Title:
Handwritten radio script regarding 'the LCP government has failed to develop our export earning industries, or to limit our imports to the extent necessary to remain solvent and develop our economy'.

3460

3460 (1)

D.A.D. 5KA

22/5/61

Good evening,

Under the Menzies Govt. Australia is only paying her way because of adverse overseas trade behaviour, by importing foreign capital.

The L.C.P. Govt has failed to develop our export-earning industries, or to limit our imports, to the extent necessary to remain solvent & develop our economy at a reasonable rate without an inflow of foreign capital.

Now there are various advantages claimed for this inflow of capital. Let me list them.

(p.2.

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We can only control this problem and save ourselves from the disastrous situation of foreign economic domination in which Canada now finds herself, by Labor's policy of capital issues control, screening of foreign capital imports, selective import controls, and planned public development to boost our export earnings.

That policy, of course, the government bitterly opposes, so it is essential for our wellbeing to defeat the government & elect Labor in this year's election.

[End page]

*NB. 5p typed document appended: 'Overseas Investment: (Notes prepared for the Labor Conference by E.L. Wheelwright, Senior Lecturer in Economics, University of Sydney.)'

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(p.B.)

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OVERSEAS INVESTMENT

(Notes prepared for the Labor Conference by E.L.Wheelwright, Senior Lecturer in Economics, University of Sydney.)

(1) INFORMATION AVAILABLE -

The major source is the Commonwealth Bureau of Statistics which provides good overall information on capital inflow, profit outflow and profit retention. The main deficiency is insufficient detail - until the last few years there was no industrial classification of these items. What exists now is too broadly based to allow us to say how much has gone into oil, chemicals cars, etc.

From the Department of Trade we have only lists of firms with overseas connections, and their products. There is no information on capital assets, rate of profit, and the actual foreign exchange put into each company in the first place.

This crucial information will not be available until our archaic Company Laws are changed. Most overseas companies establish themselves as proprietary companies, which means they have no legal obligationto file accounts with the Registrar of Companies. What is needed is a change in the legislation, treating all such subsidiaries as public companies, in the way that British company law treats them. Not having seen the draft proposals for uniform company law, I cannot say whether such a provision exists therein..

Until these deficiencies are made good, we can only guess at the extent of overseas domination of our economy. My own researches so far indicate that the oil, automobile, chemical, paint and pharmaceutical industries are largely in overseas hands, that large sections of the electrical industry (both domestic and industrial appliance sections), are dominated by overseas firms, plus substantial sections of certain kinds of engineering, agricultural equipment, food processing and packaging, and the tobacco industries. This is not to mention large portions of mining such as copper, zinc, aluminium and gold.

There are two really significant things about this pattern: one is that the "growing points" of the economy, i.e. those sections growing much faster than the rest, involving new technologies, are mostly under overseas control; the second, that with a few exceptions such as mining, these industries cater for the largely protected internal market. They make no direct contribution to exports (they make some contribution through their effect on the efficiency of export industries); they make some contribution to import replacement.

(2) ADVANTAGES -

It would be wrong to minimise the benefits from foreign investment. These are well enough known, partly because of incessant propaganda. It will be sufficient to list them summarily:-

(i) An immediate gain in foreign currency.
(ii) The introduction of new industrial techniques.
(iii) The introduction of new managerial techniques.
(iv) The introduction of new products.
(v) The introduction of newmarketing techniques.
(vi) Access to overseas research.
(vii) Some import saving.

(3) DISADVANTAGES -

Now let me turn to the disadvantages:-

~~These are not so well known, hence more space is devoted to them:-~~

(i) Effect on balance of payments -
This should be looked at from a long term point of view, not simply from a decade or so of post war development. The immediate net gain in foreign currency is the difference between net capital inflow and profits remitted overseas. Clearly, in the early years this will be substantial. But as the amount of overseas assets in the country builds up over the years, the figure of remitted profits will grow. If capital inflow does not increase, remitted profits will soon reach a figure which equals capital inflow. At this point there will be no net gain in foreign currency. We are close to this point now. If capital inflow remains the same, but remitted profits continue to grow, there will come a time when there is a nett loss of foreign currency, i.e.remitted profits will exceed capital inflow. We have already reached this point with American investment, but not with investment as a whole-yet.

Such a net loss of foreign currency would not matter if our balance of payments position were sound, i.e. if as a result of our development we were earning more foreign currency to pay the debts. But we are not, the proportion of our export income needed to pay the debt is increasing. It is not yet a serious problem, but if the proportion continues to increase at the same rate it will become a serious problem. Within 5 years for example one/fifth of our export income could be used up to service overseas debt of all kinds. To the extent that capital inflow increases correspondingly, the immediate problem is solved. But it is not eliminated - the day of reckoning is merely postponed in the same way as it is for a man who borrows from the bank to meet the interest on his existing debt. It follows that if capital inflow were to fall off considerably - as it might well if a Labor government were elected - we should face a serious drain on the balance of payments. Or if for instance a Labor government in the U.K. were to put an embargo on foreign investment (which it should because the U.K. really needs this investment more than we do),we should be in trouble.

Other points to be noted briefly are:-

(a) Overseas firms come here with the minimum of foreign currency, they borrow on our capital market at fixed interest of 5-8% say, so that of the total capital used at least half is Australian. Out of their total profits they pay the 5-8% (tax deductible), and the rest of the profit accrues to the overseas firm. This "pyramiding" allows firms to receive 20-30% on their capital, compared with the 5-8% on the Australian contributed capital (e.g.General Motors where this was obvious because of the preference shares at 6%).

(b) Evidence exists to show that American investment is at least twice as profitable as British investment. Before long the American assets in Australia will equal the British in value, although the American inflow of capital has been only about one quarter of the British.

(ii) Effect on Australian Economy -

(a) The control of key sectors of our economy by subsidiaries of big overseas companies means that it becomes increasingly difficult to control our economy by orthodox monetary means. When we wish to check the expansion of the whole economy, we end up by checking the Australian component more than the overseas one. This is because their size and international standing makes them better credit risks, and also and more important, because they have access to funds outside the Australian system i.e. they can borrow from their parent companies, and/or switch funds from one country to another according to whether internal credit is tight or not. They can also manipulate the prices of what they buy from their world-wide organisation so that their profits here appear to be minimised (e.g. oil companies purchasing oil from their own suppliers). In short a temporary check in Australian development can be used as their big chance to expand at the expense of other competitors,if they think long term prospects are good.

(b) Concentration Effect -
The impact of the big overseas company can swamp a small economy. Either they take over smaller Australian concerns or the result is that smaller Australian companies are forced to merge to meet the challenge. The result, either way, is an increase in monopoly and the power of the big company.

(c) Effect on research -
This is two-sided. On the one hand we benefit through access to overseas research. On the other this research is often naturally oriented to use raw materials etc. suited to conditions in the parent company, so that we

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do not make as much use of our own raw materials as otherwise we might. This means less employment for our own research workers in industry.

(d) Export franchises -
It is known that many overseas companies do not allow their subsidiaries to compete in export markets, or greatly restrict them. The British are worse offenders than the American in this respect. From the point of view of the parent company this makes sense - they may be better able to compete from say Detroit or Birmingham factories than from Melbourne or Sydney factories, because of the scale of operation. It does not help Australian export possibilities, however. There is also the possibility of political interference - What if the Australian government negotiated a contract for say trucks for Communist China - would G.M.H. be allowed to make them?

(e) Political effects -
We all know the political power of the big company - what powers can a big overseas company exert on a government which may be hostile to private enterprise, or which may wish to pursue a foreign policy opposed to that of the parent company? e.g. the oil cartel could if it wished, at one stroke cut off all our oil supplies. The refineries could refuse to process non-cartel oil. — See Cuba.

(iii) Conclusion -
Policy matters have been dealt with in a separate paper submitted to Conference, under the heading Taxation (Sect. V - Overseas Companies (iii). It is worth emphasising however, that this problem of overseas investment is largely one of our own making. If we look at world economic development in historical perspective we find that countries develop economically at different times, for a variety of reasons. Australia is industrialising at a time when older capitalist countries are fully developed. They are bound to have a more advanced technology, and the vehicle which carries this technology to different parts of the globe is the international corporation.

Clearly in these circumstances, if we maintain a private enterprise economy, and create within it, by means of tariff barriers and full employment, wonderful opportunities for the high rate of return we know is possible with advanced technology, what else do we expect but overseas enterprises exploiting the opportunities we create ? Especially when neither Australian enterprise, nor the Government does much to create the large units which are essential, and when we send emissaries(some of them Labor men) scurrying over the globe say "please develop Australia for us, we can't do it ourselves."

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If then, we maintain a private enterprise economy we must expect it to bea private foreign enterprise economy. There are two alternatives; one is foster a kind of State capitalism, in which the government creates the large financial and organisational units, which are necessary e.g. through a consortium, or a kind of partnership of private finance and government finance creates enterprises capable of financing and organising the development of necessary industries (something of this kind happened in Japan at the end of last century, these semi/State enterprises being eventually handed to private enterprise). The second is to develop publicly owned enterprises capable of developing the necessary industries. As a socialist I prefer the latter, but it may well be that Australian conditions at present call for a mixture of the two.

Finally two things must be stressed. The first is that we must distinguish between large firms in key industries, and a host of smaller ones in more competitive parts of the economy. It is the former that are all important.

The second is that, in these key sectors , we must try to develop institutional arrangements which will allow us to utilise foreign technology without having to pay the price of foreign ownership and remission of profits. This needs to be integrated into Labor's planning machinery, so that there exists an institution, such as a division of the Development Bank, which can say, for example, we wish to have a certain kind of machine tool industry, and which can invite tenders to have this entire industry set up as a going concern, for which we will pay in cash. Once it is set up and operating, it belongs to the Bank, and through it to the Australian people. India, and other countries are doing this <u>now</u> - Why not Australia?

(E.L.Wheelwright)