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DEFINITIONS OF INCOME (Part 2)

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

I. SUBSIDIES, PREFERENTIAL TAX TREATMENT AND INCOME MEASUREMENT

1. The financial transfers that farm operators receive are a matter for public concern and must be considered when assessing the income position of agricultural households. These fall into two broad groups – “subsidies” and “tax expenditures”, the latter term being perhaps

* This paper is to be included as chapter X in the Handbook on Rural Household, Livelihood and Well-Being: Statistics on Rural Development and Agriculture Household Income. The Task Force is comprised of experts from the following national agencies, universities and international organizations: Statistics Canada, Hungarian Central Statistical Office, National Statistical Institute of Italy (ISTAT), Swedish Board of Agriculture, Dept. for Environment, Food and Rural Affairs (United Kingdom), Economic Research Service (United States), Imperial College (United Kingdom), University of Verona (Italy), University of Pescara (Italy), Food and Agriculture Organization of United Nations (FAO), World Bank, Statistical Office of the European Communities (Eurostat), Organization for Economic Co-operation and Development (OECD) and the United Nations Economic Commission for Europe (UNECE).

better expressed as preferential tax treatments or tax concessions. The central issue within this part of the Handbook is whether the systems of measuring incomes in agriculture adequately take subsidies and tax concessions into account. Deficiencies in doing so could affect comparisons in space and time using income results, including those between socio-professional groups within countries (the farmer/non-farmer comparison), between countries and (potentially) of farmers over time. Firstly the treatment of subsidies within the main income measuring systems must be outlined.

Concept of a subsidy

2. The term “subsidy” is frequently used but has a variety of meanings. A general description of a subsidy is provided by Portugal (2002):¹ “A subsidy can be seen as a benefit provided to individuals or businesses as a result of government policy that raises their revenues or reduces their costs and thus affects production, consumption, trade, income, and the environment. The benefit generated by policy may take different forms such as an increase in output-price, a reduction in input-price, a tax rebate, an interest rate concession, or a direct budgetary transfer. There are different terms used for “subsidies”: e.g. transfers, payments, support, assistance, and aid. The term used is often associated with the purpose for which the subsidy is measured: e.g. for trade distortion and negotiation, or for domestic efficiency and equity. Although sometimes these names are applied as synonymous, very often they imply the calculation of different indicators”.

3. In discussing the nature of subsidies in the context of their impact on the environment, Steenblik (2002) illustrates the potential breadth with which this term can be used. In the extreme it can be applied in situation where the price of a commodity fails to cover its social costs, such as when environmental externalities are not adequately internalised, so that the producer is in effect the beneficiary of a transfer from the rest of society. Steenblik quotes Reijnders (1990)² that “If one uses the wider meaning of the concept of subsidy, one may safely state that current activities are heavily subsidised by future of generations of humans, third parties to the activity and other natural species”.

4. One widely accepted definition of a subsidy is that adopted by the WTO in Agreement on Subsidies and Countervailing Measures (Box 1). However, this is not comprehensive but reflective of the legal circumstances it was required to serve. It is a useful starting point but needs expansion.

Box 1Definition of a Subsidy in the Agreement on Subsidies and Countervailing Measures

For the purpose of this Agreement, a subsidy shall be deemed to exist if:

- (a) (1) there is a financial contribution by a government or any public body within the territory of a Member (referred to in this Agreement as “government”), i.e. where:
 - (i) a government practice involves a direct transfer of funds (e.g. grants, loans, and equity infusion), potential direct transfers of funds or liabilities (e.g. loan guarantees);
 - (ii) government revenue that is otherwise due is foregone or not collected (e.g. fiscal incentives such as tax credits)*;
 - (iii) a government provides goods or services other than general infrastructure, or purchases goods;
 - (iv) a government makes payments to a funding mechanism, or entrusts or directs a private body to carry out one or more of the type of functions illustrated in (i) to (iii) above which would normally be vested in the government and the practice, in no real sense, differs from practices normally followed by governments; or
- (a) (2) there is any form of income or price support in the sense of Article XVI of GATT 1994; and
- (b) a benefit is thereby conferred.

Source: World Trade Organisation (1999).

* In accordance with the provisions of Article XVI of GATT 1994 (Note to Article XVI) and the provisions of Annexes I through III of this Agreement, the exemption of an exported product from duties or taxes borne by the like product when destined for domestic consumption, or the remission of such duties or taxes in amounts not in excess of those which have accrued, shall not be deemed to be a subsidy.

5. The WTO definition when applied at the sector level (such as agriculture) clearly includes the following categories of instrument that affect markets on agricultural commodities and of inputs used by agriculture:

- (a) Budgetary transfers to producers in the sector, such as payments received by farmers from the government that might be seen as a subsidy on a product or as an “Other subsidy on production”.
- (b) Subsidies paid to producers of inputs used by the agriculture sector, including interest subsidies

- (c) The provision of goods and services to the sector by the government at less than market rates, which may involve in the subsidy being paid to an intermediary.
- (d) Tax concessions extended to operators in the sector.

In addition Steenblik identifies the following:

- (e) Other forms of market support that do not involve budgetary expenditure, such as border instruments that engineer higher prices for domestic producers, resulting in a transfer from consumers to producers
- (f) Resource rents, often thought of as where private individuals or enterprises are not changed for preferential access to a natural resource, such as a tuna fishery. While milk quotas when marketable reflect market conditions, their introduction by allocation (rather than by bidding) can be construed as in part a one-off subsidy.

6. Measurement problems are encountered for each type. Primarily these concern the reliability with which the counterfactual can be established – the situation that would have existed in the absence of the subsidy. In particular, the problems of establishing prices against which to calculate market support is too familiar to need further elaboration in an agricultural context.

7. Public expenditures that relate to the provision of goods or service do not fit into this definition. This is clear if, for example, the state buys vehicles for use in the public sector at a market price – the purchase is not undertaken to bring about a policy aim in which the selling firm is an intended beneficiary or intermediate target group. There is no element of subsidy to the producer, although there could be if the purchases were made solely to maintain the revenue of the firms concerned (to generate or conserve employment and incomes) and the vehicles remained unused, or if the prices paid were above market rates.

8. The upshot is that not all public expenditure can be considered to be subsidies, in the sense outlined above. Not all subsidies involve public expenditure; some involve transfers to producers engineered by public policy in other ways (supply control to raise output prices, tax concessions etc.). Some involve private expenditure, such as corporate sponsorship of arts and sports organisations, though there is usually an element of tax concession in such payments.

Subsidies within agricultural income measurement systems

9. The system of national accounts (SNA93), which provides a conceptual framework to much of this handbook, takes a somewhat narrow approach to what is considered to be a subsidy, and this is carried over to the accounting for agricultural activity and for agricultural households. The SNA93 describes a subsidy as follows:

“D. Subsidies (D.3)

7.71. Subsidies are current unrequited payments that government units, including non-resident government units, make to enterprises on the basis of the levels of their production activities or the quantities or values of the goods or services which they produce, sell or import. They are receivable by resident producers or importers. In the case of resident producers they may be designed to influence their levels of production, the prices at which their outputs are sold or the remuneration of the institutional units engaged in production. Subsidies are equivalent to negative taxes on production in so far as their impact on the operating surplus is in the opposite direction to that of taxes on production.

7.72. Subsidies are not payable to final consumers, and current transfers that governments make directly to households as consumers are treated as social benefits. Subsidies also do not include grants that governments may make to enterprises in order to finance their capital formation, or compensate them for damage to their capital assets, such grants being treated as capital transfers.”

10. A distinction is made between two forms of subsidies. “Subsidies on products” are subsidies payable per unit of a good or service. Such a subsidy usually becomes payable when the good or service is produced, sold or imported, but it may also be payable in other circumstances such as when a good is transferred, leased, delivered or used for own consumption or own capital formation. The other form comprises “Other subsidies on production” These consist of subsidies (other than subsidies on products) which resident enterprises receive as a consequence of engaging in production.

11. Reference has already been made to the two approaches used in accounting for agriculture – accounts for the activity of producing agricultural goods and services, and accounts for the institutional units that can be deemed to be agricultural, of which agricultural households form a major subgroup. Each gives rise to “income” indicators, with those relating to activity accounting having become well established and of great interest to policy decision-makers and commentators on the development of agriculture, though a strong case can be made that the indicators from the institution approach are more policy-relevant. In the aggregate activity accounts for agricultural production, such the EU’s Economic Accounts for Agriculture (EAA) “subsidies on products” are incorporated in the calculation of Net Value Added at basic prices. However, the “other subsidies on production” can be added when estimating NVA at “factor cost” and, with some assumptions concerning interest and rent payments, Entrepreneurial Income.

12. The treatment of subsidies in the accounts for the agricultural households sector, leading to disposable income, is potentially broader. It is less important whether a payment is classed as relating to a product, to production or as for some other reason, or are received from a non-governmental sector, as they will all appear somewhere in the account of the resources flowing to households. Both the subsidies on products and other subsidies on production received by agricultural households are included in the calculation of Net Operating Surplus accruing to the households from their independent (self-employed) activities. Subsidies that are not linked closely to production and that might be considered to be more in the nature of social benefits are included under that heading. Subsidies from

private bodies, including for example payments made to farmer households from charitable foundations or family members working abroad, would also appear (under Miscellaneous Current Transfers).

Which other subsidies might be considered?

13. The approach taken to what constitutes a subsidy in national accounts, and hence in current aggregate agricultural income measurement as reflected in activity accounts, is rather narrow. Farmers receive many other transfers, directly or indirectly, some individually and some as part of a group (the agricultural industry). This raises the issue of what other forms of subsidy might reasonably be considered, particularly as “other subsidies on production” in activity accounts. When attempting to identify subsidies at industry level notice has to be taken of the degree to which a subsidy is specific to that industry/activity (see annex on “specificity” to paper by Steenblich (2002)). General public expenditure on infrastructure is not intended to benefit specific sectors and so is not included in accounts of subsidies for that sector.

14. Even government support for primary research funded by a government agriculture department would not normally be considered appropriate to included in an agricultural subsidy account, though a rather different view is taken by the OECD in its measurement of support to agriculture, such items being covered in its General Services Support Estimate and hence in its Total Support Estimate (though still being excluded from the headline Producer Support Estimate).³ In deciding what to include as a subsidy to agriculture both the way that it is labelled and the de facto way in which it is operated should be taken into consideration – an investment subsidy nominally open to all rural businesses but in practice restricted to farmers would probably be regarded as specific. Thus an element of subjective judgement is inevitable.

15. Tax concessions are also often cited as a form of subsidy. It is true that in many countries farmers receive preferential treatment in taxes on some inputs, most commonly on fuel duties. There are also a number of special advantageous procedures in income taxation, such as an ability in some countries to average over a run of years, or the application of special (and preferential) methods of assessing tax, such as paying on a flat-rate basis rather than on actual incomes. Occupiers or owners of farmland usually pay current property taxes at a reduced rate current taxation.⁴ In some countries the system of national insurance is special for farmers, so that they contribute less in relation to the benefits received than other groups in society. These preferential treatments and concessions are important to issues of efficiency, trade patterns and equity, but they do not necessarily have much relevance for the measurement of income in the present context.

16. The explanation for this is that, when measuring the disposable income of agricultural households using accounts based on agricultural households as institutional units, the presence of such subsidies and concessions will be reflected in the level of disposable income. The definition of disposable income presented both in national accounts (SNA93) and in the microeconomic recommendations of the Canberra Group allow for all the subsidies and concessions so far mentioned. True, if only figures of total income (before deductions including tax) are available, the form of taxation regime will be significant in making comparisons between groups. But if the data sources are robust, any differences between

farm households and other socio-professional groups in regimes will be reflected in disposable income.

17. Attention is then thrown back to two issues, both of which have been developed in previous sections:

- whether the system for measuring income adequately captures the money and in-kind flows to households;
- whether the disposable income is an acceptable guide to consumption possibilities, given the different costs faced by agricultural households and other groups.

Capital taxation on transfer of property

18. Before leaving concessions (tax expenditure) it is important to note one aspect that is not covered when measuring income based on current accounts. Tax is often levied on the transfer of assets, whether by sale, gift or inheritance (stamp duties, capital gains tax, death duties/estates tax etc.). However, agricultural land (a main asset in agriculture) is almost universally given special treatment in terms of the valuation applied (special figures lower than market prices), or reduced rates, or tax-free amounts, especially if the transfer is to family members or to younger farmers as part of inter-generational transfers.⁵ These taxes will not normally appear as deductions in the calculation of disposable income. Just as, in the longer term, the capital aspects of the rewards from farming accruing to agricultural households should not be ignored, neither should the concessions on the capital value of their assets, in particular the land that they may own. Not only may capital taxation affect the decisions of existing farmers to remain in the industry, even in the face of low current income. Non-farmers may be attracted into agriculture by the concessions, with possible implications for land values etc.

Definitions in use

19. In considering the definition of income to be used in analysing the income situation of agricultural households it is useful to review existing practice. Examples can be found at both national accounts and microeconomic levels. The differences of approach to the purpose of accounting and income measurement result in differences in definition. This is well expressed in a passage from the Canberra Group's 2002 report⁶ (section 2.2.1).

“The macro-analyst is interested in the aggregate of household income as it fits into the macroeconomy as a whole, and approaches its construction in a top-down manner. Previous attempts to update the existing international guidelines on income distribution (UN, 1977) to bring them into line with the 1993 SNA have categorised income according to the type of transaction which gives rise to the flow without regard to the medium in which payment is made. The sequence is basically to measure first income generated in the course of production, then to allow for distribution of property income thus arriving at a concept called “primary income”. The next stage is to account for current transfers, widely interpreted, and thus arrive at “disposable income”. This is either spent on consumption or saved. Saving is used either to finance investment or leads to net borrowing or lending.

Exhaustiveness of the definition is also very important to the macro-analyst, as is its consistency with the definitions of income of the other institutional sectors: no theoretical gaps can be left unfilled, even if in practical terms imputations and estimations have to be widely employed when actually compiling the statistics.

The micro-analyst on the other hand is primarily interested in the measurement of income distribution. Conceptually, this means that the definitions are driven mainly by what the individual perceives to be an income receipt of direct benefit to him or herself, which results in a bottom-up approach to the construction of a definition. The means of payment is a major discriminatory factor and the rationale behind the payment is subsidiary. Practically, definitions have also to be constrained by what it is feasible to collect in household surveys or what is available at the household level in relevant administrative sources. In fact these two considerations – the conceptual and the practical – will usually result in the same choices, since if individuals perceive a receipt to be of direct benefit to them they are much more likely to be able to provide reliable data on it.”

20. Eurostat’s Income of the Agricultural Households Sector (IAHS) statistics has developed a definition of income to be used when estimating the incomes of agricultural households. This is based in national accounts methodology and consequently contains some facets that are inappropriate when applied at the farm household level. In contrast, the methodology recommended by the Canberra Group for microeconomic work using household-level data is primarily intended for application in the study of income distribution, including poverty, and the emphasis is on income as a means of improving current economic wellbeing, as reflected in the ability “today” to consume goods and services. Resource flows that result in the ability to consume “tomorrow”, such as employer contributions to pension funds, interest accumulated by these funds, and capital gains, are not usually seen by households as affecting their ability to consume “today” (indeed, they may be unaware of them) and are thus of less concern to microeconomic statisticians. Moreover the Canberra Group’s income definition is not specifically designed to suit the rather special characteristics of agricultural households. The households sector in industrialised countries is dominated in terms of numbers by households whose principle income source is wages, and the Canberra Group’s approach reflects this. In contrast, agricultural households by definition are involved with income from self-employment, heavily so when a narrow definition of what constitutes an agricultural household is adopted. Income in kind is particularly significant to farm households and, while being of special importance to farmers in less developed countries, is by no means insignificant in richer countries, especially to those occupiers whose main purpose is orientated towards lifestyle or hobby agriculture. The subsistence production on private household plots of workers in large-scale agricultural enterprises in some of the countries with formerly collectivised (socialised) agricultures are another example of the importance of output for own consumption and income in kind.

21. The headings of the various items of the IAHS definition of disposable income are shown in table 1. For a detailed treatment of each item, reference should be made to the IAHS Manual of Methodology (Eurostat 1996).⁷ An equivalent outline of the definition adopted by the Canberra Group in microeconomic (household level) studies is shown in table 2, slightly rearranged from the source document to ease comparison and to reflect the importance of income from independent activity (self-employment) in the present context.

Detailed descriptions of the various components in this definition appearing in Appendix 1 of the Canberra Group's report. It should be noted that some items appear in the IAHS definition under unexpected labels and some items are unexpected. The main example of the former is that, following the sequence of accounts for the households sector in national accounts, the resources from agricultural and other independent (self-employed) activity is shown as operating surplus (NVA less the costs of hired labour) rather than entrepreneurial income or profit from the unincorporated business (which also deducts rent and interest paid). In the strict national accounts/IAHS definition rents and interest are deducted under a later item (negative property income), which includes interest for private consumption loans as well as for agricultural purposes.

22. In contrast, in the Canberra Group's microeconomic definition deducts such payments at an early stage to reach the profit/loss. Within income from self-employment there are some non-cash elements identified separately in the microeconomic measure that are already subsumed in the aggregate approach in the calculation of operating surplus. The main example of an unexpected item concerns the receipts of (non-life) insurance claims as a resource in this current account and the payment of insurance premiums as a negative element. In microeconomic accounting the former, such as compensation for the loss by fire of a tractor, would normally be placed among the capital accounts, and the cost of insurance premiums would be treated as a cost in reaching the profit (income) from the business operated by the self-employed person. Some sub-items (not apparent from the headings in IAHS definition) are included in national accounting approach to maintain the integrity of intersectoral transfers, such as non-cash benefits imputed to holders of insurance politicise because of the performance of invested funds. Similarly some items in the miscellaneous transfers category (on both the positive and negative sides) contain elements that would be regarded in microeconomic accounting as payments out of disposable income rather than items to be deducted in its calculation. As already noted, the national accounting framework requires transfers from households to charities and other non-profit institutions such as churches to be seen as leaving the households sector, so leading to their treatment as negative items. A different view is taken in microeconomic accounting, where such payments may be deemed to be made out of disposable income rather than to be deducted is its estimation. A key issue seems to be the extent to which these payments are regarded as voluntary or non-voluntary. The latter might include payments to a trade union the membership of which was actually or de facto required in order to undertake a particular line of business.

23. Despite such differences there are, however, broad similarities between the two in the general structure of what constitutes income, both in total and disposable forms. Both include cash (or near-cash) payments and non-cash elements, the latter posing difficulties of identification and valuation and, in particular, often encountering a lack of suitable basic data by which quantification can take place. Both include the value of the services provided by owner-occupied dwellings, a particular example of a non-cash form of income. Worthy of note is that both provide for two types of disposable income (unadjusted and adjusted), the difference between these being social transfers in kind, such as education health services that the state finances and provides free at the point of delivery to individuals and households.

24. However, neither the IAHS nor microeconomic definitions are entirely suitable for practical use in their complete forms. Bearing in mind both the conceptual problems associated with some of the items and the practicalities of attempting to make international

comparisons in income distributions, accumulated through the work of the Luxembourg Income Study (LIS), the Canberra Group recommends a somewhat simplified form of disposable income for use in studies of income distribution where different data sources are used and international comparisons aimed for (see table 3). This simplified approach omits some of the imputed components and some that are in an ambiguous nature. In particular, it omits the value of Social Benefits in Kind (SBIK), and thus does not attempt to estimate an Adjusted Net Disposable Income. Imputed items are much reduced, including the removal of the value of owned dwellings. The list of miscellaneous transfers is much simplified, only retaining among the benefits those that are obvious transfers from the state, with the removal of others apart from regular receipts from other households and charitable institutions. Among the payments only those that are wholly or largely non-voluntary remain in the coverage; regular inter-household negative transfers are left out.

Table 1
Net Disposable Income in Eurostat's IAHS statistics

The concept which forms the centre of the IAHS sector-level income measure for agricultural households is net disposable income. It is defined as follows:

- (1) Net operating surplus (mixed income)⁸ from independent activity
 - a) From agricultural activity
 - b) From non-agricultural activity
 - c) From imputed rental value of owner-occupied dwellings
- (2) Compensation to members of agricultural households as employees, from agricultural and non-agricultural activity
- (3) Property income received (rent, interest, dividends etc.)
- (4) Non-life insurance claims (personal and material damage)
- (5) Social benefits (other than Social benefits in kind)
- (6) Miscellaneous inward current transfers
- (7) Total resources (sum of 1 - 6)
- (8) Property income paid
- (9) Net non-life insurance premiums
- (10) Current taxes on income and wealth
- (11) Social contributions
- (12) Miscellaneous outgoing current transfers
- (13) Net disposable income (7 minus 8 - 12)
- (14) Social transfers in kind
- (15) Net adjusted disposable income (13 plus 14)

Table 2Definitions of income (microeconomic) by the Canberra Group (2002)

2	Income from self-employment
	Cash or near cash
	2.1 Profit/loss from unincorporated enterprise
	2.2 Royalties
	In-kind, imputed
	2.3 Goods and services produced for barter, less cost of inputs
	2.4 Goods produced for home consumption, less cost of inputs
	2.5 Income less expenses from owner-occupied dwellings
1	Employee income
	Cash or near cash
	1.1 Cash wages and salaries
	1.2 Tips and bonuses
	1.3 Profit sharing including stock options
	1.4 Severance and termination pay
	1.5 Allowances payable for working in remote locations etc, where part of conditions of employment
	Cash value of 'fringe benefits'
	1.6 Employers' social insurance contributions
	1.7 Goods and services provided to employee as part of employment package
3	Rentals
	3.1 Income less expenses from rentals, except rent of land
4	Property income
	4.1 Interest received less interest paid
	4.2 Dividends
	4.3 Rent from land
5	Current transfers received
	5.1 Social insurance benefits from employers' schemes
	5.2 Social insurance benefits in cash from government schemes
	5.3 Universal social assistance benefits in cash from government
	5.4 Means-tested social assistance benefits in cash from government
	5.5 Regular inter-household cash transfers received
	5.6 Regular support received from non-profit making institutions such as charities
6	Total income (sum of 1 to 5)
7	Current transfers paid 2.4.3.1
	7.1 Employers' social insurance contributions
	7.2 Employees' social insurance contributions
	7.3 Taxes on income
	7.4 Regular taxes on wealth
	7.5 Regular inter-household cash transfers
	7.6 Regular cash transfers to charities
8	Disposable income (6 less 7)
9	Social transfers in kind (STIK) received
10	Adjusted disposable income (8 plus 9)

Table 3

Canberra Group recommended components of a simplified definition of disposable income

1	Employee income
1.1	Cash wages and salaries
2	Income from self-employment
2.1	Profit/loss from unincorporated enterprise
2.4	Imputed income from self-employment
2.5	Goods and services produced for barter, less cost of inputs *
2.5	Goods produced for home consumption, less cost of inputs *
3	Income less expenses from rentals, except rent of land **
4	Property income
4.1	Interest received less interest paid
4.2	Dividends
5	Current transfers received
5.1	Social insurance benefits from employers' schemes
5.2	Social insurance benefits in cash from government schemes
5.3	Universal social assistance benefits in cash from government
5.4	Means-tested social assistance benefits in cash from government
5.5	Regular inter-household cash transfers received
6	Total income (sum of 1 to 5)
7	Current transfers paid
7.2	Employees' social insurance contributions
7.3	Taxes on income
8	Disposable income (6 less 7)

* Not included in LIS DPI.

** Included in property income in LIS DPI.

Source: Canberra Group (2001) Table 4.1.

25. This simplified list forms a useful template for estimating the income of agricultural households. Most of the simplifications are helpful when applied to agricultural households as a subsector. For example, experience in the IAHS statistics suggests that very few countries are able to estimate SBIK for agricultural households other than to distribute the aggregate for the entire households sector in a rather arbitrary way, such as per head, something for which there is little empirical support. The removal of many inter-sectoral transfers accord with what many Member States have done when supplying IAHS results to Eurostat. So too is the reduction of items in the miscellaneous inward transfers category to state payments and other regular transfers. Nevertheless certain modifications to the Canberra Group's simplified definition seem appropriate to suit the special circumstances found in

agriculture. A revised definition is proposed in table X.9.4. The main differences (shown in italics) though, where the amplification is simply a disaggregation of a total, this is not flagged.

26. Two changes to the Canberra Group's simplified list are introduced. The first relates to the inclusion of an imputed rental value of the farm dwelling (and equivalent treatments of the dwellings of other socio-professional groups if comparisons are to be made). The reasons for including this item are that (a) empirical evidence shows that it can be important in some countries to the overall level of income, (b) in some farm accounts surveys provision already exists for its calculation, so many countries will have already experience of making estimates; (c) most EU Member States have made calculations as part of their submissions of IAHS results to Eurostat. The second change is a more specific mention of the value of income in kind from self-employment. It should be noted that income in kind from employment is not covered, only cash income being included in the form of wages and salaries. The fact that some countries may find one of these (or other) items difficult to provide data for is a handicap but not an insuperable one. The Canberra Group notes that, as long as items are detailed separately, it is possible to make comparisons between countries or sub-sectors by omitting items for which there is poor coverage.

27. A third change was considered but has not been implemented. This was the deduction in reaching net disposable income of other regular negative transfers (in addition to taxes and social contributions) by the members of agricultural households as self-employed people or as employees of other businesses. This mirrored the treatment of regular outward transfers and maintains a degree of symmetry. However, this item was ruled out because of impracticality over identification and measurement.

28. This Handbook recommends the simplified definition of Disposable Income shown in table 4 for application to income measurement of agricultural households.

Table 4

The Handbook recommended definition of net disposable income for application to agricultural households

Net income from self-employment (operation of unincorporated businesses, or incorporated businesses that can be treated as quasi unincorporated because of family operation and ownership) after deduction of intermediate consumption items, interest on business loans, rents on land and business property, and a depreciation allowance for capital consumption. This will include net profit or loss in money form and the value of other income in kind, such as the value of output used for barter and for own-consumption, net of cost of inputs used in their production.

- (a) self employment in agriculture (money income and in kind)
- (b) self employment in other industries (money income and in kind)
- (c) imputed rental value of owned dwelling

+ Cash wages and salaries, earned from dependent activity in enterprises (institutional units) that may be agricultural or non-agricultural in nature

(= Primary income)

+ Rent received

- (a) net rents from the letting of property other than land
- (b) net rents from the letting of land

+ Other property income

- (a) net interest received (interest received less interest paid, though payments should not include interest already deducted in calculating profits)
- (b) dividends received

+ Social transfers received

- (a) Social insurance benefits from employers' schemes
- (b) Social insurance benefits in cash from government schemes
- (c) Universal social assistance benefits in cash from government
- (d) Means-tested social assistance benefits in cash from government

+ Other current inflows

Regular inter-household cash transfers received such as transfers from relatives living and working abroad)

= TOTAL INCOME

- Current taxes on income and wealth

- Non-discretionary social contributions (payments to social security schemes)

- (a) by members of agricultural households as self-employed person
- (b) employee social contributions (only) relating to income from employment

= NET DISPOSABLE INCOME (note: this is not adjusted for the receipt of social benefits in kind)

NOTES

¹ Portugal, L. (2002) *OECD work on defining and measuring subsidies in agriculture*. Paper for the OECD Workshop on Environmentally Harmful Subsidies, Paris Nov. 2002.

² Eijnders, Lucas (1990) "Subsidies and the environment". In Ronald Gerritse (ed.) *Producer Subsidies*. Pinter Publishers, London and New York, pp. 111-121.

³ II. General Services Support Estimate (GSSE) [Total of I - O]

I. Research and development

J. Agricultural schools

K. Inspection services

L. Infrastructure

M. Marketing and promotion

N. Public stockholding

O. Miscellaneous

Source: OECD (2002), *Methodology for Measurement of Support and Use in Policy Evaluation* <http://www.OECD.org/agr/policy>.

⁴ See ongoing work by OECD on taxation in agriculture, based on the study by Anderson, F. G., Asheim, L. J., Mittenzwei, K. and Veggeland, F. (2002) 'Taxation of Agriculture in selected countries – study of The United States, Canada, Australia, Germany, United Kingdom, Ireland, France, Switzerland and Italy with relevance to the WTO'. Norwegian Agricultural Economics Research Institute, Oslo. NILF report 2002-8.

⁵ OECD (1998) *Adjustment in OECD Agriculture: Reforming Farmland Policies*. Organisation for Economic Co-operation and Development, Paris. ISBN 92-64-16027-2.

⁶ Canberra Group (2001) *Expert Group on Household Income Statistics – The Canberra Group. Final Report and Recommendations*. Ottawa. ISBN 0-9688524-0-8.

⁷ 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.

⁸ Under the new SNA (1993)/ESA (1995), operating surplus and mixed income are alternative names for the same balancing item. Mixed income is the term used in the context of unincorporated enterprises owned by members of households in which the owners or other members of their households may work without receiving any wage or salary. Though farms are usually of this form, for the purpose of the TIAH methodology the term Operating surplus is used for this item; this is done to avoid potential confusion between mixed income and other microeconomic income concepts in which interest and rents have already been deducted.
