



## **Dissertation: Chapter 2, Tenanted Land**

By Dr. Mason Gaffney

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## CHAPTER II

### TENANTED LAND

#### I. Introduction

##### A. Introduction to Chapters Two and Three.

The data of Chapter One attest to the wide distribution of a misuse of land almost as extreme as is possible: complete disuse. The question next arises, if there are market forces which lead in some circumstances to such a complete denial of the equimarginal ideal, may these same forces not lead in other circumstances to less glaring problems?

We have seen that "unused" land is a difficult category to bound; that there is a considerable twilight zone between the desert and the sown. For example, many buildings in blighted areas are boarded up, unused, although the land does not qualify as "vacant".<sup>1</sup> The Chicago Plan Commission in 1943 recommended clearing 242,000 dwelling units as "not worth keeping beyond 1965".<sup>2</sup> Many units are "so old or economically unsound that they should be destroyed and replaced with new improvements."<sup>3</sup> Many still standing "were built when President Arthur or Grover Cleveland were in the White House."<sup>4</sup> Over the whole country,<sup>5</sup> about 46% of all urban dwelling units were built before 1920. It may well be that outright vacant land is only the top of the

iceberg, startling to behold but most significant as the evidence of things unseen.

We approach, obviously, a more subtle group of problems. Vacant land lies out in full view to be counted. Underused land wears a veneer of improvements to cover its defection from casual eyes. To penetrate its secrets we must decipher the cryptic codes of economic theory, accounting and census data that contain them. To that task we devote the rest of this study.

Chapters Two and Three are restricted narrowly to farm land. There are several reasons for this:

1. We lack the resources to survey all industries in this study.
2. There are available more data about farm than other lands.
3. In farming one can see elemental land market forces at work in purer simplicity and abstraction. As farming is organized simpler than other industries there is little elaborate institutional superstructure to obscure the fundamentals. As there is less corporate ownership in farming, tenure is more direct and easy to describe and classify.
4. In farming private individuals or firms have little monopoly power. If land is preempted from its most productive use there is little monopoly motive to explain it.
5. In farming there is not the risk of rapid obsolescence that may obtain in some parts of a fast-changing city. So if a farm landholder neglects, abuses or runs down his farm we need

not ordinarily take seriously the explanation that he anticipates a sudden change in its best use.

6. There is on the whole less tenancy in rural than urban areas. The percentage of city dwellers who own their dwellings is less than the percentage of farmers who own their farms -- and each farm is a business as well as a dwelling. Thus we run no danger of exaggerating the prevalence of tenancy and analogous conditions in general by focussing on measures of farm tenancy.

7. As a farm is a home and job combined, one rarely rents a farm as he might a hotel room or apartment for the convenience of being near a temporary job. Farm tenancy has no such evident utilitarian explanation.

The principles drawn from an analysis of farm land problems should have wider bearing as well, and subsequently help us thread our way through the mazes of more complex markets. Besides that, of course farm land itself represents an appreciable part of our natural resource base, even if a good deal smaller portion in terms of value than most people think, and deserves study for its own sake.

#### B. Introduction to Chapter Two.

In the Introduction to this study we explained that the equimarginal ideal requires that it be impossible to increase aggregate net output by shifting land between "uses", not only in the narrow sense, but between different tenures as well. The present chapter deals with this last. It concludes that it

would be possible to increase output by shifting land from tenancy to owner operation. As was also explained in the Introduction, this statement is equivalent to saying the marginal productivity of land tends to be lower on tenant than on owner-operated farms, and the marginal productivity of land on tenant farms would generally be increased if the tenant-operators bought out their landlords and became owner-operators.

Chapter Two first raises the question whether tenancy is still widespread enough to warrant any present concern, and whether it is likely to persist. Second, it compares the development of tenant lands with owner-operated lands. Finding the tenant lands generally worse conserved and less improved and developed, it offers an explanation of these findings in the frustrations of the landlord-tenant relationship. Finally it considers the function of tenancy in present land markets, and the implications of tenancy for this study.

## II. The extent of farm tenancy

In reporting on farm tenancy the Census has tended to emphasize, as a proper measure, the percentage of farmers who are pure tenants. In 1950 that was 27 per cent, a marked decline from earlier years. Others have followed this lead, and the figure 27 per cent has circulated widely.<sup>6</sup> It has been widely heralded as presaging the end of farm tenancy in America. But it is for our purposes quite inadequate, and we will see that a more careful analysis of the data lends little support to the hope that tenancy is on the wane.

We are interested in tenancy as a land problem, as an index of how well we are using our natural resources. Hence we want to know, not what per cent of farmers are pure tenants; but what per cent of land tenants operate. The two are quite different, for there are many "part-owners" who are also part tenants and lease some of the land they operate. The percentage of land which is leased is appreciably higher than the percentage of farmers who are pure tenants.

In 1950, pure tenants farmed only 18 per cent of the farm land area. But part-tenants leased almost as much again, so that 35.4 per cent of the farm land area was under lease.<sup>7</sup> Thirty five and four tenths per cent is the more significant measure of tenancy.

That by no means implies that all other land is owner-operated under ideal tenure conditions. Another 9 per cent of the farm area is operated by hired managers. If we include them with the tenants, the two groups operate 44.4 per cent of the farm area. Besides that, a good many owner-operators carry on under enervating financial conditions. But we treat of those lands in Chapter III. Now we will concentrate on tenancy, narrowly defined. In 1950, as we said, 35.4 per cent of the farm area was under lease to tenants.

A. Relative values of leased and owner-operated land--  
leased land on the average more valuable.

Of course we cannot rest with an area figure as a measure of farm tenancy. Land values vary enormously from place to

place, and 35.4 per cent of the farm area might contain 10 per cent or 90 per cent of the land value, depending on where it lies. The next step is to find the relative values of leased and owner-operated lands.

Land economists seem generally to believe that tenancy is higher on better land. T. W. Schultz writes:

. . . they [owners] tend to buy farms on the less productive soil, again, of course, because it takes less capital. 8

Ely and Wehrwein agree:

High land values are generally, though not always, associated with a high proportion of rented farms. 9

Max Tharp writes:

Full owners are most prevalent in the hilly sections and on the poor soils where dairy, general and self-sufficing farming do not lend themselves readily to tenant operation. Part owners are concentrated in the wheat-growing and cattle-grazing areas. Tenant operation is common on the level, fertile lands where production of the major cash crops predominates. 10

The 1945 Census states:

The highest proportions of tenancy were recorded in areas with the most productive farm lands, such as the cash grain areas in Illinois and Iowa. 11

and the 1950 Census echoes it. 12

The 1950 Census gives some supporting evidence. It reports that pure tenants operated 18 per cent of the farm area, but that area contained 30 per cent of the cropland harvested. The 1920 Census, remarking a similar contrast, explained that it was because "many tenants hire simply that area of cropland which they expect to cultivate". 13 The 1920 Census reported the percentages of "improved" land in each farm. "Improved"

meant all land except woodland, very poor brushland, rough or stony land, et cetera: in short, "improved" land meant better land (and not, as the word implies, land on which improvements stand). The percentages were as follows:

Owners and part owners -- 49 per cent

Pure tenants -- 66 per cent

Evidently tenant farms contain an unusually high percentage of good land.<sup>14</sup>

When we look for more direct data on farm land values, we find the Census no longer provides it. Recent Censi do not report land values separately, but lump them together with the value of buildings in one inscrutable figure. But tenant farms<sup>15</sup> have fewer and cheaper buildings than owner-operated farms. To include building values with land values, therefore, tends to counteract and obscure the very trend we are testing for.

To see how building values might distort the picture, contrast New England with the West North Central states (Minnesota, Iowa, Missouri, Kansas, Nebraska, South Dakota, North Dakota). Ask a Vermonter what land is worth "per acre" and he hardly recognizes the concept. He will tell you the value of a farm depends mostly on how it is kept up. The 1930 Census reported that in New England land values were only 44 per cent of the total value of land plus buildings; in the West North Central states land values were 77 per cent.<sup>16</sup> And of course tenancy is very low in New England, but very high in the West North Central region.

In 1930, pure tenants operated 6 per cent of the New



England farm area and 38 per cent of the West North Central farm area.<sup>17</sup> As between the two regions, tenancy increased with land value, but not with the value of land plus buildings. On the contrary, with the latter it decreased. The average value per acre of New England farm land was \$28, compared with \$45 for West North Central land. But when we add buildings, New England farms were worth \$64<sup>18</sup> per acre, compared to \$58 for West North Central farms. The relationship was reversed. That should make it clear why we cannot use data on the value of land plus buildings to test whether leased land, alone, is more valuable than owner-operated land.

For a second example of how building values may obscure the relation of tenancy to land values, consider the figures on Table 1 (see page 126).

Note that in 1910-20, when land values were high relative to building values (and thus comprised a higher percentage of land and building value), the value per acre of land plus buildings on tenant farms was greater than on owner-operator farms. But by 1930, when land values were low relative to building values, owner-operator farms were worth more per acre than tenant farms.

That strongly suggests that tenant farms are more land intensive, while owner farms have more valuable buildings per acre; and, thus, again, shows that data on values of land plus buildings are no reliable index to values of land alone.

For a third example, consider the fact that when a farmer owns part and leases part of the land he operates, the value

TABLE 1

Acre Values of Tenant and Owner Farms; and  
Land Values Compared to Building Values on all U. S. Farms  
1900 - 1950 (19)

<u>Year</u>	<u>Per Acre Values of Land and Buildings Together</u>		<u>Land Values and Building Values Shown Separately, All Farms (Billion \$)</u>		
	<u>Pure Tenant</u>	<u>Full Owners</u>	<u>Land Values</u>	<u>Building Values</u>	<u>Land as Per Cent of Land and Buildings</u>
1900	\$ 24	\$ 21	\$ 13.1	\$ 3.6	78.6
1910	48	37	28.5	6.3	81.8
1920	90	67	54.8	11.5	82.7
1925	64	58	37.7	11.7	76.3
1930	53	57	34.9	12.9	73.0
1935	33	38	....	....	....
1940	35	40	23.3	10.4	69.1
1945	51	51	....	....	....
1950	88	79	....	....	....

of his farmstead, which he owns, will be included with the value of the owned portion as recorded by the Census, while the value of the leased portion will normally include few or no buildings -- naturally he will put his buildings on the owned portion. Thus the Census records that the owned portion of part-owner farms is, on balance, worth somewhat more per acre than the leased portion.<sup>20</sup> But it does not follow that the leased land alone is worth less. Again, in comparing the value of the leased portions of part-owner farms with pure-owner farms, one is comparing almost bare land with land plus improvements.

For a conclusive test, therefore, we must go back to the years when the Census reported land values separately. For 1920 the Census provides not only separate data on land value, but a specific study of how tenancy varies with land values.<sup>21</sup> The land value data, even then, are far from perfect. The Census merely subtracts building value from total farm value and calls the residue "land value". Thus it includes fences, terraces, tiles, ditches, fertilizer, orchards, vines, and other improvements as part of "land".<sup>22</sup> This has the same effect as lumping buildings with land -- improvements comprise a larger portion of farm value in New England than in the West North Central states. But despite this negative bias in the data, they still show that tenancy is higher where the value of "land", so defined, is higher.

E. A. Goldenweiser and Leon Truesdell analyzed the 1920 data to test whether tenancy increased with land value.<sup>23</sup>

Unfortunately, they chose to measure "tenancy" by the per cent of farmers who were pure tenants, rather than as the per cent of land that tenants operate.<sup>24</sup> Hence not even their figures exactly test the case. But in 1920 there were many fewer part-owners than now to complicate the picture, so the one measure of tenancy would approximate the other well enough for rough purposes.

Goldenweiser and Truesdell treated each of the nine Census regions separately. They arranged the counties of each region in descending order according to the per cent of tenancy in each county -- that is, the top county had the most tenancy, and the bottom county the least. They divided this array of counties into quarters. Thus the first quarter contained counties with the highest tenancy, and the last quarter contained counties with the lowest. Then they compared land values per acre in the different quarters.

With one exception<sup>25</sup> the values declined regularly from group to group. Table 2 presents the average values per acre of land in groups one and four, for each region.

For the whole nation, the average value per acre of land leased by pure tenants was \$77.88, compared to \$52.16<sup>27</sup> for full owners.

If we had 1950 data on land values separate from buildings, we could doubtless repeat Goldenweiser and Truesdell's results for recent times. If we had data on bare land values, separate from all improvements, the results would probably be

TABLE 2

Values Per Acre of Land in Counties With  
High and Low Tenancy. By Regions  
1920 (26)

<u>Region</u>	<u>Group One</u> <u>(Counties with</u> <u>high tenancy)</u>	<u>Group Four</u> <u>(Counties with</u> <u>low tenancy)</u>
New England	\$ 29	\$ 23
Mid-Atlantic	63	29
East North Central	180	47
West North Central	142	36
South Atlantic	50	38
East South Central	43	28
West South Central	58	13
Mountain	37	13
Pacific	89	60

even more emphatic. Lacking these data we can still approximate them by taking data on the value of land plus buildings in regions where improvement values are small relative to land values. There the value of "land plus buildings" is more dominated by land value, and may represent land value fairly well. Let us examine 1950 data on the West North Central region, where land values are generally high relative to buildings and other improvements; where the total value of many farms consists largely of their rich natural endowment of deep fertile soil. This region contains more leased land than any other.

The 1950 Census gives values of land plus buildings by "subregions".<sup>28</sup> It also provides a map showing roughly the per cent of leased land in each county.<sup>29</sup> Using these two maps, I have divided the West North Central subregions into two groups: those with over 40 per cent leased land; and those with 40 per cent or less leased land.<sup>30</sup>

The average value per acre is about twice as high in the subregions with higher tenancy.<sup>31</sup> The precise figures are not significant, being the result of rough calculations. The overall trend is important, and that is quite clear. Tenancy is lower in the "back country" of Northeast Minnesota, the high western plains, and the Ozarks; and high on the rich prairies of Iowa and the wheat lands of Kansas.

To be sure, one must recognize that high land value is by no means the only condition correlated with tenancy. There

are several other factors at work. One would expect tenancy to be higher where land is less erosive (because such land can stand more abuse); where the optimum operating unit is very costly; where the ratio of land value to improvement value is high (for reasons to be detailed in chapters IV, V, and VI); where wealth is less equally distributed; where credit markets are poor; where rainfall is uncertain and the future is risky; where living conditions are unpleasant; and where investors expect rents to increase. With all these influences at work, naturally the pattern of tenancy does not follow the pattern of land values exactly. The high western plains, notably, have had considerable tenancy -- at least in certain years -- although values per acre were low. But on balance, from the evidence presented, it seems clear that acres under lease to tenants are significantly more valuable than those which owners operate.

It lends more certainty to this conclusion to note that tenancy coincides with high land values also in many other countries. In Lebanon, according to Charles Malik, owner-operators farm poor soil in the mountains while tenants work the richer plains and interior valley.<sup>32</sup> In South Korea tenants farm 78 per cent of the rich Cholla Pukto region, but only 24 per cent of the poor North Hamgyong Province.<sup>33</sup> In China, "the richer the area, the higher the proportion of tenancy", according to Shu-ching Lee. In 1948, about 32 per cent of the farmers in the richer Pearl and Yangtze River areas were owners, compared to 69 per cent in the poorer Yellow River Valley.<sup>34</sup> And in Belgium:

According to the 1930 Census . . . Generally it is the small farms of under 50 acres that are cultivated by owner-occupiers who represent the majority only in the poorer regions (the Campine and the Ardennes), whereas on the very rich plateau of Herve two-thirds of the farmers are tenant farmers. 35

De Souza writes "the bulk of tenancy is to be found in the most highly valued lands of Brazil."<sup>36</sup> In Canada, tenancy is lowest in the Maritime provinces, and high in Ontario where land values are higher.<sup>37</sup> In lower Burma, where the land is rich and close to ocean transportation, and rainfall is ample, probably over half the "best and most fertile rice lands" are absentee-held; while in upper Burma, with a poorer natural endowment, only about one seventh the area is so held.<sup>38</sup> In the Philippines, tenancy is especially high in Pampanga and other rich sugar areas, and low in marginal areas like Palawan.<sup>39</sup> In Sweden tenancy is higher in Skane and eastern Sweden, where land values are higher.<sup>40</sup>

With more data, we might find this a nigh-universal rule. As it is, we can certainly conclude the rule holds sway in many areas around the world.

To sum up: leased land is on the whole more valuable than other farm land. Census data do not let us measure exactly how much more valuable. Therefore we cannot know precisely how much to change our measure of tenancy. But we do know which way to change it.

Thirty five and four tenths per cent of the United States farm area, as we said, was under lease in 1950. That area contained the best farm lands of the country. The percent-



age of farm land value under lease must be a good deal higher than 35.4 per cent. Just how high, there is no way to know from existing data. I would suggest 45 per cent as a conservative working estimate. And I would add there are good theoretical reasons, which will appear as this study unfolds to suspect that, had we data on bare land values, separate from not only buildings but all improvements, they would boost the figure even above 50 per cent.

If our purpose is to minimize the importance of tenancy in the United States, then it is well to take 27 per cent, the percentage of farmers who are pure tenants, as the measure of tenancy. No doubt to many it appears more politic to emphasize that low figure, especially in this age when the American economy is on trial before the world. But if our purpose is to measure tenancy accurately, then we must conclude that it is still a dominant feature of the farm landscape.

#### B. Recent trend of farm tenancy

We have measured tenancy three ways. The per cent of farmers who are pure tenants was 27 per cent in 1950. Next we added the part-owners, and measured all land under lease by them and pure tenants: it was 35 per cent. Next we measured land by value instead of area, and settled on 45 per cent as a rough estimate of the per cent of land value under lease.

Finally, to round out the picture, we will add the time dimension. This is more important than further improving the accuracy of our 1950 estimate, even if that were possible, for

tenancy changes throughout history, and history moves swiftly. When the 1950 Census came off the presses its story was already over three years old, and tenancy in fact had evolved to some new figure. Let us try to anticipate what changes time will soon bring; whether the tide of tenancy is rising or ebbing.

The long term trend of farm tenancy in America has clearly been upwards. No United States Census recorded tenancy before 1880, but it was surely much lower then than now. Early observers of the American scene, like Crèvecoeur, remarked the contrast to Europe. As late as 1840 de Tocqueville wrote: "In America there are, properly speaking, no farming tenants; every man owns the ground he tills . . . . Land is cheap, and anyone may easily become a landowner."<sup>41</sup>

But by 1880 tenancy had reached large proportions, and public opinion demanded a count of it. The Census then duly recorded that 25 per cent of American farmers were tenants. The figure grew to a high of 42 per cent in 1935.<sup>42</sup>

But against this long-run trend, with its implied prophecy, runs a contrary one: during and since the Second World War, tenancy has declined.

How much it has declined depends on how one measures it. Most writers still quote primarily data on the percentage of farmers who are pure tenants. Thus measured, "tenancy" has declined dramatically: from 42 per cent in 1935 to 27 per cent in 1950.

The measure that interests us -- the percentage of

farm land which is under lease -- has fallen considerably less: from 45 per cent in 1935 to 35 per cent in 1950. Why has this measure fallen less than the other? Because there are now more "part-owners" who are also part tenants, but whom the Census does not count as tenants. Too, the average tenant farm has grown in the period, much more so than the average owner-operated farm. As in the Civil War, high wages speeded mechanization. As tenants left for war, or war work, other tenants (as well as some owners) mechanized and expanded their operations to replace them. Thus tenancy lost many men, but not so many acres.

TABLE 3

Average Farm Sizes for Different Tenure Groups 1925-1950<sup>43</sup>  
(Acres)

	<u>1925</u>	<u>1935</u>	<u>1945</u>	<u>1950</u>
Pure tenants	108	118	135	147
Pure owners	127	122	125	136
Acreage leased by operator (pure tenants and leased portions of part owners)	120	132	171	181
Acreage owned by operator (pure owners and owned portions of part owners)	134	134	153	170

Even at that, the decline appears impressive. But there is another element to consider: the lost acres were probably the less valuable ones.

The highest proportions of tenancy were recorded in areas with the most productive farm lands, such as the cash grain areas in Illinois and Iowa. In these particular areas there were no significant changes in either the proportion of tenancy or in the proportion of land rented. 44

That conclusion emerges clearly from a careful inspection of the series of maps on page 15 of part 5, Volume V, 1950 Census of Agriculture. Tenancy has declined most markedly in eastern Montana, eastern Colorado, western North Dakota and western South Dakota, and also in parts of Georgia and Alabama. According to the map of farm real estate values on page 10, values in these areas are generally lower than values in areas where tenancy has persisted: notably northwestern Iowa, central Illinois, northeastern North Carolina, the upper delta of the Mississippi River, central Kansas, and southeastern Washington.

Evidently there is a hard core of tenancy in areas of high land values. In recent years advancing owner-operators have only nibbled at its fringes.

Accordingly since 1935 acre values have increased much more for tenant than owner farms. The cheaper acres shifted out of the tenancy column, letting the average rise. Since 1935 the acre value of pure tenant farms has risen 167%; of owner farms, only 108%.<sup>45</sup> From these figures it might even seem that tenancy has made up in value per acre as much as it lost in acres; and that the percentage of land value in tenant

farms is as great now as in 1935. We do not so conclude (for reasons detailed in Appendix 2). But we do definitely conclude that the percentage of land value in tenant farms has declined much less than the percentage of land area.

#### C. Probable future trend of farm tenancy

After all these qualifications, the fact remains that tenancy, however measured, has somewhat declined since 1935.<sup>46</sup> The question now arises whether this brief reversal of a long trend gives hope of persisting. Is it only an ebbing wave on a rising tide? Or is the tide itself turning? Let us look to the forces that move this tide.

We have seen that tenancy tends to be high where land values are high. From that it seems plausible that tenancy will also be high when land values are high -- the rule that holds as many different points in space may also hold among different points in time. For it is high land values as such, more than any condition incident to them in space, that produces tenancy. Just why that is, we examine in detail in chapters IV-VI. For the present we may briefly anticipate what we there develop at length.

Advocates and critics of tenancy agree it is the income from land that attracts the absentee landlord to buy title, and it is the high price of land titles, capitalized from this income at lower interest rates than tenants enjoy, that inhibits tenants from buying the land they operate. Or, as Shu-ching Lee puts it:

These regional differences in proportion of tenancy are entirely due to economic causes. In the northern provinces . . . the yield of a farm is too low to be shared by both a landlord and a tenant . . . (but) In the rice regions, irrigation makes production of land fairly fruitful and certain. It is the surplus in agriculture which invites investments from urban capitalists or bureaucrats . . . . 47

"The surplus in agriculture invites investments" from absentee landlords. So when time brings higher prices for the produce of land, and/or lower costs of production, it brings a new surplus in agriculture to invite investments from absentee landlords, and thus increase tenancy.

And so it seems plausible the major cause of the long term rise of farm tenancy in the United States has been the long term rise of farm land values. And to predict the future long term course of tenancy one need mainly predict the future long term course of land values -- barring, of course, special government action against tenancy. 48

If one lifts his eyes beyond the immediate farm recession, this basic cause for tenancy seems likely to persist. Land values have extreme cyclical ups and downs, but in the perspective of generations have moved consistently upwards. Now wealth and population in the United States are again growing apace, while the land supply, as always, remains constant. Despite current vicissitudes, eventually a new surge of demand should carry land prices to new highs.

On the other hand, the recent decline of tenancy, such as it was, followed from an unusual conjunction of circumstances; pessimistic long term anticipations combined with extraordinarily

favorable immediate realities. The forces interplayed somewhat as follows.

By 1940, farmers had suffered 20 years of falling prices, and known drought, pestilence and foreclosure. They remembered, too, how farm prices had soared in the previous war, engendering a land boom that ended in tragic fiasco when they tumbled. Therefore when weather, war and the farm bloc conspired to skyrocket farm incomes in the second war, pessimism kept land values a respectful distance behind. Strange as it may seem now, most people seriously feared a postwar deflation.

Meantime the wage component of farmers' incomes rose immensely -- more, percentagewise, than the wages of any other group. With this, and high land yields, debtors discharged their mortgages easily. Many tenants, too, accumulated enough to buy land. As the present yields of land were high, but anticipated yields remained low, land ceased to be an investment only for those who could speculate in hopes of distant future gains. Banks, insurance companies and other unwilling absentees disgorged great areas of foreclosed land, a heritage from the 'thirties, with great relief at this opportunity to close their books. Operators took it up. As Timmons puts it:

Many tenants and laborers have become farm owners relatively easily as land values have lagged behind increased farm income . . . . All of us have heard of instances where tenants have bought and paid for farms out of two or three years' earnings. 49

That rare mixture of long term pessimism with booming prosperity is obviously most unstable, and not likely to endure

nor recur. There is no reason to believe that another war, or continued war, will reproduce the same lucky combination. In World War I, for example, popular psychology was just the opposite. Buyers looked back on 20 years of rising rents, listened to a spate of Malthusian forecasts predicting 100 years more, and boomed land prices far ahead of rents. Those who bought then suffered the consequences through 20 hard years of attrition, bankruptcy, and growing tenancy.

That can happen again. The peculiar virtue of the 'forties was pessimism that weighed down land prices. But that incorruptible strain of pessimism, that inhibits every temptation to capitalize current prosperity into land prices, is a costly plant to nurture in the popular mind. It only flourishes after a downpour of adversity. In the summer sunshine of prosperity it withers like droughted grain; and without its protective cover land prices, like bare topsoil, are free to sail skyward with the first fair breeze.

Just when we shall see another 1920 is beyond my science to say, for who presumes to foretell the temper of the market? Perhaps we will never see another. But if history is any guide we will continue to experience alternating periods when the market overestimates, then underestimates the future. When, in this shifting pattern, operator income is high relative to land value, we may yet see tenancy fall a bit, as from 1940-50. But when operator income is low relative to land value, or relative to heavy mortgage debts incurred in



times of high land value, as for many years before 1935, we may confidently expect to see tenancy continue its secular increase. At present writing (November, 1955) we are seeing farm income fall while land prices hold firm.<sup>50</sup> Thus the market is returning to that high ratio of land prices to land income that spawns tenancy. The results should begin to show in the Census of 1960.

Some might contrast the extraordinary financial prudence of American farmers in World War II with their excesses in World War I, and conclude that Americans have come of age and are now too mature for another orgy. But, to judge from the past, one display of caution does not guarantee another. In the early 20th century, for example, for over a decade after reviving prices had taken the steam out of Populism, farmers remembered their past misfortune and prudently avoided much expanding their mortgage debt, despite rising land values,<sup>51</sup> just as in the 1940s. But a few years later they began to borrow without restraint, and finally succumbed to the tragic land boom of 1920.

Again, some might protest that farm price supports now protect farm landholders from another 1920. That is doubtful. The political determinants of price supports are almost as fickle a base of expectations as free market forces. And however high they go, land values can follow and overtake them. Buyers and sellers will capitalize anticipated political victories of the farm bloc into land values. One day they

may be disappointed. Or, even if not, even if change does not come in a dramatic crisis, still it will come. Permanently high price supports mean permanent high land values; and those will lead to permanently high tenancy.

To sum up: in the perspective of decades, the recent decline of tenancy appears as the product of unusual and transitory clauses. On the other hand, the secular advance of tenancy has followed from the persistent rise of land values, which will probably continue as population and capital and demand increase, the land supply remaining constant. Therefore it seems likely that tenancy will still increase.

In venturing this prediction we are leaving out of account many factors that may belie it, most notably the impact of income taxation, and the wartime equalizing of income distribution. It is the writer's opinion, however, for reasons too lengthy to detail here, that the factors discussed are the more important ones and their influence will prevail.

### III. The cost of tenancy relationships

#### A. The evidence

Thus far we have only measured land under lease, and not shown it to be underused. Many will need no persuasion on that point. But others may take tenancy for granted as an integral and entirely healthy part of a free market system; or at least doubt that leased land is so badly kept as to warrant calling it misused. And so we will now give the reasons why we do so.

The first reason is neglect of conservation practices. In the introduction we stated that soil depletion was to be deducted from output in the year incurred, while the value of positive conservation practices was to be added to output in the year undertaken. Thus the failure to engage in both positive and negative conservation practices itself means lower output; while of course the results of these failures mean lesser output of cash crops in the future. So any class of lands showing consistently worse conservation practices are deeply suspect of adding less to output than they would in some other enterprise or tenure where they were better husbanded.

Many careful studies have established beyond much question that, as the President's Committee on Farm Tenancy wrote: "The correlation between soil erosion and tenant occupancy is very striking."<sup>52</sup> That is generally accepted, enough so that Ely and Wehrwein's "Land Economics", the pioneer text in the field, mentions it as an established fact.<sup>53</sup> Some basic primary studies are those by J. A. Baker,<sup>54</sup> Hoyle Southern,<sup>55</sup> Peter Nelson,<sup>56</sup> and Rainer Schikele.<sup>57</sup>

Schikele in 1935 studied the practices of many tenants and owners in the corn belt and gave them erosivity ratings. Of operators who had been in residence 1 to 2 years, 79 per cent were tenants, and the groups' erosivity rating was 4.3. Of operators in residence 11 to 20 years only 24 per cent were tenants. The group's erosivity rating was much lower, 2.7.

Tenants tended to favor corn and hogs, while owner-operators<sup>58</sup> raised more soil-building crops.

J. A. Baker's 1939 studies in the corn belt showed ". . . the system of land use on tenant operated farms is much more conducive to soil erosion than that observed on owner operated farms."<sup>59</sup> He continued:

The size of the differences noted and the consistency with which they are observed indicates that the results of this analysis are applicable to a much larger region than that actually covered by the areas studied.<sup>60</sup>

Peter Nelson summed up his observations this way: ". . . the tenants occupy the less sloping land, but show an<sup>61</sup> equally higher degree of erosion."

Besides being worse conserved, tenant farms tend also<sup>62</sup> to be less improved. According to a very familiar economic reasoning, which is little more than common sense, an additional acre joined to a farm with little spare labor and equipment to complement it will increase output less than if added to a more intensive farm.<sup>63</sup> The 1940 Census, last to give this information, reported that on full owner farms, buildings made up 40% of the combined value of land and buildings, on tenant farms only 27%.<sup>64</sup> In the corn belt in 1940 owner farms had 30 to 50 per cent more buildings per acre than tenant farms, according to Rainer Schikele.<sup>65</sup> Again, Adon Poli found resident held land in the Imperial Valley to have many more improvements per acre than tenant land.<sup>66</sup> As to machines, the 1950 Census states that tenant farms are much less mechanized than others.<sup>67</sup>

Here are the percentages of pure tenant farms and owner farms having electricity, tractors, and trucks:

TABLE 4

68

## Certain Improvements on Tenant and Owner Farms

<u>Per Cent of Farmers Having:</u>	<u>Tenants</u>	<u>Owner-Operator (Commercial)</u>
Electricity	66	85
Tractor	40	57
Truck	25	40

Nor are tenant farms more labor-intensive. One study in the corn belt showed about the same use of labor per acre on tenant and owner farms.<sup>69</sup> If the tenant farms were on better land, as tenant farms in that area generally are, that means the tenant farms used less labor per dollar of land value. And if we compare corn belt farms with owner farms in marginal areas like the Appalachians, we find the corn belt farms fantastically underpopulated relative to, say, eastern Kentucky. Carter Goodrich selected 20 counties of eastern Kentucky (on the basis of their having few part time farms to distort the averages) to compare with Iowa, and found that in eastern Kentucky there were two and one-half times as many farm inhabitants per farm acre as in Iowa. And, if one excludes the pasture, woodland and waste, there were 7.9 times as many farm inhabitants per acre of crop land in eastern Kentucky.

Measuring by value, there were 14.9 times as many people per<sup>70</sup> dollar of farm real estate value in eastern Kentucky.

The 1950 Census (published in 1953) cites a 1952 joint survey by the Departments of Agriculture and the land grant colleges. It concerned potential farm output. The Census sums it up as follows:

With the use of 3 per cent more cropland (which was idle in 1951) and 2 per cent more man-hours of labor, the total farm output in 1955 could be 21 per cent more than in 1950. . . . The larger part of the increase in farm output, as shown by the survey, would come from the regions with the highest percentages of tenancy. 71

Because of studies like those above, we include tenanted lands among underused lands. That does not mean that every tenant farm is abused. We will see more and more, as the study unfolds, that land use is very much a matter of the individual holder. But it does mean that most of the tenanted lands are not contributing as much to human well being, nor to the income of the holder, as they might if owner-operated. Thus it casts a doubt on whether the present land market succeeds in allocating land to the holder in whose possession it would add the most to output, inasmuch as these lands would quickly become owner-operated if the market transferred title from absentee landlords to operating tenants.

#### B. The landlord-tenant relationship

Now we will consider the reasons why tenanted land is more eroded and less improved -- and in the process we will note some less visible losses due to tenancy.

Some attribute the condition of tenant farms to tenants' being an oppressed class, who never had a chance; others to tenants' being "thriftless and shiftless."<sup>72</sup>

No doubt there is some truth in both observations, but neither carries very far. For some tenants are relatives and even heirs of their landlords; and many hold title to some acres at the same time they lease others. And in 1937 the President's Committee on Farm Tenancy observed: "The average annual net income of tenants in the North and West apparently is not strikingly different from that of owner farmers . . ."<sup>73</sup> Those facts hardly admit of either explanation.

It is more plausible that the institution of tenancy itself is at fault. In the following pages we will examine its workings in some detail, and especially its effects on incentives to produce, conserve, and invest. This is necessary to determine whether we are justified in referring to tenanted lands as "misused", and interpreting the persistence of tenancy as a standing violation of the equimarginal principle. In general, the considerations of the following pages indicate that the landlord-tenant relationship entails considerable costs, material and psychic losses, involving both destructive acts and the frustration of constructive ones, all of which detract greatly from the net income that finally accrues to the landlord and may be called the income imputable to the land; and therefore that tenanted lands tend to yield less income to their holders, and to society, than they would if each tenant were his own landlord.

# 1. The basic conflict of interest

The extra losses of tenancy spring basically from one person's holding title to what another manages. That intrudes into farm management an extra human relationship and conflict of interest that is costly, and thus detracts from the net produce of the land. Some economic analysis proceeds as though human relations were costless to arrange. But in fact the highest priced administrators and lawyers deal with little else. It is not a cost that economic theory can ignore.

A simple example is the cost of merely collecting rent. Where owner and operator are one, this cost is zero. But collecting from tenants costs money. Hurd once estimated that in central cities, with high rents, collection costs were 2.5 - 3 per cent of rent; in smaller ones, with lower rents, 5 per cent, and more for cheaper places.<sup>74</sup> Probably on farms the percentage is higher. Indeed, the sharecrop system exists primarily to facilitate rent collection, and all its wastes in a sense are collection costs. From Persia we read that "watchmen are stationed in the fields at night to guard the grain against theft", and the peasant cannot move his grain until the landlord has claimed his share.<sup>75</sup> American landlords do not usually go so far; but they or their agents must certainly keep a sharp eye to see that the tenant does not conceal part of the crop he is supposed to share. That costs something. Too, the system weakens the tenants' incentive, as only some fraction of his marginal efforts accrue to his benefit. Like a man subject to high marginal income taxes, he will work only



to the point where the marginal product that accrues to him equals his marginal cost in producing it. If he takes 50 per cent of the crop, he will not, as Banks observed long ago, expend more than 50 cents worth of his time and trouble to add \$1.00 to the crop value.<sup>76</sup> When we consider that over 70 per cent of the land tenants operate in the United States is under some kind of share arrangement,<sup>77</sup> it is clear those costs are something to reckon with.<sup>78</sup>

Moving and contracting costs also mount up. Most American farm leases run only for one year, and tenants shift from farm to farm quite often. In many areas, too, the boundaries of scattered absentee holdings do not coincide with the functional outlines of optimal operating units. In some areas, like Imperial Valley, a tenant must often dicker with many absentee title-holders, or their agents, to assemble an operating unit, and perhaps repeat the process every year or so.<sup>79</sup>

These are simple examples of excess costs in the tenancy relationship, "excess" meaning costs that do not arise where owner and operator are one. But they are the least important ones. The greatest wastes result rather from this: the tenant has no interest in the future of the assets he manages. He has no personal motive to conserve and improve the land. Understandably, his attitude is: "Let the farm do the work; the only thing here of value to me is my time". Such reasons urge him to wring as much as he can of the extractable values of soil and improvements into his own pail; and to spend as little effort as he can putting anything back. An oft-told

example is tenants' preference for particular kinds of "fertilizer" that act primarily as catalysts, making the soil yield more of its fertility into the present crop at the expense of future crops. But a hundred little choices between present and future present themselves to the tenant every day. In each, he tends to favor his income and his leisure over the land's condition -- to sacrifice any future value, however great, for any present value, however small.

The title-holder, to be sure, values the land's future. Why, then, does he not arrange to compensate tenants for improvements, and penalize them for wastes? He may try; but such a contract would cost dear to administer. As we said, the tenant chooses between present and future values many times a day, to some extent in every move he makes. Maintenance consists in an endless series of petty attentions. Little about a farm or building is standardized. It takes time and hard work to survey the tenant's improvements, and assess the results of his neglect. It takes a long walk and a good memory to know that he stopped to straighten a post, tighten a fence, check a gully, or touch up the barn door. The mere cost of examining and describing all this work may exceed the cost of doing it. Indeed, unless tenant and landlord trust each other uncommonly well, and have uncommonly accurate and concurrent memories of how things were when the tenant arrived, they will never agree on the description. And after that they must put a money value on it. The holder may think the tenant misdirected his efforts and refuse to buy; the tenant

has no other market for capital he attaches to the holder's land. As to penalties, few tenants would contract to let another assess penalties against them, and few holders would hope to collect them.

One cannot, therefore, make a tenant give land an owner's care by compensating and penalizing him. Human relations are expensive at best, and the tenant-landlord relation is far from the best. The cost of tenant-landlord relations prohibits much care that an owner would automatically give in the course of his work; and even where compensation is feasible, administrative costs eat up much of the benefit.

Good will is a lubricant that would considerably reduce the friction of landlord and tenant. But good will is a hard feeling to foster between those two. Few tenants love a landlord. A good many hate them. Rightly or wrongly, the tenant may consider the landlord as an exploiter more than a co-equal partner and fellow citizen -- the long tradition of landlords as aristocrats and tenants as unhappy subjects still lives in some of the attitudes of both groups, whatever one may think about its relevancy to modern conditions.<sup>81</sup> Or, as the cynic would have it, tenants may be vindictively jealous of the landlord's affluence and power. Again, the tenant may simply despise the landlord as an idler.<sup>82</sup> The landlord, in turn, may despise the tenant because he does have to work. Whatever the reasons, there seems to be extraordinarily little love lost between tenants and landlords.

Social attitudes may degenerate until, as Buck wrote of tenants and landlords in China, "it is quite universal for each party to suspect the other and (for them) to take advantage of each other in any way possible."<sup>83</sup> Or, as Clyde Mitchell wrote of Korea: "Maximum exploitation of the land fertility was necessarily the goal of nearly all farm tenants."<sup>84</sup> No doubt in our own country there are many landlords and tenants who feel a mutual respect that eases the thousand petty problems of maintenance that they share, and admits of some arrangement for compensating and penalizing. But as a general rule the feelings between them are such as to discourage it.

There ensues a battle of wits between title-holder and tenant, maneuvering for their individual gain. Each can expropriate part of any capital the other commits to the land: the landlord by raising the rent; the tenant by depredation or neglect. Prudence restrains each from committing any capital that would be a hostage vulnerable to the other, and thus precludes to tenant or landlord investments as owner-operator would never be without. And so many opportunities to conserve, maintain and improve tenant-operated land languish unheeded, even while we deplore the general dearth of investment outlets.

## 2. The landlord's defense

First we will consider how the landlord defends himself from the tenant.

One way is to oversee and supervise the tenant closely. But then the landlord is an owner-manager, and the tenant a

hired man. We are now concerned rather with the many holders who, preoccupied with business or pleasure elsewhere, let tenants manage the land. In the extreme, such landlords know nothing of farm technique -- and in 1946 about 25 per cent of all United States farm land was held by those neither farmers nor retired farmers. <sup>85</sup> Heiresses, insurance companies and other absentees hold lands they are in no position to supervise at all, and may not see once a year. If they cannot supervise, neither can they check the tenant's behavior very closely to know that he is guarding their interests. To be sure, those landlords who live nearby, and know farming, can keep a better eye on the tenant. They can, if they will spend the time, prescribe and enforce broad minimum standards. But further than that they cannot go without losing the advantages of having a tenant instead of a hired man. And so many landlords must resort to other defenses.

The landlord may resign himself to the tenant's depredations, and charge high rent to compensate for them. This probably explains in some part the oft-deplored cash-crop bias of tenancy. The landlord prefers cash that he can count in a minute to conservation practices and improvements he must study and haggle over for weeks. "The tenant may abuse the place anyway", reasons the landlord. "It would not pay me to snoop after him all year. Why not include probable damages in the rent?" And so he does, thus forcing even careful tenants to abuse the land to make their tenancy pay. <sup>86</sup>

The holder's second defense is to minimize improvements. The older, plainer and shabbier they are, the less the tenant can injure them. A few nails that would devastate plaster will never show on rough boards, and a little more mud will only make a dirty place dirtier. When the holder does improve he modifies the work to meet abuse. He battens down the hatches, as a sailor for a storm. He omits the fragile, the expropriable, the unwashable, and consigns only hard, smooth or battered surfaces for the tenant to mistreat. It costs something thus to tie down capital. It costs more, in benefits lost, to forego all those vulnerable features, for they are half the good and useful things of life. So in defending himself the landlord tends to keep the land underimproved.

A third defense is to rent only the least destructable land. This is doubtless one reason why tenancy claims the flattest and most valuable land. A rainy hillside, whose unguarded soil could wash away in a few seasons, is no land to trust to a tenant. Those who are buying land 'for income'<sup>87</sup> avoid hilly country, and buy bottom and flatlands.

The holder's fourth defense is his power to evict. The holder preserves this power by giving only short-term leases. Most American farm tenants are legally vulnerable to eviction<sup>88</sup> once each year. With this threat, rather than more positive incentives, landholders hope to deter tenants from the most destructive practices.

### 3. The tenant's reaction

And how does the tenant react to all that? For one, a shabby place will not inspire him to keep it scrupulously. Too, if his rent is premised on some destruction, he will doubtless be somewhat destructive. He may be anyway.

On the other hand, the threat of eviction inhibits his destructiveness. If his rent is low enough so he wants to remain, he will probably try to impress the landlord favorably by keeping the place up, or at least appearing to. He may even hit it off very well with his landlord and enter into joint projects. But the threat of eviction is a two-edged sword. Perhaps it restrains the tenant from destroying; but it certainly restrains him from creating. It confines his plans to a narrow time-span within which it would not pay to conserve or improve on his own account. It confines his long term enterprise to projects his landlord approves and will pay for. Although a small operator, enjoying no benefits of large-scale organization, the tenant is inhibited much like a minor bureaucrat.

Many students of the subject recognize that the results fall short of anything that might be called "full use". Here are some of their comments.

Leon Truesdell:

The tenant must always work without the stimulus of land-ownership, and the tenant farm usually suffers to some extent from the lack of an owner's care. Every tenant farmer is likely to feel that he is subject in some measure to the will of the landlord and that the products of his own enterprise accrue in part to the benefit of the landlord. 89

Rainer Schikele:

The tenant's initiative for providing needed facilities is hampered by his insecurity to stay and the fact that he cannot put any improvements on the farm without losing all of their unexhausted value the moment his lease expires. 90

T. W. Schultz:

We have not as yet learned how to harmonize a one-year lease with a five-year investment. 91

R. T. Ely and G. S. Wehrwein:

If the American farm owner's 'conservation relationship' to his farm is weak, it is practically non-existent in the case of the tenants. 92

J. Ackerman and M. Harris:

Under tenancy the operator's opportunities for investment in the farm enterprise tend to be rather restricted. . . . The result of this dualism of control over capital application is that the majority of tenant farms are underimproved and operated at less than optimum intensity and efficiency. 93

They also mention ". . . the tenant's fear of losing the farm if he improves it and makes it attractive. He also fears that any improvement might make it necessary for him to pay a higher annual rental."<sup>94</sup>

Why in the world, many have asked, do not landlords grant long term leases? That would free their tenants from the insecurity that inhibits their enterprise. A prime reason, which we have already mentioned, is quite simple and quite conclusive. The landlord would thus relinquish his power to evict, and leave himself at the tenant's mercy. Toward the lease end the tenant could mine the soil and abuse the improvements without any restraint. Even in cities, where there



is no soil to erode, long leases are not very popular. "Due to the fact that buildings on leaseholds revert to the landlord, tenants often refuse to make improvements toward the end of a term. As a consequence, buildings and neighborhoods are neglected and become dilapidated. . . ." <sup>95</sup> Buildings, too, may "erode" away.

Another drawback is that the original lease contract must stipulate the cash rent far into the future, when no man can predict what the economic rent of the land will be. If the economic rent rises above the contract rent, the landlord gets no part of the excess. If it falls below, the tenant may very likely fail to pay.

Long leases are risky for the tenant, too. He risks losing his improvements in any bad year when he cannot meet the contract rent. In bad times, many buildings revert to landholders that way. Of course that deters conservative financial institutions from lending to tenants on the security of their improvements, and deters the tenant from improving as fully as if he held title.

And so the long lease is rare, the short lease nigh universal. As Baker says, "The majority of corn belt tenants do not know from one year to the next whether they can remain on the farm they occupy for a longer period than the immediate year." <sup>96</sup> Neither, one should add, do most farm tenants in the United States, or for that matter the world.

Now let us further consider how tenants react to short leases. As the tenant cannot invest for the future,

neither can he plan for the future. Yet:

It is well established that the most desirable systems of farming require that farming operations are planned several years in advance. 97

Good irrigated land is built up; it is not produced in one season. 98

Livestock production and proper crop rotations require long term planning and a long-time outlook which cannot exist under the probability of moving is as great as under present leasing methods. The length of time a farmer expects to stay on the same farm influences every decision he makes as to land use . . . " 99

Economies in land use extend over scores of years, but tenants plan only from lease to lease.

A title-holder, though seemingly inert, may come to life and exercise his prerogatives at any lease-end. Indeed, he will often not forewarn a tenant to be evicted, as then the tenant could ravish the land unrestrained until his lease expires. Hence the tenant must anticipate eviction each year, and will rarely look much farther ahead than that. 100

The loss from this is not just the tenant's not planning for the future according to principles tried and true. Another problem is that tenants lack much incentive to explore new possibilities to use the land more effectively when, in result, their rent will rise. As Clyde Mitchell observed in Korea and Ireland ". . . tenants . . . endeavored to keep production down to an average figure lest the landlords increase the rent. 101 Again, H. Rider Haggard observed in England that "tenant farmers will not co-operate because, cooperative accounts being open to inspection, they fear their landlords might raise the rents if

it were found that they were prospering."<sup>102</sup> William O.

Jones has given us an intimate study of how the Spreckels Sugar Company, as tenant, for years kept in sugar the rich lands of the Moro Cojo ranch, although artichokes would have yielded a much greater net income per acre. Not until a new landlord took an active interest in managing the lands for greater income was the change-over effected. The tenant, well content with his lease, had no wish to rock the boat, and stir the landlord into re-appraising the situation.<sup>103</sup> The operator is generally in closer contact with actual technical and marketing conditions, more aware of and better able to appraise new possibilities than an absentee landlord; but he may not do anything about it.

Those, then are some of the reasons why the tenancy relationship, as it exists today, involves considerable material losses, losses which one can see, and roughly count and evaluate. But those material losses are only part of the losses -- to some minds the smaller part. Along with them go important psychic ones.

As the exchange value of even material things springs only from judgments of the human mind, conditions that produce pleasure in the human mind directly create values as genuinely "economic" as those stored up in matter. And the conditions of tenancy themselves produce pain in the minds of tenants, while the conditions of ownership produce pleasure. To deal with his surroundings as he pleases, in his own wisdom, time,

and fancy, is many a man's deep yearning; to submit to another's whim, an ordeal. Again, to deal openly and unafraid, to display the fruits of his labor proudly rather than dissemble them and feign poverty, to earn the respect of his associates: those are important values to the social human animal. It is hardly plausible that most tenants enjoy being insecure, evasive, socially inferior, and without creative outlets on the land, nor yet that most landlords enjoy being petty, officious and importunate, where recalcitrant tenants require it.

Accordingly, each year, thousands of intrepid adventurers brave bankruptcy for the sheer pleasure of captaining their own enterprises, or possessing their own homes. Others avoid tenancy for its low social status, and would own and control for prestige, power or security. Whatever the reasons, it is safe to say that the unpleasantness of landlord-tenant relations creates considerable unhappiness, which is a very real cost to those who experience it, and which to avoid they will undertake considerable material burdens.

To sum up, then, it is not by chance that tenant farms are generally worse tended than owner farms. The tenancy relationship itself definitely discourages the best farming. Were each tenant his own landlord, he would almost certainly use to much better effect the same lands he now abuses and neglects. The same man, on the same land, can produce much more under better tenure conditions.

And yet not each tenant has become his own landlord,

and tenancy is still with us after millenia of human experience. Indeed, if the unamended land market had its way, we would have much more tenancy than we do. For society subsidizes the resident-owner with occasional debt moratoria, homestead tax exemptions, residence requirements, acreage limitations, subsidized loans, and the like, and socially-minded individuals often help young entrepreneurs get started "on their own". Yet with some inexorable force tenancy wells up in the land despite all the social pressure on it. As tenancy persists, despite all its wastes, it is clear that the land market, at least as presently constituted, does not always tend to allocate land to its most productive use -- the "use" being inseparable from the user and the conditions of his tenure. The highest bidder is not necessarily the one in whose ownership the land will add most to output. If he were, most tenants would long ago have bought out their landlords and freed their hands to increase output.

Some Americans hope and expect we may one day legislate better landlord-tenant relations -- perhaps on the English model -- and thus alleviate the worst abuses of tenancy. Now that may or may not be possible -- for the present study it matters little. The fact is we have not done so. The tenancy which the land market establishes in preference to owner-operation is as it is, with all its faults, and not as we may hope it might be. So the present point remains: the highest bidder for land is not necessarily the best user.

#### IV. The function of tenancy

Our purpose, in the foregoing analysis, has not been to pass final judgment against the desirability of tenancy in the present land market. Far from it -- we readily agree with H. C. Taylor that "a flourishing tenantry, under a liberal and wealthy owner, are far more productive than owners whose means are too straightened to allow of the proper application of capital."<sup>104</sup> Rather, our purpose has been to establish beyond a reasonable doubt that tenancy, whatever its compensating virtues, does definitely entail losses and wastes, and that these are substantial and never to be lightly overlooked.

But now, what of the other side? The question arises, if tenancy involves such wastes, why does it persist in an economy where men are free to pursue their own best interests, and competition weeds out the inefficient? What are the benefits of tenancy?

Various economists have explained the need for tenancy in these terms. Tenancy is a cooperative effort, a division of function. The landlord relieves the operator of the risk and interest burden of holding title, which the operator is ill suited to bear. The operator can then invest his limited funds in equipment, rather than sink them in a land title. If he tries to borrow to buy, he will be limited by credit rationing and high interest rates, and will secure a unit too small or too poor for most efficient operation. A young farmer without means can rent more assets than he can borrow,

and so he is often better off to rent. Thus, as Schultz puts it: "farm tenancy may be . . . a device through which a highly competent farmer with limited capital is enabled to put into operation the most efficient methods of farming."<sup>105</sup>

There is no doubt but what that is an accurate description of the choice facing the young entrepreneur without means. From his viewpoint, those are persuasive reasons for renting. The landlord serves the tenant a useful turn by relieving him of the risk and interest burden of holding title. That, probably more than any other reason, is why tenancy, with all its wastes, persists and grows.

But does that contradict the idea that tenanted lands are not in their most productive use? On the contrary, it supports it. It is simply another way of observing that landlord investors can outbid their tenants for land titles even when the land then yields the landlord less net income than it would have yielded the tenant as an owner-operator. For if a landlord can finance land more easily than can an operator, that means he could pay a higher price for land yielding a given income, and therefore pay a slightly higher price even for land yielding him considerably less income than it would yield the operator as an owner.

Of course in the market as it is, the ability to finance land titles is an important consideration to the individual. Were the question under study "Is tenancy advantageous to individuals under present land policies?" the answer would

often be "yes", since the cost of transferring funds from borrower to lender, expressed in interest differentials, is often greater than the cost of the landlord-tenant relationship. But the present study asks, rather, "Is a land market that leads men into tenancy thereby allocating land to the holder in whose possession it will add the most to net output?" To that question the answer is more often "no".

These few words do not exhaust the issue, nor are they meant to. They serve only to acknowledge the popular Schultz-Taylor rationale for tenancy and place it in perspective with the rest of this study. Grant its assumption that high land prices and other features of present land policy are part of the fixed order of things, and it competently demonstrates the advantages of tenancy. But question the assumption and the argument does not demonstrate that tenancy is economical; it merely demonstrates that present land policies produce tenancy. And as present land policies are the very thing under scrutiny here, that is more a mark against them than it is one for tenancy.

It would be premature, at this point in the study, fully to explore the implications of these remarks. Chapters IV-VI explore them at length. But, to place tenancy more definitely in perspective from the viewpoint of this inquiry, as well as to assure the reader that that viewpoint is not futile, let us anticipate the analysis of these later chapters with a simple, and admittedly imperfect analogy.

The market for land titles is something like a "tie-in



sale", a sale at which, to buy "A", one must take "B" along with it, and vice versa. In the land market, "A" is the present use of the land, and "B" is a claim to future incomes extending into perpetuity. While one can buy a very small slice of land measured spatially, one cannot buy a small amount measured temporally. In that legal instrument known as a land title, present and future are bonded together, making land indivisible in time.

It is a commonplace of economic theory that markets can achieve ideal allocation of resources only if the units are perfectly divisible. If "A" is indivisible from "B", then those wanting "A" and not "B" will buy less of "A", and more of "B", than they would have were they divisible; and vice versa. In the land market there are absentee investors who particularly value the future income from land; and there are dirt farmers and active managers who particularly want the present use of it. The market for land titles leaves both groups far from satisfied. Many investors accumulate more land than they can manage very effectively, an embarrassment of riches; many active managers are starved for land, cramped in a space too small to complement their managerial capacity.

Tenancy is a means, a very imperfect means, by which the two groups mutually solve their problems. The more embarrassed investors lease their surplus holdings to the more pinched managers. If the tenant-landlord relationship were costless and frictionless, it would in fact solve the problem

completely, making land perfectly divisible in time. The tenant receives a year's access to land without having to buy the claim to infinite future values, the title. But being what it is, tenancy falls far short of solving the problem, leaving a wide gap between the marginal products of land on the farms of embarrassed investors and pinched owner-operators -- a matter discussed in the next chapter. And besides that, of course, it constitutes a problem in itself.

Within the framework of present land policy, a policy that makes land indivisible in time, tenancy doubtless is often the lesser of two evils. But the fact that this lesser evil is still so evil leads one to wonder if it might not be possible somehow to modify land policy, to make land more divisible in time by some means other than tenancy, and spare tenants and landlords from such a hard choice. There are, after all, many alternative land policies from which to choose, and many feasible modifications which might ease the problem. The purpose of the present study is not to evaluate these alternatives -- that we leave to a sequel. The purpose of the present study is to consider whether it might be desirable to entertain some of those possibilities. The evidence of this chapter indicates that it would be.

## V. Summary

In summary, the evidence of this chapter indicates that tenancy is a widespread form of land tenure which shows little genuine signs of abating. It also indicates that a shift of

land titles from absentee landlords to owner-operators would tend to increase the net output of the lands shifted -- that is, that their marginal productivities would be higher under owner-operation. This seems to reveal that the present allocation violates the equimarginal ideal, which requires that it be impossible further to increase net output by reallocating land. Tenancy is shown to serve a useful function to individuals within the framework of present land prices, the function of making land divisible in time. But this by no means rules out the possibility that the function might be better served by some other land policy.

## APPENDIX 1 TO CHAPTER II

TABLE 5

VALUES OF LAND PLUS BUILDINGS IN THE  
WEST NORTH CENTRAL REGION, BY SUBREGIONS  
WITH HIGH AND LOW TENANCY (see pp. 130-31)

Over 40 Per Cent Leased Land		40 Per Cent or Less Leased Land	
<u>Subregion</u>	<u>Value Per Acre</u>	<u>Subregion</u>	<u>Value Per Acre</u>
69	\$132	66	\$ 44
70	176	68	87
83	54	71	86
85	140	72	81
86	182	73	34
87	78	82	58
91	31	84	54
92	55	88	51
93	67	89	52
94	94	90	26
		103	50
		104	13

Simple Average \$101

Simple Average \$53

Subregion 86, (Northwest Iowa) with the highest value per acre, also appears from the map to have the highest per cent of leased land.

Appendix #2 to Chapter II. (See p. 137)

If we were to assume that Census figures on land and building values are a good index to represent land values alone; and the figures on land operated by pure tenants and pure owner-operators are a good index to represent all leased land and all owner-operated land; then it would follow that the per cent of land value under lease is still about the same as in 1935. For leased lands would have about made up in value per acre what they lost in area. As a matter of fact, however, those assumptions are dubious.

First, it is not sure that the leased and owned lands of part-owners have the same relative values as the leased lands of pure tenants and the owned lands of full owners.

Second, changes in the value of "land plus buildings" are no index to changes in the value of land alone, especially when one is comparing leased land to owner-operated land. For land value comprises a higher per cent of the total value of leased farms than owner-operated farms; and the ratio of land values to building values changes markedly from phase to phase of the land value cycle. An example will show the influence of that.

(Refer to Table 1, p. 126.) In 1920, at the height of the farm land boom, land value comprised 83 per cent of the total value of land plus buildings. <sup>106</sup> By 1925, land prices had fallen, while the values of farm buildings held constant. Land value was then only 76 per cent of the total. Accordingly, the average

value per acre of land plus buildings on tenant farms fell from \$90 to \$64; owner-operated farm values fell only from \$67 to \$58.<sup>107</sup> To repeat, that was because owner-operated farm values consisted more largely of building values than did tenant farm values.

In all probability, the recent recovery of tenant farm values relative to owner-operated farm values springs in some large part from a general rise of land values relative to building values. Hence we cannot attribute the recovery entirely to a rise of tenant land values relative to owner-operated land values. It is partly a higher ratio of land values to building values that now makes tenant farms more valuable relative to owner-operated farms than they were in 1935.

The weight of evidence, then is that the per cent of land value under lease has also declined since 1935, although probably not so much as the per cent of land area under lease. And so, although the more significant measures of tenancy have fallen much less than the best publicized one, still there is no denying that farm tenancy, however we measure it, has indeed receded from its depression high.