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The Evolution of Land Ownership

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In July of 1787, Manasseh Cutler, lawyer, physician, preacher, and real estate dealer, persuaded the Congress to quickly pass the Northwest Ordinance, and coincidentally sell 1.5 million acres of the new territory to his Ohio Company. The Ordinance became the "settlement constitution" for territory west of the original colonial states. The Ohio Company land deal became a milestone in real property speculation.

Today land is still an economic good which may serve as a financial asset, a factor of production, or a consumption good. Land also serves psychological, social, and political purposes. All these purposes are reflected in landownership, its past and present status in the United States, and its likely direction in the future.

Landownership

The first, and most general classification of landowners is public and private. The proportions of land in public and private ownership vary widely among nations ranging from total public ownership to a substantial proportion in private ownership, as in the United States.

In the United States, about 60 percent of the land area is in private,

that is, nongovernmental, ownership. Virtually all of the intensively used, highly priced, land is privately held.

Landownership is widespread in the United States largely because of home ownership. About three-fourths of the 55-million owner-occupied and 30-million-renter units are detached or semidetached homes. These homes plus condominiums, cooperatives, and other communally owned units occupy land for residential purposes. While the area occupied by homes is insignificant nationally, the value of residential real estate is a substantial 60 percent of all real property.

However, nearly two-thirds of private land is agricultural, and most agricultural land, with the exception of grazing land in the West, is privately held. Only 3 percent of cropland is owned by government of any kind. In area, then, the predominant private landowners are farmland owners. About 60 percent of these operate at least some of the land they own. Farm operators own about 65 percent, and nonoperator landlords about 35 percent, of the land in farms.

Traditionally, ownership is the preferred form of land tenure. The preference reflects a belief that owned



About 65 percent of farmland is owned by farmers, about 35 percent by nonfarmers. This farmer harvests wheat near Culpeper, Virginia. (Tim McCabe, SCS, VA-5,274)

land is more efficiently used, or more responsibly cared for. To some, ownership represents achievement, security, or both. If land ownership is regarded as virtuous, tenancy is perceived as a symptom of faulty agricultural structure.

Land Leasing

Recently, in the face of stresses in U.S. agriculture, the role of land leasing is being reexamined. Declines in land values, such as those witnessed after 1981, can create insecurities in ownership, especially if accompanied by debt. The financial requirements of modern agriculture, the shrinking number of farm units, and risks of

production and prices suggests a need to distribute both burdens and risks somewhat more widely than among farm operators only. Leasing meets many needs of modern farming.

Leasing has been part of American agriculture for a long time. Since 1900, the percentage of land in farms rented from others by the farm operator has varied between 35 and 45. Currently more than 40 percent of land in farms is leased. Most of the land is rented by farmers who themselves own some of the land they operate.

Leasing may be seen as a flexible but less secure form of land tenure than ownership. Agricultural leases are

predominantly year-to-year, subject usually to a relatively short notice in advance of the production season. Typically, annual leases are automatically renewed and rental arrangements continue for many seasons. Tenants who operate only rented land average 10.7 years on their present farm according to the Census of Agriculture. Renters, who own at least some of the land they operate, average 17 years on their present farm.

Present trends suggest a future of increasing ownership of agricultural land by nonagricultural owners. During periods of stress, financial and other, institutions may become unwilling owners through foreclosure. But investors in agricultural land will continue to be farmers with nonfarmer individuals or partnerships in second place. Corporations now own between 12 and 15 percent of land in farms. Most of these corporations are small, family level units, with no inherent reason to enlarge their holdings beyond the sizes of their unincorporated neighbors. Furthermore, some States restrict ownership by nonfamily corporations.

Landownership as Economic Policy

Landownership at times has been an *object* and at times the *instrument* of policy. Economic, social, and political forces are presumed to be influenced by property, including property in land.

Efficiency Argument. The economic argument for private ownership of land is usually presented in terms of efficiency. The argument assumes

rational self-interest and universally available information about technical relationships and prices. It also assumes that the owners know and respond to, but do not influence, either the technical relationships or prices.

The argument against absentee landlords is that they are uninformed about, or disinterested in, the longrun productivity of land and that they do not reinvest in the farms from which they draw income. In addition, tenants who are insecure in tenure are disinclined to use care in cultivating or to invest in conservation measures from which they may not get a full return.

Arguments in favor of absentee landlordism do exist. Absentee landlords with additional sources of income and tenants without mortgage debt may have larger capacity to contribute more to production and conservation practices than owner-operators. Tenure, as such, does not appear to confer economic superiority. While studies have tested the effects of tenure on resource use and investment, they did not reveal a consistent effect on efficiency or conservation keyed to particular kinds of tenure.

Distribution Issue. Landownership falls within the general concept of property and, in the words of the 19th century economist, Leon Walras, "...property defines the mutual relations established between man and man with respect to the appropriation of social wealth, and determines the conditions of the equitable distribution of social wealth within a commu-

nity." The economics of landownership, therefore, is less a production and more a distribution issue.

How is the ownership of land in the United States distributed? As among all persons, very unevenly. Owners of farmland number about 3.5 million, or about 2 percent of the population age 18 and over. Because agriculture occupies such a large portion of the Nation's private land, and because such a small portion of the population holds agricultural land, landownership is concentrated.

Even among the holders of agricultural land, ownership is concentrated. Less than 3 percent of the owners of agricultural land own 40 percent of the agricultural land. Conversely, the half of the owners with smallest holdings own less than 10 percent of the land. Although land measured in terms of value shows less concentration than land expressed in acres, the distribution is grossly uneven.

Death, dissolution of business entities, and ordinary market transfers

can cause accumulations of land to break up. Inheritance, marriage, market, and other acquisitions can create new or enlarged concentrations of land. The processes of change are relatively slow. Less than 5 percent of agricultural land transfers in a year, about one-third of the rate of urban residential land.

Long-Term Trends

These trends suggest a continuing stability in the number of agricultural landowners. The number of agricultural landowners is declining, but not as rapidly as the number of farms, and this is the primary force toward concentration in the holding of agricultural land. The proportion of non-farm owners of farmland is increasing.

If farmers continue to be the dominant group among owners of farmland, ownership will continue to be concentrated in fewer owners. Ownership by nonfarmers could disperse ownership.