

Analysis of the expected income of several family types

Adrián Szilárd Nagy

University of Debrecen Faculty of Agricultural Economics and Rural Developments

Abstract: In this essay, I deal with the problem of expected income of family holdings. Despite the fact that expected income is mentioned in numerous specialist publications and in political declarations, its definition and method of calculation are not detailed.

On the basis of my research, I define the notion of expected income and I determine its scale concerning different family types for the year 2006, on the basis of a survey I carried out among 198 agriculturists.

Keywords: income of family farms

Discussion

Although expected income is mentioned several times in numerous specialist publications and in political declarations, its definition and method of calculation are not detailed.

The General Conference of the National Labour Association (1944) accepted a recommendation about the security of incomes as a crucial element of social security. When evaluating the situation of profitability, a significant fact must be considered, namely that in reality, income includes a major share of personal income, as the actually accounted wage-like cost was 286 thousand HUF/year in individual holdings concerning one unit of workforce. (This is less than 24 thousand HUF monthly.) (AKII 1999)

Udovecz (2000) states that, in the last ten years, a disproportionately small amount of income was produced in Hungarian agriculture. This statement is valid for every sector and branch of agricultural production. Its degree of truth is credibly supported by the following facts concerning the last ten years:

- The GDP produced by agriculture in 1998 in an unchanged price did not reach three-quarters of that for the year 1990. The proportion of the GDP produced by the national economy is under 5%.
- The result *after the taxation falling to owned capital* in agriculture fluctuated between 3.7 and 4% until 1998. These numbers are half the average figures reflected in the national economy and one quarter of the average figures from the processing industry, i.e. they are 40% of the expected level. (In 1999, even this low capital profitability decreased by half.)
- The agricultural debt projected for all instrument values increased in this period from 27% to 44%.
- The gross average income lags behind the national average by 30%.

- In 1998, the volume of agricultural investments had still only reached 73% of the investments that had existed in 1990, after struggling at the level of 40–50%.

In the records of the meeting of The Committee of Environmental Protection of the Parliament (1999), those present named the level of expected income a strategic aim. Income security is supposed to be made evident with profitability, which is proportional to capital.

Among the aims of the Common Agricultural Policy (CAP), the creation of market stability can be found, which include the securing of the appropriate level of income for collective growers. (Elekes, 2001)

The sector of fruits and vegetables has traditionally created workplaces, which is why the expected income is higher than that in other agricultural sectors. (FVM, 2003)

In the course of the debate about Law XVI./2003 concerning agrarian market regulation, it was mentioned that the preamble of this law should contain the main aims, e.g. specific language on securing the opportunity to reach a reasonable income for growers and its practical application. However, it does not specify the quantity which the law would secure for the grower as the above mentioned. To reach a reasonable level of income is difficult to define, as in the confines of agrarian production, such a figure is always the question of regulations in the agrarian market and the conditions of support and competition. So if there are good support systems, good taxation politics, a good regulation of the agrarian market and a reasonable competition, then these few motives and the collective influence of these factors may result in a reasonable income for the grower. (Glattfelder, 2003; Pásztohy, 2003)

When defining reasonable agrarian income, it is expedient to make a distinction between the income of the agrarian producers and the income of those employed in agriculture because of the heterogeneous complexity of the

population it employs. In consideration of the fact that Hungarian law does not specify the definition of reasonable income, it is not suitable to connect the notion of reasonable income to the national average income concerning agrarian growers because of the peculiarities of agriculture; namely, that the significant equity requirements of agrarian production result in a reasonable demand of capital income. Moreover, when analyzing the reasonable income of agrarian growers, it is effective to pay attention to the fact that, due to the recession of the world economy and extreme weather conditions, the achievement of the agrarian sector has steadily decreased in recent years. The decrease which appeared differentiated concerning the sectors was naturally accompanied by the deterioration of income level that is why the growing amount of supports served the compensation of the lost income and the solution of acute problems year by year.

The income of the growers and the salary of the employed people show significant deviation, not just among agrarian sectors, but inside them as well. For these reasons, the reasonable income can be defined in consideration with the knowledge of concrete activities. In the case of holdings

and growers who could gain ground in market conditions, the reasonable income has already been realized and its measure is continually developing. (Németh, 2004)

Owing to the changes emerging in the summer of 2006 concerning the order of taxation, the revenue office is obliged by the law to work out the expected indices of profitability in each profession. Those taxpayers who have their profitability indices below the established rate can expect strict control.

Presently, most ventures are showing deficits which go back several years, and they are exempted from the duty of paying partnership tax. In the future, all taxpayers obliged to pay partnership tax have to pay a partnership tax after their predictable profit minimally needed to survive economically. (The Government of the Hungarian Republic, 2006). According to Kósa (2006), the following factors can be problematic and serve as a basis for debate when evaluating the costs of agriculture: the calculation methods of indirect costs, innovative investments, capital costs and the estimation of expected income.

In my opinion, when defining the expected income of a family holding, we have to consider the income demand of the holding and the family.

Figure 1: The expected monthly net income needed for living and living standard

Family type	Living standard	Number	*(HUF)
1 adult without a child	Subsistence level	0	0
	Characteristic for the lower middle-class	3	92 000
	Characteristic of the middle-class	8	110 000
1 adult, 1 child	Subsistence level	7	107 000
	Characteristic for the lower middle-class	7	165 000
	Characteristic of the middle-class	0	0
2 adults	Subsistence level	0	0
	Characteristic for the lower middle-class	12	168 000
	Characteristic of the middle-class	8	182 000
2 adults, 1 child	Subsistence level	3	130 000
	Characteristic for the lower middle-class	35	204 000
	Characteristic of the middle-class	19	253 000
2 adults, 2 children	Subsistence level	2	175 000
	Characteristic for the lower middle-class	30	249 000
	Characteristic of the middle-class	12	297 000
2 adults, 3 children	Subsistence level	8	244 000
	Characteristic for the lower middle-class	4	303 000
	Characteristic of the middle-class	0	0
3 adults	Subsistence level	0	0
	Characteristic for the lower middle-class	14	243 000
	Characteristic of the middle-class	4	260 000
3 adults, 1 child	Subsistence level	0	0
	Characteristic for the lower middle-class	5	319 000
	Characteristic of the middle-class	17	321 000
Total		198	

*Average demand for income (HUF); Source: own research

Figure 2: Expected income for different family types in 2006

Type of household	Expected income (HUF)
The household of the active population	
1 adult	1 234 627
1 adult with 1 child	2 037 145
1 adult with 2 children	2 654 446
2 adults	2 160 590
2 adults with 1 child	2 963 110
2 adults with 2 children	3 580 411
2 adults with 3 children	4 074 266
2 adults with 4 children	4 568 121
3 adults	3 086 579
3 adults with 1 child	3 889 073
3 adults with 2 children	4 506 397
3 adults with 3 children	5 000 231
3 adults with 4 children	5 494 086
The household of pensioners	
1 person	1 111 156
2 persons	1 913 675
3 persons	2 716 169

Source: Own calculation

The expected income in the case of a family holding is the sum which remains for the family for securing the satisfaction of the family needs on an average level and a possible accumulation after the satisfaction of maintenance demands, regular renovations and all costs from all incomes of the year. The concrete measure can be defined only in a given period in a given area.

I carried out a survey among 198 growers to get to know the circumstances of farming and the living standard of the farming families. I asked about their opinions of their lifestyles and how much money they would need in ideal circumstances from farming and other resources in order to make a living. The summary of their answers can be seen in *Figure 1*.

On the basis of the answers, I considered 180% of the subsistence level to be the expected income for the year 2006, in the micro region around Nyíregyháza. On the basis of this, I summed up the predictable income for the different family types in *Figure 2*.

Securing the expected income can be connected to competitiveness. It can be stated that a family holding is competitive if – with supplementary incomes – it can secure the expected income for the family.

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