

**Peanut Policy Case
Teaching Notes**

This case provides an opportunity for students to do small group work, come to the board and engage in role play.

1. What are the elements of the government's peanut program?

There are three elements of the program and it is important to get students thinking of them separately and then putting them together. The three elements are:

- a. *A virtual ban on imported peanuts.* Given that the world price of peanuts is about $\frac{1}{2}$ the US domestic price at the time of this story, in the absence of government intervention we would expect to be importing a lot of peanuts.
- b. *A price guarantee, or price floor, at \$678 per ton.* The government promises farmers this price, and in essence promises to purchase any peanuts the farmers can't sell on the market at this price.
- c. *Peanut growing licenses, or quotas, permitting farmers to farm peanuts and participate in the program.*

2. How would each of these elements, individually, affect the market for peanuts?

Divide the students into three groups and have each group prepare a diagram for one of these interventions. Good diagrams should make use of the quantitative information in the case (the current support price, the world price at half of that). Once the diagrams are done get one person from each group to draw that group's diagram on the board (leaving board space for a diagram encompassing all three components). Important elements are:

- a. Diagram showing import ban should show world price at about \$339 and domestic equilibrium price at somewhere less than the support price of \$678. Should indicate what the level of peanut imports might be if we had free trade in peanuts.
- b. Price support diagram should show the support as being binding, so that \$678 is higher than the equilibrium price. Should also show the excess supply of peanuts at that price.
- c. License or quota diagram should show the shift in the S curve for peanuts that comes from restricting growing. Should have smaller surplus with the quota than without at the support price of \$678.

Putting it all together on one diagram should help illustrate the enormous effect on the price of peanuts.

3. How does this high price for peanuts affect the market for products derived from peanuts?

Get them to narrate through a shift in the S curve that raises prices.

4. Who (domestically and internationally) is affected by these policies? Get a full list on the board to include:

- a. Peanut growers
- b. Peanut processors
- c. Peanut product consumers
- d. Foreign producers of peanuts and peanut products
- e. Owners of peanut quotas
- f. People with land suitable for peanut farming but no quota

It may take a while to get all of these out – some prompting especially with respect to the last two may be in order.

Divide the class into six groups for a role playing exercise in which they debate the merits of the bill. Each group should really take on the part of the interest they are representing and should draw on the material in the case. The questioning should focus, ultimately, on getting a sense of who the winners and losers are. The winners are peanut growers and peanut quota owners (to the extent that they are not growers). The losers are pretty much everyone else here, including consumers, processors, foreign growers. Peanut growers who don't own quotas both benefit (from the prices support) and pay (for the quota rent) from the policy.

5. Why does the government have this policy?

This discussion ultimately needs to boil down to the fact that the policy is intended to protect the incomes of people who farm peanuts. There are other ways that objective is phrased, such as “keep people on the farm” but the real point is that this, like all other farm support programs, raises prices as a means to maintain the incomes of farmers.

6. Do we have an obligation, or a compelling reason, to want to protect farmers' incomes?

7. If we do, is this set of policies the best way to do it?

8. As a conclusion, let's look at some of the rhetorical devices and argument strategies used by the speakers. What kind of things do they say to make their argument?

“Multinational companies would drive our farmers out of business”

“If you had a system in Russia under Stalin....”

“Mothers making PB&J for their kids”

“Mexicans unlimited ability to export peanut paste or peanut butter into this country”

How did it end up:

The bill passed (*New York Times* article from 2/29/1996)

In 2002, major overhaul of agricultural policy cut the support price to the mid 300's, tied it to loans and eliminated the quotas. It also substantially loosened import restrictions.

The Peanut Quota Holders Association sued in federal court claiming that the elimination of the quotas amounted to a seizure of their property. They lost and were denied a hearing by the Supreme Court.