THE DIVISION OF FARM INCOME BETWEEN LANDLORD AND TENANT

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The particular theoretical aspect of tenancy which I shall discuss is the division of the income between the landlord and the tenant. This division is of course determined by the amount of the rent paid. I shall first consider cash rent, and afterwards apply the analysis to share rent.

The issue which is here raised is by no means a new one. Landlords and tenants in all ages and climes have argued and disagreed as to what constitutes an "equitable" division between them of the farm expenses and the farm income. In the days of the Ptolemys in Egypt, the tenants are reported as "striking" against their royal landlord because of his attempt to collect a larger share of the farm income as rent. Just at present, however, the issue is more sharply drawn than usual in many parts of the United States because of the high though uncertain level of prices for farm products and the recent sudden jump in the prices of land. Cash rents have risen in many sections, but landlords are strenuously insisting that even these higher rents do not return them an adequate or even a normal return on their larger investments. In share-renting sections, the landlords are asking for larger shares, or larger bonuses, or else they are trying to shift more of the expenses onto the tenant I shall endeavor before concluding this discussion to apply the analysis to the present situation.

The rent which we are considering is of course "contract" rent, and not the economic rent of the Ricardian formula and its modern adaptations. It includes not only the pay for the use of the land, but also for the capital improvements on the land, the buildings, fences, drainage systems, fertilizers. It includes also the pay for the landlord's services as landlord, and whatever additions to or subtractions from the foregoing which may arise from conjunctures of circumstance, from economic friction, bargaining, monopoly, custom or collective bargaining. Between contract rent thus defined and economic rent, there is necessarily a high degree of correlation. This correlation will be discussed later.

The first thing to understand about contract or "market" rent is that it is a price, a market price, exactly like the price of wheat or milk. It is the price paid for a year's use of land and the improvements upon it. Since rent is a price, it is determined in the same general way as all prices, that is, by supply and demand, and the price-making forces behind supply and demand. There are those who tell us that the law of supply and demand no longer operates. They are mistaken of course. Sometimes it operates slowly, but it always operates. It operates even where the supply of a good is entirely monopolised. What these persons mean is that competition is no longer always free, that some of the parties to many transactions are in positions of relative advantage or disadvantage. This is most decidedly true, and has been since the be-
Beginning of history, and rent is an excellent illustration of the fact. Let us see how the law of supply and demand operates in the case of rent. The landlord is a middleman. He buys at wholesale and sells at retail. Farms are constantly being offered for sale because estates need to be settled, or farmers wish to change farms or retire to the city. He who buys one of these farms outright must have considerable capital or credit, for he is buying not only the coming year’s use of the land, but all the future uses of it. Frequently not enough of the young men who are climbing the agricultural ladder have means adequate to do this. They can, however, buy a year’s use of this land, or contract under lease for a series of years’ uses of it, especially since in most cases they do not have to pay for it until they have sold their crops. But the retiring farmers wish to sell their farms outright. This is where the landlords step in—they buy the farms from the estates or the retiring farmers and then rent them out a year’s use at a time to the tenants who have not the means to buy all the uses of the land, present and future, at one time. Middlemen usually make their incomes out of the margins between what they pay at wholesale and what they sell at retail. The cheaper that landlord middlemen are able to buy farms, and the higher the rents they are able to obtain, the larger their middleman margin. It is ordinarily assumed, however, that competition between landlords, tenants, and owner farmers on the one hand and between different landlords on the other hand, is sufficient to keep these margins at a reasonable level. In buying their farms, landlord middlemen have to bid up, in the first place, to induce farmers to sell rather than to run their farms themselves, and in the second place, to outbid the farmers’ sons and tenants who are about ready to buy. If they ask too high rents, young men aspiring to be tenants will remain farm laborers or move to town, and the old tenants will buy farms if they are able or else quit farming. If these opposing forces are not enough to keep landlords’ margins from rising above a normal competitive level, then more and more men will try to be landlords and this will beat the margins down. As a result, the margins will be kept at a point which will call forth just the necessary number of landlords.

Whether the foregoing assumption is reasonable or not is a question that can be answered only after closer study and analysis. Let us discover if we can the general outlines of the composite demand and supply schedules which furnish the basis for all price determination. Landlord middlemen are in general of two classes: (1) Those who become landlords of the farms they have formerly operated and hence are doing their own retailing. These are the retired-farmer landlords. (2) Those who have bought farms with the intent to sell them at retail to tenants at least till they get a chance to sell wholesale to advantage. This class includes the bankers, merchants, physicians, and real estate agents who are dabbling in land as a side line, and also a small group of professional landlords who make this their principal means of earning a liveli-
hood. Professional landlords are likely to stay out of the business unless they can obtain a rather wide margin. Retired-farmer landlords, however, are not likely to ask for a wide margin. In many cases they were obtaining only a small return on their investment as owner-operators. Moreover, they know nothing so well as farming, and have few alternative uses for their services. Such landlords are likely to supply a large amount of middleman service at a low return. The speculating landlords very frequently ask for only a small return—they are looking elsewhere for their rewards. The same is true of those who are landlords for the sake of an avocation. The more of the landlords who are retired farmers, the lower the rewards of the marginal landlords. Apparently the reservation price of the marginal landlords in most places is high enough to take in a large proportion of the retiring-farmer class, but only a small proportion of the potential speculating and professional landlords.

The composite demand schedule for land to rent is made up from tenants' and farmers' sons and farm laborers aspiring to be tenants. The tenants' and farmers' sons who have saved or are supplied with several thousand dollars worth of property stand at the bottom of the schedule. They drop out of the class of demanders and become owners instead whenever the annual rentals asked suggest too large a middleman's margin. At the other end of the schedule are the farmers' sons and farm laborers aspiring to be tenants. But these too drop out whenever the margins are too large. They either remain laborers or may quit farm work altogether and go to town. The class which bids the highest consists of those who are half way up the ladder to ownership and do not wish to turn back. Tenants at this stage sometimes bid too high, lose money, and if they cannot make a better bargain, quit farming altogether. The reservation price of the marginal tenants normally includes all rents that will be paid by those who are already tenants who are not yet in a position to buy the rents that will be paid by a large number of new tenants who would remain laborers or go to town if forced to it by high rents, and also the rents that will be paid by a considerable number of old tenants who could buy farms if forced to it.

The matching of the landlords' supply schedule against the tenants' demand schedule as these two exist at the time gives us, if not a price point, then a general level of rents for that moment.

The foregoing explanation of how supply and demand operate in the case of rent, although true to the general facts, does not, however, meet with unanimous approval. The reason for this is that many landlords and tenants do not want a rent to be determined by supply and demand. The case is very similar to that of milk. Farmers, on the one hand, insist that milk prices determined by supply and demand are not always "fair" because they do not equal the "cost of production." Consumers, on the other hand, are likely to insist that the only "fair" price is the customary price, or perhaps a price just a little in advance of the customary price. In the case of rent, landlords are not always satisfied with the sup-
ply-and-demand price, because it does not always cover the increasing cost of land, taxes, upkeep of buildings, etc., and tenants are likely to declare any considerable increase in rents, even though it come from an increase in demand over supply, as unfair and unjust. Increases in rents are more likely to be condemned than any other increases. The reason for this is that the man who receives the rents is very frequently well-to-do and able to live upon his rents without working, whereas the tenant is a man who works long hours in all kinds of weather in order to get a start on the agricultural ladder. In spite of all our years of venerating private property in land, our people have never entirely reconciled themselves to the idea that one man, merely because he happens to own a piece of land, perhaps as a result of inheritance, has a right to a living out of the proceeds of another man’s toil upon it.

The fact of the matter is that the supply-and-demand price very frequently is not a proper price, and this is true whether we are talking about rents or milk prices, and the reason for this is that competition is seldom entirely free. One reason that competition is not free is what is usually called economic friction. Milk producers are not free to change to more profitable forms of production when milk prices drop—they have too much capital, too much costly skill and experience, tied up in their herds and equipment. Similarly, tenants, as has already been pointed out, are not always free to buy farms whenever rents are high relative to prices of land. They may not have enough capital saved. Once tenants have started out to work their way to farm ownership, if they turn aside to new and more profitable occupations they will lose the advantage of all their years of experience and preparation for ownership. Moreover, in learning farming, they have in a sense disqualified themselves for other lines of work. Even if these things were not true, customary ways of doing and thinking have a tremendous potency in keeping people doing the same things over again. Custom and family ties make laborers and tenants bid more for land than they should so as to stay in their native communities. There are sections of Wisconsin where a homogeneous foreign population has bid rents and values of land so high that they are entirely out of proportion to the rents and values of similar land in other sections of the state. There are other influences of economic friction which lower rents. Landlords also suffer from economic friction. Sometimes they cannot sell their farms readily when rents are too low. This is especially true in England. For all these reasons, the supply of laborers or tenants may be abnormally high or low in any particular place at any particular time. The same is true of landlords, although in lesser degree. The result of all this is abnormal demand and supply schedules and abnormal rents, either high or low depending upon the particular combination of circumstances which maintains.

Another way in which economic friction affects rents is by keeping the right tenant from getting on the right farm. A poor tenant cannot pay as much rent for a good farm as a good tenant. A good
tenant who gets onto a poor farm may pay more rent for it than he
should. If there were no economic friction all the good tenants
would get on the good farms, and the poor tenants on the poor
farms, and rents would be adjusted accordingly.

Closely allied to economic friction in this respect is bargaining.
Where all the buyers and sellers get together in one place at one
time and buy a standardized commodity, as upon the grain ex-
changes, then all pay the same price for the same grade of grain
at the same time. Rental bargains are almost always privately
made. There is chance for almost endless haggling over the quality
of the land and improvements. The character of landlord and
tenant are as important as the land. Nominal terms after all are
not the real terms of rental contracts. A landlord may be better
off renting for $500 to one tenant than for $1000 to another. For
all these reasons, bargaining plays an important role in determin-
ing what rents any tenant shall pay and any landlord receive.

In transactions of this kind, the skill of the bargainer is all im-
portant. It is safe to conclude that the landlord is likely to have
the advantage here because of his greater age and experience and
knowledge of the farm being rented. The other factor in succesful
bargaining is bargaining vantage. Which party needs most to make
the deal? If good tenants are scarce and farms for rent many, the
tenant is likely to get the better of the bargain. Or if good farms
are scarce, the landlord will have the better of it. If it is a matter
of renewing a lease, the tenant is likely to bid more to save moving
from a good farm than the landlord will bid to keep him. On a
poor farm, the opposite may be true. Tenants who are short of
capital are pretty sure to be placed at a disadvantage in bargaining.
They frequently have to be satisfied with poorer farms than their
ability as farmers warrants. In the matter of buying farms, the
landlords usually have the vantage, because they have more capi-
tal, and can offer better terms of payment. One of the ways that
landlords make money is by picking up farms at bargain prices
or forced sales and then renting them till they can sell at a good
margin. Bankers, lawyers and merchants are likely to become
landlords because of their ready access to such bargains. As will
be apparent, there are sections of the country where at any one time
the bargaining odds are in favor of the landlords; and there are
other places where the tables are turned. In the northern half of
Wisconsin and Minnesota, the odds at present are surely in favor
of the tenants. In most sections of the country, if there were more
good tenants, there would be more landlords.

Custom also has its influence upon rents in many sections of the
country. Whenever rents remain at somewhere near the same level
for a few years, the people come to accept these rents as proper
rents, to make their bargains unthinkingly in terms of them, and to
insist that any other rents are unfair. Custom is bound to have
most influence where rents and land values are most stable, as in
the East and South. It will also be more effective where land is
rented by the acre rather than by the farm, and where land is more
nearly uniform in quality. Rents in such cases tend to be expressed in round numbers, e.g., $5 or $6 per acre, and this means that they are changed only at considerable intervals, which gives a chance for the force of custom to accumulate. Custom is most effective where transactions are personal, as in the case with bargaining. Custom enters in such cases for the very reason that the weaker party seems to feel the need of it as a protection against the stronger. In such cases, there is an appeal to the customary thing as fair and just. Custom plays the smallest role where competition is most active. In times of flux, like the present, custom loses most of its efficiency.

Wherever there is economic friction or custom, some monopoly power is always possible. Landlords have seldom been known to get together as a class in common assembly and agree upon terms or leasing arrangements. They do, however, stick together pretty well on the terms which they have come to look upon as customary or as justified by changing conditions, and this sticking together is monopoly. By such means, they can raise rents to a point where tenants will buy instead of renting, or remain laborers, or move to a new section or choose a new occupation. All of these alternatives may involve a loss to the tenant, to escape which he may pay a smaller monopoly rent. Such monopoly gains are of course mostly temporary. However, as long as rural populations increase faster than the land can take care of them, a small constant monopoly advantage will accrue to landlords if they will pull together. Where landlords are at a disadvantage, however, tenants can reap similar advantages by concerted action. As with landlords it seldom happens that tenants meet and agree upon a common policy. This, however, is not necessary. In periods of rising prices tenants everywhere will all insist upon customary rents just as a matter of tradition. When prices are falling, landlords will insist on customary rents. Wherever the example of influential leaders is followed, the essence of monopolistic action is realized. Any campaign of education looking to common action by one class in their bargaining with another, is in effect monopolistic.

In periods of rapid change, contract rents are sure to differ widely from economic rents because rental contracts are usually made for more than one year.

The foregoing is an explanation of contract or market rent and the reasons why it differs from economic rent. Whenever competition is entirely free, when tenants and landlords are free to change at once when economic changes put them at a disadvantage, when landlord and tenant contract with each other, in complete knowledge of the land and the market, and each equally free to stay out of a deal, and when custom and monopoly are in abeyance, and contracts are made a year at a time, and when the right grade of tenant gets the right grade of farm, then the rents which are actually paid will be economic rents. But such conditions seldom, if ever, prevail. They will come nearer to it probably in the Corn
Belt than anywhere else, because more of the conditions of a free open market prevail here than anywhere else.

The extent to which market rents differ from economic rents is roughly indicated by Table I. At any one time in one place, economic rents ought to stand in fairly uniform ratio to value of land. The valuations placed upon the farms studied were estimates based upon the general level of land values in the communities. Errors in these valuations will account for some of the variations. Differences in ratio of buildings to land and location with respect to cities will account for some of the rest. Allowing for all these, however, there will still remain a wide margin of variation which can be accounted for only in the manner which has been explained.

**TABLE I. NUMBER OF FARMS IN 396 CASH-RENTED FARMS IN SOUTHWESTERN WISCONSIN RENTING FOR CERTAIN PER CENTS OF MARKET VALUATIONS.** (1917)

<table>
<thead>
<tr>
<th>Per Cents of Market Valuations</th>
<th>Number of Farms</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.6–2.0</td>
<td>2</td>
</tr>
<tr>
<td>2.0–2.4</td>
<td>9</td>
</tr>
<tr>
<td>2.4–2.8</td>
<td>21</td>
</tr>
<tr>
<td>2.8–3.2</td>
<td>42</td>
</tr>
<tr>
<td>3.2–3.6</td>
<td>68</td>
</tr>
<tr>
<td>3.6–4.0</td>
<td>106</td>
</tr>
<tr>
<td>4.0–4.4</td>
<td>85</td>
</tr>
<tr>
<td>4.4–4.8</td>
<td>36</td>
</tr>
<tr>
<td>4.8–5.2</td>
<td>18</td>
</tr>
<tr>
<td>5.2–5.6</td>
<td>8</td>
</tr>
<tr>
<td>5.6–6.0</td>
<td>2</td>
</tr>
</tbody>
</table>

What evidence do we find in the general level of rents as to the effect of the foregoing economic forces? For the 396 farms in Table I, the cash rents paid averaged 3.8 per cent of the market valuations. The average cash rent of 1185 farms, worth $14,375 each, rented in Wisconsin in 1917, was $565, or $3.89 per acre. This rent was 3.94 per cent of the market value. The average expenses of the landlords for taxes, insurance, grass and clover seed, upkeep and depreciation was $142, or 1.49 per cent of the market value. This left the landlords a net income of 2.45 per cent of the market value. A more careful study of 45 farms in Wisconsin in 1914–15 gave 2.48 per cent as net income to landlords. Sixty-three cash-rented farms in Minnesota yielded their landlords a net income of 2.5 per cent on the market value.† Iowa studies made in 1912–1913 showed 2.3 per cent net income from cash-rented farms.†

The obvious conclusion from these data is that if anybody is enjoying any gains from lack of free competition, surely it is not the landlord. Yet this need not be the correct answer, for several reasons, as follows: First, it is usual in accounting to figure income

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*Minnesota Bulletin 178.
†Iowa Bulletin 169.
on the basis only of the original investment, plus, of course, any later additions to the investment. The method used above involves figuring income not on the original investment, but on the original investment plus all increase in value since then. Increase in value and interest on investment are kept separate in all other accounting practice, and they surely should be in farm accounting if farm incomes are going to be compared with other incomes. Our public utility experts insist upon basing income and dates on cost of production rather than cost of reproduction. A 2.5 per cent net income on the market value of an average Wisconsin farm in 1917 is equal to a 3.9 per cent net income on the original investment in such a farm if bought ten years before. If the foregoing reasoning is sound, then the 2.3 and 2.5 per cent net incomes described above are fictitiously low.

The second reason is that interest on investment has not been the only gain from owning and renting land—there has been the rise in the value of the land, amounting in most of the Middle Western states to from 2 to 5 per cent per year ever since 1900. It may be urged that this is a very precarious item of income and that we have no right to bank upon it for the future. This may be so, and yet the rank and file of landowners of the country are evidently convinced that it is a reasonably certain income or they would not be buying and holding land capitalized at a rate of 2.5 per cent. If the rank and file conclude this way, then it becomes for the time being real value. Value is always based on estimates, and for the most part, on estimates of the future.

When we take all the foregoing reasons into consideration, it not only appears possible but probable that landlords renting for cash have been amply repaid for the middlemen services they have rendered, especially since these services many times have no important alternative. This does not seem to be a very adequate answer to the question raised, but it comes as near to an answer as is possible without an examination of the private accounts of landlords. Only the great dearth of good tenants able to pay cash rent has kept the numbers of cash-renting landlords as low as it is even at present rents.

How have tenants fared under these terms? On the 45 farms studied in Wisconsin, the tenant's net incomes averaged $1000, including the value of the living furnished by the farm (rent, fuel, etc., estimated at $400). The Minnesota studies showed tenants' net incomes amounting in one survey to $600 and in the other to $1100, living from the farm being included in both cases.* These net incomes were very similar to those made by the farmers then operating their own farms in the same neighborhoods, when interest on investment was deducted on the same basis as on cash-rented farms.

Now that prices of farm products have risen to new levels and land values have followed part of the way after them, how should

*Minnesota Bulletin No. 178.
cash rents be adjusted to fit? The first answer to make is that these changes do not necessarily require any rise in rents. So far as land values are concerned, there is no necessary direct or proportional relationship between them and annual rents. Each year's rent is a thing in itself and is based on the probable surplus of receipts over expenses for the year. This surplus will depend upon whether prices or expenses have risen the most. Prices of farm products in the United States have risen 130 per cent since 1915. If a rise in prices were to affect everything exactly as it has affected prices of farm products, then rents could of course increase 130 per cent, as is shown in the Table II, for landlords' and tenants' incomes would be in exactly the same proportion as before. What has actually happened is that wages of farm labor in the North Central States have risen 75 per cent. Machinery costs seemed

TABLE II. FARM RECEIPTS, EXPENSES, ETC., IF ALL INCREASED AT THE SAME RATE AS PRICES OF FARM PRODUCTS.

<table>
<thead>
<tr>
<th>Year</th>
<th>1915</th>
<th>1919 (at 130% increase)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of farm</td>
<td>$10,000</td>
<td>$22,000</td>
</tr>
<tr>
<td>Receipts</td>
<td>2,000</td>
<td>4,600</td>
</tr>
<tr>
<td>Expenses</td>
<td>1,000</td>
<td>2,300</td>
</tr>
<tr>
<td>Net Income</td>
<td>1,000</td>
<td>2,300</td>
</tr>
<tr>
<td>Rent</td>
<td>400</td>
<td>920</td>
</tr>
<tr>
<td>Tenant's Net Income</td>
<td>600</td>
<td>1,380</td>
</tr>
</tbody>
</table>

low as long as farmers were able to get along with old machinery bought when prices were low. But now the time has come when farmers must buy new machinery and buy it at prices that have more than doubled. Prices of supplies used on farms advanced 78 per cent from 1914 to 1918, and proportionately more in 1919. During 1917, 1918 and 1919, tenants were undoubtedly able to pay much higher rents, and most of them did, especially in sections where certain high-priced cash crops were grown.* But what about 1920?

Prices of farm products may begin gradually to subside at any time. Wages of farm labor are likely to continue to rise, and likewise machinery costs and supplies for some little time yet. None of these things are certainties, but all are probabilities.* In view of these probabilities, tenants cannot safely offer rents in 1920 which are in proportion to the prices they are now receiving for their products. If they do, they will be selling their own labor for less than they are paying their hired men.

The rents paid, however, at least for the next year or two, can

*Indices of gross farm incomes for Minnesota, from 1909 to 1919, based on the value per acre of crops and livestock, are as follows: 1909, 53; 1910, 55; 1911, 49; 1912, 50; 1913, 58; 1914, 54; 1915, 59; 1916, 68; 1917, 115; 1918, 183; 1919, 120. Note that 1918 gross incomes were 2 3/4 times those of 1919. Farm wages had increased only 38 per cent up to 1918. In 1919, gross incomes fell off 15 per cent, and farm wages in Minnesota increased 14 per cent.
safely be enough higher than in 1916 to recompense landlords for their higher taxes, upkeep costs and building costs. These are part of the expenses of operation on owner-operated farms, and must be covered by increase in receipts or else farm incomes and land values will decline. They must therefore be covered by higher rents on rented farms or else tenants will be getting larger incomes, or else values will decline.

In the table above, land values appear as increased in the same ratio as farm prices. As a matter of fact, this has not happened. Even in the most land-frenzied part of Iowa, land values increased only 67 per cent on the average between 1915 and August, 1919, while prices of farm products increased 130 per cent. On this basis, if the farm in Table II were an Iowa farm, its value would be $16,700 instead of $23,000. The reason for this is that land values are based on future as well as present uses of the land. Even in Iowa, farmers are not expecting future incomes to be as high as incomes have been in the past three years. Present rents are therefore out of proportion to present land values. A rent of $920 is 5½ per cent of $16,700. This need not continue, however. If prices and wages ever get back somewhere near to old levels, it may prove that even the $16,700 valuation is not justified and the landlord will have to take much lower percentage returns. If prices and wages do not go back to former levels, then land values will presently rise to $23,000 and the landlords will be getting the same return on their investments that they received in 1915.

It is hard to get the full significance of the fact that land values are based on future as well as present net incomes. In some sections of the country, people confidently expect future incomes to become larger as time goes on. Here land values are higher than present incomes capitalized at going rates of interest. In other sections, people are expecting smaller future incomes, and land values are lower than present incomes capitalized. If future incomes promise to be the same as present incomes, then a farm earning a net income of $5 per acre is worth $100 per acre if interest rates are 5 per cent. If, however, it is confidently expected that net incomes will rise 10 cents per acre each year, then the farm will be worth $40 plus $100, or $140 per acre. If it is expected that net incomes will fall off 10 cents per acre per year, then the farm will be worth $40 less than $100, or $60 per acre. In the first case,

*Paper of Dr. L. C. Gray, read before the American Farm Economic Association, November, 1919.

*Let \( V \) = value of land; \( a \) = annual net income; \( r \) = rate of capitalization; \( i \) = anticipated annual change in net income. Then

\[
V = a + \frac{5}{r} + \frac{.05}{r^2}
\]

E. G., \( V = \frac{5}{r} + \frac{.05}{(r)^2} = $140 \)

There seems to be much confusion prevalent as to the future element in land values. Some economists would call the $140 land "overvalued." What they mean is either that it is valued at more than present net incomes warrant, or at more than future incomes will probably justify.
cash rents will be 5 per cent of land values; in the second case, 3.6 per cent; and in the third case, 8.3 per cent. The second case described conditions in the West and Middle West; the first and third describe conditions, at least until recently, in the East and South.

It will be apparent from the above analysis that a change in land values in itself can never be used as an argument for a change in rents. There is no definite ratio between rents and land values. Rents must be based on each year’s prospective net incomes. Landlords will have their estimates as to these prospective incomes, and tenants will have their estimates. The actual rents finally paid will be determined by competition, bargaining, etc.

The other element in cash rents is the pay for the landlord middle-man’s services. This must be enough to call forth the necessary number of landlords. Obviously there is no way to calculate in advance what this amount must be. Each landlord, however, will have an idea as to what he wants, and each tenant as to what he is willing to pay. Competition, bargaining and the other price-making forces must do the rest.

Suggestions are frequently made as to determining “fair rent” according to various schemes, usually “cost-of-production” schemes. Obviously no cost-of-production scheme will work very satisfactorily because we have no way of calculating two of the most important elements in rent, namely, “cost” of the land, and “cost” of the middlemen service. The usual method of computing cost of land will not do, because it requires us to assume a rate of capitalization (usually 5 per cent has been assumed and this begs the whole question. To resort to the prevailing rate of capitalization for the community (3.95 per cent in Wisconsin in 1917, landlord paying taxes, etc.) may help as between different farms, but will tell us nothing as to the fairness of the prevailing rates.

Perhaps a statistical method can be devised that will be of some service. Statistical studies would probably reveal certain ratios between prices of farm products, rents, land values, wages of farm labor, taxes, maintenance, etc., which for a period of years sufficed to keep up the necessary supply of landlords and tenants. Using these years and these ratios as a basis, indices might be constructed which would roughly indicate necessary rents at any given time. A difficulty with such a plan is that either last year’s prices, wages,

Whichever they mean, they are misusing the term value. Land, being a fixed good, cannot escape having its value based on an uncertain future. That future will create a net income for it which is bound to be something different, either more or less, than present income. Not one iota more of merit attaches to the assumption that the future income will be the same as present income than that it will be a half more than present income. The value which is based on an assumption of rising incomes is therefore just as real a value as one based on the assumption of present incomes perpetuated. “Overvaluation” is therefore impossible. This of course does not mean that it is improper to believe that land valuations may be based on too ardent hopes.
etc., would have to be used, or else the amount of rent settled at the end of the year.

A makeshift for the above might be to assume that the reward for the landlord’s services and most of the smaller items are constant and adjust rents on the basis of prices or value of crop and wages. For example, it might be agreed that the rent finally paid was to be so many per cent more or less than a certain amount according to the percentage which the value of the crop was of a certain stipulated value, and also more or less than this amount according to whether wages of labor were more or less than a certain stipulated rate. Such a plan would of course be hard to work out under diversified farming.

Unless some such plan as the foregoing can be devised, rent will have to be settled by competition, with all of its obvious shortcomings, or else by collective bargaining between landlords and tenants. No successful collective bargaining is possible, however, until some satisfactory basis can be devised upon which to conduct the bargaining.

In the discussion thus far, share rent has been left out to make the explanation simple. Share-rental terms and agreements are just as truly prices as cash rentals are. As prices, however, they have certain decided disadvantages. First, one cannot figure very closely or very accurately in making a bargain over what each is to furnish and what share each is to receive. Second, one does not know definitely the value to him of each of the terms of the lease. Third, the terms are applied with a great deal of uniformity without regard to differences in farms, farmers, and landlords. Fourth, custom and monopoly have a much better chance to get in their work with leasing arrangements than with cash rentals. It is relatively easy for landlords or tenants to come to a common understanding among themselves with respect to terms of leases.

There are two theories which farmers advance as to how the different expenses should be divided under share rent. One theory is that the only safe and proper way is to find out what is the custom in the neighborhood and follow it. The other theory is that the expenses should be arranged to suit the particular parties and the farm to be worked, the ideal being that the expenses are divided in the same proportion as the income.

The usual justification for the first theory is that the prevailing terms of share leases represent market valuation the same as do cash rentals, wages and prices of farm products, that these terms have been determined in the past in fair competition between landlord and tenant on the basis of supply and demand and therefore represent justice between them. It is true that farms vary greatly in quality, but so do tenant farmers. If the good tenants get the good farms, as is likely to be the case, and the poor tenants get the poor farms, then justice is achieved even in such cases. The landlord is making a poor land contribution, but the tenant is making a poorer management contribution. Another argument advanced in favor of this method is that it protects both parties by saving
them from being taken advantage of by the other party when that party had the whip hand. If either party allows the other to deviate from the custom, there is no telling where it will stop. Also when there is a standard recognized way of handling farm expenses, every one knows about it and there are fewer misunderstandings.

The arguments against always following the custom of the neighborhood are as follows: (1) Competition does not in actual practice make proper adjustment for differences between farms, landlords and tenants. Farms vary greatly in fertility, improvements, and location. In any one locality, on some farms the crops to be grown are largely of the labor-consuming kind, like corn; on others, they are mostly hay and small grain. The cattle furnished by landlords and tenants vary greatly in quality. Since both landlord and tenant contribute to management, the relative efficiency of the two is a matter of great importance. It is highly improbable that competition can make adjustment for all these differences by getting the right tenant on the right farm. (2) Customary arrangements do not adapt themselves rapidly enough to changing conditions, such as changing prices, wages, and systems of farming. In times like the present, this is a matter of great concern. The general basis of value for all these contributions is their prevailing market value. These market prices, except for certain relatively unimportant temporary elements in them, due mostly to economic friction, may be considered as necessary prices to induce tenants to farm and landlords to own land to let. But for many of the items mentioned, no market prices are available. As already pointed out, to allow 5 per cent on the market value of the land is begging the whole question. Another plan which is useful for some purposes is to allow a cost-charge equal to what the farm would rent for at cash rent. In this case, this would amount to assuming that the prevailing cash rent represents a proper division between landlord and tenant. If cash rent is used as a basis, proper adjustments will need to be made for certain expenses which are paid sometimes by the tenant under various types of leases. The usual basis for computing the value of the farmer’s own labor is to ask what the farmer could hire out for as a plain hired man, with board and lodging furnished, and add an allowance for that part of his board which is not furnished by the farm. This, of course, is a very hypothetical value. The tenant’s management must also be paid for. How separate the labor from the management? Most of the managing is done along with the manual labor. The day’s work is planned while the cows are being milked. To separate the charges for the farmer’s labor and management is therefore a problem in joint costs, like distributing the rent of land between two crops grown on the same land the same year, or in a three-year’s rotation scheme, or like distributing the cost of keeping a brood mare between crops and colt. In fact, it is more difficult than either of these.

The method in general use for obtaining management charges
is to allow to it the residuum after subtracting all the other cost charges from the gross farm income. The results obtained by this method have usually been preposterous, because the various charges have been miscalculated. The cost of the land has usually been charged at 5 per cent instead of about 2½ per cent. Family labor has been charged too high. The value of the living the farmer obtains from the farm has usually been left out of account. The results obtained by such methods have usually shown management working for less than nothing on the average farm. Obviously such results are valueless. But if landlords' and tenants' incomes are to be adjusted according to what each contributes, the charges for the farmer's labor and management must be separated, for one party furnishes the labor and only part of the management, and the other party, the landlord, furnishes the rest of the management. Moreover, the amount and quality of management furnished by each must be measured. The differential for wages of management even in agriculture is enormous. Frequently a tenant whose management has a negative value is matched with a landlord whose management is worth a thousand dollars or more a year. Our attention is frequently called to landlords who graduate a new owner every few years. These landlords are furnishing their tenants with high quality management. Other tenants furnish management worth greatly more than their landlord's. In some cases, something like a market value for the tenant's share can be obtained by combining his labor and management and finding what the two together could be hired out for; but as for the value of the landlord's management, the case is hopeless. Therefore the plan of adjusting the shares and expenses according to particular situations is exceedingly difficult to work out accurately.

The following table presents in the first column the results of typical surveys made in the North Central States from 1913–1915, and in the second column presents results such as might be obtained by the method suggested. If management is to be the residual claimant, then all the other charges must be carefully calculated. The usual results show management working for nothing. The suggested method shows the farmer's management earning more than his labor.

<table>
<thead>
<tr>
<th></th>
<th>Usual Method</th>
<th>Suggested Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of farm</td>
<td>$12,000</td>
<td>$12,000</td>
</tr>
<tr>
<td>Value of working capital</td>
<td>2,680</td>
<td>2,680</td>
</tr>
<tr>
<td>Gross receipts</td>
<td>1,600</td>
<td>1,600</td>
</tr>
<tr>
<td>Value of living from farm</td>
<td>1,600</td>
<td>400 (estimated)</td>
</tr>
<tr>
<td>Gross income</td>
<td>1,600</td>
<td>2,000</td>
</tr>
<tr>
<td>Farm expenses</td>
<td>480</td>
<td>480</td>
</tr>
<tr>
<td>Farm income</td>
<td>1,170</td>
<td>1,570</td>
</tr>
<tr>
<td>Interest at 5% on value of farm</td>
<td>600</td>
<td>300 (@ 2½%)</td>
</tr>
<tr>
<td>Interest at 5% on working capital</td>
<td>132</td>
<td>132</td>
</tr>
<tr>
<td>Family labor income</td>
<td>438</td>
<td>1,138</td>
</tr>
<tr>
<td>Value of unpaid family labor (est.)</td>
<td>183</td>
<td>150 (estimated)</td>
</tr>
<tr>
<td>Operator's labor income</td>
<td>265</td>
<td>988</td>
</tr>
<tr>
<td>Value of farmer's labor (est.)</td>
<td>450</td>
<td>450</td>
</tr>
<tr>
<td>Wages of management</td>
<td>195</td>
<td>538</td>
</tr>
</tbody>
</table>
The tendency will be for those who try to adjust share-rental terms on this basis to rely upon averages, upon average wages of hired labor and average labor incomes; but such averages have no value unless the original data are correctly analyzed. Thus far, few proper computations of earnings of management on farms have been made. Even if correctly made, however, any landlord or tenant is justified in refusing to enter into a bargain based upon them, that is, if he can show that he is furnishing more than average management. No tenant who is a good manager can long afford to rent at share rent under the usual terms.

The value of the living obtained from the farm must also be reckoned if share-rental terms are to be adjusted on the basis of income and contributions. No studies have been made recently enough to be of value in this connection. Moreover, the value of this item varies greatly with the size of the tenant’s family, the size and quality of the house, fuel, orchard, etc.

So far as I know, the only attempt which has been made to figure out shares and expenses is in Minnesota Bulletin 178, “Farm Tenancy and Leases.” This bulletin advances the proposition that each party should “share in the products of the farm in the proportion that he shares in the cost of production,” and then figures out the proportion that each contributes to production leaving management entirely out of account. As we have shown, management is usually a far larger item of expense than the farmer’s labor. And we have no way of placing a value on the landlord’s part of this management. The data in the bulletin are probably also at fault in the matter of charges for family labor.

The nearest approach to what is needed would be to have the tenant and landlord agree in advance as to a value to be placed on each of the following items—rent, wages of family labor, wages of labor and management of the tenant, wages of the landlord’s management, and value of living obtained from the farm, and interest on working capital and depreciation. In settling up the year’s business, the cash expenses could be added to the foregoing, and either the farm income divided according to expenses, or expenses divided according to an agreed division of income. Ordinarily an inventory would not need to be taken, because each would share proportionately in the increase.

Such a plan as the foregoing may seem too involved for most circumstances. Following are two plans which are compromises between the above:

1. Follow the custom as far as possible, and when not possible make allowance for it in some other part of the lease. For example, if free firewood for the tenant is the custom, and the farm has no firewood, the tenant can be given all the poultry, or a larger share of the poultry receipts. If the farm is too poor to rent well, the tenant can be given other advantages. Differences of this sort can if necessary be settled in actual cash at the end of the lease.

2. Count the tenant’s labor and management, family labor and
hired labor, and interest, taxes, depreciation and upkeep on his 
equipment, as equal to the landlord's management, interest, taxes, 
upkeep and depreciation on real estate and equipment. Divide the 
other expenses half-and-half, by estimating their amounts in ad-

dvance, or by settlement afterwards. This plan would be more 
commendable if provision was made for distributing the hired 
labor charge between landlord and tenant, for it would give the 
tenant the full benefit of all the extra labor he hires.

Another difficulty with share leasing systems is that, contrary to
the usual opinion, they do not adjust themselves to changing con-
ditions. In a period like the years from 1915 to 1919, share ten-
ants had much the better of the bargain, because the prices for 
their products advanced much more rapidly than the wages of 
labor. It is quite likely that in the years just ahead the tables will 
be reversed.

Collective bargaining with respect to the terms of share leases 
has been undertaken in a few cases at landlord-tenant conferences.
At such conferences landlords and tenants agree upon certain ar-
rangements which both accept as fair and just. Some attempt is 
made to readjust these terms to suit changing conditions, but on 
the whole the plan followed is to maintain the best of the old terms 
and arrangements. Such conferences are highly desirable. They 
may perpetuate some arrangements that are no longer in accord 
with competitive forces, but after all, good farming and good 
management and right relationships between landlord and tenant 
will add more to incomes of both than a better division of income 
will add to either.

DISCUSSION OF MR. GREGORY'S PAPER

B. H. HIBBARD, Univ. of Wis.

That tenancy is undesirable when it reaches such high propor-
tions as are already to be found in many parts of the country is 
beyond question. Since it is undesirable some sort of measures 
should be taken to prevent its further increase or even to reduce it. 
With the spirit of the writer of the paper we are all in accord. We 
agree that the tenant should not lose his improvements, that he 
should be induced to take an interest in the affairs of his commu-
nity, and that he should be both encouraged and enabled to pur-
chase land.

However, it does not follow that there is but one remedy for the 
conditions which we deplore, and from the speakers' program of 
reform we are obliged to dissent. With count one it hardly seems 
s wise to use the term "strictly limited." Why not say "limited," 
since the qualifying word requires a decision as to amount which 
probably we are as yet hardly competent to make. To restrict the 
size of holding by direct legislation would be drastic and probably 
unwise. It would have to run a hazardous ordeal in the courts and 
the chances are that the people wanting the reform would have a 
hard time agreeing on the wording of a bill. The alternative of-