DRY SIDE XXVI Foreign Investment

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It is becoming clear that the more parochial elements of the Labor Party are nourishing a somewhat more restrictive approach to foreign investment than that of the Liberals. Their success ought not be welcomed by the unemployed.

Australia has been importing capital ever since Captain Phillip landed the ~~first~~ first fleet's cargoeof tools, sheep, goats and other impedamenta at Sydney Cove. If foreign capital had never darkened our shores augmenting the, no doubt, plentiful supply of woomeras, spears and digging sticks that were the capital stock of the Aborigional Community, Australian lifestyles 200 years later would, in a matterial sense at least, be poorer. Neither the aborigines nor the colonists could have set aside much of what little they produced to build the capital stock we now enjoy.

Leaving aside the essentually short run benefits of borrowing, the wealth we enjoy now is still no more than we produce, but now we are able to produce so much more because we have a valuable supply of capital. The problem for the colonists of 1788 was that they could not attract enough wealth from overseas to let them produce enough to avoid the constant threat of starvation nor, because they were starving, could they set aside enough from consumption to build their capital stocks.

There is still only a limited supply of foreign investment. Investors are only interested in Australian investments which they think are better than can be made elsewhere. The investments, to attract funds, must promise a better combination of income and safety than that offered in other places. The safety of an international deal necessarily involves judgement about the likelyhood and extent of political interference in the host country. The greater the fear, the higher will the prospective return need to be to attract voluntary investment. and the quicker will the investor seek to repay himself for his risk. Australia's reputation here is good. It will pay us to keep it good.

No investment, including the take over of a functioning company, can take place unless both the foreign buyer and the Australian seller believe they gain. The only possible reasons for government intervention are sellers ill informed about their own self interest or community interests which the sellers would not normally take into account. While sellers may on occasion misjudge their own

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interests it is stretching too long a bow to contend that the Foreign Investment Review Board is a better judge of their interests than they are themselves. Any case for banning sales to foreigners must rest on the belief that there ~~is an~~ are "external" benefits for the Australian community associated with the present ownership that ~~is~~ are greater than the community benefits associated with the new, bearing in mind that the new ownership injects addittional capital into the Australian economy.

In justification of their rejection of Unilever's offer to purchase the Elders IXL food processinginterests the Government said,"... the Government has concluded that the economic benefits arising from the proposal, principally arising from rationalisation of operations, would not be sufficient to offset the loss of Australian ownership and loss of Australian control..."

In all likelyhood the more important economicbbenefits would not have been rationalisation but additional capital made available to the Australian economy at a time when it has all too much surplus labour.that cannot find capital with which to associate.

Particularly strong emotional objection to foreign ownership of land makes the sale of the Woop Woop Pastoral Company to Japanese interests an extreme case suitable to make a point. First the Japanese must pay yen purchasing Australian dollars with which to buy the Woop Woop property.The yen are then in Australian hands, available to buy anything of Australian choosing. Whatever is purchased it can only add to current Australian consumption (that is living standards) or add to Australian investment (that is future living standards). If the former then it will have become a little easier for us to forgo the gratification of immediate consumption in order to ourselves invest. The important point is that the pastoral property stays put and other real assets come under our command.

So long as there are investments that Australians are unwilling to finance foreign investment provides us with jobs and adds to our incomes. Certainly when projects show profits dividends must be expatriated and then we can say that we would have been wealthier if only we had in the past invested more and consumed less of our substance.

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However we would not be wealthier but much poorer if the investments were not to be made at all. Part of the gains from use of foreign investors' money usually sticks to the host; 46% of any profit sticks in the form of company Tax; more in the form of royalties. Although there is no data, if the investments are efficient more again should stick as increased transfers to the factors of production and reduced transfers from consumers who purchase whatever is produced. The principal factor is labour. If higher wages are paid than the employees could earn in other employment and cheaper and bettervgoods or services are available then the difference in each case is a net gain. Sadly the opposite occurs in the case of heavily protected industries.

Where unemployed workers find jobs, the increase in their productive earnings is large and the benefit to the host economy commensurately great. In an economy, like the Australian, in which wages are set at unemployment levels the benefits gained from foreign risk taking investment can be very big and loss of investor enthusiasm particularly costly.

Several National Governments, struck by the obvious truth that injections of foreign capital enhance domestic wellbeing, have borrowed overseas ~~ta~~ in the governments' names to finance domestic expediture. Should private investments prove unrewarding, then that is the investors' misfortune; they have no claim on the host, who has no obligation to prop bad choices up. It is different when governments invest. Not only have governments a bad record, often favouring hopelessly unproductive ventures but they must call on ~~the~~ taxes to pay the money back with interest however badly they may have spent it; worse, many governments have spent their borrowings not on investment at all but upon consumption to tide them over elections.or other tough spots--- Argentina, Brazil and Mexico are three who have borrowed and spent unwisely. National borrowings are a very risky substitute for equity investment.

The only real danger is that increments to our total wealth arising from overseas equity investment too, like so much of our domestic earning, will be creamed off by unions to pay even higher wages and hence consumption rather than investment and employment.