

Department of Agriculture  
Recommendations and Actions  
USDA01: End the Wool and Mohair Subsidy  
Background

During World War II and the Korean conflict, the United States imported half the wool required for military uniforms. Determined to reduce dependence on foreign fibers and to insulate American producers from foreign competition, Congress declared wool a strategic material and enacted the National Wool Act in 1954. The Act was designed to increase domestic production of wool by providing direct payments to farmers based on a percentage of their market sales. In other words, the more wool farmers produced, the more federal funding they received.

Wool was removed from the Pentagon's strategic materials list in 1960. However, the Act remains in effect today, and wool program subsidies will cost an estimated \$923 million over the 1994-98 period.<sup>1</sup> About one-third of the payments will go to ranchers who raise Angora goats for mohair.<sup>(2)</sup> Although mohair never had strategic value, it was included in the 1954 Act as an offshoot of the wool industry. About 80 percent of domestic mohair is now produced for export markets.

In addition to mohair and shorn wool, the program also subsidizes live lambs on the assumption that their pelts will be processed after slaughter. The product is called "pulled wool" and will reap an estimated \$132 million in federal benefits in 1994-98, absent action to eliminate or phase out the program.<sup>(3)</sup> The market for pulled wool, however, is so slight that the U.S. Department of Agriculture (USDA) no longer keeps statistics on it. As a result, federal payments for live lambs tend to subsidize their value as meat, not wool. In fact, for the 1990 marketing year, recipients of wool subsidies earned slightly over 60 percent of their income from meat. Shorn wool sales contributed only around 15 percent, with the rest (25 percent) coming from federal payments.<sup>(4)</sup>

About half the wool program's recipients receive payments of \$100 or less (the average payment for this group is \$44).<sup>(5)</sup> Most are hobbyists and do not rely on sheep for their livelihoods. The principal exceptions are several thousand Native American families who tend small flocks, averaging about 20 animals, and for whom payments of even less than \$100 make up a significant portion of their overall income.<sup>(6)</sup>

At the other end of the payment spectrum are the top 1 percent of producers who capture almost half the wool subsidy. In fact, the top 0.3 percent of producers garner about one-fourth of the program's funds with payments that average \$98,000.<sup>(7)</sup> The Omnibus Budget Reconciliation Act of 1993 will gradually reduce the maximum payments a person can receive under each of the wool and mohair provisions from the current 1993 level of \$150,000 to \$100,000 in 1995.

Although the program adds handsomely to large producers' incomes, its appeal has not been strong enough to prevent a dramatic decline in domestic wool production.

