry, especially among the Texas and western range flocks. The NWGA provided us data showing that losses to predators cost domestic sheep producers an estimated $69 million in 1985, $72 million in 1986, and $83 million in 1987.

Industry Representatives State That Program Payments Are Lower Than the Act Intended

According to ASPC and NWGA representatives, wool support prices have not been allowed to increase as initially intended by the National Wool Act of 1954 because they have not been adjusted annually in conjunction with increases in the wool parity index.[3] For several years since 1954, legislative amendments have resulted in support prices being below the levels that USDA initially considered were necessary to encourage wool production. ASPC and NWGA representatives believe that the program's impact on encouraging production may have been limited because of these lower support prices.

[3]A parity index is the index of prices paid by farmers for commodities and services, including interest, taxes, and farm wages. The National Wool Act, as amended, established a support price formula designed to use certain average parity indexes in its calculations.

The 1954 act directed the Secretary to support the price of wool at not less than 60 percent nor more than 110 percent of wool parity as the Secretary determines necessary to encourage wool production consistent with the act's declared policy. USDA acknowledged in legislative hearings on the proposed act that, depending on the strength of competing enterprises such as cattle production, the support price needed to encourage increased wool production should exceed 90 percent of wool parity and could exceed 100 percent.

An ASCS specialist provided us data showing that the program's support price was set at a level that represented from 90 to 106 percent of the applicable wool parity price during the initial four program years only (1955-1958). From 1959 through 1963, the support prices were at 80 to 90 percent of wool parity; and from 1964 through 1987, the support prices were at levels below 80 percent of wool parity. Of particular note is the fact that in 1975 and 1976, legislatively-set support prices fell below the minimum 60 percent of wool parity level established in the 1954 act.

The Strategic Status of Wool and Its Importance to the U.S. Military

The National Wool Act states that wool is an essential and strategic commodity. Furthermore, it justifies the wool payment program, in part, on the basis that wool production is encouraged as a measure of national security. In our 1982 report, and again in this review, we found that wool is no longer listed as a strategic material. Although a portion of the domestic wool production continues to be purchased for use by the U.S. military, a new synthetic fabric for cold weather clothing may decrease the military need for wool in the future.

Our 1982 Report Findings on the Strategic Role and Military Use of Wool

In 1982 we reported that wool was no longer on the list of strategic materials under provisions of the Strategic and Critical Materials Stock Piling Act (50 U.S.C. 98 et seq.).[4] We said that the increased use of synthetic fibers in military items since the 1950s had diminished the importance of wool to the military. We used those findings as partial support for our 1982 report conclusion that the major reasons for establishing the wool payment program were no longer as important as they were when the National Wool Act was enacted.

[4]The Stock Piling Act defines "strategic and critical materials" as materials that (a) would be needed to supply the military, industrial, and essential civilian needs of the United States during a national emergency, and (b) are not found or produced in the United States in sufficient quantities to meet such need.

Our Current Findings on the Strategic Role and Military Use of Wool

Wool has not been identified as a strategic and critical material under the Stock Piling Act since 1960. Nevertheless, the U.S. military, through the Defense Personnel Support Center (DPSC), Defense Logistics Agency, continues to (1) purchase wool and wool/blend items for its peacetime needs, (2) stock wool and wool/blend items for its war material reserve, and (3) maintain a list of wool and wool/blend items for its mobilization requirements. DPSC's responsibilities pertaining to these areas cover all branches of service—the U.S. Navy, Army, Air Force, Marine Corps, and Coast Guard.

The military's current purchases of wool and wool/blend items for peacetime needs are substantial, according to DPSC, and account for about 8 percent of the annual domestic wool production. If mobilization requirements were included, DPSC estimates that the military would account for about 40 percent of the average annual domestic wool production. DPSC's peacetime purchases, coupled with its stock of wool and wool/blend items for war material reserve and its list of wool and wool/blend items needed for mobilization requirements, amounted to over 25 million pounds of clean wool[5] in fiscal year 1989. Table 2.2 shows DPSC's wool statistics for 1989.

Table 2.2: Military Wool Statistics, Fiscal Year 1989

Pounds in millions

Wool usage	Equivalent clean pounds	Equivalent grease pounds
Purchases for peacetime needs	4.052	8.104
Stock in war material reserve	.628	1.256
Mobilization requirements	20.743	41.486
Total	**25.423**	**50.846**

Source: DPSC Wool Usage Study, April 1989.

The annual purchases of wool and wool/blend items for peacetime needs, according to DPSC, have remained relatively constant over the past several years, while the war material reserve stock has decreased somewhat as the services have experienced budget constraints. DPSC projects a significant decrease in future mobilization requirements, however, assuming that a new synthetic fabric for cold weather clothing will eventually replace many existing items made from wool.

[5] Clean wool is that wool which has been processed to remove the grease and contaminated fibers. Prior to this process, the wool is referred to as grease wool.

The U.S. Army plans to phase in an Extended Cold Weather Clothing System that consists of a six-piece synthetic ensemble designed to replace 13 existing items containing wool. If the Army obtains funding from the Congress to fully implement this system, the resulting reductions in those wool items would be substantial. DPSC estimates that with the new system, the wool content of the items listed in its mobilization requirements in fiscal year 1990 would be about one-half of what it has been in prior years. Beyond fiscal year 1990, the reduction could be even greater, depending on how quickly the system is implemented.

Program's Impact on Wool Quality

Improvement in wool quality is not addressed in the act's stated objectives, but is implied in the design of the shorn wool payment—higher support payments are made to producers who sell their wool at higher prices. This payment method was discussed in the act's legislative deliberations as an incentive to encourage producers to improve the quality and marketing of their wool. While we indicated in our earlier report that wool quality had not improved, our current findings indicate that some attributes of wool quality appear to have improved since then.

Our 1982 Report Findings on Wool Quality

We reported in 1982 that producer emphasis on lamb production and wool contamination resulting from certain feeding, shearing, and wool marketing practices had continued to impair wool quality.[6] USDA studies indicated and industry representatives and sheep specialists believed that wool quality had not improved; therefore, we concluded that the wool program had not measurably improved wool quality.

Our Current Findings on Wool Quality

We found no published standards on the attributes of wool quality, and little documentation is available on trends in domestic wool quality. Consequently, we obtained most of our information on wool quality from representatives of U.S. wool mills, wool marketing businesses, universities, and the sheep industry. These representatives believe that some attributes of wool quality have improved during the 1980s. While we were unable to determine the wool program's influence on wool quality, the payments are an incentive to improve such quality because they are directly tied to the market prices that producers receive for the wool they sell.

[6] USDA's definition of wool quality as discussed in our 1982 report refers to attributes such as fiber length, crimp (curl and wave), strength, elasticity, luster, and color.

The term "wool quality," although not commonly used in current wool markets, has in the past been used to refer to a variety of wool attributes and conditions that influence the market value of shorn wool. The Director, Yocom-McColl Testing Laboratories, Inc.—the only commercial wool testing laboratory in the United States—acknowledged that the term "wool quality" has been applied to a variety of factors that can be broadly grouped as those that describe inherent attributes and those that address the preparation and marketability of wool.

Inherent attributes of wool quality affect the spinnability of wool and the properties of the yarn and fabric made from it. These attributes include the degree of fineness and uniformity of wool fiber diameter, staple length, fiber strength, elasticity, crimp, and whiteness. In the U.S. wool grading system, the average fiber diameter and uniformity of fiber diameter within specified standards determine the grade of the wool.

Preparation and market condition, as it relates to wool quality, can be influenced by such things as the skill with which the individual sheep are shorn, the cleanliness maintained in the shearing facility to avoid unnecessary contamination, and the extent to and skill with which additional steps are taken, where practical, to improve the clean fiber content and uniformity of the wool being packaged for market. These steps can include (1) shearing white-faced and black-faced sheep separately to avoid contaminating the white wool with additional black fibers; (2) skirting, which involves separating inferior portions such as the belly, leg, and head wool from the bulk of each fleece; (3) removing contaminated fibers, such as unscourable paint brands,[7] vegetable matter, and polypropylene baling straps from the wool; (4) grading, which involves grouping and packaging the wool according to selected characteristics such as fiber diameter and length; and (5) objectively testing the packaged wool to determine its principle selling attributes (i.e., average fiber diameter, variability of fiber diameter, clean fiber present, vegetable matter present, and staple length).

Industry Representatives Believe That Wool Quality Has Improved

Industry representatives we contacted believe that some aspects of wool quality have generally improved during the 1980s, although they were unable to document the extent of these improvements. Quality improvements have reportedly been most evident in the wool produced in Texas

[7]Paint brands are used to physically mark sheep for identification. If unscourable paint is used, it should be cut away from the rest of the shorn wool during packaging because that portion cannot be used in most wool processing operations.

and other western range states, where about 80 percent of the domestic wool is produced.

Representatives from U.S. wool mills and the sheep industry told us that the quality of domestic wool, as it relates to grade, is comparable to that of imported Australian wool (a commonly used industry benchmark when discussing wool quality), but domestic wool is generally less uniform, contains more black fiber, and is not packaged and marketed to wool export standards. Consequently, it sells at a lower price than imported wool.

According to executives of the Columbia Wool Scouring Mills, a subsidiary of Pendleton Woolen Mills, during the 1980s, and particularly in the last 5 years, some U.S. sheep producers have made significant efforts to improve the general market preparation of their wool. As a result, in 1988 approximately 23 percent of the domestic wool examined was skirted, compared to only a small quantity of skirted wool in 1980. Furthermore, about 90 percent of the fine and medium grades of wool that Pendleton examined in 1980 had some paint brand contamination, whereas by 1988 only 20 percent of those wool grades contained such contamination.

An executive of Burlington Menswear, another major U.S. wool processing mill, said that contamination from paint brands and polypropylene fibers was a big problem in wool 5 to 10 years ago. However, by 1988 these contaminants were no longer a problem because many producers have taken steps to eliminate them.

The Director, Utah Wool Marketing Association, also stated that some quality attributes of wool handled and marketed by his association has improved during the 1980s. (The association is a producer-owned cooperative that, in 1988, processed and sold wool for its 400 members and about 300 non-members.) The Director estimated that in 1980 about 50 percent of the wool his association marketed was contaminated by unscourable paint brands and about 20 percent was contaminated by polypropylene fibers. By 1988, the portion of paint brand and polypropylene fiber contamination had been reduced to about 5 percent and 1 percent, respectively.

In addition to these industry views on wool quality improvements, a 1988 research analysis of test records for breeding rams used in Texas-based performance tests revealed that staple length and clean fiber content of some fine wools had markedly increased during the last 38 years.[8] This analysis suggests that fine wool producers have managed their breeding programs to maintain the fiber diameter and improve the staple and clean fiber attributes of their wool.

Sheep industry and wool mill representatives also said that a number of factors affect the practicality and economic incentive for some producers to better prepare and market their wool. These factors include the following:

- The economic incentive to better prepare wool (i.e., skirt and grade it prior to packaging) and market the packaged wool on a basis of objective testing is more appropriate for medium and fine grades of wool and is less appropriate for coarse grades of wool. Generally, the coarser wools are produced and sold in small lots and are processed in systems that have a greater tolerance for variance of attributes such as fiber diameter and staple. Consequently, buyers will not pay producers premiums for additional preparation of these wools.
- A Texas Agricultural Experiment Station wool specialist said that some steps to improve wool quality through preparation are practical for most producers (i.e., skirting fleeces). However, other steps, such as wool grading prior to packaging, require a high level of training and skill that is now not generally available to U.S. producers.
- An ASIA representative said that it is impractical now for many domestic producers to have their wool objectively tested to identify its main selling points and to provide producers with important data on the quality attributes of their wool. The smallest volume of wool that can be core sampled for laboratory testing in accordance with current official standards is limited to lots containing a minimum of 25 bags of wool (fleeces from about 500 sheep).
- Some wool marketing businesses and mills are willing to pay premiums for better prepared and objectively tested wool, while others are not, according to sheep industry and wool mill representatives. This means that some producers who perform the additional steps and incur additional costs to skirt, grade, and have wool objectively tested may not benefit financially from these steps.

Based on the information we collected, we were unable to determine to what extent the wool program influences wool quality. While the payments are an incentive to improve wool quality, at some point the costs

[8]Should We Be Selecting For Finer Wool?, Texas A&M University Agricultural Experiment Station. Technical Report. No. 88-2, 1988.

of such improvements may exceed the added program payments received.

Program's Impact on Maintaining Normal Marketing Practices by Providing Unshorn Lamb Payments

In addition to providing shorn wool payments, the program provides payments for unshorn lambs for the purpose of maintaining the normal industry practice of marketing lambs unshorn.[9] While most of the contacts included in our 1982 report took the position that the unshorn lamb payments were not meeting their intended objective, many of our latest contacts believe that these payments are a factor in producers' shearing decisions. However, it is unclear how the unshorn lamb payments would affect such decisions if, in fact, producers were to receive higher prices for unshorn lambs than for shorn lambs.

Our 1982 Report Findings on Unshorn Lamb Payments

In 1982 we reported that unshorn lamb payments for marketing year 1980 totaled $5.5 million, which represented about 15 percent of all program payments made to wool producers that year. Other factors besides the unshorn lamb payments—such as shearing costs, the value of lamb pelts, and the availability of shearers—determined whether lambs were shorn before marketing or slaughter. The unshorn lamb payments were also more difficult and time consuming for ASCS to administer than were the shorn wool payments. This difficulty results from the problem of verifying the accuracy of the data obtained to compute the unshorn lamb payments. We concluded that unshorn lamb payments—intended to maintain the normal practice of marketing lambs unshorn—do not influence whether lambs are shorn. We therefore recommended that the Congress eliminate unshorn lamb payments from the wool program.

Our Current Findings on Unshorn Lamb Payments

In discussing the unshorn lamb payment provision with wool industry representatives, sheep and wool specialists, and producers, we received mixed views as to whether the unshorn lamb payment is a factor in shearing decisions. ASIA representatives, for example, believe that the decision to market lambs either shorn or unshorn is an economic decision involving a number of factors, including the availability of the unshorn lamb payments. Other factors include (1) the availability of

[9]The act specifies that support prices shall be provided for pulled wool for this purpose. According to USDA, the use of payments to provide price support with respect to unshorn lambs was implemented upon enactment of the act to accomplish similar purposes as that for pulled wool.

shearers to a producer—generally, feedlots have better access to shearing crews; (2) the age of the lambs marketed—generally, it is not economical to shear lambs younger than six months of age; and (3) the time of year the lambs are marketed—often, lambs are sold unshorn during cold weather, whereas older lambs marketed in warmer or wet weather may be shorn to avoid muddy pelts.

During the period since our previous report (1981 through 1987), about $106.8 million has been paid to producers and feedlot operators for unshorn lamb payments, which represents about 20 percent of the total wool payments made during that period. The ASIA representatives agreed that the unshorn lamb payments are more difficult for ASCS to administer than are the shorn wool payments. They stated, however, that because lamb marketing is an economic decision and the unshorn payments do compensate sheep producers for lambswool they produce, excessive lamb shearing would take place before marketing in order to obtain a shorn wool payment if the unshorn lamb payments were eliminated. They believe the resulting additional shorn wool payments would largely offset any anticipated savings from the elimination of unshorn lamb payments.

Others we contacted, including representatives of the ASCS and the National Lamb Feeders Association and several sheep producers, stated that factors other than the unshorn lamb payments, such as the availability of shearers and the competitive prices of shorn and unshorn lamb pelts, are generally used as the basis for producers' lamb-shearing decisions. Their positions were in line with those cited in our 1982 report.

Program's Impact on Other Objectives of the Act

The National Wool Act, as amended, also includes several broad economic objectives as part of its policy statement. Specifically, the domestic production of wool should be encouraged to promote (1) a positive balance of trade, (2) the general economic welfare, and (3) the efficient use of the nation's resources. In our 1982 report, we did not focus on these broad, less measurable objectives. Instead, we focused on the more measurable aspects of (1) encouraging wool production, (2) improving wool quality, (3) maintaining normal marketing practices by providing unshorn lamb payments, and (4) providing needed domestic wool supplies to the U.S. military. In our current review, we did not attempt to independently determine to what extent the wool program affected these broad objectives because to do so would have required a complex and costly analysis. However, we did gather available information that discussed these objectives to some degree. We should point out the possibility, however, that the funds used to support wool producers could have been better used to accomplish a positive effect on the balance of trade, the general economic welfare, and the efficient use of the nation's resources, had they been spent in other ways.

Regarding the wool program's effect on the balance of trade, a 1984 USDA ERS report stated that the additional wool production caused by the wool program likely replaces some imported wool in U.S. mills. ERS estimated that during the period 1977 through 1983, wool program payments on average affected the balance of trade by reducing wool imports about 16 million pounds per year (about 18 percent of the total domestic production).

Regarding the wool program's contribution to promoting the general economic welfare and the efficient use of the nation's resources, we did not determine what, if any, impact was realized in these areas. However, according to the legislative history that preceded the National Wool Act, there was a belief by some members of the Congress that a wool program would (1) help promote the general economic welfare by benefiting small farmers and other groups, such as the Indians, and (2) contribute to a more efficient use of the nation's resources by promoting the use of land that would otherwise not be productive.

Studies performed by USDA and the independent Council for Agricultural Science and Technology state that sheep and wool production is important to the economy of many small communities because portions of the land are marginal for agricultural uses other than for grazing livestock. According to these studies, in areas where particularly harsh conditions exist, such as in some Texas rangelands, sheep and goats are the only livestock suitable for agricultural use. In other areas, grazing sheep and goats with cattle can result in more efficient use of the resources because each species prefers different types of vegetation. By mixing these species on ranges in the combination best suited to the vegetation, livestock producers can increase their total stock and the production of meat, wool, and mohair. However, if actions such as mixing species increase the profits of livestock producers anyway, then it is unclear to what extent wool payments contribute to the efficient use of the resources.

Agency Comments and Our Evaluation

In commenting on a draft of this report, USDA identified two areas in this chapter where clarification was needed. First, USDA pointed out that our statement, "The act directs the Secretary to support the price of wool at not less than 60 percent nor more than 110 percent of wool parity" depicted what was in the original 1954 act, but it failed to recognize subsequent legislative amendments that changed the price support calculations. We revised the report to make it clear that the cited statement refers to the 1954 act only. We emphasize, however, that the primary purpose of that section of the report is to point out that industry representatives believe that the subsequent changes in the price support levels may have limited the program's impact on encouraging wool production.

Second, USDA indicated that our statement, "In addition to providing shorn wool payments, the act provides payments for unshorn lambs" was incorrect, as the act merely provides for pulled wool payments. USDA stated, however, that unshorn lamb payments were implemented upon enactment of the act to accomplish similar purposes as that for pulled wool. We revised the cited statement and added a footnote to the report to clarify this issue.

Industry Comments and Our Evaluation

In commenting on a draft of this report, ASIA stated that we had chosen to identify objectives for study that provided little basis for evaluating the success of the program. ASIA believed that the program's impact on wool production stabilization, wool quality improvements, wool production decisions, and rural economies were all consistent with the wishes of the Congress and USDA and should therefore have been used in our evaluation of the program's success. While we recognize in the report that the wool program payments have done some positive things from an industry perspective, we continue to question the need for the program based on its high subsidy cost and the more than 30-year slide in wool production. In the final analysis, the Congress must decide whether the accomplishments of the program outweigh the costs.

In conjunction with this statement, ASIA asserted that we unduly allowed biases to be introduced into the report, particularly where we indicate that "the funds used to support wool producers could have been better used to accomplish a more positive effect on the balance of trade, the general economic welfare, and the efficient use of the nation's resources, had they been spent in other ways." In our full statement, we point out that this is a possibility only, and from an economic standpoint, we believe this needs to be considered when analyzing how the program affects these broad wool objectives. Resources in our market based economy are allocated in response to changing consumer preferences and resource costs. Scarce resources are bid for and garnered by the most efficient users of those resources. Similarly, the economics of comparative advantage, which is the cornerstone of free trade, indicate that the greatest contributions to our nation's balance of trade will come from those industries that are most efficient compared to their foreign competitors. The decline in our wool and mohair industries does not suggest that, left to their own devices, these industries would be the highest bidders for scarce resources or contribute most to our balance of trade.

ASIA made several comments regarding improvements in wool quality and stated that these improvements were attributable to the wool program. However, as we state in our report, while some aspects of wool quality appear to have improved during the 1980s, we could not determine to what extent, if any, these improvements were due to the wool payments.

ASIA also made several comments regarding the military need for, or use of, wool. While these comments may have some validity, they are not germane to the issue being discussed in the report. That is, the National Wool Act states that wool is an essential and strategic commodity, and the wool program is justified in part on the basis that wool production is encouraged as a measure of national security. Because wool has not been identified as a strategic and critical material since 1960, we question the rationale for continuing to support the wool program based on its strategic importance to the military.

ASIA questioned our use of a study to estimate the "social cost" of the wool program that focused entirely on increased wool production. The true social cost, according to ASIA, should take into account all products, including lamb meat production, that would increase in conjunction with any increase in wool production. We agree that sheep provide two products—meat and wool. However, we should point out that if the program does in fact encourage wool and lamb meat production in excess of what the market for these products would otherwise justify, then this is evidence that there is a net social cost to the program. To demonstrate otherwise would require substantial evidence suggesting that, at least for sheep, the market does not work to achieve economic efficiency.

ASIA also commented on the program's design that allows wool payments to fluctuate in relation to producers' incomes, thereby providing income stability. In addition, ASIA stated that, if congressional and agency limitations had not been imposed on the payments, the decline in sheep inventory would have stabilized years ago. We address the issues of income stability and payment limitations in detail in this chapter and our treatment of them is consistent with ASIA's comments. We have no basis to comment on ASIA's assertion that the sheep inventory would have stabilized years ago if payment limitations had not been imposed, as that is speculation on the part of ASIA.

ASIA stated that we did not attempt to weigh the information we obtained from documents and interviews. In our opinion, it would not have been practicable to weigh the value of the information we obtained from these sources. As we point out in chapter 1, we covered an array of material, organizations, and individuals during our review. We interviewed recognized experts in all aspects of the industry and believe they are all knowledgeable of the issues.

Other Aspects of the Wool Program

As requested, we evaluated three additional aspects of the wool program. Specifically, we examined the (1) impact that the elimination of wool payments would have on wool import tariffs; (2) administrative costs associated with the wool program; and (3) impact on recipients if they no longer received wool payments, especially those who receive small payments of less than $100 a year. In summary, we found the following:

- The collection of wool import tariffs would not be directly affected by the elimination of wool payments, although the amount of tariffs collected each year governs the total amount that can be spent on the wool program.
- The operating costs of the wool program during the 7-year period 1981 through 1987 averaged $6.19 million a year. These costs include interest expenses incurred by CCC for borrowing funds from the U.S. Treasury and ASCS administrative expenses.
- No specific analysis has been performed to determine the impact on recipients if they no longer received wool payments, especially those of less than $100. Officials we spoke with from the Navajo reservation and others representing specialty wool producers and small farm flocks stated that the elimination of small payments could adversely affect some producers.

The Relationship of Wool Import Tariffs to the Wool Program

The collection of wool import tariffs would not be affected by the elimination of the wool program. Wool import tariffs are not provided directly to CCC to fund the wool program nor would they automatically cease if the program were eliminated. According to an official of the International Trade Commission who is responsible for wool commodities listed under the tariff schedules, most import tariffs were imposed by the Tariff Act of 1930, some 24 years before the wool program was established under the National Wool Act of 1954. This official stated that even though the wool import tariffs are currently linked through legislation to the wool program, they were not initially established to fund that program. Therefore, without new legislation, the collection of the tariffs would continue regardless of the outcome of the wool program.

The wool program as presently constituted does, however, depend on the wool import tariffs. These tariffs, once collected, go to the U.S. Treasury. CCC borrows funds as needed from the U.S. Treasury each year to operate the wool program. An automatic annual appropriation is provided by the Congress to reimburse CCC, which in turn pays the U.S.

Treasury for the monies it has borrowed the preceding year. Before this appropriation, however, the U.S. Treasury receives notification from the Bureau of Census on the amount of wool import tariffs collected to ensure that the yearly amount appropriated does not exceed the limitations established under the act.

The National Wool Act of 1954 provides for the government, through the CCC, to incur expenses in connection with the wool program, but it limits the cumulative and annual expenses that may be incurred. Sections 704 and 705 of the act specifically link program spending levels to duties (tariffs) collected on imported wool and other textile products.

Section 704 of the act states that the cumulative total of all wool payments made shall not exceed 70 percent of the gross receipts from duties collected on and after January 1, 1953, on all articles subject to duty under schedule 11 of the Tariff Act of 1930, as amended.[1] Through calendar year 1988, over $6 billion in gross receipts from such tariffs have been collected, while the cumulative costs of the wool program have amounted to about $2 billion.

Section 705 of the act states that the amount appropriated each fiscal year to reimburse CCC for wool program expenses shall not exceed 70 percent of the gross receipts from import duties collected during each preceding calendar year.[2] Any fiscal year expenditures exceeding the annual limitation may be carried over and included in future fiscal year appropriations, as necessary. Since the start of the wool program in fiscal year 1955, there have been 6 years when portions of the annual program costs have had to be carried forward to subsequent years for reimbursement purposes because the costs exceeded the annual 70-percent limitation. The last year this occurred was in fiscal year 1973. Since then, the applicable annual tariffs collected have by far exceeded the annual program costs incurred.

Although we did not evaluate the rationale for imposing the initial wool tariffs under the Tariff Act of 1930, the rationale for setting the program spending levels at no more than 70 percent of the wool import tariffs is found in statements made in the July 26, 1947, Congressional

[1]The Tariff Act of 1930 was amended by the Tariff Classification Act of 1962, wherein Schedule 11 became Schedule 3. Subsequently, on December 31, 1988, Schedule 3 was replaced with a harmonized tariff schedule. Under the latter schedule, tariffs for imported wool and other fine animal hair products are listed in numerous sections.

[2]CCC operates as a revolving fund, and funds are appropriated each year after the fact to replenish funds spent in prior years.

Record, as well as in testimony provided before the House Committee on Agriculture on November 4, 1953. These sources indicate that while 30 percent of the wool tariffs were being used to support other agricultural commodities (such as cotton and wheat), none of the tariffs were being used to support wool. Consequently, the wool-growing industry suggested that the 70 percent of the tariffs not being used for other commodities be made available for payments to domestic wool producers. The National Wool Act of 1954 included the suggested provision, thereby establishing the 70-percent limitations for funding the wool program.

Annual Operating Costs of the Wool Program

From fiscal years 1981 through 1987, operating costs for the wool program totaled over $43 million. The average annual operating costs during that 7-year period totaled $6.19 million.[3]

As shown in Table 3.1, annual operating costs for the wool program (in actual dollars) consist of two types of expenditures: (1) interest expenses that represent the CCC's cost of borrowing funds from the U.S. Treasury and (2) administrative expenses that represent compensation to ASCS for salaries and related expenses to administer the program. While interest expenses have varied because of fluctuating interest rates and program payment levels, administrative expenses have remained fairly constant.

Table 3.1: Annual Operating Costs Related to the National Wool Act for Fiscal Years 1981-1987

Dollars in thousands

Fiscal year	Interest expenses	Administrative expenses	Total operating costs
1981	$2,718	$1,790	$4,508
1982	2,929	2,120	5,049
1983	2,949	2,344	5,293
1984	6,343	2,414	8,757
1985	4,386	2,438	6,824
1986	4,005	2,188	6,193
1987	4,371	2,352	6,723
			$43,347

Source: ASCS Budget Office.

[3]At the time of our review, actual operating costs for fiscal year 1988 were available, but they were not used in our computations because the 1988 Appropriations Act provided for CCC to receive, for the first time, an advance wool appropriation of $126 million. Therefore, interest expenses incurred in 1988 amounted to only $617,000, which was not representative of prior years' interest expenses.

Impact on Small Payment Recipients If They No Longer Receive Wool Payments

We did not find any economic analyses that specifically determined what the impact might be on recipients if small wool payments were eliminated. Therefore, we relied on statements made by industry representatives who indicated that the elimination of such payments could have an adverse impact on certain producers.

In our 1982 report, we stated that, for marketing year 1980, about 63 percent of the number of wool payments, representing less than 6 percent of the amount of the payments, were made to sheep producers who received less than $100. Nearly all of those small payments were going to noncommercial producers who, according to USDA's definition, conduct farm operations with less than 50 sheep. On the basis of available information, we concluded that (1) noncommercial sheep producers did not rely on income received from sheep and (2) wool payments to those producers were not accomplishing their intended objective of encouraging wool production. Consequently, we recommended that the Congress eliminate wool payments to noncommercial sheep producers. In making this recommendation, we did not analyze what the impact would be on recipients of small or large payments if they no longer received such payments.

To update the information in our earlier report, we obtained ASCS statistics on the number and amounts of wool payments made, by size category, for marketing year 1986, which at the time of our review was the latest ASCS data available for such analysis. These statistics are shown in Table 3.2 below.

Table 3.2: Wool Payments Made During Marketing Year 1986

Size of payment	Number	Percent of number	Amount	Percent of amount
Less than $ 100.00	51,868	41.4	$2,554,571	2.5
$ 100 to $ 199.99	26,060	20.8	3,728,031	3.6
$ 200 to $ 499.99	24,232	19.3	7,594,887	7.3
$ 500 to $ 699.99	5,714	4.6	3,371,969	3.2
$ 700 to $ 999.99	4,622	3.7	3,853,964	3.7
$ 1,000 to $24,999.99	12,209	9.7	48,498,621	46.6
$25,000 and over	673	.5	34,399,484	33.1
Total	**125,378**	**100.0**	**$104,001,527**	**100.0**

Source: ASCS data, with GAO calculations.

As the table indicates, the number of wool payments made for less than $100 represented about 41 percent of the total payments made during

1986. With no adjustment for inflation, this represents a 22-percentage point decrease from the 63-percent level of 1980. If inflation were considered, the decrease would be somewhat smaller because a $100 payment in 1980 corresponds to about a $133 payment in 1986.[1] The value of those small payments made in 1986 represented only 2.5 percent of the total value of all payments, which was down significantly from the 6-percent level of 1980. We point out, however, that this data should not be construed as a trend in decreased small payments to producers, but rather that it may vary from year to year.

Most of the wool payments of less that $100 were concentrated in two geographic areas—the Midwest (with over 44 percent of the number and dollars) and the Southwest (with over 22 percent of the number and dollars). It is likely, therefore, that the elimination of wool payments of less than $100 would affect producers in those areas more than others.

Elimination of Small Payments Could Affect Certain Producers

According to the Director of the Navajo Wool and Mohair Marketing Industry, Shiprock, New Mexico, there are 10,000 to 15,000 sheep producers located on the Navajo reservation. While not all of those producers receive wool program payments, about 7,000 to 10,000 do, and each maintains an average flock of about 20 sheep. The Director said that about 90 percent of the participating producers receive wool payments of less than $100 each year. These producers are concentrated in the Four Corners area of Arizona, New Mexico, Utah, and Colorado, and elimination of the small payments would likely have a detrimental effect on them. Furthermore, because most of the lamb meat produced is used by the Navajos as a food source, wool sales combined with the wool payments generally provide the principal income derived from their sheep.

The former president of the New Mexico Wool Growers Association, who is also a wool warehouse owner in that state, told us that many of the producers using his facilities have small numbers of sheep; therefore, they generally receive wool payments of less than $100 a year. In his opinion, the producers in his rural area would be affected dramatically if these small payments were eliminated.

A spokesperson for the Wool Forum, Inc., of Henning, Minnesota, a coalition of producers and users of premium wool, told us that the small payments are a worthwhile investment in the wool industry of the

[1]Based on our calculations, using the implicit price deflator for Gross National Product as shown in the January 1989 Economic Report of the President.

future, as many of the new producers are from non-farm backgrounds and are hesitant to risk a large investment because of their lack of experience. In his opinion, the wool program adds that little extra financial encouragement that makes these new producers go ahead with their investments.

In addition to the statements supporting small payments mentioned above, some members of the Congress, together with individual producers and industry representatives, supported payments to small farm operations (including Indians) during deliberations prior to the National Wool Act. According to these individuals, small farm operations represent an important part of the overall sheep and wool industry.

Agency Comments and Our Evaluation

In its comments to our draft report, USDA made one comment applicable to this chapter. USDA stated that we should clarify the report to make the point that the data we obtained on small payments should not be construed to indicate a trend in decreased small payments, but rather that small payments may vary from year to year. We added a clarifying statement in this chapter, as USDA suggested.

Industry Comments and Our Evaluation

In its comments to our draft report, ASIA also made several comments applicable to this chapter. These comments related to the program's annual operating costs. According to ASIA, the tone we use in the report gives the reader the feeling that these costs are burdensome. Furthermore, ASIA states that the report implies that if the program were discontinued, a savings in administrative costs would occur, which ASIA believes is a false assumption. No such implications were made in our report. We merely present factual data, in response to Representative Schumer's request, on the annual and total operating costs of the program from 1981 through 1987.

In a related comment, ASIA states that future administrative costs will be only about $2 million a year because advance appropriations will preclude CCC from having to borrow funds and to pay interest to the U.S. Treasury. This is speculation by ASIA because, as we point out in a footnote in this chapter, such an advance appropriation has only been provided once, and there is no indication that this will occur again in the future.

Basis for Mohair Payments Has Not Been Clearly Established

The National Wool Act of 1954 provided for financial support to mohair producers as well as to wool producers. The act did not, however, include any objectives specifically directed at mohair, nor did its legislative history include any dialogue about the merits of providing federal support to mohair producers. According to hearings held prior to the act, the price of mohair was supported because mohair was included in a number of earlier wool programs and was generally considered to be part of the sheep industry. While the mohair industry experiences many of the same problems as the wool industry, such justification for mohair payments is difficult to support.

History of the Mohair Program

Prior to our 1982 report, mohair payments represented only a small portion of the overall program payments. As we pointed out in that report, mohair payments had been made in only 8 of the 26 years since the program began in 1955, and those payments had amounted to only $51 million, which was less than 5 percent of the total program payments made through 1980. Furthermore, because the average market price for mohair had been above the support price from 1972 through 1980, no mohair payments had been made during the 9-year period preceding our report coverage.

Since 1980, mohair payments have become a more significant part of the overall wool program. The average market price for mohair dropped from $3.50 a pound in 1981 to $1.89 a pound in 1988, while the corresponding support price established under the formula in the National Wool Act rose from $3.72 to $4.69, respectively. At the same time, the domestic production of mohair nearly doubled, from 10.1 million pounds in 1981 to 17.3 million pounds in 1988. The combination of these factors resulted in payments of $173 million to mohair producers under the wool program since 1981, as shown in Table 4.1 below.

Table 4.1: Mohair Production and Payment Statistics, 1981-1988

Marketing year	Production (pounds in millions)	Support price	Average market price	Government payments (dollars in millions)
1981	10.1	$3.718	$3.50	$1.9
1982	10.0	3.977	2.55	16.8
1983	10.6	4.627	4.05	6.3
1984	11.2	5.169	4.30	10.3
1985	13.3	4.430	3.45	12.6
1986	16.0	4.930	2.51	42.7
1987	16.2	4.950	2.63	35.3
1988	17.3	4.690	1.89	47.1
				$173.0

Source: USDA's ASCS Commodity Fact Sheet, April 1989.

In 1988 mohair producers became the predominant recipients of the payments for the first time since the wool program began. The 1988 mohair payments of $47.1 million represented over 53 percent of the total program payments made that year (wool payments were $41.4 million). Furthermore, because there are only about 12,000 mohair producers in the United States as compared with about 115,000 wool producers, the average payment received by mohair producers in 1988 (about $3,925) was at a much higher level than that received by wool producers (about $360).

The National Wool Act of 1954 Did Not Specify Mohair Objectives

The National Wool Act of 1954 contained no specific mohair objectives. However, some legislative references in support of mohair as part of the wool program are found in events and hearings that preceded the 1954 Act. For example, a CCC loan program in 1938 and 1939 included wool and mohair under the same program; the Wool Products Labeling Act of 1939 included mohair as wool; and during World War II, the War Production Board classified mohair as war-quality wool. Also, a mandatory price support program for wool enacted in 1949 included mohair because as tariffs were reduced mohair producers were beginning to lose their domestic market—primarily mohair upholstery—to foreign imports of coarse wool. In conjunction with these legislative actions, testimony presented at hearings on the wool program pointed out that mohair had always been treated as wool. Nevertheless, while these various references exist, there is nothing in the legislative history of the act that discusses the merits of a mohair payment program or describes what the mohair payments are to accomplish.

The Broad Wool Objectives Do Not Apply to Mohair

Although no specific legislative objectives have been established for mohair, the National Wool Act states that the wool program was established in part to promote a positive balance of trade, the general economic welfare, and the efficient use of the nation's resources. On the basis of the information we obtained during this review, we do not believe similar broad objectives could be cited to support a mohair program. However, because mohair has historically been treated as wool, we looked at the extent to which the broad wool objectives could apply to mohair. It is important to keep in mind, however, as we pointed out earlier about wool producers, that the funds used to support mohair producers could possibly have been better used to accomplish these broad objectives had they been spent in other ways.

Regarding the use of mohair in international trade, in 1988, about 14.4 million pounds of domestically produced mohair, valued at $36.2 million, was exported. The United States is the second largest mohair-producing nation in the world but it no longer has much need for mohair until after it has been exported to other countries, processed into yarn, fabric, or finished goods, and then is imported in product form. From 1937 to 1947, domestic mills processed about 20 million pounds of mohair annually, but in recent years the mills have processed only about 100,000 to 200,000 pounds annually. As a result, other countries have become the major market for U.S.-produced mohair, and over 80 percent of the annual domestic production is exported. According to the Mohair Council of America, Europe and Asia are the two largest consumers of U.S.-produced mohair.

Regarding the mohair industry's possible link to the wool program's objectives of promoting the general economic welfare and the efficient use of the nation's resources, the primary evidence we found was in testimony presented by industry officials during congressional debates on the National Wool Act. In that testimony, mohair was mentioned in the context of the importance of goats and sheep to Texas agriculture. (In 1987, Texas produced about 88 percent of the domestic mohair.) Industry representatives claimed that the mohair industry promoted the general economic welfare and the efficient use of the resources in areas such as Texas.

The president of the Texas Sheep and Goat Raisers Association testified that the production of sheep and goats on the semi-arid lands of West Texas is vital to the state's economy and is the best use for most of the land in that area. Similarly, a former executive secretary of NWGA testified that much of the industry's production was in areas of the western

United States where only sheep and goats could utilize the resources, and it was not economically possible to change to any other type of animal or agricultural production.

Industry Comments and Our Evaluation

In commenting on a draft of this report, the Mohair Council of America made several comments pertinent to this chapter. For example, the Council questioned our statement that mohair had no defined basis in the National Wool Act of 1954. The Council believes that the legislative references in support of mohair, as we discuss them in this chapter, are the basis for the mohair program. While we agree that legislation in the 1930s and 1940s linked mohair and wool as war-quality materials, we believe that in today's environment the use of such legislation is not appropriate. Furthermore, it is important to emphasize, as we do in the report, that the National Wool Act of 1954 made no reference to mohair in its objectives statement.

The Council noted that our draft report stated that Europe is only a processor of mohair, whereas Europe and Asia are the two largest consumers of U.S.-produced mohair. We have revised this report to incorporate the Council's statement.

The Council provided us information pertaining to revenue that U.S. producers receive from mohair exports and stated that this revenue added to a positive balance of trade. In addition, the Council provided similar information showing, in its opinion, that the mohair program adds to the general economic welfare and the efficient use of the nation's resources. While we recognize in this chapter that such information exists, we continue to question how the mohair payments contribute to these broad wool objectives.

The Council speculated about what could happen to mohair payments in the next few years as market prices decline or rise. In addition, the Council stated that the increased mohair production from 1981 to 1988 proved the effectiveness of the Wool Act to insure production and growth during difficult periods. We have no basis for commenting on the Council's speculations and, as we point out in this chapter, no analysis has been done to determine if the mohair payments contribute to any of the wool program objectives. Our major concern is that mohair payments have increased greatly over the last few years, while there have been no specific objectives established for the mohair program.

The Council suggested that our statement "the money used for the Wool Act could have been spent in other ways" should be deleted, as it was conjecture on our part. The actual statement, as written in this chapter, informs the reader that "it is important to keep in mind that the funds used to support mohair producers could possibly have been better used to accomplish these broad objectives had they been spent in other ways." This statement indicates only that a possibility exists for better use of the funds. Resources in our market based economy are allocated in response to changing consumer preferences and resource costs. Scarce resources are bid for and garnered by the most efficient users of those resources. Similarly, the economics of comparative advantage, which is the cornerstone of free trade, indicate that the greatest contributions to our nation's balance of trade will come from those industries that are most efficient compared to their foreign competitors. The decline in our wool and mohair industries does not suggest that, left to their own devices, these industries would be the highest bidders for scarce resources or contribute most to our balance of trade.

Conclusions and Matters for Consideration by the Congress

Conclusions

The National Wool Act of 1954 established a program to provide wool and mohair payments to producers. From 1955 through 1988, a total of nearly $2 billion in payments were made. In addition, about $6 million is being spent each year to administer the program.

The act, as amended, established broad and generally unmeasurable objectives for the wool program. For example, the program's objective for the shorn wool payments is to encourage the continued domestic production of wool at prices fair to both producers and consumers in a manner that will ensure a viable domestic wool industry. The act specifies that this objective is established as a measure of national security and to promote the general economic welfare, a positive balance of trade, and the efficient use of the nation's resources. In addition, according to the legislative history of the act, the method used to compute the shorn wool payment encourages producers to improve the quality and marketing of their wool. Implementation of the act also provides for unshorn lamb payments to maintain the normal industry practice of marketing lambs unshorn. The act contains no explicit objectives for mohair payments, yet in recent years these payments have become a major part of the overall program costs.

In 1982, we reported that the wool payments provided under this program had not stopped the continued decline in domestic wool production, which dropped from 283 million pounds in 1955 to 106 million pounds in 1980. We also reported, among other things, that (1) the major reasons for establishing the program were no longer as important as they once were because wool was no longer classified as a strategic commodity for military and emergency purposes, and (2) wool quality had not improved as a result of the program.

The principal findings we reported in 1982 are still valid. Wool production has continued its more than 30-year decline—in 1988, it was at 89 million pounds—and wool is still not classified as strategic. Regarding improvements in wool quality, industry and U.S. mill representatives believe some attributes of wool quality have improved in the 1980s. However, trends in wool quality remain largely undocumented.

From an industry perspective, the wool program payments have done some positive things. Specifically, as we recognized in 1982, wool payments have provided continued assurance of income to producers, have been a stabilizing influence on the sheep and goat industries, and have supported a larger sheep- and wool-producing industry than would have existed without the program. Furthermore, although we did not address the economic impact of small payments in our 1982 report, it appears from our latest contacts with producers that small payments have helped some producers, including Indians, as the Congress intended. Nonetheless, while the program may be accomplishing some things for the industry, for the economy as a whole, it is unclear how the program could contribute to a positive balance of trade, the general economic welfare, and the efficient use of the nation's resources. Moreover, despite the program, there has been a more than 30-year slide in wool production, and the subsidy cost for each pound of wool production induced by the program exceeds its market value.

In addition to the economic considerations, the broad objectives for wool and the absence of objectives for mohair make it very difficult for us to determine if the program is accomplishing what the Congress intended. We believe it is up to the Congress to weigh the accomplishments against the cost and to decide whether the program should be continued. In making this decision, we believe that, to the extent the Congress decides to continue the program, specific objectives need to be established. Furthermore, we believe that all strategic references to wool should be deleted from the act.

Matters for Consideration by the Congress

Consistent with our views in 1982, and in light of the current budget constraints, the high per-pound subsidy cost, the broad objectives for the wool portion of the program, and the absence of objectives for the mohair portion, we continue to believe that the Congress should consider the need for the wool and mohair program. If the Congress decides to continue the program, we believe the Congress needs to consider, in light of current conditions, what it wants the program's objectives to be. This could include establishing specific, measurable objectives for both wool and mohair and deleting from the National Wool Act all references to wool as a strategic commodity and as a measure of national security, since these references are no longer applicable.

Agency and Other Comments and Our Evaluation

In commenting on a draft of this report, USDA agreed with most of our findings and stated that the report was well prepared and adequately recognized the program's strengths and weaknesses. Similarly, an economics professor from the University of Wyoming, whose study on the sheep and wool industry is cited in chapter 2, stated that the report provided a balanced, accurate appraisal of conditions in the sheep industry and the effects of wool policy.

ASIA, on the other hand, disagreed with the overall message of the report and stated that much of the report supports the conclusion that the program has fulfilled the act's objective of maintaining a viable sheep and Angora goat industry. Similarly, the Mohair Council of America disagreed with the report message regarding the mohair portion of the program, although it stated that the report had been well researched and compiled. ASIA and the Mohair Council of America both indicated that the body of the report recognized some of the more positive contributions of the program; however, they asserted that the report summary and conclusions lacked balance and were inconsistent with some of the information contained in the report. Their specific comments and our evaluation are included at the end of chapters 2, 3, and 4, as applicable.

In response to ASIA's and the Mohair Council of America's overall criticism, we believe the report summary and conclusions are balanced and consistent with the more detailed information presented in the body of the report. We particularly highlighted factors such as the high per-pound subsidy cost of the program, the broad wool objectives, the absence of specific mohair objectives, the more than 30-year decline in wool production, and the fact that wool is no longer a strategic material as it once was, in the report summary and conclusions because we believe those are the principal factors that the Congress needs to consider in its upcoming debates on the program. Other factors of the program, which we discuss in detail in the report, are also provided for the Congress to consider during its debates.

USDA's, ASIA's, and the Mohair Council of America's specific comments are included as appendixes.

Comments From the U.S. Department of Agriculture

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

JAN 3 1 1989

Mr. John W. Harman
Director, Food and Agriculture Issues
Resources, Community, and
Economic Development Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Harman:

We have reviewed the GAO draft report with respect to the wool and mohair price support programs authorized by the National Wool Act of 1954, as amended (the Act), which is entitled, "Wool and Mohair Program: Need for Program Still in Question" (GAO/RCED-90-51). We agree with most of the findings in the report and feel that it is well prepared and adequately recognizes the strengths and weaknesses of the program. However, we must point out some discrepancies. On page 30 of the draft report it is stated that, "The act directs the Secretary to support the price of wool at not less than 60 percent nor more than 110 percent of wool parity as the Secretary determines necessary to encourage wool production consistent with the act's declared policy." Although this may depict the language in the original 1954 Act, it fails to recognize that the Agriculture and Food Act of 1981 amended Section 703 of the Act to provide, "That for the marketing years beginning January 1, 1982, and ending December 31, 1985, the support price for shorn wool shall be 77.5 percentum (rounded to the nearest full cent) of the amount calculated according to the foregoing formula." The Food Security Act of 1985 extended this concept through December 31, 1990. Also, the Omnibus Budget Reconciliation Act of 1987 amended Section 703(b) of the Act to provide that "For the marketing years beginning January 1, 1988, and ending December 31, 1989, the support price for shorn wool shall be 76.4 percent (rounded to the nearest full cent) of the amount calculated according to paragraph (i)."

In addition, the statement at the bottom of page 41 of the draft report states, "In addition to providing shorn wool payments, the act provides payments for unshorn lambs for the stated purpose of maintaining the normal industry practice of marketing lambs unshorn." Section 703(c) of the Act merely provides that the support prices for pulled wool shall be established at such levels, in relationship to the support price for shorn wool, as the Secretary determines will maintain normal marketing practices for pulled wool.

The use of payments to provide price support with respect to unshorn lambs was implemented upon enactment of the Act in order to help assure that the practice of feeding out lambs to slaughter weight and sending them to slaughter unshorn was continued. We agree that this concept of supporting unshorn wool prices may now be outdated since there are so few wool pullers and the fact that so little wool is pulled. We agree with the observation stated in the report that the unshorn lamb payments are more difficult and time-consuming for the Agricultural Stabilization and Conservation Service to administer than are the shorn wool payments. The major reason for this is the tracking of the unshorn lambs from owner to owner to assure that duplicate payments are not made on the same unshorn lambs.

With respect to the section entitled "Impact on Small Payment Recipients", the draft report should be clarified to make the point that this data should not be construed to indicate a trend in decreased small payments to producers, but rather that the number of small payments may vary from year to year.

We would like to express our appreciation to you and your staff for the great deal of thought and work that went into the preparation of this report. In our opinion, it reflects a fair appraisal of the strengths and weaknesses of the program.

Sincerely,

Richard T. Crowder
Under Secretary for International
Affairs and Commodity Programs

Comments From Glen Whipple, University of Wyoming

UNIVERSITY OF WYOMING

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January 3, 1990

John W. Harmon, Director
Food and Agriculture Issues
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Harmon:

I am writing to comment on the report entitled Wool and Mohair Program: Need for Program Still in Question. In my opinion the report provides a balanced, accurate appraisal of conditions in the sheep industry and the effects of wool policy. I believe the reporting of my research findings is accurate. I have no suggestions for improvement of the report.

Thank you for the opportunity to contribute to the policy process.

Sincerely,

Glen Whipple

/cis

Excellence UW

University of Wyoming and U.S. Department of Agriculture Cooperating
The University is an equal opportunity/affirmative action institution.

Comments From the American Sheep Industry Association

ASI

American
Sheep Industry
Association

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January 4, 1990

John W. Harman
Director, Food and Agriculture Issues
Resources, Community and Economic Development Division
U.S. General Accounting Office
Washington, D.C., 20548

Dear Mr. Harman:

On behalf of the American Sheep Industry Association, we appreciate this opportunity to make comments relative to the report entitled Wool and Mohair Program: Need For Program Still In Question (GAO/RCED-90-51). The comments we present will be relative to the wool sections of the report. The Mohair Council of America will make separate comments on the mohair sections. The American Sheep Industry Association is a national federated trade association that represents over 125,000 U.S. sheep and Angora goat producers.

As stated in the report, the primary objective of the National Wool Act of 1954, as amended, is to "encourage the continued domestic production of wool (and mohair) at prices fair to both producers and consumers in a manner which will assure a viable domestic (sheep and Angora goat) industry" that makes a positive contribution to national security, the balance of trade and efficient use of our nation's renewable natural resources. An economic analysis aimed at assessing the benefit of the wool payment program should address itself to this objective. However, neither the 1982 GAO study nor this recent update does this. This study acknowledges that it "did not attempt to independently determine to what extent the wool program affected these broad objectives."

In both of these studies, the GAO has chosen to identify "objectives" for study (i.e. level of production, product quality, and payments to small producers and unshorn lamb) that

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provide little basis for evaluating the success of the program in reaching its intended objective. Yet the conclusions drawn from the studies, relative to GAO's defined "objectives", are intended to be used by Congress as a basis for evaluating the success of the entire program.

The original writers of the Wool Act were not vague in their hope of what they wanted the wool payment program to achieve. For the decade preceding the enactment of the Wool Act, the American sheep industry experienced the most devastating reduction in sheep inventory ever. The causes for that reduction were largely outside the influence of the individual sheep and Angora goat producer, and the industry for that matter. High costs of production and an onslaught of low-cost imported wool created the conditions that resulted in the National Wool Act. As noted in the report, the Wool Act was initiated to provide income stability to an otherwise erratic market in order to maintain a viable industry. Even the data presented in the GAO reports supports that the Wool Act has been successful in meeting this objective.

Not only were the original authors of the Wool Act concerned about producer income and market stability, but that concern has been reiterated by members of Congress and others through the discussions leading up to successive renewals of the Act. Most recently, the conferees on the 1990 Appropriations for Rural Development, Agriculture, and Related Agencies reaffirmed their support of these objectives. In the conference report (House of Representatives Report 101-361) they state: "The conferees agree that it is essential that farm programs be operated in such a way as to ensure adequate income to farmers and stability in the marketplace." Again, the GAO reports show that the Wool Act is accomplishing the conferees' objectives.

While we feel that the areas of study encompassed in the report are not directly tied to the failure or success of the Wool Act, we feel it appropriate to comment on the content of the report.

There are inconsistencies between what is written in the summary and conclusions, and what is in the main body of the report. The summary and conclusion sections state that "the principal findings in GAO's 1982 report are still valid". Yet the body of the report documents that wool production is stabilizing, that wool quality has improved, that producers do use wool prices (and wool payments) in their decision process, that wool payments are important to rural economies and to the Navajo Nation, and that payments to small "non-commercial" producers are important and

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consistent with the wishes of Congress and the USDA. These are all principal findings that are different from the GAO's 1982 report.

Even the title of the report, Wool and Mohair Program: Need For Program Still In Question, leads the casual observer to a conclusion that is not substantiated in the body of the report. The title: Wool and Mohair Program: Providing Market Stability, Quality Improvement and Rural Economic Support, could have just as easily been used, based on the body of the report. We feel that the GAO has unduly allowed biases to be introduced into the report, particularly in the summary and conclusions sections, which are not founded on the study itself. For example, statements like "If the Congress decides to continue the program", "The average market price of wool in 1988 was only $1.38 a pound", and "the funds used to support wool producers could have been better used to accomplish a more positive effect on the balance of trade, the general economic welfare, and the efficient use of the nation's resources, had they been spent in other ways" introduce an editorial bias that may lead the reader to unfounded conclusions. The last statement leads one to ask: In what other ways? No suggestions are offered.

The payment program encompassed in the Wool Act includes an incentive for the improvement of wool quality. While the objective of the Wool Act is not specific to the improvement of wool quality, there is evidence that wool quality has improved--in the technical characteristics as well as in the packaging and preparation. The report documents observations from wool buyers, mills and others that the producers are improving the way that wool is being prepared and packaged for marketing. The technical qualities of wool have also improved. Combing trials conducted in 1984 and again in 1989 illustrate that the fineness of wool is increasing, as well as the length. Colored fibers are decreasing. These data are supported by other studies that show that between 1981 and 1988, the volume of wool in the fine grades (60's and finer) has increased by over 14 percent. Recent shipments of U.S. wool to a large wool textile company in West Germany document that U.S. wool is equal to or better than southern hemisphere wool in quality and other properties. The wool payment program has been successful in improving the quality of U.S. wool.

It is stated in the report that "Wool is not a Strategic Material," based on the supposition that the Armed Forces' wool needs for mobilization would be reduced due to the introduction of a cold weather clothing system. The report does not point out

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that this clothing system has been years in the development and has failed several standards tests. Questions regarding the flammability, safety and durability of this petroleum based fiber have been raised. In addition, there are some within the Defense Personnel Support Center (DPSC) who question the advisability of using a petroleum based fiber garment as a part of the mobilization requirement. With the U.S. dependent on oil imports for 46 percent of its consumption, the availability of petroleum fuels for defense during a time of emergency is questionable, let alone the availability of petroleum for garments. Add to this the volatility of sea shipments of oil (and wool for that matter) from friendly overseas countries in an era of modern high technology warfare that can pinpoint ship movement with ease. Even if the clothing were currently available, the Armed Services require Congressional budget appropriations to be able to make the purchase. With the current mood of military budget reductions, the realization of this petroleum-based fiber clothing system is questionable.

On the other hand, this report supports that the military's purchase of wool and wool/blend items for peacetime needs is substantial and that if mobilization requirements were included the military would need an amount of wool equivalent to over 40 percent of the annual domestic wool production. While this figure is significant, it becomes even more significant if the grade of wool that the military would need is considered. Approximately 56 percent of domestic raw wool production is of garment quality. Therefore, if mobilization were required because of national emergency, almost all of the domestic garment quality wool would be needed for military use, leaving none for civilian use.

One question that is repeatedly raised in the report is the "social cost" of the program. "Proof" of the cost is authenticated by a study conducted by a GAO consultant during the 1982 study. This study uses a model to estimate the cost to the government for the additional (marginal) production that has resulted because of the program. From the beginning, this study was recognized by the author as being weak, due to some of the assumptions that had to be made, and was later criticized by the Economic Research Service of the USDA. Only after the GAO convinced the ERS that the results of the study would not materially effect the conclusions of the report did the ERS consent to allow the study's inclusion in the 1982 GAO report. In fact, the results of the study were the basis for the conclusions about the "social cost" in the 1982 study and are being used as the sole justification for similar conclusions in

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this study. The conclusions drawn from this analysis are not supportable in either study.

When making its estimate of the "social cost" of the wool payment program, the GAO focused entirely on wool production. For 1988, wool payments, according to GAO, "resulted in an additional 13.6 million pounds of wool, an 18 percent increase". The production of wool is predominantly from breeding sheep. If wool production is larger because of the program, then the number of breeding sheep is larger due to the program. The other product produced from these breeding sheep is lamb meat. If the wool payment program resulted in more wool production, it also contributed to increased lamb meat production. The true "social cost" for the wool payment program should take into account its impact on all of the products affected by it. Using the same rationale used in the study, i.e., 18 percent increase and lamb meat accounting for 75 percent of income to the breeding ewe, it can be shown that the wool payment program actually has no "social cost" but rather has a rate of return of almost 82 percent. That is, for every dollar paid to the producer through the program, there is one dollar and 82 cents of value created.

It is right for Congress to want to have a true and accurate assessment of the "social cost" of the program. It is just as appropriate for Congress to want to have a true and accurate assessment of the costs that would need to be borne by the government or by society if the program were discontinued. This report documents that the wool payment program is important, and in some areas critical, to the economies of rural towns and cities. Recent data suggest that sheep production provides critical income for 70 percent of 3,042 counties across the U.S. The share of sheep income as a percent of total agricultural income is over 50 percent in hundreds of these rural counties. The report also identifies that the Wool Act plays an important role in the livelihood of about 10,000 Navajo Nation sheep and Angora goat producers.

In a time when state and local governments are near collapse from the shock of the decline in the oil, gas, mining, timber and other industries, it makes little sense to question a program that provides steady, much needed flow of capital into sagging rural economies. Without the Wool Act, these rural economies would not only feel the effects of not receiving the wool payments, but the resulting size of the sheep industry supporting their economies would shrink. A relevant question would be: How

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much would the Federal Government need to spend in these rural areas to get the same multiplier effect as is derived from the Wool Act?

The question of the program's administrative cost is also raised. Again, the tone used gives the reader the feeling that the administrative cost is burdensome. That is not the case. It is noted in the study that 2/3 of the administrative cost is for interest on the money borrowed by the CCC from the Treasury for the payment. It was also noted that in 1988, the CCC received an advance wool appropriation for the first time, which dramatically reduced the interest cost. However, later in the conclusions, the report notes that "about $6 million is being spent each year to administer the program". This amount is before the advance appropriation was initiated. Future administration costs will be only about one-third that amount, or $2 million. Historically, this relates to only about 5 percent of total payments in low payment years to about 1 percent of total payments in higher payment years.

The report implies that if the wool program were discontinued, there would be a savings to the Federal Government of the administrative costs. The wool program is administered by the ASCS offices. Most of the administrative costs are associated with program sign-up at the county and state levels. The personnel that sign up wool program participants are the same personnel that sign up participants in other ASCS administered commodity programs. Elimination of the wool program would not justify corresponding elimination of personnel in county and state offices. A false savings would be assumed by the statements in the report.

A key element of the wool payment program that is not amplified in the report is the program's design that allows payment to go up and down based on changing market conditions. The program was designed to provide stability to producer incomes by being market sensitive. When wool prices are low, program payments provide the income stability: and when wool prices strengthen, program payments go down. The following provides actual data that illustrates the workings of the program, and underscores the erratic nature of the wool market over the three year period.

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Year	National Ave. Market Price	National Ave. Payment	Total Ave. Wool Income
	(per lb.)	(per lb.)	(per lb.)
1986	$ .67	$ 1.11	$ 1.78
1987	.92	.89	1.81
1988	1.38	.40	1.78

From 1986 to 1988, the wool payment program provided the much needed stabilization to the producer's income resulting from a 105 percent change in wool prices.

The report notes that this income stabilization has benefited the industry. It also notes that the program, as initially designed, has been restrained due to Congressional and agency action. The ability to maintain the original design of the program was taken away from the industry's control. Economic models suggest that if the program had been allowed to perform as originally intended (i.e., provide up to 110 percent of the target price), the decline in sheep inventory would have stabilized years ago. The Congressional and agency limitations imposed on the program need to be more fully analyzed when evaluating its success.

The study identifies the general absence of documented evidence and clarifies that much of the report is based on interviews with persons in the industry. While this is appropriate, this approach does not provide a method of rating the value of the respective opinions. By mention in the report, one person's comments receive equal weight to another person's, even though one may represent a minority viewpoint. This presents considerable difficulty in evaluating the report. Additionally, the report cites the University of Wyoming study and the Virginia Polytechnic Institute study without giving the reader enough information from those reports to allow an assessment of their value. These research reports are presented in the same light as a person's opinion.

The National Wool Act of 1954, as amended, has fulfilled its objective of maintaining a viable sheep and Angora goat industry. Much of what is included in the GAO report supports this

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conclusion. We respectfully request that the summary and conclusions sections of the report be rewritten to reflect these findings. The Wool Act is important to the future of the sheep and Angora goat industry and to rural America.

Once again, we appreciate the opportunity to respond to this GAO report.

Sincerely,

Bill Schneemann, President
American Sheep Industry Association

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Comments From the Mohair Council of America

MOHAIR COUNCIL OF AMERICA

January 3, 1990

Mr. John W. Harman
Director, Food and Agriculture Issues
Resources, Community and Economic Development Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Harman:

Upon reading the Draft Report of the Wool and Mohair Program: Need for Program Still in Question, I felt a need to answer some key components pertaining to the basic characteristics and properties of mohair and products thereof. In addition, there is also some question of statements made which are conflicting between the summary and text.

The main body of this report has been well researched and compiled. The problem I have with this report begins with the statement that mohair has no defined basis in the Wool Act. The reason mohair was included is exactly as it is defined in the Draft Report on Page 59 lines 17, 18, and 19, the Wool Products Labeling Act of 1939 and the War Production Board labeled mohair as wool and as a war-quality wool respectively. During this time there was no need to clarify different objectives. The reason there was no need because the authors of the Wool Act considered Mohair to be Wool. This concept is common all over the world and many places where mohair is sold today the product is called mohair-wool. Products made from wool because of their heat retention and long lasting qualities can also be made from mohair and during the 1940's and 1950's everything from blankets, coats, uniforms, hats and a long list of other textiles were used by the military and civilians alike were made from mohair. However, due to the stabilizing effect of the Wool Act on what otherwise would be a volatile mohair market the mohair producers were able to sustain production and seek other specialty markets overseas; however, these products can still be and are made in the U.S.A..

In the Draft Report the comment that Europe is only a processor of mohair is incorrect. Europe and Asia are the two largest consumers of U.S. produced mohair. This consumption of U.S. mohair has resulted in $306 million dollars of revenue for U.S. mohair producers from 1981 to 1988. This is certainly adding to a positive balance of trade which was incorrectly stated in the Draft Report summary.

"OUR ONLY PURPOSE - TO PROMOTE MOHAIR"

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Mr. Harman
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The support price for mohair is calculated by a formula which includes a ten year rolling average price for mohair. Today this ten year average includes when mohair was selling at extremely high prices, which I might add was above support price. The support price for 1988 of $4.69 and the average mohair price for 1988 of $1.89 caused a very large payment; however, if mohair continues to remain at a low price the support price will decline, thus causing the mohair incentive payment to decline. Even if mohair were to rise in price the support price will continue to fall the next few years due to the low price received for mohair in 1987 and 1988. It is also important to note from 1981 to 1988 that there was a significant increase (62%) in production; thus, proving the effectiveness of the Wool Act to insure production and growth during difficult periods. It also proved that mohair was supported below production costs ($4.95 per pound in 1985) during the period from 1965 to 1977. The statement that the money used for the Wool Act could have been spent in other ways should be completely deleted. Conjecture on the part of the GAO for substitute programs, which were not spelled out, was not the intent of this report.

In summary, this report refers to a study on page 46 that points out the efficient utilization of the rangelands by sheep and goats. This is clear evidence to our industry that the need for Sheep and Goats is still prevalent. In addition, facts were demonstrated to the GAO that mohair alone in ten counties in Texas represents from 20 to 55 percent of total livestock and livestock products receipts without considering goat sales. This income, whether it be from mohair, wool, cotton, corn or any other commodity is the basis for all farm programs which is the Survival Of The Family Farm and Rural Development.

Thank you for allowing me to assist in this review.

Sincerely,

Brian J. May

Brian J. May
Executive Director

BJM/ws

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