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Do CAP Subsidies Stabilise Farm Income? Empirical Evidences from Hungarian Farms

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Common Agricultural Policy uses a large share of its budget to support and stabilise the income of EU farmers by means of subsidies. This paper assesses how much and how subsidies reduce the variability of farm income over time. The analysis is developed on a constant sample of Hungarian farms during the period 2007–2015. It considers both the whole sample and farms grouped according to: types of farming; economic size classes; relative importance of subsidies. Income variability is analysed by mean of variance decomposition by income components. Variability of farm income over time is high and most of it is coming from the revenue component. The subsidies stabilise farm income and this is mainly because subsidies are less variable than the remaining part of income. Indeed, subsidies are found to play a very limited countercyclical role against fluctuations of the remaining part of farm income. Finally, subsidies are not targeted to those farms facing the highest level of income variability. These latter two results suggest that, while subsidies stabilise farm income, there is a potentially large room of manoeuvre for increasing the efficiency of subsidies as income stabilising tool.

Keywords: farm income, farm management, Common Agricultural Policy, variance decomposition, farm subsidies

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