European Parliament

Understanding farmer income

Farmer income is a key element in EU agricultural policy, aiming at ensuring a fair standard of living for the agricultural community and helping farmers face the risks inherent to their business. Measurement relies on two EU-wide data sources. Understanding what agricultural receipts these data measure, and how, is key to evaluating farm policy in EU Member States and important in light of the proposed performance-based policy framework.

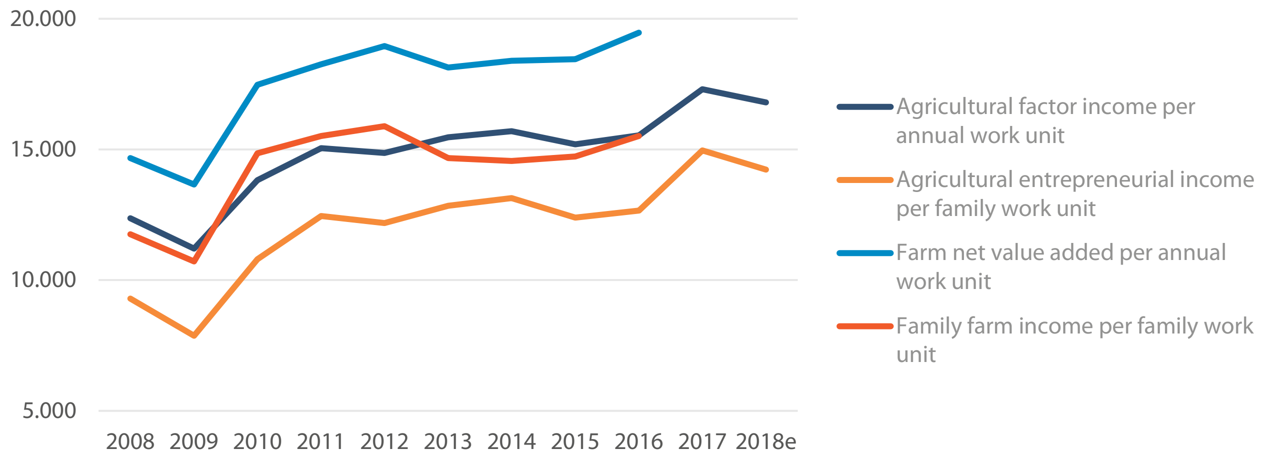
Measuring farmer income

Agricultural income

Measures of agricultural income stem from data collected under the EU economic accounts for agriculture (EAA) – a specific compilation of national accounts adapted to the agricultural sector. Its basic input data come from agricultural statistics (e.g. prices, labour input and animal slaughter), estimates built on agricultural resources (e.g., harvested quantities based on areas under crops and yields) and administrative databases (e.g., subsidies and taxes). State authorities compile national and some regional data in line with EU rules, based on which Eurostat produces EU-level aggregated data.

Factor and entrepreneurial incomes: Agricultural factor income is a measure of the remuneration of the factors of production (land, capital and labour), regardless of their type of tenure. It therefore corresponds to the value of agricultural production plus subsidies, minus certain costs and taxes, both for family farms and corporate holdings. After deducting payments of wages, rent and interest from factor income, the residual value quantifies the agricultural entrepreneurial income that remunerates own production factors. Combined with data on labour inputs, these figures provide indicators on the average agricultural income per annual work unit (i.e. a full-time equivalent employment in agriculture), or family work unit (i.e. a non-paid full-time equivalent farm job).

Agricultural and farm incomes in the EU
(average in euro)



Data sources: European Commission, CAP context indicators, 2018, and Farm accountancy data network, 2016.

Farm income

Measures of farm income derive from data collected under the EU's farm accountancy data network (FADN). This is an annual survey of the accounting operations of EU farms exceeding certain economic size thresholds, set at national level, and representing all EU farms above these thresholds. State authorities collect farm data in line with EU rules, while European Commission services aggregate EU-level data.

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PE 637.924 – April 2019

Farm and family farm incomes: The farm net value added represents the remuneration of the factors of production, irrespective of their ownership. After the deduction of the costs of paid labour, interest and rent, the family farm income represents the return to the farmer for the use of his own production factors. Expressed in terms of work units, these income concepts correspond to average incomes from farming.

Main differences between agricultural and farm incomes

Both agricultural and farm incomes refer to remunerations from agricultural production. While agricultural income is the result of aggregate accounting for the whole EU agricultural sector, farm income originates from microeconomic accounting in selected EU farms that by definition do not include very small production units (numerically important, but with very little agricultural activity). This can explain average values per labour unit higher for farm incomes than for agricultural incomes. Further differences may stem from a few diverse assumptions in the financial records. A 2015 study on comparison of farmers' incomes in the EU suggested exercising care in interpreting results for consistency between data sources. Nonetheless, their different features allow for the use of the most appropriate data according to the objective of the analysis. For example, stemming from a common methodological framework of national accounts, the measures of the average agricultural income allow comparisons with the average wages in the rest of the economy. As for the measures of farm income, being farm-based, they allow comparisons among categories of agricultural holdings, such as farm size classes, types of farming activity, regional clusters, etc. On the other hand, they require a longer validation process that implies a certain delay in data availability.

Key considerations and policy implications

Since EU farmer income measures account solely for remunerations from agricultural production, an EU measure of farmer income as such does not exist. As an individual, a farmer may receive social benefits, income from property, etc., or be engaged in non-agricultural activities that provide additional non-farm income. This could particularly be the case for farmers managing smaller farms, whose working patterns on the farm show a higher degree of part-time work. The data sources examined so far do not cover non-farm income, as their rationale is the analysis of the relationship between agricultural policy and income from agriculture, not total personal income. This latter, in fact, may involve issues beyond the agricultural policy domain, such as social allocations, property, taxation, savings and earnings from other economic sectors.

Farmer income as indicator of policy performance

An objective of EU common agricultural policy (CAP) (Article 39 of the Treaty on the Functioning of the European Union, TFEU), is to increase agricultural productivity, 'thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture'. The uncertainties related to farm business (such as extreme weather conditions or market turmoil) have led – after various policy reforms – to CAP direct payments supporting farmer income with 72 % of the current EU farm budget. Various indicators in the common monitoring and evaluation framework (CMEF) assess the performance of the CAP as regards farmer income by using the income measures described above. They appear in context and impact indicators (both factor and entrepreneurial incomes) and feed calculations of results indicators (e.g. the share of direct support in agricultural income or the variability of farm income). Income measures help to analyse farmer income's dependence on public support, or its weakness compared to non-agricultural income. Ensuring a fair income for farmers is also among the objectives proposed in the CAP reform package now under discussion. This puts forward a new performance-based approach for policy monitoring and evaluation in which indicators play a crucial role.

Farmers' standard of living and farm household income

Farmers' living standards also depend on the farm household's disposable income, including family earnings from activities not part of the family farm business nor covered by farmer income measures. Developing an EU methodology combining on- and off-farm receipts (such as the USA estimation of farm household wellbeing) would add analytical value to assessment of the farming population's living conditions and address a data deficiency stressed, among others, in a 2015 Court of Auditors' report. Such information (partly collected in some EU Member States in the framework of the statistics on income and living conditions) would have a multisector scope including objectives outside agricultural policy and, therefore, a broader aim than evaluating single sectoral policies and interventions.