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## Share Rents and Short-Term Farm Leases

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# Share Rents and Short-Term FARM LEASES

RUSSELL L. BERRY<sup>1</sup>

## Introduction

### Insecure Tenure a Serious Problem

Out of every ten farmers in South Dakota three rent all of the land they operate. Another four rent a part of the land they operate.<sup>2</sup> Of these tenants, 83 percent operate under a 1-year lease (see table 3).

Some of these leases undoubtedly continue automatically from year to year unless notice of termination is given, but even these can be cancelled by whatever notice is required in the lease at the end of any lease year. Thus, most tenants do not know how many years they will be able to operate the land they are renting.

This lack of secure possession of the land has important effects on the way tenants farm and live. This in turn affects the landlords who own the farm and the community in which the farm is located. Finally, insecure possession or tenure affects the degree to which the nation has been able to achieve the objectives of production adjustment and soil conservation. Tenants have little incentive to use their spare time in making improvements on farms—build terraces, dams, fences, or erect or remodel buildings—when they have little or no assurance they will receive the benefits of their improvements.

Education of landlords and tenants is frequently suggested as a method of solving the problem of

insecure tenure. It is argued that if both landlords and tenants are made aware of the benefits of more secure tenure, longer-term leases will be made. However, landlords may already be aware of the advantages of the long-term lease but believe the advantages of the short-term lease outweigh them.

Legislation is frequently advocated as a solution. Should we adopt legislation forcing all leases to be made for longer terms in the interests of greater efficiency, more soil conservation, and improved family living? Farm organizations do not appear to be interested in such a program. Legislators advocate more credit for ownership but do not ap-

<sup>1</sup>Associate Economist, Agricultural Experiment Station.

<sup>2</sup>*U. S. Census of Agriculture, 1950.*

pear to be interested in legislation to improve tenancy. Is it possible that neither landlords nor tenants want longer-term leases? Is it possible that short-term leases have advantages that are frequently overlooked?

### Purpose of Study

A recent survey of farmers in central South Dakota indicated that two-thirds of the tenants preferred a lease of 3 years or longer (see table 1). This information suggested perhaps landlords were chiefly responsible for the general use of the short-term lease. Is this true? If so, why do landlords prefer short-term leases? Are short-term leases associated with share rent leases? What are the obstacles to longer-term leases? Can these obstacles be overcome at a reasonable cost?

The purpose of this study was to determine the answer to the questions posed. It was an attempt to determine the fundamental causes of the well-nigh universal use of the 1-year or year-to-year lease and to evaluate proposals for removing the obstacles to longer term leases.

### How This Study Was Made

Except where otherwise indicated, the information presented in this circular was obtained from a sample of South Dakota landlords by mailed questionnaire. Questionnaires were mailed to over 1,200 landlords of tenants located in every county of the State except one.

Of the 1,200 questionnaires mailed 317 useable questionnaires were returned. Thus, over 25 percent of the landlords who received this questionnaire replied.

Names of the landlords to whom the questionnaire was sent were a sub-sample of the landlord and tenant names secured for the Midwest Farm Rental Practices Survey of 1952.<sup>3</sup>

Two mailings of the pretested questionnaire were sent to the landlords in January 1952. The questionnaire is presented in appendix A.

<sup>3</sup>For a description of the method by which the large sample was secured see: Burton L. French, "Farm Rental Practices and Problems." North Central States Methodological Report of the Study, USDA, ARS 43-8 March 1955. The sampling procedure is also briefly described in the foreward of Virgil L. Hurlburt, *Farm Rental Practices in the Midwest*, North Central Regional Publication No. 50 Iowa Agr. Exp. Sta. Res. Bul. 416, 1954.

Table 1. Tenant's Length of Lease Term Compared to Length of Lease Term They Prefer, Central South Dakota, 1950

Length of Present Lease Term Years	Tenant's Preferred Length of Lease-Years						Total	Percent
	One	Two	Three	Four	Five	Six or More*		
One† .....	30	1	20	6	22	6	85	95
Two .....	—	—	—	—	—	—	—	—
Three .....	—	—	1	—	—	—	1	1
Four .....	—	—	—	—	1	—	1	1
Five .....	—	—	—	—	3	—	3	3
<b>Total</b> .....	<b>30</b>	<b>1</b>	<b>21</b>	<b>6</b>	<b>26</b>	<b>6</b>	<b>90</b>	
Percentage .....	33	1	24	7	28	7	—	100

Source: Unpublished Oahe survey data, 1950, in files of Agricultural Economics Department, South Dakota Agricultural Experiment Station.

\*Three of these tenants preferred a 10-year lease and the other three said that they preferred "no limit" on their tenure.

†"Indefinite" verbal leases are included here because they are not legally binding for more than 1 year.

Landlords who did not respond to the mailed questionnaire in Brookings County were interviewed to see whether their replies would be significantly different from those received by mail. Tests of significance were made on kind of lease, principal occupation, retirement of landlords, sex of landlord, acres rented to tenants, number of ten-

ants, and number of related tenants. No significant difference on these points was found. This evidence indicates that those who answered the questionnaire gave answers which would be typical of all landlords in Brookings County. For a comparison of replies by respondents and non-respondents in Brookings County see appendix B.

## Who Prefers the Short-Term Lease?

The chief objective of this study was to determine why the short-term lease is preferred to the long-term lease. Do both tenants and landlords prefer short-term leases? If so, then the answer to the question, "Why short-term leases?" will have to be sought from tenants as well as landlords. If only one of the two parties to a lease agreement prefers the short-term lease then the search for the fundamental causes of short-term leases can be narrowed down.

### Tenants Prefer Long-Term Leases

In the summer of 1950 a personal interview survey was made of a "block" sample of farmers in the proposed Oahe irrigation area of central South Dakota.<sup>4</sup>

Farmers in the sample who were renting land were asked among others the following questions: (1) "What is the length of your present lease?" (2) "What length of lease do you prefer?"

The answers of these tenants are summarized in table 1. Two-thirds of these tenants indicated that they preferred a lease of 3 years or longer. Only one-third of the tenants said they were satisfied with a 1-year term. Only 5 of 90 tenants had leases longer than 1 year. None of these five tenants expressed a desire for a shorter term lease. The lack of

influence of the tenants' preference on the length of term is shown by a coefficient of linear correlation between preference and actual length of term of only .25. Thus, only 6 percent of the variation in lease length is explained by the tenants' preference.

The possibility of bias in answers to the second question should be considered carefully. However, in all but five cases the tenant, in reply to the first question, said he had only a 1-year lease. To say in reply to the second question that he preferred a longer lease appears to be an admission that he was not able to secure the term of lease he de-

<sup>4</sup>The Oahe area was divided into "blocks" containing 4 square miles each. These blocks were numbered from 1-10 in staggered fashion. Then, a number between 1-10 was selected in a random manner and all the farmers interviewed in the blocks thus chosen.

sired. Hence, it appears likely that the tenant might be tempted to say he preferred a 1-year lease unless other factors offset this bias. Thus more than two-thirds of the tenants may have preferred a lease of 3 years or longer. Unfortunately no indication of the strength of this preference was obtained.

The short-term lease is associated with share leasing in the Oahe area as is true of other areas of South Dakota. Of the 90 tenants interviewed, 4 paid cash rent only, 5 had livestock share leases, and the remainder had crop-share—frequently with cash being paid for native hay and permanent pasture land.

Are landlords aware that many tenants prefer leases longer than 1 year? To check on this, landlords in this survey were asked how long a lease they had, how long a lease they preferred, and then "what length of lease do your tenants prefer?"<sup>5</sup>

Replies of the landlords to this question are presented in table 2 where the replies can be compared with the replies of the tenants of the Oahe area. Note that 46 percent of landlords who replied indicated

their tenants preferred a lease longer than 1 year. This evidence tends to support the information secured from the tenants in the small central South Dakota area and suggests again that the landlord's preference is to a large extent the controlling factor in the determination of the length of lease.

### Landlords Prefer Short-Term Leases

The evidence presented suggests that more landlords prefer short-term leases than do tenants. This is borne out by the replies of landlords. First the landlords were asked the length of term of their present leases and then, "what length of lease do you prefer to make with your tenants?" (See questions 8 and 9 of the schedule in appendix A.)

General distribution of replies is presented in table 3. Of the 267 landlords who replied to these two questions 221 or 83 percent had 1-year leases and 209 or 78 percent preferred 1-year leases. The coefficient of linear correlation between what the landlords preferred and their longest lease was .559. Thus, five times as much of the total variation in length of leases is explained by the preferences of landlords as is explained by preferences of tenants.

The evidence suggests the general use of short-term leases is primarily due to the preferences of landlords. This can be seen more

Table 2. Comparison of Tenant's Preference and Landlord's Opinion as to Tenant's Preference Concerning Length of Lease

Length of Term	Tenant's Preference Central South Dakota*		Tenant's Preference in Opinion of Landlord	
	Number	Percent	Number	Percent
One year .....	30	33	80	54
Two years .....	1	1	9	6
Three years .....	21	24	40	27
Four years .....	6	7	3	2
Five years .....	26	28	15	10
Six or more .....	6	7	2	1
<b>Total .....</b>	<b>90</b>	<b>100</b>	<b>149</b>	<b>100</b>

\*See footnotes to table 1 for source of this data.

<sup>5</sup>The general procedures used in securing this information have already been described. Note, however, questions 8, 9, and 10 in schedule in the appendix. Landlords may have been reluctant to indicate they disagreed with their tenants as to length of lease and this may be the reason why only 149 or 47 percent of the 315 landlords replied to this question. Or, again their tenants may not have expressed a desire for a particular length of lease.

Table 3. Landlords' Length of Lease Term Compared to Length of Lease They Prefer, South Dakota, 1952

Longest Lease Being Used Years	Landlord's Preferred Length of Lease-Year					Total	Percent
	One	Two	Three	Four	Five or More		
One .....	199	2	12	—	8	221	83
Two .....	4	7	—	—	1	12	4
Three .....	5	—	18	3	—	26	10
Four .....	—	—	—	—	1	1	—
Five or more .....	1	—	—	1	5	7	3
<b>Total .....</b>	<b>209</b>	<b>9</b>	<b>30</b>	<b>4</b>	<b>15</b>	<b>267</b>	
Percentage .....	78	3	12	1	6	—	100

clearly in table 4 where the data from tables 1 and 3 are summarized.

The success of landlords in achieving the length of lease they

desired was much greater than that of the tenants. The difference in their success as indicated by the data in table 4 was significant well beyond the 1 percent level.

Table 4. Comparison of Preferred and Actual Leases of Tenants and Landlords

Do You Have the Lease Term You Prefer?	Tenants		Landlords	
	Number	Percent	Number	Percent
Yes .....	34	38	229	86
No .....	56	62	38	14
<b>Total .....</b>	<b>90</b>	<b>100</b>	<b>267</b>	<b>100</b>

**Additional Evidence on Preference for Short-Term Leases**

Apparently no other study has been made of the length of leases preferred by landlords and tenants, but some evidence is available from

This tenant, leasing from an aunt on an exceptional 10-year crop-share lease, has rebuilt with his own labor the house shown in the insert into the modern farm house shown in the background. He is to receive compensation for the unexhausted value of his improvements at the end of the lease.





general farm tenancy surveys. For example Garey, Lambrecht, and Miller found in southeastern Nebraska that:

Leases of three to five years were not favored by landlords. Ninety-three percent of them gave one-year contracts to their tenants. More than half of them (55 percent) were in favor of contracts with a continuation clause, but only 13 percent expressed a willingness to enter into rental agreements for a term of years. Landlords protect themselves against inefficient or dishonest tenants by limiting the lease to a one-year period.<sup>6</sup>

In contrast to this preference of the landlords for short-term leases they state: "Approximately 69 percent of the renters and 71 percent of the part-owners preferred leases for definite periods which would permit them to construct improvements and establish a long-time cropping program with increased numbers of livestock."<sup>7</sup>

In another study in western Nebraska, a similar situation was found (see table 5). Seventy-six percent of the tenants said they preferred a 5-year lease while 70 percent of the landlords said they preferred a 1-year lease. The difference is highly significant at the 1 percent level. Interestingly enough, 74 percent of the leases in the county were made for 1-year terms while 16 percent were indefinite since they could be cancelled at the end of any lease year.

Table 5. Length of Leases and Preferred Length of Lease in the Opinion of Tenants and Landlords in Box Butte County, Western Nebraska, 1939

Length of Term of Lease	Length of Lease and Preferred Length		
	Present Term	Preferred by Tenants	Preferred by Landlords
Number of cases .....	163	54	47
	Percent	Percent	Percent
Indefinite .....	16	—	2
One year .....	74	7	70
Two years .....	2	—	—
Three years .....	2	15	15
Four years .....	1	2	—
Five years .....	4	76	13
Six to ten years .....	1	—	—
<b>Total</b> .....	<b>100</b>	<b>100</b>	<b>100</b>

Source: Nebraska Agricultural Experiment Station Bulletin 336, 1942, table 19.

There is no significant difference at the 5 percent level between the percentage of 1-year leases in use and the landlord's preference. On the other hand the tenant's preference was different to a highly significant degree from all leases.<sup>8</sup>

These findings have been largely ignored in research done since 1942. Statements continue to appear in the literature that both landlords and tenants prefer short-term leases. While such statements are apparently true concerning some tenants, the evidence presented above sharply challenges such statements as a generalization.

<sup>6</sup>L. F. Garey, G. H. Lambrecht, and Frank Miller, *Farm Tenancy in Clay County, Nebraska*, Nebraska Agricultural Experiment Station Bulletin 337, 1942, p. 8.

<sup>7</sup>*Ibid.*, p. 7.

<sup>8</sup>G. H. Lambrecht and L. W. Wallin, *Farm Tenancy in Box Butte County, Nebraska*, Nebraska Agricultural Experiment Station Bulletin 336, 1942, p. 23-24, table 19.

## Why Landlords Prefer Short-Term Leases

Perhaps the reason landlords prefer short-term leases are fairly obvious to those familiar with farm leasing practices. However, there apparently has been no careful survey to determine precisely why landlords favor short-term leases or to determine which reasons landlords believe are the most important in determining the length of lease. Therefore, in this study the landlords were presented with the following situation:

We have been given the following reasons why one-year leases are customarily used in South Dakota. Which do you think is the most important reason? Which is second most important? Third? Fourth? Please rank in order of importance using the numbers 1, 2, 3, and 4.

- A. Because long-term leases are not as binding on tenants as they are on landlords -----
- B. Because the one-year lease gives the landlord a chance to increase the rent as his expenses rise ----
- C. Because the short-term lease keeps the tenant on his toes since he knows that you can get another tenant if he does a poor job ----
- D. Other (please explain) .....

### Why These Questions Were Asked

The reasons listed for use of the short-term lease are based on personal experience with both landlords and tenants in five midwestern states including South Dakota, careful review of the literature, and pre-testing of the questionnaire.

In pre-test questionnaires mailed to 100 randomly chosen landlords in southeastern South Dakota, the open-end question was asked: "Why do you think the short-term lease is used on most of South Dakota's rented farms?" Twenty-one landlords replied. Answers received varied widely but the most meaningful centered about the questions

listed. Some typical answers from the pre-test questionnaire follow.

A young farmer who was also a landlord said, "most landlords have dealt with inefficient tenants sometime and become skeptical of all."

A retired landlord stated, "for one reason, if he isn't good, he doesn't get it back."

An elderly farmer who was also a landlord put it this way: "I think it is because we don't like to be tied up too long—just in case something should go wrong."

Other typical answers were:

"One needs no more protection than the other."

"If times change for the better more rent can be demanded, if conditions are poor, less rent."

"You can get rid of a risky tenant that way."

"Landlord has more protection under a one-year lease. He can refuse a lease to a poor operator."

"If a man has a one-year lease and expects to stay, he must show he is doing the work properly."

The literature on leasing was also reviewed.

Frequently statements like the following are made by landlords or their agents:

Unconditional long-term leases actually have invited some tenants to do

a poor job of farming—because they can't be put off the place. It is a well known fact that the tenant receives much more protection from a long-term lease than does the landlord. It is not practical to attempt to keep a tenant on a farm against his will. So in practice the landlord doesn't get nearly as much security out of a long-term lease as does the tenant.<sup>9</sup>

Reasons tenants move also provided ideas as to why landlords prefer short-term leases. The reasons the last tenant who left their farm moved according to Minnesota landlords is revealing (see table 6). To what extent unsatisfactory work and disagreements with landlords in-

fluenced those tenants who quit farming, moved to a better farm, or purchased a farm is not known. However, it is clear that 40 percent would not be acceptable tenants in the eyes of a landlord (see reasons 1 and 3, table 6). Since 70 percent of the leased farms in Minnesota were leased for a share rent this suggested landlords might prefer short-term leases to secure satisfactory service or rent from the tenant.

Such indicators or possible reasons for the custom of using short-term leases were used in preparing the questions posed. To avoid the answers, "I use the short-term lease because it is customary" the question was generalized to determine why landlords thought short-term leases were customarily used in their area. The results obtained are shown in table 7.

### Why Short-Term Leases Are Preferred

In answering the question presented as to why 1-year leases are preferred not all landlords ranked the items. Some merely

Table 6. Reasons Tenants Moved According to Replies Received from Minnesota Landlords, 1936

Why Last Tenant Moved— Landlord's Opinion	Percent
1. Tenant was unsatisfactory .....	32.8
2. Disagreement between landlord and tenant .....	2.6
3. Tenant failed to pay rent .....	7.7
4. Landlord wanted farm for relative ..	1.6
5. Tenant quit farming .....	13.8
6. Tenant moved to a better farm .....	22.6
7. Tenant purchased a farm .....	13.3
8. Tenant ill .....	1.6
9. Tenant died .....	4.0

Source: G. A. Pond, *Farm Tenancy in Minnesota*, Minnesota Agricultural Experiment Station Bulletin 353, 1941, p. 40. Of 3,287 questionnaires sent to randomly selected landlords in the 179 selected townships of 75 Minnesota counties, 722 or 22 percent were returned. Another 85 landlords were also interviewed (p. 4-6).

<sup>9</sup>J. J. Wallace, and Francis Kutish. "They Gave the Lease a Human Side." *Successful Farming*, February 1953, p. 33-56.

Table 7. Reasons Why Landlords Prefer Short-Term Leases, South Dakota, 1952

Reason	First	Second	Third	Fourth
	Percent	Percent	Percent	Percent
Number of landlords indicating choice .....	234	134	113	27
A. Because long-term leases are not as binding on tenants as they are on landlords .....	21	28	40	22
B. Because the one-year lease gives the landlord a chance to increase the rent as his expenses rise ..	9	38	45	22
C. Because the short-term lease keeps the tenant on his toes since he knows that you can get another tenant if he does a poor job .....	65	29	10	7
D. Other .....	5	5	5	48
Total, percent .....	100	100	100	100

checked one item. This was interpreted to be, in their opinion, the most important reason for 1-year leases. Others indicated a first and second choice, others ranked three or four items. This is shown by the number reporting in table 7.

Of the 234 landlords indicating a first choice, 152 or 65 percent thought the most important reason the 1-year lease was customarily used in South Dakota was to "keep the tenant on his toes because he knows that you can get another tenant if he does a poor job."

Of the 134 landlords indicating a second reason, 38 percent thought the opportunity to increase the rent was most important.

Of the 113 landlords who ranked three reasons, 85 percent were fairly evenly split between reasons A and B. Of the 27 indicating a fourth reason, 48 percent thought "other reasons" were important here.

**Reasons A, B, and C most popular.**—From the data presented in table 7 it is evident the three items listed as A, B, and C were the most important reasons for the 1-year lease in the opinion of the landlords who replied to the questionnaire. Only 5 percent thought "other reasons" were first in importance in explaining why short-term leases are customarily used in South Dakota. About 5 percent thought "other reasons" were second or third. Undoubtedly this low response was affected by the fact that the "other reasons" were not explicitly stated in the question.

Many of the answers written in by the landlords expressed concern

with managerial problems. One landlord with several tenants said, "The practice of drawing a lease every year, preferably in February or early March, gives the landlord and tenant an excuse for sitting down for an hour together to discuss the previous year's operations and plan for the approaching crop year."

Another landlord said, "If the landlord can secure a tenant that will do the right job of farming and keep up the buildings, he can stay as long as the farm is not sold."

A third landlord said, "Because crops and other conditions of farm change each year." "Privilege to sell" was mentioned several times and probably should have been included as an alternative. "Short-term lease gives the manager a better opportunity to plan and advise with the tenant relative to the various crops to be planted," a manager with more than 20 farms insists.

Some of these answers are quite similar to reason C. Several landlords ranked items A, B, C, then made statements after "other" such as the following: "One-year lease is the best because they know you can get someone else." Such answers are clearly a restatement of the idea contained in C.

**Reason A related to reason C.**—The statement that long-term leases are not as binding on tenants as they are on landlords (reason A) is, to some extent, a negative statement of reason C that a short-term lease keeps the tenant on his toes. A long-term lease tends to bind the landlord to the agreement made 3 to 5 years ago or longer.

The landlord's efforts to get the tenant to put in more time, energy, and money which might increase the rent or preserve the value of the property are of little effect unless the proposal would increase the tenant's income enough to offset the cost of labor involved. Even then the tenant may feel the time and labor could be more profitably spent on livestock or personal matters in which the landlord does not share. Thus the landlord who thought reason A was most important may have had reasons for his choice similar to those expressed in reason C.

**Raising rent discounted as reason.**—The suggestion that 1-year leases give the landlord a chance to increase the rent as his expenses rise appealed to many landlords. While only 9 percent of the landlords thought it was first in importance, 38 percent marked it as either the second or third most important reason for the use of short 1-year leases.

In a period of generally falling prices or drouth where pressure might be brought to reduce rents, reason B might not be as popular as it appears to be with landlords at present. Since practically all rents are crop-share and since the value of a given share varies with prices, this provides an automatic adjustment of rent to price changes.

Also, in a period of high rainfall a given share, say one-third, may increase remarkably. For example, in Spink County, South Dakota the yield per planted acre of spring wheat for the 1930's averaged 4.5

bushels; for the 1940's wheat averaged 11.7 bushels, an increase of 160 percent. Since prices also increased during these years the landlord's rents increased remarkably without the aid of short-term leases.

**Insuring a good job of farming is the most important reason.**—Sixty-five percent of the landlords who replied to this question agreed that the most important reason why short-term or 1-year leases are customarily used in South Dakota is that "it keeps the tenant on his toes since he knows that you can get another tenant if he does a poor job" (reason C).

Of the 134 landlords indicating a second choice, 29 percent chose reason C also (see table 7). This means nearly half of the landlords who ranked reasons A or B first in importance thought C was the second most important reason. By elimination the 152 landlords (65 percent) who ranked C first had no choice but to rank A, B, or C as second or third choices.

The reasons 103 of the landlords requested their previous tenants to move strongly supports the importance of good management, honesty, and industry on the part of the tenants as a means of keeping the farms they are leasing. Fifty percent of the tenants were asked to move because they were either poor managers or lazy, as shown in table 8.

The preference for C as the most important reason for short-term leases is remarkable when one considers the wording. It is such that many landlords must have found it

Table 8. Why Landlords Requested the Previous Tenant to Move, South Dakota, 1952

Reasons	Number Reporting	Percent Reporting
Poor manager .....	49	47
Lazy .....	3	3
Dishonest .....	12	12
Other Reasons .....	31	30
No response .....	8	8
<b>Total</b> .....	<b>103</b>	<b>100</b>

not to their liking. Reasons A and B suggest that the landlord is only seeking an equal or fair position with respect to his tenant; while reason C tends to suggest that the landlord wishes to get all that he can out of the tenant without suggesting that this is after all what the landlord deserves, considering his contribution to the tenant's business.

The landlord's interest in using the 1-year lease to make sure that the tenant did a good job of farming strongly suggests that share rents are an important factor affecting the length of lease.

#### **Advantages Claimed for Long-Term Leases not Recognized by Many Landlords**

Farm landlords have indicated that the most important reason why short-term leases are used is to make sure the tenant does a good job of farming. Yet students of the problem generally say insecure tenants cannot afford to seed the grasses and legumes, build up herds of forage-consuming livestock, and invest time and money in repairs and improvements when they are not certain they will be able to keep the farm.

To see whether landlords also recognized these difficulties they

were asked their opinions concerning the effect of a 3-year or longer lease on the performance of the tenant. These are questions 12-17 which can be seen in the schedule in the appendix. Their replies are presented in table 9.

Only one landlord in five was of the opinion that longer-term leases would increase the amount of legumes and grasses grown and the amount of livestock kept by tenants as is frequently claimed (see table 9, questions A and B).

About one-third of the landlords were of the opinion that longer leases would increase the tenant's willingness to repair buildings and fences (see table 9, reason C). This is a reasonable view inasmuch as tenants, certain that they could have the farm for a number of years, might find it to their advantage to keep buildings and fences in repair. However, it is still surprising to find that 68 percent of the landlords did not agree with this point of view, did not know, or gave no reply. Perhaps again there was some bias in the answers due to the general human tendency to justify what one does—in this case making 1-year leases.

How would a lease for 3 or more years affect a tenant's willingness to follow the landlord's advice concerning farm operations? Answers to questions D (see table 9) fall in the same general pattern as the answers to A and B except that there was a significant increase in the percentage of those thinking that the tenants would be less willing to follow their advice if

Table 9. Effect of Long-Term Leases on Tenant's Farming and Landlord's Income.  
Opinion of 317 South Dakota Landlords, 1952

Questions Asked	Replies per 100 Landlords (Percent)					Total
	More	No Effect	Less	Don't Know	No Reply	
I. How would a lease for three years or longer:						
A. Affect the amount of legumes and grasses seeded by your tenants? .....	20	28	3	39	10	100
B. Affect the amount of livestock kept by your tenants? .....	20	30	1	34	15	100
C. Affect the willingness of your tenants to repair buildings and fences? .....	32	29	6	22	11	100
D. Affect your tenant's willingness to follow advice concerning farm operations? .....	23	29	11	29	8	100
E. Affect the care with which your tenant divides the crops? .....	15	40	12	24	9	100
II. How would more grasses, legumes, and livestock on your leased farm affect the amount of your net income over many years? .....	38	15	13	25	9	100

a lease for 3 years or longer was made. This feeling that long-term leases are a hindrance in dealing with tenants agrees with the idea that the most important reason for short-term leases is to make sure that the tenant does a good job of farming as indicated in table 7. It is surprising, however, that so few (11 percent) of these landlords expressed themselves on this point.

Only 15 percent of the landlords thought long-term leases would increase the "care" with which their tenants divide the crops (question E, table 9). This indicates a significant shift in opinion as compared with the previous questions. Forty percent thought longer-term leases would have no effect on the tenant's care in dividing the crops while 24 percent said that they didn't know what the effect would be.

Only 12 percent of the landlords thought a longer-term lease would cause the tenant to be less careful in dividing the crops. This is, however, a significant increase over the

"less" replies to questions A, B, and C. This is in line with the landlord's feeling that the chief reason for short-term leases was to make sure that the tenant did a good job of farming.

Only two landlords in five (38 percent) thought more grasses and legumes would increase their net income (see table 9, question II). Therefore, even if the long-term lease would encourage more forage and livestock production, over 60 percent of the landlords did not believe that such a shift in production would increase their net rent over many years. As a result most landlords see little advantage to them in the use of long-term leases.

To summarize, only one landlord out of five apparently believes a lease term of 3 years or longer would encourage the tenant to grow more grasses and legumes or keep more livestock and only two out of five believe an increase in grasses, legumes, and livestock would increase their net income (rent). Only one out of three landlords thought a

long-term lease would increase the tenant's willingness to repair buildings and fences. Hence, most landlords have little or no reason to doubt the wisdom of making 1-year leases as a means of encouraging tenants to do a good job of farming under a share rent lease.

The answers to these questions are surprising, as one of the chief obstacles to the seeding of legumes and grasses on tenant operated farms has generally been thought to be due to short-term leases. It is argued that tenants would be reluctant to seed large acreages of legumes, develop herds or flocks of roughage-consuming livestock such as cattle or sheep, and repair buildings and fences when they are uncertain how long they would be able to keep the farm. They cannot afford to improve the farm for another tenant.

This seems to be a logical argument. If correct, perhaps considerable educational work needs to be done with landlords on this point. However, this study suggests that such educational work is not apt to

be successful unless landlords are first convinced that these changes would be profitable to them, that the long-term lease would produce these changes, and finally that the tenant is capable of doing a good job of farming and will pay a fair share of the crops as rent under a long-term lease. Otherwise the landlord who gave a long-term lease in exchange for more forage and livestock might find the exchange costly in loss of control over the tenant's farming practices and therefore the amount of share rent paid. It is possible that the landlords had these difficulties in mind when they answered these questions. Also there might be a bias toward defending the short-term leases they were using.

#### **Relation of Short-Term Leases to Share Leases**

The reasons South Dakota farm landlords prefer short-term leases has been discussed in considerable detail. The chief reason they prefer short-term leases was found to be that of keeping the tenant responsive to the landlord's interests and

**Tenants expecting to stay on a farm for many years are usually more interested in constructing and maintaining terraces such as these.**





wishes in operating the farm. Since share rental arrangements are used on more than 90 percent of the leased farms in South Dakota, the quality of the tenant's farming often determines to an important degree the amount of the landlord's rent. Because of this it seems reasonable to believe that the share rental is an important cause for the use of 1-year leases.

Leasing of city store and factory buildings is rarely made for a share of the gross receipts (or net income) as is customary in leasing farms. Cash rent is the rule. Since the rent is a fixed number of dollars that cannot be affected by the business man and ample safeguards can be incorporated in the lease to protect the value of the property, a lease for 3 to 5 years or longer is usually made. Frequently these leases are made for 10 years or more.

In England, long before the farm tenant's security of tenure was guaranteed by law, the practice of making long-term farm leases developed.<sup>10</sup> The fact that cash rents have been the rule for several centuries appears to have been an important factor affecting the length of leases used. In contrast to this situation 88 percent of the tenants in South Dakota rent farms for a share of the crops or livestock or both according to the 1950 census of agriculture. The corresponding figure reported by the landlords in this study was 90 percent (see table 10). Such a sharing in the products of the business make them "partners" in an economic sense though they are not usually held to be partners in the legal sense of the word.<sup>11</sup>

Table 10. Length of Lease Term Compared to Kind of Rent Payment, South Dakota, 1952

Length of Term of Lease in Years	Cash Only Leases	Crop		Live-stock		All Leases
		Share Leases	Cash Leases	Share Leases	Share Leases	
Number reporting .....	41	161	152	46	400	
	%	%	%	%	%	
One year .....	64	77	78	52	74	
Two years .....	2	6	4	2	4	
Three years ....	5	6	5	20	8	
Four years .....	—	—	—	—	—	
Five years .....	5	—	3	6	2	
Six or more years ..	—	—	—	—	—	
No response ....	24	8	10	20	12	
<b>Total .....</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	

As the "sleeping partner" the landlords must, of course, maintain some control over the tenant who is the "working partner" of the business. The landlord turns over to the tenant at the beginning of the lease year the entire farm with improvements. Under the share lease the tenant usually agrees to supply the machinery, labor, and management and pay the expenses involved in doing a good job of farming. Unlike the tenant who gets possession of the farm, the landlord gets only the tenant's promise to cultivate the land according to the principles of good farming. Since it is practically impossible to specify in the lease what is meant by a good job of farming and the tenant delivers nothing more than his promise at the begin-

<sup>10</sup>Present English laws permit the termination of a lease at the end of any lease year by either the landlord or tenant—providing that the party breaking the lease pays the other party for unjustified disturbance. The effect of these laws is to make the tenant very secure in his possession of the land.

<sup>11</sup>The word "partner" or partnership in this report is not used in its legal sense but in the sense that the parties participate in or share some expenses and/or returns.

ning of the year, the success of the farming operations are largely left to the discretion of the tenant who may vary the inputs of labor, power, machinery, fertilizer, weed spray, and similar items at will. Under such circumstances it is not surprising that landlords rarely make long-term share leases.

Imperfections in the partnership aspect of the share rent lease may also be a cause of short-term leases. For example the tenant usually furnishes all the labor, machinery, fuel, oil, and seed but gets only a share of the product. In other words for any increase in such things as labor and fuel, he gets only a share of the increase in product. Therefore, additional expenses become unprofitable more quickly for the share tenant than for either the cash tenant or the owner-operator who gets all of any increase in production.

As a result landlords may feel that tenants in general are "sloppy farmers" and be continually looking for a tenant who will farm like an owner-operator. When the landlord furnishes little or none of the variable costs, it is profitable for him to get the tenant to do anything which will increase production regardless of cost to the tenant. This may well be a cause of landlord-tenant friction leading to insecure tenure.

Again failure to give the tenant the same percentage or share of all crops may cause him to spend most of his effort and expenses on crops which are not the most profitable to the landlord. While this difficulty is easily remedied it may be a cause of friction and therefore insecure tenure on many farms.<sup>12</sup>

With such logical connections between short-terms and share or semi-partnership leases one might expect that cash leases in this country would be made for a relatively long term. However, this is not the case. The data in table 10 does not indicate a significant difference in length of term of crop share and cash leases, although the livestock-share lease term does vary significantly from the other lease terms.

A recent Iowa study in an area where cash leasing is quite common also found no difference between the length of term of cash leases and crop-share leases.<sup>13</sup> This can be seen in the following data:

		Length of Lease Term			
		No.	Related	Non-Related	Av.
Cash Tenants	.....	72	1.2	1.4	1.3
Crop Share Tenants		74	1.0	1.4	1.3

Similar results were secured in a Minnesota study. There, 81 percent of cash leases, 65 percent of livestock-share leases, 81 percent of crop-share leases and 85 percent crop-share-cash leases were made for a 1-year term.<sup>14</sup>

If there is a causal connection between share leases and short-term leases, how can this lack of difference between the length of term of share and cash leases be explained?

<sup>12</sup>For a more complete discussion of these difficulties see Virgil L. Hurlburt, *Farm Rental Practices in the Midwest*, North Central Regional Publication No. 50, Iowa Agr. Exp. Sta. Research Bul. 416, 1954 p. 88-89 (Incentives 1 and 2). Tables 3A and 5.

<sup>13</sup>E. O. Heady and E. W. Kehrberg, *Relationships of Crop-Share and Cash Leasing Systems to Farming Efficiency*, Iowa Agricultural Experiment Station Research Bulletin 386, 1952, Table 5.

<sup>14</sup>See G. A. Pond, *Farm Tenancy in Minnesota*, Minnesota Agricultural Experiment Station, Bulletin 353, 1941, Table 30.

Further study is necessary before a definite answer can be given. However, a number of factors may explain this situation. Only one lease out of 10 is made for cash in South Dakota, Iowa, and Minnesota; only 2 out of 10 are cash leases in the United States.<sup>15</sup> With so few cash leases being made it is not surprising that landlords would tend to follow the short-term pattern laid down by the prevailing share lease system.

Again cash leases may be used largely in situations where estate settlement or sale is anticipated. A tenant with a long-term cash lease eliminates the possibility of sale of the farm to most farmers and may therefore substantially reduce the sale price. Even investors who plan to continue leasing the farm may not be eager to acquire a tenant selected by the previous landlord and therefore refuse to bid the going market price for the farm. Finally, the tenants who rent for cash may hope to purchase farms of their own as soon as a suitable opportunity presents itself and are not interested in longer term leases.

Considering the data presented in table 7, it seems reasonable to conclude that landlords prefer short-term leases for several reasons, but chiefly because it helps them in their dealing with their tenants in matters that affect their income under share rental arrangements. Even though the landlord may not dictate the cropping plans and farm operations, the short-term lease does make it possible to remove tenants whose decisions have not been satisfactory in these matters.

If cash rather than share leases were generally used there still might be considerable reluctance on the part of the landlords to make longer term leases because of the factors already listed. Even so the tenant's feeling of security might be greatly increased because the question as to whether a good job of farming was done would lose much of its importance since the landlord's rent would be a fixed payment specified in the lease.

<sup>15</sup>Graphic Summary of Farm Tenure in the United States," U. S. Department of Agriculture and Department of Commerce Cooperative Report 1948, p. 22.

## Why Landlords and Tenants Prefer Share Leases

The discussion thus far has indicated that farm landlords prefer the short-term lease principally as a bargaining tool in dealing with their tenants under a share or partnership lease. Since the security of tenure provided by the long-term lease is believed to have numerous advantages the next question which might be raised is: Do both landlords and tenants prefer share-leases? If not which party to the lease agreement does?

### Both Landlords and Tenants Prefer Share Leases

That landlords prefer share leases is shown in that only 4 percent of the 317 landlords who answered the questionnaire said they preferred cash leases. Ninety-five percent preferred some kind of share lease (see table 11).

Table 11. Kind of Rental Payment Preferred by South Dakota Landlords, 1952

Kind of Rent	Number Preferring	Percent Preferring
Cash only .....	11	4
Crop share .....	101	32
Crop share cash .....	150	47
Livestock share .....	51	16
No response .....	4	1
<b>Total reporting .....</b>	<b>317</b>	<b>100</b>

This evidence as to the landlord's preference for the share rental system is supported by the results of a study of 163 tenant-operated farms made in western Nebraska which showed only 15 percent of both landlords and tenants preferred the cash lease while 85 percent preferred some kind of a share lease (see table 12).

A southeastern Nebraska study also made in 1939 found that of 137 farms operated by tenants, only 13 percent were rented for cash. Thirteen percent of the tenants preferred

the cash lease, but the preference of the landlords was not investigated.<sup>16</sup>

Table 12. Kind of Rental Payment Used and Preferred by Landlords and Tenants, Box Butte County in Western Nebraska, 1939

Item	Kind Used	Kind Preferred by Tenants	Kind Preferred by Landlords
	Percent	Percent	Percent
Number of cases ..	163	163	47*
Cash .....	10	14	15
Crop share .....	52	70	75
Crop share cash ..	36	12	6
Livestock share ....	2	4	4
<b>Total .....</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Nebraska Agricultural Experiment Station Bulletin 336, 1942, table 19.

\*These are apparently the individual unrelated resident landlords.

A central Iowa study in an area where one out of four leases is made for cash found over 40 percent of the share tenants preferred a cash lease while only 6 percent of the tenants operating under a cash lease preferred a share lease.<sup>17</sup> Perhaps an indication of the landlord's control of the method of leasing in an inflationary period is found in the fact that share leasing increased 50 percent and cash leasing decreased 40 percent from 1945 to 1950 in Iowa.<sup>18</sup>

<sup>16</sup>L. F. Garey, G. H. Lambrecht and Frank Miller, *Farm Tenancy in Clay County, Nebraska*, Nebraska Agricultural Experiment Station Bulletin 337, table 9.

<sup>17</sup>E. O. Heady and E. W. Kehrberg, *Relationship of Crop-Share and Cash Leasing System to Farming Efficiency*, Iowa Agricultural Experiment Station Research Bulletin 386, 1952, p. 669.

<sup>18</sup>*Ibid.*, p. 675.

The difference between the Nebraska and Iowa data may mean that during periods of drouth and depression tenants strongly favor share renting that protects them against the hardships of fixed cash rents. In better times, when crop yields and prices have both been good, many tenants may have enough resources to withstand the risks of cash leases. Therefore, they desire to rent for cash not only because of their better financial circumstances, but also because cash renting appears to be considerably cheaper.

Landlords would see the picture from the opposite side. Many of them probably felt compelled to go to crop share leasing during the depression because they could not find tenants willing to rent for cash or because they could not collect the cash rent when yields were poor. With the return of good yields and steadily increasing inflation, landlords who adopted the share lease probably see little reason to shift to a cash lease.

Thus the popularity of the share lease may be due to the fact that it alternately favors first one party and then the other. The party on the losing side of this see-saw may not be very happy but may be powerless to do anything about it. If this is true, the differences in opinion of the Nebraska and Iowa tenants taken in two different periods may be explained.

The Nebraska landlords' satisfaction with the share lease raises some doubts about this possible explanation. However, landlords may have found the crop-share better than

nothing during the drouth and depression and by 1939 may have already seen the advantages of being on a share rent during an inflationary period, mild as it was at that time.

Other factors that may account for these differences are the methods employed in interviewing the tenants, the tenants' knowledge of the difference in rental rates, and their experience with cash renting.

### Why Landlords May Prefer the Share Lease

**Share Lease May Provide More Income for Landlords.** There may be several reasons why landlords prefer crop-share leases. One of them may be the higher returns they get on their investment as compared with cash leasing. Gray and others have presented evidence graphically that indicates the landlords' net returns on share leases were at least double the returns of landlords with cash leases in a number of states during the inflationary period, 1912-19.<sup>19</sup>

Black and others have presented data prepared by the Bureau of Agricultural Economics showing that the net returns on cash rentals averaged 3.7 percent as compared to a net of 5 percent on both share and cash rentals for 1940. Since both cash and share leases are included in the 5 percent returns, share rents were undoubtedly considerably higher.<sup>20</sup> Evidence from other stud-

<sup>19</sup>L. C. Gray, Charles L. Stewart, Howard A. Turner, J. T. Saunders, and W. J. Spillman, "Farm Ownership and Tenancy," *USDA Yearbook of Agriculture*, Separate No. 897, 1923, p. 577.

<sup>20</sup>J. D. Black, Marion Clawson, Charles R. Sayre, and Walter Wilcox, *Farm Management*, Macmillan Co., New York, 1949, p. 772-3.

ies in several states indicates that share leases have given the landlord considerably higher returns on his investment than have cash leases. This evidence is presented in table 13.

Care should be taken in interpreting such information as is presented in table 13. The higher rents received for share renting are for only a few selected years and may not represent the returns under different systems over a long period of years. However, it is to be expected that the share of "partnership" rents would be higher than cash rents because more supervision and greater risks are required of the landlord.

Not all of the evidence indicates share leasing is more profitable than cash leasing. Johnson states:

I have estimated net rents on crop-share rented farms in Iowa from 1925 through 1946. From 1925 through 1934 net rents on share rented farms averaged perhaps a dollar per acre less than on cash rented farms. From 1935 through 1939 the

net rents were roughly the same. From 1940 through 1946 net rents were at least four dollars an acre more on share-rented than on cash rented farms. These data are not presented as conclusive evidence, partially because of the roughness of the statistics and partially because it cannot be proved that the lands rented under the two lease types are comparable.<sup>21</sup>

Garey and others found the landlord's return on his investment averaged only 1.8 percent for the decade 1930-39 according to farm records from south-central Nebraska. This was considerably below the mortgage interest rate for the same period and probably below the earnings on cash leases although nothing is presented on them.<sup>22</sup> However, it is known there was considerable difficulty in collecting both interest and cash rents during this period. Hence the comparison with mortgage interest rates may not be meaningful.

<sup>21</sup>D. Gale Johnson, "Resource Allocation Under Share Contracts," *Journal Political Economy*, 58: 118n. April 1950.

<sup>22</sup>Garey and others. *op. cit.* p. 15.

Table 13. Landlord's Interest on Investment Under Different Rental Plans as Shown by Studies Conducted in Various States

State	Date	Interest on Investment in Percentage			
		Cash	Crop Share	Crop Share Cash	Livestock Share
Illinois*	1947	3.8	16.5-17	—	18-20
Illinois†	1943-45	3.8	9.9	—	10.1
Missouri‡	1939	4.2	8.1	6.5	—
New York§	1938	3.7	5.4	—	—
New York	1913	5.5	8.3	—	8.2
Kansas#	1914	2.5	5.2	5.4	4.3
Kansas	1915	2.3	3.1	3.0	4.2
Kansas	1916	1.8	3.3	2.7	3.5

\*Twenty-third annual report of the Farm Bureau Farm Management Service, 1947, Illinois Agricultural Experiment Station A. E. 2544, June 1948.

†Three-year Report 193 Farms in the Illinois Farm Bureau Farm Management Service, 1943-45. Illinois Agricultural Experiment Station A. E. 2416, October 1946, table 1.

‡John F. Timmons, *Landlord-Tenant Relationships in Renting Missouri Farms*, Missouri Agricultural Experiment Station Bulletin 409, 1939, p. 17.

§Paul L. Poirot, *Farm Tenancy in New York*, Cornell Agricultural Extension Bulletin 483, 1942, p. 22.

||G. F. Warren, *Farm Management*, Macmillan Company, New York, 1913, p. 314.

≡W. E. Grimes, *Farm in Kansas*, Kansas Agricultural Experiment Station Bulletin 221, 1919.

Many Landlords Prefer To Be Farm Managers. Further light is thrown on the landlords' preferences for share or "partnership" leases when the number of farms they own and the number of tenants per landlord is considered. For example, of the 317 landlords replying to the South Dakota survey in 1952, only 21 percent had five or more tenants with which to deal (see table 14). In an earlier study it was found only 20 percent of the landlords had more than one farm and only 2 percent owned five or more farms (see table 15).

Thus, much of the leasing of farms in this country can be handled on a person-to-person basis by the landlord. The number of farms and

tenants with which he deals is small enough to permit him to enter into the semi-partnership relation with his tenant to get the higher returns that may be provided by this kind of leasing system.

Further evidence of the informal and personal nature of the landlord-tenant relationship under share leases is the fact that over two-thirds of the leases are oral (see table 16). However, this may also be an indication of the difficulty of putting a "partnership" arrangement in the objective form customarily associated with cash leases. Many decisions under a partnership or share arrangement must be made from day to day as weather, diseases, and prices affect the business. Despite these problems, professional farm managers or agents are used by only 10-12 percent of the landlords (see table 17).

One-half of the landlords are farmers, retired farmers, or farmers' widows (see table 18). Business or professional men make up another one-fourth with the remainder being classified as "non-farm widows" and "other." Undoubtedly, many of the businessmen have had some farm experience. Many of them are probably happy to have the opportunity to enter a semi-partnership with their tenant as an avocation as well as to increase their earnings. Landlords in the higher income brackets may find losing money in building up a farm an attractive alternative to higher taxes.

Active and retired farmers as well as farm widows often need the higher incomes provided by the share leases.

Table 14. Number of Tenants per Landlord, South Dakota, 1952

Number of Tenants	Landlords Reporting	
	Number	Percent
1 .....	119	38
2 .....	73	23
3-4 .....	57	18
5-9 .....	42	13
10 or more .....	23	7
No response .....	3	1
<b>Total</b> .....	<b>317</b>	<b>100</b>

Table 15. Number of Farms Owned per Landlord in South Dakota and North Central States, 1946

Number of Farms	South Dakota		North Central States	
	Operator Land- lords	Non- operator Land- lords	Operator Land- lords	Non- operator Land- lords
Number reporting .....			1825	3657
	Percent	Percent	Percent	Percent
1 .....	73	80	66	82
2 .....	21	13	25	12
3-4 .....	6	5	8	5
3 or more .....	0	2	1	1

Source: *Farm Ownership in the Midwest*, North Central Regional Publication 13, Iowa Agricultural Experiment Station Research Bulletin 361, 1949, table 7.

Table 16. Landlords' Use of Written Agreements in South Dakota, 1952

Kind of Lease	Number Replying	Form of Agreement (Percent)	
		Written	Oral
Cash .....	76	64	36
Crop share .....	450	24	76
Crop share cash ....	790	39	61
Livestock share .....	105	29	71
Labor share .....	1	—	100
Other .....	50	36	64

Source: Replies to Farm Rental Practices Study questionnaire mailed to randomly selected sample of tenants in 1952. Unpublished data Agricultural Economics Department files, South Dakota Agricultural Experiment Station.

Table 17. Landlords Using Agents in Making Leasing Arrangements with Tenants, South Dakota, 1952

Kind of Lease	Number Replying	With Agent (Percent)	
		With Agent (Percent)	Without Agent (Percent)
Cash .....	75	40	60
Crop share .....	450	11	89
Crop share cash ....	779	12	88
Livestock share .....	104	4	96
Labor share .....	1	—	100
Other .....	49	4	96

Source: Replies to Farm Rental Practices Study questionnaire mailed to randomly selected sample of tenants in 1952. Unpublished data Agricultural Economics Department files, South Dakota Agricultural Experiment Station.

Table 18. Are You or Your Wife Related to Landlord? Replies of South Dakota Tenants, 1952

Occupational Status	Number Replying	Related Unrelated	
		Percent	Percent
Active farmer .....	240	42	58
Retired farmer .....	449	49	51
Business or professional man ..	376	15	85
Farm widow .....	109	58	42
Non-farm widow ....	95	8	92
Other .....	133	27	73
State .....	1,402	34	66

Source: Replies to Farm Rental Practices Study questionnaire mailed to randomly selected sample of tenants in 1952. Unpublished data Agricultural Economics Department files, South Dakota Agricultural Experiment Station.

Whatever the ownership ladder may provide in the way of social and economic values, it appears to furnish a high percentage of landlords with one or two farms who are primarily interested in renting on a share rather than cash basis. This form of rental has economic advantages for these landlords and undoubtedly provides other satisfactions that cannot be secured under a cash rental plan.

While many tenants also prefer the share rental plan, unfortunately the share or "partnership" arrangement apparently makes it impractical for landlords to lease their farms for more than 1-year term. However, other factors may be partially responsible for use of short-term leases.

#### Possible Solutions to the Problem

This study indicates that the most important reason 1-year leases are customarily used by farm landlords is to "keep the tenant on his toes since he knows that you (the landlord) can get another tenant if he does a poor job." Unfortunately the landlords were not asked whether this reason would be equally as important even if cash rather than share rents were used.

Since the landlord's rent under a share rental arrangement depends upon the quality of the tenant's farming and his fairness in dividing the crops, it seems logical that if a satisfactory substitute for share rents could be found, landlords would have much less reason to feel that 1-year leases are necessary. Possible substitutes are (1) cash rent leases, (2) standing rent leases, and (3) flexible cash leases.



### Cash Rent Lease

The cash lease is a possible substitute for the crop-share lease, but it may not be a very satisfactory solution for most landlords. Only 4 percent of the landlords who replied said they preferred cash to crop-share leases (see table 11). Part of this unpopularity may be due to the fact that cash rents appear to give much smaller returns on the landlord's investment than do share rents. No doubt part of this discrepancy is due to the inflexibility of the cash rent. Customary shares are also inflexible, but at least the dollar value of the rent changes with prices and production.

Part of the difficulty may be due to misinformation on the part of both landlords and tenants as to what the costs and returns are under cash as compared to share rents. At present the Experiment Station is making a survey to determine whether or not tenants would be willing to pay landlords a 7 percent return on their investment over and

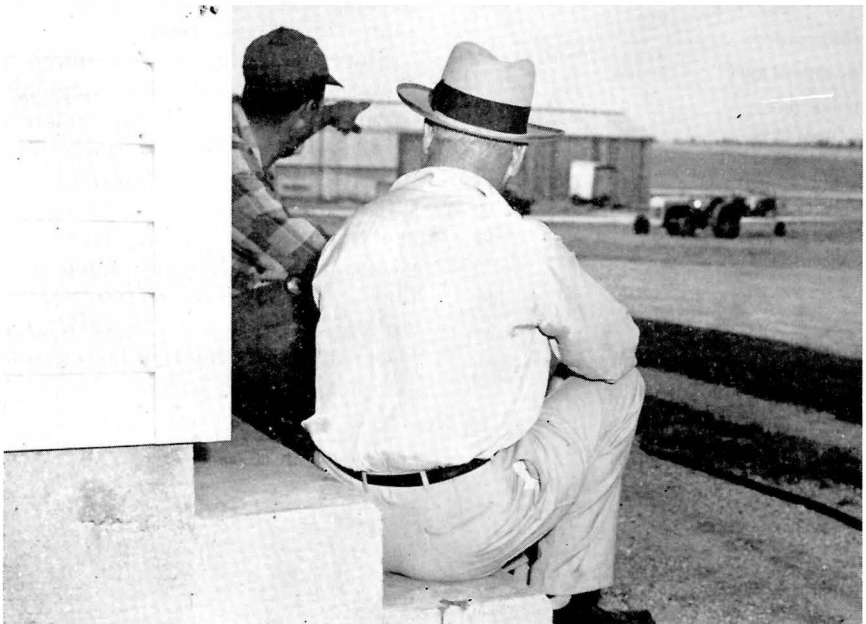
above their taxes, insurance, and repairs and depreciation if they were given a lease term of 3 years or longer. Also an effort will be made to learn whether standing rent or flexible cash leases to be discussed will be acceptable to tenants.

### Standing Rent Leases

The evidence presented in table 11 shows that 95 percent of the landlords prefer some kind of crop- or livestock-share lease. Perhaps the most important reason for this preference is that the dollar value of the share increases automatically as prices and production increase. A closely related reason appears to be that many landlords, by their selection of the tenant and by advice and assistance to their "partner" hope to increase the farm production.

Adjustment of the dollar value of rent received to changes in prices can be accomplished by the use of the fixed produce or "standing rent" leases. When this method is used the tenant agrees to pay a definite

**This landowner feels he is a partner in planning the farm operations and the crop-sharing program.**



number of bushels of corn, oats, wheat, or other farm products for the use of the farm. The landlord gets the same amount of produce no matter how large or small the crop may be.

Thus the landlord is free from most of the risks of poor crop years and much of the worry over whether or not the tenant is doing a good job of farming. Once the lease is signed neither the landlord nor the tenant can change the amount of rent to be paid. At the same time the dollar value of the rent to be paid varies with the prices of the produce. Because of these features of the standing rent, long-term leases can be more safely made. The "Standard Farm Lease" form of the United States Department of Agriculture can be used in making such a lease. These forms are available free of charge from county agricultural extension agents.

### Flexible Cash Rent Leases

The chief disadvantage of flexible cash rent leases as compared to share leases is that the dollar value of the rent does not vary with production and occasionally the prices of produce rise when there are crop failures. Another problem may be the quality of the grain delivered. This can be overcome by specifying the quality of grain to be delivered or by accepting the cash value of a certain grade of grain at a certain market at a time agreed upon. A flexible cash farm lease incorporating this idea may be secured free of charge from the Agricultural Economics Department.

A variation of the standing rent lease is being used in renting the Indian lands on the Pine Ridge and Rosebud Reservations. These grazing lands are being let for 5-year terms for a base cash rent. However, the rent paid in any year varies with the price of beef. A similar plan is being used in renting public grazing lands in Alberta, Canada. There one-tenth of the current market price of 250 pounds of beef is paid as rent for each cow grazed. Most of these grazing leases are made for a term of 20 years. The plan has been in operation since 1945.<sup>23</sup>

Another flexible cash lease form has been prepared in which a base or normal cash rent varies with the price of corn or wheat or other crop and also with the changes in the yearly average county yields of the same crop. Copies may be secured free of charge from the Agricultural Economics Department.

This rental arrangement has most of the advantages of the crop-share lease since the dollar value of the rent to be paid in any lease year varies with both the price and the yield of the principal grain crop. The special advantage is that neither the landlord nor the tenant can increase or decrease the rent to be paid in any lease year. In other words such a rental agreement effectively removes what the landlords surveyed said was the most important reason why short-term leases are used.<sup>24</sup>

<sup>23</sup>J. A. Campbell and V. A. Wood, "A Range Land Rental System Based on Grazing Capacity and the Price of Beef," *Journal of Range Management*, vol. 4, November 1951, p. 370-74.

<sup>24</sup>For an interesting discussion of various rental methods see W. E. Chryst and J. F. Timmons, "Adjusting Farm Rents to Changes in Prices, Costs and Production," Iowa Agr. Exp. Station Special Report No. 9, 1955, p. 26-29.

## Summary and Conclusions

The problem of security of tenure and the related freedom of operation for farms by tenants is generally recognized as one of great importance since it affects farming efficiency, soil erosion control, and community life. The insecure tenure of farm tenants is related to the fact that in South Dakota over 80 percent have leases for only 1-year terms or for year-to-year terms. The purpose of this study was to determine who prefers the short-term lease, why it is preferred, what connection if any it has with share leasing, and why share leasing is preferred.

To help solve this problem a questionnaire was carefully prepared and sent to over 1,200 randomly selected farm landlords who leased land in South Dakota. Of these 317, or 25 percent, replied.

A summary of the findings and the general conclusions follow:

### **Who prefers the short-term lease?**

—Seventy-eight percent of the landlords preferred the 1-year lease, and 83 percent had 1-year leases. Only 38 percent of the tenants in central South Dakota had the length of lease term they preferred while 86 percent of the landlords had the length of lease they preferred. In other words the data strongly suggests that the landlords prefer short-term leases and are largely responsible for the high percentage of 1-year leases in South Dakota.

**Why do landlords prefer short-term leases?**—According to 65 percent of the landlords who replied to the question the most important reason landlords customarily make short-term leases was that “the short-term lease keeps the tenant on his toes since he knows that you can get another tenant if he does a poor job.”

About half of those landlords who thought some other reason was the most important also thought keeping the tenant aware of the landlord’s interests was the second most important reason for the short-term lease.

Only 2 landlords out of every 10 thought that leases of 3 years or longer would increase the amount of legumes and grasses and livestock on their tenant-operated farms or improve the tenant’s willingness to accept advice. Only 3 out of every 10 thought that longer-term leases would make the tenant more willing to repair buildings and fences. Only 4 out of 10 thought that more legumes and grasses would increase their income.

These landlords did not seem to recognize many of the advantages commonly claimed for longer term leases. On the contrary, they apparently believed that it was important they have the control a 1-year lease gives them over the farming and, therefore, the rent payment of the tenant under a crop-share system.

**Is share-leasing the cause of short-term leasing?**—The data indicates short-term leases are used by these landlords to provide some con-

trol over the actions of the tenants that affect the landlord. This strongly suggests there is a causal connection between crop-share leasing and short-term tenancy because the managerial ability of the tenant has a direct effect on the landlord's rent, which varies with the crop selection and yields.

However, there was no significant difference in the length of their cash and crop-share leases. There are several possible explanations. When the sale of the farm is probable, a long-term cash lease may seriously effect the sale value. Only investors would be interested in buying such a farm and many of them would probably prefer to select their own tenant. Tenants who rent for cash may be interested in buying a farm and are therefore not interested in a long-term lease.

Only 4 percent of the landlords who replied to this questionnaire indicated they preferred cash-leasing, while 79 percent preferred crop-share renting with or without cash in addition. Evidence from a number of studies suggests that the landlords' preference for crop-share leasing may stem from the higher returns secured on their investment.

Another factor may be that one-half of the farm landlords are farm-

ers, retired farmers, or farm widows. Many of these landlords have only one or two farms and undoubtedly enjoy the opportunity to work closely with their tenants under the crop-share lease on a semi-partnership basis.

Since cash leases do not appear to be popular with landlords, a practical lease in which the rent varies according to farm produce prices, county yields, or both is needed. Lease forms that do this are available free of charge from the Experiment Station.

An example of such a rental system is that being used on Indian lands in western South Dakota. These lands are rented for 5-year terms for a cash rent that varies from year to year with the price of beef cattle.

Thus the landlord's rent varies with factors over which neither the landlord nor the tenant has control. Hence much of the need for the short-term lease is removed. Even if the 1-year lease were still used the tenant's security of possession may be greatly improved because the quality of farming would no longer be a major source of landlord-tenant friction and dissatisfaction and therefore a cause for termination of the lease.



14. How would a lease for *three years or longer* affect the willingness of your tenants to repair buildings and fences? (check one)

- Would be more willing - ..... 1
- Would have no effect - ..... 2
- Would be less willing - ..... 3
- Don't know - ..... 4

15. How would *more grasses and legumes and livestock* on your leased farm affect the amount of your *net income* over many years? (check one)

- Would increase net income ..... 1
- Would have no effect - ..... 2
- Would decrease net income - ..... 3
- Don't know ..... 4

16. How would a lease for three or more years affect your tenant's willingness to follow your advice concerning farm operations? (check one)

- Would be more willing - ..... 1
- Would have no effect - ..... 2
- Would be less willing - ..... 3
- Don't know ..... 4

17. How would a lease for three or more years affect the care with which they divide the crops? (check one)

- Would be more careful - ..... 1
- Would have no effect - ..... 2
- Would be less careful - ..... 3
- Don't know ..... 4

18. We have been given the following reasons why *one-year* leases are customarily used in South Dakota. Which do you think is the *most important reason?* Which is *second* most important? *Third?* *Fourth?* Please rank in order of importance using the numbers 1, 2, 3, and 4.

- Because long-term leases are not as binding on tenants as they are on landlords - .....
- Because the one-year lease gives the landlord a chance to increase the rent as his expenses rise - .....
- Because the short-term lease keeps the tenant on his toes since he knows that you can get another tenant if he does a poor job .....
- Other (please explain) .....

19. Did the tenant who last left your farm leave at your request? Yes.....1 No.....2  
 If yes, why was he asked to leave? .....

.....  
 .....  
 .....

In what year did he leave? ..... year.  
 How many years had he rented the farm from you? ..... years.

Any further information you care to give will be appreciated. Thank you for your cooperation.

## Appendix B

Comparison of Replies From 13 Non-Respondents and 9 Respondents to Landlord Leasing Survey, Brookings County, South Dakota, 1952

Item	Non-Respondents		Respondents	
	Number	Percent	Number	Percent
Kind of Lease				
Cash .....	1	8	0	—
Crop Share .....	5	38	3	34
Crop Share Cash .....	5	38	3	33
Livestock and Crop Share .....	0	—	1	11
Crop Share and Crop Share Cash .....	2	16	2	22
Principal Occupation				
Farming .....	6	46	3	34
Business .....	3	23	2	22
Professional Work .....	0	—	2	22
Housewife .....	3	23	2	22
Other .....	1	8	0	—
Still Active in Principal Occupation				
Yes .....	7	54	8	89
No .....	6	46	1	11
Sex of Landlord				
Male .....	9	69	7	78
Female .....	4	31	2	22
Age of Landlord .....	60		58	
Acres Leased to Tenants .....	366		655	
Number of Tenants .....	2		3	
Number of Tenants Who Are Sons or Son-in-law .....	3	25	2	22
Number of Tenants for Type of Lease				
Cash .....	1	4	0	0
Crop Share .....	11	44	11	41
Crop Share Cash .....	13	52	11	41
Livestock and Crop Share .....	0	—	5	18
Acres for Type of Lease				
Cash .....	240	5	0	—
Crop Share .....	1841	39	1685	29
Crop Share Cash .....	2680	56	2710	46
Livestock and Crop Share .....	0	—	1500	25