

## Impact of Common Agricultural Policy Payments on Income Distribution

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The traditional objective of the Common Agricultural Policy (CAP) of the European Union (EU) has been to increase agricultural income and to ensure an adequate level of farm income. Distribution of incomes from the CAP and its potential inequality has been topic of the highest political and economic importance (e.g. Ciaian et al., 2015; EC, 2017). Earlier agricultural economics literature has developed and empirically applied the concept and the context of the decomposition of the Gini Coefficient to the structure and evolution of farm income and agricultural household income (Keeney, 2000; El Benni & Finger, 2013; Severini & Tantari, 2013, 2015; Allanson et al 2017; Bojnec & Fertó, 2020).

The aim of study is to investigate the structure and evolution of farm household income and examine the contribution of different sources of farm household income, particularly the impact of Common Agricultural Policy reform on farm household income inequality in Hungary. A panel data set was compiled using Hungarian Farm Accountancy Data Network data at farm level for the period 2007-2015. Total farm household income was disaggregated into two different components: 1) income components, which can contain market income and off-farm income, and 2) subsidy components, which can contain subsidies from Pillars 1 and 2. Pillar 2 support included subsidies related to agri-environmental measures, less favoured areas and other rural development measures. The income distribution and decomposition were examined using the Gini decomposition method to determine the contribution of each income source and the policy shift from market to government support on farm household income and overall inequality. The Gini indices shows that income inequality increased during the analysed period. A shift in Common Agricultural Policy and related measures determined the structure and evolution of farm household incomes. Off-farm income had a lesser and rather stable impact on farm household income inequality, while the major change involved an increase in the importance of subsidies from Pillar 2 which is consistent with a policy of targeting farms in less favoured areas. Subsidies from Pillar 1 reduced, while market income increased farm household income inequality.

*Keywords:* farm income; off-farm income; Common Agricultural Policy; less favoured areas; Gini decomposition

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