FORWARD COLLEGE

Research Proposal

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Introduction

In our world, millions of people risk their lives to cross borders without authorization in hope of a better life for themselves or their families. On the other hand, countries started allowing the ultra-rich to buy an entry ticket into their political communities via cash-for-passport schemes (Shachar, 2017, p.2). In my research, I would like to investigate the connection between commodified citizenship, inequality and democratic quality. Specifically, I am interested in how the foreign direct investment (FDI) caused by investors entering citizenship schemes affects, if at all, housing (rental and purchase) prices and how this change, if any, has an impact on inequality and *by proxy* democratic quality. In my study, I will focus on the case of Lisbon where not only did housing prices increase on a "spectacular" (Peralta et al., 2023, p.2) level but Portuguese citizenship policy also allows for a "path to citizenship" (Džankić, 2018a) via investment. The specific research question, my hypotheses, a detailed literature review and a research plan follows below.

Research question

In my research, I wish to tackle the following questions:

1. *How, if at all, does FDI in real estate by investors connected to Portugal's "Golden Visa" program change average housing prices (Euro per square metre)?*
2. *To what extent, if any, does this change in housing affordability affect democratic quality?*

The questions aim at dissecting the relationship between seemingly unrelated variables. Housing prices could be seen independent from the citizenship policy of a given polity. The changes in housing affordability could seem similarly disconnected from democratic quality. However, I argue that although direct causal relationships would be difficult to establish, indirect links between citizenship policy, housing affordability and democratic quality, could be carved out.

To support this argument, I posit the following hypotheses:

1. FDI in real estate in Lisbon, made by individuals applying for the Golden Visa, has a positive effect on average apartment rental prices (EUR/m^2).
2. FDI in real estate in Lisbon, made by individuals applying for the Golden Visa, has a positive effect on average apartment purchase prices (EUR/m^2).
3. Increasing average housing prices have a negative effect on housing affordability in Lisbon.
4. Worsening housing affordability increases income inequality when considering income *after* housing expenditure[1].

My justification for this line of reasoning will become apparent after reviewing the literature on the matter. Although an empirical exploration of the link between housing affordability and democracy might exceed the limitations of my research paper, I would still consider on a theoretical level what relationship there might be. A theoretical query of this kind could offer some merit to the scholarship by opening up venues of possible future research between seemingly unrelated topics.

Literature review

Investor citizenship and the Golden Visa

<u>Citizenship and globalisation</u>

Although national citizenship[2] has many different layers of understanding, as described below, all conceptions of citizenship rely on a conceptual core: citizenship is "membership in a political community" (Bauböck, 2017, p.65). Hence, citizenship is both a relational and a categorical concept. It relates individuals to a larger community. It also categorises members and non-members within a given community and

[1] This hypothesis follows from an example in Germany, where Dustmann et al. (2022, p.1709) found evidence for disproportionate increase in income shares of housing expenditures for the bottom income quintile.

[2] From this point on, the word citizenship will refer to national citizenship only. I make the distinction to exclude alternative conceptions like 'corporate citizenship' and such. In line with scholarship, I will also use the word 'nationality' when writing about citizenship. Although some legal frameworks distinguish between the two concepts, for the purpose of diverse language, I use them interchangeably.

distinguishes between different memberships (i.e. different nationalities; Bauböck, 2017, p.65). Yossi Harpaz (2019, pp.3–8) outlines the four key dimensions[3] of citizenship as follows:

- *Citizenship as status*: citizenship signals a formal status between individuals and the state, it excludes non-members from the national community. The exclusionary mechanisms[4] extend to territory, economy, politics and social life.
- *Citizenship as rights*: citizenship allows individuals to claim a set of rights from vis-à-vis a specific state. These rights are usually clustered[5] into civil, political and social rights.
- *Citizenship as identity*: citizenship is a "key manifestation of national identity" (Harpaz, 2019, p.5). It is further argued that, historically, this national identity dimension prescribed the obligations of the citizen to their nation-state.
- ***Citizenship as a global sorting mechanism*:** theoretically, international law views all nations sovereign and equal. In practice, however, citizenship assigns individuals to hierarchical categories based on the prestige of their nation or passport. As it will be apparent below, this is the dimension which concerns my research the most.

Ultimately, citizenship determines the political and arguably economic opportunities of an individual (Shachar, 2009). These opportunities are argued to be determined by luck through the "birthright lottery" - a term coined by Ayelet Shachar (2009). Beyond it being a question of chance for the individuals, all polities have rules for ascribe membership automatically (Bauböck, 2017, p.68). These communities also attribute their memberships differently. Scholarship usually assigns citizenship regimes to one or more of the following categories: membership by descent (*jus sanguinis*), membership by being born on a certain territory (*jus soli*) and membership by residence (*jus domicilii*). Those who wish to acquire citizenship voluntarily (in most cases migrants) can all become citizens through the process of naturalisation, which requires qualified

[3] Harpaz's dimensions follow from Christian Joppke's (2007) dimensions with the addition of the last dimension on citizenship as global sorting mechanism.
[4] Roger Brubaker's (1992) arguments.
[5] The categorisation that became widely accepted was first used by Thomas H. Marshall (1987).

persons to fulfil a number of arbitrary requirements. The policies regulating naturalisation can vary widely in their specifics (Goodman, 2023, pp.137–138).

Historically, there was an agreement that citizenship is a "sacred" institution (Joppke, 2019, pp.1–2) which implied that there cannot exist a duality in nationality. Peter Spiro (2019) points to national sovereignty and the matter of international stability as the reasons why this was the case. However, as the need for global mobility took roots both in the West and in countries of the Global South, constituents increasingly demanded states to allow for the multiplicity of nationalities: "[d]ual citizenship has become an entrenched feature of globalisation" (Spiro, 2019, p.880). Scholarship identifies a range of reasons why states started permitting dual nationalities but it is argued that a state would be best motivated to do so if they also gain something from the change (Harpaz, 2019, p.10). This liberal turn in citizenship policy, however, might have caused unforeseen changes in individual attitudes toward citizenship as well.

Commodified citizenship and its issues

As already noted above, traditionally, the sacred nature of citizenship was built on an idea of nationhood that is beyond the reach of mundane interest (Brubaker, 1992). However, recently there has been a turn of citizenship (Joppke, 2019, p.1). While previously only states operated strategically with their citizenship policies, individuals now have also started instrumentalising their passports. Students of the field see this change in behaviour as a commodification of citizenship: "perceived as a piece of private property, citizenship is increasingly a domain for strategizing and maximizing utility. This new attitude can be described as «the sovereign individual»" (Harpaz, 2019, p.2).

Christian Joppke (2019, pp.7–16) identifies three main manifestations of instrumentalised citizenship: investment citizenship, external citizenship and citizenship of the European Union (EU). My research focuses mainly on the first and third displays on the list.

What was historically unimaginable, is commonplace now in the world. Just like anything else, even citizenship can be sold and bought on the market (Spiro, 2018).

There are numerous issues associated with investment based citizenship schemes. In the following lines, I review some of these. Cash-for-passport schemes are not only often infiltrated by accusations of money laundering or fraud but they jeopardise values often associated with citizenship like solidarity and participation. It is exactly the basis of objection that even political membership is reducible to a "dollar value" (Shachar, 2018, p.11). This can undermine the bonds of trust and sacrifice between members and the state which offers investment citizenship programmes (Shachar, 2018, p.13). In addition, waiving the requirements like language and civic knowledge for the ultra-rich poses significant doubts on states' effort to re-substantiate[6] their memberships (Barbulescu, 2018, p.30). In the case of Malta, the rights and obligations that an EU citizen possesses are available to investors for the price of a sports car (Džankić, 2018b, p.36).

From a democratic perspective, scholarship argues that cash-for-passport schemes corrupt democracy (see Bauböck, 2018b; Espejo, 2018). It does so by imposing social class once again a marker of rights and status. To illustrate this, compare an immigrant who has worked for years in a certain country with an investor entering a cash-for-passport scheme. The immigrant might not have been able to acquire the knowledge or the necessary financial stability to apply for citizenship but have been living under the decisions made by the political community that they are only formally not a member of. Whereas the investor might get faster and easier access to the same passport, having spent virtually no time or effort to integrate into the community (Bauböck, 2018b, pp.38–40). As Espejo (2018, p.45) reiterates:

"If we award passports to those without any likelihood of ever [physically] being there, we undermine the relevant connections built on regular interactions and participation in the institutions that organise local life, which is, after all, where equality takes place."

Although these are convincing arguments against investment citizenship schemes, academia is not settled on the matter. The limitations of this proposal prevent me

[6] It has been argued that citizenship-by-investment schemes are just another symptom of the "end of citizenship". Peter Spiro (2018) argues that citizenship is losing (or lost already) its meaning due to globalisation.

discussing the objections to the claims made above. In essence, some scholars argue for a more nuanced approach when discussing similar investment schemes. They mainly argue that although inequalities persist, some investors might truly have a vested interest in engaging with the community they invest in (for further discussions see the relevant chapters of Bauböck, 2018a, pp.1–70).

Path to citizenship and the case of Portugal

In the wake of the Eurocrisis, many EU member states have integrated policies that provide legal frameworks for investment-based migration: "[b]y 2016, each EU Member State has adopted at least one legal mechanism for facilitating investment-based migration, be it through the state's discretion to naturalise [e.g. Austria], an investor citizenship scheme [e.g. Malta], or a programme granting 'a path to citizenship' [e.g. Portugal] via residence rights" (Džankić, 2018a, pp.2–3).

A 'path to citizenship' offers investors an opportunity to acquire fast-track residence permits when investing in specific sectors (Džankić, 2018a, pp.2–3). Portugal first introduced its 'Golden Visa' scheme in 2012 for individuals who invested in certain ways (for the requirements see the appendix; Gaspar and Ampudia de Haro, 2020, p.60). By entering the program and meeting the required investment goals, individuals could acquire temporary residence. For purposes of renewing the permit, they could be asked to prove that they resided in Portugal for 7 days in the first year of the programme and 14 days every subsequent year thereafter (Džankić, 2018a, p.17).

Table 1 of Gaspar and Ampudia de Haro's article (2020, p.61) summarises the evolution of the Golden Visa programme in Portugal between 2012 and 2018:

TABLE 1

GOLDEN RESIDENCE PERMIT PROGRAMME (ARI) IN PORTUGAL (8TH OCTOBER 2012 TO 31TH OCTOBER 2018)

Golden visas conceded for investors	Total	6,687
	2012	2
	2013	494
	2014	1,526
	2015	766
	2016	1,414
	2017	1,351
	2018	1,134
Golden visas conceded for family reunification (family members)	total	11,370
	2012	0
	2013	576
	2014	2,395
	2015	1,322
	2016	2,344
	2017	2,678
	2018	2,055
By criteria (n)	Purchasing real estate property	6,320
	Transfering capital	355
	Creating at least 10 jobs positions	12
Main nationalities	China	3,981
	Brasil	608
	Sudafrica	265
	Rusia	264
	Turkey	232

Source: Portuguese immigration and border service (SEF, 2018a)

Due to the Portuguese government's efforts to stop growing housing prices (through a programme called 'Mais Habitação'), there have been changes to the programme in 2023 (Pereira, 2024). The government eliminated granting residence permits for investment activities of the following investment routes:

- Capital transfers of 1,500,000 EUR or more;
- Real estate acquisition worth 500,000 EUR or more;
- Real estate acquisition and rehabilitation in a so-called 'urban rehabilitation area' with investment equal to or greater than 350,000 EUR.

The active and recent policy changes in Portugal signal that my topic of interest is quite relevant for contemporary policy analysis. Hence, now I turn my attention to the question of housing affordability.

Housing affordability and investment

<u>Housing affordability in Portugal and in Lisbon</u>

Most research articles on housing in Portugal (Lisbon and Porto in particular) focus on the connection between a surge in housing prices and the boom of short-term rentals, since the simplified, online registration system was implemented (Peralta et al., 2023, p.6). Post-2008 public policies aimed at stimulating real estate investment triggered rapid changes in Lisbon's housing market. The influx of foreign buyers, encouraged by tax incentives, led to rising property prices, displacing long-term residents. In addition, Portugal's 2011 austerity measures reduced incomes which led to issues of housing affordability for the lower and middle classes and forced them to move to peripheral areas (Lorga et al., 2022, pp.1–6). Between 2016 and 2019, the median increase in sale price per square metre was 24.2% in Portugal, whereas the same change in Lisbon was 68.2% (Peralta et al., 2023, p.6). Programs by the Lisbon City Council (e.g. Affordable Income Program 'PRA' and Municipal Subsidy for Affordable Lease Program 'SMAA') aimed to help middle-income families, but their impact remains limited (Lorga et al., 2022, p.6).

Defining housing affordability is a difficult task. As Quigley and Raphael (2004, pp.191–192) puts it:

"[Housing] «[a]ffordability» brings together in a single term a series of disparate issues: the distribution of housing prices, the distribution of housing quality, the distribution of income, the ability of families to borrow, public policies that affect real estate markets, conditions that affect the supply of new or remodeled housing, and the choices people make about how much housing to consume relative to other goods. This mix of issues raises difficulties in interpreting even basic facts about housing affordability."

It is argued, however, that a good working definition of housing affordability has to answer three important questions (Stone, 2006):

- Accessible to whom?

- By what measure of accessibility?
- For how long?

The literature on housing affordability/accessibility has now deployed two main venues. The first one is the 'effort ratio' method: it measures how much percentage of the household's income goes to housing expenses. If it exceeds a certain threshold it is considered unaffordable housing. The second method is the 'residual income' method: it measures how much residual income does a household have after covering housing related expenses. It argues that housing is unaffordable if the household can not afford to cover other basic needs (Lorga et al., 2022, p.3). While the first approach is easier to implement, the second approach takes a more comprehensive account on measuring affordability. In my research, I would like to deploy the second approach, however, there might be circumstances (e.g. accessing data) that would prevent me from doing so.

As shown above, there are a multitude of reasons why Lisbon's housing market is in crisis. However, I focus on FDI in real estate made by individuals who apply for the Golden Visa. To draw a connection between FDI in real estate and housing affordability, I review the scarce amount of literature on the topic below.

<u>FDI in real estate and housing affordability</u>

To my knowledge, housing affordability and FDI in real estate have not yet been explicitly connected in scholarly works available to me. The effects of FDI on housing prices remain ambiguous.

Relevance of the proposed research

Since there is no conclusive evidence from the literature on the effect of FDI in real estate on housing affordability, my proposed research question could offer some valuable insights into this field. In addition, my aim is to connect these effects, if any, with current policy discussions on citizenship and democracy. As I showed above, there are arguments already why investment based citizenship schemes (like the Portuguese policy) could undermine democratic values. I wish to further this debate with empirical results on how apparent economic circumstances reflect certain policies. If my hypotheses prove to be testable and right, they could offer further recommendations on the dangers of cash-for-passport schemes.

Methodology and data sources

While I am still lacking the knowledge on proper methodological tools, I can already offer a preliminary way to test my hypotheses.

The first and second hypotheses could be tested as follows: after collecting available data from INE (similarly to Lorga et al. or Peralta et al.) and SEF (similarly to Gaspar and Ampudia de Haro) on the changes in housing prices and Golden Visa applications, a simple model could be developed that controls for other variables like the effects of short-term rentals, inflation, GDP growth, etc. This model could potentially predict how much a 1% change in FDI in real estate made by Golden Visa applicants (could be estimated by ratios of overall FDI and FDI listed by SEF on applicants) changes housing prices.

The third hypothesis could be tested after the first two hypotheses have been checked. If there would be an increase in average housing prices caused by FDI in real estate, then the amount of change in these prices could be tested against a hypothetical scenario in which prices did not change. The difference between the two could be telling if I use the 'residual income' method as explained by Lorga et al.

The fourth hypothesis could be tested with a similar method to the one explained in Dustmann et al.

Conclusion

I hope that I could show why the research questions I posed in this proposal are relevant to the contemporary discussions on investment based citizenship schemes and housing affordability. Although, at this stage I would still like to clarify the feasibility of my research, I am motivated to make improvements and develop myself as an early-career researcher. Thank you for considering my proposal!

Appendix

Investment types for the Portuguese Golden Visa until 2023

(a) Transfer of capital of one million euros or more;

(b) Creation of at least 10 jobs;

(c) Purchase of real estate to an amount of at least 500,000 euros;

(d) Purchase of real estate property for a total value equal to or above 350,000 euros and whose construction dates back more than 30 years ago; additionally, the property must be located in an urban rehabilitation area;

(e) Capital transfer with a value equal to or above 350,000 euros, for investing in research activities developed by public or private research or technological institutions;

(f) Capital transfer with an equal value to or above 250,000 euros, for investing in artistic output or supporting the arts, or for reconstructions or refurbishment of national heritage;

(g) Capital transfer of at least 350,000 euros, for the acquisition of units of investment funds or 'venture capital fund of funds' dedicated to the capitalisation of companies – that is, capital injected under Portuguese legislation, whose maturity, at the moment of the investment, is of at least 5 years and where at least 60% of the investment is realised in commercial companies with a head office in the national territory;

(h) Capital transfer for at least 350,000 euros, for constitution of a commercial society with a head office in the national territory, combined with the creation of five permanent working jobs; or for the reinforcement of the share capital of a commercial society with a head office in the national territory, already existing, with the creation or retention of working jobs (with a minimum of five permanent jobs) and for a minimum period of 3 years.

Source: Gaspar and Ampudia de Haro, 2020

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