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**THE AGRICULTURAL HOUSEHOLD – CONCEPTS AND DEFINITIONS
(Part 2)**

Invited paper submitted by the Task Force
on Statistics for Rural Development and Agriculture Household Income*

I. SOME PRACTICALITIES OF CLASSIFICATION

1. Reference person system: In practice classification systems based on the characteristics of whole households (income composition or labour input) often prove difficult to implement because of data problems. The alternative, which has gained ground in the EU,

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is the *reference person* system (where this person is typically the head of the household). Under this, the whole household is allocated to the agricultural group, or some other socio-professional group, if the reference person satisfies the criterion. A reference person system carries with it the possibility that the nature of the total household may be poorly represented. For example, an elderly head-of-household farmer may have living in his household many younger people whose main income sources and occupations are off the farm.

2. While the household may be classed as agricultural using a reference person occupation system, it might be non-agricultural in terms of its overall income composition or labour allocation. Such situations can be reduced by imposing criteria to determine who is taken as the reference person; it could be the member with the highest income. Anomalies have to be accepted in the interest of practicality. Such a system is used in all the Family (Household) Budget Surveys in the EU, though there are differences in the rules determining who is regarded as the reference person and how his/her occupation group is determined. Within Eurostat's IAHS statistics, in many Member States (notably France, but including Spain, Portugal, Italy, Greece, and Belgium) classification is not according to income composition but to the reference person's *declared main occupation*; typically this is interpreted subjectively by the respondent and can be a mixture of income composition and time allocation, or predominantly time. However, evidence from Ireland suggests that this is likely to make a substantial difference to the results that might have been obtained using an income criterion.

3. Variation of income for classification purposes. An important caveat must be borne in mind when applying criteria that involve the selection of households according to their position on a continuum. This is that there must be some degree of *stability in the variable used for classification purposes*. In this respect labour input, or a self-declared subjective judgement of the head of household's "main occupation" are superior to income composition, especially where farming and its inherent income instability is concerned. Not only will the number of agricultural households change where farming is the main income source, but the average income levels of those remaining in the group will alter. Evidence from Germany and Norway suggests that taking a three-year period removes most of the unpredictable variation in incomes, an approach supported from French analysis.¹ Taking longer periods gives more stability but there is an increasing danger that changing farm structure (changes in the size distribution of the farms concerned) will affect the long-term trend in income variability. There is a tendency for the classification system to respond to changes in the numbers of households in ways which hide the cases in certain categories, and sometimes these are the ones on which greatest interest might be focused. For example, while the number of holdings deriving some income from farming may be declining in a stable and predictable way, if falls in income from farming are concentrated among the small, low-income farms, this may affect the numbers whose main income comes from farming disproportionately.

4. Many of those with the severest income problems will be de-classified from being agricultural households. This is seen in an extreme form when incomes from farming fluctuate and classification (on the basis of income composition) takes place each year. Empirical evidence from Denmark reported to Eurostat's IAHS statistics demonstrates that it is quite possible for the residue of households left in the agricultural group in years of low farm profitability to be occupiers of the larger, more successful farms. On the smaller farms

the low farm profits so shifts the balance in income composition that they no longer fall into the agricultural group. In consequence, the average total incomes of the smaller number of agricultural households are seen to increase when the general prosperity of agriculture falls. Thus it may be necessary to pay attention to both what is happening to numbers and income levels among agricultural households defined in the “narrow” way, but also to what is happening in the “marginal” group where farming is not the main income source.

5. Falling household numbers over time. Even if short-term instability can be eliminated, the households that are labelled as agricultural will not form a constant group over time. In the long term numbers will fall, in line with the historic trend. Agricultural policy reform is likely to accelerate this fall. For example, the households which are most successful in diversification into non-agricultural activities can be expected sooner or later to fall outside the agricultural group defined in the “narrow” sense, and to join some other. Farmers who face a fall in their income from farming without developing other earnings will eventually be excluded from the agricultural category as their welfare transfers grow in relative importance. Thus when commenting on income developments over time, changes in the composition of the group of agricultural households must be borne in mind.

6. The above two points underline the desirability of having data that enables a study to be made longitudinally through time, that is, a panel approach. If the policy interest were to be to trace the development of income of people who *started* any given period as members of agricultural households, some attempt would have to be made to retain these in the group. Income averaging over a short run of years for the purpose of classification also required individual cases to be maintained and identified in the data system. This represents a major challenge to the way that official statistics are organised (typically as a snapshot at a particular moment), since longitudinal analysis of a constant sample is at present very rare and data are not organised in ways that makes this easy. The need for this demographic approach is, of course, something that is shared by studies of businesses in other sectors.

7. This handbook recommends that the target definition of an agricultural household should be based on the main income of the household, suitably smoothed to take into account the year-to-year variations, for which averaging over three years is advised. Where this is not possible, the handbook recommends the use of a reference person system, where the person is normally the main income earner. Where income of the reference person is not available, the main occupation or other criteria may be used, though studies should also be undertaken to assess the significance of departing from the target (household main income) classification system.

II. CHOICE OF OTHER SOCIO-PROFESSIONAL GROUPS WITH WHICH TO COMPARE AGRICULTURAL HOUSEHOLDS

8. Frequently users wish to compare the economic situation of agricultural households with that of other socio-professional groups or with all non-agricultural groups or with the national average.

9. Caution is advised on making such comparisons. It should be remembered that:

- The income of agricultural households comprises, at least in part, of entrepreneurial income. In conventional accounting systems this comprises a hybrid of rewards, including not only the reward to unpaid labour but also to the capital and land owned by the entrepreneur. In contrast, the national average is dominated by households whose main income comes from wages or social benefits. While for short-term comparisons of the ability to spend or save in the short term the nature of the income composition is not relevant (the main issue being the funds that are available to consumption or saving), this may not be valid in longer-term exercises.
 - As noted above, the national household average will often be dominated by 1 person households (comprising mainly the young and old), so adequate steps have to be taken to respect differences in size and nature of households in the groups to be compared. In addition to income per household, the use of income per household member and income per Consumer Unit (calculated using equivalence scales) is recommended. Or comparisons can be made only using households of the same demographic characteristics (such as households containing 2 adults and no children).
 - There is often special interest in comparing the income of farm households with those of other businessmen of similar size in rural areas.
 - The accounting systems in use that generate income figures may not capture adequately all the elements of income that should be included in comparisons. For example, the output of food that is consumed by the farm household, or costs of private living that are treated as business costs, will need adequate identification and evaluation before satisfactory comparisons can be drawn. In some regards comparisons between agricultural households and the operators of other small businesses avoid some of the difficulties.
 - Capital gain may be an important source of income of agricultural households that own land that is not available to other groups in society and that is not normally covered in measures of current income.
 - Income variation, and the way in which it is viewed and countermeasures taken, can vary between socio-professional groups. Thus income averaging may be appropriate where this is feasible.
10. For use within its IAHS statistics, Eurostat has developed a typology of other socio-professional groups that is recommended for use in comparisons (see section 1 below).
11. This handbook recommends that steps be taken to avoid misrepresentations when drawing comparisons between the income situation of agricultural households and other socio-professional groups. At the least, this should be income comparisons per household member and per Consumer Unit.

III. HOUSEHOLDS CONTAINING HIRED LABOUR WORKING IN AGRICULTURE

12. Hired (dependent) workers are not usually considered to be agricultural households. Within the EU they have not been treated as being within the agricultural community for which the CAP aims to provide a “fair standard of living”. Indicators of the residual rewards from farming (Entrepreneurial Income) exclude the costs of hired labour. Assistance has been directed primarily at the self-employed members of the agricultural labour force, not the hired ones. Income problems among the households of hired workers have been subject to the normal provisions for poverty alleviation, in the same way as other employees. Some countries where there are substantial numbers of hired workers in agriculture have a special system for monitoring the wages and conditions of service, with (in the UK) a special legal mechanism to set minimum wages and to avoid exploitation that may result from the fragmented and small-scale nature of their employment. Nevertheless, a range of studies have shown that low income and household poverty are commonly found among the hired section of the labour force, a particular problem when this is associated with low wealth, as is often the situation.

13. At this point it is necessary to refer to farms that have their own legal status (companies or similar forms). Where a family farm takes the legal form of a company the farmer-directors are not, from a legal perspective, self-employed (as they would be as sole traders or as partners) but rather are salaried employees of their own companies, and any dividends they may receive are similarly not strictly income from self-employment. According to the definition of an agricultural household as one where the head (or the entire household) has self-employment as their main income source, the households headed by hired workers are not included. Applying this rule strictly would mean that the households the operators of company farms would also not be included.

14. In reality, most company farms are family owned and operated businesses that adopt the particular business form primarily for taxation reasons or for other conveniences (such as distributing ownership of a family business among members who do not wish to farm). In their behaviour in most respects they act indistinguishably from unincorporated businesses. Indeed, in the EU’s Farm Structure Survey some Member States record family farms run as companies as if they were sole-traders or partnerships. A common-sense view would clearly include the households of such farmers as being agricultural households and part of the agricultural community. In practice these farms will often be large and there may be several directors, in which case there is likely to be more than one agricultural household per business.

15. The lack of statistical attention given to the households of hired agricultural workers can be expected to change now that the EU’s enlargement to the east has brought into the statistical coverage large numbers of people working on farms arranged as forms of co-operative or joint stock companies that are very different in nature from the traditional family farm. This point is developed in the next section.

16. This handbook recommends:

- That the households found on family farms that are arranged as corporations but that function as unincorporated businesses should be treated as if they were sole-proprietorships or partnerships, and thus be classed as agricultural households. Income results should be shown separately for the households on these quasi-unincorporated farms if possible, which would enable exclusion or inclusion with other agricultural households according to the user needs
- The income situation of the households of hired agricultural workers should be assessed as a separate and supplementary exercise (a recommendation to be taken with that of the next section). An ability to analyse by the type of business on which they are employed should be incorporated (family farm, corporate farm etc.).

IV. RELEVANCE FOR THE LESS AND MORE DEVELOPED COUNTRIES AND THOSE WITH LARGE-SCALE AGRICULTURAL ENTERPRISES WITH SEPARATE LEGAL STATUS

17. The statistical treatment of hired agricultural workers, their households and their incomes has been thrown into prominence by the enlargement of the EU and the introduction of into the sector of significant numbers of large scale-agricultural units that have their own legal status and that have a considerable number of employees. These are far removed from the “family farm model” that underlies many agricultural statistics. Such units are already found in the unified Germany where they are thought to be responsible for some 15% of the agricultural Net Value Added of the entire (enlarged) country (Eurostat, personal communication). Accession of a further 10 Member States in 2004 has raised them and their hired workers to much greater prominence.²

18. Replies to a Circular Note from Eurostat have shown that a range of organisational forms are encountered – agricultural enterprises arranged as joint stock companies, limited liability companies, co-operatives, partnerships etc., though in some countries the business structure is not yet stable. Several have explicitly stated that the households that work on these large units are considered as part of the agricultural community and are seen as intended beneficiaries of agricultural policy. Furthermore, these households also commonly operate private plots that generate a significant share of their food supply and contribute a substantial proportion of the aggregate output of some commodities. However, such plots may also be operated by households that are not associated with large-scale units.

19. There are implications for both the “narrow” and “broad” views of what constitutes an agricultural household, the statistical responses to which have not yet been fully worked out. As an interim solution, Eurostat has proposed to provide for the inclusion of income estimates for households found on large-scale enterprises as an “add-on”, a supplementary category of households that, in the interest of simplicity and clarity, will cover the households of employees working on *all* large-scale agricultural enterprises, irrespective of the form of legal structure that these units now take. To be included the household’s reference person must work on a large agricultural unit and that job must be their principal occupation (in terms of income or, failing that, of time). It is assumed that this will be the case for most reference persons. At a future stage it will be necessary to clarify what constitutes a “large-scale

agricultural unit”, possibly using a size criterion. This issue is probably best handled at national level.

20. This “add-on” provision applies to statistics for agricultural households defined in the “narrow” way. The solution appropriate to the “broad” definition of an agricultural household is more problematic and needs further methodological consideration. While the “broad” coverage should obviously include the households of private farmers (deemed to be all those selling to the market and thus generating some income from this activity) and of all workers on large units (to be consistent with the above treatment of reference persons found on them), the issue is complicated by the significant amounts of agricultural production of a subsistence nature that takes place on private plots.³ This has been accommodated by a proposal to include subsistence producers within the “broad” definition of an agricultural household, while still excluding hobby producers, a distinction that is hard to make but which is intended to be consistent with the (activity) Economic Accounts for Agriculture. However, this solution on household classification should only be regarded as provisional. Another problem is posed by the valuation of the output from private plots and the contribution this makes to any measure of disposable income; though this issue is also faced by the EAA and national accounts.

21. This handbook recommends that the income situation of the households of hired agricultural workers on all large-scale agricultural units should be assessed as a separate and supplementary exercise, including a breakdown of the type of unit on which they are found and the forms of income they receive (wages, profit share etc.)

V. TYPOLOGIES OF FARM-HOUSEHOLDS (EUROSTAT, USDA-ERS, PERALI ETC.)

22. Reference has been made already to the pioneering typology of farm households developed by Eurostat in its Income of the Agricultural Households (IAHS) statistics. In summary the typology it is a binary classification of households with some income from farming (a “broad” coverage) into those that are narrowly “agricultural” households and those that are “marginal”. The concept of the households corresponds with the “dwelling” households, though not all countries in the EU conform to the target definition and there are moves to replace it with the “single budget” concept of a household.

- For its **“broad” coverage** all households are included that derive some income from independent activity in agriculture (other than income solely in kind that is of a “hobby” nature). This income can arise from activity of the head of household or any other member.
- For its **“narrow” coverage** the IAHS applies a classification system based on the **main income source of the household’s reference person** (Eurostat, 1995⁴), a more practical approach than one that looks at the composition of the entire household’s income. Thus a “narrow” agricultural household is one where the reference person’s main income is from farming. This reference person is intended to be the household’s highest income earner, who will also usually be the one regarded as the head of household. How this person is designated varies from country to country, and may be

selected by self-declaration or more complex algorithms. Countries where an income-based classification is not feasible (e.g. France) have been allowed to apply a system based on the reference person's main *time allocation* or on a more subjectively determined occupation or trade group label. This alternative conforms with the approach taken to the allocation of households in the EU network of household budget surveys. It is recognised that some producers of significant volumes of agricultural commodities may be excluded from the "narrow" agricultural group if they have even larger incomes from elsewhere. Such exclusions may find political resistance.

- Subtracting the "narrow" coverage from the "broad" one results in a "**marginal**" group of households that engage in independent agricultural activity but where the main income is from some other (non-agricultural) source.

23. The "narrow" definition takes precedence in the generation of IAHS statistics because it produces a group that appears to correspond more closely with the "agricultural community" whose incomes the CAP is intended to support. Of course, whichever definition is being used, the incomes of all household members are summed to achieve a total for the household.

24. Some idea of the implication of this typology for the numbers of households and income levels can be gained from the seven EU countries where this calculation is possible (though spread across several years). The "marginal" households are shown to be present in substantial quantities and in some countries are more numerous than "narrow" agricultural households (see Box 1). Thus when considering results for the agricultural households defined narrowly, the coverage is considerably smaller than the numbers of households that derive some income from farming. This may present difficulties of acceptance so some users if they feel that large numbers of the households they regard as farmers are being excluded and that the results relate to a small sector of the industry that is, in some sense, atypical. This has proved a particular problem in Denmark and Ireland because of their socio-economic traditions (see comments in the Box). Though highly heterogeneous, the "marginals" share the characteristic that agriculture is typically of little importance to them (for example generating only some 5% of household income in Germany in 1983 and 14% in Ireland in 1987) (given in Eurostat, 2002 and earlier reports).

25. Though attention has been concentrated here on households, a parallel classification of other institutional units (corporations etc.) might also be envisaged. By summation a picture could be presented of all units engaged in production or for which it is the major activity or income source.

26. Eurostat has also developed a draft typology of other socio-professional groups, based on national accounts guidelines, to be used for comparative purposes within IAHS statistics (see table 1). Categories shown in **bold** constitute a "minimum" list. Member States that wish to use a more detailed breakdown may do so. In reality, where results are calculated Member States largely use the bolded categories.

Box 1Implications of using "broad" or "narrow" definitions of an agricultural household

The following numbers of agricultural households and average incomes are contained in Eurostat's reports from its IAHS statistics. They come from a number of national sources, some routine annual exercises but many from special studies, some of which are now quite historic.

Number of households and levels of average net disposable income for three groups of agricultural households, in selected Member

<i>Agricultural households</i>	Denmark (1999)	Germany (1983)	Greece (1994)	Ireland (1987)	Netherlands (1988)¹	Finland (1992)	Sweden (1992)
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No. agricultural households (x 1 000)

"broad"	57	613	615	207	136	139	94
"narrow"	16	353	398	85	87	73	54
"marginal"	41	260	217	122	49	65	41

Disposable income per household (All households = 100)

"broad"	99	110	114	105	210	124	81
"narrow"	105	101	86	127	267	131	79
"marginal"	92	123	166	89	108	116	85

Source: Eurostat (2002) *Income of the Agricultural Households Sector 2001 report*. Theme 5. Eurostat, Luxembourg. ISSN 1725-1605. In addition to results this CD contains methodology and studies.

The relationship between numbers of households in the three categories reflects real differences in national socio-economic conditions. For example, in Denmark the transfer of land between generations typically takes the form of sales between parents and children, something not usually elsewhere in the EU. Specialist lending institutions grant loans for this purpose. To meet interest charges it is common for one or more members of the successor's household to take a non-agricultural job, something that can influence the choice of enterprise on the farm. Interest charges also reduce the profit from the farm business. The result is farming that appears unprofitable (in the short term) because of a high debt burden and relatively few households where the farm forms the main income source. In the longer term, the death of parents implies the release of capital to the succeeding generation.

Table 1

Typology of socio-professional groups for use within IAHS statistics (a disaggregation of the households sector account)

- (a) Employers and own-account workers
 - (i) Farmers (This group should not include forestry or fishery households. Where it is not possible to exclude them, this should be made explicit)
 - (ii) Others
 - (x) Retail and wholesale distribution; accommodation and catering
 - (y) Services (including professions operating as own-account workers)
 - (z) Others (including manufacturing industry)
 - (iii) All self-employed [(a)(i) + (a)(ii)]
- (b) Employees
 - (i) Manual workers in agriculture, industry and services
 - (ii) Non-manual workers
 - (iii) All employees [(b)(i) + (b)(ii)]
- (c) Others
 - (i) Recipients of property income
 - (ii) Recipients of pensions
 - (iii) Recipients of other current transfers
 - (iv) All others
- (d) All households except farmers [(e) minus (a)(i)]
- (e) All households [(a) + (b) + (c)]

27. Among agricultural households defined in a “broad” way, a more detailed disaggregation of the coverage is, of course, possible, though this has not been pursued much in Europe. Certainly there is no systematic approach using a harmonised methodology, largely because the collection of data by farm accounts surveys on non-agricultural sources of income (and outgoings leading to disposable income) has not yet been agreed. Some countries have broken down household income figures derived from national surveys of the households found on farms (which approximates to the “broad” coverage, though with difficulties where there are more than one entrepreneurial household) in various ways, experimentally or regularly. Among the former, in Ireland the combination of the national farm survey and the household budget survey enables a flexible and detailed analysis to be carried out, though only in the base years of the household survey (typically every 6 or

7 years). This enables, at least in theory, the comparison of incomes of various types of farm household with other socio-professional groups. Among the latter, Denmark publishes household income results (total income and disposable income per farm) by size of farm (area and economic size); Germany also breaks down the results of total and disposable income from its farm accounts survey into averages for “full-time” (subdivided by size), “part-time” and “spare time” farms. (For a review of these and other country breakdowns see Hill 2000). These breakdowns use conventional categories and are not explicitly policy-orientated.

28. In contrast, in the United States, the ERS has developed a farm typology that appears to be far more directed at the needs of policymakers. It is based on the occupation of operators and the sales class of farms combined (from Offutt 2000).⁵ It identifies five groups of small family farms (sales less than \$250,000).

- **Limited resource.** Any small farm with gross sales less than \$100,000, total farm assets less than \$150,000, and total operator household income less than \$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 operating 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 sales less than \$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 sales between \$100,000 and \$249,000 whose operators report farming as their major occupation.

29. In addition, there are three categories of other farms, considered large in that their sales exceed \$250,000. This threshold is admittedly arbitrary, ERS choose \$250,000 at the suggestion of the National Commission on Small Farms.

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

30. This typology now forms the basis for disaggregating ERS reporting on farm household and business performance and will be used to evaluate the impacts of proposals for change to agricultural legislation. According to Offutt (2002), disaggregating using the typology shows very clearly how dependence on farm income varies by farm type. In 1999 only for households operating very large farms did income from the farm business contribute more than 80 percent of total income.

31. For large farms, farm income accounted for 60 percent and for higher-sales small farms half came from farming. The remaining small farm households derived virtually all their income from off-farm sources. Off-farm income, therefore, is as important or more important than farm income to the wellbeing of most of America’s farm families. The data on

household income also show distinct differences in levels compared to U.S. average household income (more detailed comparisons with separate socio-professional groups are not offered in the USDA-ERS publication). As noted, the average farm household income in 1999 was about a third higher than the average for all US households. But, again, this average masks significant variation.

32. On the one hand, the average household income for limited-resource farms lay below the poverty level but that for the very large family farms was more than three times the national average. On smaller farms whose operators' main occupation was farming, the higher-sales group's total income was just above the national average but the lower-sales group lay just below, as it did for retirement farms.

33. Residential/lifestyle farms had negligible or negative income from farm but household incomes above the national average. These comparisons of farm household income across typology groups demonstrate one use of survey data that emphasizes a cross-sectional view and the value of using the household as the basic unit of observation.

34. The handbook recognises the value of the typologies of agricultural households that reflect the needs of users and encourages their development. The basis of the typology should be flexible so that different needs can be met. Consideration should be given to the international application of classification based on the USDA-ERS.

NOTES

¹ Cordts, W., Deerberg K.-H., and Hanf, C.H. (1984). Analysis of the intrasectoral income differences in West German agriculture, *European Review of Agricultural Economics* 11:323-342. Hill, B, with Hegrenes, A. and Lien, G. (2001) Income instability among agricultural households – evidence from Norway *Journal of Farm Management*, 11(1), 1-12. Brangeon, J.-L., Jégouzo, and Roze, B. (1991), *Une contribution à la connaissance des revenus totaux des familles d'agriculteurs; résultats d'un dépouillement particulier d'une enquête CERC sur les revenus de l'année 1978*, INRA, Station d'Economie et Sociologie Rurales, Rennes.

² For example, in Hungary in 2000 corporate units constituted only 0.9% of numbers of farms but occupied 41% of the area.

³ In 2001 in Estonia there were some 176,000 household plots (1.6% of agricultural area) in contrast with 85,300 agricultural holdings (98.4% of the area). Of the 32,400 ha occupied by household plots, averaging 0.18 ha, some 2,300 ha were used for potatoes.

⁴ Eurostat (1996), *Manual of the Total Income of Agricultural Households* (Rev.1) Theme 5 Series E, Theme 5 Series E, Eurostat, Luxembourg, ISBN 92-827-5227-5.

⁵ Offutt, S. (2002) 'What is agriculture'. In: Piersimoni, F. (ed), *Conference on Agricultural and Environmental Statistical Applications in Rome – CAESAR*. [2nd World Conference of Agricultural Statisticians]. Volume 1, p59 – 68. Rome: National Statistical Institute of Italy (ISTAT). Essays n. 12/2002. ISBN 88-458-0835-1.