

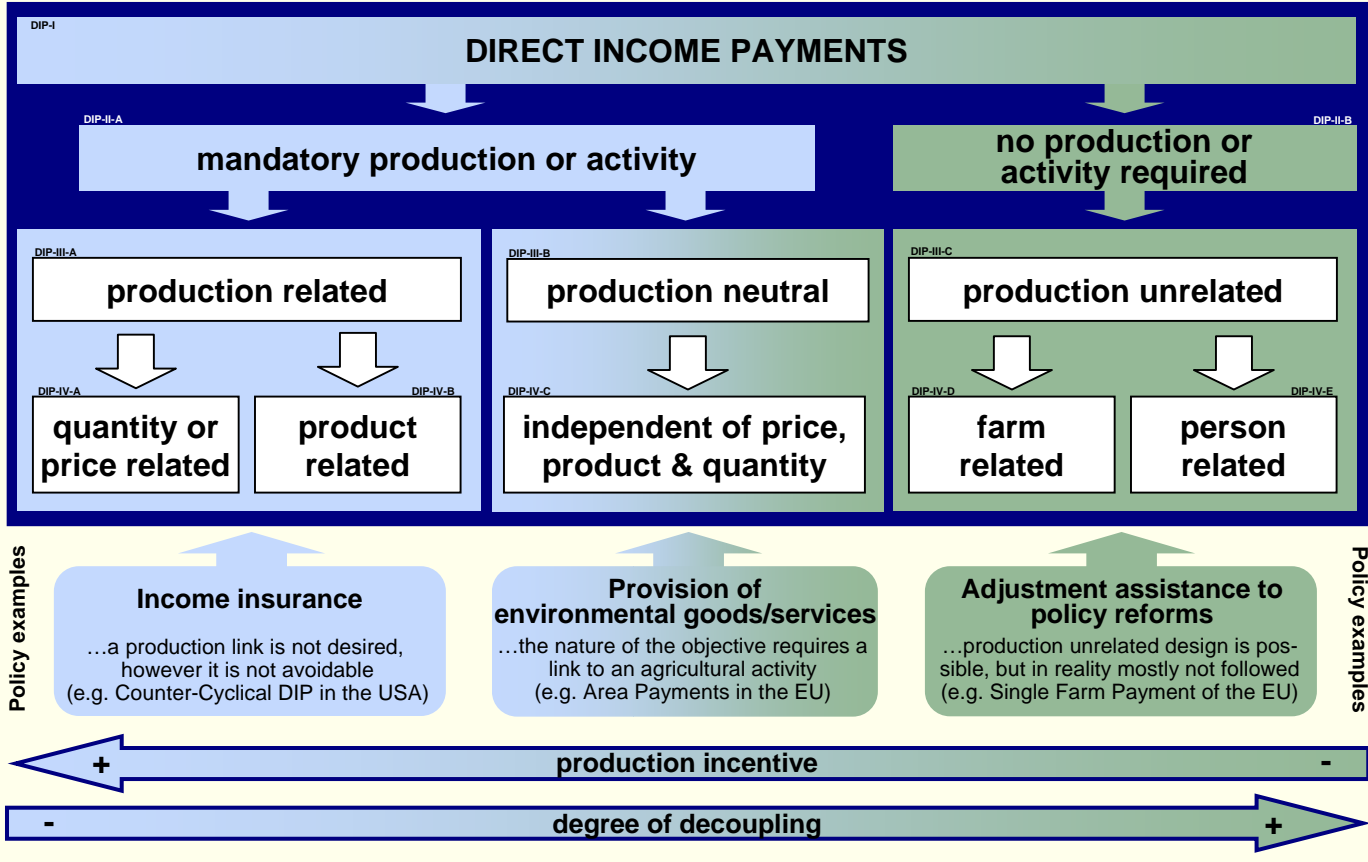
**Introduction:** In recent years the use of direct income payments (DIP) in agricultural policies has increased. The review of literature and agricultural policy debates show that issues addressed by DIP are numerous and often inhomogeneous. At the same time a systematic approach to the topic is still missing. To identify and examine the characteristics and features that DIP should have in the context of different objectives, we present an intervention decision tree. It is meant to facilitate systematic policy decisions on the design and efficient use of DIP.

**Award-based definition of DIP:** Direct income payments are payments that are made *directly* from public authorities' budgets to individual farmers or farms and have the effect of increasing farmers' *current* income. While they are not paid through the market, they are either made *to meet particular (agri-) social aspects* or *to remunerate farmers for the provision of non-commodity outputs* for which markets do not exist.

- Policy objectives addressed by DIP:**
- providing compensation for agricultural policy reforms;
  - securing a minimum income and reducing income fluctuations;
  - remunerating farmers for the provision of positive externalities of agricultural production.

**Most important criterion for a meaningful design of DIP:** Does the objective require mandatory agricultural production/activity or not? According to this criterion three different designs of DIP are distinguished: production related, production neutral and production unrelated. Based upon this differentiation a decision tree for the principle design of DIP is introduced.

## INTERVENTION DECISION TREE for DIRECT INCOME PAYMENTS



**Conclusion:**

- Only tailor-made DIP can meet the criteria of efficiency and effectiveness; the decision tree for DIP indicates how to structure and design objective-oriented DIP.
- DIP are best used as temporary compensation payments for agricultural policy reforms as a production unrelated design is possible.
- Positive externalities in agriculture are, by nature, related to farming activities. In this context, DIP shall influence (or reward) certain activities. DIP are favourable as long as the measure is designed production neutral.
- Fluctuations in income and production variables are generally linked. Hence, income insurance will always be production related. Therefore private solutions are preferable compared to DIP.

Source: Fellmann: Direct Income Payments in Agricultural Policies

Policy examples

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