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Agricultural credit and economic growth in rural areas

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Abstract

Purpose

In this paper, the authors set out to establish if there is a link between finance and economic growth in rural areas. The purpose of this paper is to evaluate the relation between credit by major lenders in rural areas – commercial banks and Farm Credit System (FCS) institutions – and economic growth for the period 1991-2010.

Design/methodology/approach

The motivation for this work comes from empirical studies showing a link between economic development and financial system development as well as from work which highlights the positive role of long-term finance provided by banks. The authors use two alternative panel data sets and fixed effects models to estimate the causal effect of credit supply (with lagged explanatory variables) on agricultural GDP growth per rural resident.

Findings

The authors find a positive association between agricultural lending and agricultural GDP growth per rural resident with additional billion in loans (about a third of the actual average) associated with 7-10 percent higher state growth rate with this association stronger during the 1990s. Regional data confirm these results. The results point to a positive link between credit and economic growth in rural areas during that period, attributable to the lending by FCS institutions and by commercial banks.

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additional regional data sets is constructed for 1991-2010 with more aggregated data for the ten USDA agricultural

production regions. The small number of panels limits the ability to use more sophisticated econometric models and the choice of dependent variables that captures economic growth.

Practical implications

By provides evidence that agricultural finance and in particular lending contribute significantly to the growth of US agriculture, this paper contributes to the policy debate on weather support for agricultural finance initiatives is justified.

Originality/value

The authors are not aware of another study that has linked agricultural lending by commercial banks and FCS institutions to growth in rural areas in the USA.

Keywords

Economic growth

Agricultural finance

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