

# Public policy – agricultural credit

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Agricultural policy is a set of rules that are related to domestic agriculture and imports of food products. The governments of every state implement these set of rules with the aim of bringing about a sound stability in the domestic agriculture markets and to protect the interest of the farmers from supply levels, price rise, land use and agricultural subsidies.

The agricultural subsidies, loans and other forms of credits that are offered to the farming community is money paid to them at subsidized rates in order to help them overcome the issues of rising maintenance and production costs, supplement their incomes, and protection from inflations.

For example, the United States Agricultural department, reviews its policies every two years and agrees to subsidize a dozed commodities every two years. Between the period of 1996 and 2002, an average of \$16 billion/year credit was paid to the farmers at subsidized rates.

According to the people who favor agriculture credit to farmers, the credit policies and agricultural subsidies offer farmers extra income and market protection.

It also helps the farmers to compete in the international market. For example, in the year 2002, the United States paid an extra 52 cents for every bushel of wheat, and at the same time also promised a price of 3.86 from 2002–03 and 3.92 from 2004–2007.

Experts who oppose these agricultural policies laid down by the government, argue that the farmers do not need such grants as they have already got a fair deal. They continue that there are equivalent risks in other business as in agriculture, so why is the farming community given more benefits

**BACKGROUND –**

The main aim of this paper is to study the public policies towards the Agriculture credit and the future prospect of funds and other lending programs that can be available for the agricultural banks. It is believed that these federal policies related to agriculture credit can lend an important role in determining the stand of the different lenders in financing the agriculture sector.

Credit has become a significant instrument of the agricultural policies and most of these policies with time have given guaranteed competitive loan rates on these funds, thereby giving a helping hand in the process of transformation of the agricultural sector into a highly modernized and capital efficient one.

Most of the farmers are dependent upon the funds for their yearly production and also to own land and the figures show a substantial rise in the level of debts as the inflation rises.

The paper gives an introduction to some of the policies and then reviews the prospects and the general credit conditions along with the role of Federal, involvement.

Also discussed here is the ability of these funding institutions to fund the growing needs of the agriculture sector and how can these credit policies make a positive effect on the sector. These policies contribute heavily in the price determination of land prices and absorption of farm ownership and production.

The paper also discusses the altered arrangement and economic character of the agriculture sector which is proposed in order to reconsider the role of public agencies which offer credit to the farmers.

## INTRODUCTION

Most the recent agriculture credit programs actually originated after the First World War, when the incomes of the farming community were not stable and unsure.

At that time lending money was not considered to be safe enough by both the farmers and the lenders as farming became a suspicious sector. With these developments, the farmers faced lot of problems in receiving funds and gave higher interest rates than other borrowers anywhere.

Soon, the need of a Farm credit system was established which included the involvement of Federal Land Banks, Federal Intermediate credit Banks, Banks for cooperatives and other agencies related to the Farmers Home Administration which helped to greatly increase the flow of funds into the farmer community.

At almost the same time, many other programs and initiatives for the farmers to increase their income and reduce the risk in the farming sector by bringing about price stabilization and making farm lending more easy than before were brought about by the government.

The easier terms and conditions on which the farmers were able to borrow money and could get finance for industrialization of their farms favored the reform to a highly productive and capital intensive farming sector.

Today credits have become the backbone of the rise of the farming sector and major reasons that are behind the increase in the behavior of the farmers to borrow money are the uncomplicated funding issues, high production expenses, increase in land prices, machinery and the willingness to increase the size of their production capability.

The high production expenses have decreased the funding capability of the farmers to utilize their own money.

Within a p of 30 years, the debt of the farming sector had increased by an overwhelming figure of \$13 billion in 1950 to an anticipated \$158 billion on January 1980's, along with the increase in the value of the farm assets of the farmers which had considerably doubled during that period.

The farmers slowly become more sensitive to the changes and fluctuations that occurred in the cash flow, interest rates, and costs of debt service to them. This led to an increase in the borrowed funds by the farming community and decrease in the net farm incomes, thereby increasing the net debt burdens on the farmers.

In a number of regions across the United States, which are located along the north and the western edges of the corn belt, most of the commercial banking institutions, most interestingly the country banks have come through two years of a reasonably high loan-to -deposit ratios, which brought about a number of liquidity problems for the farmers at some point of time.

In most of these districts the commercial banks and other funding institutions were not able to meet the growing needs of the farmers and thereby the interest rates grew by a phenomenal rate.

It was estimated that the farm production expenses will rise by more than double the price and subsequently the funds that will be needed to satisfy this demand will grow by more than \$250 billion in the coming 10 years as compared to a total expense of \$140 billion during the 1980's.

According to these figures, it was estimated that the farming community will have to borrow most of the money and it was estimated that the farming debt would be around \$700 billion by the end of the year 2000.

At the same time, the asset value of the farmers will also increase to \$3.5 trillion and the ratio between the debts to asset values will not rise higher than 17%.

The increasing and prices, competition of the loan funds, farm prices, can all make it difficult for the farmers and especially those who have no other source of income to subsidize their farming needs. Looking at this analysis of the trends, some reforms and agricultural policies were introduced.