US Agriculture Department outlines program to aid farmers hit by pandemic

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The United States Department of Agriculture (USDA) published details of its Coronavirus Food Assistance Program (CFAP) on Tuesday. The program, which was initially announced in mid-April, will provide $16 billion in aid to farmers who have suffered losses due to the COVID-19 pandemic.

Beginning May 26 and up to August 28, farmers will be able to submit forms claiming losses incurred between January 15 and April 15. Eligibility of farmers to receive payments varies according to farm and crop type. However, the general rule for crops is a price decline of five percent or more since January. Due to the extent of the economic disruption caused by the pandemic, nearly all major crop types qualify under this standard.

Despite this wide range of eligibility, the USDA's plan for allocating funds is insufficient and overly complex. The money for CFAP is split into two pots: $9.5 billion comes from the CARES Act and the other $6.5 billion comes from the Commodity Credit Corporation (CCC).

This creates issues concerning fund allocation that are compounded by the fact that each pot pays different rates to farmers for non-specialty crops (largely corn, soybeans and some grains). For example, soybeans are paid 45 cents per bushel from the CARES Act and 50 cents per bushel from the CCC.

Non-specialty crop payments are made even more complex by the method of their calculation. The payments are made based on 50 percent of 2019 production or 2019 production as of January 15 (whichever is smaller), multiplied by the commodity payment rates determined by the USDA.

Grain farms, especially those that produce corn or soybeans, barely break even as it is. A 2018 study of Iowa corn and soybean farms conducted by the Russell Consulting Group found that average farm profit was just $9 per acre.

Several growers' associations have applauded the attempt to compensate farmers for their losses, but are dissatisfied with the amount provided. The National Potato Association has already called for more funding, and United Fresh Produce Association President and CEO Tom Stenzel has called for allocating additional funds to industries involved in the distribution network.

The scale of the problem was most directly illustrated by the CEO and president of Western Growers, Dave Puglia, who stated that an average-sized lettuce farm of 250 acres that lost its entire crop would receive payment worth only 50 acres.

The financial devastation that has befallen many farmers is indicated by the fact that 2020 has already seen a 23 percent rise in family farm bankruptcies over last year. While the total number of bankruptcies remains relatively small, it is a troubling sign of what may occur in the coming months as losses mount.

Research by the Missouri Food and Agricultural Policy Research Institute (FAPRI) predicts a total decline in farm receipts of $32 billion for the year. This would mark a decline in national farm revenue of nearly one-third.

Overall cash receipts for crop farmers are expected to fall by $11.85 billion in 2020 and a further $7.27 billion in 2021. For livestock farmers, the total decline is predicted to be around $20.24 billion, though this does not account for the large-scale herd culling that has occurred in recent weeks—a financial loss that will not be covered by the federal aid program.

Even with all allocated money paid out, including a further $14 billion made available to the CCC after July 1, the funding would barely cover expected losses initially calculated over a month ago. The economic fallout from the pandemic could be even greater. Livestock herds continue to suffer, and prices and consumer demand could remain low for several more months.

Additionally, farmers will be able to collect only 80 percent of approved funding, with the other 20 percent made available only if there are sufficient funds.

To make matters worse, large farms are favored over the smaller farms that are in greater need. In general, each entity may claim up to $250,000. This rises to $750,000 if up to three shareholders are able to prove that they contribute at least 400 hours each year to a corporation or limited liability company. This means that corporate farms are able to claim up to three times the amount of funding regardless of the amount of acreage or production.

This bias towards corporations is somewhat checked by an income limit of $900,000. However, this is disregarded if an entity grosses at least 75 percent from farming, ranching or forestry.

The design of this program will inevitably lead to a disproportionate share of funding flowing to large firms. An analysis of the 2018 Market Facilitation Program (a bailout for losses caused by tariffs) by the Environmental Working Group found that the top 10 percent of firms received 54 percent of all available funding. Additionally, the bottom 80 percent of firms received an average of just $5,000 dollars, while thousands of wealthy urban residents received bailout checks for being related to a farm owner.