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## Tenant Interest in Long-Term and Flexible Cash Leases

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BULLETIN 480 JUNE 1959

TENANT INTEREST IN

Long-Term  
AND  
Flexible Cash Leases



**ECONOMICS DEPARTMENT  
AGRICULTURAL EXPERIMENT STATION  
South Dakota State College, Brookings**

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# Long-Term Cash and Flexible Cash Leases

RUSSELL L. BERRY and VERNON E. BAU<sup>1</sup>

## INTRODUCTION

Some recent studies of farm tenancy have suggested that share rent leasing gives the tenant less freedom of production and less security of tenure than either fixed cash leasing or owner-operatorship.

The most important cause of the share tenant's lack of freedom is that he usually pays all of the variable costs and receives only a part of the product. Hence, it is argued, the share tenant cannot afford to use as much fertilizer and other variable inputs as either the owner-operators or the cash tenant who receives all the product. The second most important difficulty is that share landlords customarily use the short-term lease to make certain that the tenant does "a good job of farming" for the landlord and pays a "fair share" as rent.

For the first difficulty, one solution that is widely accepted by farm tenure workers is for the landlord to share the variable costs in the same way that the product is shared. When this is done, it makes the landlord and tenant more nearly partners than before.

Unfortunately this solution seems to increase the reasons why the landlord would not want to make his tenant more secure either by making a long term lease or by

agreeing to compensate him for the unexhausted value of his improvements. Even when a typical tenant is to be compensated he may not be interested in making improvements unless he had strong reasons to believe that he could keep the farm for several years.

Another possible solution to this problem is for the landlord and tenant to shift from the "subjective" share rent lease to an "objective" rental method such as the fixed cash rent, a fixed produce rent ("standing rent"), a cash standing rent ("flexible cash rent"), or a rent that varies with both prices and county average yields as in the "Improved Rental Method."<sup>2</sup>

An objective rental arrangement has two important advantages. First, the tenant could farm as in-

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<sup>2</sup>For a discussion of these rental methods see R. L. Berry, *An Improved Farm Rental Method for South Dakota*, South Dakota Agricultural Experiment Station Circular 141, 1958, pp. 10-17. Because the tenant, and to some extent the landlord, can affect the amount of rent to be paid under a share rent any such rental is called a "subjective rental." When neither the landlord nor the tenant can affect the amount of rent to be paid after the lease is signed it is called an "objective rental" in this report.

tensely as his costs and prices indicate that he should. If he does a better-than-average job he receives all of the benefits. Second, because the amount of rent to be paid cannot be affected by the tenant's farming, the landlord is much less apt to seek a new tenant. Hence, the tenant's security or tenure may increase. A disadvantage is that the tenant bears more price and weather risks. Also if the tenant makes an error in management he alone bears the loss. However, the tenant paying an objective rental should not have to pay as much rent since the landlord no longer bears these risks. In view of these advantages and disadvantages, how many and what kind of tenants would be willing to use objective rental methods such as the cash or flexible cash lease?

To answer this question and other related questions, 55 randomly-selected tenants in Moody County were interviewed. The results of these interviews are presented in this report. The importance of the question raised above can be made clear by a brief review of recent developments in farm tenancy.

### The Extent of Farm Tenancy

Nearly one-half of the agricultural land in South Dakota is leased by the farmers and ranchers who operate it. Two-thirds of the farmers and ranchers in the state rent part or all of the land they operate. Over 90% of these tenants pay a crop share rent. Only a third of the farmers are full owners. They farm 17% of the agricultural land in the state.<sup>3</sup>

While the number of farm tenants decreased from 53% in 1940 to

29% in 1954, the trend in this direction is slowing down. In Moody County there was no change in farm tenancy from 1950 to 1954. The decline in farm incomes in recent years, the likelihood of low farm incomes in the years ahead, and the continued rise in land prices suggests that farm tenancy may again increase for much the same reasons that it increased between 1920 and 1940.

Farm tenancy has become the top rung on the tenure ladder for many farmers. Because owner-operatorship is such a strong goal of many farm people, much effort has been made to reduce farm tenancy. The Federal land banks, South Dakota Rural Credit Department, the national Emergency Credit Act of 1933, and the Bankhead - Jones Farm Tenant Act of 1937 were inspired largely by fear that farmers would not be able to achieve farm ownership. While these agencies serve some other purposes and may have reduced the rate of increase in farm tenancy, they have not been able to stop the trend. The high farm incomes of World War II and the Korean conflict must be given most of the credit for the decrease in farm tenancy since 1940.<sup>4</sup>

<sup>3</sup>These figures are from *Agricultural Census: South Dakota, 1954*, U. S. Department of Commerce.

<sup>4</sup>For an excellent discussion of these efforts and their results, see William G. Murray, *Agricultural Finance*, Iowa State College Press, Ames, 1947, Chapter 30 and Gabriel Lundy and Russell L. Berry, *The Economic Strength of South Dakota's Agriculture as Measured by Farm Mortgage Foreclosures*, South Dakota Agricultural Experiment Station Circular 132, 1957.

### Recent Developments in Tenancy Research

In recent years tenure students have recognized that there is a relationship between the kind of rent paid and the tenant's freedom to be economically and socially efficient. Because share rent tenants received only a share of the product and usually paid all of the variable costs, Schickele concluded that share tenants could not afford to farm as intensely as either cash tenants or owner-operators.<sup>5</sup> While he seems to have been the first to recognize that this imperfection could be removed if the landlord shared production expenses as the product is shared, he believed that farming costs were largely fixed and hence that this solution was impractical.

In 1947 this criticism of share rent leases was challenged. Heady declared that "unfavorable comparison between farm ownership and tenancy has often resulted because analysis has stopped with the isolation of imperfect leasing customs. Yet in theory, perfect leasing systems are possible."<sup>6</sup> He then defined a perfect leasing system as one which "must result in (1) the most efficient organization of resources on a farm relative to consumer demand as expressed in market prices and (2) an equitable division of the product among the owners of the various resources employed in production."<sup>7</sup> A perfect lease could be achieved, in his opinion, by following four rules. Briefly these rules would require that the landlord and the tenant share costs as the product is shared and share all products alike. In addition the tenant should

pay a fair rent for each kind of resource leased, such as buildings and pasture as well as cropland. Finally the landlord would either agree to a long term lease or agree to compensate the tenant for the unexhausted value of his improvements when the tenant left the farm.<sup>8</sup>

The idea that costs must be shared as the product is shared to achieve efficiency under share rent leases also has been challenged. D. Gale Johnson, believed that the principal results of sharing costs would be to make the landlord concerned not only about production but also about the cost of production as in livestock share leases, which are closely akin to partnerships. Johnson also believed that the variable costs could be fixed to

<sup>5</sup>Rainer Schickele, "Effects of Tenure Systems on Agricultural Efficiency," *Journal of Farm Economics*, Vol. 23, No. 1, February, 1941.

<sup>6</sup>E. O. Heady, "Economics of Leasing Systems," *Journal of Farm Economics*, Vol. 29, No. 3, August 1947, p. 678. Most of this article is reproduced in his Chapter 20, *Economics of Agricultural Production and Resource Use*, Prentice Hall, Inc., 1952.

<sup>7</sup>Heady, "Economics of Farm Leasing Systems," p. 660.

<sup>8</sup>For a brief statement of these "rules" see E. O. Heady, *Marginal Productivity of Resources and Imputation of Shares for Cash and Share Rented Farms*, Iowa Agricultural Experiment Station Research Bulletin 433, 1955, p. 602 and Virgil L. Hurlburt, *Farm Rental Practices and Problems in the Midwest*, (North Central Regional Publication 50) Iowa Agricultural Experiment Station Research Bulletin 416, 1954, pp. 85-88. Hurlburt appears to have first formulated Heady's arguments as rules or conditions to be met. His study showed that most share rent leases in the Midwest violate one or more of these rules.

some extent by the lease contract but that share landlords must rely upon a short-term lease to insure that the tenant farms efficiently. Furthermore, his comparison of the rents paid by share and cash tenants did not support the hypothesis that share tenants were less efficient than cash tenants.<sup>9</sup>

Three studies have now been made in which the production practices of share rented farms have been compared with cash rented farms. None of these three studies indicate that the efficiency of share rent leasing is less than that of cash rent leasing.<sup>10</sup>

In an effort to learn why short-term leases are customarily used, Berry sent a mailed questionnaire to a random sample of farm landlords. Two-thirds of the landlords replying indicated that the short-term lease of 1 year or year-to-year is customarily used, "because the short-term lease keeps the tenant on his toes since he knows that you (the landlord) can get another tenant if he does a poor job."<sup>11</sup> Since most of these landlords were renting for a share, there is an implication here that the short-term lease is necessary to give the landlord security as to the amount of rent. This has led Berry to conclude that in the unlikely event that most share landlords should decide to share variable costs as the products are shared, they would be even less inclined to give the tenant greater security of tenure by either a long-term lease or by agreeing to compensate the tenant for his unexhausted improvements. Furthermore, the lack of difference in effi-

ciency between cash and share rented farms may be due to the fact that costs which are normally variable for an owner-operator may be fixed for the tenant because he has agreed explicitly or implicitly to "do a good job of farming" and this agreement is enforced by a 1-year or year-to-year lease.

In another study Berry has redefined the perfect lease as one that gives the tenant complete freedom of production, subject only to the necessary provisions to give the landlord security of rent and property.<sup>12</sup> He agrees with Heady regarding the imperfections of share rent leasing but does not believe that a perfect share rent lease is possible. He argues that sharing costs as the product is shared tends

<sup>9</sup>D. Gale Johnson, "Resource Allocation Under Share Rent Contracts," *Journal of Political Economy*, Vol. 58, No. 2, April, 1950, pp. 118-123.

<sup>10</sup>E. O. Heady and Earl W. Kehrberg, *Relationship of Crop Share and Cash Leasing Systems to Farming Efficiency*, Iowa Agricultural Experiment Station Research Bulletin 386, 1952; Walter G. Miller, Walter E. Chryst and Howard W. Ottoson, *Relative Efficiencies of Farm Tenure Classes in Intra-firm Resource Allocation*, North Central Regional Publication 84, Iowa Agricultural Experiment Station Research Bulletin 461, 1958; and unpublished data of the Scully Estate study, Economics Department, South Dakota Agricultural Experiment Station.

<sup>11</sup>R. L. Berry, *Share Rents and Short-Term Leases*, South Dakota Agricultural Experiment Station Circular 117, 1955, pp. 9-11.

<sup>12</sup>This argument is developed more fully in R. L. Berry, *An Improved Farm Rental Method for South Dakota*, South Dakota Agricultural Experiment Station Circular 141, 1958.

to create at most an imperfect partnership which is ill-suited to the personal qualifications of most landlords and tenants.

Berry concludes that if tenants want more freedom of production, then they must give the landlord greater security of rent and property. This can be done by the use of fixed cash or other objectively determined rents such as the standing rent, cash standing rents (flexible cash rent), or rents which vary with yields of a geographic area rather than the farm being leased. An example of the latter is to be found in the "Improved Farm Lease" now being distributed by the Agricultural Experiment Station here.

#### **Why This Survey Was Made**

If share rent leases are imperfect, then one solution to the problem is to shift from share rent leases to a fixed cash rent or to a flexible cash rent in which the rent varies with the market price of a fixed amount of produce. But how many share tenants would be willing to assume all the risks of weather, insects, and diseases now borne by the landlord in order to obtain greater security of tenure and greater freedom of production? As previously mentioned, the purpose of this study was to answer this question and some closely related questions regarding the tenant's interest in long-term cash and flexible cash leases.

### **PROCEDURES USED IN THIS STUDY**

#### **Location of Study**

To get tenant reaction to questions similar to, but much more complex than those posed above, a

random sample of 55 farm operators were interviewed in Moody County, South Dakota. The questionnaire used in this survey is shown in Appendix A.

Moody County was selected primarily because of its nearness to the Agricultural Experiment Station. It is located on the western edge of the Corn Belt and, in many respects, it is believed to be quite similar to other counties in the southeastern part of the state. Most of the soils in the county are a productive loess.

In 1954, 40% of the farm operators in the county were full tenants compared with 41% for the southeastern area of which it is a part and 29% for the entire state. In 1940, 58% of the farmers in Moody County were full tenants. Tenancy decreased to 40% by 1950 and had not changed by 1954.

The average size of farms in Moody County is 246 acres while the most common size is 320 acres. Farms of 160 acres are the second most common size. Corn occupied 46%; oats 32%; alfalfa 8%; and flax, barley, and soybeans 14% of the total cropland in 1956. Yields of corn per acre were 36 bushels and oats 34 bushels as a county average for 1946-55.<sup>13</sup> The most common rental rate was a two-fifths crop share. Frequently some cash rent is paid for pasture and improvements.

#### **Selection of Persons Interviewed**

The original plan was to secure a 10% sample of the 532 full tenants

<sup>13</sup>*Moody County Agriculture*, Undated Statistical Series, South Dakota Crop and Livestock Reporting Service.



reported in be in the county by the Census of 1950. It was found to be impossible to secure the names of these tenants, however, and instead a 12.5% sample was taken from a farm directory which claimed to list all farmers in the county in alphabetic order regardless of tenure status.

The first name was randomly selected from the first eight names in the directory and then every succeeding eighth name was also taken. Those listed as full owners on the records of the Agricultural Stabilization and Conservation (ASC) office were eliminated. This left 68 names.

The schedule of questions presented in Appendix A was used in interviewing these farmers in June 1955. Completed questionnaires were secured from 59 of these 68 farmers. Of this number 4 had recently purchased farms; 8 owned part of the land they operated, and 47 were full tenants. These 47 ten-

ants constituted 9% of the 532 full tenants reported by the 1950 Census of Agriculture to be in the county. However, it was decided to include in the analysis the questionnaires from the 8 part-owners. Thus the answers of 55 tenants were analyzed and the results are presented in this report.

To determine the tenants' socioeconomic level of living, they were later interviewed using a schedule of questions developed and tested by Sewell.<sup>14</sup>

### Characteristics of Tenants and Their Landlords

Of the 55 tenants, 20 were related to their landlords. About 60% had oral leases; this is typical for the state. These tenants were somewhat older than tenants in other samples in these areas (see table

<sup>14</sup>W. H. Sewell, "A Short Form of the Farm Family Socio-Economic Status Scale," *Journal of Rural Sociology*, June, 1943, p. 167, table 2.

Table 1. Years Moody County Tenants Said They Had Farmed This Land Compared With Earlier Surveys

	Moody County 1955	Southeastern S.D. Area 4b 1951*	North Central Iowa area 2a, 2b	
			Mailed survey	Personal interv.ew†
Number replying .....	55	290	681	145
<b>Percent replying</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
1 year .....	0	10	10	16
2-4 years .....	26	32	30	29
5-9 years .....	49	34	35	29
10 years or more .....	25	24	25	26
Total .....	100	100	100	100

\*Virgil L. Hurlburt, *Supplementary Tables From Regional Study Farm Rental Practices and Problems in the Midwest*, Mimeographed, 1954. Usable replies were 20% in South Dakota and 25% in Iowa.

†John F. Timmons, *Improving Farm Rental Arrangements in Iowa*, Iowa Agr. Exp. Sta. Res. Bul. 393, 1953, p. 87, table 13.

Table 2. Age of Moody County Tenants Compared with Age of Tenants Reported by Previous Surveys

Age	Moody County 1955	Southeastern, S. D.		North Central Iowa Area 2a, 2b	
		Area 4b*		Mailed*	
		Non-Related	Related	non-related	Personal†
Number replying .....	54	(total 290)		400	145
<b>Percent replying:</b>	%	%	%	%	%
under 25 .....	4	4	6	2	} 35
25-34 .....	22	29	53	33	
35-44 .....	33	31	24	33	25
45-54 .....	24	18	15	23	23
55-64 .....	9	11	2	8	} 17
65 or more .....	8	7	0	1	
Total .....	100	100	100	100	100

\*Vrgil L. Hurlburt, *Supplementary Tables From Regional Study Farm Rental Practices and Problems in the Midwest*, Mimeographed, 1954. Useable replies were 20% in South Dakota and 25% in Iowa.

†John F. Timmons, *Improving Farm Rental Arrangements in Iowa*, Iowa Agr. Exp. Sta. Res. Bul. 393, 1953, p. 87, table 13.

1). The older average age of these tenants may explain why there were no first-year tenants in the Moody County sample while other samples show 10 to 16% first-year tenants. Three-fourths (74%) of the Moody County tenants had been on their present farms 5 years or more as compared to 55 to 60% in other samples (see table 2).

Forty-eight percent of the landlords were farmers, either retired or active; 29% were business or professional people; 14% were housewives; and 9% were in other kinds of employment. Four of these farms were in unsettled estates with the landlord being the administrator and five were held as partnerships. None of the tenants leased from a corporation or from a governmental agency.

**TENANT INTEREST IN CASH AND LONG-TERM LEASES**

The kind of rent Moody County tenants are paying and the kind of rent they prefer may affect their willingness to accept cash or flexible cash leases. Of the 55 tenants interviewed 78% said that they paid a crop share rent and 84% said that they preferred a crop share rent lease. Only 13% had cash leases and only 14% said that they preferred cash leases (see table 3).

These figures do not suggest much possibility of increasing the percentage of fixed cash leases. However, it should be remembered that these tenants were first asked "What kind of rent do you pay?" and then "What kind of rent do you prefer?" The easy answer for the tenants was to say that they pre-

Table 3. Present and Preferred Rental Payment Methods of Farm Tenants, Moody County, 1955

Present kind of rent	Crop share	Perferred kind of rent			Percentage
		Cash	Livestock share	Total	
		Number of respondents			
Crop Share .....	41	2	0	43	78
Cash .....	2	5	0	7	13
Livestock share .....	0	0	1	1	2
Other .....	3	1	0	4	7
Total .....	46	8	1	55	
Percentage .....	84	14	2		100

ferred what they had. Many people tend to react in this manner.<sup>15</sup>

There are reasons to believe that tenants are well aware of the increased weather, price, and management risks which they would incur under cash rents. But it may not have occurred to them that they might have more freedom of production and greater security of rent under a cash lease.

If the tenants had believed cash leases would give them longer term leases or greater security of tenure, different answers might be expected. This is suggested by the fact that 87% had 1-year or year-to-year leases but 80% said that they preferred longer terms. Over 50% said that they preferred lease terms of 5 years or longer (see table 4). Apparently these farmers recognized that they might have greater security of tenure and freedom of production under a longer term lease. What they may not have recognized is that to get greater freedom of production and greater security of tenure, it may be necessary for them to give the landlord greater security as to the amount of rent than he has under a

share rent. In other words, the tenants may not have recognized that the price of greater freedom of production for them was the adoption of either a fixed cash or a flexible cash rent. To secure tenants' reactions to these alternatives was the primary purpose of the survey.

#### TENANTS' INTEREST IN LONG-TERM LEASES

A basic hypothesis of this study was that some and perhaps many share tenants would be willing to give the landlord greater security of rent by paying a fixed cash or a flexible cash rent if they could secure greater freedom of production. Because of the close connection between freedom of production and security of tenure and length of lease it was decided to use the length of lease term as a rough indicator of freedom of production. That a long-term lease does not always result in freedom of production was recognized. However, it was assumed that a long-term lease would be available only when the

<sup>15</sup>Stanley E. Payne, *The Art of Asking Questions*, Princeton University Press, 1951, p. 183.

Table 4. Present and Preferred Length of Lease Term of Farm Tenants, Moody County, 1955

Present term in years	Preferred term in years				Total	Percent
	1 Year*	2-3 Years†	4-5 Years‡	10-12 Years		
	Number of respondents					
1-year* .....	11	10	24	3	48	87
2-3 years .....	0	2	0	0	2	4
4-5 years .....	0	1	2	0	3	5
10-12 years .....	0	0	0	1	1	2
Total .....	11	13	26	4	54	
Percent .....	20	24	48	7		100

\*The 1-year groups include those who wanted no agreement as to length.

†Only 2 tenants preferred a 2-year lease.

‡Only 1 tenant preferred a 4-year lease.

landlord had the security of the amount of rent provided by fixed cash or other objective rentals. In other words, it was assumed that the tenant who desired greater freedom of production as indicated by a long-term lease would have to give up share renting. Only a 1-year or year-to-year lease term was considered possible under a share rent lease. Therefore the tenant was given a card bearing the data shown in table 5 from which to choose a leasing system.

These choices were made available for farms of different sizes to eliminate size as a factor in their choice. The average gross share rent for the 320 acre farm at ex-

pected yields and prices was estimated to be \$4,000 or \$12.50 per acre. The fixed cash rent was set at \$3,200 or \$10 per acre for the 320 acre farm. The same rates were used for the other sizes of farms. The cash rent was set lower than the share rent because the landlord does not bear as much price and production risk as he does under a share rent lease.

After handing the tenant a card bearing Exhibit A (see table 5) the interviewer made the following statement:

Here are five productive farms with improvements which can be leased on either a crop-share or straight cash basis. The average

Table 5. Exhibit A. Share Versus Straight Cash Leases

Type of lease	Size of farm, total acres				
	160	240	320	480	640
(1) 1-year share per year..... (av. value of 2/5 share)	\$2,000	\$3,000	\$4,000	\$6,000	\$8,000
(2) 1-year cash lease, per year.....	1,600	2,400	3,200	4,800	6,400
(3) 3-year cash lease, per year.....	1,600	2,400	3,200	4,800	6,400
(4) 5-year cash lease, per year.....	1,600	2,400	3,200	4,800	6,400
(5) 10-year cash lease, per year....	1,600	2,400	3,200	4,800	6,400

value of  $\frac{2}{5}$  crop-share is shown as a guide in thinking about these leases. But remember that under the 1-year crop-share lease your rent will be  $\frac{2}{5}$  of whatever crops you raise and not the dollars shown. On the other hand the cash leases require that you pay each year of lease the fixed number of dollars shown. Now what is your first choice of these rental arrangements?

The response is shown in the first column of table 6. Although 68% of the tenants said they preferred the 1-year crop share lease, 26% preferred the long-term cash lease. Since only 13% of these tenants were paying a cash rent, the replies suggest that if landlords would be willing to rent for cash under comparable conditions for 3- to 5-year terms, the amount of cash renting could be doubled in this area.

### Flexible Cash Lease

Can the tenant's preference for the risk-sharing features of the crop-share lease be met and at the same time the landlord's objection to a longer term lease be overcome? A cash rent lease, in which the rent to be paid in any lease year varies with the price of one or more important farm products, seems to be the answer. It is merely a cash version of the standing rent lease that is well known in other parts of the country. Under the standing rent lease the tenant agrees to pay as rent a fixed or "standing" amount of farm produce regardless of crop yields. The tenant stands the production risks but the landlord shares the price risks.

To test the tenant's willingness to accept such a flexible cash lease, in which the base cash rent varies with

**Table 6. Tenants' First Choice of Lease Term and Rental Method by Kind of Farm, Moody County, 1955**

Choice of term and rental method	Improved farm		Unimproved farm	
	(1) Share vs. cash	(2) Share vs. flex. cash	(3) Share vs. cash	(4) Share vs. flex. cash
1-year crop share .....	36	25	29	21
1-year cash or flexible cash .....	3	4	3	5
3-year cash or flexible cash .....	4	7	7	5
5-year cash or flexible cash .....	9	11	9	15
10-year cash or flexible cash .....	1	7	5	7
Total replying .....	53	54	53	53
<b>Percent preferring:</b>				
1-year crop share .....	68	46	55	40
1-year cash or flexible cash .....	6	8	6	9
3-year or more cash or flexible cash .....	26	46	39	51
Total .....	100	100	100	100

the price of corn, he was handed a card containing the information shown in table 5 except that the flexible cash rent was estimated to be \$11 per acre or \$1 more than the cash rent because the landlord bears part of the tenant's price risks under this rental method.

Then the following explanation was made:

Now suppose the landlord would be willing to rent the same farms with improvements on either a  $\frac{2}{3}$  crop-share rent or a cash rent as before. However the cash rent is flexible because the rent to be paid in any lease year now varies directly with the price of corn. If corn prices go up the cash rent goes up. If corn prices fall the cash rent falls. For example a 10% change in the price of corn will make a 10% change in the amount of rent. A 20% change in price will make a 20% change in the cash rent to be paid. This gives the tenant some protection against price changes. This costs \$1.00 more rent per acre than the straight cash lease but the rent is still less than the average  $\frac{2}{3}$  crop-share rent

which remains the same as before. Now what is your first choice of these rental arrangements?

While 46% of the tenants said they preferred the 1-year crop share lease another 46% preferred a flexible cash lease. Thus about 20% more tenants would be willing to rent for a flexible cash rent than they would for the straight cash lease.

**Straight and Flexible Cash Rents Without Buildings**

Part ownership in which tenants own part of the land which they operate and lease the remainder is the most rapidly growing and the largest farm tenure group in South Dakota. Part owners make up 39% of all farmers in the state and they operate 63% of all farm and ranch land in the state. Usually, but not always, the part owner owns the land with improvements and rents unimproved or bare land in the neighborhood.

Thus, part ownership often eliminates the problem of upkeep of rented improvements which 42% of the tenants interviewed in Moody County said was the most important reason for landlord-tenant disagreement and 32% thought was the second most important reason (see table 7). Since part-ownership represents a possible solution to this problem, the following question was asked:

Now suppose you owned 10 acres of land with buildings and wanted to rent one of the five farms discussed above without improvements. If the landlord's  $\frac{2}{3}$  share of

**Table 7. Most Important Reasons for Landlord-Tenant Disagreement in Opinion of Tenants, Moody County, 1955**

Reasons for disagreement	Most important	Second most important
Total replying .....	53	53
Percent replying	%	%
Sharing of costs .....	13	8
Upkeep of Buildings ..	42	32
Division of crops .....	11	26
Quality of farming ....	34	32
Other .....	0	2
Total .....	100	100

the crops remained the same but the landlord would be willing to reduce the cash rents by \$500, what would be your first choice of lease?

Of those replying, 55% said that they preferred the crop-share lease and 39% a cash lease of 3 years or longer (see table 6, column 3). This can be compared with 26% who preferred a long-term lease for the improved farm. The increase in the number of tenants willing to rent for long-term cash rents may be due to the fact that the cash rent was reduced \$500 while the share rent was not. Why wasn't the share rent also reduced by \$500? If the buildings were removed the landlords would be able, in many cases, to share rent the land on which the buildings stood. Hence a reduction of \$500 would be offset in part at least by the increased share. In retrospect it does not appear that this assumption was justified since even 20 acres of additional land at \$12.50 per acre (the average share rent) produces only \$250. However, since the rent was reduced \$500 for all lengths of cash leases, this reduction probably does not explain why the tenants chose longer-term leases in preference to the 1-year cash or flexible cash lease. There was a 13% increase in the number who preferred long-term leases when they assumed that they owned the improvements (see table 6, columns 1 and 3).

Because tenants are very conscious of the risks involved in paying a fixed cash rent, the following question was asked:

Now suppose you owned 10 acres of land with buildings and you

wanted to rent one of the five farms discussed above **without improvements**. If the landlord's  $\frac{2}{5}$  share of the crops remained the same but the landlord would be willing to reduce the flexible cash rents by \$500, what would be your first choice of lease?

Only 40% of the tenants preferred a 1-year crop-share lease when land without buildings was available under these circumstances. Over half of the tenants wanted a 3-year term or longer (see table 6, column 4). This question has the same limitations as the previous question regarding cash rent for unimproved land. A comparison of the replies to the two questions shows a 12% increase in the percent of tenants desiring a longer term lease.

In evaluating these replies it should be kept in mind that most of these tenants had little or no experience with cash leasing. At the time of the survey one was operating under a 2-year lease and one had a 5-year lease. Eight of the tenants said that they had had previous cash renting experience. Of the eight, six indicated the arrangement had been satisfactory and two said the cash lease had not been satisfactory.

#### **Tenant's Second Choice Favors Long-Term Leases**

The tenants were also asked to give their second choice of the same leasing arrangements. Their second choices are shown in table 8. Some of the tenants were reluctant and some refused to make a second choice. The difference can be seen by comparing tables 6 and 8. In

Table 8. Tenants' Second Choice of Lease Term and Rental Method by Kind of Farm, Moody County, 1955

Choice of term and rental method	Improved		Unimproved farm	
	(1) Share vs. cash	(2) Share vs. flex. cash	(3) Share vs. cash	(4) Share vs. flex. cash
1-year crop share .....	3	6	3	5
1-year cash or flexible cash .....	7	7	13	7
3-year cash or flexible cash .....	14	14	13	12
5-year cash or flexible cash .....	8	10	6	10
10-year cash or flexible cash .....	2	2	2	4
Total replying .....	34	39	37	42
<b>Percent Preferring:</b>	%	%	%	%
1-year crop share .....	9	15	8	12
1-year cash or flexible cash .....	21	18	35	17
3-year or more cash or flexible cash .....	70	67	57	61
Total .....	100	100	100	100

evaluating this table it should be kept in mind that the tenants whose first choice was share rents were forced to choose some kind of a cash rent lease as their second choice. Those whose first choice was a cash lease could choose either the share rent or another cash lease. Most likely they would choose another cash lease. Hence it is not surprising that share rents were not a frequent second choice. The numbers choosing 1-year and 3-year leases doubled. There was not much change in the number preferring 5-year and 10-year leases. Of those replying, about two-thirds preferred a longer term lease as a second choice under these circumstances.

**WHY DO TENANTS PREFER LONG-TERM LEASES?**

The evidence presented thus far indicates that tenants would be willing to pay a cash rent to secure a longer term lease.

But does the long-term lease mean greater security of tenure and freedom of production for tenants? Several questions were asked to determine the answer to this question.

The first was: "For how many years would you like to rent this farm?" (See appendix A, question F-6.) Of the 50 replying, nearly 86% said they would like to rent the farm for 5 years or more. This was not a surprising answer in view of the fact that 80% had also expressed an interest in longer term leases.

The next question asked was as follows:

Let's assume that you want to rent this land under present rental arrangements as long as the landlord will (or can) let you have it. What are the chances out of 10 that you could rent it through 1956? 1958? 1960? 1965? 1970?

Sixty percent thought that they had 10 chances out of 10 of keeping



the farm through 1960. This is shown in table 9. Another 26% thought that they had less than 5 chances in 10 of keeping the farm during the next 5 years. This group probably contains most of the tenants who would be willing to pay a cash rent in order to secure a long-term lease of 3 years or more.

The tenants were also asked, "If your present lease were made for a 5-year term, would your chances of keeping the land for the next 5 years be more certain, less certain, or about the same or the same?" In reply 83% thought that their chances of keeping the farm were either the same or about the same. Only 17% thought that their chances of keeping the farm would be more certain (see table 10). Since 80% had previ-

**Table 9. The Tenant's Interest in Keeping His Farm and His Opinion of His Chances of Keeping It, Moody County, 1955**

Chances in 10 of keeping farm for next five years	Years tenant prefers to keep farm		Total	
	Less than five years	Five years or more	No.	Percent
	Number of replies			
0 .....	0	2	2	4
1 .....	0	1	1	2
2 .....	0	0	0	0
3 .....	0	0	0	0
4 .....	2	7	9	18
5 .....	0	1	1	2
6 .....	0	0	0	0
7 .....	0	0	0	0
8 .....	0	6	6	12
9 .....	0	1	1	2
10 .....	5	25	30	60
Total replies	7	43	50	100
Percent .....	14	86	100	—

**Table 10. Tenants Opinion of Chances of Keeping Their Farms for the Next Five Years if Present Lease Was for Five Year Term, Moody County, 1955**

Chances of keeping farm for next five years	Form of present lease		
	Oral	Written	Total
Total replying .....	33	22	50
<b>Percent replying:</b>	%	%	%
More certain .....	18	18	17
Less certain .....	0	0	0
About the same .....	64	50	59
The same .....	18	32	24
Total .....	100	100	100

ously said that they preferred a long-term lease, this was somewhat surprising.

Why do tenants want longer term leases if not to increase their security of tenure? Perhaps these tenants feel that they can farm in a manner which is acceptable to their landlord and hence keep the farm even though only a 1-year term is used. However, they may greatly prefer a longer term lease which would give them greater freedom of production.

Part of these tenants' confidence that they could keep their farms under their present leases may stem from the fact that none of them were beginners.

Most of the tenants also thought highly of their landlords; 80% rated their landlords as "good" or "very good." Only 20% thought that their landlords were "average" and none said that their landlords were "poor" or "very poor" (see table 11). The tenants' good opinions of their landlords may be related to their opinion concerning their chances of keeping their farm.

**Table 11. Tenant's Opinion of Landlord and His Choice of Rental Method, Moody County, 1955**

Kind of rent preferred	Tenant opinion of his landlord*			
	Average	Good	Very good	Total
Total replying	11	22	21	54
Percent replying:	%	%	%	%
Cash .....	18	0	29	15
Crop share .....	82	100	67	85
Livestock share	0	0	4	5

\*None of the tenants rated his landlord as poor or very poor.

In general the questions asked failed to produce any clear reasons why tenants prefer longer term leases. Perhaps a simple question like "Why do you prefer a long-term lease?" would have given better results than these indirect questions.

**WHO DESIRES LONGER TERM LEASES?**

Who are the tenants who desire long-term leases? Are they young men just getting started farming or are they older tenants who have

given up hope of achieving farm ownership? Are they the "poor" tenants or are they the "good" tenants? These are questions which arise when the preferences for longer term leases are noted. The purpose of this part of the report is to help answer these questions.

The evidence that tenants do want longer term leases can be seen in table 12. Here their answers to the preliminary question "What length of lease do you prefer?" is compared with their choice of term and rental payment method. While some tenants who favored a long-term lease now decided the 1-year crop share was best, several who preferred a 1-year lease now decided in favor of a long-term cash lease. No doubt the lower rent was influential here. When the flexible cash lease was introduced there was somewhat more interest in longer term leases. This can be seen by comparing tables 12 and 13.

The tenant's age may have affected his choice of lease term and rental method (see table 14). Those

**Table 12. Relation of Tenant's Preferred Lease Term to His Choice of Term and Rental Method for an Improved Farm, Moody County, 1955**

Choice of term and method	Preferred lease term				
	One year*	Three years†	Five years‡	Ten years or more	All terms
Total replying .....	14	12	24	4	54
1-year crop share .....	8	8	17	4	37
1-year cash .....	3	0	0	0	3
3-year cash .....	0	2	2	0	4
5-year cash .....	2	2	5	0	9
10-year cash .....	1	0	0	0	1
Percent preferring					
Term of 3 years or more ...	21	33	29	0	26

\*Includes year-to-year or "no agreement" and 2-two year terms.

†Includes two 4-year terms.

‡No preference was indicated for terms of 6-9 years.

under 30 seem to prefer the long-term flexible lease somewhat more than those beyond this age. However, the numbers are small. There does not appear to be a significant trend beyond 30 years of age.

The relation of the number of farms which these tenants had leased and lived upon can be compared with their choice of lease term. Of the tenants who had lived on only one leased farm about half preferred a lease term of 3 years or more whether the rent was fixed or variable (see table 15). This group

may contain the younger, less experienced tenants with limited capital who are more likely to lose their farms. Tenants who had leased two or more farms may have had more experience and hence may feel more secure. Or their experience during droughts with cash rents may have made the longer term leases less attractive. This is suggested by the fact that three times as many preferred the longer term leases when they were offered a flexible cash rent.

Many other comparisons could

Table 13. Relation of Tenant's Preferred Length of Lease to his First Choice of Term and Rental Method for an Improved Farm, Moody County, 1955

Choice of type and length of lease	Preferred length of lease—years				
	One year*	Three years†	Five years‡	Ten years	All terms
Total replying .....	14	12	24	4	54
1-year crop share .....	8	7	13	1	29
1-year flex. cash .....	1	0	2	1	4
3-year flex. cash .....	1	1	4	1	7
5-year flex. cash .....	2	3	4	0	9
10-year flex. cash .....	2	1	1	1	5
Percent choosing lease of 3-year of more .....	36	33	38	50	39

\*Includes year-to-year or "no agreement" and two 2-year terms.

†Includes two 4-year terms.

‡No preference was indicated for terms of 6-9 years.

Table 14. Relation of Tenant's Age to His First Choice of Term and Rental Methods for Improved Farm, Moody County, 1955

Choice of rental method improved farms	Age of tenant—years				
	30 or less	31-40	41-50	51 or more	All ages
Total replying .....	7	18	16	13	54
1-year crop share .....	3	11	8	7	29
1-year flexible cash .....	0	0	2	1	3
3-year flexible cash .....	0	3	3	2	8
5-year flexible cash .....	1	3	3	2	9
10-year flexible cash .....	3	1	0	1	5
Percent preferring term of 3-years or longer .....	57	40	38	38	41

Table 15. Tenant's First Choice of Lease Term and Rental Method for Improved Farms Compared with Number of Farms Leased, Moody County, 1955

Choice of lease term and rental method	Number of farms the tenant has leased			
	One	Two	Three or more	Total
<b>Straight Cash Rent Improved Farm</b>				
Number replying .....	19	15	20	54
<b>Percent replying:</b>	%	%	%	%
1-year crop share .....	47	87	70	67
1-year cash .....	5	0	10	5
3-years or more cash .....	48	13	20	28
<b>Flexible Cash Rent Improved Farm</b>				
Number replying .....	19	15	21	55
<b>Percent replying:</b>	%	%	%	%
1-year crop share .....	47	53	29	45
1-year flexible cash .....	0	7	14	7
3-years or more flexible cash .....	53	40	57	48

be made which would help to reveal the characteristics of the tenants who preferred longer term leases. For example, the tenants were asked a number of questions concerning their education, church attendance, construction and condition of their house, number of rooms per person, lighting, water system, washing facilities, refrigeration, daily newspapers, radios, telephone, and automobile. Their answers to each of these questions could be compared with their choice of lease term and rental method. But such comparisons became unwieldy and difficult to understand. To simplify this problem their replies to these questions were used to compute a level of living scale which has been found to be a reliable indicator of farm family living.<sup>16</sup>

Construction and condition of the house, number of rooms per person, and the lighting and water system are largely under the control of the

landlord. But if it is true, as is sometimes assumed, that the more able tenants tend to secure the more productive farms with better improvements, then this factor can be discounted. The advantage of the index is that it permits the comparison of the general level of living of the tenant with his replies to the questions concerning leasing.

The usefulness of the level-of-living score can be seen by comparing the Moody County tenants with randomly selected farmers in Marion County, Kansas (see table 16). Marion County is about 400 miles straight south of Moody County but its productivity is less. This may account for the better housing conditions in Moody County. The difference in climate and ethnic background of the people may account

<sup>16</sup>W. H. Sewell, "A Short Form of the Farm Family Socio-economic Status Scale," *Journal of Rural Sociology*, June 1943, and Oklahoma Agr. Exp. Sta. Tech. Bul. 9, April 1940.

for some of the differences. But whatever the cause it is quite clear that the Moody County tenants interviewed have a level of living which compares favorably with that of owner-operators in Marion County, Kansas. Such a comparison would be much more difficult to make without the use of such a score.

Farmers between the ages of 35 and 54 are more likely to have better education, more energy than older tenants, and more experience than the younger tenants. Hence they might be expected to have the better farms with higher incomes, better housing, and better equipment. Since tenants in the 35 to 54 age group are likely to have children at home there is likely to be more participation in church affairs. Hence it is not surprising to find the level of living scores inversely related to age. This is shown

in table 17. Farm tenants of 55 years of age or older do not rank high in level of living.

While there is a definite increase in the number of tenants who would rent for cash when flexible cash leases are substituted for straight cash and when unimproved land is offered, there seems to be little correlation between level of living and the choice of rental arrangements (see table 18).

It may be argued that only "poor" tenants are interested in longer term leases. This notion seems to be clearly refuted if the level of living is an indicator of "good" farmers. Eighty percent or more of the tenants at all levels of living preferred leases of 3 years or longer (see table 19).

Simple logic suggests that the more able tenants might have more reason to believe that they can keep their farms than the less able—the

Table 16. Comparison of Level of Living Scores of Moody County Tenants with Those of Marion County, Kansas Tenants, 1955

Level of living score*	Moody County S.D. tenants 1955	Marion County, Kansas†		
		Tenants who lease im- proved land	Tenants who own im- proved land‡	Operators who own im- proved land
67 or less .....	0	0	0	0
68-72 .....	2	2	3	0
73-77 .....	12	5	11	4
78-82 .....	15	6	17	16
83-87 .....	19	6	6	13
88-92 .....	5	3	2	5
93 or more .....	0	0	0	0
Total farmers ...	53	22	39	38
Average score ..	81	80	79	82

\*The socio-economic scale used was that of W. H. Sewell, "A Short Form of the Farm Family Socio-economic Status Scale," *Journal Rural Sociology*, June, 1943.

†Unpublished data, Economics Dept., South Dakota Agricultural Experiment Station.

‡These tenants leased their land from the Scully Estate.

Table 17. Relation of the Age of Tenants to Their Level of Living Scores, Moody County, 1955

Age of tenant	Tenant's level of living score					
	67-72	73-77	78-82	83-87	88-92	Not scored
Number replying .....	2	10	14	17	5	6
<b>Percent replying:</b>	%	%	%	%	%	%
Under 25 .....	0	10	0	0	20	0
25-34 .....	50	10	14	18	20	34
35-44 .....	0	10	36	52	40	16
45-54 .....	0	30	29	24	20	50
55-64 .....	50	10	14	6	0	0
65 or more .....	0	30	7	0	0	0

Table 18. Tenant's Level of Living Compared with Choice of Lease Term and Rental Method, Moody County, 1955

Choice of term and rental method	Tenant's level of living score					
	68-72	73-77	78-82	83-87	88-92	Not scored
Total replying .....	2	10	14	19	5	5
<b>Improved: Share vs Cash Rent</b>	(percent preferring)					
1 year share .....	100	60	84	65	60	60
1 year cash .....	0	10	8	0	20	0
3 year cash .....	0	10	0	12	0	0
5 year cash .....	0	20	8	18	20	40
10 year cash .....	0	0	0	5	0	0
<b>Unimproved: Share vs Cash Rent</b>						
1 year share .....	50	60	50	35	60	60
1 year cash .....	0	10	14	5	0	0
3 year cash .....	0	20	7	10	20	20
5 year cash .....	50	0	22	20	20	20
10 year cash .....	0	10	7	20	0	0
<b>Improved: Share vs Flexible Cash Rent</b>						
1 year share .....	50	50	70	41	60	80
1 year flexible cash .....	0	10	15	0	0	0
3 year flexible cash .....	0	20	0	18	0	20
5 year flexible cash .....	50	10	15	29	0	0
10 year flexible cash .....	0	10	0	12	40	0
<b>Unimproved: Share vs Flexible Cash Rent</b>						
1 year share .....	50	20	46	41	40	60
1 year flexible cash .....	0	20	23	0	0	0
3 year flexible cash .....	0	10	0	18	0	20
5 year flexible cash .....	50	40	31	23	0	20
10 year flexible cash .....	0	10	0	18	60	0

Table 19. Tenant's Level of Living Compared with His Preferred Length of Lease, Moody County, 1955

Preferred length of lease	Tenant's level of living score					
	68-72	73-77	78-82	83-87	88-92	Not scored
Total replying .....	2	10	13	16	5	5
1 year* .....	0	2	2	2	1	1
3 years† .....	0	2	3	4	1	2
5 years‡ .....	2	5	5	8	1	1
10 years or more .....	0	1	3	2	2	1
Percent preferring long term leases .....	100	80	85	88	80	80

\*Includes year-to-year or "no agreement" and two 2-year terms.

†Includes two 4-year terms.

‡No preference was indicated for terms of 6-9 years.

very young and inexperienced with little capital and the older tenants. Yet if level of living indicates the more able farmers there seems little to support this suggestion (see table 20). Perhaps the absence of beginning tenants in this sample may account in part for the lack of correlation between level of living and chances of keeping the farm.

Disagreements between landlords and tenants over sharing costs, upkeep of improvements, and division of the crops might be related to the tenant's level of living. But except possibly for the upkeep of buildings no such relationship seems to exist (see table 21).

To summarize, there seems to be no reason to believe that the desire for longer term leases or the reasons for desiring them arises because of the factors of age or level of living. Tenants of all classes seem to desire longer term leases even though a high percentage said their chances of keeping their present farms were very good. Perhaps they have confidence in their ability to farm in a way to keep the landlord satisfied

and hence to keep the farm. Also perhaps they would like to have a longer term lease to give them greater freedom of production or farming.

#### IMPROVING FARM TENANCY: SOME ALTERNATIVES

Share renting has an important role to play in helping young, inexperienced farmers with little capital get started farming. For those farmers who can expect to become owner-operators, share renting provides a desirable rung on the agricultural ladder to ownership. But for those who cannot expect to achieve owner-operators there is a need for a kind of tenancy that will provide qualified tenants with more security of tenure and freedom of production. This is necessary if they are to achieve more of the economic and social efficiency of owner-operators.

For tenants to achieve such freedom of production, some landlords are needed who will be willing to provide this freedom in exchange for a fixed or objectively deter-

mined rental which cannot be affected by the tenant's managerial ability. Such a rental may be a fixed cash, standing rent, flexible cash, or "Improved Rental Method."

Business and professional people with money to invest but with little time or ability to manage farms and estates and trusts are landlords who might provide such rental arrangements. However, a few of these are finding it profitable to hire professional farm managers as agents to work with the tenant in developing a profitable farm business. Often this arrangement is desirable for the tenant as well as the landlord. The agent provides the "know-how," the purchasing power, and

often the operating capital to develop a profitable farm business for all concerned.

There are, however, both landlords and tenants for whom such a system has little attraction. Some landlords with little knowledge of farming and with good farms have been able to attract and keep excellent tenants. But some landlords in this group as well as some in the retired farmer class have much difficulty in keeping their tenants. Often this may be due to an inadequate farm which attracts only the least experienced or least capable tenants. In other cases the landlord-tenant difficulties may be due to personality clashes or too much in-

**Table 20. Percent of Tenants Believing They Have Very Good Chance (10 out of 10) of Keeping Their Farm Compared with Their Level of Living, Moody County, 1955**

Chances of keeping present farm very good through:	Tenant's level of living score					
	67-72	73-77	78-82	83-87	88-92	Not scored
Number replying .....	2	10	13	17	5	5
<b>Percent replying:</b>	%	%	%	%	%	%
Next year .....	100	100	92	100	100	100
Next 3 years .....	50	80	85	76	100	80
Next 5 years .....	50	70	38	59	60	20
Next 10 years .....	50	40	15	52	60	20
Next 15 years .....	50	40	15	47	60	20

**Table 21. Tenant's Opinion as to Most Important Cause of Landlord-Tenant Disagreement and Their Level of Living Scores, Moody County, 1955**

Reasons for disagreement	Tenant's level of living score					
	68-72	73-77	78-82	83-87	88-92	Not scored
Total replying .....	2	10	14	17	5	5
<b>Percent replying:</b>	%	%	%	%	%	%
Sharing costs .....	50	10	21	6	0	20
Upkeep of buildings .....	0	40	43	53	40	20
Division of crops .....	0	30	0	12	0	20
Quality of Farming .....	50	20	36	29	60	40



terference in the management of the farm by the landlord or too much independence on the part of the tenant. These situations do much to give farm tenancy its bad name. Some of these landlords and tenants would probably be wise to shift to a straight cash, standing rent, flexible cash rent, or the "Improved Rental Method." When the farm is too small for an economic unit, an improved leasing system will not solve the problem. Such a farm should be combined with other land to make an adequate unit.

The types of landlords most likely to be interested in improved rental methods are absentee landlords, widows, and business people with little leasing experience. While this group may increase in the years ahead, it is doubtful if they will be able to develop into the kind of a landlord which is needed if tenants are to have more of the security of tenure and freedom of production enjoyed by owner-operators. There remains only the full-time or professional landlord who leases many farms. The object of such a landlord would be to make a net of perhaps 1 to 2% on his investment over the farm mortgage interest rate. Such a landlord would need to handle a large investment at lowest possible cost. He would be interested in a high degree of security of both his rent and his investment or property.

Such a professional landlord would not be interested in participating in the management of his many farms under a share rental arrangement. On the contrary he

would probably find it both desirable and necessary to use a fixed or an objectively determined rent. While he might not use a long-term lease, the tenant's security of tenure would be much greater than under share rents because the landlord is less likely to become dissatisfied with the tenant as long as the rent agreed upon is paid and the property is maintained. He would not be interested in selling the property. Hence another cause of tenant insecurity would be removed.

Assuming that conditions were favorable, who might become such landlords? One possibility might be the life insurance companies. They have become the most important institutional lender in the farm mortgage field. Of the \$1 billion farm-mortgage debt on January 1, 1956, the life insurance companies held 25%, the Federal land banks 17%, and the commercial and savings banks 15%. In the Corn Belt states, life insurance companies held 36% of the farm mortgage debt. Their interest in high security investments is suggested by the fact that in the Corn Belt they do 36% of the farm-mortgage loan business at an average interest rate of 4.52%.<sup>17</sup>

To interest insurance companies in entering the farm leasing field, it seems reasonable to believe that they would have to have security of rent and property which is comparable to that of farm-mortgage investments at a rate high enough to pay their additional costs and risks

<sup>17</sup>*Farm-Mortgage Loans Held by Life Insurance Companies*, ARS, U. S. Department of Agriculture, ARS 43-58, October, 1957.

and leave them net return on their investment somewhat higher than that realized on farm-mortgage loans.

Finally, insurance companies, like most large concerns which deal with the public, are concerned with public reaction to their investment activities. They are lending the money of their policyholders. It can be taken for granted that they are not anxious to make investments which the public would strongly disapprove.

While the primary purpose of the Moody County survey of farm tenants was to discover their attitude towards alternative leasing arrangements, some questions concerning their attitude towards Federal land banks, insurance companies, and other leasing concerns were asked. These questions were as follows:

Someone has suggested that the Federal Land Bank should lease land to tenants on a long term lease. Would you favor or oppose this idea?

The idea was favored by 81% of

those replying while only 19% were opposed to the idea (see table 22).

Insurance companies now lend millions of dollars to farmers on farm mortgages. It has been suggested that they should rent farms to tenants on long-term leases. Would you favor or oppose this idea?

Favorable responses to the idea were given by 57% of the farmers replying while 43% of them were opposed.

It has also been suggested that farmers and other business men of this area organize a company to hold and lease land to tenants on long-term leases. Would you favor or oppose such an idea?

Only 36% of the respondents favored this idea while 64% were opposed to it.

Why the decline in the percentage favoring these three proposals? First there may be a genuine preference for the leasing to be done by a farmer-owned and operated concern like the Federal land banks. Second, some farmers who favored the land banks may have felt that

**Table 22. Percentage of Tenants Who Favor Leasing of Land by Federal Land Banks, Insurance Companies, and Local Companies by Level of Living Scores, Moody County, 1955**

Kind of company favored	Tenant's level of living score						All tenants
	67-72	73-77	78-82	83-87	88-92	Not scored	
Total replying .....	2	10	14	17	5	5	53
<b>Percent replying*</b>	%	%	%	%	%	%	%
Federal Land Bank .....	100	90	86	71	80	80	81
Insurance Companies .....	100	80	50	47	20	80	57
Local Companies .....	100	60	25	41	0	20	36

\*These percentages do not add to 100 because those opposed are not reported here but can be easily determined by subtraction of the percent who favored from 100.

they could not also favor other leasing concerns. Thus the order in which the questions were asked may have had an important bearing on the answers.

The answers of the tenants appear to be related to their level of living. As the level of living increases the opposition to such leasing increases. This can be seen in table 22. In other words the tenants who had good, well equipped homes were less favorable to leasing by Federal land banks. The part owners may be in this group. The opposition is particularly evident in the questions regarding insurance companies and local landholding companies.

Questions were not asked to determine how strongly tenants felt about leasing by Federal land banks, insurance companies, and local concerns. However, those who were opposed were asked why they opposed such leasing. Their answers were varied. But generally they favored more effort to make farm ownership possible. Some thought that such leasing would increase land prices and generally make it more difficult for tenants to buy farms. A few thought that such a leasing system would be socialistic, apparently believing that the farmer-owned and operated Federal land banks were government-owned and operated. Some tenants thought that a locally-owned land leasing company would lack the stability necessary to make a good landlord.

Because it is doubtful that tenants had given much thought to

these alternatives and because of the "loading" of the question regarding insurance companies and to a lesser extent with the other questions, the results secured must be regarded as tentative leads for further study.

## **SUMMARY AND CONCLUSIONS**

There is rather general agreement among students of farm tenancy that share rent leasing does not give the tenant either the security of tenure or the freedom of production needed if he is to produce what the consumer wants as indicated by market prices and costs. In this respect it is believed to be inferior to both cash rent leasing and owner operatorship.

One solution is to have the landlord share the variable costs of production as the product is shared. While sharing costs makes it possible for the tenant to farm like a fixed cash tenant or an owner-operator, the result approaches a live-stock share lease or a partnership and there seems to be reasons why the landlord would not want to give the tenant a longer term lease.

Another solution would be to encourage landlords and tenants to use fixed cash or fixed produce rents or a flexible cash rent which neither the landlord nor the tenant can affect after the lease is signed. But under such leases the tenant bears all of the risks that affect yields and prices that are shared with the landlord when a share-rent lease is used.

In view of this disadvantage, how many tenants would be willing to pay a fixed or a flexible cash rent in order to get greater freedom of pro-

duction? Who are these tenants? The purpose of this study was to help answer these and other related questions by interviewing 55 randomly selected tenants in Moody County, South Dakota. Only 13% of the tenants interviewed were renting for cash and only 14% preferred a cash rental. On the other hand 87% had only a 1-year or year-to-year lease while 80% preferred a lease term of 3 years or longer.

Of the 55 tenants, 26% said that they would pay a fixed cash rent in order to get a lease of 3 years or longer. Then the question was changed. A flexible cash rent was substituted for the fixed cash rent. Under these circumstances 46% of the tenants said that they would be willing to pay a flexible cash rent in order to get a lease term of 3 years or more.

Of these tenants, 42% thought that most landlord-tenant disagreements arose over the upkeep and repair of buildings and other improvements. Because this has been recognized by tenure students to be a serious problem, the tenants were asked to assume that they owned 10 acres of land with improvements. Then they were given essentially the same questions as before regarding term and kind of rent except that no buildings were involved and the cash rent was reduced \$500.

Under these circumstances 39% of the tenants said that they would rent for a straight cash rent in order to get a lease term of 3 years or longer. When a flexible cash rent was substituted in the question, 51% said that they preferred a flexible

cash rent for a term of 3 years or longer.

An effort was made to determine whether the tenants preferring longer term leases were young, old, successful, or unsuccessful but they could not be classified in this manner. Apparently some of the tenants of all ages and degrees of success desired the longer term lease strongly enough to overcome their preference for crop-share rents.

Thus there is some reason to believe that farm tenancy can be improved if landlords are willing to rent for a fixed or an objectively determined rent. Previous studies have suggested that many landlords prefer to rent on a share crop basis because this permits them to take a more active part in the farm business and secure higher rents. Most of the landlords own only one or two farms. Hence managing the farm becomes an avocation as well as an investment.

Landlords with many farms may be more inclined to lease for a fixed or an objectively determined rent. If some agency such as the Federal land bank or insurance companies were to become professional landlords, their managerial problems might cause them to use fixed or objectively determined rents. If this is true, then the encouragement of such concerns to enter the farm leasing business might be a desirable means of improving farm tenancy. When the 55 tenants interviewed were asked if they would favor Federal land banks leasing farm land, 81% favored the idea. Leasing of land by life insurance companies was looked upon with

favor by 57% of the farmers while leasing by local companies was favored by 36%.

This study lends considerable support to the idea that farm tenancy can be improved if landlords and tenants come to realize the relation of share rents to short-term leases and if they are then willing to rent for a fixed cash rent, standing

rent, or other objectively determined rents such as presented in *An Improved Farm Rental Method for South Dakota*, Agricultural Experiment Station Circular 141. This circular and an "Improved Farm Lease" form are available from County Extension Agents and the Agricultural Experiment Station, South Dakota State College.

APPENDIX

Tenant's Attitude Towards Alternative Leasing Arrangements

Confidential

A. GENERAL

South Dakota State College
Agricultural Experiment Station
Projects 147, 166, 5-25-55

- 1. Farm No.
2. Enumerator
3. Date: first call 2nd call 3rd call
4. Length of interview hrs. min.
5. Operator P.O. County
6. Location

Sect. Twp. Range Acres

B. TENANT'S EXPERIENCE Now in order to be able to present our findings by experience of operator, etc. we need some specific information about you and your family.

- 1. In what year did you first start farming? year
2. Have you been farming ever since? yes 1 no 2
If not, explain
3. How many farms have you rented? number
4. How old were you when you started farming? years
Present age years
5. Years vocational agricultural training in H.S., if any. years
6. (a) Veteran of WW II or Korea? yes 1 no 2
If "yes"
(b) Attend veteran agricultural classes? yes 1 no 2 years
7. Number of children, if any number
8. Of what farm organization, if any, are you a member? Farmers Union 1, Farm Bureau 2, Grange 3, Other 4
9. What positions, if any, do you hold in:
Farm organizations?
Twp. or county government?
Schools?
Other
10. To what farm magazines do you subscribe, if any?
11. How many acres are you farming? -Total acres
Acres owned
Acres rented
12. From how many different landlords are you renting this year? number

C. CHARACTERISTICS OF LANDLORDS AND LEASES We also want to present our findings by the kind of landlord, kind of rent paid and your experience with certain kinds of leases.

- 1. Landlord (name or code)
2. Acres rented
3. Farmstead on this land

4. Value per acre - - - - -	_____	_____	_____
Ave. yearly gross rent - - - - -	_____	_____	_____
5. Age of landlord - - - - -	_____	_____	_____
6. Sex, male 1, female 2 - - - - -	_____	_____	_____
7. Type of landlord			
Individual - - - - - 1	_____	_____	_____
Estate - - - - - 2	_____	_____	_____
Partnership - - - - - 3	_____	_____	_____
Corporation - - - - - 4	_____	_____	_____
Government - - - - - 5	_____	_____	_____
8. Occupation of landlord			
Retired farmer - - - - - 1	_____	_____	_____
Active farmer - - - - - 2	_____	_____	_____
Housewife - - - - - 3	_____	_____	_____
Business - - - - - 4	_____	_____	_____
Professional - - - - - 5	_____	_____	_____
Other, specify - - - - - 6	_____	_____	_____
9. Kind and amount of rent			
Crop-Share (or crop-share-cash) 1			
corn - - - - -	_____	_____	_____
oats - - - - -	_____	_____	_____
wheat - - - - -	_____	_____	_____
hay (kind share or cash) - - - - -	_____	_____	_____
pasture, cash - - - - -	_____	_____	_____
buildings, cash - - - - -	_____	_____	_____
Livestock share - - - - - 2	_____	_____	_____
Straight cash lease - - - - - 3	_____	_____	_____
Other - - - - - 4	_____	_____	_____
10. Preferred kind of rent			
Cash - - - - - 1	_____	_____	_____
Crop-share - - - - - 2	_____	_____	_____
Livestock share - - - - - 3	_____	_____	_____
Other - - - - - 4	_____	_____	_____
11. Rating of landlord			
Very good - - - - - 1	_____	_____	_____
Good - - - - - 2	_____	_____	_____
Average - - - - - 3	_____	_____	_____
Poor - - - - - 4	_____	_____	_____
Very poor - - - - - 5	_____	_____	_____

**D. LONG-TERM LEASE EXPERIENCE**

1. Have you ever had a lease for a three year term or longer not reported above which could not be terminated at the end of any lease year by the landlord without "cause" or your consent? . . . yes 1 no 2. \_\_\_\_\_  
 (If "yes" ask the following questions; if "no" go to Section E.)

1. Landlord (name or code) - - -	_____	_____	_____
2. Acres rented - - - - -	_____	_____	_____
3. Farmstead - - - - -	_____	_____	_____
4. Value per acre - - - - -	_____	_____	_____
Total			

5. Age of landlord - - - - -	.....			.....
6. Sex - - - - -	.....			.....
7. Type of landlord				
Individual - - - - -	- 1			.....
Estate - - - - -	- 2			.....
Partnership - - - - -	- 3			.....
Corporation - - - - -	- 4			.....
Government - - - - -	- 5			.....
8. Occupation of Landlord				
Retired farmer - - - - -	- 1			.....
Active farmer - - - - -	- 2			.....
Housewife - - - - -	- 3			.....
Business - - - - -	- 4			.....
Professional - - - - -	- 5			.....
Other, specify - - - - -	- 6			.....
9. Kind and amount of rent				
Livestock share - - - - -	- 1			.....
Crop-share (or crop-share-cash)	2			.....
corn - - - - -				.....
oats - - - - -				.....
wheat - - - - -				.....
hay - - - - -				.....
pasture cash - - - - -				.....
building cash rent - - - - -				.....
Straight cash rent - - - - -	- 3			.....
Other, specify - - - - -	- 4			.....
10. Preferred rent - - - - -	.....			.....
11. Relation if any - - - - -	.....			.....
12. Written lease - - - - -	.....			.....
13. Length of lease - - - - -	.....			.....
14. Preferred length - - - - -	.....			.....
15. Years rented - - - - -	.....			.....
From.....to.....	.....			.....
16. Satisfactory . . . . yes 1 no 2 - -	.....			.....
If not, explain .....	.....			.....

**E. CASH LEASE EXPERIENCE**

1. Have you ever rented any cropland on a straight cash lease other than those already described above? . . . . . yes 1 no 2 .....

--- (If "yes" ask the following questions. If "no" go to Section F.)

1. Landlord (name or code) - - -	.....			.....
2. Acres rented - - - - -	.....			.....
3. Farmstead on land - - - - -	.....			.....
4. Value per acre - - - - -	.....			.....
Total				
5. Age of landlord - - - - -	.....			.....
6. Sex - - - - -	.....			.....
7. Type of landlord				
Individual - - - - -	- 1			.....



Estate	- - - - -	2		
Partnership	- - - - -	3		
Corporation	- - - - -	4		
Government	- - - - -	5		
<b>8. Occupation of Landlord</b>				
Retired farmer	- - - - -	1		
Active farmer	- - - - -	2		
Housewife	- - - - -	3		
Business	- - - - -	4		
Professional	- - - - -	5		
Other, specify	- - - - -	6		
9. Cash rent amount - - - - -				
10. Preferred kind of rent - - - - -				
11. Relation if any				
12. Written lease - - - - -				
13. Length of lease - - - - -				
14. Preferred length - - - - -				
15. Years rented - - - - -				
From _____ to _____ - - - - -				
16. Satisfactory? . . . yes <b>1</b> no <b>2</b> _____				
If not, explain _____				
_____				
_____				
_____				

**F. SECURITY OF TENANT'S POSSESSION OF LAND** Now we would like to get some ideas of how sure you are that you can keep the land you are now renting. For instance, your relationship to your landlord may affect your chances of staying on this farm.

(Landlord)	- - - - -			
1. Relation, if any	- - - - -			
2. Written lease	- - - - -			
3. Length of lease	- - - - -			
4. Preferred length	- - - - -			
5. Years you have rented this farm	- - - - -			
6. Years you would like to rent this farm	- - - - -			

7. Let's assume that you want to rent this land under present rental arrangements as long as the landlord will (or can) let you have it. **What are the chances out of 10 that you could rent it under present rental arrangements through:**

(Landlord)	- - - - -			
1956	- - - - -			
1958	- - - - -			
1960	- - - - -			
1965	- - - - -			
1970	- - - - -			

8. If your present lease was made for 5 year term would your chances of keeping the land **for the next five years be:**

(Landlord) - - - - -			
More certain - - - - - 1			
Less certain - - - - - 2			
About the same - - - - - 3			
Or the same - - - - - 4			

9. If you were renting on a **one-year straight cash lease** would your chances of keeping the land for the next **five years** be:

(Landlord) - - - - -			
More certain - - - - - 1			
Less certain - - - - - 2			
About the same - - - - - 3			
Or the same - - - - - 4			

**G. TENANT'S PREFERENCE FOR ALTERNATIVE LEASING ARRANGEMENTS**

We would like to have your opinion about different rental arrangements. This will require careful thought but it is very important to our study.

Listed below are five productive farms with **improvements** which can be leased on either a crop-share or straight cash basis. The average value of 2/5 crop share is shown as a guide in thinking about these leases. But remember that under the 1-year crop share lease your rent will be 2/5 of whatever crops you raise and not the dollars shown. On the other hand the cash leases require that you pay each year of the lease the fixed number of dollars shown (Exhibit A):

Size of farm, total acres	160	240	320	480	640
(1) 1-year share lease per year	\$(2,000)	\$(3,000)	\$(4,000)	\$(6,000)	\$(8,000)
(Ave. alue of 2/5 share)					
(2) 1-year cash lease, per year	1,600	2,400	3,200	4,800	6,400
(3) 3-year cash lease, per year	1,600	2,400	3,200	4,800	6,400
(4) 5-year cash lease, per year	1,600	2,400	3,200	4,800	6,400
(5) 10-year cash lease, per year	1,600	2,400	3,200	4,800	6,400

1. Now what is your first choice of these rental arrangements? For what size farm? (Show Exhibit A and continue until 5 choices are made)

Choice	1	2	3	4	5
Lease	.....	.....	.....	.....	.....
Size	.....	.....	.....	.....	.....

2. Now suppose you owned 10 acres of land with buildings and you wanted to rent one of the five farms discussed above **without improvements**. If the landlord's 2/5 share of the crops remained the same but the landlord would be willing to reduce the cash rents by \$500, what would be your first choice of lease? For what size farm; (Show Exhibit B and continue until 5 choices are made.)

Choice	1	2	3	4	5
Lease	.....	.....	.....	.....	.....
Size	.....	.....	.....	.....	.....

3. Now suppose the landlord would be willing to rent the same farms with **improvements** on either a 2/5 crop-share rent or a cash rent basis as before. However, the cash rent is now **flexible** because the rent to be paid in any lease year now varies directly with the price of corn. If corn prices go up the cash rent goes up. If corn prices fall the cash rent falls. For example a 10 percent change in the price of corn will make a 10 percent change in the amount of rent. A 20-percent

change in prices will make a 20 percent change in the cash rent to be paid. This gives the tenant some protection against price changes. This costs \$1.00 more rent per acre than the straight cash lease but the rent is still less than the average  $\frac{2}{5}$  crop-share rent which remains the same as before.

	160	240	320	480	640
(1) 1-year <b>share</b> lease per year ...	\$(2,000)	\$(3,000)	\$(4,000)	\$(6,000)	\$(8,000)
Ave. value of $\frac{2}{5}$ share					
(2) 1-year flexible <b>cash</b> lease .....	\$(1,760)	\$(2,640)	\$(3,520)	\$(5,280)	\$(7,040)
(3) 3-year flexible <b>cash</b> lease .....	1,760	2,640	3,520	5,280	7,040
(4) 5-year flexible <b>cash</b> lease .....	1,760	2,640	3,520	5,280	7,040
(5) 10-year flexible <b>cash</b> lease .....	1,760	2,640	3,520	5,280	7,040

1. Now what is your first choice of these rental arrangements? For what size farm? (Show Exhibit C and continue until 5 choices are made)

Choice	1	2	3	4	5
Lease	.....	.....	.....	.....	.....
Size	.....	.....	.....	.....	.....

2. Now suppose you owned 10 acres of land with buildings and you wanted to rent one of the five farms discussed above **without improvements**. If the landlord's  $\frac{2}{5}$  share of the crops remained the same but the landlord would be willing to reduce the flexible cash rents by \$500, what would be your first choice of lease? For what size farm?

(Show Exhibit D and continue until 5 choices are made)

Choice	1	2	3	4	5
Lease	.....	.....	.....	.....	.....
Size	.....	.....	.....	.....	.....

**H. WHAT IS FAIR RENT?** At this point we would like to get your ideas as to what kind of returns the landlord should get on his investment.

1. (a) Suppose a 200-acre farm worth \$22,000 could be bought on a **land contract** with \$2,000 down payment and \$1,000 per year for 20 years plus interest on the unpaid balance at 5 percent. Thus the total payments would be \$2,000 for the first year and decrease \$50 each succeeding year for 20 years. After 7 years the buyer would get a warranty deed and give a mortgage for the balance of the payments. If the farm suited you and you were sure it was worth the money would you be **willing to buy** it or would you **prefer to continue renting**?

(Show Exhibit E)

Prefer to buy	.....
Prefer to rent	.....
Uncertain	.....

(b) If you "prefer to buy," what are your reasons for preferring to buy? .....

.....

(c) If you "prefer to rent," what are your reasons for preferring to rent? .....

.....

2. (a) If a landlord can get 5 percent interest per year on a 20 year farm mortgage in your opinion would 7 percent interest **above** taxes, insurance, repairs, depreciation on a **one-year straight cash lease** be **too little, about right, or too much**?

Too little	.....
About right	.....
Too much	.....

(If "too much" or "too little" ask:)

(b) What rate of return on his investment would you say the cash landlord should have after his taxes, insurance, repairs and depreciation are taken out? Percent \_\_\_\_\_

3. (a) Since a **crop-share landlord** stands much more risk than a mortgage lender or a cash landlord would you say that **10 percent return on his investment** under a **crop-share lease** after taxes, insurance, repairs, and depreciation are subtracted is **too little, about right, or too much.**

Too little \_\_\_\_\_  
About right \_\_\_\_\_  
Too much \_\_\_\_\_

(If "too much" or "too little" ask:)

(b) What rate of return on his investment would you say a crop-share landlord should have after his taxes, insurance, repairs and depreciation are taken out? Percent \_\_\_\_\_

4. (a) Since a **livestock-share landlord** stands part of the risks for production and prices for livestock as well as for crops would you say that 15 percent return on his investment after all his expenses are paid is **too little, about right or too much?**

Too little \_\_\_\_\_  
About right \_\_\_\_\_  
Too much \_\_\_\_\_

(If "too little" or "too much" ask:)

(b) What rate of return on his investment would you say that a livestock share landlord should have after all his expenses are paid? Percent \_\_\_\_\_

**I. IMPROVING THE TENANT'S CHANCES OF KEEPING THE FARM**

We would now like to have your ideas on how the cause of landlord-tenant difficulties can best be removed so that the tenant's chances of keeping the farm will be better.

1. Here's a list of reasons why landlords and tenants sometimes disagree (Show Exhibit F). Which would you say is the most important reason for landlord-tenant disagreement? Second most important? Third? Fourth? Fifth? (Rank choices 1 2 3 4 and 5.)

- (a) Sharing of operating expenses - - - - - \_\_\_\_\_
- (b) Upkeep and repair of improvements - - - - - \_\_\_\_\_
- (c) Fair division of the crops - - - - - \_\_\_\_\_
- (d) Whether or not a good job of farming has been done - \_\_\_\_\_
- (e) Other causes - - - - - \_\_\_\_\_

2. Over one-half of the farm land in Moody County is rented land. In your opinion during the next 10 years will the amount of rented land in Moody County **increase, decrease or remain the same?**

increase \_\_\_\_\_  
decrease \_\_\_\_\_  
same \_\_\_\_\_

3. (a) Someone has said that **very few** of our present crop-share landlords would rent on any terms except for a one-year crop-share rent (with or without cash).

Would you agree or disagree with this statement?

disagree .....

agree .....

- 4. (a) Someone has suggested that the Federal Land Bank should lease land to tenants on a long-term lease. Would you favor or oppose this idea

favor .....

oppose .....

(If oppose ask:)

(b) Why would you be opposed to the Federal Land Bank renting land on long-term leases to tenants? .....

- 5. (a) Insurance companies now lend millions of dollars to farmers on farm mortgages. It has been suggested that they should rent farms to tenants on long-term leases. Would you favor or oppose this idea?

favor .....

oppose .....

(If oppose ask:)

(b) Why would you oppose insurance companies renting land to tenants on long-term cash lease? .....

- 6. (a) It has also been suggested that farmers and other business men of this area organize a company to hold and lease land to tenants on long-term leases. Would you favor or oppose such an idea?

favor .....

oppose .....

(If oppose ask:)

(b) Why would you oppose such an organization? .....

- 7. Someone has said that all cash costs of operating the farm should be shared by the landlord and tenant in the same way that they share the crops.

(a) Would you say that such sharing of all farm costs would cause crop yields to increase, to decrease, or to remain the same?

increase .....

decrease .....

same .....

(b) Would you say that the sharing of all farm costs would cause landlord-tenant disagreements to increase, to decrease or to remain the same?

increase .....

decrease .....

same .....

(c) In your opinion would the tenant's chances of keeping the farm be increased, decreased, or be about the same if the cash costs were shared in the same way crops are shared.

increase .....

decrease .....

same .....

HAVE ALL QUESTIONS BEEN ANSWERED?