United States General Accounting Office

GAO

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

February 1993

# PEANUT PROGRAM

# Changes Are Needed to Make the Program Responsive to Market Forces


GAO

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

**Resources, Community, and**
**Economic Development Division**

B-249797

February 8, 1993

The Honorable Charles E. Schumer
House of Representatives

Dear Mr. Schumer:

This report responds to your request that we review the U.S. Department of Agriculture's peanut program. The report compares and contrasts the agricultural and economic conditions that existed when the program was created in the 1930s with current conditions and assesses the program's impact on producers, consumers, the government, and international trade. The report discusses the changes that have occurred in agriculture over the years, including a continued reduction in the number of producers receiving most of the benefits of the peanut program and the increased costs to consumers. The report contains recommendations to the Congress aimed at making the peanut program more responsive to market forces.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 15 days after the date of this letter. At that time, we will send copies of the report to the appropriate House and Senate committees and subcommittees; interested Members of Congress; the Secretary of Agriculture; the Director, Office of Management and Budget; and other interested parties.

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

Sincerely yours,

J. Dexter Peach
Assistant Comptroller General

# Executive Summary

## Purpose

The U.S. Department of Agriculture (USDA) administers a program to control the supply of U.S. peanuts and guarantee producers a minimum price for their crops that substantially exceeds the world market price. Such programs have become increasingly vulnerable to criticism because of their costs and impact on trade negotiations. In response to a request from Representative Charles E. Schumer, GAO (1) compared and contrasted the agricultural and economic conditions that existed when the peanut program was created with current conditions; (2) assessed the impact of USDA's peanut program on producers, consumers, the government, and international trade; and (3) identified changes needed in the program.

## Background

Chaotic economic conditions during the Great Depression led the Congress in 1934 to institute a program to control the domestic supply of peanuts and protect producers' incomes. Although the peanut program has been amended several times, the program continues to control the domestic supply—now, through a national poundage quota system and restrictions on imports. Generally, only producers holding a portion of the assigned quota may sell their peanuts domestically (as quota peanuts), while producers without quota must export theirs (as additional peanuts). The program protects producers' incomes through a two-tiered system that sets minimum support prices for quota and additional peanuts. Producers may sell their peanuts directly on the market at or above these support prices, or they may place their peanuts under loan with the USDA and have the government sell them. Producers who grow quota peanuts for the domestic market are guaranteed a high support price (loan rate), while producers who grow additional peanuts are guaranteed a much lower support price (loan rate). Because the program guarantees prices, it also guarantees income to owners of the quota who decide to sell or rent their quota to others. USDA's Agricultural Stabilization and Conservation Service administers the peanut program; the Commodity Credit Corporation (CCC) provides funds to producers who place their peanuts under loan rather than sell them directly on the market.

## Results in Brief

The peanut program has provided income to producers and generally stabilized the U.S. peanut supply. However, peanut farming, like other U.S. agricultural operations, has undergone massive changes since the 1930s: Most importantly, the numbers of peanut farms and producers have decreased, and the sizes of the remaining farms have increased. By 1991, fewer than one-fourth of all peanut producers held (owned or rented) over

four-fifths of the available quota pounds. Moreover, because the yearly quota support price since 1982 has been well above production costs, quota peanut producers have had an opportunity to receive, on average, a 51-percent minimum net return after costs. Thus, the peanut program has provided substantial benefits to the relatively small number of producers who hold most of the quota. Furthermore, owners of more than one-half of the quota pounds—who do not grow peanuts themselves with that quota—benefit from the program because they receive income from selling or renting their quota to others.

From 1982 through 1989, the world market price for U.S. peanuts averaged $494 per ton, and the U.S. quota support price for domestic peanuts averaged $714 per ton. [1] Consequently, economic studies show that U.S. consumers are spending hundreds of millions of dollars more each year for peanuts because of the program. In addition, USDA spends tens of millions of dollars each year to administer the peanut program, make mandatory payments to producers, and cover the high cost of peanut products it buys under various food assistance programs. Finally, the program may affect international trade primarily by increasing the volume of U.S. peanuts available for export. This increase should cause a decline in prices paid for peanuts by foreign consumers.

# Principal Findings

## Peanut Farming Has Changed Significantly Over Time

Peanut farming has changed as smaller farms have been consolidated to form larger-scale operations. Consequently, the number of peanut farms with quota has decreased—from 172,981 in 1950 (the earliest data available) to 41,249 in 1991—as the average farm size has increased, from 12 acres to over 49 acres. Furthermore, through technological advances and other improvements, peanut farms now produce yields nearly five times greater than the yields produced in 1934.

## The Peanut Program Provides High Returns to a Small Number of Producers

In 1991, 6,182 producers—or fewer than 22 percent of the 28,867 U.S. peanut producers—controlled over 80 percent of the quota. The peanut program is particularly generous to these producers because it sets quota support prices at levels that virtually guarantee high net returns after costs. From 1982 through 1992, the annual quota support price averaged

[1]All figures in this report are in 1991 dollars.

$697 per ton, while the estimated cost of producing peanuts (which includes variable and fixed cash expenses plus allocations for capital equipment replacement and unpaid labor) averaged $463 per ton—a difference of $234 per ton, or an average minimum net return after costs of 51 percent. Moreover, because the quota support price is required to increase each year when production costs go up but not decrease when costs go down, the gap between prices and costs has generally increased over time. The peanut program also provides disaster transfer payments to protect quota producers from losses in peanut quality caused by adverse conditions. From 1985 through 1990, CCC paid producers over $63 million for these losses. Also, peanut producers—mainly those with additional peanuts—who place their peanuts under loan may receive dividends when CCC sells their peanuts at more than the support prices. From 1981 through 1990, CCC paid producers $645 million in dividends.

## Quota Owners Who Do Not Grow Peanuts Also Receive Program Benefits

The peanut program also supports persons who own farms with assigned quota but elect not to grow peanuts with that quota because it allows these persons to sell or rent their quota to others. In Georgia alone during 1990, sales of quota were estimated at $2.3 million. As for rentals, GAO found that 68 percent of all quota owners in 1988, who held 56 percent of the available quota, rented their quota to others. On the basis of that rental level, GAO estimates that peanut producers in 1991 could have paid $208 million for the privilege of using someone else's quota. Although quota sales and rentals provide a source of income to persons who do not produce peanuts with that quota, this program provision prevents quota from being transferred outside county boundaries. Thus, it limits competition because peanut producers in other counties who may be more efficient cannot buy or rent that quota.

## Most Program Costs Are Paid for by U.S. Consumers

Economic studies and GAO's analysis estimate that the peanut program adds, on average, anywhere from $314 million to $513 million each year to consumers' costs of buying peanuts. About 76 to 88 percent of the cost is transferred directly to producers as income, and the remaining portion represents a social welfare loss that reflects inefficiencies in the program's use or allocation of resources.

## USDA Spends Millions of Dollars Yearly to Operate the Peanut Program

In supporting the peanut program from 1986 through 1990, USDA incurred average annual costs of $34.4 million: Net losses from the CCC loan program averaged $14.5 million; program administration costs,

$4.5 million; disaster transfer payments, $11 million; and export promotion programs, $4.4 million. In addition, government agencies like USDA, which are required to purchase peanuts and peanut products for various food assistance programs at the high quota support price, continually pay more to buy peanuts than they would without the program.

## The Peanut Program May Also Affect International Trade

Given the volume of U.S. peanuts exported, the peanut program may affect the international market as well as the domestic market. The magnitude of the program's effect on international trade is unclear, however, because there is uncertainty as to the extent to which (1) the program results in additional U.S. exports, (2) the quantity of U.S. exports affects world prices, and (3) producers would respond to price changes on the world market if the peanut program did not exist.

## Recommendations to the Congress

Because the agricultural environment that caused the Congress to establish the peanut program 58 years ago no longer exists, GAO recommends that the Congress restructure the program to make it more responsive to market forces. As part of this restructuring, the Congress should provide for a period of transition to allow producers time to make adjustments in their investment decisions. Also, the Congress should (1) reduce the annual quota support price so that, over time, the price will more closely parallel the cost of producing peanuts and the world market price; (2) reexamine the method of assigning quota since a large volume of quota is owned by persons who do not grow peanuts with that quota; (3) allow the quota support price to decrease as well as increase each year as do production costs; and (4) permit government agencies to purchase peanuts at the world market price rather than at the higher quota support price.

## Agency Comments

In commenting on a draft of this report, USDA concurred with the recommendations but did not agree with all of GAO's interpretations and conclusions. In particular, USDA questioned GAO's estimate of the value of quota rentals and GAO's definition of "consumer." As discussed in chapter 5 and appendix IV, GAO believes its estimate of the value of quota rentals is reasonable, and GAO's definition of consumer as the first buyer of U.S. peanuts is a standard technique used for measuring program impact.

# Contents

## Abbreviations

| | |
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| ASCS | Agricultural Stabilization and Conservation Service |
| CCC | Commodity Credit Corporation |
| ERS | Economic Research Service |
| GAO | General Accounting Office |
| NASS | National Agricultural Statistics Service |
| USDA | U.S. Department of Agriculture |

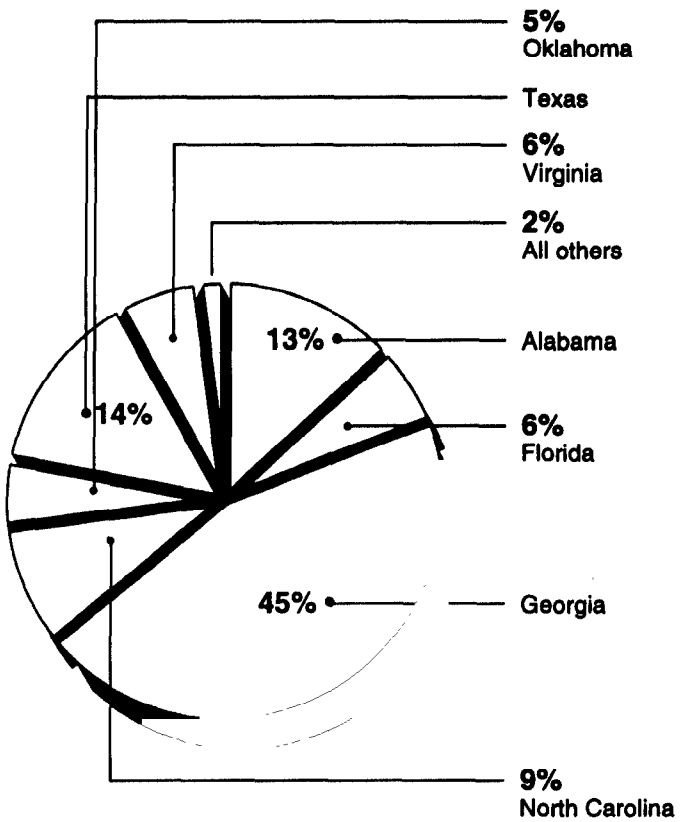
# Introduction

The U.S. Department of Agriculture's (USDA) peanut program is one of several support programs created by the Congress in the 1930s to assist farmers. Except for the years from 1941 until 1949 following the United States' involvement in World War II, domestic peanut production has been under some form of federal regulation since 1934. Currently, USDA's peanut program attempts to control the U.S. supply of peanuts through a marketing limit (poundage quota) and U.S. prices through a guaranteed loan rate (support price) that establishes the minimum price at which peanuts can be sold domestically.

Peanuts represent an important cash crop in the United States. In crop year 1991, [1] nearly 5 billion pounds of peanuts, with an estimated value of $1.4 billion, were grown by 28,867 producers. Nearly all of these peanuts were grown in seven states, and nearly half were produced in Georgia. Figure 1.1 shows each state's share of the peanut production.

[1]A peanut crop year begins August 1 and ends July 31 of the following year.

**Figure 1.1: Peanut Production by State, Crop Year 1991**




Source: GAO presentation of USDA data.

For many years, the United States has been third in peanut production in the world (after India and China), and in 7 of 10 years from 1981 through 1990, [2] it was the leading peanut-exporting country. In 1990, U.S. producers exported 474 million pounds of peanuts, primarily to the European Community and Canada.

[2]This was the last year for which data were available at the time of our review.

## Government Intervention in the Agricultural Market

The federal government intervened in the agricultural market in the 1930s because the Great Depression had severely disrupted the domestic economy, causing unstable market conditions and disastrously low prices for goods sold. U.S. farm families, whose income at that time was only about one-half that of nonfarm families, saw their income decline further as farm commodity prices dropped by 50 percent. This income reduction was felt throughout much of the nation because over 31 million people—or one-fourth of the total U.S. population of 125 million—then lived on farms.

In a November 1936 report to the President, the Secretary of Agriculture described the chaotic agricultural conditions that existed in 1932. He stated, among other things, that the decline in farm commodity prices was a

> "...cause of widespread agricultural ruin and that farm bankruptcies were at record heights and dispossessed farmers joined urban unemployed, and farmers still struggling could not make ends meet. There was a tremendous surplus of farm products; yet consumers were suffering scarcity. Falling farm prices did not help them much, because their incomes were falling too as a result of declining trade and employment. The whole economic system was out-of-balance."

To correct the income imbalance between farm and nonfarm families and stabilize the agricultural market, the Congress enacted the Agricultural Adjustment Act of 1933. That legislation introduced a number of programs aimed at supporting farm prices and incomes and controlling production for several "basic crops," including corn and wheat and, in 1934, peanuts. The programs mandated by the 1933 act and its amendments were intended to be temporary; they were to be terminated as soon as the President declared an end to the national emergency.

## USDA's Administration of the Peanut Program

The peanut program is administered by USDA's Agricultural Stabilization and Conservation Service (ASCS); the Commodity Credit Corporation (CCC) provides funds to producers who decide to place their peanuts under a government loan program at an established loan rate rather than sell their peanuts directly on the marketplace. Producers can negotiate commercial contracts for their peanuts and receive money directly from buyers and handlers, place their peanuts in the government loan program and receive money from CCC, or choose a combination of the two options. Since 1979, producers have, on average, sold about 82 percent of their peanut

production through direct commercial contracts and placed the remaining 18 percent under CCC loan.

When peanuts are placed under loan, CCC, rather than the producer, controls the marketing of the peanuts. If CCC cannot market all of the peanuts under loan for domestic edible consumption within a specified crop year, the agency must have the remaining peanuts crushed for oil or meal. In these instances, the peanuts are generally sold at prices below the established loan rates, and CCC (and ultimately the taxpayers) absorbs any resulting losses.

Three regional area associations, acting as agents for USDA and the producers, operate a major portion of the peanut program for CCC. These associations—the Peanut Growers Cooperative Marketing Association (Virginia/Carolina) in Franklin, Virginia; the Georgia-Florida-Alabama Peanut Association in Camilla, Georgia; and the Southwestern Peanut Growers Association in Gorman, Texas—issue price support loans to producers, arrange for the warehousing of peanuts placed under loan, coordinate and keep records of all peanut sales, and distribute to participating producers any dividends that result from selling peanuts that have been placed under CCC loan at prices above the loan rates.

## Early Attempts to Control the Peanut Market

Generally, until 1977, USDA's peanut program aimed to boost producers' incomes by controlling supplies and prices through two basic mechanisms. First, following the reinstatement of peanut controls in 1949, [3] a system of fixed-acreage allotments was used to restrict the supply of peanuts available for market. The number of these allotments ultimately controlled the number of peanut producers because only persons who were granted allotments could grow peanuts for sale in the United States. Second, a guaranteed government loan rate, which acted as the floor or minimum price for selling peanuts domestically, was established for peanut producers who had acreage allotments. Both mechanisms caused U.S. peanut prices to be higher than they would have been if the government had not intervened.

In 1953, import restrictions—also known as import quotas—were introduced into USDA's peanut program as a mechanism for protecting U.S. producers from foreign competition while also preventing the government from having to absorb large losses resulting from unsold peanuts placed

[3]According to USDA, federal controls on peanuts were suspended from 1941 until 1949 following the United States' involvement in World War II.

under CCC loan. These import restrictions, authorized under section 22 of the Agricultural Adjustment Act of 1933, as amended, further limit the supply of peanuts available for domestic consumption. Since 1953, import restrictions for peanuts have been in effect in all but four brief periods when the domestic demand for peanuts temporarily exceeded the domestic supply.

In 1967, the Congress added another important feature to the peanut program, authorizing acreage allotment owners (some of whom were reaching retirement age) to sell or lease their allotments to other landowners within their respective counties rather than to grow peanuts themselves. This provision ensured that peanuts would continue to be grown in communities that had become dependent on peanut production.

The acreage allotment system failed to control the domestic supply of peanuts because producers became more efficient and adopted new technologies that enabled them to quadruple their previous yields on the same fixed acreage. As yields increased, U.S. producers in the 1970s grew large quantities of peanuts, and government costs soared during that decade to over $576 million in nominal dollars ($1.4 billion in 1991 dollars) as CCC was forced to crush peanuts under loan and sell them at prices below the support prices that the agency had already paid to the producers.

## 1977 and 1981 Legislation Restructuring the Peanut Program

In response to the increases in peanut production and government costs, the Congress enacted two pieces of legislation containing provisions to restructure the peanut program—the Food and Agriculture Act of 1977 and the Agriculture and Food Act of 1981. Together, these acts established a two-tiered price support system and introduced an annual national poundage quota system to replace the acreage allotment system. The two-tiered price support system set an annual loan rate (support price) for quota peanuts and a significantly lower loan rate (support price) for peanuts grown in addition to the quota—called "additional peanuts." Under the restructured program, anyone can grow peanuts. However, only those producers who have quota are guaranteed the higher support price and are allowed to sell their quota peanuts on the domestic market. Conversely, those producers who grow additional peanuts (who in many cases may also be growing quota peanuts) are guaranteed only the lower support price for their additional peanuts. Furthermore, these producers, for the most part, must export their additional peanuts or crush them for oil or meal.

## Current Provisions of the Peanut Program

The program as currently designed (1) controls the domestic supply of peanuts with a national poundage quota (which also restricts the number of farms that can grow quota peanuts), (2) implements a two-tiered price support system that sets annual loan rates for quota and additional peanuts, and (3) restricts the quantity of peanuts that can be imported into the United States for domestic sale and use. The current peanut program also provides for quota peanut producers to receive compensation when the quality of their peanut crops deteriorates because of bad weather, disease, or insects (this compensation is known as disaster transfer payments) and when peanuts under CCC loan are sold at prices above the established loan rates (this compensation is known as dividend payments).

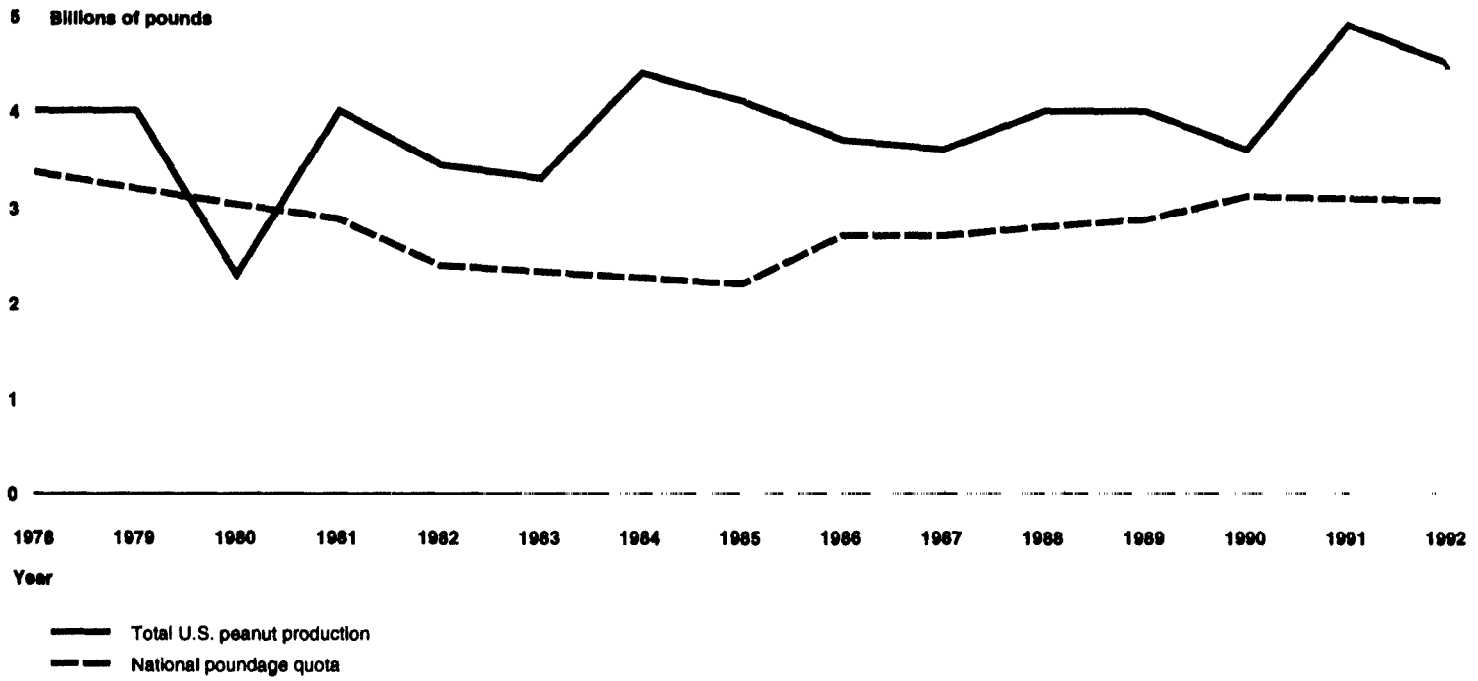
To retain quota, producers must have grown peanuts on designated farms during at least 2 of the preceding 3 years. If persons who hold quota choose not to grow peanuts, they can sell or lease the quota to peanut producers within their respective counties, or they can release their quota to USDA so that it can be redistributed among peanut producers within their states. [4] Up to 25 percent of any new quota available in a state—which can result either from released quota or from an increase in the yearly national poundage quota—can be made available to producers of additional peanuts. However, those producers must also have grown additional peanuts during at least 2 of the preceding 3 years.

The 1977 and 1981 acts established the annual national poundage quota for 1978 through 1985. Subsequent amendments to the legislation mandated that USDA set the quota each year at an amount equal to the agency's estimated annual domestic peanut use. If the national poundage quota falls short of the actual domestic use during any given year, additional peanuts can be used to make up the difference. However, these additional peanuts must be purchased through a buyback provision that requires buyers to pay at least the quota support price plus other mandated charges.

In 1978, the national poundage quota was set at 3.36 billion pounds. In 1992, the quota (after dropping substantially in the mid-1980s) was set at 3.08 billion pounds. Figure 1.2 shows how the annual national poundage quota has varied since 1978. The figure also illustrates how the poundage quota compared with the total U.S. peanut production during these years.

[4]According to USDA, from 1986 through 1990, about 50 million pounds of peanut quota were released and reallocated to other farms.

**Figure 1.2: The National Poundage Quota for Peanuts Compared With Total U.S. Peanut Production, 1978-92**




Note: Peanut production for 1992 is an estimate.

Source: GAO presentation of USDA data.

As for the price supports, the 1977 act stated that USDA was to set the quota support price as appropriate for 1978 through 1981 after considering such things as changes in the index of prices paid by farmers for production items, but the support price was to be no less than $420 per ton (in 1991 dollars, the $420-per-ton support price for 1978 was $798 per ton). In contrast, the 1981 act stated that USDA was to set the quota support price for crop year 1982 on the basis of the national average cost of production, including the cost of land on a current value basis, but the support price was to be no less than 27.5 cents per pound (in 1991 dollars, the $550-per-ton support price for 1982 was $768 per ton). The 1981 act further provided that USDA was to increase the quota support price for 1983 through 1985 on the basis of any increase in the previous year's cost of

producing peanuts, excluding any increase in the cost of land. This provision for setting the quota support price has remained in effect since 1983. Increases in the quota support price, initially limited to no more than 6 percent of the previous year's quota support price, are now capped at 5 percent a year. (None of the legislation provided for decreasing the quota support price in years when the cost of producing peanuts decreased.) In crop year 1992, the quota support price was set at $675 per ton ($659 per ton in 1991 dollars).

For additional peanuts, the 1977 act stated that USDA was to set the annual support price for 1978 through 1981 on the basis of such things as the expected demand for peanuts in foreign markets and the expected prices of other vegetable oils and meals. In the 1981 act, a provision was added requiring USDA to set the support price at a level estimated to ensure that there were no losses to CCC on the sale or disposal of additional peanuts. Consequently, for crop year 1982, USDA set the support price for additional peanuts at 10 cents per pound ($279 per ton in 1991 dollars). In 1992, USDA set the support price at $131 per ton ($128 per ton in 1991 dollars) in a continuing effort to comply with its legislative mandate to ensure no CCC losses.

Since 1953, the year in which the import restriction on peanuts was first instituted, only 1,709,000 pounds of peanuts have been permitted to enter the United States each year (except during the four brief periods when the import restriction was temporarily lifted). As a result of this restriction, the supply of imported peanuts in the U.S. market today is equal to less than one-tenth of 1 percent of the annual national poundage quota.

## Implications for the Future

Negotiators are currently attempting to bring about, as part of the General Agreement on Tariffs and Trade (GATT), a substantial and mutual move to more liberal, market-oriented agricultural policies. Participants from nearly all of the major agricultural trading nations have expressed a broad measure of consensus that agricultural policies should be more responsive to international market signals and that support and protection should be progressively reduced and provided in a less trade-distorting manner. Concerns thus far have been focused not just on the border measures that countries use to control trade but also upon the appropriateness of the domestic policies that underlie their trade measures. Domestic policies have become increasingly vulnerable to criticism because of their contribution to budgetary expenditures by taxpayers and costs to consumers, in addition to trade disputes. In view of ongoing and future

negotiations concerning changes to agricultural policies, the peanut program is one domestic support program that is likely to change.

## Objectives, Scope, and Methodology

In response to a request from Representative Charles E. Schumer, we agreed to (1) compare and contrast the agricultural and economic conditions that existed when the peanut program was created in the 1930s with current conditions; (2) assess the impact of the peanut program on producers, consumers, the government, and international trade; and (3) identify any changes needed in the program.

To compare and contrast the agricultural and economic conditions of peanut production, we analyzed agricultural and economic information pertaining to peanut farming from the 1930s to the present. As part of this effort, we gathered historical records, agricultural publications, textbooks on the economic history of U.S. agriculture, and other data from such sources as USDA, public libraries, universities, agricultural research institutions, and the Commerce Department's Bureau of the Census. We covered the period from 1934 to 1977 to the extent necessary to provide an historical perspective and frame of reference for the economic conditions that caused the Congress to create and revise the peanut program. Our analysis of the program's impact, however, generally focused on the period from 1978 to the present because the program has not changed significantly since the Congress restructured it in 1977.

To assess the impact of the peanut program on producers, we reviewed records of peanut production, costs, price supports, national poundage quotas, and other data on peanuts maintained by three USDA agencies—ASCS, the Economic Research Service (ERS), and the National Agricultural Statistics Service (NASS). To determine how the national peanut poundage quota was concentrated among producers, we analyzed the USDA computer files that contained peanut production and sales for each U.S. peanut producer in 1988 and 1991 (the latest years for which complete data were available).

We estimated the potential incomes of the quota peanut producers from actual yields recorded in state and county office computer files and from cost-of-production data provided by ERS. In computing our estimates, we used figures from actual yields and assumed that producers (1) sold their quota peanuts at the 1991 quota support price and (2) incurred costs equal to USDA's estimated national average production costs.

To analyze the basis for increases in the quota support prices, we reviewed the support price provisions in the peanut legislation, cost-of-production data from ERS, and support price determination records from ASCS. In our analysis, we followed the procedures that ASCS uses to establish its annual quota support price.

We obtained, from USDA's 1987 Farm Costs and Returns Survey, estimates of the percentage of quota owners who lease their quota to others rather than grow peanuts themselves. To substantiate these estimates, we obtained, from USDA's computer files, the names and identification numbers of individuals with farms containing quota and compared that data against the names and identification numbers of producers who actually grew peanuts on those farms.

We obtained data on income received from the sale of peanut quota in Georgia—the largest peanut-producing state—for 1990 by analyzing reports of quota sales provided by the state ASCS office. We also discussed quota rental rates with various USDA officials in the state and county ASCS offices and with producers and others involved in peanut production. Last, we obtained historical information on quota rental rates from a study conducted by North Carolina State University.

To further assess the program's impact on producers (as well as on the government), we obtained data from CCC on the disaster transfer payments made to quota peanut producers for crop years 1985 through 1990. Similarly, we obtained data on the dividends paid to producers who participated in the CCC loan program from annual financial statements filed by the three area associations for crop years 1981 through 1991. We also computed the range of dividend payments to participating producers from USDA's computer files showing actual 1991 payments. We compiled data on average prices, quantities, and types of peanuts sold through the CCC loan program from records of sales provided by the three area associations.

To assess the impact of the peanut program on consumers (as well as on producers), we identified and analyzed 19 economic studies of USDA's peanut program. These studies were conducted by various land grant universities, agricultural research institutions, private management consulting groups, and ERS or other government agencies. We also performed our own analysis to extend the consumer costs to more recent years, using techniques similar to those used in the economic studies that measured the welfare effects of the peanut program most completely. As deemed necessary, we interviewed researchers who had conducted some

of the studies we used. In our analysis, we measure consumer costs on a farmer's stock basis: In other words, our estimates represent the costs to the first buyers of U.S. peanuts. We assume that a portion of these costs will be passed on to the ultimate consumers of the finished peanut products. A list and discussion of the economic studies we reviewed, together with a description of how we used these studies in our analysis, are included in this report as appendixes I and II.

To assess the peanut program's impact on the government, we analyzed CCC's financial statements and loan records on the peanut program for the years 1947 through 1991. Other government costs associated with the program were obtained from records provided by three USDA agencies—ASCS, the Foreign Agricultural Service, and the Food and Nutrition Service—and from the National Peanut Council.

To assess the program's impact on international trade, we reviewed historical export data provided by USDA and the International Trade Commission, as well as data included in some of the economic studies mentioned earlier. We also discussed the international trade issue with a purchasing officer from one of the leading U.S. peanut exporters.

Last, we discussed various aspects of the peanut program with a number of peanut producers from Georgia and Texas (two of the leading peanut-producing states); economists and peanut experts from various schools of agriculture and economics; directors of national and state associations representing peanut growers, processors, and manufacturers; directors of consumer advocacy groups; and procurement officials from several peanut shellers and manufacturers of peanut products.

We adjusted figures as necessary in this report to 1991 dollars to more accurately compare prices and costs over time. For this adjustment, we used the Gross Domestic Product implicit price deflator on a crop year basis, with 1991 being equal to 1.00. We also performed such tests and verifications of USDA's national quota allocations to states and counties and production cost data files as we deemed appropriate to ensure the completeness and reliability of the data we used.

We conducted our audit work from January 1991 through September 1992 in accordance with generally accepted government auditing standards. We obtained written agency comments on a draft of this report. USDA's comments and our evaluation of them appear in appendix IV.

# Changes in Agriculture and Peanut Farming Since the 1930s

Peanut farming, like other U.S. agricultural operations, has undergone a technological and economic revolution since the 1930s when the federal government first intervened in the agricultural market. The economic conditions that prevailed in agriculture when this intervention began—a large number of small farms, a sizable portion of the nation's population living on farms, and a relatively low income level—have changed dramatically. The large agribusinesses that dominate agriculture today bear little resemblance to the small farms that were common in the 1930s.

## The Number of Farms and Farm Residents Have Decreased While Acreage Has Remained Stable and Income Has Increased

The number of farms in the United States has decreased to about one-third of what it was during the peak farm period of the mid-1930s. From 1935 to 1990, the number of farms decreased by 69 percent—from 6.8 million farms to about 2 million farms. Similarly, the farm population decreased, from 31 million people in the mid-1930s (25 percent of the total population of 125 million) to 4.3 million people in 1990 (1.7 percent of the total population of 248 million). In other words, while 1 in 4 people in the United States lived on farms in the mid-1930s, only 1 in 58 people lived on farms in 1990. Partly because of the enormous decreases in the number of farms and farm residents, U.S. agriculture, which in the mid-1930s accounted for 34 percent of our gross national product, now accounts for less than 14 percent.

Despite the dramatic change in the number of U.S. farms and farm residents, the number of acres of cropland harvested has remained relatively stable, averaging about 333 million acres a year since 1935. The number has remained stable because the average U.S. farm has tripled in size, from 155 acres in 1935 to 461 acres in 1990, and many farms are much larger than average. For example, according to USDA's Agricultural Statistics 1990, the 308,600 farms with sales of $40,000 to $99,999 averaged 748 acres in size; the 214,300 farms with sales of $100,000 to $249,000 averaged 1,198 acres; and the largest 102,800 farms, with sales of $250,000 or more, averaged 2,256 acres.

Importantly, as the number of U.S. farms and farm residents decreased, the average income of farm families increased substantially in comparison with the average income of all U.S. families. According to the Department of Commerce's Bureau of the Census and USDA, the average income of farm families in the mid-1930s was only 53 percent of the average income of U.S. families. By 1990, the average income of farm operator households, then estimated at $39,007, was $1,604 greater than the average income of

all U.S. households. [1] In contrast to the 1930s, however, when farm families derived practically all of their income from farming, in 1990, farm operator households obtained about 85 percent of their income from sources outside the farm, and many farm operators worked primarily at occupations other than farming.

## Advances in Technology and Research Have Revolutionized U.S. Farming

Technological advances in agriculture over the past few decades have transformed small farms into larger, more specialized and industrialized operations, according to ERS studies. Increased applications of fertilizer, improved techniques for irrigation, and the development of new varieties of seed have brought about substantial increases in crop yields. Moreover, labor-saving technology, including mechanization and higher-capacity machinery, combined with improved chemical herbicides and pesticides, have reduced the amount of work required to produce crops. These advances have substantially increased farm concentration. According to ERS, technological innovations have allowed fewer farms to produce larger crop yields at lower costs.

## Changes in Peanut Farming Have Mirrored Changes in Other U.S. Agricultural Operations

Changes in peanut farming have paralleled many of the changes occurring in other U.S. agricultural operations. For instance, the number of peanut farms has deceased significantly as smaller farms have been consolidated to form larger-scale operations. Furthermore, the number of peanut producers has decreased to the point that, in 1991, over 80 percent of the available poundage quota was held by fewer than 6,200 quota peanut producers.

In contrast to the decreases in the number of peanut farms and producers, increases in peanut yields and overall production have been achieved through improvements in technology and agricultural practices. From the 1930s to the 1990s, U.S. peanut production has increased fivefold on about the same number of harvested acres.

## The Numbers of Peanut Farms and Producers Have Decreased While Farm Size Has Increased

Despite congressional initiatives to support the incomes of peanut producers and stabilize the domestic peanut supply, the number of U.S. farms producing peanuts has steadily decreased over time. During the 42-year period from 1950 to 1991 (the widest span of data available to us), the number of peanut farms with acreage allotments/poundage quota

[1]Before 1966, income data were maintained for families; after 1966, these data were maintained for households.

decreased from 172,981 farms to 41,249 farms. About 45 percent of this decrease occurred during the last 13 years (from 1978 to 1991) following the restructuring of the peanut program that began in 1977.

The limited data available to us for 1988 and 1991 indicate that the number of U.S. peanut producers (both quota and additional) continues to decrease. Our analysis of USDA data showed that in 1988, there were 29,999 peanut producers, whereas in 1991, there were 28,867 producers—a 4-percent decrease in 3 years. For quota peanut producers only, the number decreased from 23,454 to 22,088—a 6-percent decrease.

Even though the number of peanut farms and producers has decreased, the size of peanut farms has increased. For example, while peanut farms in 1950 averaged just over 12 acres in size, peanut farms in 1991 averaged over 49 acres. These averages are, however, derived from a wide range of farm sizes. In 1991, for instance, peanut farms that generated annual potential gross income of $50,000 or more from sales of quota peanuts (these farms held about 80 percent of the quota that year) varied in size from 63 acres to over 7,300 acres.

## Most of the Peanut Quota Is Held by a Small Number of Producers

As table 2.1 illustrates, 6,182 of the 28,867 quota and additional peanut producers in 1991—or fewer than 22 percent of all producers—held over 80 percent of the quota pounds. Together, these producers held nearly 2.8 billion pounds of the 3.5 billion pounds of quota available that year. Of similar importance, 2,334 of these producers—or 8.1 percent of all producers—held over one-half of the quota pounds; and 409 producers—or 1.4 percent of all producers—held nearly one-fifth of the quota pounds. [2]

[2]Chapter 3 of this report contains a more detailed discussion of the number of producers who grew peanuts in 1991, the range of quota pounds held, and the potential range of income received by each producer from the sale of his or her quota peanuts.

**Table 2.1: Number of U.S. Peanut Producers and Quota Pounds Held, Crop Year 1991**

| Number of producers | Percentage of all producers | Total quota pounds held (in millions) | Percentage of all quota pounds |
|---|---|---|---|
| 409 | 1.4 | 665.3 | 19.2 |
| 1,925 | 6.7 | 1,155.7 | 33.3 |
| **2,334** | **8.1** | **1,821.0** | **52.5** |
| 3,848 | 13.3 | 966.8 | 27.8 |
| **6,182** | **21.4** | **2,787.8** | **80.3** |
| 15,906 | 55.1 | 683.8 | 19.7 |
| **22,088** | **76.5** | **3,471.6** | **100.0** |
| 6,779 | 23.5 | 0 | 0 |
| **28,867** | **100.0** | **3,471.6** | **100.0** |

Note: For discussion purposes, we selected categories showing the numbers of producers who held about 20 percent, 50 percent, 80 percent, and 100 percent of the quota pounds, as well as the number of producers without quota.

Source: GAO analysis of the USDA computer files that contained specific information on peanuts for each U.S. peanut producer.

## Peanut Producers Have Become More Efficient Over Time

Since the 1930s, U.S. peanut producers, like producers of other agricultural crops, have become more productive and efficient. While the number of acres harvested annually has remained relatively constant, [3] improved technology has significantly increased peanut yields per acre. Through the use of higher-yield peanut varieties (such as the florunner peanut), advanced mechanization, fertilizers, insect and weed control, and irrigation, producers have far exceeded the peanut yields of the 1930s.

Although technological advances and other improvements in peanut farming, like most other agricultural operations, require large investments in specialized equipment and knowledge, the benefits derived from the higher yields appear to make those investments worthwhile. We found, for instance, that during the 3 crop years that we analyzed, from 50 percent to 70 percent of the peanut farms [4] consistently produced yields that

[3]In the 1930s, producers planted on average about 2.6 million acres of peanuts annually, but they harvested only 59 percent of that acreage—or 1.53 million acres. Since the 1950s, the acres planted have annually averaged 1.6 million acres, with 99 percent of these acres being harvested.

[4]Our analysis included only those farms with reported yields of 1,001 to 7,999 pounds per acre to eliminate those farms whose yields were considered extreme by economists from ERS and the University of Georgia.

exceeded USDA's national average trend yield of 2,500 pounds per acre. [5] In 1991 alone, about 46 percent of the farms had yields in excess of 3,000 pounds per acre, a figure nearly five times greater than the average peanut yield of 670 pounds per acre achieved in 1934. Primarily because of these increases in yields, U.S. peanut production grew from 1 billion pounds in 1934 to about 5 billion pounds in 1991.

[5]Since 1989, USDA has used 2,500 pounds per acre as its national average trend yield. To periodically check the reasonableness of this yield figure, USDA maintains a running value that represents an average for the annual peanut yields obtained during the previous 7 years, after the highest and lowest annual yields have been eliminated. USDA's trend yield cannot be expected to exactly represent the actual average peanut yield each year.

# Impact of the Peanut Program on Producers

As peanut farming has changed since the mid-1930s, so has the impact of USDA's peanut program on producers. For example, as we indicated in chapter 2, the increased concentration of smaller farms into larger-scale operations has consolidated control of most of the peanut quota in the hands of a relatively small number of producers. This, in turn, means that although one of the basic objectives of the peanut program—providing income support to producers—is being met, most of the income is being directed at the few thousand producers who hold large amounts of quota.

In determining the impact of the peanut program on producers, we found conditions suggesting that the established CCC loan rate (support price) for quota peanuts, which functions as the floor price for selling quota peanuts on the domestic market, has far exceeded USDA's average cost of producing peanuts. [1] From crop years 1982 through 1992, quota peanut producers had an opportunity to receive, on average, a support price of at least $697 per ton for their peanuts, whereas, according to USDA's calculations, the cost of producing peanuts was $463 per ton. [2] The difference of $234 per ton represents for quota peanut producers an average minimum net return after costs of 51 percent. [3]

In addition, quota peanut producers whose peanuts have been damaged or affected by adverse weather or disease are permitted to place their defective peanuts under CCC loan and subsequently receive the quota support price even though the peanuts will eventually be sold by the area associations at a lower price. This means that producers are guaranteed the high support price for their quota peanuts regardless of the quality or sales value of these peanuts.

The peanut program also gives producers—primarily those who grow additional peanuts—an opportunity to receive income through dividend

[1]Each year, ERS estimates an average per-acre cost of producing peanuts on the basis of data received from producers. ASCS uses this estimate to calculate production costs on a per-ton basis, using a national average trend yield of 2,500 pounds per acre, to make production costs comparable to the per-ton quota support price. The cost of producing peanuts, as defined by USDA, includes variable and fixed cash expenses plus profit allocations for capital equipment replacement and unpaid labor. Appendix III provides additional details on the cost of producing peanuts.

[2]As discussed in chapter 1, we have deflated prices and costs to 1991 dollars to provide more meaningful comparisons over time.

[3]Our estimate, which we consider to be conservative, assumes that (1) peanuts were sold at the minimum quota support price; (2) the costs to produce peanuts were average, as calculated by USDA; and (3) yields were 2,500 pounds per acre, which is the national average trend yield used by USDA to convert per-acre costs to per-ton costs. We recognize that while some producers' costs will be higher than average, others will be lower. Likewise, while some producers' yields will be higher than average, others will be lower; and while some producers will receive more than the minimum price for their peanuts, others will receive only the minimum price.

payments (i.e., profit distributions) from the three area associations when peanuts placed under CCC loan are sold for more than the established support prices. This program provision is designed to benefit both producers who grow additional peanuts and producers who grow a combination of quota and additional peanuts.

Last, the peanut program provides income support for persons who own farms with quota but do not wish to grow peanuts with that quota: It allows these persons to sell or lease their quota to producers who want to grow quota peanuts. Besides making income available to individuals who do not produce peanuts, this program provision raises expenses for producers who must buy or lease the quota in order to qualify for the higher quota support price. [4]

## A Small Number of Producers Benefit Most From the Peanut Program

Increasingly, most of the national poundage quota is being held by a relatively small number of producers. Consequently, most of the benefits of the peanut program—in terms of potential gross income—go to only a few thousand producers. Although data on actual net income received by each quota peanut producer are not available, we can estimate the potential gross income that the 22,088 quota peanut producers in 1991 would have received through the program, assuming that peanut production equalled the assigned quota and that producers sold their peanuts at the minimum support price of $643 per ton. Table 3.1 illustrates, by ranges, the potential gross income that each producer within various quota groups would have received. [5] (For example, of the top 409 producers holding the largest individual portions of the quota, the producer with the smallest portion—1,000,000 quota pounds—would have received gross income of $321,500, while the producer with the largest portion—18,262,701 quota pounds—would have received $5,871,458. Each of the remaining 407 producers in that group would have received gross income that fell within that dollar range, depending on how many quota pounds each one held and produced.)

[4]While USDA does not include in its calculation of production costs the amount that producers pay to acquire quota, the agency does include interest on real estate as a cost item. Consequently, to the extent that the value of the quota has been capitalized into the purchase price of the real estate, some of the expense of the quota sales and rentals would be accounted for.

[5]The number of producers in each group also appears in table 2.1 of this report.

**Table 3.1: Ranges of Quota Held and Potential Gross Income, by Specific Producer Groups, Crop Year 1991**

| Number of producers | Range of quota pounds held by each producer | Range of potential gross income received by each producer |
|---|---|---|
| 409 | 1,000,000 - 18,262,701 | $321,500 - $5,871,458 |
| 1,925 | 400,000 - 999,999 | $128,600 - $ 321,500 |
| 3,848 | 155,000 - 399,999 | $ 49,833 - $ 128,600 |
| 15,906 | 154,999 or less | $ 643 - $ 49,832[a] |

[a]This range of potential gross income does not include estimates for 796 producers in the group who each held less than 2,000 pounds of quota.

Source: GAO analysis of USDA's data on peanut producers and quota allocations.

Three important points emerged from our analysis of producers' potential gross income. First, the 6,182 producers who make up the first three groups of producers shown in table 3.1 held over 80 percent of the quota pounds in 1991, so most of the potential gross income from the peanut program went to fewer than 22 percent of all producers. Second, publications from the peanut industry and our discussions with producers and officials from USDA and the peanut industry indicate that, because the supply of marketable peanuts in the United States is limited by the national poundage quota and import restrictions, producers will usually sell their quota peanuts at $50 a ton to $150 a ton (in nominal dollars) above the established quota support price. Therefore, our estimates of potential gross income are conservative. Third, the income that quota peanut producers receive from the sale of their peanuts generally comes from U.S. consumers rather than from the federal government. Consequently, payments for each producer are not limited as they are for most other USDA income and price support programs.

## Quota Support Prices Are Considerably Higher Than the Cost of Producing Peanuts

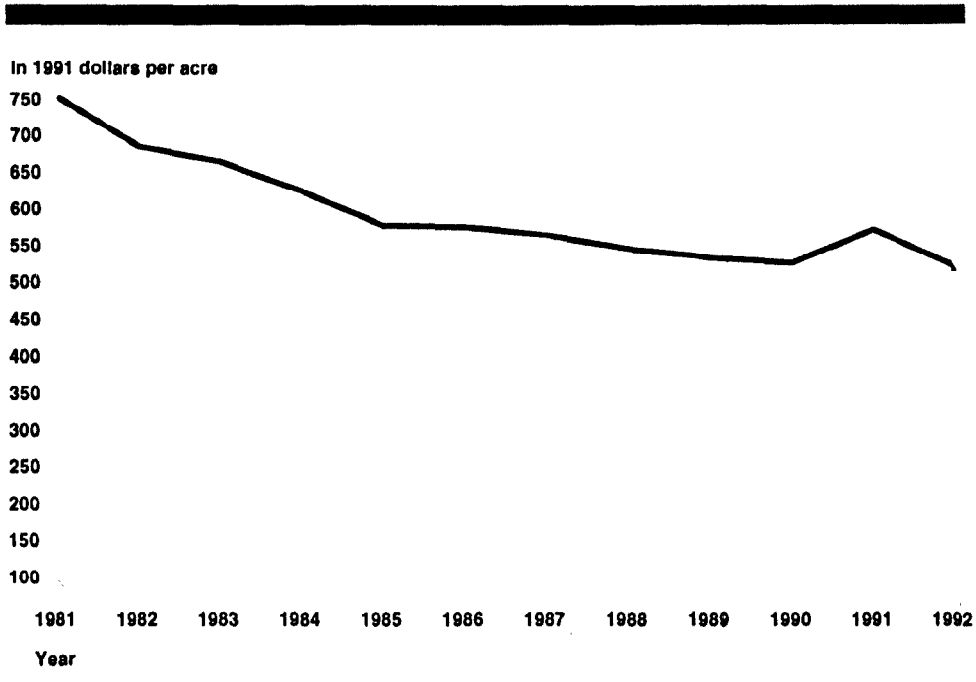
Peanut program legislation enacted by the Congress since 1981 has raised the established quota support price well above the average cost of producing peanuts. As a result, quota peanut producers have an opportunity to receive large net returns after costs on the domestic market. [6] While quota support prices, expressed in 1991 dollars, have experienced a general decline over time, so have production costs.

[6]Net returns after costs, as used in our discussion, cannot necessarily be equated with actual "profits" for producers. To determine profits, we would have to know the actual prices at which peanuts were sold and the actual production costs incurred.

## The Average Cost of Producing Peanuts in Real Terms Has Generally Declined

In 1981 and 1984, producers testified before the Congress that the annual cost of producing peanuts was rising. However, USDA data indicate that, in real terms, the average cost of producing an acre of peanuts has declined each year since 1981 except for 1991, a year that followed a widespread drought in the Southeast. Figure 3.1 illustrates, in 1991 dollars, how USDA's national average production costs on a per-acre basis have declined over time.

**Figure 3.1: USDA's National Average Cost of Producing an Acre of Peanuts, 1981-92**




Source: GAO presentation of USDA data.

## The Quota Support Price Is Significantly Higher Than Average Production Costs

In the 1981 legislation, USDA was directed to set the 1982 quota support price at no less than 27.5 cents a pound (38.41 cents, or $768 a ton, in 1991 dollars), a level that exceeded USDA's national average cost of producing peanuts that year by 41 percent. The legislation perpetuated this gap in subsequent years by instituting a cost escalator clause to ensure that the quota support price for 1983 through 1985 would increase each year in conjunction with any increase in the previous year's average production costs, excluding increases in the cost of land. [7] The cost escalator clause

[7]The peanut program is the only USDA commodity program except the tobacco program that directly ties increases in support prices to increases in production costs.

did, however, specify that each year's support price was not to exceed the previous year's support price by more than 6 percent.

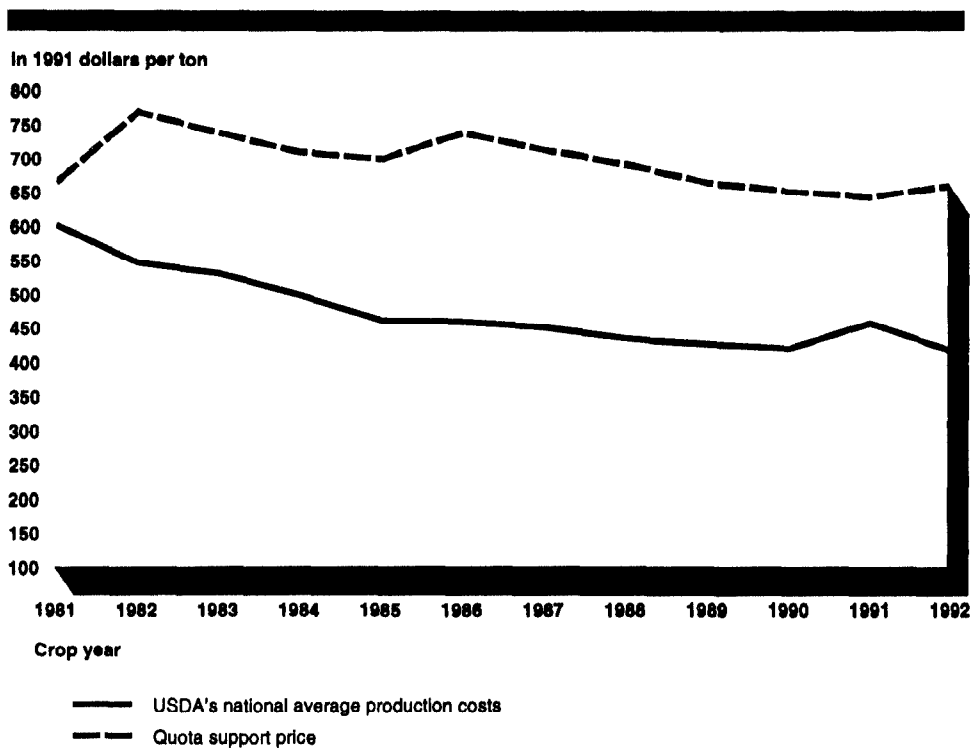
The provisions of the 1981 legislation were essentially retained in the Food Security Act of 1985, which covered quota support prices for 1987 through 1990. (For 1986 only, the legislation specified that USDA was to increase the support price on the basis of increases in the prices paid by producers for commodities and services, interest, taxes, and wage rates from 1981 through 1985 rather than on increases in the cost of producing peanuts. This provision helped to raise the 1986 quota support price to 61 percent above the average production costs for that year, thereby further widening the gap between support prices and production costs.) Last, in the Food, Agriculture, Conservation, and Trade Act of 1990, the Congress continued the provision linking increases in the quota support price to increases in the previous year's national average production costs. Currently, however, the yearly support price may not exceed the previous year's price by more than 5 percent.

None of the legislation specified that the quota support price should decrease if average production costs decreased, nor did the legislation specify what costs USDA was to consider, other than to exclude increases in the cost of land. Hence, in its yearly calculations, USDA uses variable and fixed cash expenses [8] plus an allowance for capital equipment replacement and unpaid labor to arrive at the national average cost of producing peanuts.

Figure 3.2 shows, in 1991 dollars, how the annual quota support price has exceeded USDA's national average production costs since 1981. As this figure indicates, the gap between the support price and production costs that began in 1982 has remained and, in some years, substantially increased.

[8]While cash expenses do not include the cost of land, they do include taxes and interest on real estate.

**Figure 3.2: Quota Support Price as Compared With USDA's National Average Cost of Producing Peanuts, Per Ton, 1981-92**




Note: Although, in real dollars, the quota support price experienced an overall decline, in nominal dollars, the price from year to year increased or stayed the same as legislatively mandated.

Source: GAO presentation of USDA data.

Table 3.2 further illustrates how the gap between the quota support price and the cost of producing peanuts affects producers' minimum net returns. As this table shows (in 1991 dollars), from 1982 through 1992 the quota support price averaged $697 per ton, while USDA's production costs averaged $463 per ton. Hence, producers could have received, on average, a minimum net return after costs of $234 per ton—representing a 51-percent return.

**Table 3.2: Minimum Net Returns After Production Costs, Per Ton, 1982-92**

In 1991 dollars

| Crop year | Quota support price | USDA's average production costs | Minimum net return after costs | Minimum net return (percent) after costs |
|---|---|---|---|---|
| 1982 | $768 | $546 | $222 | 41 |
| 1983 | 737 | 530 | 207 | 39 |
| 1984 | 708 | 498 | 210 | 42 |
| 1985 | 698 | 460 | 238 | 52 |
| 1986 | 737 | 458 | 279 | 61 |
| 1987 | 712 | 450 | 262 | 58 |
| 1988 | 691 | 434 | 257 | 59 |
| 1989 | 664 | 425 | 239 | 56 |
| 1990 | 651 | 419 | 232 | 55 |
| 1991 | 643 | 456 | 187 | 41 |
| 1992 | 659 | 416 | 243 | 58 |
| **Average** | **$697** | **$463** | **$234** | **51** |

Source: GAO analysis of USDA data.

## USDA's Calculations of Production Costs Benefit Producers With Higher Yields

In converting the cost of producing peanuts from a per-acre to a per-ton figure, USDA has, since 1989, used a national average trend yield figure of 2,500 pounds per acre as its conversion factor (as discussed earlier in this chapter). Consequently, USDA's average per-ton production costs reflect what the agency believes a producer with a 2,500-pound-per-acre yield would probably spend to grow a ton of peanuts. When producers attain yields in excess of USDA's average yield, however, they have an opportunity to increase their net returns after costs beyond those cited in table 3.2 (assuming that any increases in production costs are proportionally less than any associated increases in yields).

We found that, in 1991, almost 70 percent of the quota peanut farms produced higher-than-average yields. About 49 percent of these farms produced yields of between 2,501 and 3,500 pounds, and 21 percent produced yields of more than 3,500 pounds. [9] In light of our findings, we performed a more detailed analysis of the 2,334 producers who controlled 52.5 percent of the national quota in 1991 (see table 2.1) to determine their yields and potential net returns after costs. Our analysis showed that 1,945

[9]We performed similar analyses for 1988 and 1989 that showed comparable results. We did not compare yields achieved in 1990 because a widespread drought in the southeastern area, where the majority of peanuts are grown, caused abnormally low yields.

producers—or 83 percent of the total number—had reported average yields in excess of USDA's national average trend yield of 2,500 pounds per acre. For these 1,945 producers, we then estimated a range of the potential net returns after costs that the producers would have received from their quota peanut sales if (1) each producer had achieved the higher yields without exceeding USDA's estimated average production costs and (2) the peanuts had been sold at the quota support price (which would have been the minimum or floor price). On the basis of our limited analysis, we estimated that the 1,945 producers with higher-than-average yields would have received minimum net returns after costs ranging from 62 percent to 384 percent. The producer in the group with the highest average yield, who had 1,267,151 pounds of quota, would have received a minimum net return after costs of $323,000. Likewise, the producer in the group with the highest quota, who had a yield of 3,367 pounds per acre, would have received a minimum net return after costs of $3,170,000. We should point out, however, that some producers may incur above-average production costs to attain the high yields, while others may incur below-average costs. Thus, our estimates of minimum net returns after costs could be overstated or understated, respectively.

## Quota Producers Are Guaranteed the Support Price Regardless of the Quality of Their Peanuts

Quota peanut producers who harvest a crop but are unable to market it commercially because it has been damaged by weather, insect, or disease are protected under the peanut program by disaster transfer payments. CCC provides these payments to producers as insurance against the loss of income that occurs when the peanut quality is so reduced that the peanuts cannot be sold as edible.

To qualify for disaster transfer payments, producers first place their damaged quota peanuts in the CCC loan program and receive the additional support price ($150 in 1991). Then, at the end of the marketing season, CCC pays these producers an additional sum equal to the difference between the higher quota support price ($643 a ton in 1991) and the additional support price. CCC also sells the damaged quota peanuts at prices below the quota support price and absorbs any losses that result from the sales transactions.

Table 3.3 shows, in 1991 dollars, the disaster transfer payments that producers received from CCC for each of the crop years 1985 through 1990. As indicated, payments received during this 6-year period totaled over $63 million (averaging $10.5 million a year). The abnormally high

payments for 1990 were owing to a drought that reduced the quality of many quota peanuts that year.

**Table 3.3: Disaster Transfer Payments Provided to Producers by CCC**

In 1991 dollars, in millions

| Crop year | Disaster transfer payments |
|---|---|
| 1985 | $ 7.968 |
| 1986 | 13.303 |
| 1987 | 9.928 |
| 1988 | 7.363 |
| 1989 | 4.561 |
| 1990 | 19.990 |
| **Total** | **$63.113** |

Source: GAO presentation of USDA data.

## Producers Who Participate in the CCC Loan Program Are Also Eligible to Receive Dividends

The three peanut area associations that operate the CCC loan program for USDA provide additional income support, in the form of dividend payments from CCC, to participating producers who place quota and/or additional peanuts under loan. According to records maintained by the area associations, most of the dividend payments result from the sale of additional peanuts for use in the domestic edible market through the buyback provisions of the peanut program. (From 1986 through 1990, about 73 percent of the peanuts under loan were additional peanuts, of which 76 percent were good quality edible peanuts. The remaining 27 percent were quota peanuts of poor quality or those peanuts that producers were unable to sell through direct contracts with buyers.) Although producers of additional peanuts receive only the lower additional support price at the time they place their peanuts under CCC loan, the buyback provisions of the peanut legislation require that buyers pay the area associations at least the higher quota support price when those additional peanuts are purchased for domestic edible use. Much of the money received from the sale of peanuts under CCC loan is subsequently paid to producers as dividends.

On many occasions, peanuts under loan are bought back at competitive bid prices substantially above the support prices initially provided the producers, making it possible for some producers to receive large dividend payments even after the area associations' expenses have been deducted. Our review of the actual dividends paid to producers by two of the three area associations in 1991 (usable data were not available for the

Southwestern area association) showed that, of 10,748 producers, 39 producers each received dividends ranging from $100,000 to over $500,000; 1,343 producers each received dividends ranging from $10,000 to $99,999; and the remaining 9,366 producers each received dividends of less than $10,000.

As table 3.4 shows, from crop years 1981 through 1990, CCC—through the three area associations—paid producers $645 million (in 1991 dollars) in dividends. As previously mentioned, these payments supplemented the applicable loan rates, or support prices, that the producers had already received from CCC at the time they placed their peanuts under loan.

**Table 3.4: Dividends Paid to Producers by CCC**

In 1991 dollars, in millions

| Crop year | Dividend payments |
|---|---|
| 1981 | $ 26.635 |
| 1982 | 53.482 |
| 1983 | 48.044 |
| 1984 | 252.282 |
| 1985 | 30.949 |
| 1986 | 39.336 |
| 1987 | 86.694 |
| 1988 | 30.330 |
| 1989 | 25.128 |
| 1990 | 52.120 |
| **Total** | **$645.000** |

Source: GAO presentation of CCC's area associations' financial statements.

At times, particularly during drought years, individual area associations have been able to sell additional peanuts under loan on the domestic market at about eight times the additional support price and two times the quota support price. For example, as a result of the 1990 drought and the subsequent 10-percent decline in U.S. peanut production, the associations sold several lots of additional peanuts for as much as $1,200 a ton (in nominal dollars). Table 3.5 illustrates the average price per ton, in 1991 dollars, that the three area associations received from the sale of additional peanuts under CCC loan during crop years 1986 through 1990.

**Table 3.5: Average Price Per Ton for Additional Peanuts Sold by Area Associations**

In 1991 dollars

| | Area associations | | |
|---|---|---|---|
| Crop year | Virginia/ Carolina | Georgia/ Florida/ Alabama | Southwestern |
| 1986 | $ 995 | $1,064 | [a] |
| 1987 | 965 | 862 | $ 837 |
| 1988 | 488 | 446 | 782 |
| 1989 | 545 | 446 | [a] |
| 1990 | 1,108 | 1,031 | 1,008 |

[a]No additional peanuts were sold under the buyback provisions of the peanut program during this year.

Source: GAO analysis of CCC's area associations' sales records.

## Quota Owners Who Do Not Produce Peanuts Receive Income Through Quota Sales and Rentals

In addition to directly benefiting producers, the peanut program also benefits individuals who own farms with quota but elect to sell or rent their quota rather than grow peanuts with that quota. Although comprehensive data on quota sales are not available, USDA has gathered some statistics on quota rentals. For example, from its 1987 Farm Costs and Returns Survey, USDA estimated that about 50 percent of the national poundage quota was rented. If 50 percent of the quota was rented in 1991, then 1.55 billion pounds of the quota that year would have been owned by individuals who did not grow peanuts with that quota.

In 1967, the Congress passed legislation stating that acreage allotments under the peanut program could be sold or rented within the county where the initial allotments had been made. This provision was continued in subsequent legislation that replaced acreage allotments with the national poundage quota system. The effect of the sale and rental provision was to grant existing acreage allotment owners, now poundage quota owners, an income-producing asset even though they might no longer be producing peanuts. This asset has become a tradeable investment commodity, separate and distinct from actual peanut farming, with a market of its own. The income value of the quota is determined by the returns that quota peanut producers expect to receive from the sale of their peanuts.

According to economic studies we reviewed and an agricultural economist we interviewed, the legislative provision that prevented quota from being sold or rented outside county boundaries limits competition among U.S.

producers because it prevents producers in other counties and states, who may be able to grow peanuts more efficiently, from obtaining quota. This provision also (1) encourages producers to continue growing peanuts on low-yielding farms even though the land may be depleted after years of improper crop rotation and (2) raises production costs and increases the potential for environmental damage as producers use more chemicals to maintain productivity.

While providing income for some, the sale or rental of quota becomes an expense for others. For example, whenever a peanut producer buys quota from a previous quota owner, the price paid becomes income for the seller and an expense for the buyer. In addition, that quota then becomes part of the buyer's farm. Consequently, the value of the farm increases to reflect the sales value of the quota. This, in turn, simultaneously increases the property taxes associated with the farm and the cost of producing quota peanuts. Similarly, whenever a peanut producer rents quota from a quota owner, the rental payment, which becomes income for the quota owner, becomes an additional expense for the producer who wants to grow quota peanuts.

## Income From Quota Sales Can Be Substantial

Although the selling price for quota may vary by state or growing area, USDA county officials and producers we spoke with indicated that peanut quota generally sells at 50 cents to 60 cents a pound. Therefore, a farm with 100,000 pounds of quota would be valued at $50,000 to $60,000 more than a similar farm without quota. As the following illustrates, quota can be very valuable: A timber company located in a south Georgia county asked for initial bids of 60 cents a pound to sell its 400,000 pounds of quota. If the minimum bid had been accepted, the quota from that one sales transaction would have been valued at $240,000.

We did not collect data on quota sales from all peanut-growing states. However, we did obtain data from Georgia indicating that, in 1990, 271 quota owners sold about 3.8 million pounds of quota to others. Assuming that these individuals sold their quota at 60 cents a pound, we estimate that quota sales in Georgia alone for 1990 provided income of about $2.3 million to previous quota owners.

## Quota Rentals Are Valued at Millions of Dollars Each Year

In a competitive quota rental market, the rate for renting peanut quota should equal the difference between the expected quota support price and the expected U.S. export price for peanuts. In 1991, the quota support

price was $643 a ton and the U.S. export price averaged about $342 a ton[10] —a difference of $301 a ton. Therefore, if producers' expectations of the difference between the support price and the export price were accurate, the 1991 quota rental rate for peanuts would have been 15 cents a pound. Officials from USDA and the peanut industry told us, however, that quota rentals in 1991 ranged from 10 cents to 14 cents a pound. On the basis of these varying figures, we estimate that a reasonable quota rental rate in 1991 would have been 12 cents a pound.

USDA farm ownership and producer files we reviewed indicated that 68 percent of the persons who owned farms with quota in 1988 [11] rented out their quota to others. Together, those individuals rented out 56 percent of the quota pounds available that year. In other words, more than one-half of the quota provided under the peanut program in 1988 was owned by individuals who did not grow peanuts with that quota: Instead, they rented the quota to producers who wanted to grow quota peanuts. If 56 percent of the national poundage quota in 1991—or 1.736 billion pounds of the total quota of 3.1 billion pounds—was rented at 12 cents a pound (which, as we explained previously, is what we consider to be a reasonable estimate), the value of quota rentals for that year alone would have been $208 million. [12] As previously noted, the millions of dollars that persons who own quota receive as rental income each year also represent millions of dollars that peanut producers spend to rent the quota in order to grow quota peanuts.

[10]This was the farmers' stock basis price, which is for unprocessed, unshelled peanuts.

[11]The latest year for which data were available at the time of our review.

[12]Our estimate assumes that all of the quota was rented at the same price, regardless of whether the quota was rented off the owners' farms, as part of the owners' farms, or through profit-sharing arrangements.

# Impact of the Peanut Program on Consumers, the Government, and International Trade

The restructuring of the peanut program that began in 1977 transferred much of the cost of the program from the federal government to U.S. consumers of peanuts. Economic studies and our analysis show that the cost of the peanut program to U.S. consumers averages anywhere from $314 million to $513 million a year (in 1991 dollars). About 76 percent to 88 percent of the cost to consumers is transferred as income to producers through program-imposed quota support prices that are considerably higher than world prices. The remaining portion of the cost to consumers represents an economic loss—referred to by economists as a social welfare loss—that benefits no one.

Even though the peanut program adds hundreds of millions of dollars each year to U.S. consumers' costs for peanuts, USDA still incurs costs to operate the program. From 1986 through 1990, the peanut program cost USDA, on average, $34.4 million a year in 1991 dollars. [1] These costs covered CCC loan losses, program administration, disaster transfer payments, and export promotion grants. Not reflected in these costs are the increased costs that USDA's food assistance programs incur because they are required to buy domestic peanuts at or above the quota support price, which is generally much higher than the world market price for peanuts.

The impact of the peanut program does not necessarily stop at the U.S. border; the program may also affect international trade. For example, the program may influence the volume of peanuts that U.S. producers export and, hence, the world price of peanuts. The volume of U.S.-produced peanuts available for export generally depends on the volume of peanuts remaining after the domestic market has been satisfied. However, the magnitude of the peanut program's effect on exports and the world price of peanuts cannot be determined because it is not known how U.S. producers and the world market would react without the program.

## Consumers Pay for Producers' Benefits

As chapter 1 explains, the peanut program, like many other commodity programs, supports producers' income by ensuring that producers receive higher prices for their commodities than they would receive without government intervention. In some other commodity programs, however, such as those for wheat and corn, the funds used to support higher prices

[1]For 1992, USDA projects that CCC loan losses alone will cost the government about $135 million ($132 million in 1991 dollars) because (1) the quota was set significantly higher than demand, resulting in more quota peanuts being placed under loan and (2) CCC was unable to sell many of the additional peanuts under loan through the buyback provision or export them to the world market. Consequently, good quality edible peanuts had to be crushed and sold by the area associations at prices substantially below the loan rates (support prices) that CCC had previously paid the producers.

come directly from the U.S. Treasury. In contrast, the peanut program transfers most of the cost of its price supports from the federal government to U.S. consumers through the interaction of price and supply control mechanisms.

Under the peanut program, producers' incomes are supported primarily through transfers, that is, a "tax" that consumers pay to producers in the form of higher market prices for peanuts. These transfers are implemented through three mechanisms: (1) a guaranteed minimum support price for quota peanuts, (2) supply controls on the volume of peanuts that can be sold at the quota support price, and (3) import restrictions.

Without the first mechanism—support prices—U.S. producers would receive whatever price was established in the world market for peanuts. With support prices, however, producers who sell peanuts on the U.S. market receive considerably more than they would receive on the world market. From 1982 through 1989, for example, the world market price for U.S. peanuts averaged $494 per ton, whereas the quota support price set by the peanut program averaged $714 per ton. [2]

Without the second mechanism—supply controls—producers would supply more peanuts at the high quota support price than consumers would buy. Therefore, the government reduces its cost exposure by limiting the volume of peanuts that producers can sell at the quota support price. Otherwise, the government would have to purchase and store—at taxpayers' expense—the difference between what producers would grow and consumers would buy at the quota support price.

Without the third mechanism for supporting producers' income—import restrictions—lower-priced imported peanuts would be allowed to compete with domestically produced peanuts. To the extent that imported peanuts could be substituted for domestic peanuts and peanut products, the imports would put downward pressure on domestic peanut prices.

In addition to these three mechanisms, the buyback provision of the peanut program also raises market prices for U.S. consumers. Under this provision, additional peanuts, which are usually exported or crushed for oil or meal at prices lower than the quota support price, can be purchased for use in the domestic market. However, the buyers (i.e., consumers) of these additional peanuts must pay at least the higher quota support price,

[2]This time frame represents the 8-year period covered by the economic studies and our analysis of consumers' costs.

plus other mandated fees. On the positive side, the buyback provision does help to level domestic prices by allowing additional peanuts into the domestic market. In this way, the provision serves as a safety valve for the peanut program by maintaining the quota support price at times when the national poundage quota has been set below actual demand.

## Annual Average Cost to Consumers Is Significant

We reviewed a number of economic studies to determine how much the peanut program increased the cost of domestic peanuts for U.S. consumers during the period from 1982 through 1987. [3] Using a methodology similar to that typically used in two studies that measured the welfare effects of the peanut program, we also estimated the cost to consumers resulting from the program for the period from 1986 through 1989. [4] The economic studies and our analysis indicate that the average cost to consumers over the periods covered by each of the studies ranged from $314 million to $513 million a year (in 1991 dollars), as shown in table 4.1. About 76 percent to 88 percent of this cost was transferred directly to producers as income, and the remaining cost represented a loss in social welfare caused by inefficiencies in production and consumption. A production inefficiency arises when high-quality edible peanuts that could be purchased under the buyback provision are being used for lower-value products, such as peanut oil or meal. A consumption inefficiency arises when the quantity of peanuts that consumers would purchase at the higher quota support price is less than what they would purchase at the lower world market price.

[3]Appendix I discusses each of the studies we reviewed.

[4]Our analysis of the cost to consumers is based on the relationship between the government's support price for peanuts and the world price for U.S. peanuts. The methodology for our technical economic analysis of the peanut program is discussed in appendix II.

**Table 4.1: Summary of the Average Annual Effects of the Peanut Program**

In 1991 dollars, in millions

| Study[a] | Consumer costs | Producer transfer costs | Producer transfer costs as a percentage of consumer costs | Social welfare loss | Social welfare loss as a percentage of consumer costs |
|---|---|---|---|---|---|
| Rucker | $338 | $299 | 88 | $ 39 | 12 |
| Mehra 1 | 505 | 392 | 78 | 112 | 22 |
| Mehra 2 | 513 | 392 | 76 | 121 | 24 |
| GAO 1 | 314 | 260 | 83 | 53 | 17 |
| GAO 2 | 317 | 260 | 82 | 57 | 18 |

Note: Figures may not add because of rounding.

[a]Rucker's study covered crop years 1982-87 using a price elasticity of demand of -0.14; Mehra 1 covered 1984-87 using -0.14; Mehra 2 covered 1984-87 using -0.20; GAO 1 covered 1986-89 using -0.14; and GAO 2 covered 1986-89 using -0.20.

Source: GAO analysis and presentation of data from economic studies.

## The Peanut Program Also Costs the Federal Government Millions of Dollars

The federal government's (i.e., USDA's) average annual costs resulting from the peanut program were substantially reduced by legislative changes in 1977 and 1981, which transferred most of the program's cost to U.S. consumers. Nevertheless, from 1986 through 1990, USDA still incurred average costs (in 1991 dollars) of $34.4 million a year: $14.5 million to cover CCC loan losses, $4.5 million for program administration, $11.0 million for disaster transfer payments, and $4.4 million to help producers and exporters develop foreign markets for their peanuts and peanut products. In addition to these USDA costs, which are for the most part directly related to the peanut program, the agency incurs higher costs in its food assistance programs because it must buy peanuts and peanut products at the quota support price rather than at the lower world market price.

## CCC Loan Losses Have Declined Since the 1970s

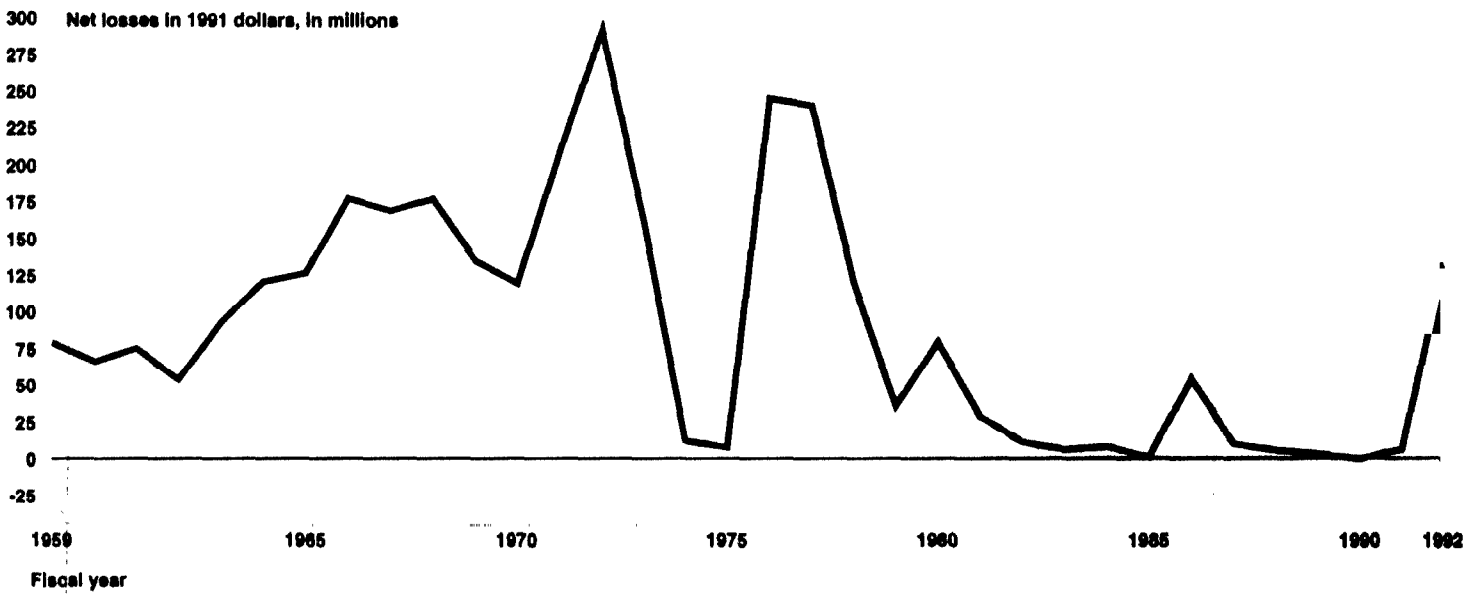
In supporting the loan provision of the peanut program during the 1970s, CCC realized net losses [5] of about $1.4 billion, or an average loss of about $144 million a year. [6] In contrast, during the 1980s, CCC realized net losses of about $206 million, or an average loss of about $21 million a year—a

[5]As used by CCC, these losses reflect costs resulting from the disposal of peanuts under loan as well as direct loan payments to farmers.

[6]All figures are presented in 1991 dollars.

substantial decline in losses from the previous decade. During the latter half of that decade, from 1986 through 1990, CCC losses declined rapidly—from a $54-million loss in 1986 to a $103,000 gain in 1990—or an average loss of about $14.5 million a year for that 5-year period. Figure 4.1 shows CCC's net realized losses from the peanut program since 1959 (the earliest year for which the losses could be deflated to 1991 dollars using the gross domestic product (GDP) implicit price deflator).

**Figure 4.1: CCC's Net Realized Losses From the Peanut Program, 1959-92**




Note: CCC losses for 1992 were estimated by USDA in March 1992.

Source: GAO presentation of USDA data.

As the figure illustrates, most of the losses occurred before the program was restructured by the Congress in 1977 and 1981. Part of the reduction in CCC's net realized losses was achieved through the imposition of a national poundage quota, as a result of which lower volumes of peanuts were generally placed under CCC loan. In addition, a program requirement

that each of the three area associations cover any loan losses incurred by the other two associations helped to reduce the CCC losses.

Despite the recent decline in CCC loan losses, USDA estimates that CCC losses in 1992 will cost the government about $132 million (in 1991 dollars), a tremendous reversal of the past trend. USDA officials told us that CCC loan losses will increase this year because USDA overstated demand in setting the national quota and domestic peanut production was the highest in history. Also, peanut legislation does not allow USDA to include in its quota calculations the amounts of inventories and stocks carried over by the industry from one crop year to the next. If these amounts are not included, the national quota can be overstated, especially during years when inventory and stock levels are high. USDA officials said that the industry's carryover inventories and stocks generally average about 800 million pounds a year, but, for crop year 1991, the level was expected to reach over 1.2 billion pounds.

## Other Program Costs to the Government

As part of its legislative responsibilities, USDA must also administer the peanut program, make disaster transfer payments to producers, and provide export promotion grants to help producers and exporters develop foreign markets for their products. From 1986 through 1990, USDA spent on average about $19.9 million a year (in 1991 dollars) on these activities.

Estimates provided by USDA show that the agency's costs to administer the peanut program during this 5-year period averaged about $4.5 million a year. These costs included salaries paid to staff to manage the program at the federal, state, and county levels. Program management includes setting annual support prices and quota levels, policing the quota system for violations, and monitoring domestic use and export activities.

Furthermore, USDA provided disaster transfer payments, averaging about $11 million a year, to producers to compensate them for losses in the quality of their peanuts attributable to adverse conditions. As chapter 3 explains, USDA incurred these costs because the peanut program guarantees the quota support price to producers who place their damaged quota peanuts under CCC loan even if the area associations are unable to sell these peanuts on the market at the quota support price.

USDA also spent approximately $4.4 million each year to help peanut producers and exporters develop foreign markets for their products. These costs to the government, which are separate from USDA's program

administration costs, are provided as annual export promotion grants to the National Peanut Council of America.

## The Peanut Program Also Affects the Costs of Other Government Programs

The peanut program also affects the costs of federal food assistance programs for which the government purchases domestic peanuts or peanut products. USDA, for example, purchases peanut butter for several of its food assistance programs, including the school lunch program and programs that provide food for the elderly, for child nutrition, and for emergency family assistance. Because the peanut program requires USDA, like other U.S. consumers, to buy its peanuts at the quota support price, the agency's costs are higher than they would be without the program.

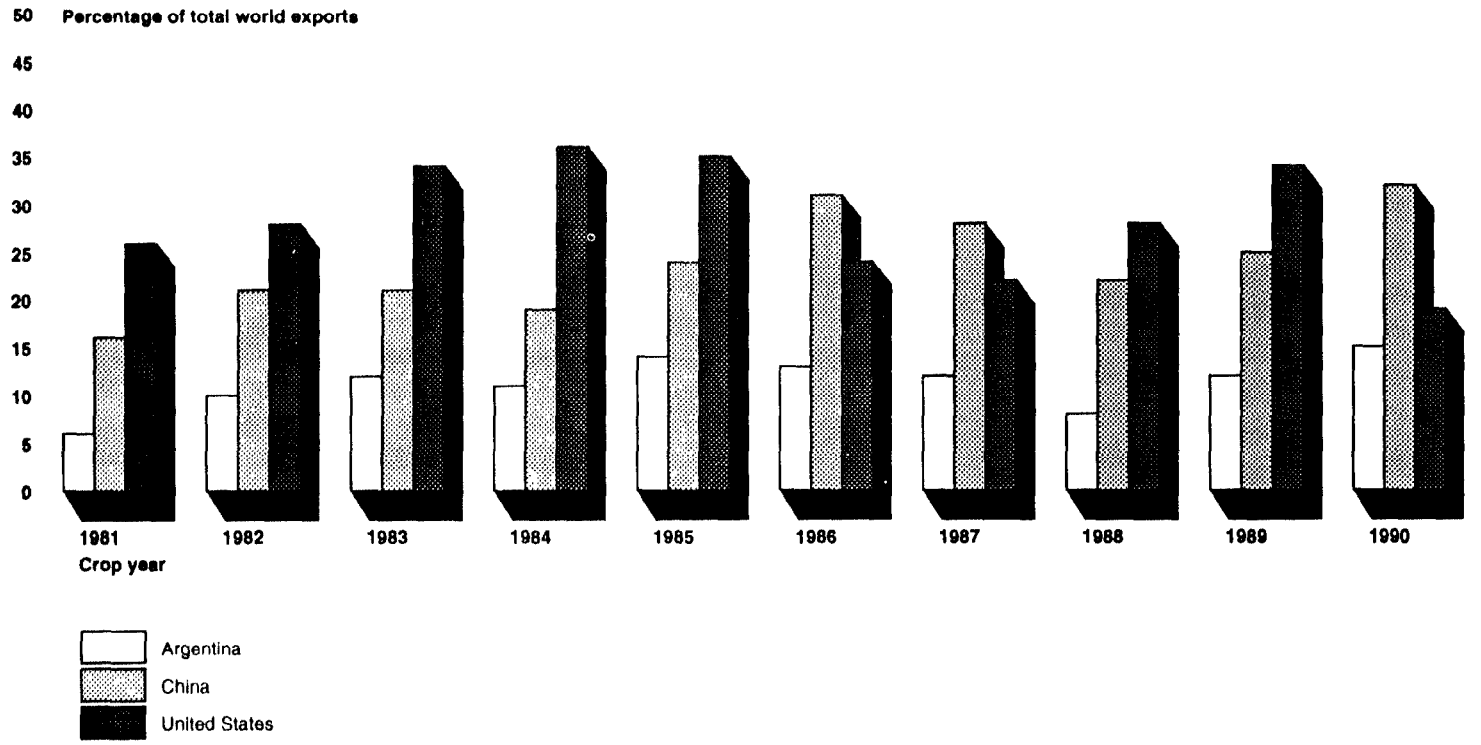
According to USDA officials, peanut prices rose so high during the 1990 crop year that the government had to buy less peanut butter than usual for its food assistance programs. These officials said that peanut butter prices more than doubled that year—from about 81 cents a pound to about $1.78 a pound (in nominal dollars)—because peanut production was reduced by widespread drought and related crop diseases. Consequently, USDA's procurement of peanut products for the emergency family assistance program dropped from over 70 million pounds in 1990 to about 100,000 pounds in 1991. Similarly, procurement of peanut products for the school lunch program dropped from 18 million pounds to just over 8 million pounds. According to USDA officials, peanut butter is the preferred protein product for food assistance programs, but when peanut butter prices rise above 95 cents a pound (in nominal dollars), USDA must seek alternative lower-priced products that may not be as high in protein.

## The Peanut Program May Affect International Trade

The United States, China, and Argentina are the three leading exporters of peanuts in the world. As figure 4.2 shows, the United States was the leading exporter in 7 of the 10 years from 1981 through 1990. [7]

[7]At the time of our review, 1990 was the latest year for which data on peanut exports were available for comparisons with information from other countries.

**Figure 4.2: Peanut Exports From the United States, China, and Argentina as a Percentage of Total World Peanut Exports, 1981-90**




Source: GAO presentation of USDA data.

In 1990, the United States exported 474 million pounds of peanuts valued at approximately $103 million (in 1991 dollars). Given the volume of these exports, nearly all of which were peanuts for edible use, the peanut program may affect the international market as well as the domestic market. Under the peanut program, domestic consumers buy fewer peanuts at the high support price than they would buy if the program did not exist. Peanuts that are not bought domestically because of their high price then become available for export. If the program does not discourage domestic production more than support prices discourage domestic consumption, then more peanuts become available for export with the program than without it. This addition to the world supply of

peanuts should cause a decline in the world price for peanuts. Therefore, consumers outside the United States gain because they can purchase U.S. peanuts at the lower world price. Conversely, producers in other countries lose because they receive lower prices for their peanuts than they would if the program did not exist. [8]

Although the peanut program probably has some effect on international trade, the magnitude of its effect is unclear. This is because there is uncertainty as to the extent that (1) the program results in additional U.S. exports, (2) the quantity of U.S. exports affects world prices, and (3) producers would respond to price changes on the world market if the program did not exist.

[8]One economist we spoke with said that the buyback provision of the peanut program could cause fewer peanuts to be exported than would be the case if there were no peanut program. If this is the case, the program is keeping world prices higher. Under this scenario, both domestic and international producers gain, while consumers lose.

# Conclusions and Recommendations to the Congress

## Conclusions

The chaotic agricultural and economic conditions that caused the Congress to establish the peanut program 58 years ago no longer exist. Most peanuts in the United States today are produced by large agribusinesses rather than by the small family farms that dominated agriculture in the 1930s. Moreover, in view of ongoing and future negotiations concerning changes in agricultural policies, domestic policies have become increasingly vulnerable to criticism because of their contribution to budgetary expenditures by taxpayers and costs to consumers, in addition to trade disputes. As agreements are reached among the major agricultural trading nations, government supports such as those associated with the peanut program are likely to change. For this reason, the Congress needs to take a closer look at the peanut program and determine how it can become more responsive to market forces.

Of the 28,867 producers who grew peanuts in 1991, 6,182 producers held over 80 percent of the available poundage quota. In other words, most of the benefits derived from the peanut program today are being concentrated in the hands of a small number of producers. In monetary terms, each of the 6,182 producers who held most of the quota in 1991 had the potential to receive gross income ranging from about $50,000 to $6 million, depending on the portion of quota that each producer held.

Also, the quota support price—which represents the minimum price at which edible peanuts can be sold in the United States—has since 1982 been set at a level high enough to provide producers, on average, a minimum net return after production costs of 51 percent. Besides creating a high return, this price, which generally exceeds the world market price by a substantial margin, causes U.S. consumers to pay more for peanuts and peanut products than foreign consumers pay. The large gap between the quota support price and production costs first appeared in 1982 when the support price was set at a level 41 percent above costs. This gap has been perpetuated by a cost escalator clause in the legislation that requires the quota support price to increase each year in response to increases in the cost of producing peanuts. The legislation does not, however, require the quota support price to decrease if costs decrease. Revising the process to bring the quota support price more in line with production costs and world market prices would reduce the high net returns to producers while also lowering the costs to U.S. consumers.

Since 1934, the characteristics of the peanut program's beneficiaries have changed dramatically. For example, owners of the poundage quota—who under earlier legislation would have been peanut producers with acreage

allotments—are now allowed to sell or rent their quota to others within their respective counties or states rather than grow peanuts themselves. Through this provision, over one-half of the available quota is sold or rented to others each year. However, because quota cannot be transferred outside county boundaries, producers are encouraged to continue growing peanuts on low-yielding farms, and production costs and the potential for environmental damage increase as producers use more chemicals to maintain productivity.

When the peanut program was restructured by the Congress in 1977 and 1981, most of the program's costs were transferred from the federal government to U.S. consumers. Economic studies and our analysis show that the peanut program adds, on average, anywhere from $314 million to $513 million a year to consumers' costs. In addition, USDA—and ultimately the taxpayer—spends tens of millions of dollars each year to administer the program, provide disaster transfer payments to producers, cover CCC loan losses, and promote peanut exports. Last, USDA incurs higher costs in its food assistance programs because the agency is required to purchase peanuts and peanut products for these programs at the quota support price rather than at the lower world market price. The impact of this requirement was especially noticeable in 1990 when a widespread drought caused the price of domestic peanut butter to increase beyond USDA's ability to pay. Consequently, many persons who are dependent on food assistance programs did not receive the high-protein peanut products that USDA officials say is preferred for these programs.

## Recommendations to the Congress

In view of the many changes that have occurred in agriculture since the peanut program was created in 1934, including globalization of agricultural markets, a reduction in the number of peanut producers receiving most of the program benefits, and increased costs to consumers, we recommend that the Congress restructure the peanut program to make it more responsive to market forces. In restructuring the program, the Congress should provide for a period of transition to allow producers time to make adjustments in their investment decisions. In determining the length of any transition period, the Congress, with assistance from USDA, should consider such factors as (1) producers' recent expectations concerning the life of the peanut program and (2) the useful life of capital investments in equipment specifically purchased for peanut production.

As part of this restructuring, we specifically recommend that the Congress:

- Reduce the annual quota support price so that, over time, the price will more closely parallel the cost of producing peanuts and the world market price. Such action would reduce the net returns after costs that quota peanut producers now receive, as well as reduce costs to U.S. consumers and the government.
- Reexamine the method of assigning quota in view of the fact that a large volume of quota is owned by persons who do not grow peanuts with that quota. If the poundage quota system is continued, the Congress should allow quota to be transferred to producers outside the boundaries of counties where quota is currently assigned in order to promote competition among the more efficient peanut producers.
- Amend the peanut legislation to allow the quota support price to decrease as well as increase each year as production costs decrease and increase.
- Permit government agencies such as USDA, which procures peanuts and peanut products for various food assistance programs, to purchase domestic peanuts at the world market price rather than at the higher quota support price.

## Agency Comments and Our Evaluation

In commenting on a draft of this report, USDA concurred with our recommendations but did not agree with all of our interpretations of data and conclusions. In particular, USDA questioned our estimate of the value of quota rentals and our definition of consumer.

While USDA's comments suggest that the agency agrees with us that a large portion of the available quota is rented each year, USDA implies that our estimate of the rental rate may not apply to all types of rental arrangements, such as those that apply to sharecropping and leased farms. Our intent was to conservatively estimate the impact of the peanut program's provision that has allowed over one-half of the quota owners to rent their quota to others each year rather than to grow peanuts themselves. Although we believe our estimate of 12 cents a pound is reasonable as an overall indicator of the value of quota rentals, we did not analyze the specific rental arrangements of all peanut producers to obtain an actual figure for rental income. According to USDA and peanut industry officials whom we interviewed, the value of quota rentals for 1991 ranged from 10 cents to 14 cents a pound.

USDA said that the term "consumer" as used in our report needed to be defined and we needed to mention that price fluctuations for the first purchasers of peanuts may not be passed directly to the final retail consumers. Our report clearly states that we measured consumers' costs

at the "first buyer" level. This is a standard technique for capturing the impact of the program at the level in the marketing chain that is closest to the point at which the impact occurs. Generally, some portion of changes in the cost of an input of production is passed on to the next buyer and ultimately to the end user.

While we made minor revisions to our final report to address USDA's comments, none of the revisions changed the message of the report or our conclusions or recommendations. USDA's comments and our evaluation of them are included as appendix IV.

# Summary of Economic Studies Reviewed by GAO

We reviewed 19 economic studies to aid us in assessing the economic impacts of the peanut program. We reviewed studies that, among other things, (1) attempted to measure the cost of the program to consumers, (2) analyzed the macroeconomic effects of the peanut program and agricultural policies, and (3) provided general descriptions of the program. Two of these studies—one by Mehra and one by Rucker and Thurman—were used extensively in our analysis of consumers' costs because they measured the welfare effects of the peanut program most completely. The following summarizes the studies that we reviewed. [1]

## Studies That Measure the Costs of the Peanut Program to Consumers And/or Gains to Producers

Mehra, Rekha. Gains and Losses From the U.S. Peanut Program. Unpublished USDA/ERS manuscript, no date.

Rucker, Randal R. and Walter Thurman. "The Economic Effects of Supply Controls: The Simple Analytics of the U.S. Peanut Program." Journal of Law and Economics, Vol. XXXIII (Oct. 1990).

Schaub, James. Peanut Demand Estimates and Consumers' Cost of the Peanut Program. [2] Paper presented at the annual meeting of the American Peanut Research and Education Society, Orlando, Fla. (July 14-17, 1987).

Each of these studies (and our analysis) used the general model described in appendix II to measure the consumer costs associated with the peanut program. The estimates in the studies differ because of variations in (1) the time period covered by each study, (2) the data used to measure the difference between the domestic price established by the program and the world market price, (3) the data used to measure the quantity of buybacks and estimates of peanut consumption, (4) the price elasticity of demand for peanuts used, and (5) the inclusion of the social welfare loss associated with the buyback portion of the program.

All three studies measured the costs to consumers resulting from the peanut program during the 1980s. Rucker and Thurman's study covered the years 1982-1987; Mehra's, 1984-1987; and Schaub's, 1986.

[1]Prices and costs presented in this appendix, which are shown as reported by the studies, may represent nominal or real dollars with different base years. Therefore, they may not be directly comparable with the prices and costs presented in other sections of this report, which are in real dollars deflated by the GDP implicit price deflator, 1991 = 1.00 on a crop year basis.

[2]Because the cost estimates in this paper did not include the social welfare loss associated with the buyback provision, they were not used in our analysis.

To measure world price, Rucker and Thurman, Mehra, and Schaub used the price for additional peanuts contracted for export. This contracted price, however, may differ from the price for which peanuts are actually sold. (In contrast, our analysis used the Rotterdam price for U.S. peanuts adjusted for transportation from the United States, as calculated by the International Trade Commission in its studies on tariffication, because Rotterdam is the major trade center for agricultural products.)

Because of the proprietary nature of contracts between producers and buyers, there is no consistent published price for peanuts sold domestically. Mehra used a reconstructed domestic market price for quota peanuts that is generally higher than the average quota loan rate used by Rucker and Thurman, Schaub, and us.

Rucker and Thurman and Schaub estimated demand equations for peanuts and used the elasticities derived from their respective estimates to calculate the costs to consumers. While Rucker and Thurman used a demand elasticity of –0.14 and Schaub used an elasticity of –0.20, Mehra used both elasticities in her estimates, as did we.

Rucker and Thurman, Mehra, and we included an estimate for the social welfare loss associated with the use of buybacks in the peanut program, [3] and Schaub did not. Inclusion of this additional loss does not affect the total measure of consumers' costs. It does however, affect how these costs are transferred to become income to producers and a loss to society. For this reason, Rucker and Thurman and Mehra record significantly larger measures of social welfare losses than Schaub.

Economic Report of the President, 1986, and Economic Report of the President, 1987. Council of Economic Advisors. Washington, D.C.: U.S. Government Printing Office (GPO).

These two reports were not included in our analysis because their estimates of costs to consumers caused by the peanut program were made to forecast the impact of farm legislation in 1985. Estimates made in subsequent studies by Mehra and by Rucker and Thurman actually measured the consumers' costs that occurred in 1986 and 1987; therefore, their studies superseded the forecasts presented in these two reports. The

[3]Rucker and Thurman and Mehra implied that, in addition to the usual social welfare loss associated with consumers' costs, another social welfare loss is associated with the use of buybacks. This loss occurs because the rules for sharing profits from the pool encourage the placement of "too many" high-quality edible peanuts into the pool. As a result, edible peanuts end up being crushed. This represents an economically wasteful use of high-quality peanuts.

annual loss to consumers from the peanut program under the 1985 legislation was forecast at $184 million in 1986 and $200 million to $400 million in 1987.

Bateman, Merrill. The Economic Consequences of Ending the U.S. Import Quota on Peanuts, Commodity Information, Inc. (May 1989).

This paper estimated consumers' costs associated with the peanut program at $378 million. However, because the author was unable to substantiate for us how the numbers had been derived, we did not include this paper in our analysis.

The Economic Effects of Significant U.S. Import Restraints, Phase II: Agricultural Products and Natural Resources. U.S. International Trade Commission (USITC). Report to the Committee on Finance of the United States Senate on Investigation No. 332-262 Under Section 332 of the Tariff Act of 1930, USITC Publication 2314 (Sept. 1990).

This study estimated consumers' costs associated with the peanut program at about $1.4 million for crop year 1988-89. This estimate is substantially lower than any of the estimates presented in other studies that we reviewed. Our conversations with the authors revealed that the estimates provided in the study covered only a portion of the peanut program. For this reason, the authors recommended that their study not be included in our analysis.

Fletcher, Stanley M. and Dale H. Carley. U.S. GATT Proposals: Potential Impact on U.S. Peanut Farmers. College of Agriculture, University of Georgia, Griffin, Georgia. Unpublished draft report, no date.

Fletcher, Stanley M. and Dale H. Carley. Factors Affecting Consumption of Edible Peanuts in the United States and Impact on Farmers. College of Agriculture, University of Georgia, Griffin, Georgia. Unpublished draft report, no date.

We did not include these two studies in our analysis because they focused only on the effect of the peanut program on producers. The first study concluded that farmers' yearly gross income would decrease from $1.1 billion in 1990-91 to $743 million in 2000-01 if the peanut program were phased out over the period in response to the General Agreement on Tariffs and Trade (GATT) initiatives. The second study concluded that farmers' yearly gross income would decrease from $778 million in 1991-92

to $465 million in 2000-01. Because the two studies focused only on producers' income, they were not as directly relevant or as complete as the studies we used in our analysis because they did not consider the social welfare loss associated with the program or the gains that consumers could realize from lower prices if the program were discontinued.

## Studies That Analyzed the Macroeconomic Effects of the Peanut Program And/or Other Agricultural Programs

Kriesel, Warren and Stanley M. Fletcher. Preliminary Estimates of the Economic Impacts of the Proposed Reduction in the Peanut Quota Support Price. College of Agriculture, University of Georgia, Griffin, Georgia. Unpublished draft report, no date.

This study analyzed how the economy of South Georgia would be affected by a reduction in the support price of quota peanuts. A USDA-derived income multiplier [4] for peanut-producing counties in Georgia was applied to the reduction in producers' income that would occur if the quota support price were reduced by $128.37 per ton. The study concluded that a proposed reduction of the quota support price would lead to an income reduction in Georgia of $173 million.

This study represents a partial analysis of the impact of a price change on the Georgia economy only. The study did not take into account the fact that state-specific adjustments may be offset by increases in sectors in other states or counties as resources presently used for growing peanuts become available for use in these other sectors.

Stoeckel, Andrew B., David Vincent, and Sandy Cuthbertson. "Overview." Macroeconomic Consequences of Farm Support Policies, ed. Andrew B. Stoeckel. Centre for International Economics, Canberra, Duke University Press, Durham, North Carolina (1989).

Hertel, Thomas W., Robert L. Thompson, and Marinos E. Tsigas. "Economywide Effects of Unilateral Trade and Policy Liberalization in U.S. Agriculture." Macroeconomic Consequences of Farm Support Policies, ed. Andrew B. Stoeckel. Centre for International Economics, Canberra, Duke University Press, Durham, North Carolina (1989).

[4] An income multiplier measures the change in income for the whole county caused by a decline in income for one of its sectors, in this case, peanuts. This multiplier derives from the fact that sectors of the economy are linked. Therefore, for example, a change in peanut farmers' income will affect the income of equipment dealers, seed and fertilizer sales representatives, and so forth. The income multiplier measures the total effect of these iterative changes.

Robinson, Sherman, Maureen Kilkenny, and Irma Adelman. "The Effects of Agricultural Trade Liberalization on the U.S. Economy: Projections to 1991." Macroeconomic Consequences of Farm Support Policies, ed. Andrew B. Stoeckel. Centre for International Economics, Canberra, Duke University Press, Durham, North Carolina (1989).

These three studies identified how the total economy—not just the agricultural sector—would gain from the reallocation of resources that would occur if agricultural supports were eliminated. The studies show how assistance to one sector, such as agriculture, can have a detrimental impact on the economic performance of other sectors, such as manufacturing.

Stoeckel, et al., show that assistance to one sector is a tax on others because all of the different parts of the economy are linked. Therefore, when one sector, such as agriculture, receives an advantage relative to the others, it is given an incentive to expand (or reduce its rate of contraction) that affects the allocation of land, labor, and capital in other sectors. If this protection is removed, the first iteration affects the agricultural sector as resources leave (as was shown in the Kriesel study previously cited). Subsequent iteration effects are demonstrated by improvements in other sectors, such as manufacturing. This study, unlike other studies that focus on the effects of agricultural supports, identifies the subsequent effects.

Hertel, et al., and Robinson, et al., use a general equilibrium model of the U.S. economy. This model emphasizes the farm and food system in considerable detail. Hertel determined that, overall, in 1987 dollars, manufacturing output would improve by $12 billion, national income would increase by $14 billion, and budget outlays would decline by $80,000. In addition, food costs would decline by $14,000 for each farm job lost. Robinson found that removing protection for the agricultural sector would, in 1982 dollars, increase the gross national product by $10 billion, reduce the budget deficit by $26 billion, and increase investment by $36 billion.

## Studies That Described the Peanut Program And/or the Peanut Sector

Dismukes, Robert, Mir B. Ali, and Robert A. Pelly. Peanuts: State Level Costs of Production, 1986-88, USDA/ERS, Washington, D.C. (Sept. 1990).

McArthur W. C., Verner N. Grise, Harry O. Doty, Jr., and Duane Hacklander. U.S. Peanut Industry, USDA/ERS/AER #493. Washington, D.C. (Nov. 1982).

Miller, Bill R., Robert W. Dubman, and Brian Smith. The Shellers' Risk in Peanut Marketing. College of Agriculture, University of Georgia, Athens, Ga. Unpublished manuscript, no date.

Schaub, James D., Bruce Wendland. Peanuts: Background for 1990 Farm Legislation, USDA/ERS, Washington, D.C. (Nov. 1989).

## Miscellaneous Studies Reviewed by GAO

Carley, Dale H. and Stanley M. Fletcher. Analysis of the Impact of Alternative Government Policies on Peanut Farmers. The Georgia Agricultural Experiment Stations, College of Agriculture, University of Georgia, Special Publication 62 (Aug. 1989).

This study discusses the qualitative effects of three peanut program policy options: (1) fine-tuning the existing policy; (2) moving to a decoupled form of income support; and (3) removing production controls but leaving the minimum price support as a safety net. The study reviewed the estimated costs and returns budgets for four typical peanut farm operations in Georgia and measured the effects of policy options on returns for these particular operations. The study also provides extensive background information on the peanut program and the overall peanut sector.

Fabre, Raymond and Randal R. Rucker. Lease Rates and Sale Prices for Peanut Poundage Quota: 1978-1987. Department of Economics and Business, North Carolina State University at Raleigh, North Carolina. Economic Information Report No. 78 (Feb. 1989).

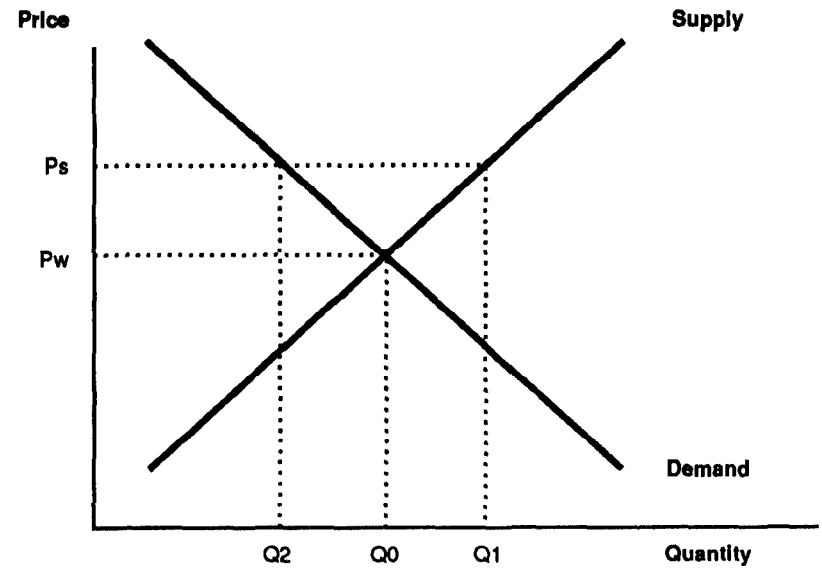
This study presents data on the average annual county-level value of the peanut poundage quota (both lease rates and sale prices) for the major peanut-growing counties in the seven major peanut-growing states for the period 1978-87. These data were collected from surveys sent to county extension agents.

# GAO's Technical Economic Analysis of the Peanut Program

Under the peanut program, producers' income is supported primarily through transfers (in effect, a tax) from consumers to producers in the form of higher market prices for peanuts. These transfers are implemented through the use of a guaranteed minimum support price (the quota loan rate) for domestic edible peanuts. In addition, the program restricts the quantity both of peanuts that can be sold at the guaranteed price (poundage quota) and of peanuts that can be imported (import restriction). The existence of the support price, which is generally higher than the market price would be if the program did not exist, means that consumers buy fewer peanuts and pay more for them.

The method by which the support price and poundage quota interact to effect a transfer from consumers to producers is shown in figure II.1. This figure is a simplified economic representation of how the peanut market operates.

Figure II.1: Effect of the Peanut Program on the Market




Ps = Quota support price for peanuts.
Pw = World price for U.S. peanuts.
Q0 = Quantity of peanuts that would be consumed domestically at the world price.
Q1 = Quantity of peanuts supplied at support price Ps.
Q2 = Quantity of peanuts demanded at support price Ps.
Q1 – Q2 = Quantity of peanuts placed in government storage under loan (no quota in effect).

Figure II.1 illustrates the relationships between quantity and price in the market. The supply curve shows the different quantities of peanuts that sellers will offer at each price. The demand curve shows the different quantities of peanuts that consumers will demand at each price. The point at which the quantity supplied equals the quantity demanded determines the price for which peanuts would sell in the market without the peanut program. This point occurs at the intersection of the supply and the demand curves.

In figure II.1, the quantity of peanuts supplied equals the Q0 quantity of peanuts consumed domestically at the world price and sold at the world price Pw. Pw is the price that producers would receive for their peanuts if the market operated without the effects of a government program. Under the peanut program, however, producers of peanuts sold domestically do not receive the price Pw. Instead, they receive the minimum government support price Ps, which is considerably higher.

Since the government support price is much higher than the price that would prevail if there were no program, the government reduces the costs it would incur from the CCC loan program by imposing a quota on the quantity of peanuts that producers can sell at the support price. This quota is necessary because without it producers would supply many more peanuts than consumers would buy at the government support price. The supply curve in figure II.1 shows that at the support price, producers would supply Q1 quantity of peanuts. The demand curve, however, shows that at the support price, consumers would consume only Q2 quantity of peanuts.

If the program did not restrict the quantity of peanuts that producers can produce or sell at the support price, the difference between what farmers produced and what consumers bought at that price (Q1 minus Q2) would have to be purchased and held in storage by the government, at taxpayers' expense, in order to maintain the support price at its high level. [1] This is essentially what happened before 1977, when all edible peanuts were sold directly to the market for at least the support price and the excess production was put under loan with the government. However, the present peanut program limits this situation, and the costs to taxpayers are generally reduced through the use of the poundage quota for edible peanuts.

The poundage quota restricts the quantity of peanuts that producers may sell to the domestic market at the support price Ps to the estimated quantity Q2 that consumers will buy at that price. In addition, if farmers produce more than the quantity specified by the quota, the additional quantity must be sold for whatever price can be obtained on the world market. The supply curve in figure II.1 indicates that producers would supply Q0 for the world price. This means that the quantity produced above the quota (Q0 minus Q2) is sold for the world price and does not go into the CCC loan program, where taxpayers will likely incur costs.

[1]Government costs will in part depend on the quantity of peanuts put into storage, which is related to the price elasticity of supply and demand as well as the level of support (Ps) in relation to the nonprogram price (Pw).

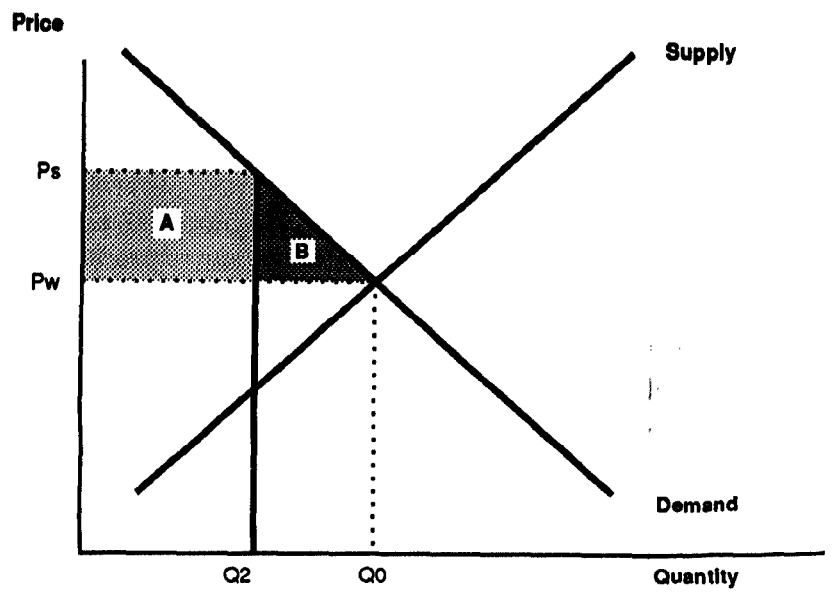
The high domestic support price is also maintained because a strict import restriction prevents consumers from buying peanuts at the lower price Pw. To the extent that imported peanuts could be substituted for domestic peanuts and peanut products, imports would put downward pressure on domestic peanut prices. The import restriction prevents this decline.

Although the peanut program supports producers' prices at a higher level than could be sustained if the peanut program did not exist, consumers are using fewer peanuts and paying more for them than they would if there were no program. The peanut program, in effect, "taxes" consumers to transfer income to producers through higher peanut prices.

## The Transfer Effects of the Peanut Program

The transfer effects of the peanut program are illustrated in figure II.2, which shows the total transfer from consumers as block A and triangle B.

**Figure II.2: The Transfer Effects of the Peanut Program**




| | | |
|---|---|---|
| Ps | = | Quota support price for peanuts. |
| Pw | = | World price for U.S. peanuts. |
| Q0 | = | Quantity of peanuts that would be consumed domestically at the world price. |
| Q2 | = | Quantity of peanuts consumed at support price Ps. |
| A | = | Consumers' costs transferred directly to producers as income. |
| B | = | Consumers' costs as social welfare loss. |
| A+B | = | Total consumers' costs under the U.S. peanut program. |

Block A in figure II.2 represents the portion of consumers' expenditures that is transferred directly from consumers to producers because of the peanut program. This block can be measured for any given year. For example, in 1989, the quota support price for peanuts Ps—the price that consumers paid for peanuts under the peanut program—equalled $0.3318 per pound in 1991 dollars. In addition, the world price for U.S. peanuts Pw—which is an estimate of the price consumers may have paid if there had been no peanut program—equalled $0.1853 per pound (in 1991

dollars). [2] Therefore, the program cost consumers an additional $0.1465 per pound that year.

According to USDA data, 2.312 billion pounds of peanuts were consumed domestically under the peanut program in 1989. Therefore, the program increased consumers' costs by $338.7 million ($0.1465 per pound times 2.312 billion pounds), or block A. That sum was transferred directly to producers as income.

The total consumers' cost resulting from the peanut program, however, is larger than block A because, at the lower world price, consumers would probably consume more peanuts than they consume under the peanut program. Therefore, because of the program, consumers' costs include triangle B in addition to block A. Economists call this triangle a "deadweight," or social welfare, loss and count it as part of the total costs to consumers caused by the peanut program.

Triangle B occurs because, without the program, consumers would consume Q0 peanuts at the lower price Pw. With the program, however, they consume only Q2 peanuts and they forego the consumption of peanuts Q0 minus Q2, consuming more of some other commodity instead. According to economists, at the support price, domestic consumers are constrained from choosing the economically efficient output combination. This results in allocation inefficiencies. The triangle representing additional costs to consumers resulting from the peanut program arises because domestic consumers' valuation of incremental quantities of peanuts is higher than the cost of producing the peanuts. By consuming more of an alternative commodity, social welfare is not improved, however, because, at the level of consumption without the program, consumers' valuation of incremental quantities of the alternative commodity already equalled the commodity's cost of production. Consumers and society are better off only if peanut consumers could consume additional peanuts until their valuation of the last peanut consumed equalled its cost of production.

In order to determine the consumers' costs associated with triangle B, it is necessary to know what quantity of peanuts would have been consumed at the lower price Pw. Since no data are available to make this determination directly, an econometric estimation of peanut demand can provide elasticities that indicate how consumers would respond to declines in price. We used a price elasticity of demand of –0.14 to estimate that, in

[2]The Rotterdam price for U.S. peanuts, adjusted to U.S. in-shell basis.

1989, an additional 142 million pounds of peanuts would have been consumed at the observed world price (all else held constant). [3] Thus, an estimate of the consumers' costs associated with triangle B equalled $10.5 million. [4]

According to the studies we reviewed, additional social welfare loss occurs through the buyback provision of the peanut program. [5] Under this provision, producers who put peanuts into the marketing pool are paid an average price for peanuts, some of which are usually returned to the domestic market at the quota support price and some of which are eventually crushed. Because producers receive an average of the crush and quota price for peanuts put into the pool—rather than the additional quota price only—they have an incentive to put in "too many" peanuts, and some high-quality edible peanuts are crushed. [6] Thus, high-quality peanuts are inappropriately allocated for lower-quality use. Because of the buyback provision, some of the $338.7 million represented by block A, figure II.2, is dissipated as additional social welfare loss through the inappropriate use of high-quality peanuts. Therefore, this "dissipated" amount is deducted from consumers' costs and transferred directly to producers as income (block A) and added to social welfare loss (triangle B). However, the total consumers' costs are not affected by this transfer.

According to USDA data, 245 million pounds of additional peanuts were put into the domestic market in 1989 at the quota support price, accounting for $35.9 million (245 million pounds multiplied by $0.1465 per pound) of additional social welfare loss. As a result, total social welfare loss, including this additional loss, equalled $46.4 million ($10.5 million plus $35.9 million), and the direct transfer from consumers to producers (block A) equalled $302.8 million ($338.7 million minus $35.9 million). Thus, total

[3]This elasticity was one of several presented in the studies discussed in appendix I.

[4]This assumes a linear demand schedule.

[5]The buyback provision gives peanut buyers the option of "buying back" additional peanuts at the quota price or higher for use in the domestic market. In economic terms, the buyback provision allows the "leakage" of additional quantities into the market at the quota price if prices start to rise significantly. The buyback provision also provides a "safety valve" for the program, maintaining the quota price if the quota level has been set significantly lower than actual demand.

[6]Peanuts are crushed to produce peanut oil and meal. At first glance, a program that increases the quantity of domestic peanuts crushed might appear to lead to lower oil and meal prices and therefore benefit oil and meal consumers. However, trade in peanut oil and meal is unrestricted, implying that any quantity supplied as a result of the peanut program will be purchased at the world price (that is, demand is perfectly elastic), regardless of whether the program increases the quantity of domestic peanuts crushed. Furthermore, any increase in domestic peanuts crushed will be small relative to world supply, so there will be no effect on the world price. Therefore, consumers of crush products pay the same price for oil and meal with or without the peanut program; this eliminates any potential consumers' benefits from the policy-induced increase in the quantity of domestic peanuts crushed.

costs to consumers from the peanut program in 1989 amounted to $349.2 million ($302.8 million for block A plus $46.4 million from triangle B). [7]

## Annual Average Costs to Consumers Are Significant

We reviewed a number of studies (as described in detail in app. I) that measured the costs to consumers caused by the peanut program from 1982 to 1987, using a technique similar to that discussed previously. [8] We used the studies performed by Mehra and by Rucker and Thurman, as well as our own analysis that estimated the costs to consumers for the program from 1986 to 1989. The results of these studies, which appear in table II.1, show that consumers' costs from 1982 to 1989 averaged, by study, from $314 million to $513 million a year, in 1991 dollars. [9] During these years, about 76 percent to 88 percent of this transfer went directly to producers, while social welfare loss accounted for the remaining portion of the transfer. The existence of the social welfare loss indicates that the peanut program causes consumers to lose more than producers gain. Therefore, economic inefficiencies are attributable to the program.

[7]Total costs to consumers from the peanut program remain the same whether or not the social welfare loss associated with the buyback program is included in the calculation. This is because the inclusion of the additional social welfare loss merely redistributed total consumers' costs between direct transfers to producers (block A) and social welfare loss (triangle B).

[8]We reviewed a number of studies that measured only block A and focused only on producers' gains from the program (or losses if the studies discussed the effects of eliminating or reducing the program). Because these studies did not include the social welfare loss, we did not use them in our analysis.

[9]Consumer transfers, as defined by the methodology used in our analysis, were 0 in 1990. This, however, does not mean that the program was without cost to consumers that year. Because of a widespread drought in 1990, world prices for U.S. peanuts were higher than the domestic support price, but this situation was attributable to the drought as well as to the peanut program. It was not possible for us to measure the impact of the peanut program alone on consumers' costs for 1990; therefore, our analysis did not include the 1990 cost estimates.

**Table II.1: Calculation of the Peanut Program's Annual Estimated Costs to Consumers**

In 1991 dollars, in millions

| | Rucker | Mehra 1 | Mehra 2 | GAO 1 | GAO 2 |
|---|---|---|---|---|---|
| **Total Consumers' Costs, Including Social Welfare Loss, Caused by the Buyback Provision of the Program** | | | | | |
| Elasticity | -0.14 | -0.14 | -0.20 | -0.14 | -0.20 |
| **Crop year** | | | | | |
| 1982 | $306 | | | | |
| 1983 | 275 | | | | |
| 1984 | 192 | $329 | $324 | | |
| 1985 | 429 | 683 | 700 | | |
| 1986 | 349 | 464 | 474 | $265 | $267 |
| 1987 | 479 | 543 | 554 | 261 | 264 |
| 1988 | | | | 379 | 385 |
| 1989 | | | | 349 | 354 |
| **Average** | **$338** | **$505** | **$513** | **$314** | **$317** |
| **Consumers' Costs Transferred to Producers as Income** | | | | | |
| **Crop Year** | | | | | |
| 1982 | $269 | | | | |
| 1983 | 265 | | | | |
| 1984 | 118 | $165 | $165 | | |
| 1985 | 399 | 534 | 534 | | |
| 1986 | 306 | 416 | 416 | $237 | $237 |
| 1987 | 435 | 454 | 454 | 206 | 206 |
| 1988 | | | | 296 | 296 |
| 1989 | | | | 303 | 303 |
| **Average** | **$299** | **$392** | **$392** | **$260** | **$260** |
| **Consumers' Costs As Social Welfare Loss** | | | | | |
| **Crop Year** | | | | | |
| 1982 | $37 | | | | |
| 1983 | 10 | | | | |
| 1984 | 73 | $163 | $159 | | |
| 1985 | 30 | 148 | 166 | | |
| 1986 | 44 | 48 | 58 | $28 | $30 |
| 1987 | 44 | 89 | 100 | 55 | 58 |
| 1988 | | | | 84 | 89 |

(continued)

In 1991 dollars, in millions

| | Rucker | Mehra 1 | Mehra 2 | GAO 1 | GAO 2 |
|---|---|---|---|---|---|
| 1989 | | | | 46 | 51 |
| **Average** | **$39** | **$112** | **$121** | **$53** | **$57** |

Note: Figures may not add because of rounding.

Source: GAO analysis and presentation of data from other economic studies.

# Statistical Presentation of Data on Peanuts

Table III.1 shows the national average variable and fixed cash expenses and profit allocations for capital equipment replacement and unpaid labor for peanuts from 1982 through 1991. This table also (1) includes our estimates of these items for 1992, which are based on our discussions with USDA and other agricultural economists; (2) converts the production costs from nominal dollars to 1991 dollars on a per-acre basis; and (3) converts the per-acre costs to per-ton costs, using USDA's national average trend yield of 2,500 pounds per acre as the conversion factor.

**Table III.1: The National Average Cost of Producing Peanuts, 1982-92**

| In nominal dollars per acre | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Item** | **1982** | **1983** | **1984** | **1985** | **1986** | **1987** | **1988** | **1989** | **1990** | **1991** | **1992[a]** |
| Variable cash expenses | $292 | $292 | $311 | $295 | $274 | $295 | $297 | $303 | $306 | $361 | $323 |
| Fixed cash expenses | 134 | 136 | 113 | 101 | 113 | 96 | 94 | 94 | 103 | 106 | 106 |
| **Total cash expenses[b]** | **$426** | **$428** | **$424** | **$396** | **$387** | **$391** | **$391** | **$397** | **$409** | **$467** | **$429** |
| Profit allocation for capital equipment replacement[c] | 47 | 50 | 43 | 48 | 49 | 50 | 52 | 54 | 55 | 57 | 57 |
| Profit allocation for unpaid labor[d] | 16 | 16 | 16 | 17 | 36 | 38 | 40 | 42 | 44 | 46 | 46 |
| **Total cash expenses and profit allocations per acre** | **$489** | **$494** | **$483** | **$461** | **$472** | **$479** | **$483** | **$493** | **$508** | **$570** | **$532** |
| Gross domestic product implicit price deflator | .716 | .746 | .777 | .801 | .824 | .852 | .890 | .928 | .969 | 1.00 | 1.024 |
| In 1991 dollars per acre | | | | | | | | | | | |
| **Total cash expenses and profit allocations** | **$683** | **$662** | **$622** | **$575** | **$573** | **$562** | **$543** | **$531** | **$524** | **$570** | **$520** |
| In 1991 dollars per ton | | | | | | | | | | | |
| **Total cash expenses and profit allocations[e]** | **$546** | **$530** | **$498** | **$460** | **$458** | **$450** | **$434** | **$425** | **$419** | **$456** | **$416** |

[a]GAO's estimate, using USDA/ERS' 1991 data except that seed costs were reduced from $116 to $78 on the basis on information provided by economists from ERS and the University of Georgia.

[b]USDA/ERS defines cash expenses as the out-of-pocket expenses that all producers must pay to stay in business in the short run. Cash expenses include variable expenses, such as seed, chemicals, hired labor, and fuel, and fixed expenses, such as property taxes, insurance, interest on loans, and general farm overhead.

[c]USDA/ERS defines capital equipment replacement as a portion of the value of machinery and equipment, in addition to repairs, that is used up in production each year. Although capital equipment replacement costs are not paid out in cash every year, they must ultimately be paid in order to stay in business in the long run.

[d]USDA/ERS defines unpaid labor as an imputed cost that represents the interest of any person(s) other than the business owners and operators who performed services in the production process but were not paid a wage or salary.

[e]Per-acre production costs are converted to per-ton production costs by dividing the annual per-acre cost by 2,500 (the national average trend yield in pounds), then multiplying the result by 2,000 (the number of pounds in a ton). This conversion is necessary to compare production costs with the quota support price each year.

Source: GAO presentation of USDA data.

# Comments From the U.S. Department of Agriculture

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250
December 14, 1992

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:

This is in response to your draft report RCED-93-018, "Peanut Program: Changes Are Needed to Make the Program Responsive to Market Forces." We believe that the enclosed comments should be taken into consideration as you prepare the final version of your report.

In general, the Department of Agriculture (USDA) concurs with the recommendations of the General Accounting Office (GAO) for certain changes in the peanut program as it is currently structured. During the debate on the 1990 Farm Bill, USDA supported three recommendations for changing the peanut price support program, including: (1) eliminating the restrictions on the sale and lease of quotas, (2) eliminating the cost of production escalator for the quota support rate, and (3) setting the support price for quota peanuts at 90 percent of the 1985 loan rate and adjusting this rate to parallel the target prices of certain target price commodities.

See comment 1.

However, USDA does not agree with many of the interpretations and conclusions GAO has made from observations relating to the current peanut program. Also, the report lacks objectivity in its interpretation of data supplied by USDA officials even when the deficiencies were called to the attention of the GAO team. As a result, some erroneous assumptions were made and conclusions were drawn that are not supported by the evidence.

We have attempted to highlight USDA's major points of concern with GAO's interpretations and conclusions drawn from certain data in order to enhance the

objectivity of the report. We believe a more objective report will not only point to the need for change in the peanut program but will be of greater value for considering various options and developing specific changes.

Sincerely,

Edward Madigan

Edward R. Madigan
Secretary

Enclosure

Now on pp. 3, 10, and report text.

See comment 2.

Now on pp. 4 and 27.

See comment 3.

**Mr. John W. Harman** 1

Peanut Farming Has Changed Significantly Over Time -- GAO report, pages 4, 11, and report text

The GAO report ties the peanut price support program to the year 1934, then makes comparisons of the impacts and changes from that period to the present. Although peanuts were designated a basic agriculture commodity in 1934 and, in effect, have been federally regulated since 1934 (GAO report, page 11), there were no peanut marketing quota (poundage quota) controls until April 1941. Rather, the program consisted of contract purchases of peanuts for crushing for oil and meal. When the U.S. entered World War II, the penalties applicable to producers of the 1941 peanut crop who were not in compliance with program provisions were not applied and in December of 1941 acreage allotments and marketing quotas were suspended and not reinstated until 1949. During the periods from 1938-41 to 1943-48, peanut acreage increased from 1.9 to 3.4 million acres.

The point is that acreage allotments and/or marketing quotas have been in effect for peanuts only since 1949. The GAO report ties much of the comparison of changes with the year 1934. Many changes, such as increased acreage, production, and the number of peanut producers, occurred during the years between 1934 and 1949. Implicit in the comparisons are that the peanut program as it exists now, with production quotas and price support, has caused the changes from 1934 to date and ignores the fact that many changes were a result of the expanded uses and demand for peanuts during World War II.

Program Benefits for Quota Owners Who Do Not Grow Peanuts -- GAO report, pages 5 and 32

The GAO report states (GAO report - page 5) that "68 percent of all quota owners in 1988, who held 56 percent of the available quota, rented their quota to others." The report goes on to assume that the same rental conditions existed in 1991 and projected that peanut producers leasing quota in 1991 "... paid $208 million for the privilege of using someone else's quota." First of all, no doubt 68 percent of quota peanuts were produced in 1988 by persons other than the landowner; however, much of that 68 percent was produced by producers who grew the peanuts as a cash or share tenant on the landowner's own property. According to USDA records, producers leased and transferred approximately 79.2 million pounds of quota from their farms in 1988, or only about 3 percent of the 2.8 billion pounds of quota. Apparently, this is the source of rental rate used in the GAO report. The 68 percent represents all farm arrangements including those where the landowner shares crops with the tenant and thus shares in the risk of production. Accordingly, it should not be assumed that rental rates, approximately 12 cents per pound of peanut quota leased and transferred from the farm, also apply to sharecropping and leased farm arrangements where the landowner is contributing land and in some cases shares in the risk of production.

Also, the report (GAO report--page 32) states that farmers who do not produce their peanut quota may lease it to other farmers who want to grow peanuts. This is misleading because under the peanut program a farm will forfeit peanut quota if the

quota is not produced on the farm to which the quota is allocated. Applicable for the 1981-1990 crops, a farm's quota was forfeited if peanuts were not produced on the farm for 2 of the preceding 3 years. The forfeited poundage quota was reallocated to quota farms and nonquota farms that had actually produced peanuts in 2 of the 3 preceding years.

Although the rules with respect to reduction of a farmers quota have been relaxed by amendments to the Agricultural Adjustment Act of 1938 made by the Food, Agriculture, Conservation, and Trade Act of 1990, which are applicable to the 1991-95 crops, peanut quotas are still required to be forfeited if not produced or considered produced in 2 of the last 3 years on the farm for which the quota was established. The rules applicable to the 1991-95 crops allow a farmer to receive limited considered produced credit for releasing quota for use by other farmers or for producing additional peanuts. In addition to the amount of quota forfeited, approximately 263.3 million pounds of peanut quota have been sold to active peanut producers during the 1986 through 1992 crop years. Many sales were made by quota holders who did not want to produce peanuts but also did not want to forfeit the quota.

Now on pp. 15 and 26.

"Dividends" to Peanut Producers From Sales of Loan Peanuts -- GAO report, pages 17 and 32

See comment 4.

The GAO report (GAO report--page 17) refers to the sale of peanuts under CCC loan as "dividends" to producers. Any net gains from the sale of CCC loan peanuts that are available for distribution to producers must be used to: (1) offset any losses for peanuts transferred under the "disaster transfer" provision, (2) offset any losses in disposing of quota peanuts within the marketing area, and (3) offset losses for disposing of quota peanuts in the other peanut marketing area. Accordingly, under the current peanut program, the costs to CCC for disposing of quota loan peanuts are borne first by the producers through recourse by CCC to gains from other pools and any losses remaining after the offset of producer gains are borne by CCC. Only after satisfying these offsets are any remaining profits distributed as dividends to producers who participate in the peanut loan pools. These pools are maintained in cooperation with the area marketing associations which are special statutory producer organizations that, in all matters relating to price support, act as the agents of the growers.

Again, the GAO report (GAO report--page 32) asserts that the dividend or pool profit distribution is a provision of the peanut program designed to benefit producers. But as explained above, distribution of pool profits only occurs when profits exceed the bulk of CCC losses on loan peanuts.

See comment 2.

Presentation of Agriculture Data -- GAO report, report text

See comment 1.

Much data, such as farm numbers, acreage harvested and yields, used to show changes from the 1930's are nevertheless presented in a manner which implies that the peanut program is either the cause of certain changes or is not accommodating the peanut program's original objectives because of the changes. The interpretation of data supplied by USDA officials reveals a lack of thoroughness and objectivity which have

persisted even after the deficiencies were called to the attention of the GAO team.

See comment 5.

One conclusion presented by the GAO report was that the increase in peanut yields caused the increase in production. Such tautological conclusion begs all questions about causes and effects. Why not conclude that demand is the driving force behind production and that increased yields have simply freed acreage for production of alternative crops or allowed marginal land to be retired from crop production?

The report claims that the peanut program as it is currently structured impedes the movement of quotas to more efficient farms because of restrictions on the movement of quotas within States and counties. On this point, USDA will agree. However, to also criticize the fact that inefficient producers are selling or, in some instances, forfeiting their quota to other active producers seems, at best, to be illogical.

See comment 6.

See comment 7.

The GAO report has failed to recognize or address features of the peanut program added through legislation that functions to eliminate those producers who are not actively producing peanuts. For example, changes in the peanut program in 1981 and in 1985 require non-active peanut producers to forfeit their peanut quotas back into a State pool if they fail to produce peanuts on their farms for 2 out of 3 years. This is true regardless of whether a quota was leased and transferred from the farm or released or peanuts were not grown on the farm for which the quota was established. During the period from 1986 through 1990, about 50 million pounds of peanut quota was forfeited and reallocated to other farms without regard to county boundaries.

See comment 3.

The report makes an observation that 56 percent of the peanut quotas are leased and produced by other than the landowners on whose farm the quotas are established. Technically, this is correct. However, the report attempts to calculate a cost to the peanut program by assuming that all the quota was leased and transferred from the farm. The estimated cost in the report is $212 million dollars based on the premise that peanut quotas are leased for a fee of 12 cents per pound. The percentage of quota leased under this arrangement constitutes less than 4 percent of all quota grown by someone other than the owner of the farm for which the quota was established. Most leasing arrangements involve leasing the farm or share-cropping with the land owner, where in many instances the land owner shares in the risk of production. Perhaps it is unfortunate that many young farmers might not at first be able to tie up their limited capital in the purchase of land but, instead, choose to lease land. That, however, may be the reality for these farmers. While it is acknowledged that the lease rate for farms with a peanut quota is likely to be greater than lease rates for farms without quotas, it is simplistic to conclude that this situation only exists on farms that have peanut quotas.

This increased lease rate is apparently only received by the landowner when the quota is leased separately from the land and transferred to the receiving farm for production. Since the receiving farm is able to grow all of the quota on one farming operation, it would not be surprising that the lessee could pay a higher rental rate than the average.

See comment 8.

Definition of "Consumer"

Another example is a GAO official statement in a exit conference that the word "consumer", as used in the audit study, referred only to the first purchaser of peanuts from the grower. Under this definition, the consumers are then limited to the 35 to 40 independent shellers with about 75 to 80 percent of the purchases of peanuts limited to only three major purchasers.

If it is GAO's contention that the consumer referred to in the report is the first purchaser from the grower, then we are talking about a very small group of "consumers," currently about 35 processors. Three of these processors purchase a majority of all commercial peanuts sold by growers.

The term "consumer" should be defined by the report and mention made that peanut price fluctuations for the first purchaser of farmers stock peanuts, i.e., shellers, may not be passed directly to the final retail consumers. In 1980, for example, a short crop due to widespread drought caused peanut prices to increase substantially for manufacturers and ultimately for retail consumers. However, when peanut production returned to normal the retail prices for peanuts and peanut products were slow to decrease and some never returned to pre-drought levels.

Now on pp. 46 and 47.

See comment 9.

Impact on International Trade -- page 60 of GAO report

The audit report assumes the peanut program increases the quantity of peanuts available for exports and concludes that the impact on international markets is unclear. However, the report repeatedly implies that the domestic price support program adversely affects the international market. In fact, the export market is supplied almost entirely from the production of additional peanuts which are produced under contract. Notwithstanding restrictions on access to the U.S. market due to Section 22, the contract price in most instances reflects world market prices of edible peanuts, since these exported peanuts must compete in the international market with exports from Argentina and China.

It is true, as GAO indicated, that many of the additional peanuts are grown on farms that have also grown domestic quota peanuts. The growers enter into contracts to grow additional peanuts for export using a blended price of their domestic and export expected sales prices relative to their cost of production. Thus, the quotas may enable some growers to produce more additional peanuts at world market prices than they otherwise would in the absence of a peanut program. In addition, China is a major producer of peanuts for oil and meal use and only diverts peanuts to the world edible market when the world market conditions result in a premium price, and their own market would not be adversely affected.

According to the GAO report, "one economist" speculated that buybacks of additional peanuts could cause fewer peanuts to be exported than would be the case if there were no peanut program. Since the United States is the major producer and

consumer of peanuts for edible use, it is not clear why one would assume that exportable supplies would increase in the absence of a domestic peanut program, particularly considering that growers may currently produce unlimited quantities of additional peanuts for export. Given that many domestic growers use the peanut program quota price guarantees on their quota peanuts to plant additional peanuts without the benefit of a contract during planting season but for speculation that a market will develop before harvest, the existing program may actually increase the U.S. supply of peanuts above what otherwise would be produced.

Recommendations To The Congress -- GAO report, pages 6, 63, and 64

As indicated, USDA has also supported changes to the peanut program to make it more efficient, cost effective and responsive to market forces. Our concerns focus on the presentation of some of the data and the conclusions drawn from these presentations. These are not conducive to reaching valid conclusions and making suggestions for constructive changes.

See comment 10.

Overall, the U.S. Department of Agriculture, in its letter of December 14, 1992, concurred with GAO's recommendations but did not agree with many of GAO's interpretations and conclusions. The following are GAO's specific comments on the letter.

## GAO's Comments

1. According to the Director, Tobacco and Peanuts Division, USDA's reference to deficiencies in the draft report that were called to our attention relates to the discussion we had with him and another ASCS official during our October 22, 1992, exit conference. These officials suggested that we add two clarifying statements to our report: one to indicate that our quota rental estimate includes quota rented off the farm, as part of the farm, or through profit-sharing arrangements; and one to indicate that our consumers' cost estimates represent the costs incurred by the "first buyers" of U.S. peanuts (who are not necessarily the final consumers) as a result of the peanut program. In response to these two comments, we added appropriate statements in the draft report before sending it to USDA for comment. For the first comment, we added a footnote in chapter 3 showing that our quota rental estimate assumes that all quota was rented at the same price, regardless of the rental agreement. For the second comment, we added a statement in the Objectives, Scope, and Methodology section of chapter 1 showing that our consumers' costs represent the costs to the first buyers of U.S. peanuts.

2. In our discussion of changes in the structure of peanut farming, we did not state that the peanut program caused the changes. Rather, we pointed out that, except for a brief period during World War II, peanut production has been under some type of government regulation since 1934. While we recognize that the peanut program has undergone a number of changes since 1934, we do not believe it is necessary to elaborate on all changes, since our report's message focuses primarily on the present structure of the peanut program. We state in our report that many of the developments that have occurred in the peanut sector since the 1930s are the result of technological changes and other factors that have affected all sectors of agriculture as well as the economy in general. Furthermore, we should point out that most of our statistical comparisons of changes in the characteristics of peanut farming discussed in our report date from 1950 or later, and not from 1934 as USDA indicates. Accordingly, we do not believe that any major changes in our report are necessary. However, in response to USDA's comments, we have added a statement and footnote in chapter 1 showing that peanut controls were suspended from 1941 until 1949 following the United States' involvement in World War II.

3. USDA's comments suggest that the agency agrees with us that a large portion of the available quota is rented each year. USDA implies, however, that our estimate of the rental rate may not apply to all types of rental arrangements, such as those that apply to sharecropping and leased farms. As we told the two ASCS officials who attended our exit conference, we did not analyze the specific rental arrangements of all peanut producers to obtain an actual figure for rental income. Our intent was to conservatively estimate the impact of the peanut program's provision that has allowed over one-half of the quota owners to rent their quota to others each year rather than to grow peanuts themselves. We believe that our estimate of 12 cents a pound is reasonable as an overall indicator of the value of quota rentals because, according to USDA and peanut industry officials whom we interviewed, the value of quota rentals for 1991 ranged from 10 cents to 14 cents a pound. In addition, as we stated in our report, the rate for renting peanut quota in a competitive market should equal the difference between the expected quota support price and the expected U.S. export price for peanuts. In 1991, that difference was 15 cents a pound, or 3 cents a pound higher than the estimate we used.

Regarding USDA's comment that a farm's quota is forfeited if peanuts are not produced on the farm for 2 of the preceding 3 years, we note this in chapter 1 of our report. This statement also appeared in the draft report that USDA reviewed.

4. Our report uses the term "dividends" as USDA's Economic Research Service often does to describe the distribution of profits to producers from the sale of peanuts placed in the CCC loan program. While we concur with USDA that these dividends represent net gains after CCC losses have been offset, the dividends also represent additional payments to peanut producers over and above the disaster transfer payments that have already been received.

5. In our report, we state that technological advances and other improvements in peanut farming have increased peanut yields and production since the 1930s. As a result of the higher yields, producers are able to grow the same quantity of peanuts on fewer acres. Our report does not contradict USDA's comment that increased peanut yields have freed acreage for production of alternative crops.

6. While USDA agrees with us that the peanut program impedes the movement of quota to more efficient farms, the agency asserts that our report criticizes the fact that inefficient producers are selling or, in some

instances, forfeiting their quota to other active producers. Neither our final report nor the draft report reviewed by USDA discusses sales or forfeiture of quota by inefficient producers. Rather, the report emphasized that the peanut program's provision that prevents quota from being sold or rented outside county boundaries encourages producers to continue growing peanuts on low-yielding farms.

7. In chapter 1 of the draft report reviewed by USDA, we discussed provisions of the peanut program that require quota peanuts to be grown on designated farms in 2 of the preceding 3 years. We also stated that any quota released by quota owners to USDA can be redistributed to others in the same state. To address USDA's comment, however, we have added a footnote to the final report showing that about 50 million pounds of quota were released and reallocated to other farms from 1986 through 1990. We should point out, however, that this amount represents a very small portion of the approximately 3 billion pounds of quota that was allocated nationwide during each of those years.

8. As stated in comment 1, as a result of our exit conference with ASCS officials, we clarified in our report, as well as in the draft report reviewed by USDA, that consumers' costs were measured at the "first buyer" level. This is a technique that has been used for other studies of the peanut program. This technique captures the impact of the program at the level in the marketing chain that is closest to the point at which the impact occurs. Generally, it is assumed that some portion of change in the cost of an input of production is passed on to the next buyer and ultimately to the end user.

9. In our report, we state that the peanut program probably has some effect on international trade but that the magnitude of its effect is unclear. While USDA implies, as we do, that the peanut program may increase the volume of U.S. peanut exports, we have differing opinions as to the reasons for this increase. Whereas we attribute any increase in the volume of exports to the effect of the quota and price support provisions on domestic consumption, USDA attributes the increase to the fact that producers receive a blended price for their quota and additional peanuts. Regardless of the reasons for any increase in the volume of U.S. peanut exports, both USDA and we are in agreement that the peanut program may have an impact on international trade.

Regarding USDA's reference to the views of the "one economist" on the buyback provision of the peanut program, we included those views as a

footnote in the report to provide a more complete presentation of the issue being discussed in the text.

10. In our opinion, none of the comments raised by USDA affect the validity of our presentation of data or our conclusions.

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