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R.L. Berry
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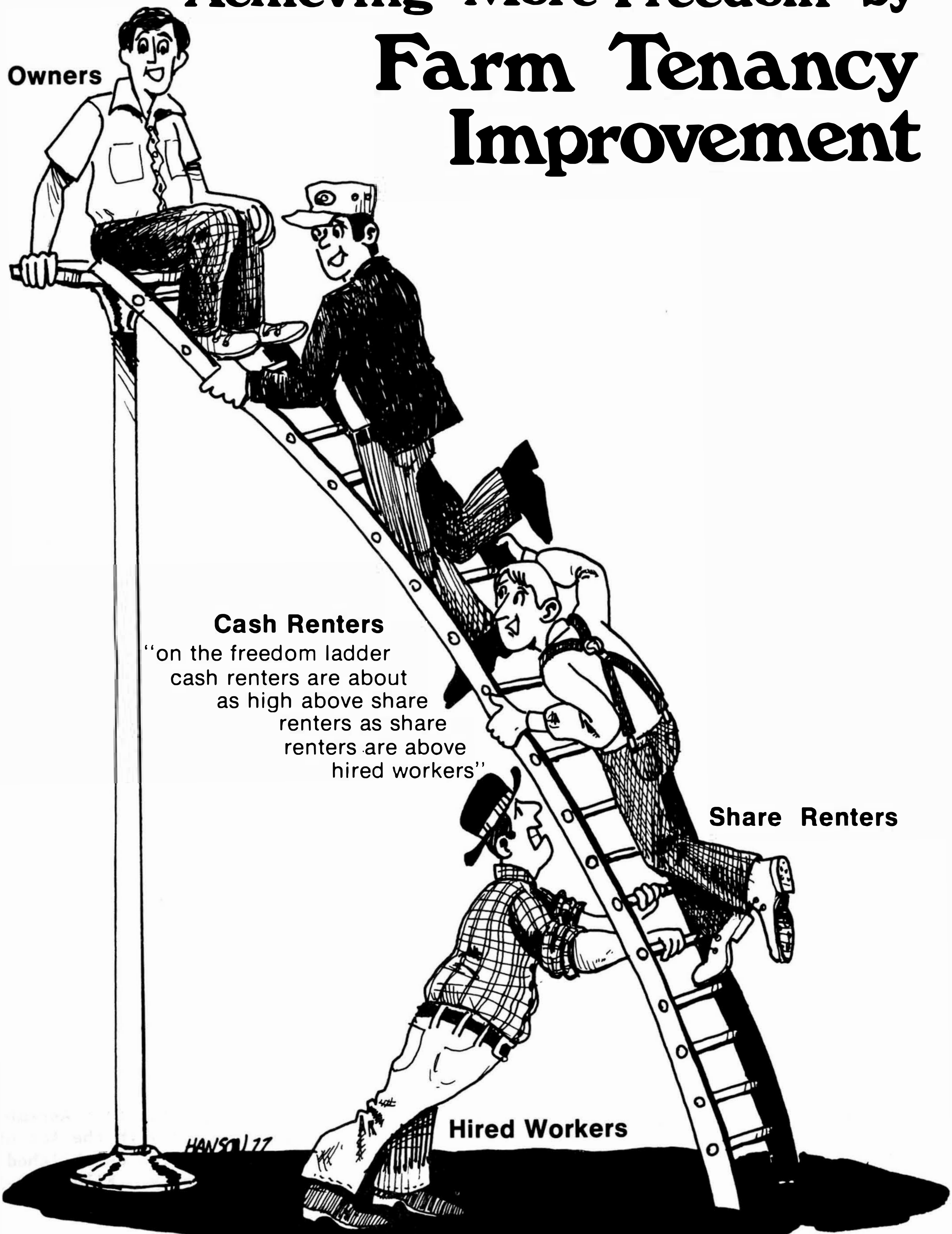

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Achieving More Freedom by Farm Tenancy Improvement

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For 200 years it has been public policy that farmers in the United States should control the land they operate as owners, not tenants -- by deed, not lease; by buying, not renting. For the first 100 years, an abundance of public lands for sale at low prices or by homesteading made it relatively easy for farmers to acquire ownership.

Ownership provides farmers with freedom to develop, improve, conserve or use land as directed only by the free marketplace. Hence these owner operators cleared the lands of forests, brush and stone. They broke the prairie, built homes, barns, fences and roads. They established schools, churches and local governments. At the same time their freedom to use the latest machinery on large and fertile fields produced crops and livestock with an efficiency never before known.

This record suggests that past public policy was good policy -- that future farmers should control the land they operate as owners, not tenants. But full farm ownership has become increasingly difficult to achieve and maintain. Now two fifths of the nation's farmland is under lease. In the most productive areas of the country over 60% of the land is under lease -- much of it for some kind of a share rent. How does share rent affect farmers' freedom?

Some studies have shown that share tenants use about the same farming practices as cash tenants and owner operators. Other studies show that share tenants have lost most of the freedom and incentive to develop, improve and conserve the land and buildings they lease. This situation raises these questions:

(1) What are the freedoms provided by ownership? Why are they important?

(2) What are the alternative ways these freedoms can be provided?

(3) What are the problems of share rent leasing?

(4) What are the problems and possibilities of fixed or flexible cash rent leasing?

(5) What research is suggested by this review of farm ownership and tenancy problems?

The purpose of this circular is to answer these and related questions. Most evidence to support answers is drawn from many studies made during the past 30 years. Some of the more important sources are listed at the end for readers who want further information.

I. FREEDOM, MOTIVATION AND FARMING

It is in the public interest that farmers be strongly motivated to wisely develop, improve, conserve and use the nation's farmland. What is necessary to motivate them to do a good job of farming -- a job that produces needed food for this generation but conserves the land for future generations?

Philosophers and psychologists say people want <u>freedom from</u> their basic physiological needs such as food, clothing and shelter -- now and in the future. When these needs are met they have <u>freedom to</u> achieve "the good life" -- however defined. Hence motivation comes from within -- from basic physiological and psychological wants and needs. Given freedom, people with few exceptions strive to satisfy these wants for themselves, their families and future generations.

When a farmer owns the land he operates, his warranty deed guarantees that he and his heirs may have and hold the land forever. In contrast most leases are made for short terms. Ownership provides greater <u>freedom from</u> loss of the land. Therefore it provides greater freedom from basic wants for food, clothing and shelter. The owner's farm is his castle. This security gives him the greatest freedom to develop, improve and conserve the land. He knows he or his heirs will receive the benefits of his improvements. Because he is secure, he has more freedom to innovate, to adopt new and better ways of farming. He has more freedom to respond to public needs as indicated by prices and costs in the marketplace.

Early philosophers also recognized that freedom from basic wants was necessary if people were to have freedom or liberty to make social, political and economic choices. Philosopher John Locke (1632-1704) held that private ownership of land was the best guarantee of liberty or freedom. The early English agriculturalist Arthur Young (1741-1820) held that "the magic of property turns sand into gold." Adam Smith (1732-1790) believed that farm owner operators had the greatest freedom to improve and operate as indicated by the "invisible hand" of the marketplace.

Thomas Jefferson (1743-1826) accepted Locke's views, and he spoke for most of his countrymen when he urged that farmers should own the land they operate. Such ownership was, in his view, the best guarantee of freedom and morality. These views are reflected in both the Declaration of Independence and the Constitution.

Yet it was the abundance of raw land and the scarcity of labor that made owner operation the only practical system for improving and developing the nation's land. Landlords found the cost of clearing and breaking the land prohibitive and tenants almost impossible to secure and keep. Investors quickly learned that it was more profitable to buy land wholesale and sell it retail. Farmers could not be induced to rent unimproved land when they could buy and improve their own. Because owners received all the benefits of their labor they willingly did what tenants or hired men were unwilling to do.

II. OWNER OPERATION: PAST TRENDS AND FUTURE PROSPECTS

The freedoms needed by farmers are provided by ownership. What is the future of owner operation in the United States? What are the alternatives? In order to judge future prospects, past trends need to be reviewed.

A. Private Ownership of Farmland

In 1969 about 58% of the nation's 2.3 billion acres of land was in private ownership (Fig 1). While the federal government owns 34% of the land, most of this is located in the 11 western states and Alaska. Public lands have been described as the "scraps and remnants" of the nation's efforts to dispose of all land suited for farming. However, these remnants contain valuable forests, minerals and grazing lands.

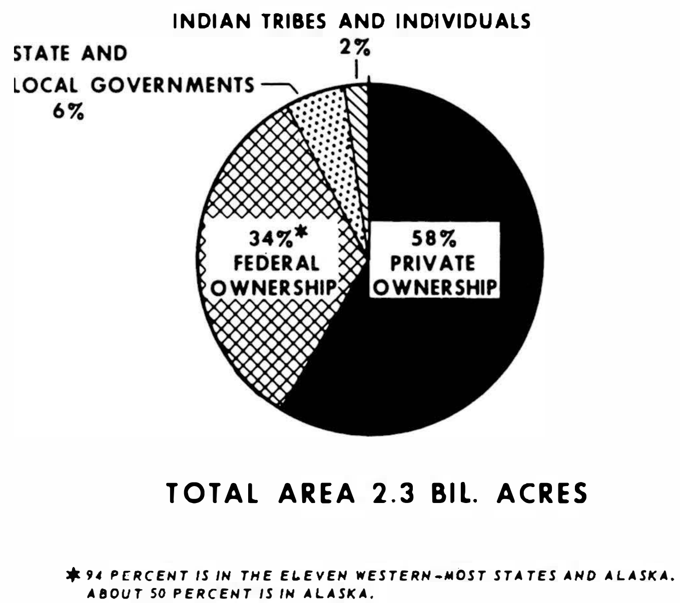

Fig. 1 --
Land ownership in the 50 states, 1969

While the government owns, it does not operate public lands. Operation is turned over to private persons or corporations. For example, private ranchers graze 273 million acres of federal pasture lands, sometimes under a lease, but generally under a permit for which they pay a fee. Of the 2.3 billion acres of land in the United States, about 57% is used for crop and livestock production (Fig 2). This includes some federal and state grazing lands. Practically all this land is privately owned except for the public grazing lands.

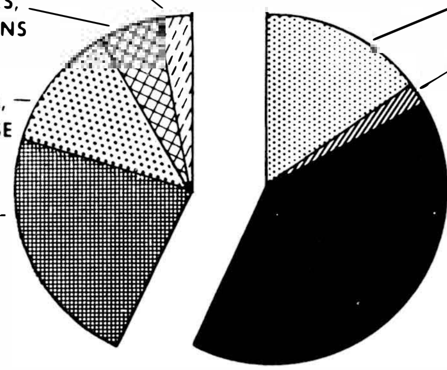

Fig. 2 -- Land use in the 50 states, 1969

B. Public Programs for Private Ownership

It was no accident that most of the land suited for farming became privately owned. Congress has repeatedly enacted legislation designed to help farmers acquire farm ownership (Fig 3). In 1800 Congress provided government credit for land purchases, but because of widespread abuse, these laws were repealed in 1820. After 1841, squatters on the public land were given the first opportunity to buy the land they occupied. Before the Civil War land was often granted to soldiers as a bounty or bonus for their services. In 1862 the 160-acre Homestead Act was passed which made public land free to anyone who would agree to farm and improve it.

Because of the 160-acre limitation, the first homestead act was unsuited to the Great Plains and the West. Hence, in 1909 homesteading of 320 acres was allowed, and in 1916 this was increased to 640 acres. But even this was not enough for successful livestock ranching in many areas of the West.

While federal land sales were discontinued after 1890, this did not inhibit the creation of ranches because ranchers had free use of much of the public grazing lands of the West until 1934. Since then they have been permitted to graze these public lands for a modest fee.

In 1880, the first census revealed that 25% of the farms were operated by tenants. By 1910, 37% of the farms were thus operated. This situation led to the creation of the present Federal Land Banks to help tenants become owners. Yet the banks were unable to stem the tide. By 1930, 42% of all farms and 44% of all farmland was under lease. The depression and droughts led to many farm mortgage foreclosures and to the creation of the Farm Security Administration (now called Farmers Home Administration) mainly to help tenants become owners.

Practically every farm price support program has been partially justified on the grounds that it will help family farmers secure and keep some control over the land they operate.

Unfortunately any government program which makes it easier to buy land tends to increase land prices because demand is increased much more than supply. Thus while homestead acts, government credit and price supports may help some farmers acquire land ownership, they also tend to inflate land prices. As a result these programs are of little help to the next generation of farmers.

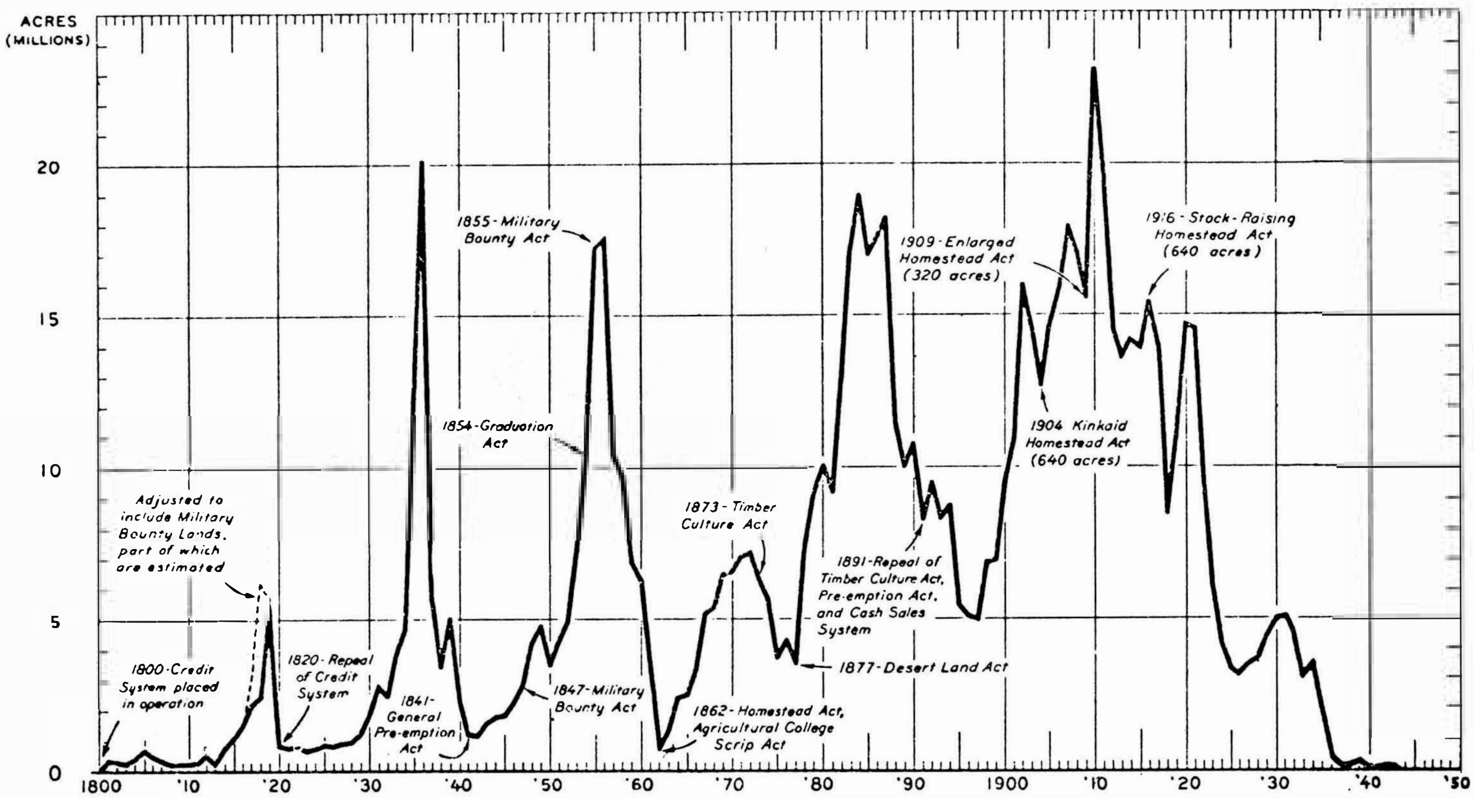

Fig. 3 -- Original land entries, 1800-1943

But the land market is not the villain; it is often a corrective for mistaken policies. The land market often also serves the public interest better than some public programs. For example, the homestead acts did not prevent large landed estates, did not prevent large-scale farming -- corporate or otherwise -- and did not prevent "speculation" in land. What did most to prevent large landed estates, corporate farming, and excessive profits was the free market in land -- many sellers as well as buyers competing with one another. True, the land market was not perfect. Some "speculators" helped to give early realtors and the marketplace a bad name. But recent studies have shown that because of a free land market most early realtors provided a valuable service at a competitive cost.

While homesteads and other government programs helped some farmers attain ownership, they failed to maintain it for the next generation of farmers. Primogeniture -- inheritance laws which pass land from father to eldest son -- were not popular in America. Thomas Jefferson led the opposition. Equal inheritance by all the children became the rule.

Equal inheritance can be avoided if the father makes a will. The father can also either give or sell the land to an heir before his death, but such arrangements are generally deemed unfair unless all children are treated equally. Usually the operating heir has to buy out the other heirs.

Sometimes this is impossible. Frequently the son needs to invest his inheritance in machinery and livestock rather than land. Thus far, no more acceptable way of keeping the farm in the family has been found; each generation of farmers must buy the land at its market price or remain tenants.

C. Ownership vs. Tenancy: Present Status and Future Prospects

The present ownership situation is somewhat confusing. Is the glass half full or half empty?

The 1969 census shows that 87% of all U.S. farmers owned some land (Fig 4). More specifically, 62% were full owners, 25% were part owners (part tenants), and only 13% were full tenants.

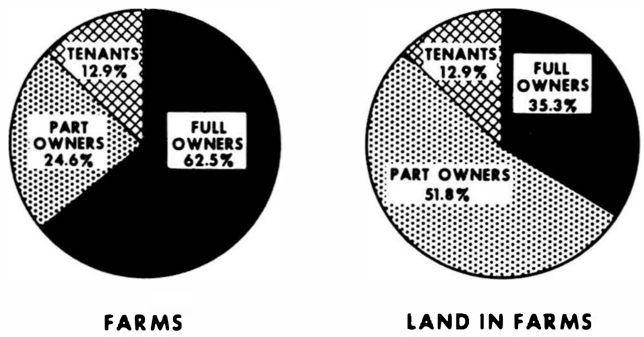

Fig. 4 -- Farms and land in farms, by tenure of operator, 1969

However, these figures are not a good indication of how U.S. farmland is held. The difference is shown in Fig 4. In 1969 full owners operated only 35% of all farmland, part owners operated 52%, and full tenants only 13%. The picture of how farms are held must be compared with the picture of how farmland is held.

Both pictures change rapidly as farms become larger. As farms increase in size, the number of full owners decline and the number of part owners increase. This is shown in Fig 5. Note that full owners operated 62% of farms with 140-179 acres, 38% of farms with 260-499 acres, and only 29% of farms with 500-999 acres. In contrast, part owners operated only 20% of farms with 140-179 acres and over 60% of the farms with 1,000 acres or more.

Between 1945 and 1969, U.S. farms doubled in size from 195 acres to 390 acres. This trend is expected to continue. In 1968 an Iowa study by Saupe showed that Iowa farmers, using modern technology, could farm 600 acres without difficulty. It also showed that eastern South Dakota farmers with more small grains and pasture could operate about 1,000 acres, those in central South Dakota about 2,400 acres, and those in western South Dakota over 7,000 acres. Furthermore, this could be done without increasing the amount of hired labor. Farm sizes can be expected to increase in the years ahead, usually by leasing more land. Hence, the trend toward part ownership can be expected to increase.

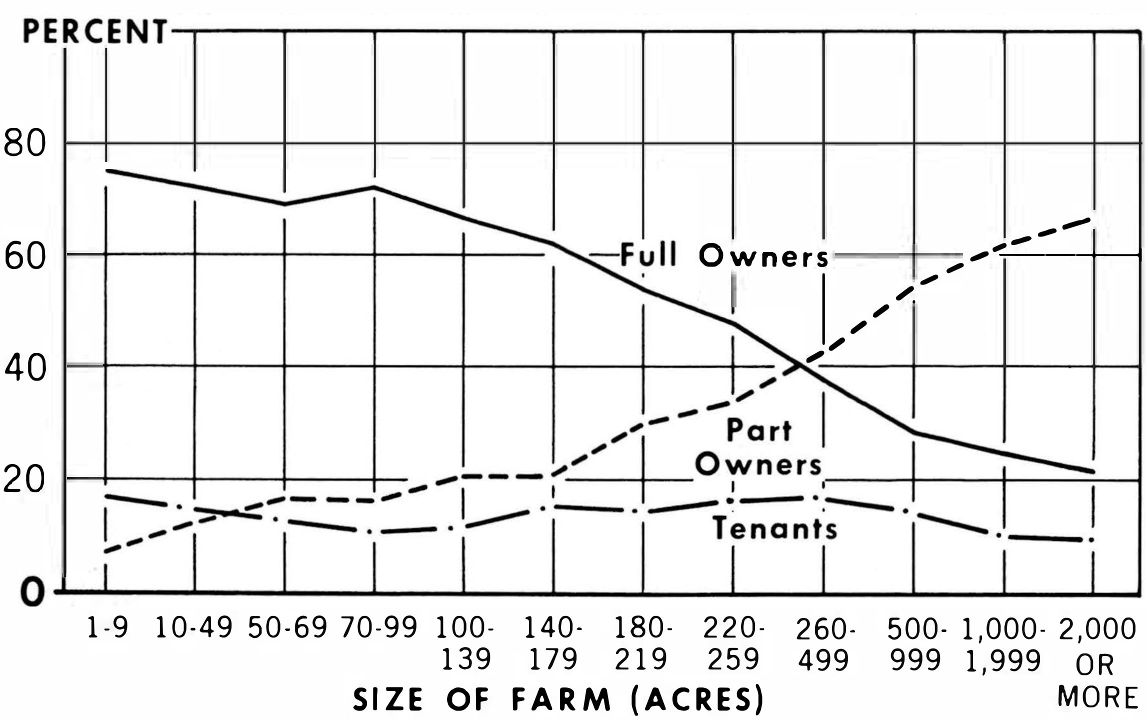

Fig. 5 -- Tenure characteristics by size of farm, 48 states, 1969

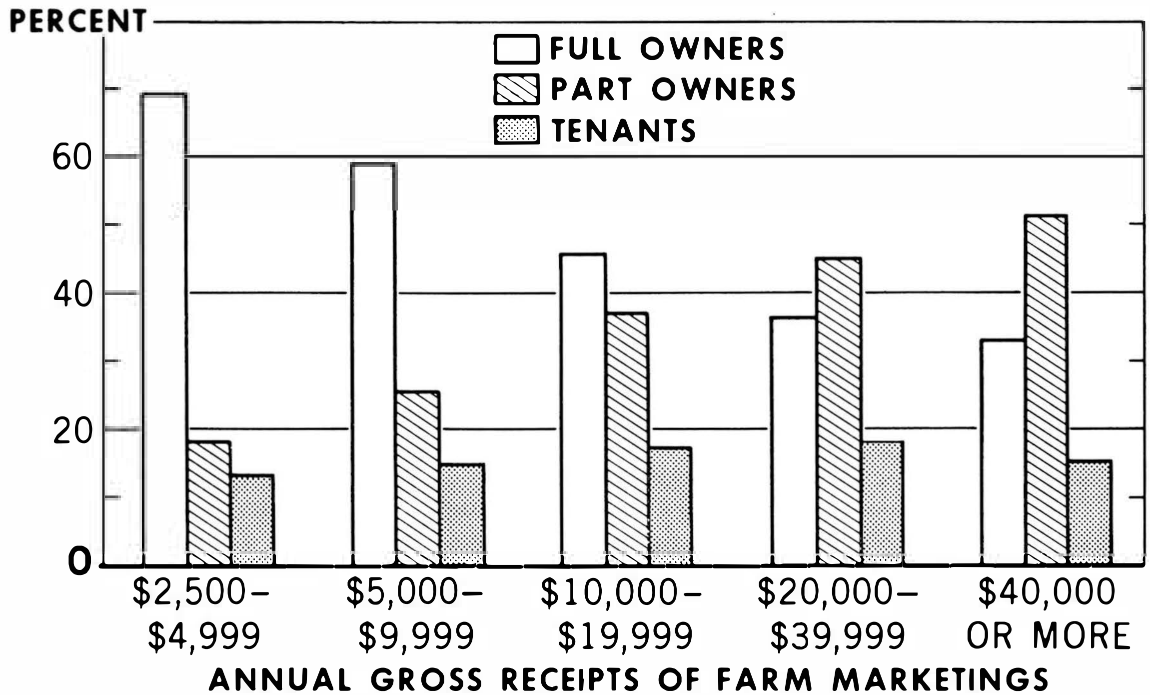

Fig. 6 -- Tenure characteristics by economic class of farm, 48 states, 1969

Another measure of farm size is gross sales. Acres and sales are closely related. It is not surprising that the number of full owners decline and part owners increase as gross receipts increase (Fig 6). Note that tenants are not greatly affected by size. Again, as farms become larger in the years ahead, ownership can be expected to decline.

The amount of farmland leased (rented) by tenants has been decreasing since the

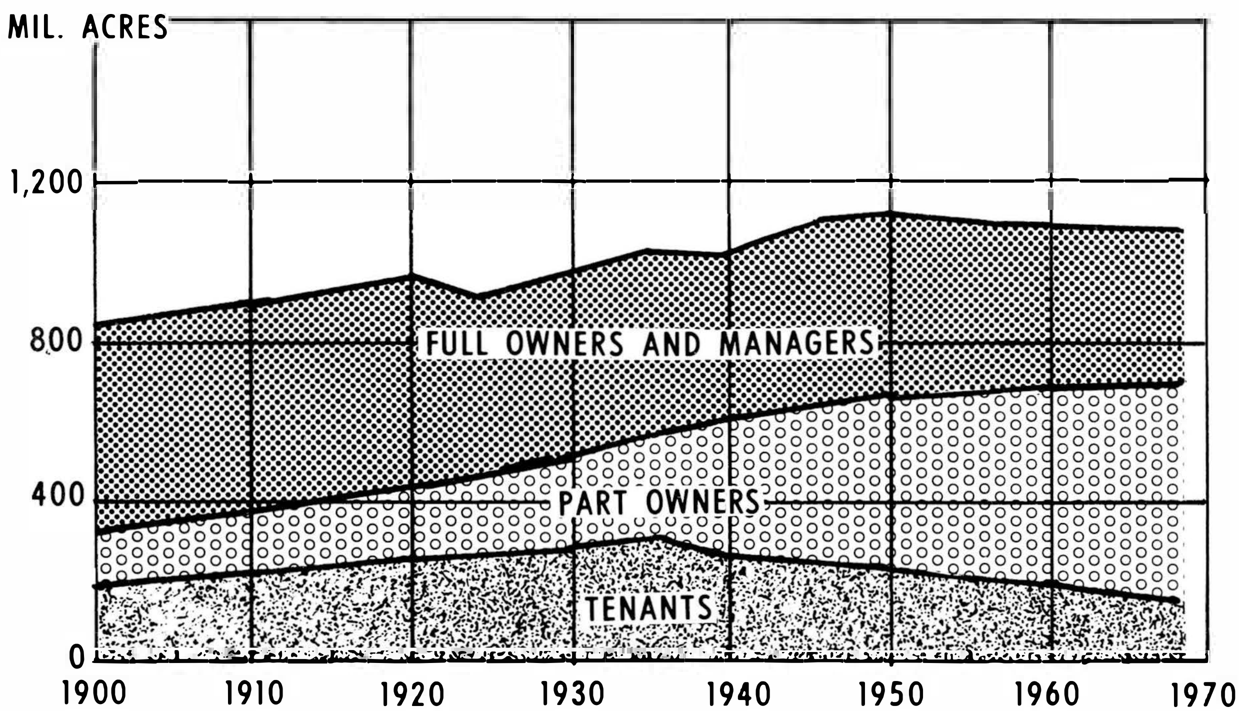

Fig. 7 -- Land in farms by tenure of operator, 1969

1930's. The trends since 1900 for all farmers are shown in Fig 7. At the same time the amount of farmland operated by part owners has been increasing.

How much do part owners lease? In 1954 part owners and tenants leased about the same amount of land, but by 1969 part owners leased twice as much land as tenants. Together they leased 386 million acres in 1954. This increased to 404 million acres in 1969.

The total land leased between 1930 and 1969 by both part owners and tenants is shown in Table 1. Note that between 1954 and 1969 the amount of land leased increased from 33 to 38%. If this trend continues at the same rate, over 50% of the land will be under lease by the year 2000.

The amount of land under lease has always been high in the most productive areas of the country. For example, in 1959 over 60% of the land in the heart of the Corn Belt was under lease (Fig 8). This includes northwestern Iowa and part of southeastern South Dakota. In two thirds of South Dakota's counties 40 to 60% of the land was under lease. While farm tenancy has declined since 1959, both part ownership and the amount of land under lease have increased.

Full owners have declined in past years because of high land prices relative to farm incomes. Many farmers cannot afford to buy land because of the low return to land compared to machinery and livestock. Land prices are high because the demand for it is strong and the supply suitable for farming is practically fixed. Demand is strong because many farmers need more land and land is a good hedge against inflation.

As a result land prices have reached an all-time high despite lagging farm incomes (Fig 9). Between 1960 and 1976 land prices increased 259%, or an average of 16% a year. Investors find these increas-

Table 1. -- U.S. trends in farmland controlled by lease (rented), 1930-69

Year	U.S. land in farms-acres		Percentage of land rented		
	Total	Rented	Part owners	Tenants	Total
	Millions	Millions	%	%	%
1930	990	432	13	31	44
1935	1055	471	13	32	45
1940	1065	469	15	29	44
1945	1142	431	16	22	38
1950	1161	386	15	18	33
1954	1160	386	17	16	33
1959	1123	382	20	14	34
1964	1110	394	22	13	36
1969	1063	404	25	13	38

Source: 1930-1964 data from U.S. Census of Agriculture as reported by Moyer and others, Land Tenure in the United States, USDA, ERS Agr. Info. Bul. 338, 1969 Table A-6. 1969 data is from 1969 Census of Agriculture, Vol. II General Report Chapter 3.

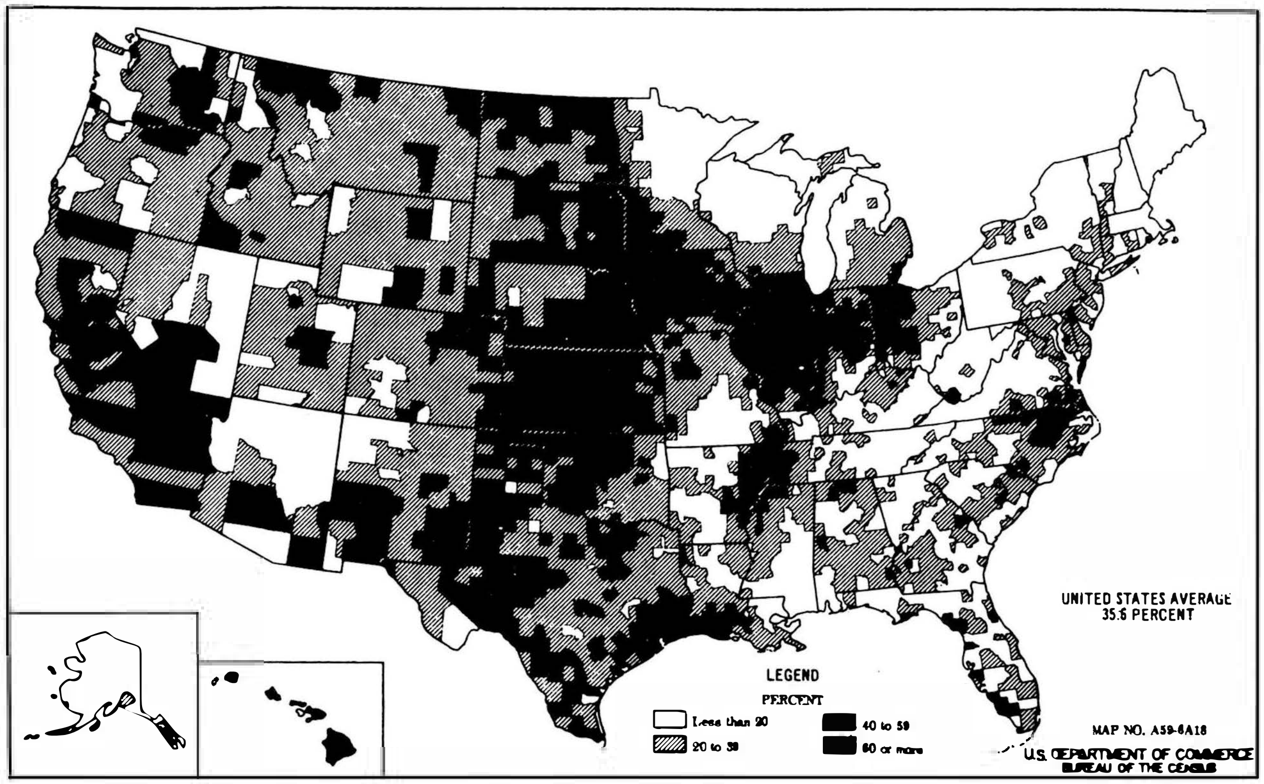

Fig. 8 -- Percent of all land in farms under lease, 1959

es attractive but the higher prices make it impossible for most farmers to buy all the land they operate. Some farmers who have recently bought land are finding it difficult to meet the high interest and principal payments. Farmers with limited funds must use them to purchase machinery and livestock. As a result the amount of farmland under lease can be expected to continue to increase.

The total value of U.S. farmland and buildings was $207 billion in 1970. Of this amount landlords furnished $69 billion or 34%, while farm mortgages provided only $23 billion or 11%. Thus landlords are a very important source of capital for the farmer.

What is needed are leases that give farmers more of the freedom of ownership. This is particularly true since about 40% of all farmland is under lease, and if present trends continue, over 50% will be under lease in the near future.

III. FREEDOM AND SHARE RENT LEASES

In the past the freedom that farmers needed to develop, improve, conserve and use the land was provided by ownership. But in the future it appears that this freedom will have to be provided by some other means. Can it be provided by share rent leases?

A. Cash vs. Share-Rent Leases

Generally speaking there are two kinds of rents: share rents and cash rents. Included under share rents are share-cash and livestock-share leases. Thus defined, share rents have long been the most common way of leasing farms in most of the crop producing areas of the country (Fig 10). Cash-rent farms have been most frequent in the Northeast and in parts of the South where truck crops are important, and in the Southwest and West where grazing is important. Cash rents are frequently used on part-time and residential farms.

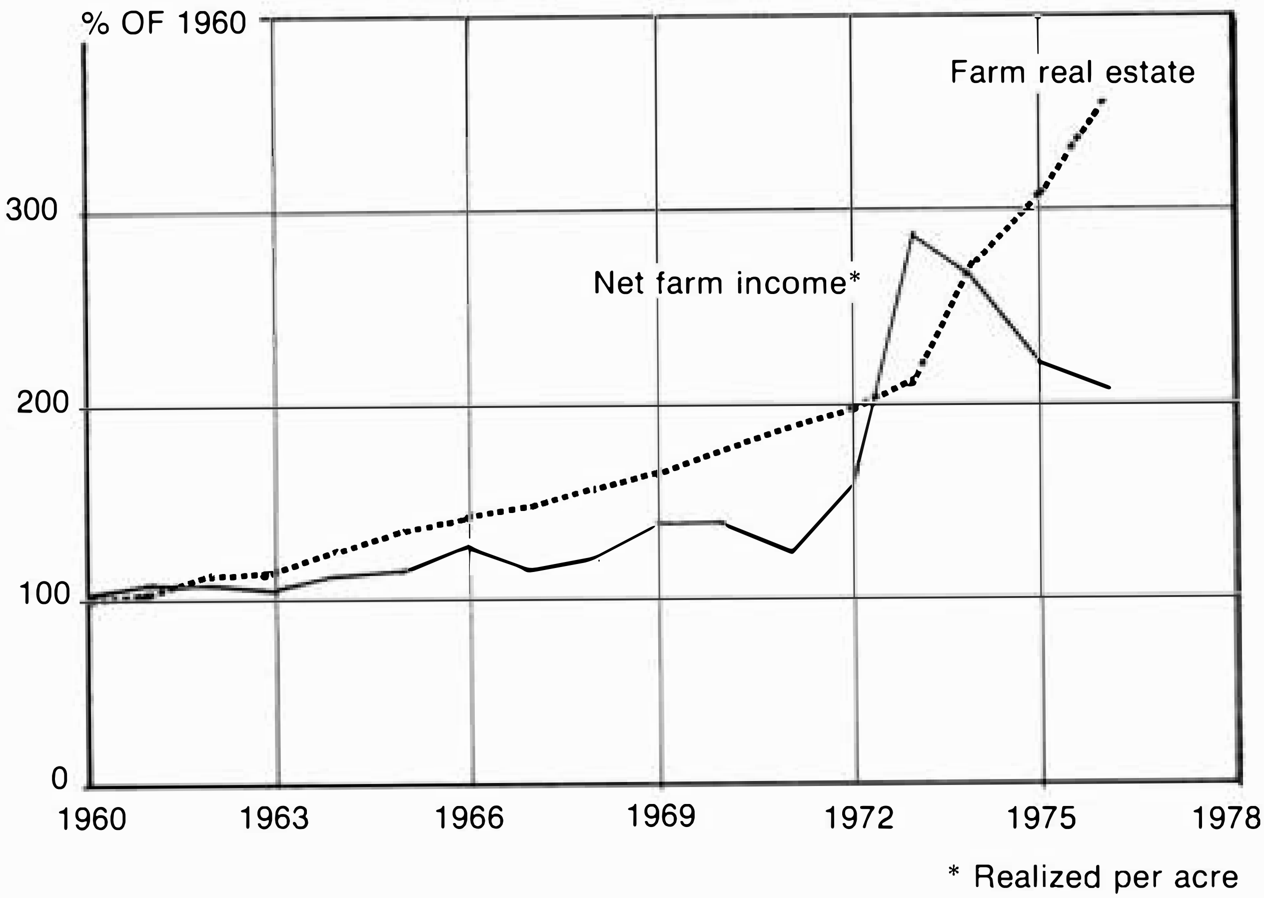

Fig. 9 -- Farm land prices and net farm income

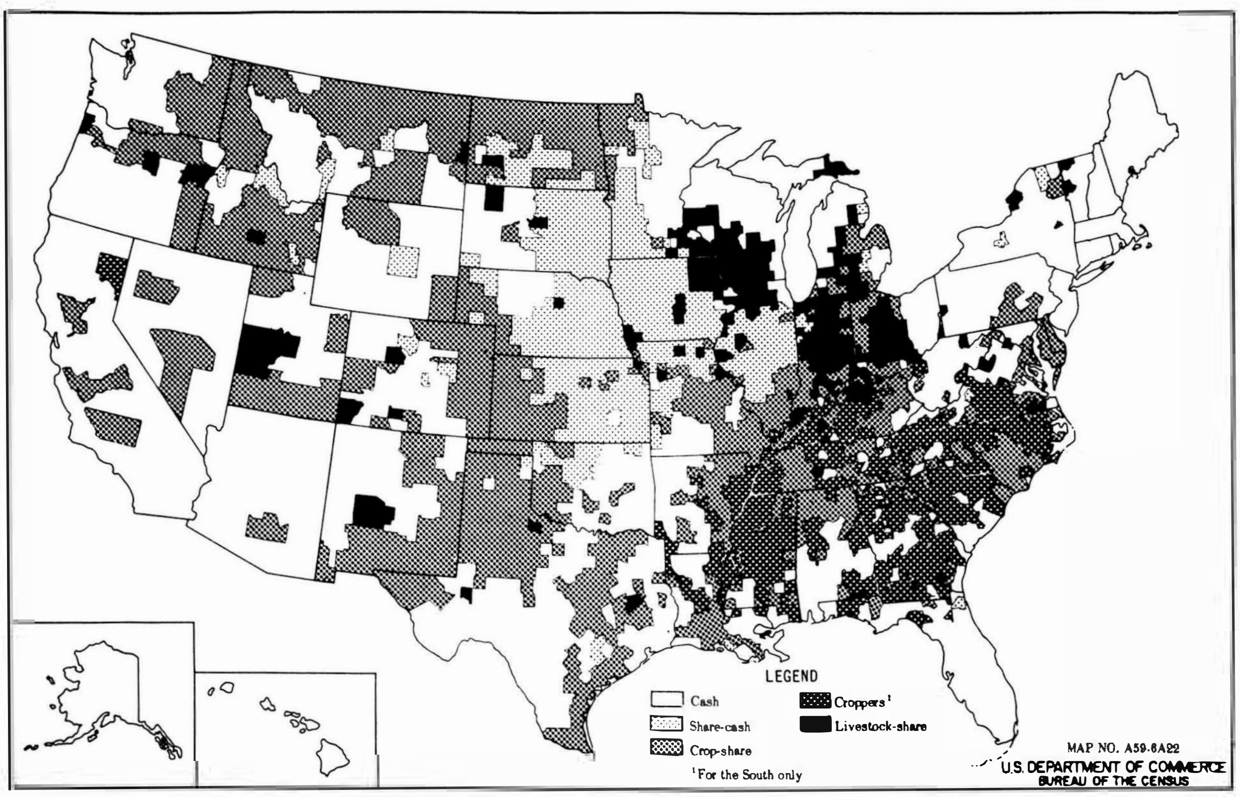

Fig. 10 -- Most frequent method of renting farms, 1959

Cash-rent leases have been increasing. Between 1959 and 1969 cash-rent tenants increased from 14 to 19% of all leased farms and from 21 to 35% of the land in these farms. The figures for 1969 are presented in Table 2. In 1969, 55% of all tenants paid some kind of share rent (cash, crop, or livestock). Another 26% of all tenants paid "other or unspecified" rents for their farms on 18% of the land.

Part owners made more use of cash rents. One third of part owners cash rented 50% of all the land they leased. But about half of the part owners used some kind of share rent on 34% of all land that they leased (Table 2).

What are the "other and unspecified" rents? One kind is a fixed produce rent. But instead of delivering the produce, the farmer may pay the cash value of the produce. Either way, such a rent is closer to a cash rent than a share rent. When paid in cash it is one kind of flexible cash rent -- a cash rent that varies with the price of a crop. Flexible cash rents may vary not only with crop price but county average yields of one or more crops. If neither the landlord nor the tenant can affect the amount of rent to be paid after the lease is signed, then flexible cash rents have the main advantages of both share rents and fixed cash rents.

B. Why Are Share Rents So Frequently Used?

In England cash rents are almost universal. Why, then, are share rents so widely used in the United States? The main reason is that most English landlords are professional landlords who are interested in security of rents at least cost. Cash rent provides both. In contrast, many farm landlords in this country are retired farmers (or widows), or business and professional people with relatively short-range avocational or investment interests. They prefer share rents for several reasons:

(1) Share rents introduce an element of partnership into the lease. This gives the share landlord a valid reason for participating in the farm business. This participation is especially important for retired farmers and other

Table 2. -- Kinds of rents paid by tenants and part owners by farms and by land leased, U.S., 1969

	Tenants		Part owners	
	Number thousand	Acres leased million	Number thousand	Acres leased million
	271	197	581	207
Kind of rent	Percent	Percent	Percent	Percent
Cash	19	35	34	50
Share - cash	14	15	13	13
Crop share	31	22	32	19
Livestock share	10	9	3	2
Other & unspecified	26	18	18	16
TOTAL	100	100	100	100

Source: U.S. Census of Agriculture 1969, Col. II, Chapter 3, p. 19.

landlords with farm experience. It also may be very helpful to young and inexperienced tenants. Cash landlords on the other hand, have little reason to participate. Furthermore, tenancy laws discourage such participation.

(2) Share rents generally give landlords considerably higher returns on their investment than do cash rents. This is justified because the share landlord shares the tenant's management, weather, and price risks. When rents are the major source of income, as it is for many landlords, the higher share rents are often important. They are also important to business and professional people who have other profitable ways to use their money.

(3) Share rents adjust automatically with crop yields and prices. Fixed cash rents do not. This automatic feature induced many landlords to shift from cash to share rents after World War II when crop yields were increasing rapidly. It also provides a strong incentive to continue with share rents during the present inflationary period.

(4) Usually the share of crops to be paid as rent is uniform over very large areas. Because the productivity of farms varies, value of the share rent also varies. The variation in productivity makes it difficult to determine a fair cash rent and hence discourages its use. However, uniform shares do not eliminate questions about the tenant's farming and his division of the crops. While the share is easily set, the amount of the share may become a major problem for both landlords and tenants. To protect themselves from poor management and unfair division of crops, most share landlords make short-term leases -- usually one-year or year-to-year.

C. Freedom, Share Rents and Short Terms

Landlords and tenants agree that the main reason short-term leases are used is to make sure that tenants do a good job and pay a fair share of the crops as rent. As long as share rents are used, short terms are fully justified. The share rent introduces an element of partnership into the lease, and as "partners" landlords are entitled to a voice in management and division of the crops. Thus share-rent landlords do not have as much "freedom from" worry about their tenants' management as do cash and some flexible cash landlords.

From this it follows that share tenants lack freedom to operate, conserve, and improve the land. Their first task, if they hope to keep the farm, is to operate it in a manner acceptable to their landlords -- a manner that provides "fair" rents. Because the burden of proof of good farming is on the tenants, they are insecure. Hence they can scarcely be expected to spend their time and money developing, improving, or conserving land or buildings.

Some share landlords are reluctant to furnish improvements because there is often no direct payment for them. Even when specific cash rents are paid for them, these rents are often insufficient to pay taxes, insurance, interest and repairs. When landlords receive only a share of the crops and none of the share rent is earmarked for buildings, fences, and other improvements, landlords have little incentive to maintain or improve them. However, their tenants may argue that the share rents are large enough to cover both land and building costs. Often this results in disagreements that are difficult to resolve and cause insecurity.

Some tenants may offer to make improvements if their landlords will compensate them for their unexhausted value when they leave the farm. Landlords may be reluctant to do this for some related reasons: (1) tenants may move after 1 or 2 years, thereby requiring their landlords to compensate them for much of the value of the improvement, (2) landlords may not be able to secure sufficient rent from their new tenants to cover the costs of the improvement, and (3) an agreement to compensate tenants for their improvements over 5-10 years tends to convert short-term leases into long-term leases. But share landlords prefer short terms. This is their best guarantee against poor farming and unfair division of crops.

The improvement problem is partially solved when the farmer is a part owner. Like the full owner, the part owner has full freedom to improve the land and buildings he owns. This does not apply to the land he leases. Nonetheless, part ownership helps resolve this problem. In 1969 part ownership was most common in the Great Plains and the West where farms have been growing very rapidly. While part ownership was less frequent in the more productive areas of the Midwest, it has been increasing rapidly in recent years. Even though few farmers can afford to buy all the land they operate, many can buy that part of the land on which the farmstead is located and thereby eliminate that part of the improvement problem. Unfortunately, the problem of improvement and conservation on the share rented land remains.

D. Will Cost Sharing Improve Share Rents?

Adam Smith had a low opinion of share rent leases. He argued that share tenants lacked the incentive to farm as intensely as cash tenants and owner operators. For example, suppose a certain practice costs $12 an acre and can be expected to give a return of $18 an acre. Either a cash tenant or an owner operator would make $6 or 50% on his investment. In contrast, a share tenant who pays all the cost ($12) and gets only two thirds of the returns ($12) will just break even. The landlord who pays nothing gets one third or $6. Obviously if such share tenants have freedom to farm as they please they will not make this investment.

How can share tenants be given the same incentive to use this practice as owner operators or cash tenants? Some economists claim that all that is necessary is for the landlords to share all variable costs in the same way that the produce is shared. Thus in the example given above, the tenant would pay two thirds of the cost ($8) and get two thirds of the returns ($12) or 50% on his investment. Likewise, the landlord would pay one third ($4) and get one third ($6) or 50% on his investment. If costs of application are shared this solution is valid.

Because this theory is obviously correct, why is it that share landlords and tenants do not share all variable costs in the same way that crops are shared?

The answer is that such cost sharing converts the share-rent lease into a partnership.

The lease, like a deed, conveys or transfers possession, use, and enjoyment of the land from one party to another. Under a lease the tenant has full control of the business unless limited by the lease. Under a partnership the control is shared 50-50 unless otherwise agreed. Partnerships have not proven to be a satisfactory substitute for farm leases. Indeed, they are a most difficult arrangement that can only work when the partners are in general agreement about the details of farming or one partner has full faith and trust in the other.

These requirements are seldom met. Sharing all costs as in a partnership may make the tenant less secure and hence improvements less likely.

If cost sharing is undesirable, why do landlords and tenants generally share fertilizer costs? Before commercial fertilizers were introduced, crop-share rents were well established as one-third, two-fifths or one-half share depending upon the productivity of the land. If the tenant had to pay all of the fertilizer cost and give his landlord the usual share of the results, this would be unfair. To correct this situation either the fertilizer costs had to be shared or the generally accepted share rent had to be lowered. Sharing the fertilizer costs was the practical solution.

Then why not share all operating or variable costs? Both landlords and tenants have objected for a number of practical reasons. Bookkeeping is one of them. For example, if landlords share fuel costs, how can they be sure that some of it is not used by their tenants for personal purposes? Or consider part owners who lease land from one or more landlords. How can any landlord be sure that shared seeds and fertilizers are used on his land? And part owners will be tempted to use more of their labor and machinery on their own or cash rented land, because they receive all the additional return rather than only a share. This helps explain why part owners pay a cash rent for 50% of the land they lease.

Share landlords have a more effective way to get tenants to farm like owners. They sometimes tell tenants, "Now don't worry about keeping this farm. You can keep it as long as you do a good job of farming and pay a fair rent." Whether stated or not, this rule is well understood by most tenants. It's a fair rule--an inescapable rule of share renting. It means that the tenants must farm like owner operators if they hope to keep the farm. This may explain why some studies show that share-rent tenants seem to farm as efficiently as owner operators or cash tenants. But tenants must have freedom from such control if they are to have full freedom to farm, to improve, and conserve. Most tenants want these freedoms. They know ownership provides them and share renting does not. This is one reason why so many farmers use their scarce capital to buy land.

IV. FREEDOM AND CASH RENT LEASING

Can fixed or flexible cash rents provide farmers with most of the freedom provided by ownership? This question is important because owner operation has not been achieved and maintained on much of the nation's best cropland. Furthermore, share-rent leasing does not and apparently cannot provide this freedom. Fortunately the evidence is very strong that cash-rent tenants may have much of the freedom of owner operators.

A. Much Freedom Provided by Cash Rents

Two hundred years ago Adam Smith ranked English farmers as to their freedom to improve their farms. At the top he placed family sized owner operators. A close second were cash tenants -- especially when they had long-term leases under which he found "the security of the tenant is equal to that of the proprietor." But even when cash tenants had only an oral agreement, Smith found they had much freedom. He declared, "there is, I believe, nowhere in Europe, except England, any instance of the tenant building upon the land of which he has no (written) lease and trusting that the honour of his landlord would take no advantage of so important an improvement." In Smith's view cash tenants were about as high above share-rent tenants as share tenants were above croppers or hired men. Pictured as a tenure ladder, hired laborers would be near the bottom, share tenants in the middle, and cash tenants near the top just below owner operators.

Farm tenure specialists have long accepted the theory that for maximum efficiency farmers must have full freedom to operate, develop, and improve. They agree that full ownership provides the maximum freedom followed by cash-rent leasing. When cash tenants have freedom from (1) unjustified loss of lease, (2) unfair rents, and (3) unfair compensation for the value of his unexhausted improvements, they have much the same freedom to operate and improve that is enjoyed by owner operators. Most farm tenure specialists regard share-rent leases as inferior to cash-rent leases and have spent much time and effort in an attempt to improve share-rent leases. Unfortunately, for reasons already given, they have not succeeded.

Farm tenure workers generally admire the English cash leasing system. For centuries the English landlords have had much freedom from worry about their tenants' farming because the way they farmed did not affect the amount of the cash rent to be paid. This in turn gave their tenants much freedom from landlord-tenant friction that often leads to loss of lease. As a result, even though the leases were often short, tenure was often quite long and secure. This led landlords to agree to compensate their tenants for the unexhausted value of their improvements.

The evidence is strong that the English cash leasing system would provide U.S. tenants with more freedom than share-rent leasing. Consider, for example, the Scully Estates of Illinois, Kansas and Nebraska. These Estates use the English cash leasing system. They have leased 200,000 acres of farmland to several hundred tenants for well over 100 years. They use a cash one-year lease that must be renewed annually. The laws under which they operate are almost the same as those of England before 1887 -- before the adoption of present English tenancy legislation.

In 1955 I made a survey of Scully leasing in Kansas. Of the 103 farmers interviewed, 52 cash rented part or all of their land from the Scully Estate and 43 leased land from other landlords for a share rent. Only 8 were full owners. Of these 103 farmers, 87% said that the Scully tenants had more security of tenure than share tenants. The average length of tenure of Scully tenants was 15 years compared to 17 years for all U.S. owner operators and 6 years for all U.S. tenants. The average tenure for English tenants was once about 15 years and has increased to 21 years. Some of the Scully tenants had leased Scully land for three generations. About 60% of these farmers said their security was mainly due to the cash rents. Almost all of the Scully tenants (96%) said they had more freedom to farm than share tenants. Two thirds of the other farmers agreed. About 80% of the 103 farmers said this was mainly due to cash rents.

The Scully leases contain a Scotch-Irish feature not generally found in English leases. This feature is tenant ownership of the improvements -- particularly buildings and fences. Incoming Scully tenants buy these improvements from outgoing tenants. When they leave they sell them to the new incoming tenants at their market value -- subject to approval of the new tenants by the managers of the Estate. As a result Scully tenants have almost as much freedom to erect, remodel, or remove improvements as do owner operators.

Tenant ownership of improvements is also found on federal public lands and some state lands -- including those of South Dakota. This system removes a frequent source of landlord-tenant friction and probably accounts for some of the tenant's security of tenure. Certainly it provides tenants with much freedom to improve.

The Scully Estates are particularly interesting because they show that the English cash leasing system can provide tenants in this country with much of the freedom of owner operators under present farm tenure laws. But farmers themselves are often opposed to cash leasing in part because of the greater risks. Share rents provide some "insurance" when crops fail or prices are low.

But what is the cost of this insurance? What does it do to freedom to farm? Research and education are needed here.

U.S. tenants' freedom to farm may be weak even if cash rents are used because most farm landlords are retired farmers, business or professional people, or their spouses. Because their ownership is often short term, even their cash tenants may feel too insecure to develop, improve, or conserve the land and buildings. There is always danger that the farm may be sold and the new owner may want to farm himself or perhaps secure a new tenant. Therefore, careful consideration should be given to laws which would require that any landlord, except an active or retired farmer, should lease farmland only for cash rents and provide permanent or continuous tenure for their tenants. To be fully effective, sale of the land would have to be subject to the tenant's lease.

These laws might be patterned after those of England, where the general practice of the better landlords was made uniform by law. The first effective law was adopted in 1887. Present English laws (Agricultural Holdings Act of 1948) give tenants freedom from loss of farm as follows: (1) leases shall be continuous or permanent but either party may terminate the lease by 1 year's notice which is effective for the landlord only if he can establish adequate cause for termination, (2) upon termination the tenant is entitled to compensation for his improvements and the landlord for any deterioration, and (3) rents may be arbitrated upon request of either party but not more frequently than every 3 years.

"Adequate cause" for lease termination may be (a) the land is required for an approved nonagricultural purpose, (b) there is proof of tenant's poor farming, (c) the tenant has failed to pay rent or correct a breach of terms, (d) there is a breach of terms that cannot be remedied, (e) the tenant is bankrupt, or (f) the tenant has died. English landlords can sell their farms, but the sale is subject to the tenant's lease. If the tenant wishes to continue his lease it can only be terminated for cause in a due process hearing before a special land court. The burden of proof that the cause is adequate is on the landlord.

In contrast, U.S. farm landlords may refuse to renew their leases without showing adequate cause for this action. This is fully justified when share rents are used. Landlords could easily be deprived of a fair rent simply because poor farming or dishonest sharing under share rents would be almost impossible to prove. If English-type tenancy laws were adopted in this country, landlords would have to shift from share rents to fixed or flexible cash rents.

V. SOME PROBLEMS FOR STUDY

Farmers need freedom if they are to carry out their responsibilities as stewards of the nation's farmlands. As has been pointed out, efforts to provide this freedom by ownership have not fully succeeded. On the most productive lands over 60% are leased -- mostly for a share rent.

In such areas, many of the landlords lack farm experience. Their numbers will grow as the amount of leasing increases. Problems with share rents increase as farmers become part owners or lease from more than one landlord. These changes may explain why cash rents have been increasing in recent years and can be expected to increase in the future.

Is this trend toward cash leasing in the public interest and in the interest of farmers and their landlords? If so, what research and educational efforts are needed? Here are some suggestions for future work:

(1) The comparative advantages and disadvantages of cash- and share-rent leasing should be made available to landlords and tenants. This circular summarizes past research on this problem for farm leaders and Extension workers, but much more needs to be done to get the information to landlords and tenants.

(2) Share rents provide the tenant with some rent "insurance" because the rent varies with crop yields and prices. Cash rents may also vary with the county average yield and price of the principal crop. However, the county crop yields are not generally available from the S.D. Crop and Livestock Reporting Service until the following spring. Could a County Rent Board, composed of landlords and tenants, estimate such yields shortly after crops are harvested? If so, these could be used for flexible cash rents that have the main advantages of both fixed cash and share rents.

(3) It is said that share-rent leases are desirable because they permit the landlord to participate in the management of the farm. This may be quite helpful when the landlord is a competent farmer and the tenant is a beginner. But could not the beginner secure such advice even though he was paying a fixed or flexible cash rent?

(4) Because share-rent landlords provide rent "insurance" not provided by fixed cash rents, their share rents should be higher than cash rents. But how much higher? Are crop shares the best and cheapest way to secure this insurance? Flexible cash rents are one alternative.

(5) Should U.S. farm tenants be given freedom from unjustified loss of farms by rules such as those used in England? If not, why not?

(6) Should all farm corporations be required to lease the land to the operator using either fixed or flexible cash rents? If they were, this would give the operator more freedom of farming and eliminate many management problems. Unfortunately such a corporation cannot qualify under Federal income tax laws for taxation like partnerships if more than 20% of its gross receipts are received as rent. Perhaps this could be changed.

(7) Should farm owners be encouraged to put their land in a private or cooperative land leasing bank that would then lease the land to an heir until he was able to buy it? In Canada, the Province of Saskatchewan has created a government owned and operated "Land Bank" to help keep the farm in the family. Since 1972 owners may sell their farms to the bank and specify which son is to lease it. The cash leases are continuous to age 65 and may only be broken for "adequate cause." The tenant may request permission to buy the land after leasing for 5 years or more. Or he may continue to lease it and specify that his wife, or son, or daughter shall have the first opportunity to take over the lease. There are serious problems created by government ownership and leasing of land. Some of the problems might be avoided by a cooperative or a private land leasing bank which operated under rules similar to those of the Canadian Bank. This possibility needs to be explored.

VI. SUMMARY AND CONCLUSIONS

In the beginning the nation's most valuable resource was a wilderness. It needed to be wisely developed, improved and conserved for future generations. Farmers eagerly accepted this responsibility. They cleared the land of forests, brush, and stone, and broke the prairies. They built homes, barns, and fences. They established local governments, schools, and churches.

Why were farmers so eager to perform this awesome task? Because they had freedom to develop, improve and conserve, made possible by freedom from loss of land, loss of improvements, and unfair land charges or rent. They had these freedoms because it was public policy that farmers should control the land they operated as owners, not as tenants -- by deed, not by lease; by buying, not by renting. Their self interest was the "invisible hand" that achieved the public interest.

While ownership provides freedom to develop, improve, and conserve the land it has proven to be difficult to attain and maintain. Now 40% of the nation's land is under lease. In some of the most productive areas of the country over 60% of the land is under lease -- mostly for some kind of a share rent.

Share-rent leases do not provide freedom of ownership. Efforts to improve or perfect share-rent leases by sharing all variable costs the same way the crops are shared only intensifies the element of partnership which share rents introduce into the lease. Both landlords and tenants have rejected this solution. Landlords prefer to use the short-term lease to make sure the tenant does a good job of farming and pays a fair share as rent.

Cash-rent leases can provide most of the freedom of ownership. Because cash rents give landlords much freedom from worry about their tenants' farming, they can provide them with much freedom to develop, improve, and conserve the land and buildings. To do this, landlords must give their tenants freedom from (1) unjustified loss of land, (2) unfair rents, and (3) unfair compensation for the unexhausted value of their improvements.

Some English landlords have provided their tenants with these freedoms for several centuries. During the past 100 years the practices of the better estates have been made uniform by law. What English landlords have done, U.S. landlords can also do. This has been demonstrated by the Scully Estates of Illinois, Nebraska, and Kansas which have used the English cash leasing system with several hundred tenants for over 100 years. Their tenants have most of the freedom of owner operators.

If farmers are to be stewards of the nation's farmlands they must have much of the freedoms of ownership to carry out their responsibilities. These freedoms can be measured by a tenure ladder. When farmers own land, they are at the top of this ladder. Cash rents can be very close to ownership or much inferior, depending upon the terms of the lease and laws affecting it. But in terms of freedom, cash rents are usually as far above share rents as share rents are above hired men. When ownership is not possible, cash rents should replace share rents at every opportunity. To expand these opportunities, more research and education is needed on cash-rent leasing.

SUGGESTIONS FOR FURTHER READING

Ashby, A. W., "Farm Tenancy," Encyclopedia of Social Sciences, Vol. 6, p. 118-22, 1931.

A good discussion of the English cash leasing system.

Berry, R. L., "Cost Sharing as a Means of Improving the Share Rent Lease," American Journal of Agricultural Economics, August 1962, p. 796-807.

This article concludes that cost sharing would convert the lease into a partnership. This "solution" is rejected by both landlords and tenants. The best lease is one in which landlord-tenant friction is reduced to a minimum. This is more likely to be achieved when fixed or flexible cash rents replace share rents.

Berry, R. L., Farm Tenancy Problems in South Dakota, S. D. Agricultural Experiment Station Circular 510, 1963.

Presents opinions of landlords and tenants on share-rent leasing. Out-of-print but may be available through library or from county Extension agent.

Berry, R. L., "The Scully Estate and Its Cash Leasing System in the Midwest," Abstract of Ph.D. Thesis, Ohio State University, Columbus, Ohio, 1966.

This English cash leasing system has been used in central Kansas for over 100 years. Study concludes Scully tenants have much more security and freedom than share tenants.

Berry, R. L., "Share Rents as an Obstacle to Farm Improvement and Soil Conservation," Land Economics, August 1964.

Studies show that owner operators make more improvements and adopt more conservation practices than share tenants. Fixed or flexible cash leases are suggested as the remedy.

Farm Management Farm Operators, Ch. 3 of Vol. II, U. S. Census of Agriculture, 1969, p. 12-22.

This was the latest source of statistics concerning farm tenure when this study was published.

Gates, Paul W., History of Public Land Law Development, U. S. Government Printing Office, Washington, D. C. (20402), 828 pages. Price, $8.25.

History of the disposal of federal public lands from the early colonies to 1964.

Johnson, Bruce B., Farmland Tenure Patterns in the United States, U. S. Department of Agriculture, ERS, Agricultural Economics Report 249, 1974.

A study of farmland under lease based on 1969 census. Presents some information by states.

Marshall, Alfred, "Land Tenure," Chapter 9, Principles of Economics, 8th Ed., MacMillan Co., 1948.

An excellent discussion of English cash leasing system before 1920.

Megarry, R. E., "Landlord and Tenant: Modern English Statutes," Encyclopedia Britannica, 1963, Vol. 13, p. 648-49.

Most editions up to the 1974 Macropaedia carry good articles on the English landlord-tenant system.

Moyer, D. David, Marshall Harris and Marie B. Harmon, Land Tenure in the United States, Development and Status, U. S. Department of Agriculture Information Bulletin 338, 1969.

Presents historical development and trends to 1964.

Reinsel, Robert D. and Bruce Johnson, Farm Tenure and Cash Rents in the United States, U. S. Department of Agriculture, ERS Agricultural Economics Report 190, 1970.

A study of cash-rent leasing up to 1964.

Smith, Adam, The Wealth of Nations, Modern Library, New York, 1937.

Smith discusses ownership and tenancy as it had developed in England 200 years ago (Book III, Chapter II).

Swierenga, Robert P., Pioneers and Profits: Land Speculation on the Iowa Frontier, Iowa State University Press, 1968.

This technical study found that the early relators performed a public service of great value to settlers. See especially the summary, Chapter 9.

Watson, J. A. S., "Land Ownership, Farm Tenancy and Farm Labour in Britain," Agricultural History, Vol. 17, 1943.

A critical evaluation of British farm tenure and tenure legislation.

Watt, James Muir, Agricultural Holdings, 12 Ed., Sweet and Maxwell, London, 1967.

For lawyers. Contains 230 pp. of technical text plus English Agricultural Holdings Act of 1948, Agricultural Act of 1958, and relevant parts of Agricultural Act of 1963.

Appendix

Table 1. -- U.S. farms and how they have been controlled, 1900-1969

Year*	Number of farms millions	Full owners %	Part owners %	Hired managers+ %	Full tenants %
1900	5.7	56	8	1	35
1910	6.4	53	9	1	37
1920	6.4	52	9	1	38
1930	6.3	47	10	1	42
1935	6.8	47	10	1	42
1940	6.1	50	10	1	39
1945	5.9	56	11	1	32
1950	5.4	58	15	x	27
1954	4.8	58	18	x	24
1959	3.7	57	22	1	20
1964	3.2	57	25	1	17
1969	2.7	62	25	---+	13

Source: U.S. Census of Agriculture as reported in Agricultural Statistics, 1972, p. 504.

*In 1880 tenancy was 25.6%; in 1890 it was 28.4%. Figures for full owners, part owners and managers were not collected until 1900.

+In 1964 there were only 17,798 managed farms. In 1969 this class was discontinued and the farms that would have been classed as managed farms in past census reports were classed as full owners, part owners or tenants depending on how the land was held.

Appendix

Table 2. -- U.S. farmland and how it has been controlled, 1900-1969

Year*	Land in farms Mil. acres	Full owners %	Part owners %	Hired managers+ %	Full tenants %
1900	839	52	15	10	23
1910	879	53	15	6	26
1920	956	48	18	6	28
1930	990	38	25	6	31
1935	1055	37	25	6	32
1940	1065	36	28	6	30
1945	1142	36	33	9	22
1950	1161	36	37	9	18
1954	1158	34	41	9	16
1959	1124	31	45	10	14
1964	1110	29	48	10	13
1969	1063	35	52	---+	13

Source: U.S. Census of Agriculture as reported in Agricultural Statistics, 1972, p. 505.

*No figures available before 1900.

+See table 1 footnote.

Appendix

Table 3. -- Effect of size of farm on farmer's control, U.S., 1969

Class size	All farms %	Full owners %	Part owners %	Full tenants %
Under 50 acres	24	30	7	22
50 to 100 acres	17	21	8	12
100 to 180 acres	20	23	14	18
180 to 260 acres	11	10	13	13
260 to 500 acres	15	10	26	21
500 to 1,000 acres	8	4	17	9
1,000 to 2,000 acres	3	1	8	3
2,000 acres and over	2	1	6	2
Totals, percent	100	100	100	100
Number farms, thousands	2,730	1,706	672	353
percent	100	62	25	13

Source: U.S. Census of Agriculture 1969, General Report III, Chapter 3, Farm Management, Farm Operators, p. 12. All farms.

Appendix

Table 4. -- South Dakota trends in control of farms and farmland, 1900-69

	Percent of all operators who are:				Percent of land operated by:			
	Full owners	Part owners	Hired managers	Full tenants	Full owners	Part owners	Hired managers	Full tenants
1900	49	28	1	22	38	41	3	18
1910	52	22	1	25	74*	--	3	23
1920	36	28	1	35	26	44	2	28
1930	27	28	1	44	18	44	2	36
1935	26	25	1	48	16	44	3	37
1940	21	26	+	53	10	50	1	39
1945	25	36	1	38	12	62	3	23
1950	31	38	+	31	17	61	4	18
1954	32	39	+	29	17	63	2	18
1959	32	42	+	26	16	64	3	17
1964	34	44	1	22	19	61	7	13
1969	38	45	-	17	28	61	-	11

Source: U.S. Census of Agriculture: 1900-59 data as reported by Pengra S.D., AES, Econ. Pamphlet 56.

* Includes part owners
+ Less than ½ of 1 percent
- Not reported

Appendix

Table 5. -- Farmers' control of commercial farms and land, U.S., South Dakota, North Dakota, and Minnesota, 1969

	United States	South Dakota	North Dakota	Minnesota
Number of farms (thousands)	1734	40	42	89
Number of acres (millions)	918.3	39.6	40.4	26.4
Tenure of farmers (%)				
Full owners	50	34	35	55
Part owners	34	49	51	32
Full tenants	16	17	14	13
Total	100	100	100	100
Land by tenure (%)				
Full owners	29	21	25	42
Part owners	57	68	64	46
Full tenants	14	11	11	12
Total	100	100	100	100
Size by tenure (acres)				
Full owners	299	611	691	224
Part owners	909	1,357	1,226	428
Full tenants	467	613	745	279

Source: U.S. Census of Agriculture, 1969, (class 1-5 farms), General Report III, Ch. 3, Table 19, p. 45.

Appendix

Table 6. -- Full tenants' control of leased land by kind of rent paid, the Dakotas, Minnesota, and U.S., 1969

	United States	South Dakota	North Dakota	Minnesota
All full tenants, number	271,291	6,952	5,707	11,523
Percent of all tenants	100	100	100	100
Cash	19	13	14	27
Share-cash	14	32	18	20
Crop-share	31	28	42	26
Livestock share	10	5	7	7
Other and unspecified	26	22	19	20
All land leases (1,000 acres)	126,605	4,259	4,250	3,211
Percent of land leased	100	100	100	100
Cash	35	21	13	24
Share-cash	15	31	22	25
Crop-share	23	20	39	27
Livestock share	9	9	10	7
Other and unspecified	18	19	16	17

Source: U.S. Census of Agriculture, 1969, General Report III, Ch. 3, p. 18, 43.

Appendix

Table 7. -- Part owners' control of leased land by kind of rent, for the Dakotas, Minnesota, and U.S., 1969

	United States	South Dakota	North Dakota	Minnesota
All part owners, number	581,271	19,910	21,239	28,607
Percent leasing, total	100	100	100	100
Cash	34	26	25	40
Share-cash	13	26	19	14
Crop-share	32	33	41	31
Livestock share	3	1	2	1
Other and unspecified	18	14	13	14
All leased land, (1,000 acres)	528,436	27,016	26,042	12,241
Percent of leased land	100	100	100	100
Cash	50	44	28	39
Share-cash	13	22	23	18
Crop-share	19	17	35	30
Livestock share	2	2	2	1
Other and unspecified	16	15	12	12