

TOTAL INCOME OF AGRICULTURAL HOUSEHOLDS - 1992 REPORT

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Note: This report is also available in French and German

From the outset of the Common Agricultural Policy (CAP) there has been an awareness of the interaction between agriculture and the rest of the rural economy ¹⁾. While it is recognized that farmers and their households as a group have always secured part of their income from other activities, knowledge of the composition of their overall income, and the ways that this income is changing, is of growing importance in the present economic situation. Decisions in agricultural policy are likely to result in farming households obtaining increasing amounts of income from non-agricultural sources.

There is, therefore, a well-established need for reliable and harmonized information on the overall income situation of farmers and their households. Eurostat is undertaking the Total Income of Agricultural Households (TIAH) project, with the support of the Directorate-General for Agriculture and with the co-operation of Member States, to provide this information. As a first step, in 1988 Eurostat published what was then known ²⁾. This **1992 Report** describes the progress up-to-date and illustrates the first results. It gives the background to the TIAH project, an outline of the methodology, an overall view of the project's development and an outline of the directions in which further progress may be anticipated. In a series of twelve chapters the results for each Member State are presented.

- 1) The Farm Structure Survey has established that about one third of farm holders have another gainful activity, to which should be added the work of spouses and other members of the farmers' households in activities off the holding.
- 2) Hill, Berkeley (1988) Total Income of Agricultural Households, Theme 5, Series D, Luxembourg: Eurostat (1990); Manual on the Total Income of Agricultural Households, Theme 5, Series E, Luxembourg: Eurostat.

The objectives of the TIAH project are given in the box. The intention is to provide information at an aggregate level on agricultural household incomes in each Member State. This will be a supplement to Eurostat's existing production-branch indicators (Indicators 1 to 3); there is no suggestion that the new measure should be a substitute for these fundamental indicators of agricultural activity.

For carefully, considered reasons, the TIAH project has chosen, for its main approach, to define an agricultural household as one where the *main source of income of a reference person (typically the head of household) is from farming*. Where this is not possible, the main occupation of the reference person is an acceptable interim basis of classification.

Results for the TIAH project are not at the same level of development throughout the EC, and for several countries there are large gaps. Methodological differences remain between Member States. Caution must therefore be exercised in the degree of detail presented and in the interpretation of results. Nevertheless, even in an incomplete form, the new information demonstrates the value of the TIAH project in terms of an ability to cast additional light onto the income situation of the agricultural community, in ways not possible using the existing branch indicators 1 to 3.

Taking a broad view of available statistics across the Community, the following patterns are evident:

- (a) Some agricultural holdings are operated by households which are not agricultural households, as defined in the TIAH project. The relationship between the numbers of agricultural households and the number of holdings shown in the Farm Structure Survey varies widely between Member States and depends on a variety of factors. In some, the ratio is about 4/5 (Denmark, Netherlands), but in others fewer than half the holdings appear to be operated by households which are classed as agricultural (Greece, Ireland, Italy).
- (b) Agricultural households are shown to be recipients of substantial amounts of income from outside agriculture. Though typically only about a half to two thirds of the total income comes from farming, there are substantial differences between Member States. There is also some change between years. Countries in which less than half of the total household income came from farming (in the latest year for which information is available) include Denmark, Germany, Spain and Italy. At the other end of the spectrum, with more than two thirds coming from farming, are Ireland, the

Objectives of the TIAH project

A harmonized methodology is to be used to generate an aggregate income measure for the following purposes:

- *monitoring the year-to-year changes in the total income of agricultural households at aggregate level in Member States;*
- *monitoring the changing composition of income especially the proportions of income from the agricultural holding and from other gainful activities, from property and from social benefits;*
- *comparing the trends in the total income of agricultural households per unit (household, household member, consumer unit) with that of other socio-professional groups;*
- *comparing the absolute income of farmers with that of other socio-professional groups, on a per unit basis.*

Netherlands and Portugal. It should be remembered that households where the head (reference person) fails to satisfy the TIAH criterion will already have been excluded from consideration when drawing up these figures (see also (f) below).

- (c) Countries differ in the amounts of income taken in taxation and other deductions from their agricultural households, so that the same average total income figure can imply different levels of disposable income in different Member States.
- (d) For those countries in which comparisons are possible, agricultural households appear to have average disposable incomes which are typically higher than all-household average. The relative position is eroded or reversed when income per household member or per consumer unit is examined. In Member States which have information extending over several decades (Germany and France, though in the latter case there are breaks in the methodology), the relative disposable income situation of agricultural households seems to have been deteriorating over time.
- (e) There is evidence that total income of agricultural households is more stable than the income which they derive from farming. Non-agricultural income (all types taken together) is less variable from year to year than is farming income (though this is not a necessary condition for total income to be more stable). Disposable income seems to be less stable than total income, but no clear relationship seems to hold between the relative stability of disposable income and farming income; a variety of factors are operating here, including the way that taxation is levied.
- (f) The limited amount of information concerning households which operate an agricultural holding but where farming is *not* the main income source or occupation of the head suggests that, on average, the amount of income these households derive from farming is small compared with that of households which satisfy the TIAH definition. Their holdings are also on average smaller.

The evidence on income sources, distributions and developments over time supports the warnings that Eurostat has for some time attached to its branch indicators 1 to 3; that they should not be interpreted as measures of personal or household income. However, it would be equally wrong to interpret the new measure as a direct approximation of the level of private consumption or the standard of living. The calculation of these involves many other factors which are not considered here, such as the cost of consumer goods and the provision of public health and education services. Nevertheless, the justification for the TIAH project seems to be strengthened by the first results.

Recent changes implemented, or proposed, in the CAP have meant that there is now a policy interest in extending the measurement of income from agricultural households, selected as described above, to a "broad" approach, which would include all households which operate a holding. Eurostat, in conjunction with the Directorate-General for Agriculture and Member States, is considering how such an estimate might be achieved. This is seen as a supplement to, and not a replacement for, the present method.

