

Calculation of agricultural income

Evaluation of the calculation of income at individual farm level, and reform measures

Key facts

Article 104 of the Federal Constitution delegates a multifunctional performance mandate to the Swiss agricultural industry. High levels of public spending are channelled into delivering the necessary services provided in the public interest. One of the instruments employed for this takes the form of direct payments made to farmers "as fair compensation for services rendered". In accordance with the provisions of Article 5 of the Agriculture Act, steps must also be taken to ensure that "sustainably managed and economically productive farms are in a position to earn an average income over several years that is comparable with the income of the rest of the working population in that region". Certain modalities for measuring and comparing income are described in the Sustainability Ordinance.

Essentially the government relies on a number of different instruments to calculate agricultural income. The current evaluation focuses on the income calculation performed by Agroscope Tänikon-Reckenholz, through the Farm Accountancy Data Network, based on a representative sample of agricultural holdings. The total annual costs for income calculation by the Network come to around CHF 2.7 million. In return, the Network supplies numerous data and analyses for fundamental and applied research in fulfilment of its political mandates and responsibilities.

The calculation of income-related statistics at the level of individual farms is controversial, and for some time now has been the subject of at times fairly animated discussion by experts and politicians. The main criticisms are directed at the concept and the implementation of income calculation, as well as the use of income statistics from agriculture. Against this backdrop, the Swiss Federal Audit Office (SFAO) has reviewed the overall conditions, systematics, suitability, reliability, reporting and use of the results of the current methodology for calculating and comparing income.

Transparency does exist, but income statistics entail large ample scope for interpretation

Agriculture sector is a well-researched sector, as reflected in the high quantity and quality of available data and information concerning economic indicators for the industry as a whole, and especially relating to the income situation. Closer examination of the agricultural sector reveals significant structural differences between types of farming operation with different production focuses, sizes, regions, etc. In addition, the increasing diversification of supplementary sources of income beyond typical farming activities has since become reality in Switzerland as well. Not least, the agricultural sector tends to be very volatile over the course of time, which means that long-term structural developments overlap with the short-term effects of changes in the weather and market conditions. However, the income figures calculated for farming businesses only offer a limited snapshot of the overall financial situation of the farmer's family. For many farming operations, non-agricultural earnings are becoming just as important, for example, and therefore need to be given greater consideration when analysing the situation.

The high quantity and quality of data is often in sharp contrast to the typically brief and simplified reporting, however. This imposes significant demands on data analysis and reporting. Both need to take due account of the existing heterogeneity and dynamism of the agriculture sector. Mean val-

ues that have been simplified and aggregated must be put more effectively in context and a single year selected for analysis must be weighed against longer-term trends. These significant demands are only being met to a limited extent, especially when it comes to reporting to a broad public.

Shortcomings in the current income assessment, reform planned

The current system of assessing the income of individual farms using a random sample of reference businesses in the Network has a number of shortcomings. Firstly, the random sample is not selected on an arbitrary basis. Based on sophisticated recording methods, it tends to focus on farms that are better than average. Certain types of farm (e.g. vegetable growers) and regions of the country are not adequately sampled (if at all). Secondly, various types of farming operation, such as (efficient) agricultural cooperatives and in particular very small farms, are not included in the sample. One problem as regards regulatory policy seems to be that data delivery is restricted to enterprises of certain fiduciary organisations which use proprietary software for the task and ultimately help to decide which farms are included. The shortcomings described have however been recognised to a large extent and are addressed in the current reform "ZA2015", which, among other things, is designed to simplify the accounting process and introduce random sampling on a statistical basis. One of the main priorities of the SFAO is to avoid any loss of quality as a result of the reform process. The fact that a more critical discussion of income calculation is now occurring in specialist circles is therefore very encouraging. The reform measures therefore point in the right direction, but success depends on setting clear objectives and efficient implementation.

Income comparison: Improvements possible, but basic restrictions still apply

The current comparison of income matches the earnings of each member of the farming family ("net per capita income in agriculture") against the salary earned by employees in the second and third sectors. This is subject to a number of basic restrictions. Firstly because the earnings are a calculated figure arrived at after deducting interest for the equity capital invested in the business. One of the basic limitations of the income comparison is that self-employed are compared with salaried workers. Furthermore, the earnings figure only provides a limited snapshot of the actual financial situation, as farms generally tend to be independent enterprises and the success of any commercial undertaking depends on many different factors. Businesses with supplementary revenue sources often do not attempt to maximise their income from farm work, but try to earn a high level of overall income – in other words, non-farming income is important. In many cases the focus also tends to be more on minimising the workload. Furthermore, the subgroup of "financially strong" farming businesses used for the comparison has not been clearly defined to date and its interpretation therefore varies.

More information needed to accurately model the situation in the agricultural industry

The criticism is often voiced that there are not enough indicators to allow a (comprehensive) assessment of the situation in the agricultural industry. The sustainability concept of the Federal Office for Agriculture (FOAG) also incorporates a whole series of environmental, social and economic indicators which provide a better basis for more balanced monitoring of the agricultural sector and offers better support for decisions on agricultural policy.

Stakeholders have a substantial and understandable interest in statistics on the economic situation of the farming industry. For this reason the publication of impartial data and information should in principle be welcomed and encouraged. But alongside the desired outcome – improved transparency and opinion-forming – there are also a number of undesirable consequences to bear in mind, namely inadequate or inaccurate information, inappropriate opinion-forming or even wrong decisions due to data that has not been efficiently analysed and reported. Follow-up research has shown that media reporting and political discussions place far too much emphasis on the earnings of each working member of the farming family and the agricultural income, while far too little consideration is given to other relevant parameters. Precisely because the measurement of financial data is so time-consuming, technically complex and prone to errors, both this process and the associated reporting must be carried out more carefully and objectively, in the SFAO's opinion. Given the findings outlined above, the SFAO makes the following recommendations:

Recommendation 1: Review the reporting on income and the general economic situation in the agricultural industry, in order to communicate more effectively the complexity at the level of the individual farming business/household on the one hand, and the heterogeneous nature of the agricultural industry on the other.

Recommendation 2: Investigate in greater use of existing and/or additional data sources in order to provide more accurate assessments of the income and expenditure situation of the subpopulations used for the purposes of comparison.

Recommendation 3: In order to implement the reform ("ZA2015"), the SFAO recommends introducing a supporting internal monitoring process as well as detailed external reporting on the consequences of the reform for the published results.

Recommendation 4: Based on the experiences of implementing the above recommendations, the SFAO recommends to conduct a mid-term review of the underlying assumptions and if necessary draw up more detailed legal rules on calculating and comparing income.

Both FOAG and ART as the primary addressees embrace the recommendations of the SFAO and note in their statements that they are willing to respond to the recommendations. FOAG and ART plan to adjust their reporting on various aspects of agricultural incomes in the future, to implement a work group for the use of additional data sources from 2013, to restructure the process organisation of the Network and to conduct an evaluation in 2018 – after the implementation of the reform.

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