147th EAAE Seminar 'CAP Impact on Economic Growth and Sustainability of Agriculture and Rural Areas'

The role of CAP in enhancing farm incomes: the redistributive effect of direct payments in Italy

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October 7, 2015 – Sofia (Bulgaria)

OUTLINE

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Introduction

- Reg.(EU) No. 1307/2013 recognised a **strong mandate for each MS** to manage many aspects related to DPs.

- IT budget for DPs 2015-2019: **3.800 M EUR every year**.

Decision	National choice
Active farmer (exemption threshold)	<5000 € for mountain areas; <1250 € for other areas;.
Minimum requirements for receiving DPs	Financial threshold (250 EUR 2015-2016; 300 EURO 2017+)
Regional or national model/ internal convergence	National / Irish model (Partial convergence 60%/90% max loss 30%)
Basic payment scheme	58% of national budget
Greening (amount of payment)	30% of national budget (individual payment calculated as 30% of payment entitlements held by the farmer)
Young farmers (40 years old) scheme	1% of national budget (value: 25 % of the average value of payment entitlements)
Coupled support	11% of national budget (of which: 42% for beef, 20% for milk, 16.4% for olive oil, 10% for protein crops, 5% sugar beet, 2% for cereals)
Degressivity and Capping	50%, if dir. paym.> 150M€; 100%, if dir. paym>500M€; salary costs deducted.

The redistributive issue

- According to Mishra *et al.* (2009), FI inequality has an impact on: (1) economic **well-being** (2) the adoption of farming **technology**, (3) agricultural **productivity**, and (4) **growth** in the agricultural sector.

- EU Commission has for many years expressed concerns about the i**nequitable distribution of FI support,** as **DPs are very concentrated** (Allanson 2006).

- In 2005 only **20%** of European farm households benefitted of **87%** of total DPs. High heterogeneoty acreoss EU: l**ow** (FI, NL, DK) and those with a **high concentration** of direct aids (PT, IT, UK, ES ,DE).

The redistributive issue (2)

❑Von Witze and Noleppa (2007) highlighted that even though **SM farms** should represent the target of DPs, the main beneficiaries are **farms with large UAA**.

❑ Other studies have concluded that government payments **increase income concentration** (Allanson 2006; Schmid et al. 2006; El Benni et al. 2012).

❑ However, several studies conducted in Europe have shown that DPs cause **income inequality to decrease** and that without DPs the concentration of FI and its unequal distribution across farm could have increased (Keeney 2000; Frawley and Keeny 2000; Severini and Tantari 2013a; 2013b; 2015) .

Research hypotheses

Against the theoretical background and in light of the Italian choices on DPs the following research hypotheses are tested:

H1: CAP reform in Italy causes **a decrease of the concentration of DPs**.

H2: CAP reform in Italy **improves the redistributive role of DPs.**

Data and methods

In practice, **the static analysis of the decomposition of the Gini coefficient (G)** aims to investigate the concentration of total income as the sum of incomes concentration from k different sources Yk:

$$G = \sum_{k=1}^{k} \frac{\mathrm{cov}[Yk, F(Y)]}{\mathrm{cov}[Yk, F(Yk)]} * \frac{2\mathrm{cov}[Yk, F(Yk)]}{\mu k} * \frac{\mu}{\mu k} = \sum_{k=1}^{K} Rk * Gk * Sk = \sum_{k=1}^{K} Ck * Sk$$

In order to evaluate the marginal impact of a single income component on income inequality, Lerman and Yitzhaki (1985) derived a measure of **elasticity (η_k) of the G**:

$$\eta_k = \frac{u_k}{G} * \frac{dG}{du_k} = \frac{1}{G} * \left[\frac{u_k}{\mu} * (C_k - G)\right]$$

The (static) analyses of the decomposition of G have been applied:

i) *Ex post analysis* -> **IT FADN database** for the year **2013** (n= **11.319 farms)**;

ii) *Ex ante analysis* -> **simulation of DPs in 2020**

Main findings

Table 1. Gini decomposition of total income. Year 2013.

	Gini coefficient Gk	Correlation coefficient Rk	Share coefficient Sk	Concentration coefficient Ck
FI=MI+DPs				
MI	0.910	0.953	**0.749**	0.867
DPs	**0.714**	**0.677**	**0.251**	**0.483**
FI	0.770	1.000	1.000	0.770
FI=MI+(SPS+Cp)				
MI	0.910	0.953	0.749	0.867
SPS	**0.722**	**0.660**	**0.232**	**0.477**
Cp	0.922	0.612	0.019	0.564
FI	**0.770**	1.000	1.000	0.770

	Proportional contribution to inequality Pk	Elasticity (%) η
FI=MI+DPs		
MI	**0.843**	0.094
DPs	0.157	**-0.094**
FI	1.000	0.000
FI=MI+(SPS+Cp)		
MI	0.843	0.094
SPS	**0.143**	**-0.088**
Cp	0.014	-0.005
FI	1.000	0

Table 2. Gini decomposition of total income. Year 2020.

	Gini coefficient Gk	Correlation coefficient Rk	Share coefficient Sk	Concentration coefficient Ck
FI=MI+DPs				
MI	0.871	0.985	**0.796**	0.858
DPs	**0.647**	**0.666**	**0.204**	**0.431**
FI	0.770	1.000	1.000	0.770
FI=MI+(BP+GR)				
MI	0.871	0.985	0.796	0.858
BP + GR	**0.646**	**0.645**	**0.185**	**0.417**
Cp	0.922	0.612	0.019	0.564
FI	0.770	1.000	1.000	0.770

	Proportional contribution to inequality Pk	Elasticity (%) η
FI=MI+DPs		
MI	**0.886**	0.090
DPs	0.114	**-0.090**
FI	1.000	0.000
FI=MI+(BP+GR)		
MI	0.886	0.090
BP + GR	**0.100**	**-0.085**
Cp	0.014	-0.005
FI	1.000	0.000

Discussion and conclusion

H1 (CAP 15-20 decreases the concentration of DPs) → CONFIRMED

✓the introduction of the new **DPs scheme in Italy leads to more equal redistribution of DPs**.

✓**BP and GR less concentrated than SPS a**nd reduce the prop. contr. to inequality.

Due to

❑ The **national model of DPSs +**

❑IRm **of internal convergence**,

that bridge the gap of entitlements value across farms and make DPs (>20% of FI) **less dependent on the rank of FI.**

H2 (CAP 15-20 improves the redistributive role of DPs) →REJECTED

✓the share of **FI from DPs declines**.

✓reduces the ability to contrast the **unequal** redistributive effect of the **MI.**

Due to:

❑**budget cut for DPs in IT (-665 M EUR; - 15.2% 2019 vs 2013) → (external convergence**).

❑**CP instead of RP and PANC**: **missed chance**

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Thank you for the attention

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