# 2020 jump in net farm income is driven by an unsustainable level of government payments

The United States Department of Agriculture Economic Research Service (ERS) recently (December 2, 2020) released their final farm income forecast which includes a forecast of 2020 net farm income (https://tinyurl.com/y6g5q2ej). The numbers they present are a variation of the old "good news/bad news" story.

The "good news" is national net farm income is forecast to increase from $83.6 billion in 2019 to $119.6 billion in 2020.

The "bad news"? It did not come from the market. Instead, it took a $24.0 billion increase in Federal Government direct farm program payments to achieve this result.

The largest categorical decrease in payments was $10.5 for the Market Facilitation Program which sought to compensate farmers for the loss in income that resulted from the trade war with China. The reduction in these payments was expected.

The largest categorical increase in payments ($31.0 billion) was in supplemental and ad hoc disaster assistance, lifting expenditures in this category from $1.4 billion in 2029 to $32.4 billion for 2020.

This increase results "mainly from payments from the Coronavirus Food Assistance Programs (CFAP1 and CFAP2) and the Paycheck Protection Program (PPP).

"The Coronavirus Food Assistance Programs (CFAP1 and CFAP2) provide[d] direct relief to producers whose operations [had] been directly affected by COVID-19. Payments in calendar year 2020 for these USDA programs are forecast at $24.3 billion ($11 billion for CFAP1 and $13.3 billion for CFAP2).

"Also included under supplemental and ad hoc disaster assistance are payments from the Paycheck Protection Program (PPP), administered by the Small Business Administration. The payments from the PPP are designed to help small businesses keep their workers on the payroll during COVID-19. Although administered as a 'loan' the loans will be forgiven if the program's requirements are met. [The ERS] treat[s] these loans as a direct payment to farmers and forecast them at $5.9 billion in 2020. This amount may be revised, with any unforgiven amounts ending up as farm debt rather than a direct payment" (https://tinyurl.com/y8eyglz5).

In this context, what is important is the near certainty that ad hoc and disaster assistance payments of this magnitude ($32.4 billion) will not continue very far into the future. It is also important to note that despite these large payments, 2020 farm debt increased by $16.6 billion (4.0 percent) between 2019 and 2020.

This represents the continued increase in farm debt totaling $119.8 billion since 2013 and is relatively unrelated to the coronavirus.

In 2013 the farm debt-to-equity ratio was 12.86 percent reaching a forecast 16.20 percent in 2020. Similarly, the debt-to-asset ratio increased from 11.39 percent to 13.95 percent over the same period.

While this level of debt is not catastrophic for any given farm operation, it is not the farm at the average that is of critical concern, but rather the farm on the upper end of the debt spectrum where an event like the coronavirus and a spouse's resulting loss of an off-farm income and health insurance could be enough to push a farm family into bankruptcy.

No matter what we, as a nation, decide to do about those negatively impacted by the coronavirus, our farm families will continue to be at risk until we adopt a sound farm program that is based on taking the economic nature of agricultural markets into account.

*Policy Pennings Column 1057*

*Originally published in MidAmerica Farmer Grower, Vol. 37, No. 303, December 11, 2020*

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