

Farm Household Income: Towards Better Informed Policies

What information is needed?

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is available?**

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to obtaining and using
the desired information?**

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Introduction

Improving the income situation of farm households remains a prominent objective of agricultural policies in many OECD countries. Concerns are often expressed in response to year over year declines in national farm income levels or to fluctuating world commodity prices. Increasingly, however, attention is moving away from such partial indicators of household well-being towards a more comprehensive concept of farm household income which encompasses all income sources available to family members as well as their accumulated wealth.

Policy objectives for farm household income are rarely defined precisely or quantitatively. Do farm households achieve, on average, income levels on a par with the rest of the economy? Is the incidence of low income higher in agriculture than in other sectors? How large are income inequalities within the sector? Is income variability over time higher among farm households than other households? If such problems exist, is a specific solution for this sector appropriate or can they be solved by general tax and social security policies? Given the high levels of support in many OECD countries, governments need to know the impact their policies are having on farm household income levels, composition, distribution and variability. ■

What information is needed?

Governments need information on individual households using as wide a definition as possible of the farm household. This would allow policy makers to select the most appropriate group of households for analysis and comparison depending on the question to be answered. In some cases this might be households whose main occupation and source of income is farming, but in others, it might include all households with any income from farming. Depending on the policy question, the appropriate comparison might be with rural households, urban households, all non-agricultural households, or households running small family businesses.

Income from the farm provides only a partial view of the income situation, as most farm households derive a significant share of their income from other sources, such as non agricultural on-farm or off-farm activities, investments or social transfers. In fact, an increasing number of farm households earn more of their total income from non-farming sources than they do from farming. All sources of income in the household should be taken into account, preferably on a comparable basis across the whole economy. Farm and non-farm wealth should also be

recorded as it can translate into income and consumption. Measures of well-being would encompass household consumption and other social and personal factors such as health (Figure 1).

In order to understand and monitor the variability of farm receipts at the individual household level, panel data need to be collected. Panel data cover a (usually large) number of cross-sectional units and a (usually small) number of time periods. Multi-year averages (excluding extremes), which smooth farm income fluctuations and provide better estimates of the income situation, can then be calculated.

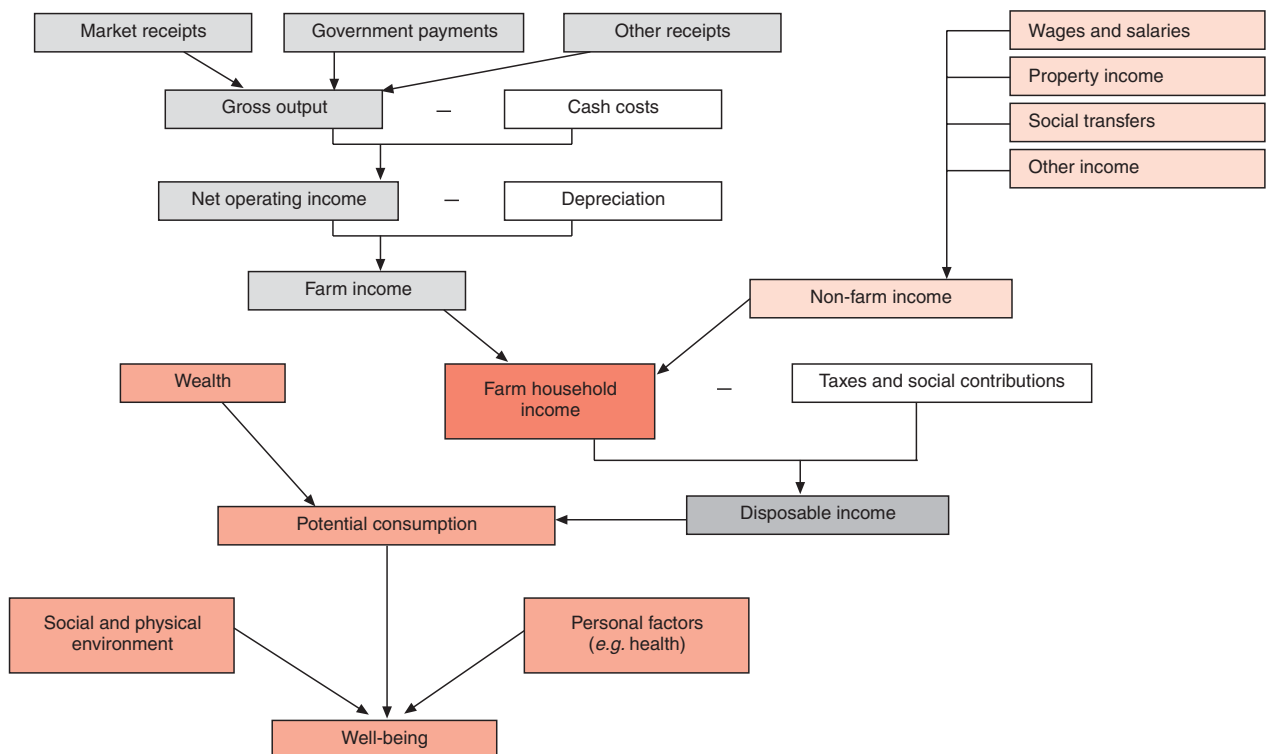
Policy makers also need information about the structure and behaviour of farm households if they are to identify the cause of individual income problems and design appropriate remedies. Classification of farm household units is increasingly based on both business and household characteristics, and not on commodity production. This type of classification helps in understanding the likely behaviour of households as

they adjust to reform. Statistics can become policy management tools. In some countries, for example, it is not uncommon for one farm to support two or more households; this is an additional reason to focus on the household instead of the farm.

Information about the total income of farm households can inform policy makers of the income status of the sector, but its usefulness does not stop there. This information is also needed if policy makers are to be able to measure how effective and efficient social, fiscal and agricultural policies are in meeting any income objectives. Particularly when evaluating the effects of agricultural policy, governments need to be able to measure the impact of other types of policies affecting household income and thus need to collect appropriate data, including social payments and tax flows.

Such comprehensive data at household level also make it possible to construct models of household behaviour and to integrate these into economy-wide

Figure 1. Indicators of income and well-being for a farm family



Source: OECD Secretariat.

analysis to help understand household adjustments to market developments and to policy reforms. ■

What information is available?

Most countries have systems in place to monitor the income situation of farm households but they are often incomplete and out of date. There is often a lack of consistency between micro and macro data, between different farm surveys, between farm and general surveys, and between countries. Income concepts and typologies based on commodity production are outdated and no longer relevant given the increasing diversity in income sources and the trend towards the decoupling of policy measures from production.

Information on farm income, costs and returns of the farm operation, farm size and specialisation is readily available in most OECD countries, for example via the Farm Accountancy Data Network (FADN) in European Union member states. But off-farm income is often missing, non-farm wealth is often unreported – notable exceptions are the Agricultural Resource Management Study (ARMS) in the United States and some national

FADNs in Europe – small farmers and those with income-earning activity off the farm are often excluded, and it is difficult to compare the total income of farm households with that of other households, even at an aggregate level.

The ARMS is a good example of an effort to include policy-relevant information in a survey. A modern typology of different farm households, reflecting contemporary conditions, is used (Box 1). The fact that it does not contain panel data is, however, a limitation for impact analysis. Canada also collects income data using a broad definition of farm households, comprehensive income coverage and a modern typology, but the different sources of information are not always consistent, nor comparable.

Household expenditure surveys exist in many countries, but the number of farm households included is often too small to be able to compare them with other types of household. Tax files are another potential source of information, although in some countries specific taxation regimes for income from farm activities limit the relevance of such sources for income studies. Some countries match farm-specific information

Box 1. Typology for Farm Households Used in the United States

Small Family Farms (sales less than USD 250 000)

- **Limited resource:** Any small farm with gross sales less than USD 100 000, total farm assets less than USD 150 000, and total operator household income less than USD 20 000. Limited-resource farmers may report farming, a non-farm occupation, or retirement as their major occupation.
- **Retirement:** Small farms whose operators report they are retired (excludes limited-resource farms operated by retired farmers).
- **Residential/lifestyle:** Small farms whose operators report a major occupation other than farming (excludes limited-resource farms with operators reporting a non-farm major occupation).
- **Farming occupation/lower sales:** Small farms with gross sales less than USD 100 000 whose operators report farming as their major occupation (excludes limited-resource farms whose operators report farming as their major occupation).
- **Farming occupation/higher sales:** Small farms with gross sales between USD 100 000 and USD 249 999 whose operators report farming as their major occupation.

Other Farms

- **Large family farms:** Farms with sales between USD 250 000 and USD 499 999.
- **Very large family farms:** Farms with sales of USD 500 000 or more.
- **Non-family farms:** Farms organised as non-family corporations or cooperatives, as well as farms operated by hired managers.

Source: USDA (2000), *ESR Farm Typology for a Diverse Agricultural Sector*, Economic Research Service, Agriculture Information Bulletin No. 759, September.

(e.g. farm account surveys) with other general sources on an *ad hoc* or a regular basis to give a more rounded picture. Ireland matches its household expenditures survey with FADN, while France brings together taxation records, household surveys and FADN. In Sweden and Finland, administrative and tax data are brought together. ■

What are the obstacles to obtaining and using the desired information?

There are a number of potential obstacles to obtaining and using full information on farm household income. They fall broadly into three categories – administrative, technical, or political.

Administrative obstacles may occur when policy-making ministries, which are potential data users, fail to communicate their needs to the statistical agencies that collect the data. The costs of designing and setting up new or revised surveys to take account of new needs can also be an obstacle. Cost also affects the frequency and timeliness of surveys. There can be legal/confidentiality difficulties that prevent the merging of data from different sources, such as farm and tax records. Such difficulties often prevent information from being transmitted to analysts. Finally, there are limits to the burden that can be placed on people taking part in surveys, particularly as they are usually volunteers.

There are also a number of technical obstacles, though none are insurmountable. One problem is that coverage of farm households in general surveys is often not representative because there are so few farms. This can limit the potential use of general surveys for farm household income analysis and for merging with farm account information. Wealth information, in particular assets such as livestock, forests or vineyards, is difficult to obtain and to evaluate, even though there are International Financial Reporting Standards (IFRS), which include International Accounting Standards on agriculture. Another difficulty in keeping track of panel data is that farms and households are not stable over time.

Political obstacles are not negligible. Participants in surveys may not understand or agree that it is legitimate to seek information on all sources of farm household income, including sources that are not part of the farm business such as a spouse's income, investment income, and wealth. This affects the rate and quality of responses. Vested interests more

generally can limit the political will to monitor the full income situation of farm households, as it could threaten the legitimacy of income support. As a result, the *status quo* is often vigorously defended. ■

How can these obstacles be overcome?

Pressure to overcome these obstacles can come from several sources. The need to evaluate whether policies are achieving their desired objective, which can be made compulsory, and demands for better accountability for public funds play an important role. Increasingly, improvements in data collection are requested by government audit offices. This has happened in Canada and more recently in the European Union.

In terms of costs, budget constraints and the resulting need to improve policy targeting should work as incentives for improving data collection, rather than obstacles. Changes in policy should prompt changes in data collection systems. The cost of evaluating a policy should be attached to its funding. Specific data may be generated by the implementation of a policy and the collection cost should be part of programme funds.

There are many ways to reduce the cost of collecting and transmitting data, for example the use of existing administrative or non-agricultural data sets and the use of telephone interviews or Internet for filling questionnaires or accessing data. Collecting adequate data at the national level can also be considered as cost-saving for the government and for surveyed farmers, as individual researchers or local government would not need to collect the same data several times. The cost-benefit ratio of collecting data would also improve if surveys covered a broader scope and information was available at the individual level as there would be a higher number of potential uses and users (including from the private sector).

Communication on income issues should be simple and effective so that the need to monitor the income situation and evaluate policies is understood by all. It should focus on key players who can influence political, policy or funding decisions. Efforts should be particularly concentrated on improving communication between statisticians, policy makers, and the industry.

International estimation and definition standards, when they exist, can contribute to solving technical estimation problems and ensuring a certain degree of international consistency. Information technology

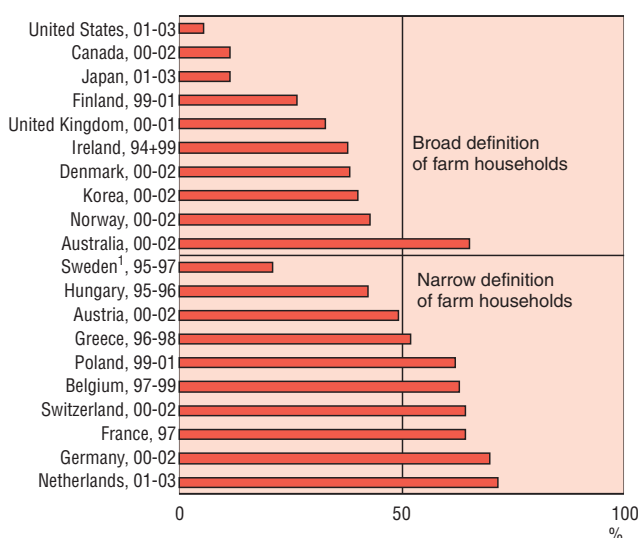
facilitates access to information through web sites ensuring confidentiality. Data from the FADN and the Luxembourg Income Study can, for example, be accessed on-line through the Internet. Information technology also helps to reduce the time lags in making data available to the public and in answering requests. ■

How would such information help policy makers?

More detailed, comparable information on farm household income could be used by policy makers and analysts at several stages in the policy process.

- To assess the nature, cause and extent of income problems. The share of income from agriculture in the total income of farm households is a key element in understanding the income situation of farm households (Figure 2).
- To define policy objectives with measurable targets, for example transitional support policies that would help those households negatively affected by policy reform to adjust and to develop new income opportunities.

Figure 2. **Percentage share of farm income in the total income of farm households in selected OECD countries (average of the three most recent years available)**



Note: Data are not comparable across countries.

1. Income from independent activities.

Source: Update from OECD (2003), *Farm Household Income: Issues and Policy Responses*, Paris.

- To design new programmes that are suited to specific, observed or anticipated, income problems. A recent example is the design, in addition to general safety-nets, of a temporary assistance programme in Australia following the deregulation of the dairy industry.
- To evaluate current policies with regard to their income objectives.
- To improve current programmes. For example, Canada uses its micro-level data to refine the design and parameters of its safety-nets every three years.
- To assess the impact of reform on farm household well-being. Models of household behaviour integrated into economy-wide analysis, as developed in ongoing OECD work, can shed light on how households adjust to reform and on the distributional impact of reform after adjustment.
- To compare alternative options, for example specific agricultural safety-net or the general social or fiscal systems.

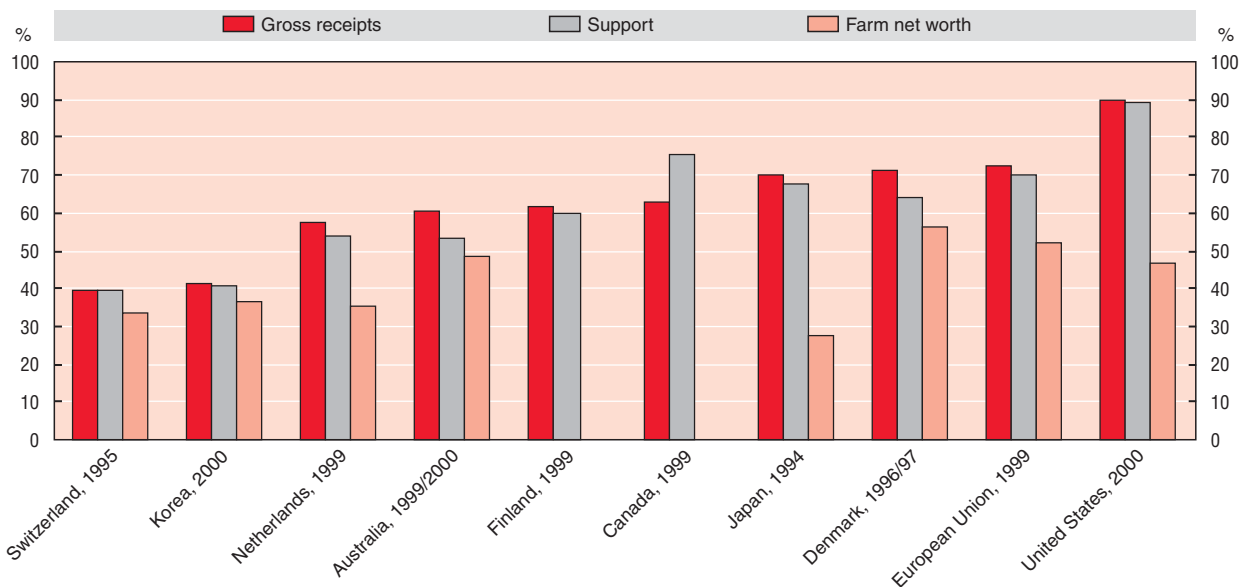
Collecting data is not enough, however. Even where comprehensive data is available it does not always have sufficient influence on policy decisions. Partial information on aggregate farm income levels or declining commodity prices often makes the headlines and most support is still delivered on the basis of production levels, area planted or animal numbers. As a result, the largest farms with the most production, highest incomes and greatest wealth receive most of the income support (Figure 3). More effort should be made in disseminating accurate information on the income situation of farm households and communicating the result of analyses on the impact of policies on income levels, distribution and variability. ■

What can be done to improve farm household well-being?

The OECD highlighted many unintended and undesired effects of current farm policies in its report *Farm Household Income: Issues and Policy Responses*. The report also pointed to serious deficiencies in data needed to monitor the income situation of farm households. The process of designing and monitoring agricultural policies would be enormously helped if better data were available and the OECD is now looking at how that might be achieved.

There is widespread acknowledgment of the need to evaluate domestic policy at both the national level, in terms of public accountability, and the international

Figure 3. Percentage share in gross receipts, support and net worth of the 25% largest farms (as measured by gross sales)



Note: Data are not comparable across countries.

Source: Derived from OECD (2003), *Farm Household Income: Issues and Policy Responses*, Paris.

level. Policies are evolving and statistical systems also need to adjust. This is a long-term process requiring careful planning and implementation, but the sooner work on improvements begins the sooner things will get better. In the short term, analysis will continue with existing, imperfect information.

Compared to the costs of the policies to improve the income of farmers, the cost of collecting necessary household data is minor. Technical problems can be overcome with sufficient will and resources. Good co-operation between policy makers, analysts and statisticians is essential, but co-operation between countries is also needed. In international fora, such as the OECD, national statisticians, policy makers and analysts can work together to harmonise definitions and systems, and exchange best practices. Awareness of needs can be raised and practical examples of data usefulness can be exchanged.

The OECD participates in a number of international networks active in this field. Among them, the Inter-Secretariat Working Group on Agricultural Statistics (IWG-AGRI) organises regular meetings of statisticians from international organisations and countries, together with users. The PACIOLI (Panel in Accounting for Inno-

vation, Offering a Lead-up to the use of Information modelling) network brings micro data providers and users together annually. The academic community also organises *ad hoc* meetings on the diversity of farm families, their well-being and the implications for their ability to adjust to reform.

All of these efforts are important and should continue. But national governments themselves are responsible for designing and managing their farm policies, and it is national governments who have both the greatest need and the ability to generate the necessary information on farm household income and well-being. ■

For further information

Further information on this *Policy Brief* can be obtained from Catherine Moreddu,
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This *Policy Brief* reflects discussion at a joint OECD/PACIOLI *Workshop on Information needs for analysing farm household income issues* in Paris on 29-30 April 2004. This workshop brought together experts to review

the state of the art with respect to data availability on the incomes of farm households and to consider opportunities to improve data collection and relevant policy analysis. For more information on the workshop, see www.oecd.org/agr/policy under publications and documents, then events and meetings.

Information on other meetings of international networks active in the field of farm household income can be found at:

Eighth **IWG.AGRI** Seminar on Perspectives for Agriculture and Rural Indicators and Sustainability, Paris, 21-22 November 2002: www.oecd.org/std under Economic accounts for agriculture, then publications and documents, then events and meetings.

IWG – International Task Force on Statistics on Rural Development and Agriculture Household Income, 30 June – 2 July 2004, Verona: pillar.univr.it/taskforce/.

MEXSAI, Third International Conference on Agricultural Statistics, (ICAS III), Cancun, 2-4 November 2004: www.nass.usda.gov/mexsai/.

PACIOLI – 13: Micro Economic Data on Farm Diversification, Rural Businesses and the Intra-generational Transfer, Hardingasete (Norway), 5-8 June 2005.

PACIOLI – 12: Income Issues in Farm Households and the Role of the FADN, Paris, 28 April 2004.

PACIOLI – 11: New roads for farm accounting and FADN, Prszyziek (Poland), 5-8 October 2003 www.pacioli.org.

European Association of Agricultural Economists Seminar “From households to firms with independent legal status: the spectrum of institutional units in the development of European agriculture”, Imperial college at Wye, United Kingdom, 9-10 April 2005: www.eaae.org. ■

For further reading

- **Farm Household Income: Issues and Policy Responses**, 2003.
ISBN: 92-64-09965-4, € 21, 84 p.
- **Agricultural Policies in OECD Countries: A Positive Reform Agenda**, 2002.
ISBN: 92-64-19967-5, 40 p. Available at www.oecd.org/agr/policy.
- **The Incidence and Income Transfer Efficiency of Farm Support Measures**, 2002.
Available at www.oecd.org/agr/policy.
- **Low Incomes in Agriculture in OECD Countries**, 2001.
Available at www.oecd.org/agr/policy.
- **Income Risk Management in Agriculture**, 2000.
ISBN: 92-64-18534-8, € 46, 150 p.
- **Distributional Effects of Agricultural Support in Selected OECD Countries**, 1999.
Available at www.oecd.org/agr/policy.
- **Factors Conditioning the Transfer Efficiency of Agricultural Support**, 1996.
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- **Adjustment in OECD Agriculture: Issues and Policy Responses**, 1995.
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