Farm Income and Sustainable Livelihoods in Ireland

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Abstract

There is a wide body of literature available on the welfare and incomes of farm households. In Ireland there has been a concentration on farm income as the most widely used measure of farm household well-being. With increasing diversity within the farming community and a rise in pluriactivity farming income as a measure of welfare is incomplete. Similar to other countries, household income is increasing in importance as the preferred measure. An examination of household incomes shows that farm households have increased their incomes in real terms similar to other sectors in the economy. However, the increase has not come from farm income, but mainly from income earned from off-farm employment. The percentage of income coming from the market place has declined significantly since entry to the European Union in 1973. While household income is currently the preferred method, a framework for assessing welfare based on a sustainable livelihoods/lifestyle choices approach may be more accurate in predicting whether farmers stay farming or whether the adopt different lifestyles. These changes in income sources have major implications for extension services as greater opportunities for increasing income lie outside of the farm gate rather than on the farm.
Introduction

In Ireland farms are mainly family farms with a long tradition of family ownership. This cultural tie to the land makes farms, as an asset, less mobile than for other businesses. The ability of farms on their own to form sustainable livelihoods for farm families is in continuous decline as the economies of scale required are constantly increasing. Coupled with this is the fact that farm families, like other families in the State aspire to increased living standards and with increased opportunities outside of the farm gate, many are availing of non-farm employment. The history of these pressures can be traced back to Ireland’s entry to the EEC (European Economic Community) in 1973. This provided broader markets for agricultural outputs as well as a support system to underpin and stabilise farm incomes. Article 39 of the treaty of Rome (1957) gives the following objectives for the CAP (Common Agricultural Policy):

(a) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour;
(b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;
(c) to stabilise markets;
(d) to assure the availability of supplies;
(e) to ensure that supplies reach consumers at reasonable prices.

Irish agriculture, in line with other countries in Europe went through a period of rapid expansion after EEC entry. However, the mounting surpluses and the spiralling costs, which arose as a result of the CAP and which were fuelled by world wide development of agriculture necessitated that agricultural production be brought more into line with market demands (Phelan 1995). Thus a number of efforts have been made to reform the CAP, the major ones being the MacSharry Proposals, Agenda 2000 and the 2003 Mid Term Review (CEC 1991; European Commission 2000; European Commission 2003).

These pressures for restructuring are continuing and are being further pushed by the influences of WTO and globalisation. In Ireland this restructuring will take on a new momentum as farm supports move towards a single area based payment system. This area payment will be totally decoupled, thus allowing farm activities to take greater cognisance of the market. The new payment system is also likely to speed up the trend of increasing levels of off-farm employment within the farming population, as farmers move away from non-profit making enterprises. The overall effect will be that income from farming on many farms will decline and farm households in order to remain viable will be forced to become more multifunctional.

Purpose

The purpose of this paper is to show the inadequacy of farm income as a measure of the welfare of farm households and to propose a broader framework that could be used in this regard. The research will also show that while household income has limitations as a measure of welfare it is internationally recognised as the best proxy. While this may currently be the case there is a clear need to develop indicators in line with the broader framework that reflect the inter connectivity between economic and social factors and can ultimately predict more accurately sustainable livelihoods or lifestyle choices for farm...
households. The research will detail the contribution of different sources of income to household income and suggest that, as household income increase, lifestyle choices increase in importance as a factor influencing sustainable livelihoods within the farming population.

**Research Methodology**

Using secondary data the study presents a sustainable livelihoods/lifestyle choices framework encompassing both economic and non-economic factors. Most studies to date support the choice of income as the best indicator of economic welfare, however the sustainable livelihoods approach adopts a broader framework. The Central Statistics Office in Ireland (CSO) conducts a Household Budget Survey (HBS) every seven years. The most recent one was carried out in 1999/2000. While the main focus of the survey is expenditure it collects information on household incomes. This research uses data from Household Budget Surveys from 1973 to 1999/2000 to trend changes in the contribution of different sources of income to household income. Other CSO data and international data are used for comparative purposes. The research questions addressed include: What are the components of farm household income and how are these changing over time? How do farm households compare with other households in the State? Is there an income gap and is it widening or narrowing over time? and how is this impacting on sustainable livelihoods/livelihood choices?

**Theoretical Discussion**

The sustainable livelihoods approach is more and more being used as an approach to understanding the adjustment process of farm households. While initially developed as a means of understanding underdevelopment and poverty from a developing country perspective it is now being applied to developed country situations. Households rarely have one objective, but juggle a number of different objectives as a means of gaining the livelihood or lifestyle choice they aspire to. In the modern world, and particularly in a country like Ireland these objectives span both activities and opportunities on the farm and in the broader rural economy. DFID 1999 have developed a framework for examining sustainable livelihoods in which they state that peoples assets and their context go through a process of change, this leads to a livelihood strategy which in turn leads to livelihood outcomes. Earlier models on sustainable livelihoods were criticised for their lack of focus on economic and market activities, however, work by Carney 2003 showed how sustainable livelihood approaches are incorporating economic and market activities and this has facilitated their use as a tool for developed country contexts. In addition there are people in poverty in both developed and underdeveloped societies and particularly in rural areas.

Gorman et al (2001) refer to livelihood strategies pursued by Irish farm families. They define livelihood assets as the human, economic, environmental, social, cultural and political resources available to farm households from which to draw their livelihood and ultimately achieve an acceptable standard of living. The concept of acceptable living standard is a key factor in determining change in the livelihood strategy and where choices outside farming are available this may indeed involve a change in the strategy pursued.
Thus lifestyle choice rather than poverty may be the critical determinant of whether livelihoods are sustainable or not. Figure 1 presents a framework that can be used to examine factors contributing to sustainable livelihoods/lifestyle choices.

Aspects of this framework have received varying levels of attention over time. There was significant focus on the social well-being of farm households in the sixties and early seventies. Studies by Arensberg and Kimball (1940) of farming communities in county Clare found a high level of organisation and interconnectivity between family and community. There were clearly defined roles performed by different family members and different types of support networks provided by the community and extended family. However, as farming began to modernise and move from a way of life to a business these roles began to break down and higher levels of individualism, with a gradual decline in the community support systems developed. The break down of the traditional system is well described by such authors as Brody (1973) and Gibbon (1973). Work by Hannon and Katsiouni (1977) focused on changing roles within the family and later work by Hannon (1979) examined the contribution of different family members to the decision making process, particularly regarding the importance of farm women in this process. These works and others, led to a greater focus by extension workers on farm women in the decision making process. This was linked at that time with a high level of involvement of farm women in tasks on the farm, particularly farm yard tasks and record keeping.

![Figure 1: Framework for assessing Sustainable Livelihoods/Lifestyle Choices of Farm Households](image)

As farming continued to modernise and particularly after EEC entry in 1973, the focus was much more on the economic well-being of the farm household and more particularly on farm income. In the Irish context, an annual National Farm Survey carried out by the Irish extension service facilitated this. However, much debate exists in the literature as to the most appropriate measures of farm household well-being. This is very appropriate in
the Irish context because of the relatively small size of farms and the declining
correlation of farm income to farm household income, particularly for farm household
with the more marginal enterprises and those with smaller farms. Authors also began to
recognise the unique situation of the farm household “where home and work come
together (Gasson and Errington 1994). The definitional problems regarding farm
households, household income and the most appropriate economic indicators also began
to receive significant attention. This became particularly important in the European
context as efforts were made to assemble cross country comparable data bases, but was
2002). While most of these studies recognised the broader context that impacts on farm
households, the general conclusion was that income was the best measure of economic
well-being and thus the overall well-being of farm households. Many of these authors
also recognised the limitations of farm income and there seems to be a movement towards
household income as a more valid measure, particularly for comparative purposes. In
Ireland work by this author over a long period has shown a declining relevance of farm
income as a measure of the economic well-being of Irish farm households.

Whether one focuses on the economic or welfare conditions of farm households there
are a range of external factors that are critically important. Policy has quite significant
impacts on farming. The CAP with all its regulations and restrictions has radically altered
approaches to farming within Ireland and the EU. The WTO agreements, as they move
towards freeing up trade and decreasing supports to agriculture are also a major force.
Farm households have different levels of resources, both physical and human and because
of this adopt different livelihood strategies. Every society has its institutions and
processes that guide/support/facilitate development and again are important factors in
determining the pathways followed by individual households.

Results and Conclusions

The Household Budget Survey is conducted by the Irish CSO (Central Statistics
Office) every seven years. The latest one relates to the period 1999/2000 and was
published in 2002. The HBS collects information on both income and expenditure. Its
main use in the past was as an expenditure survey. However, more recently, and with the
drop in the contribution of farming to the overall income of farm households, it is
increasingly being used to assess the welfare of farm and other households in the State.
Past criticisms of the HBS were that it over represented incomes at the lower end of the
scale and under represented those at the higher end. However, if one plots the relationship
between income and expenditure the correlation is quite good. In addition, it can be used
to trend changes as the information has been collected in a similar fashion over a long
period of time. The results presented in this work, for comparative purposes focus on real
income (income adjusted for inflation), thus allowing for valid comparisons over time.
The base figures chosen were the 1999/2000 figures, with all previous figures adjusted to
this level. Income from farming in the HBS is compiled in the same way as in the
National Farm Survey (NFS), thus comparisons/linkages can be made between the two
sources of information. To further facilitate comparisons two other income categories
were created; earned income, which includes off farm employment income and income
from investments; and State transfers, which relate mainly to social welfare type
payments.
Trends in farm household incomes for the major components (farm income, earned income outside of the farm and State transfers) are presented for the period 1973 to 1999/2000.

The results show that the income of farm households has increased considerably since 1973. However, this must be interpreted in the context of an annual exodus from farming of approximately 3 percent per year. The results also show that the major contributing factor to this increase has been income earned outside of the farm and this source is now the major source of income for farm households. Farm income, on the other hand, while it has fluctuated somewhat between years, is quite similar in real terms in 1999/2000 as it was in 1973. This is in spite of quite significant subsidies from the CAP, which are included in the farm income component.

![Graph showing real income sources of farm households (€/Week, ‘99=Base)](image)

Source: computed from HBS 73-99/00

**Figure 2: Real Income Sources of Farm Households (€/Week, ‘99=Base)**

The changing contribution of farm income to household income in percentage terms can be seen in Figure 3.

The contribution of farm income to household income has decreased from 70 percent in 1973 to 41 percent in 1999/2000. This has been a gradual trend over the interim period. The most interesting observation is that in 1999/2000 farm income is no longer the major source of income for farm households and has been replaced by earned income (mostly employment income earned by the farmer or spouse). The gradual increase in the importance of earned income from 1973 to 1999/2000 is also evident. Work by Phelan, Frawley and Wallace (2000), however, has shown that that most of the work undertaken by farm operators off the farm is in low skilled and relatively vulnerable sectors. Spouses on the other hand tend have more professional type jobs, which could be considered more secure in the longer term.

Farm income obtained in 1973 came almost entirely from the market place. However, the changes to the CAP discussed earlier in this paper, with the introduction of the decoupling of supports from farm income to non-production related activities will change this situation. Ireland has just recently announced a system of complete decoupling using
an area based system, where farmers will receive subsidies based on the area of land farmed rather than on the acres of crops or the number of farm animals, which was the case up to now. This is likely to have major consequences on farm activities as farmers will be much more conscious of the market contribution to farm income. In the past for example in both cattle and sheep production direct payments (subsidies) accounted for in excess of 100 percent of income. In other words they were used to subsidise the costs of production.

![Figure 3: Percentage Contribution of Different Sources of Income to Farm Household Income (1973-2000)](image)

Since farm income as presented in the HBS includes both subsidies and income obtained from the market activities of farming it is important to disaggregate farm income into direct payments and “market” income (which in effect is what will happen with a single decoupled area based payment). This was done (Figure 4) by combining information from the National Farm Survey (NFS) and the 1999/2000 Household Budget Survey (HBS).

![Figure 4: Percentage Contribution of Sources of Income to Farm Household Income 1999/2000](image)
Figure 4 shows that the current contribution of “market” income to overall household income is approximately 14 percent. Thus for many farmers the market place has almost become irrelevant. The current visibility of direct payments and the expansion of the European Union into countries that have major agricultural components will over time exert a downward pressure on direct payments. It is also likely that given the greater visibility of the contribution of the market, many farmers will opt for less intensive and more extensive lower cost systems.

Given the increasing importance of off-farm earned income to farm households it is important to make comparisons with the non farming sector. This is again facilitated by the HBS a it collects data on all households in the State. For the purposes of his comparison households are divided into three categories: Farm Households; Rural Non Farm Households and Urban Households.

Figure 5: Comparison between Farm, Rural Non-farm and Urban Households

This comparison (Figure 5) shows that for gross household incomes, urban household fare best followed by rural farm household and lastly by rural non farm households. However, when disposable incomes are examined the gaps narrow considerably. In making these comparisons it is also important to remember that farm households are slightly larger than their urban counterparts. The results also show that the relativity between the three categories has not changed significantly over time.

Of greater importance is the fact that members of farm households are opting for an area (rural non-farm) that has consistently contributed incomes that are lower than those of the farming sector. This suggests that there is an element of lifestyle choice as well as income influencing this movement. This is particularly evident if one examines the dairy farming. Traditionally and currently dairy farming has always been the most profitable
enterprise choice for farmers. However, in Ireland the number of dairy farmers has declined significantly as household incomes have increased. On entry to the EEC in 1973 there were approximately 240,000 farmers with a dairy enterprise, currently there are just 19,000.

While farm income and the activity of farming are critical to the agriculture industry, the importance of farm income from a welfare perspective is decreasing. Farm households are not significantly worse off (disposable income) than their urban counterparts and are significantly better off than their non-farm rural neighbours. There is increasing international support for the use of household income as the most suitable welfare measure. There are difficulties when one tries to make international comparisons as the definition of both farm and household vary widely. Over time however, these differences will decline. This is important in the European context as income comparisons are a useful tool in examining the impact of different EU policies on both the farm and non farm sectors. Income is not the only factor and more and more broader quality of life factors are influencing peoples choices. A case must be made for greater focus on the non income factors and it is the inter connectivity between income and these broader factors that determine the final outcomes.

Educational Importance, Implications and Application

Over the last two decades extension has sought to obtain greater amounts of its income through charging for services. The focus on providing services, for which the client is willing to pay has altered the nature of extension. Where extension services obtain most or a significant amount of their funds from charges, the activities pursued relate little to concepts or activities of traditional extension. Public extension if it is to have a future role, must focus on supporting development and very often for those who will not or who cannot pay. The introduction of charges in the Irish context, have had similar expected outcomes. The provision of services for activities where farmers received a cheque in the post has been an easy source of revenue for extension. The complex system of supports to farmers meant that almost all farmers required the help of extension or farm business consultants in order to complete the complicated paper work required to obtain such supports and to maximise their amount. The new system is likely to be much simpler and once completed for one year should not entail the same level of input from extension as the old system. It is likely that the change will speed up the restructuring of the extension service with consequences directly for the numbers employed, but also for those involved in training people to work in the extension system. The changing contribution of farming to household income means that extension if it is to support income expansion and viability must help farmers to participate in the broader rural economy. It must also help households to combine both farming and non-farming activities in guiding them to more sustainable livelihoods.

The introduction of a Farm Viability Service by Teagasc (reported on at the 2004 AIAEE conference, (Bogue and Phelan 2004) is an effort to refocus extension on development activities or choices. Work on this programme has shown that many advisors have significant difficulties in discussing non-technical or non-scheme activities with farm families. Three decades ago this would not have been the case. There is a growing training requirement both in-service and for new graduates in the broader aspects of extension. Facilitation and planning skills (both economic and non economic) are a
critical area in this regard. Extension agents should also gain a greater knowledge of the local economy and how farmers’ livelihoods are shaped in responding to the opportunities it presents.


