

1 9 8 8

Mason Gaffney
3040 Tyler Street
Riverside, CA 92503

8 Jan 88

Dear Polly:

paper, From your card it looks as though you may be too busy to read *Non point*
~~enclosed~~, but here it is just in case. I hope you will see your
way to pursuing your intellectual career soon, somehow you seem
wasted in any other capacity. Not wasted, you are productive, it
is rather that it is not your highest and best use.

Dear Aunt Marj is being funeralized tomorrow in Hartford and I
am not going, owing to storms. I feel guilty, I copped out, but
again, what is my highest and best use?

Love,

Mase

RENT-SEEKING AND GLOBAL CONFLICT

Mason Gaffney

Summary for UC seminar on Global Conflict and Cooperation

Laguna Beach, 26-27 Feb 88

National governments originate historically to acquire, hold and police land. Other functions are assumed later, but sovereignty over land is always the first business. Private parties hold land from the sovereign: every chain of title goes back to a grantor who originally seized the land.

When economists today speak of "rent-seeking" they usually are thinking not of basic land rent, but in subtle and sophisticated terms, looking at dribs and drabs of transfer rent derived from contracting advantages. They develop abstract models for gaming optimally with imperfect information, and so on. By emphasizing the arcane while ignoring the basic they are in danger of matching the proverbial expert who fine-tunes all the details and elaborations as he forges on to the grand disaster.

Indeed, we have had one such disaster. Viet Nam was viewed by many as an economists' war, rationally planned and led by the best and the brightest systems' analysts, exemplified by the brilliant, energetic Secretary of Defense. One should not be surprised at the post-Viet Nam decline of interest in applying modern economic theory to questions of global conflict.

We would be more useful to statesmen if we looked first at rent-seeking in the grosser sense of "land-grabbing", where the whole bundle is at stake. When William of Normandy conquered England the prize was land rent, all of it. He and his retainers dispossessed the local rent-collectors. It was simple, gross, and basic, and much more consequential than the trivial rent-seeking we model today. The bulk of the natives may have been affected only marginally: they just paid Lord B instead of Lord A. But it made all the difference to Lords B and A, the ones who made basic decisions about global conflict and cooperation.

Again, from the 17th century Europeans invaded North America, dispossessed the natives and each other, until today we meet here, overlooking beach and ocean, paying our daily rent for a little

slice of land which has been won and kept by a long chain of wars.

The roof over our heads is different, it is the product of capital formation. Someone saved from income, and paid workers to construct the building. Its present value is that less the obvious depreciation and obsolescence, so it is rentable today mainly for its appreciated site, to which therefore an economist or an appraiser must impute most of the market value here.

But the site never was nor could be the product of capital formation. It pre-existed man, who could only acquire it by taking. It is fair to say that throughout most of history that is what warfare was about, seizing and holding and policing land.

This is not to deny ancillary causes and issues of war, such as disputing the pathway to Heaven, ethnic pride, paranoia, acquisitive genes, and a leader's need to divert people from domestic problems. Economists should certainly make it their business to address the last, a major source of global conflict.

Neither is this to deny that territorial expansion is often self-defeating, economically. Many empires, probably most, cost more than they return, a discovery that accounts for the well-being of small nations like Sweden, Austria, Denmark, and The Netherlands, which gained by abandoning destiny and empire. But we would miss the point to bury particulars in aggregates. By disaggregating benefits and costs we gain the key to understanding. The whole nation loses, but certain parties gain, and it is they who promote and sustain aggressive behavior.

Economists conventionally bury this point when they submit that "national defense is a public good".

a) "Defense" is a loaded word which rationalizes as it describes. "Military spending" is more neutral, and will be used here. It is worth remembering that the German Schutz (as in Schutz-Stäffel) and Wehr (as in Wehrmacht) both translate as "defense". Lebensraum is a more forthright term, and explains much more about Nazi aggressions.

b) "Public good" says that all gain equally. But that is not true even of pure defense proper. What is defended behind the defense wall is land previously seized. The Lords and Barons have much at stake; the serfs and vagrants very little. Rent is what is being defended, along with, no doubt, traditional feelings of machismo and some local folkways and mores.

Wages, as well as the return for capital formation, ultimately need little defense because they are economically functional. They are paid for real service and sacrifices, and will command a return in almost any viable system. Labor is also more migratory. "Fixed" capital also migrates economically as capital recovery funds are reinvested elsewhere. Land, in contrast, does not migrate among nations. Nations are defined as areas of land.

But it is outside the defense wall of the nation proper that rent-seeking is most dynamic and destabilizing. Military force (often in tandem with finance) is used to project sovereignty into foreign nations, and over no-man's-lands like the oceans, polar regions, radio spectrum, and outer space.

Offshore rent-seekers are of two general kinds.

1. "Caciques". Cacique is a generic term for local cooperating rulers from the native population. It is more neutral than Quisling, and most caciques are more independent than he was. Imperial metropolitan powers normally work through caciques. Turnover among individual caciques is sometimes high, but they are drawn from the matrix of the local landholding oligarchy which is quite stable, often thanks to our support.

We relieve the caciques of collecting and/or paying taxes for their own military, which often double as domestic police as well. The life of some caciques is risky, but the rewards to caciques and local landholders are often very high. The Sultan of Brunei is the richest man in the world; the extravagance of Ferdinand and Imelda Marcos is legendary.

Unit land values in Tokyo exceed those in New York and Chicago by a factor of about 10. One reason (of several) for the difference is that New York and Chicago pay taxes to defend Tokyo, plus what the Japanese once called the Greater East Asia Co-Prosperity Sphere. Roosevelt in 1941 stopped Japan at Viet Nam, precipitating Pearl Harbor. But Eisenhower said in 1959 we must defend Viet Nam to protect the Japanese resource base.

2. Rent-seekers of the second kind are U.S. or allied multinational interests, mostly corporations. The cacique is expected to assign to them, or be complaisant in their taking concessions and resources like minerals, transportation routes, communications, bank charters, plantations, etc.

Natives normally control more of the traditional resources like farmland. Foreigners specialize more in less visible, more novel and sophisticated resources like undiscovered minerals (exploration rights), navigation rights, radio spectrum, overflights, bank charters, etc.

Both these groups have the acutest incentive to influence U.S. policies, and large discretionary funds at hand. Therefore they tend to dominate U.S. statecraft. The U.S. government is probably more vulnerable to such foreign influence than most, because of our size and weakly developed sense of honorable dedication to the national interest. The English once terminated a dynasty, the Stuarts, which was caught taking support from France; but Americans hardly notice when retired Congressmen take work lobbying for foreign sugar producers etc.

Self-evidently, rivalry to appropriate limited rent-yielding resources must lead to conflict. It has to, because land is not produced, nor stored up like capital by saving. Modern economics glosses over this by stressing that land, like other resources, is allocated by the market. That may be, but distribution is something else. Every land title in the world goes back to a taking by force.

It will be objected that one can buy in peacefully once a tenure is firmly established, with alienable titles. There is certainly no intent to deny this. The problem is that a successor-in-interest stands on no firmer footing than the original. There is no laundering: every landholder can consult his chain of title and see how it originated. Indeed, it has been said that those who buy stolen property are the chief cause of crime. Fencing itself is a crime.

However one may side on that question, it helps account for the extreme alarm with which U.S. statecraft startles at any foreign country, however weak and innocuous, which expropriates any such successor-in-interest. Demonstration effects are threatening to the insecure. That is one cause of global conflict.

More destabilizing yet is the ambitious rent-seeker offshore, who finds his biggest gains in the riskiest ways, ways that unfortunately impose high risks on the U.S. The biggest gains to rent-seekers come from buying in on the ground floor, cheap, when tenures are precarious or uncertain.

Then one invokes the U.S. armed forces and the sanctions of

ancillary statecraft to raise the value of one's acquisition. The three main concerns are to firm up precarious tenures (as by supporting the government that granted them); to hold down taxes (as by lending the U.S. armed forces); and to avoid pure competition (as by giving preferential access to the U.S. market, or Pentagon procurers).

There have been many spectacular success stories. Aramco is an example. It originated in 1933 with a capital of \$100,000. By 1970 it was valued at well over \$5 billions. Of course that increase might represent accumulated capital flows from the U.S. owners; but such was not the fact.

There are four sources of value of foreign holdings: capital flows, plowbacks, appropriations, and appreciation. In many cases like Aramco the last two far outweigh the first. But they are products of statecraft and force, not of capital inputs proper.

Tenure granted by unstable governments is not worth much, and is therefore cheap to acquire. In 1960, for example, Patrice Lumumba pledged a substantial share of the Congo in return for a relatively modest loan from a Wall Street financier.

Of course there are also failures and losses, and someone might even try to show that aggregate losses exceed aggregate gains. But Adam Smith observed long ago that when an occupation offers a small number of extremely high rewards, its attractiveness is enhanced out of all proportion to their aggregate value. It is not just the successes, but all the attempts that provoke global conflict.

We are trained and conditioned to think of land tenure as something stable and inherited, with secure roots in history. In fact, that which was inherited can never be taken as given unless the origins bear examination. Past appropriation suggests future expropriation. One result of that is a legal system even in "capitalist" America which tolerates rather extreme invasions of land value through zoning, rent control, taxation, and field price controls, without there being a legal "taking" such as might be prohibited by the 5th Amendment.

But in addition, tenure is constantly being created at the interfaces among sovereignties. Each is a potential flashpoint. Title to land is also contested within many sovereignties, current examples being nearby in Guatemala, El Salvador and Nicaragua.

Tenure is created at the margins of settlement and/or exploration, as on the OCS; the margins of political stability; and the margins of research and technology. In addition, tenure is constantly being tightened and refined at higher levels of intensity and demand for the services of scarce land. In recent decades the unprecedented voracious resource demands of the United States have been a major dynamic.

The views above have been characterized by some as "Marxist", because of the explicit recognition of special class interests. If this be Marxism make the most of it; the point if any is ad hominem. But the views here differ from Marx's. For one, Marx was an underconsumptionist who attributed imperialism to a search for overseas markets, not rent-seeking. For another, Marx made no sharp consistent distinction between land and capital.

The present views point toward specific policy changes. To minimize global conflict, a nation should use its tax system to recoup rents from beneficiaries of its statecraft. This would deflate the rent-seeking incentive to provocative behavior, as well as the discretionary funds used to gain political support. There is little gain to the nation as a whole, and high cost, in creating rents for a few individuals or corporations. A surtax on income from foreign sources, for example, rather than the present preferential treatment, is indicated.

An analogous movement is already underway in municipal affairs. Edward Freilich, a lawyer sometimes called the "father of growth control", has worked out systems of urban growth whereby newly annexed lands must pay the full costs of their own development, instead of leeching on central cities as has been the custom. This has, where applied, drastically cooled down the passion for leapfrog annexations. I trust the analogy between municipal and national imperialism is evident.

To strengthen the nation and move toward justifying labelling defense a "public good", a wider sharing of rents is indicated. This is a simple matter of readjusting tax systems. Many oil-rich jurisdictions already provide models, albeit modest in degree (like Alaska's social dividend from oil royalties). Canada has a partially-developed system of interprovincial equalization of resource revenues. The result there, as one might expect, has been to heighten the sense of national unity and patriotism in the constructive sense, increasing the numbers of citizens honourably devoted to the nation as such.