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# **Approaches to Obtaining Income Data – the Case of the Netherlands**

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## **Approaches to obtaining income data – the case of the Netherlands**

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### **1. Introduction**

This paper provides some information on the experiences in the Netherlands with obtaining micro economic data on household incomes in agriculture. To understand the situation in the Netherlands, the next section gives some background on agriculture and policy making in the Netherlands. This explains the role that the FADN plays, and why it is an attractive tool for the gathering of income data. Section 3 provides some information on the technical issues of the FADN. In the last section we draw some conclusions.

### **2. The Dutch polder**

Agriculture is an important business sector in the Netherlands. But primary production has only a small (3 to 4%) share in GDP. Its 100.000 farmers (including more than 20.000 part-timers, residential and retired farmers) are a small fraction of total households. This makes directly clear why tax data and household budget surveys, as organised by Statistics Netherlands, are not very useful instruments to investigate income issues in Dutch agriculture. Farmers are represented in those surveys, but hardly recognisable and with a low number of respondents. The biggest disadvantage is that not many policy relevant non-income data (like types of farm activity, area of crops, number of livestock, environmental performance) are available in the data set. This makes them nearly useless for agricultural policy simulations.

As agriculture has such a small share in GDP there is not much incentive for a national statistical office to allocate more resources to agriculture. One could debate the dominant 'national account thinking' in statistical offices and argue that not the GDP-share but also the share in government policy-making or government budget should drive the allocation of statistical resources. This would favour more investments in agricultural statistics, but in European countries this argument would not convince the national statistical offices, as the agricultural budget is decided in Brussels at EU-level. There Eurostat already allocates much resources to agriculture and is a big client of the national statistical offices' agricultural departments. It's however not very likely that they can influence priority setting in Dutch household budget surveys or tax statistics to this end.

Dutch policy making is often described as consensus-politics. History (the fight against water, asking for democratic institutions) as well as the historical need in a regionalised and decentralised immigrant-society to build coalitions in politics seems to have contributed to this way of decision making. Its effects are sometimes seen as negative (Dutch Disease), recently as more positive (the Polder-model). [Economist, 2002]

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In Dutch politics the politicians use a number of semi-autonomous research agencies as undisputed information sources. They calculate and recalculate the state of the economy, the state of the environment, the social situation in society, and publish plans with forecasts, often in the form of scenarios. Commissioned by the government the reports are published in the public domain and have a huge influence on discussions. Their content is mainly seen as objective science, politicians discuss the political implications. Ministers that commission such reports are not held responsible for their content, they can dismiss it as 'being true, but not political relevant', if they wish.

The LEI and its FADN operate in this environment. The LEI and the FADN as its main tool were created in the 1940s by the farmers' organisations. It became an independent foundation at arms' length of the government and the farmers and was the undisputed source of cost price calculations that were the basis of the national agricultural policy making before the EU's CAP. The FADN is often used for research that leads to results that are relevant for farm management. And farmers know that policy makers take decisions on agriculture anyhow, so it is better to provide them with a sound knowledge of the state of agriculture.

FADNs come in different tastes (Poppe et al, 1997). Table 1 describes two arch-types, based on research in the nineties: type X and Y. The FADN in the LEI is the typical example of a Y-type FADN.

**Table 1. Two different types of FADN**

<b>Aspect</b>	<b>Type X: 'low cost - low value'</b>	<b>Type Y: 'high risk - high value'</b>
Central organization in FADN	Ministry of Agriculture	Research Institute
Type of finance	Internal budget	Output-related
Data gathered by	Buying from accounting offices	Own staff
Farmer's participation	Is paid	Free
Information feedback to farmers	Low	High
Interest by farmers	Low	High
Data flow and its: - information content - innovation	Low Low	high high
Data used by research	Incidentally	often, and critical success factor
Political culture	Data monopolized by ministry No open access by others	policy advise and consensus building in the public domain
Main role of ICT / EDI	Can solve lack of interest	can reduce higher costs
Typical example	Germany in 1995 (things have changed since then)	The Netherlands

### **3. FADN and non-farm income data**

As described in table 1, the Dutch FADN runs a system in which the LEI has its own data-collectors who have access to all the data of the farmer and his family. Farmers give the LEI an authorisation to collect his payment data in electronic form from his bank account (nearly all business transactions in the Netherlands are handled by bank

payments). Non-farm income therefore often comes in automatically and it would be hard not to collect it. The payment data are coded (where needed) with the paper invoices that the farmer provides.

Of course this is not the most efficient method if one is just interested in non-farm income. A question in the Farm Structure Survey of the type of non-farm job and the number of hours worked in that job could be a good and cheap proxy. But it is very attractive to have the non-farm income (and fiscal) data in an FADN if one wants to understand e.g. investment behaviour or have a look on income policy.

There are a number of issues in the organisation of the FADN that support the data collection of this sensitive type of data:

- We operate in a political climate that supports independent policy research based on empirical data, with unforeseen results of research studies: sometimes positive for farmers' lobbyists, sometimes negative (see previous section).
- The image of the LEI is therefore that of an independent, objective research institute.
- We have regional data-collectors, who have the same agricultural schooling as the farmers - they speak their language.
- The FADN regulation states that individual data cannot be used against the interest of that individual farmer (e.g. to prosecute him for wrong doings).
- We have a public relation policy and we can explain why we need this type of data: we can explain farmers a comparison between a full time Dutch farm couple and his Danish counterpart who is able to invest more, as his spouse works in a non-agricultural job.

Nevertheless the non-response for this type of data is relatively high, also compared to the non-response for the FADN in total. And in this case it is hard to control for the non-response as survey data is not available. There are three 'sources' for this non-response:

- A number of farmers question why the non-farm income of their spouse (in a total different job, sometimes even in her own business - we once had a farmer married to a dentist) should be of interest to agricultural policy. Dutch tax laws (and other policies) are nowadays more individualised as ever before, which also supports the idea that the decision to form one household is not something that influences policies. As one farmer famously remarked: do we lower the salaries of the university professors when their wives re-enter the job market as a school teacher?
- A number of farmers (probably) have important family investments outside agriculture. In some regions the non-response with large arable farms is high. These farmers argue that the CAP should look to the cost of production and farm structure, not to how the farm is financed. In Dutch cost price methodology, imputed costs for own labour and own capital are used. Or to put it in the terms of the theory of finance: the investment portfolio is not influenced by the debt-structure.
- More and more farms are becoming that large that they are incorporated with several persons holding the shares in the limited company. This is especially the case in horticulture and intensive livestock, but probably also spreads to other sectors.

#### **4. Conclusions**

The case of the Netherlands shows that it is feasible to collect data on non-farm income and total household income. However this is more difficult than plain agricultural data. There are a number of factors, ranging from the political setting and history to the technical solutions in the FADN that have a positive influence in the Dutch case. It is therefore easy to understand why in other countries the circumstances are not very favourable for gathering such data in an FADN.

With a declining farming sector and a need to use the data not only for statistics but also in policy simulations, tax data and household budget data can be problematic sources for such data too. It is therefore attractive to try to reorganise FADNs to collect policy relevant data (Abitabile, 1999).

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