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MINNESOTA FARM BUSINESS NOTES

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TIMELY ADJUSTMENTS IN FARM LEASES

Prepared by Wm. L. Cavert

The matter of having leases arranged in such a way that they are fair to both landlord and tenant and give the tenant a strong incentive for good farming, is becoming an increasingly important problem in our agriculture. The following table gives the tenure of farm land in Minnesota based on the 1930 federal census:

Farms operated by owners	68.3
Farms operated by cash tenants	12.5
Farms operated by tenants other than cash	18.6
Farms operated by managers	0.6
TOTAL	100.0

In 1930, twenty-three per cent of the farm owners rented additional land. Forty-five per cent of the farm land in Minnesota, including land rented by owners, is operated under some type of rental contract. It is highly probable that there has been some increase in tenancy since the 1930 census was taken. The indications are that there will be a further material increase in tenancy during the next several years.

Adjusting Leases to Changing Prices

Share leasing has the great merit that it more or less adjusts itself automatically to changes in prices. Under a reasonably stable price level, cash rent has been a favored form of rent with capable tenants in good financial condition as it gives the tenant an opportunity to get all the benefit of his good farming. In share renting, if the tenant gets ten bushels extra per acre due to the use of better methods and varieties and getting the crop planted at the most favorable date, this extra return must be divided with the landlord.

Over forty per cent of the rented farms in Minnesota were rented for cash in 1930. In general, cash rents come down much slower than the price of farm products. The result is that under present conditions, the cash tenant has, in some cases, found that he has had made a contract that is difficult or impossible for him to fulfill. In many cases, landlords and tenants find it difficult to agree on terms for the renewal of cash leases. The landlord is hopeful that higher prices will return promptly, while the tenant naturally is averse to signing a contract that it may be impossible to fulfill.

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A possible compromise is an arrangement whereby the tenant will agree to deliver a specified number of bushels of each of the various grains. For example, tenant and landlord might agree that their particular farm would average a total production of about 2400 bushels of corn, 1800 bushels of oats and 900 bushels of barley over a period of years. Under a share rental system where the landlord gets one-third, he would receive 800 bushels of corn, 600 bushels of oats and 300 bushels of barley at the local elevator. They might then agree that the landlord was to receive these amounts of grain as rent. Such an agreement would give the capable tenant the same incentive for maximum production as does cash rent and would relieve the landlord of looking after the division of the crop. The tenant would take the weather risk while the landlord would take the price risk. There would be some possibility of friction in case of considerable variation in the quality of the crop. For example, if one field of corn had a much higher moisture content than another, the landlord should receive his pro-rata share from each field. Therefore, the contract should specify that the bushels delivered to the landlord should be representative of the total production. Under such an arrangement, the cash rent for hay and pasture could be paid in cash or it might be handled by giving a sufficiently greater number of bushels so that the bushels of grain received by the landlord would cover not only the rent of the grain land, but also the rent for hay and pasture.

The same plan can be applied to farms that derive a considerable portion of their income from livestock by providing that all or part of the rent will be paid in butterfat or hogs. For example, if a tenant has been renting a dairy farm for $500 in cash when butterfat sold for 45 cents per pound as in 1925-29, it then took about 1100 pounds of fat to pay the rent. A lease could be drawn whereby the tenant would, each month, deliver as rent the price of 1/12 of 1100 pounds or 92 pounds of fat, at the price paid by a specified local creamery. If the production ordinarily is low in certain months, say September and October, a schedule might be arranged whereby the amount to be delivered in some months would be greater than in others, but with the same total pounds of fat for the year. If the income were derived from dairy products, wheat and hogs, it would be possible to work out an arrangement whereby the rent would be paid by turning in the returns from so many pounds of butterfat delivered monthly, so many cwt. of smooth butcher hogs delivered in, say December or January (whenever the tenant ordinarily makes the bulk of his hog sales) and so many bushels of wheat, delivered at threshing time.

Giving the Tenant an Incentive to Good Farming

One of the problems that should receive much more attention from landlords is that of drawing leases that will give the tenant a strong incentive to put forth his best effort. Good farming requires a program laid out several years in advance, but a long time program is not likely to be followed under a year-to-year lease unless an arrangement is made whereby the tenant will receive some compensation in case he should lose his lease. Occasionally landlords insert provisions in their contracts whereby the tenant will receive compensation for such items as special work to control weeds, and for the furnishing of alfalfa seed and fertilizer in case the tenant should leave the place before he has had an opportunity to get a reasonable benefit. For example, one landlord inserts in his contracts a provision that the tenant may seed up to a specified number of acres of alfalfa under the arrangement that if the tenant leaves at the end of the first year, he will receive full compensation for the seed; if he stays to harvest the crop for one year, he will receive a refund of one-half of the cost of seed, while if he stays to harvest the crop for two years, he will have no claim against the landlord. It would perhaps be more fair to spread the cost over a longer period, but an arrangement whereby it is spread over two years, is much better than no arrangement at all for encouraging this important crop.

At any time that there is a worth while price for farm products, there is an opportunity to use phosphate profitably on a large number of western Minnesota farms. As phosphate that is broadcasted gives benefit for a period of several years, some arrangement should be made whereby the tenant will receive compensation for unexhausted benefits provided he leaves after he has harvested only one crop.

The Weed Problem

The weed problem is one of increasing importance in landlord-tenant relations. Wherever weeds are a problem, some plan of control should be outlined at the time the lease is drawn and the details inserted in the contract. Farms acquired by foreclosure frequently are badly infested with weeds and the first problem of the new owner, if he is either to make a satisfactory sale or get an income out of the farm, is to work out some method of cleaning up the weeds. It hardly can be expected that the tenant will do a good job of cleaning up weeds in order to harvest one crop. An arrangement that is being used to some extent in northwest Minnesota is to give the tenant a three-year lease with the provision that the first year is to be devoted to a thorough summer fallow. Sometimes the landlord advances money for tractor fuel and oil with a provision that the money advanced will be repaid out of the first crop. Frequently these leases provide that the landlord may have possession in case of a sale after the first crop is harvested. Such a lease would be more satisfactory to the tenant if it contained some provision whereby the tenant would receive some compensation in case the place were sold after he harvested the first crop.

Encouraging Suitable Seed

The landlord will find that it pays well to take an active interest in encouraging tenants to use weed free seed, and to secure the seed of varieties that are most suitable. This is particularly worth while under share leasing. One landlord inserts a provision in the contract that the tenant is to furnish samples of all seed grain and corn before a certain date for his approval. This gives him an opportunity to assist the tenant in securing satisfactory seeds in case the samples submitted either contain noxious weeds, or will not germinate satisfactorily, or contain undesirable mixtures such as durum with bread wheat, oats with barley, and rye with winter wheat. Some landlords who rent on a share basis are finding it profitable to take an active interest in assisting tenants to get seed of the most suitable varieties. If corn is raised on shares, it is highly important to the landlord to have an early maturing variety, as soft corn is almost unsaleable. If corn is to be sold at the elevator, it is desirable to have it of a pure yellow variety, as either mixed or white corn usually bring a material discount.

Tenants Should Avoid Unrestricted Sale Clauses

Some companies that have acquired a large number of farms by foreclosure put a clause in their contracts whereby a tenant, in the event of a sale, may be compelled to give up his lease at any time before the crop is in the ground by paying him for the plowing. Such an arrangement should be avoided by tenants. It is desirable, if possible, to rent from landlords who are not likely to force their farms on the market. If a sale clause is to be included whereby a tenant can be dispossessed at any time before the crop is in the ground, it should provide a reasonable compensation for damages. Such an arrangement would be helpful to the landlord as it would enable him to attract better tenants and would also encourage tenants to take more interest in weed control and up-keep of buildings and fences.

MINNESOTA FARM PRICES FOR JUNE 1932
Prepared by Adena E. Erickson

The index number of Minnesota farm prices for the month of June 1932 was 38.7. When the average of farm prices of the three Junes of 1924-25-26 is represented by 100, the indexes for June of each year from 1924 to date are as follows:

June	1924 -	84
"	1925 -	108
"	1926 -	110
"	1927 -	100
"	1928 -	110
"	1929 -	109
"	1930 -	90*
"	1931 -	57*
"	1932 -	39*

*Preliminary

The price index of 38.7 for the past month is the net result of increases and decreases in the prices of farm products in June 1932 over the average of June 1924-25-26 weighted according to their relative importance.

Average Farm Prices Used in Computing the Minnesota Farm Price Index, June 15, 1932 with Comparisons*

	June 15, 1932	May 15, 1932	June 15, 1931	Av. June 1924-25-26	% June 15, 1932 is of May 15, 1932	% June 15, 1932 is of June 15, 1931	% June 15, 1932 is of June 15, 1924-25-26
Wheat	$.43	$.49	$.54	$1.36	88	80	32
Corn	.26	.30	.40	.69	87	65	38
Oats	.17	.20	.19	.39	85	89	44
Barley	.26	.32	.26	.59	81	100	44
Rye	.21	.29	.23	.74	72	91	28
Flax	.88	1.08	1.26	2.31	81	70	38
Potatoes	.32	.32	.65	.84	100	49	38
Hogs	2.70	2.70	5.40	9.87	100	50	27
Cattle	3.70	3.70	5.10	6.26	100	73	59
Calves	4.50	4.40	6.90	8.44	102	65	53
Lambs-sheep	4.53	4.43	6.17	11.28	102	73	40
Chickens	.083	.105	.127	.180	79	65	46
Eggs	.09	.10	.12	.24	90	75	38
Butterfat	.16	.18	.22	.40	89	73	40
Hay	7.72	9.26	8.48	11.57	83	91	67
Milk	1.04	1.08	1.49	1.98	96	70	53

*Except for milk, these are the average prices for Minnesota as reported by the United States Department of Agriculture.