



Social and Economic Impacts of Foreign Investment in United States Land

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Article citation:

Gaffney, Mason. "Social and Economic Impacts of Foreign Investment in United States Land." No date. Working paper.

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SOCIAL AND ECONOMIC IMPACTS OF
FOREIGN INVESTMENT IN UNITED STATES LAND

Mason Gaffney

Foreign Land Purchase as an
International Capital Transfer

Is foreign land purchase different from and less desirable than other foreign investment?

Land is not produced. Land purchase does not therefore directly create income as does investing in payroll to produce capital. Accordingly, the question has been posed whether domestic land purchase does not abort real investment and capital formation; and whether land purchase by foreigners does not abort the capital inflow from foreign investment.

In both cases the answer is "No, but...." Land purchase is simply a transfer from buyer to seller, who swap situations without changing the aggregates. An economy is a closed system with a zero sum of capital transfers. Money spent on land does not thereby leak out of the flow of funds. There may be some slowdown, as cash reserves are required to finance land transactions, but this is a continuing need, long since provided for. When sales turnover rises, and prices rise, cash needs may rise, a net leakage. In these inflationary times, however, this is not a major concern. Neither is it certain, because land in an active, rising market becomes a much more liquid asset, more similar to cash, thus tending to satisfy certain motives for holding cash and reduce the need to hold cash itself.

Anyone buying land is not employing domestic labor obviously and directly. He is, however, freeing up the seller's funds. The seller may buy more land, but land is fixed so there is always a net seller. Since the sum of capital transfers is zero, we would only waste effort to track money from seller to seller and speculate on what they all might do with money. What goes in must come out. The market is a going concern, the inflow and outflow are continual, and flows are simultaneous. We save trouble by looking just at net changes.

A foreigner buying land makes more "real money" available to the seller. Real money means money that claims real goods. Newly printed domestic money is play money, mainly driving up prices. Foreign money is a new claim on real foreign goods. The goods are transferred through a well-

oiled balance-of-payments mechanism to meet new demand from new payrolls generated by the seller when he invests. The mechanism clears out all the plus and minus of dealer and banker buying and selling foreign exchange and leaves a net result: the seller gets a claim on real foreign goods.

Thus real capital moves to the nation selling land. The nation trades land for capital, after all is netted out. The effect is the same as a loan, secured by a mortgage on the land. Like other loans it may be used in different ways, and the final effect depends on how it is used. But there is now more real capital at our disposal. The net effect is the effect of that, plus the effect of absentee ownership on how land and capital are used.

Some uses of the imported capital will do more for national income than others. A foreigner buying the land has no influence on that - the issue is in the hands of the seller. A foreigner investing directly in payroll, on the other hand, determines exactly how the new capital is used. If one believes that such use is superior, then it is comforting to have the foreigner do it directly, for the domestic land seller might import machinery instead. But it could also be the other way around, so this is no general fault of foreign land purchase.

Some uses of land do more for national income than others. A foreign cartel buying a large industrial site simply to hold it from competition or for nebulous future expansion removes the land from the national economy as effectively as though by conquest. Yet the capital is still transferred and goes to other domestic uses. Here, however, underuse of land may offset the benefit of capital transfer by forcing capital to be wasted in added infrastructure required to bypass the idle land. Such infrastructure is highly capital-intensive, with a low job-coefficient per dollar of capital over time.^{1/} But again it could be the other way around, the foreign buyer converting waste land into a hive of service and industry like base metal into gold. The issue is one of land use, not foreign purchase.

Foreigners bidding for land do help push up the price. Robert Solo has written on how this discourages domestic saving and capital formation. The reason is that land value substitutes for other assets in the holdings of individuals, and reduces their need to create real capital in order to have assets.^{2/} In addition the dynamic rise of values during

^{1/} This concept is developed and given precision in Mason Gaffney, "Full Employment with Limited Land & Capital", in Arthur Lynn, Jr. (ed.), Property Taxation, Land Use and Public Policy (Madison University of Wisconsin Press, 1976) pp. 99-166; and in Mason Gaffney, "Full Employment and the Environment:", in George Rohrlich (ed.), Environmental Management (Cambridge: Ballinger Press, 1976).

^{2/} Robert Solo, "The Accumulation of Wealth in the Form of Land-ownership in Underdeveloped Areas," Land Economics, 1955, pp. 156-60.

the transition to higher levels is current income. Most current income is normally consumed, reducing saving.

Higher land prices resulting from foreign demand do not mean that land is worth more to the nation (except as an exportable commodity, a limited concept). Rather, they mean the same land is capitalized at a lower rate, raising the price. This is a transfer of wealth within the nation from non-owners to owners. There is no net gain of national well-being, and probably a loss if we accept the idea that added wealth means less to those who have than those who have not.

In any event there is no net gain, but there will appear to be one in an inventory of national wealth because the gain shows and the loss does not. To be sure, an inventory of national wealth will be deflated by a price index; but note well that land values do not appear, or are not adequately weighted, in most commonly used price indices. Thus the loss of young people's ability to buy land to get started in business and home building is underweighted, even though it is an extremely weighty problem for them and society.

It is evident that in answering "No, but...." to the opening question, the "but" is as important as the "no". We proceed to but these butts.

The Advantages of Foreign Land Purchase

Capital Transfer

The foreign buyer transfers capital to the selling nation in the present time of capital shortage and crying needs. A measure of the value of capital to a nation is had by noting that the volume of throughput in a business is the product of its capital times turnover. Likewise the national product is the national capital times turnover. Of course we can (and should) speed up turnover of that Great Revolving Fund, the nation's capital. But it also helps to increase the Fund itself.

Stability of Transfer

Foreign capital in the form of "hot money" is a nervous and uncertain addition to national wealth. A nation that lends long, like the United States, and then borrows back short becomes vulnerable to capital flights, which it must guard against at some cost. Foreign land purchase is over at the other extreme from hot money and minimizes this problem.

International Specialization

If we accept the idea that people and nations should specialize in what they do best, and if we ignore whether land is different, then foreigners with overflowing capital are better suited than needy citizens to finance land titles and carry the holding costs, and should do it. They simply have a comparative advantage in the function of holding land. We accept domestic specialization of this kind, so why not international?

This raises the interesting question of what kind of function is being performed by absentee land buyers. The individual landlord relieves the individual tenant of a financing burden, but beware the fallacy of composition as we move from the parts to the whole. What do landlords collectively do for tenants collectively? They bid up land prices beyond their reach, without adding to the supply of land. What would happen in their absence? Land prices would fall until tenants became owner-operators.

Likewise, excluding foreign owners would serve mainly to facilitate resident-owner-occupancy of land by citizens. It seems there is no meaningful gain of international specialization when absentees hold land. The basic transfer of capital to the receiving nation is the gain. Anything beyond that is a double-counting. Absentee ownership is in fact a frictional cost that offsets part of the gain.

Foreign Hostage

In a world of imperfect competition, vertical integration, state trading, exchange controls and cartels it is useful when foreigners have a stake in your nation's welfare. When Japanese nationals own Hawaiian hotels catering to Japanese tourists, the chances are better that Japanese tourists will be allocated foreign exchange when Japanese authorities ration it. If Saudi Arabia owned a chain of gasoline stations in the United States it would be disposed to guarantee supplies of crude -- indeed, such an offer was made in the last years of King Faisal.

Those of a nation's citizens who invest abroad are among its most influential, and are often disposed to use their power at home to turn their government's policies in favor of the haven where their treasure is stored. The potential advantages for the host country are obvious. The price may be foreign domination, but this danger is minimized when the host country is larger, and is a net international creditor.

Ideological Gains in World Debates

In the Marx-Lenin ideology, capitalistic imperialism results from over-saving in the metropolitan nation, leading to a struggle for foreign outlets to receive surplus goods and capital. The image has been created of capitalist centers always long on capital and desperate to dispose of it. United States tax favors stimulating offshore investment, and a host of allied policies have done much to reinforce and appear to confirm this tenet of ideology around the world, resulting in foreign nations' regarding United States capital with an excess of contempt, economically, and of fear politically. This whole image and its dependent ideological apparatus is refuted and shattered by the spectacle of a dominant capitalist nation acknowledging its need to import foreign capital. The result would be more respectful treatment of United States investors by foreign host nations, in thought, in word, and in deed.

By the same token, for a net creditor nation to reject foreign investors

street names and blind trusts? What about land contracts, who is the true owner? What about estates? A passing acquaintance with the problem of the United States Land Office trying to enforce residence requirements under the Homestead Act; and of the United States Bureau of Reclamation trying to enforce its anti-speculation 160-acre law should serve to alert us to the high police cost, and the low success ratio attending efforts to exclude wealthy buyers from choice markets.

There are useful spin-offs, to be sure. The Bureau has gathered interesting data on the high concentration of ownership its policies failed to counteract, and if these figures were distributed and publicized beyond the present narrow circle of specialized researchers they could be of some public benefit. Information about who owns how much of the nation's land would be a major input into current policy debates, for example on the incidence of property taxation. However this information is important enough to gather and publish for its own sake, and seems too indirect a benefit to be a major rationale for discriminating against alien landowners.

The Disadvantages of Foreign Land Purchase

Less Intensive Use

Historical Record

There are several studies of absentee landownership. Perhaps the most thorough was in the United States Census of Agriculture for 1900. That this was so long ago testifies glowingly to the need for more current information, for surely the topic is of greater national importance than details about personal plumbing and equally consequential matters actually recorded currently. Meantime the findings of the 1900 study are worth citing because they show such a systematic pattern. Size of farm increased systematically with the distance between owner and farm, foreign owners having the largest farms by far.^{1/} At the same time intensity of use declined with size of farm, a trend still evident today.

Some other studies are cited below.^{2/}

^{1/} United States Census of Agriculture, 1900, No. 1, Part 1, p. xc.

^{2/} H.A. Turner, "Absentee Farm Ownership in the United States", Journal of Land and Public Utility Economics 3 (1927), pp. 48-60, at pp. 50-51. E. A. Stokdyk, "Corporation Farms", Kansas State Board of Agriculture, 27th Biennial Report, 1929-30, pp. 77-84, at p. 81. Shaw Livermore, Early American Land Companies (New York: The Commonwealth Fund, 1939). Paul Gates, Frontier Landlords and Pioneer Tenants (Ithaca: Cornell University Press, 1945). Lewis C. Gray, "Land Speculation", in E.R.A. Seligman (ed.) Encyclopedia of the Social Sciences (New York: The Macmillan Co., 1931). Ray Billington, Westward Expansion (New York: The Macmillan Co., 1949). Marshall Harris, Origin of the Land Tenure System in the United States (Ames: The Iowa State College Press, 1953). Adon Poli and Ralph Nielsen, "Non-resident Landlords of Imperial Valley,

A Priori Reasons

There are several a priori grounds for expecting foreign owners of land to use it less intensively. One is the "security" motive often expressed by wealthy foreign buyers hedging their bets and diversifying to guard against political reverses at home. Buyers so motivated seek investments whose value is high relative to the management factor. Management needs vary with volume of production and sales, the products of intensive use.

There was a time when portfolio investments helped meet this need, but that time is largely past due to inflation, as well as tax policies that favor direct over portfolio investment. Common stock ownership is another way, but many shareholders suffer from the inevitable conflict between ownership and management. These prefer to hold their own, and minimize the management input.

It is the surplus yielded by land that attracts remote investors. Marginal increments to intensity by definition yield little surplus above cost. Real estate analysts refer therefore to the top stories of high buildings as increments of "low quality". Labor at the intensive margin likewise is a "low quality" risk to the absentee investor hiring labor with a percentage to a hired manager, while to the owner-operator the marginal labor may be his livelihood, which he regards very highly. The owner-operator therefore probes deeper into the intensive margin of use than the absentee owner.

An aspect of land use where absentee owners are weakest is conservation and maintenance, investments often of "low quality" and where separation of owner and manager is particularly damaging. Accordingly, we find foreign owners strongly attracted to mining, where the surplus is often large, waiting is long and costly, and conservation least involved. Mining is by nature destructive and migratory rather than conserving.

The kind of "conservation" to expect from foreign mine owners is the holding action of a cartel calculated to sustain prices. But this is the opposite of intensive use, just as is mining without adequate labor to finish up a good clean job with attention to details.

Weaker Political Control

Landownership is more political than ownership of other things, for several reasons. Landholders originated in history as vassals of a king who

California", Bureau of Agricultural Economics, United States Department of Agriculture, Berkeley: 1942 (mimeographed). The Lumber Industry, United States Bureau of Corporations, Department of Commerce and Labor, Parts 1-4, (Washington: United States Government Printing Office, 1913). Benjamin Hibbard, A History of the Public Land Policies (New York: The Macmillan Co., 1924), Chapter 12.

delegated to them some of his sovereign powers. If history weren't enough, the very nature of an owner's dominion over part of the national estate is an expression of territorial power, the same power the nation claims to exclude the world. Something of national sovereignty is lost, therefore, when aliens join the ranks of landholders. The "king's vassals" serve two masters.

The United States "Trading with the Enemy" act is an extension of sovereignty, whose invasion of sovereignty has been widely recognized. Imagine having much of our land held and administered by people subject and responsive to foreign laws, yet invested by our laws with privileges and power denied to landless citizens. The United States, again, regularly uses foreign offices of home-based firms as cover for intelligence agents. The United States has sometimes sent the Marines to protect the rights of its citizens holding land abroad, and the occasional deed is the continual threat. The wide acceptance of the idea that national defense is a "public good" from which all benefit equally betrays a general unawareness of how much military and diplomatic effort is dedicated to enhancing the position of citizens holding interests in land offshore.^{1/}

Foreign landholdings have even been used for troop staging. Landholders are subject to the sovereign police power, yet larger landholdings are less subject to it, in fact, than small. They often have their own police.

Another origin of landownership is foreign conquest. Many vestigial aspects of the common law make landholders higher-class citizens than the landless. One is standing in court. To sue in an environmental case, until very recently only landowners were considered to have standing in court, even though they might be absentees whose lessees' persons are actually on the line. Property qualifications for the vote have been largely removed, yet in some special improvement districts only landowners can vote, even though these districts have been borrowed the sovereign power of taxation. Many important local details of administering farm price support laws and allocation of quotas have been delegated to committees of local landowners. Tax exemption granted to churches goes to their real estate, not clergymen's incomes, and churches renting their premises do not benefit.

Land income is taxed at much lower effective rates than wage and salary income under federal and state tax laws. Some loopholes are so gross as to constitute negative tax rates.^{2/} Foreign land purchase raises

^{1/} The writer has documented this theme in "The Benefits of Military Spending", unpublished manuscript, 1972, pp. 1-89.

^{2/} The writer has laid out the details in "The Treatment of Land Income", Hearings on Economic Analysis and the Efficiency of Government, United States Congress, Joint Economic Committee, 1969, Part 2, pp. 405-15.

the question whether we want the income of aliens operating in the nation treated more favorably than the income of citizens.

A good deal of land value is a political value. Alfred Marshall, the definitive Victorian economist, called it the "public value of land" in reference to its political sources. Government establishes a sovereign claim over territory initially by driving away rivals and enemies, and continues keeping them at bay. It parcels out land to individuals, and all claims of title hark back to some originating sovereign whose successor is our present sovereign government. It provides police to enforce the tenures so granted - imagine collecting rent in Harlem without them - and lets larger landholders have their own police.

Government finances or regulates site-specific public works that make and break land values. Land values are political products in substantial part. Accordingly, landholders generally take an active interest in politics and wield influence out of proportion to their numbers.

Local government, particularly, is responsive to landholders who often view it as their own "cooperative", a kind of business whose main function is to serve them. That is implied in the common slogan "Property should pay for services to property, not to people", a modern expression of the contract theory of the state.^{1/} Here, residence and nativity count for little; property for much. This leaves central government to serve people from taxes on people, but not until the central revenues derived from taxing people are shared with local governments to help serve property and relieve its tax burdens.

Local governments then enjoy a delegation of the sovereign police power, control over zoning, which they use largely to exclude citizens of little wealth. Thus an alien landowner is invested indirectly with delegated sovereign powers used to keep landless citizens away from choice lands.

As land values rise, in part from such political acts, landholders receive an "unearned increment". Economists have identified such income as serving little useful economic function. Private enjoyment of it is easier to defend on political grounds, and has been. Landholders are a political caste who provide needed social and public leadership. The Founding Fathers, the Virginia dynasty, the English "squirearchy" and the German Junkers all seem to provide successful examples; the French and Russian aristocracies less so, along with the padrones of Latin America and zamindars of India. W.J. Ashley, Alexis de Tocqueville, Christopher Dawson, and many other social commentators have rationalized landowner leadership in this way.

^{1/} H.D. Simpson, "Historical Development of the Property Tax from the Legal Viewpoint", American Economic Review (September 1939) pp. 457-67, at p. 462.

There is doubtless much to it. The rationale is lost, however, when aliens buy in and replace native owners. Then ownership loses everything but its purely commercial character, and as such it lacks enough function to justify receipt of unearned income. Society is pluralistic, held together by many value systems. We can live with anomalies, up to a point. Alien assumption of landowner prerogatives whose origins were premised on compensating public service and leadership pushes us right to the limit.

Weaker Social Control

Foreign owners are less concerned with local external economies and diseconomies, both technological and pecuniary, resulting from their management. Thus a branch plant controlled abroad may be put on and off standby, imposing all the costs of instability on the host economy in order to stabilize the home economy. When output is prorated the branch plant may get less than its share, due to political and economic pressure exerted at home. Owners will transfer both jobs and profits to the jurisdiction where they most need political support.

As to the physical environment, the absentee owner is obviously less affected, aware and concerned than the resident owner. As to the social and civic environment, the absentee is absent and contributes little, as may be observed in slum neighborhoods. Jon Udell has impressively demonstrated the dereliction of absentee owners and branch plant managers in local charities, philanthropies and other civic good works.^{1/} The demonstration effect of such dereliction on the character of young people growing up is simply incalculable.

Monopoly Control of Public Lands

Managers of public lands sometimes are forced to deal with one buyer whose private land holds a strategic spot. When the buyer becomes an alien the interesting question arises whether public policy is served by letting timber, for example, be sold on sub-competitive terms. Public managers have at times evinced a weakness for favoring their clients. In the Tongass National Forest of Alaska, for example, the monopsony buyers are now Japanese.^{2/}

Violation of Native Mores

Alien landowners intrude on a local scene in a dominant social role. They will have different ideas about race relations. They know different customs about toleration of trespass by hunters, fishers and sojourners. They deal differently with employees and tenants, both relations

^{1/} Jon Udell, Social and Economic Consequences of the Merger Movement in Wisconsin (Madison: Bureau of Business Research, 1969).

^{2/} United States Department of Commerce National Technical Information Service, Federal Land Laws and Policies in Alaska, Code PB 195-295-LK, Volume 2, Chapter III, "Timber", 1974.

being subject to extensive social control by custom and tradition. They have different ideas about the responsibilities as between neighbors, the proper public face of private property, and care of the environment. Landownership has a sociological, as well as a political and economic aspect, and alien intrusion is bound to be an irritant.

Loss of Tax Base

The law distinguishes taxes in rem, on things, and in personam, on persons. Real estate taxes are in rem, and express the sovereign's underlying ownership of land in a nation. The thing, not the owner, is liable to seizure and forfeit for non-payment. The personal circumstances of the owner, and his location and citizenship, are immaterial. Taxes in rem are not lost when aliens buy.

Taxes in personam are something else. An alien owner may shift taxable profit to his home jurisdiction by adjusting transfer prices internal to his firm or corporation, and by allocating overhead and other invisible service costs to the land in the host country.

At the same time, it is true, the alien owner imposes no personal service costs on the host nation, like educating his children. However if large holdings are involved per owner, this gain is small next to the potential losses. We will see that foreign holdings do average larger than native ones.

There are other taxes that miss alien owners. Consumption and death taxes are obvious examples, and payroll taxes on home-office management staff, whose services are imported without their bodies.

The foreign buyer seeking "security" primarily will avoid marginal increments of land improvement in the "low-quality" stage of intensification where there is little surplus above real costs. But all these increments would have been taxable, as would have been the added gross activity they could shelter. Land used less intensively yields less taxes.

But what then happens to the net inflow of foreign capital from the land purchase? Much of it leaks now into public infrastructure, tax free. Even disregarding taxes there is a tradition of using low interest rates for planning, sizing, timing and extending public works. The net result is triply inferior: the capital yields no taxes; its marginal productivity is below par; and its turnover is slow, reducing all the payroll and taxable activity associated with recovering and reinvesting capital.

Long Term Drains

When a foreigner buys land there is, we have seen, a real capital transfer here. But then begin the return flows of income. If he buys at a capitalization rate of 10%, or "ten years' purchase", in ten years the return outflows equal the original inflow, and then go on forever.

On the plus side, we keep the capital transfer forever, too, and capital can yield real income. Goods are transitory, unlike land, but "Capital is kept in existence from age to age, not by preservation but by continual reproduction".^{1/} Each turnover poses a risk of loss, it is true, but added returns on successful ventures yield risk premia to compensate. The foreign exchange "problem" solves itself, too. Added production from the new capital increases our exports and reduces our imports to cover the rent outflow.

Yet we observe nations badly exploited by foreign landholders. This occurs when they sell too cheap and handle their new capital badly. It is an old familiar story when non-commercial cultures with high time-preference and short time-horizons come in contact with sharp lenders laden with money, equipped with guile, and backed by their nation's armed forces. Aramco, for example, originated in 1933 with a capital of \$100,000.^{2/} In 1956 it netted \$280 millions after all taxes and royalties.^{3/} Few others have matched that success story, but it suggests the possibilities.

A powerful nation of modern, businesslike people has less to fear in this regard. We do not trifle away foreign loans on big funerals and weddings like the Indian peasants who fall in the grip of usurious money-lenders. We will not be invaded by Swiss or Belgian Marines. We will not sell Manhattan Island for beads and trinkets.

We do have our own sacred cows, however, that can get us into deep trouble. We do not waste capital in the child-like ways of primitive peoples. We waste it in our own mature, sophisticated ways. We slush precious capital into highways well beyond our needs. We pad the Pentagon budget with work-relief items and put our hope in their "ripple effects". We carry an increment of water supply to southern California at many times the necessary capital cost. One could go on - and on - and on. The waste does, every day.

There is a rationale that the social rate of time-preference is lower than the private rate. What that means in practise is that governmental agencies may invest capital at extremely low productivity, especially

^{1/} John Stuart Mill, Principles of Political Economy, Book I, Chapter 5, Paragraph 6 (Boston: Lee and Shepard, 1872) p. 47.

^{2/} "The Great Oil Deals", Fortune, May 1947, p. 175, cited in Raymond A. Mikesell and Hollis B. Chenery, Arabian Oil (Chapel Hill: University of North Carolina Press, 1949), pp. 55-56, note 31.

^{3/} Testimony of F.A. Davies, Emergency Oil Lift and Related Oil Problems, Joint Hearing before Subcommittees of the Committee on Interior and Insular Affairs, United States Senate, 85th Congress, 1st Session (Washington 1957) Part 2, p. 1469, cited in Robert Engler, The Politics of Oil, (Chicago: The University of Chicago Press, 1961), p. 224.

15

in public works of long life and slow results. Now if the foreigner buys our land for a 10% return, and we invest marginal public capital for a 2% return, we are the losers and we are in trouble. If we invest the public capital in ways to enhance the income of the land he has bought, we compound the error. If now we turn and blame the foreigner for our own mistakes we are childlike, irresponsible and incorrigible indeed.

There is also the question of secondary effects. If the primary effects are negative, so are the net secondary effects. When foreign capital flows in it finances local income payments, and these in turn create new opportunities in the area impacted. Some of the new opportunities yield net surpluses over cost, or rents, and there are net gains to the receiving nation, (unless the benefitting lands are foreign-owned).

When rents flow back, however, the secondary gains go with them. Swiss residents living off American rents increase the demand for homesites in Switzerland and for ski resorts and commercial land, adding to Swiss rents, and detracting from American. Meantime the American condition depends on what Americans did with their earlier secondary gains. If these were simply consumed away, there is another net loss over time.

Concentration of Ownership

Absentee owners average larger than resident owners of land. "While the portfolio foreign investments of the 1920's were held by a large number of individuals and corporations, direct investments have always been heavily concentrated in the hands of relatively few American companies with foreign branches and subsidiaries".^{1/} There is an overwhelming weight of evidence supporting this generalization in every field of direct investment.^{2/} Opening the door to foreign investors therefore opens a field dominated by the largest firms and wealthiest individuals.

Domestic Institutions and the Balance of Advantage

When foreigners want to buy our land there are great disadvantages in

^{1/} The American Enterprise Association, Inc., American Private Enterprise, Foreign Economic Development, and the Aid Programs, Special Committee to Study the Foreign Aid Program, United States Senate. (Washington: United States Government Printing Office, 1957) p. 2.

^{2/} Raymond F. Mikesell, Promoting United States Private Investment Abroad (Washington: National Planning Association, 1957) p. 23. United States Department of Commerce, United States Business Investments in Foreign Countries, (Washington: United States Government Printing Office, 1960) p. 144. International Financial News Survey, Volume 19, No. 9 (March 10, 1967), pp. 73-74. Christopher Layton, Trans-Atlantic Investment (Boulogne-sur-Seine, France: 1966), p. 18.

trying to exclude them, and great disadvantages in admitting them. What to do? The answer lies in finding filters that will secure the good effects while sparing us the bad.

The problem arises in part from our having let the rights of property rise in value relative to the rights of citizenship as such, the latter being what a landless orphan - which is what many a slum youth is - might come into as he matures. What he comes into now is a world where services to people are increasingly financed by taxes on people's wages and consumption, and services to property are partly so financed as well; a world where payroll taxes on the young will rise to cover pensions for the old; a world where land for new homes and businesses is beyond his reach. Unless he is Ph.D. material his better bargains are a car, a TV, a welfare card and a gun. Only the gun promises to enrich him enough to compete with aliens for his native land. Even the Ph.D. may not get him a job.

To counteract such problems, a useful filter is the property tax. Property taxes do not exclude foreign buyers or require any special policing. They do however limit what is available to buy by reserving a piece in the "bundle of rights" to be used for services to citizens and residents. The property tax piece in the bundle of rights is not transferred with the fee simple title. A community that taxes property receives the benefit of foreign ownership without so much damage. The higher the tax rate, the larger the reservation of community rights.

The property tax turns land to the greater benefit of our "landless orphan" citizen in two ways beyond simply raising money. Most taxes are activity-based: they shoot anything that moves and spare what doesn't. Property taxes are the opposite, they are passivity-based, and so apply leverage to property. The incentive effects are positive. Land-based taxes, particularly, induce owners to turn land to heavy use to raise tax money. Very intensive use of farm land in the Wright Act Irrigation Districts of California has clearly developed as a response to heavy land taxes levied to finance water supplies and break up large landholdings.^{1/} Use of land means service to consumers and jobs for workers. Thus the landless citizen benefits triply, as a taxpayer, a consumer, and a worker.

The land, by the same token, is made less attractive to those foreigners who seek a quietly secure, appreciating asset they can hold at a distance without much management input. It is the surplus in property that attracts investors. Property taxes cut right at the heart of the surplus, without reducing a bit the return on "low-quality" intensifying increments of labor. The comparative advantage of the intensive user rises. The filter is doing its job.

^{1/} Albert T. Henley, "Land Value Taxation by California Irrigation Districts", in Arthur P. Becker (ed.) Land and Building Taxes (Madison: University of Wisconsin Press, 1969) pp. 137-46.

Property taxation filters out foreign buyers who, in seeking security without offering enterprise, would hold back our land from full economic use, curtailing service to consumers and jobs for labor. That is more true of the land element of the tax. The building tax adds to the cost of holding capital and screens out marginal "low-quality" investment increments. But neither element is a tax that "shoots anything that moves". Both elements spare motion and shoot torpidity, because the taxable event on which they are based is not action but the passage of time.

By discouraging absentee ownership, property taxes preclude impairment of sovereignty. In addition, property taxes are an annual reminder and assertion of sovereignty over land, of psychological as well as financial effect. They require inspection and appraisal. They tend to break up large holdings, increasing interdependency and exchange which pass through public rights-of-way and markets to be observed and policed. They are no answer to all foreign arrogations, but they forestall developing weakness that would encourage violations of sovereignty.

By discouraging passive absentee owners, property taxes, especially their land element, bring owners nearer to their land, making them more aware of its environment and their civic duties. By subjecting the owner more to local social controls we do raise the danger of subjecting him to local networks in restraint of trade, it is true. On the other hand the more intensive use of land is ipso facto a freeing of restraint, necessarily leading to greater volume, lower prices and greater job opportunities. The application of labor to property tends to be regressive - larger holdings are much less heavily manned. Peter Dorner, Don Kanel,^{1/} John Riew,^{2/} Morton Paglin,^{3/} Albert Berry,^{4/} and others have documented the point beyond much doubt. Property taxes therefore have always tended to break up large concentrations of property, fostering subdivision, intensification, equal distribution and competition.

Another advantage is the in rem character of property taxes. They fall due each year on aliens as well as residents, regardless of address. They are unavoidable by shifting profits abroad, by consuming, working, or dying abroad. They require no international agreements or bargains,

^{1/} Peter Dorner and Don Kanel, "The Economic Case for Land Reform", in Peter Dorner (ed.) Land Reform in Latin America (Madison: Land Economics Monograph Series No. 3, 1971) pp. 39-56.

^{2/} John Riew, "Assigning Collection of a Statewide Uniform Rate Land Tax", in Richard Lindholm (ed.) Property Taxation and the Finance of Education, (Madison: University of Wisconsin Press, 1974).

^{3/} Morton Paglin, "Surplus Agricultural Labor and Development", American Economic Review, September 1965, pp. 815-33.

^{4/} Albert Berry, "Presumptive Income Tax on Agricultural Land", National Tax Journal, June, 1972, pp. 169-81.

treaties or concessions. No one needs to hunt down the absent owner - he pays or he forfeits his real estate.

Another advantage is cutting down our need of foreign capital by reducing the required capital coefficients of each job. Taxes on capital make it cost more relative to labor, and discourage the substitution of capital for labor. I count this as a lesser advantage. The greater saving is the saving of infrastructure capital achieved when land taxation raises the density of settlement and land use. This is why California Irrigation Districts taxed land, and their experience is symbolic of what the whole economy needs: heavier use of land under the ditch; fewer ditches.

Another set of domestic institutions needing review is the set of favors to Americans investing abroad. It is altogether anomalous to subsidize capital export, as the nation does, and then sell the homeland to foreigners. America outramer has a GNP well over \$100 billions, making it the third or fourth largest economy in the world.^{1/} It is not a labor-intensive GNP, but capital and resource-intensive. There is there a prodigious fund of real wealth that might be summoned home simply by repealing the various special privileges it enjoys, like the foreign tax credit and deferred taxation of unrepatriated income.^{2/} If native and alien owners both stayed closer to their own homes the net change would be to reduce absentee ownership with its heavy personal and social costs.

In summary, we have made these points. Foreign purchase of domestic land effects an international capital transfer, just as though the foreigner loaned us money or shipped goods here. There are several advantages to the host nation. It gives foreign nations a stake in our welfare. It causes foreign nations to treat our overseas capital more respectfully. It may bypass unneeded financial middlemen. It may bring in creative new management. And it obviates the high costs of any effort to present it.

There are also disadvantages to the host. Absentee owners use land less productively, necessitating some waste of the new capital in stretched-out transportation and utility lines and other infrastructure costs that increase as functions of space and distance. Landholding is politically sensitive and holders are powerful, so alien ownership threatens native sovereignty. Absentee owners are less useful civic leaders, less sensitive to the local environment, physical and social,

^{1/} Leo Model, "The Politics of Foreign Investment", Foreign Affairs, July, 1967, pp. 640-41.

^{2/} Lawrence B. Krause and Kenneth W. Dam, Federal Tax Treatment of Foreign Income (Washington: The Brookings Institution, 1964). Peggy Brewer Richman, Taxation of Foreign Investment Income (Baltimore: The Johns Hopkins University Press, 1963). Stanley Surrey, Pathways to Tax Reform (Cambridge: Harvard University Press, 1973) pp. 183-84.

political and economic. Land income receives preferential treatment under the income tax. Much of it is unearned so there is no gain in taxing foreign owners more favorably than citizen labor. Foreign owners may secure monopsony control over use of the public domain. Foreign owners may violate local custom, dealing from strength. Foreign owners may avoid most kinds of taxes, operating from privileged sanctuaries. Foreign purchase tends to increase concentration of ownership. Finally, the host nation may waste its new capital in low-yield investments while paying income to aliens at market rates, falling into the grip of the money lender.

The balance of advantage depends on domestic institutions. The writer suggests we make heavier use of property taxation, particularly the land element, in order to filter out aliens who would scorch our earth by underutilization, and filter in those who would activate land, serve consumers and hire workers. He suggests the rights of citizenship take priority over the rights of property, that property be taxed to provide services to people rather than the reverse. He suggests we stop wasting capital in public works of low productivity which make us depend on foreign capital; and that we summon home a portion of the native capital now enjoying tax shelter offshore. These measures would constitute an effective response to the challenge of foreigners who would buy our land.