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ON THE DRY SIDE FOREIGN INVESTMENT John Hyde

Australia started importing overseas capital when Governor Phillip landed in Sydney Cove and we have been importing it ever since. Our remarkable economic development in the last century and increasingly modest development this centur has been built in large part on savings made overseas. The first Australian investments were on official account to establish an oversize gaol, but the capital which did most to develop Australia was private equity capital. Many investors burnt their fingers by making unwise investments but, in search of personal reward, they left behind unprecedented prosperity for others. At the turn of the century Australia was the wealthiest nation on earth and remained within the top ten until the 1970s. In all that time the only foreign investments which have given Australia any obvious difficulty were those borrowed by the State Governments during the twenties, which had to be serviced during the Great Depression and some private and government loans to finance the 1880s land boom which had to be serviced in the 189 b0s recession.

Although foreign settlers have been screened carefully during most of our history, until the late 1960s our door was open to foreign investors. Foreign (mostly French) colonisers were excluded. Investment now seems to be confused with colonisation. Since the sixties we have adopted some of the most restrictive foreign investment policies among OECD nations.

A very readable account of this, "Capital Xenophobia" by Wolfgang Kasper has been published by The Centre for Independant Studies (575 Pacific Highway, St. Leonards. NSW).

When Governments meddle with commerce it is usually to confer an unequal privilege on an established vested interest which gives it an advantage over less influential interests. Foreign Investment restrictions are no exception. They protect firms which are already established in Austalia from competion from newcomers and from the necessity to adjust to change.

Neither are they exceptional in their effects: "[This] may be the way to create a stagnant society like traditional Tibet" and "[Foreign investment restrictions] deny the Australian Nation as a whole the full utilisation of its full potential for economic growth and job creation." are sentences with a familiar ring!

Kasper points out that there is even a defacto 'foreign investment club' of company experts, bureaucrats, lobbyists and politicians which is like the industrial relations club. It would be surprising if there were not.

The author surveyed 93 companies which had had dealings with the Foreign Investment Review Board (FIRB). They expressed the most trenchant criticism but "...the vast majority of businessmen seem to accept the controls imposed on them. Perhaps the Australian business community has the controls it deserves (or secretly desires)." Within the firms the survey form would have been completed by members of the 'club' whose status has come to depend upon the controls.

Aware that free capital flows, like free trade flows, contribute to prosperity, in 1961 the OECD adopted a 'Code of Liberalisation of Capital Movements' which commits all member countries - including Australia - to progressively abolish restrictions of capital movements between one another. Most member countries honour the code, although Britain had to wait for Thatcher. In the 1960s Australia went against the international trend by closing its traditionally open door to foreign capital.

During the Whitlam years real foreign investment fell by 45% while foreign investment in mining fell almost to one sixth of the levels of 1965/66 to 1971/72. Under Fraser both total and mining foreign investment increased substantially but not to pre-controls levels or to reflect the opportunities and resources boom rhetoric of the time. Without change to the law, the Hawke Government started by reinterpreting the guidelines to further restrict capital flows, but more recently it seems to have reverted to a more liberal approach.

Since the early seventies the type of foreign investment we accept has changed. Foreign direct investment in Australian enterprises has fallen from 78% to 23%, with corporations now raising most foreign capital in the form of loans. At the same time our several governments have also raised considerable foreign debt. Debt must be repaid even in bad times, and government debt often does not earn its own interest even in good times. It was not equity investment, but government loans that got Australia into trouble in the early thirties and more recently got Argentina and others into difficulty. Although it is often argued that loans offer the benefits of foreign capital without foreign control, it seems to me that it was loans, not equity, which gave rise to Bank of England and IMF control of Australia and Argentina respectively.

They say that foreign multinationals import more than they allow their subsiduaries to export but: First, the Jackson report (signed among others by R.J.Hawke and E.L.Wheelwright) could find little evidence of this. Second, it is the common interest of both the firm and Australia to supply from the cheapest source and sell to the dearest. Third, the matter is properly one for the Trade Practices Commission, not the FIRB.

It is sometimes argued that today's capital flows are tomorrow's repayment problem. Capital which earns its keep is no problem but capital which does not can be - loans become our problem; equity becomes the investor's.

Another objection to foreign investment is that it might suddenly go home. Portfolio investments and short term loans will retreat from inflating economies but direct investment is committed. Even speculators are not to be feared. They make profits only when they sell dearly and buy cheaply; either their losses are our profits, or they stabilise our currency. One can but presume that governmemts' objections to speculative capital flows are that they are a clear indication of bad economic management.

Finally, it is argued that foreign investment causes technological dependence. "All Australian industry - whether foreign controlled or not - has a low commitment to R&D. This is typical of protected, cartelised industries. However the Jackson Committee found that in 1975 that foreign firms were at least as active as Australian firms in terms of local research and development expenditure."

Capitalists can make super profits or behave in socially undesirable ways only in the absence of adequate competition. If foreign investment restrictions reflect left wingers' idealogical dislike for capitalists, their most effective tactic is to adhere to the OECD Code.