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The Farm Credit System as a Government-Sponsored Enterprise

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Abstract

This article examines the impact of government-sponsored enterprise status for the Farm Credit System on allocative efficiency in agricultural credit markets. The Farm Credit System was established originally to overcome market failures in these markets and to provide long-term funding at rates lower than private credit sources. Using a supply and demand model and an options model,the impact of subsidized interest rates is discussed. My results show that the default risk premium in interest rates is transferred from agricultural borrowers to taxpayers. There is evidence of deadweight losses and market distortions due to government-sponsored enterprise status for the Farm Credit System.

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