Farm income and output and lending by the farm credit system

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Abstract

Purpose

The purpose of this paper is to provide evidence of the positive impact of the FCS lending on farm incomes which should be useful to policymakers as they consider reforms and further support for this 100-year-old major agricultural lender.

Design/methodology/approach

The authors construct a panel for the 1991-2010 period from the FCS financial statements and evaluate how lending by the FCS institutions has affected farm incomes and farm output. The authors use fixed effects estimations and control for credit by other agricultural lenders as well as the stock of capital, prices, and interest rates. Since previous work suggests that rural financial markets are segmented and the FCS serves larger full-time farmers with mostly real-estate backed loans, the authors evaluate the impacts of farm real-estate backed loans and of short-term agricultural loans separately for a shorter period for which the data is available. The authors also perform robustness checks with alternative estimation techniques.

Findings

The authors found a positive association between credit by the FCS institutions and farm income and output. The magnitude of the estimated impact is larger during the 1990s than in the 2000s.

Research limitations/implications

markets. The financial reports data for 1991-2010 are from the ACAs and FLCAs aggregated on the regional level because there is no clear way to classify FCS lending to a more disaggregate level like the state. The authors also assemble and analyze a state-level data set that contains state-level balance sheet data for the period 1991-2003.

Originality/value

The authors are not aware of another work that directly links (real estate and non-real estate) credit by FCS institutions to agricultural output and farm incomes.

Keywords

Agricultural credit | Farm income | Agricultural output | Farm Credit System Institutions | Real estate loans

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