

SOCIAL AND ECONOMIC IMPACTS OF FOREIGN INVESTMENT IN UNITED STATES LAND

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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 questions have 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 of foreign investment.

In both cases the answer is "No, but . . ." Land purchase is simply a transfer from buyer to seller; they 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 turnovers rise and prices rise, cash needs may rise, resulting in a net leakage. In these inflationary times, however, this is not a major concern. Land in an active, rising market becomes a much more liquid asset, more similar to cash; this tends to satisfy certain motives for holding cash and reduce the need to hold cash.

Anyone buying land is not directly employing domestic labor. 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. 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 available to the seller more real money, 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

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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. The net effect is more real capital at our disposal. However, absentee ownership affects how land and capital are used.

Some uses of the imported capital will do more for national income than others. The seller rather than the foreign land buyer determines the use of the land. 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 not an inherent fault of foreign land purchases.

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 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, with a low job-coefficient per dollar of capital over time,¹ is highly capital-intensive. But again, it could be the other way around; the foreign buyer could convert waste land into a hive of service and industry. 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 need for them to create real capital in order to have assets.² In addition, the dynamic rise of values during the transition to higher levels creates current income. Most current income is normally consumed and thus reduces saving.

1. This concept is developed and given precision in Gaffney, *Full Employment with Limited Land & Capital*, in *PROPERTY TAXATION, LAND USE AND PUBLIC POLICY* 99 (A. Lynn ed. 1976); and in Gaffney, *Full Employment and the Environment*, in *ENVIRONMENTAL MANAGEMENT* (G. Rohrlich ed. 1976).

2. Solo, *The Accumulation of Wealth in the Form of Land-ownership in Underdeveloped Areas*, *LAND ECON.* 156-60 (1955).

Higher land prices resulting from foreign demand do not mean that land is worth more to the nation, except as an exportable commodity, which is a limited concept. Instead the same land is capitalized at a lower rate, thus 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. There is 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 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 for business and home building is underweighted, even though it creates a 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 now proceed to butt these butts.

THE ADVANTAGES OF FOREIGN LAND PURCHASE

Capital Transfer

The foreign buyer acts to transfer capital to the selling nation during the present capital shortage. 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 its 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. 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 of the fallacy of composition as we move from the parts to the whole. What do landlords as a group do for tenants as a group? 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 double-counting. Absentee ownership is in fact a frictional cost that offsets part of the gain.

Ideological Gains in World Debates

In the Marx-Lenin ideology, capitalistic imperialism results from oversaving in the metropolitan nation and leads to a struggle among foreign outlets to capture 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 this tenet of ideology around the world. As a result foreign nations regard United States capital with economic contempt and political fear. This whole image and its dependent ideological apparatus are 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.

Similarly, for a net creditor nation to reject foreign investors would be glaringly inconsistent with its major national intent and posture. Such action would invite both ridicule and retaliation. The nation must welcome foreign money to legitimize its own actions. It has much more to lose than gain from a world spiral of hostility to foreign investors.

Disintermediation

Foreign land purchase is direct investment that transfers capital without it necessarily going through financial intermediaries. Some

of it does anyway, to be sure, in order to secure needed advisory services. The gain is that those not needing the services can avoid buying them. This spares the institutions the real costs of providing the unwanted services and creates net social gain.

This brings foreign management directly into the host country by requiring them to devote time and talent for managing the newly purchased business. There are several advantages.

The first advantage is at the local fiscal level. Industry usually generates net fiscal gains to cities, while residences do the opposite. An industry located here but in part managed there means added tax base without commensurate added costs, especially for schools. What this means for local jobs is something else to be considered later. The nation's income tax base is also reduced because foreign headquarters personnel are not taxed in the host country even though the company's tax liability is reduced by its being charged or overcharged for management services from the home office. Thus profit is shifted upstairs out of the host country. Nonetheless, the locality may reap a gain.

The second and more substantial advantage is that foreign management may invade local cartels and restricted markets. Outsiders are less likely to be members of organizations that restrain trade and competition. New management has it less to lose and more to gain by breaking things up. Even in the absence of actual conspiracies to restrain trade there is always the implicit conspiracy of the quiet life by mutual tacit consent. Foreigners introduce new ideas, techniques, and products. Equally important, they may introduce habitual winners to the new humiliation of coming in second, just as they do in Olympic athletic events, and thereby inspire more effort.

Obviating Police Costs

Foreign land purchase obviates the high police costs of trying to prevent it. Even defining it poses mind-bending riddles. When a national moves abroad, is he now a foreign owner? What arbitrary rule should we use to say when he must sell out, and why is one rule better than another? What if a foreigner buys shares in a native corporation holding land? At what point does a multi-national corporation chartered at home become an alien, as its shares sell around the world, its ships carry Panamanian registry, and its assets are everywhere? What about straw owners and front men, street names and blind trusts? What about land contracts, who is the true owner? What about estates? The problem of the United States Land Office trying to enforce residence requirements under the Homestead Act and 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. 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 on such issues as the incidence of property taxation. The benefit of this information seems too indirect to be a major rationale for discriminating against alien landowners.

THE DISADVANTAGES OF FOREIGN LAND PURCHASE

Less Intensive Use

There are several studies of absentee landownership.³ Perhaps the most thorough was in the *United States Census of Agriculture* for 1900, in itself testimony to the need for more current information, for surely thy topic is of greater national importance than details about personal plumbing and equally consequential matters actually recorded currently. 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.⁴ At the same time intensity of use declined with size of farm, a trend still evident today.

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.

3. Turner, *Absentee Farm Ownership in the United States*, 3 J. LAND & PUB' UTIL. ECON. 50-51 (1927); Stokdyk, *Corporation Farms*, in KAN. ST. BOARD OF AGRICULTURE, 27TH BIENNIAL REPORT 81 (1929-30); S. LIVERMORE, EARLY AMERICAN LAND COMPANIES (1939); P. GATES, FRONTIER LANDLORDS AND PIONEER TENANTS (1945); Gray, *Land Speculation* in ENCYCLOPEDIA OF THE SOCIAL SERVICES (E. Seligman ed. 1931); R. BILLINGTON, WESTWARD EXPANSION (1949); M. HARRIS, ORIGIN OF THE LAND TENURE SYSTEM IN THE UNITED STATES (1953); A. POLI & R. NIELSEN NON-RESIDENT LANDOWNERS OF IMPERIAL VALLEY, CALIFORNIA (Bureau of Agricultural Econ., U.S. Dep't. of Agriculture 1942); U.S. BUREAU OF CORP., DEP'T COM. & LAB., THE LUMBER INDUSTRY, pts. 1-4 (1913); B. HIBBARD, A HISTORY OF THE PUBLIC LAND POLICIES, ch. 12 (1924).

4. UNITED STATES CENSUS OF AGRICULTURE, 1900, No. 1, Part 1, at xc.

There was a time when portfolio investments helped meet this need, but that time is largely past due to inflation and 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 shareholders prefer to hold their own and thereby 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 tall buildings as increments of "low quality." Labor at the intensive margin likewise is a "low quality" risk to the absentee investor hiring labor while paying a percentage to a hired manager. In contrast marginal labor may be the livelihood of the owner-operator, who therefore will probe 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 where investments often are of "low quality" and separation of owner and manager is particularly damaging. Accordingly, foreign owners are 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, like mining without adequate labor to finish up a good clean job, is the opposite of intensive use.

Weaker Political Control

For several reasons landownership is more political than ownership of other things. Landholders originated in history as vassals of a king who 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 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. 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 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 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.⁵ Landholders are subject to the sovereign police power; foreign landholdings have even been used for troop staging. Yet larger landholdings are less subject to the police power 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. Until very recently only landowners had standing in court in an environmental case, even though the owner was an absentee whose lessee's interest was being injured. Property qualifications for the vote have been largely removed, yet in some special improvement districts only landowners can vote, even though these districts have 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.⁶ Foreign land purchase raises 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. Government 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

5. The writer has documented this theme in M. Gaffney, *The Benefits of Military Spending* (unpublished manuscript 1972).

6. The writer has laid out the details in *The Treatment of Land Income*, Hearings on Economic Analysis and the Efficiency of Government, Before Joint Econ. Comm., pt. 2, 405-15 (1969).

that make and break land values. 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. This view 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. 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 by having 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 this income as serving little useful economic function. Private enjoyment of it is easier to defend on political grounds. 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 along with the *padrones* of Latin America and *zamindars* of India were less successful. T. S. Ashton, Alexis de Toqueville, and many other social commentators have rationalized landowner income in this way.

This 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 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.⁷ The 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.⁸

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 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 the care of the environment. Landownership has a sociological, 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 cir-

7. J. UDELL, SOCIAL AND ECONOMIC CONSEQUENCES OF THE MERGER MOVEMENT IN WISCONSIN (1969).

8. U.S. DEPT OF COMM., NAT'L TECH. INFORMATION SERVICE, 2 FEDERAL LAND LAWS AND POLICIES IN ALASKA, Code PB 195-295-LK (1974).

cumstances, location, and citizenship of the owner are immaterial. Taxes *in rem* are not lost when aliens buy. Taxes *in personam* are another matter. 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 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 when compared 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, and payroll taxes on home-office management staff, whose services are imported without their bodies, are obvious examples. The foreign buyer seeking (primarily) security 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 purchases? 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 a real capital transfer in the United States. 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, and capital can yield real income. Good are transitory, unlike land, but "Capital is kept in existence from age to age, not by preservation but by continual reproduction."⁹ 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. Added production from the new capital increases our exports and reduces our imports and thereby cover the rent outflow. Yet we observe nations

9. J. MILL, PRINCIPLES OF POLITICAL ECONOMY 47 (1872).

badly exploited by foreign landholders. This occurs when they sell too cheap and handle their new capital badly. It is an old familiar story that occurs where 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 \$100,000.¹⁰ In 1956 it netted \$280 million after all taxes and royalties.¹¹ 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. However we do have our own sacred cows which can lead us into deep trouble. We do not waste capital in the childlike 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. 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 practice is that governmental agencies may invest capital at extremely low productivity, especially 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, then we are the losers and we are in trouble. If we invest the public capital to enhance the income of the land the foreigner 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-

10. *The Great Oil Deals*, FORTUNE 175 (1947) (cited in R. MIKESSELL & H. CHENERY, ARABIAN OIL 55-56 n. 31 (1949)).

11. *Emergency Oil Lift and Related Oil Problems: Joint Hearing Before Subcomm. o. Sen. Comm. on Interior and Insular Affairs*, 85th Cong., 1st Sess. (1957) (testimony of F. A. Davies) (cited in R. ENGLER, THE POLITICS OF OIL 224 (1961)).

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. Meanwhile 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 landholdings are larger on the average than resident holdings 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."¹² There is an overwhelming weight of evidence supporting this generalization in every field of direct investment.¹³ 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 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, who 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 financed by these same wages and consumption; 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.

12. THE AMERICAN ENTERPRISE ASSOCIATION, INC., AMERICAN PRIVATE ENTERPRISE, FOREIGN ECONOMIC DEVELOPMENT, AND THE AID PROGRAMS 2 (1957).

13. R. MIKESSELL, PROMOTING UNITED STATES PRIVATE INVESTMENT ABROAD 23 (1957); U.S. DEP'T OF COM., UNITED STATES BUSINESS INVESTMENTS IN FOREIGN COUNTRIES 144 (1960); 19 INT'L FINANCIAL NEWS SURVEY 73 (1967); C. LAYTON, TRANS-ATLANTIC INVESTMENT 18 (1966).

A useful filter to counteract such problems is the property tax. Property taxes do not exclude foreign buyers or require any special policing. They do however reserve a piece of the "bundle of rights" to be used for services to citizens and residents that is not transferred with the fee simple title. A community that taxes property receives the benefit of foreign ownership without as 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 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.¹⁴ 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 the return on "low-quality" intensifying increments of labor. The comparative advantage of the intensive user rises; the filter is doing its job.

Property taxation filters out foreign buyers who, in seeking security without offering enterprise, would hold back our land from full economic use. This is more true of the land element of the tax. The building tax, on the other hand, 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 aim at 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, a psychological as well as financial effect. They require inspection and appraisal. They tend to break up large holdings, increasing interdependency and exchange, which in turn pass through public rights-of-way and

14. Henley, *Land Value Taxation by California Irrigation Districts*, in *LAND AND BUILDING TAXES* 137 (A. Becker ed. 1969).

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, and by subjecting the owner more to local social controls, we raise the danger of subjecting him to local networks in restraint of trade. However, 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,¹⁵ John Riew,¹⁶ Morton Paglin,¹⁷ Albert Berry,¹⁸ and others have documented the point beyond much doubt. Property taxes therefore have always tended to break up large concentrations of property, thereby fostering subdivision, intensification, equal distribution, and competition.

The *in rem* character of property taxes is an advantage. 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, 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 and fewer ditches.

Favors to Americans investing abroad are also in need of review. It is altogether anomalous to subsidize capital export, as this nation does, and then sell the homeland to foreigners. America *outré-mer* has a GNP well over \$100 billion, making it the third or fourth

15. Dorner & Kanel, *The Economic Case for Land Reform*, in LAND REFORM IN LATIN AMERICA 39 (P. Dorner ed. 1971).

16. Riew, *Assigning Collection of a Statewide Uniform Rate Land Tax*, in PROPERTY TAXATION AND THE FINANCE OF EDUCATION (R. Lindholm ed. 1974).

17. Paglin, *Surplus Agricultural Labor and Development*, 55 AM. ECON. REV. 815 (1965).

18. Berry, *Presumptive Income Tax on Agricultural Land: The Case of Columbia*, 25 NAT'L TAX J. 169 (1972).

largest economy in the world.¹⁹ It is not a labor-intensive GNP but rather capital and resource-intensive. There is a prodigious fund of real wealth that might be summoned home simply by repealing the various special privileges America *outré-mer* enjoys, like the foreign tax credit and deferred taxation of unrepatriated income.²⁰ If native and alien owners both stayed closer to their own homes, the net change would be the reduction of 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 prevent 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 and less sensitive to the local physical and social, political and economic environment. 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. This 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 that the

19. Model, *The Politics of Private Foreign Investment*, 45 FOREIGN AFFAIRS 640-41 (1967).

20. L. KRAUSE & K. DAM, FEDERAL TAX TREATMENT OF FOREIGN INCOME (1964); P. RICHMAN, TAXATION OF FOREIGN INVESTMENT INCOME (1963); S. SURREY, PATHWAYS TO TAX REFORM 183-84 (1973).

rights of citizenship should take priority over the rights of property and that property should 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.