

# Frugal mindset could prove a saving grace

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Peter Costello and Bob Brown are unlikely bedfellows in opposing Chinese state-owned company Chinalco buying into Rio Tinto.

Mr Costello proudly publicises his record as Treasurer in restraining government spending, upholding free markets and promoting private ownership.

Mr Brown's political focus is on his version of environmental protection. He is keen to force people to conserve energy and to use their land and natural resources in ways he prefers.

Politically, the Greens favour government controls while the Liberals prefer allowing people to take their own decisions as individuals and property owners.

Mr Costello wants to deter, and Mr Brown to block, Rio Tinto's shareholders selling to Chinalco.

Mr Costello wants conditions placed on the share sales such as requiring the head office to be located in Australia.

He sees this as important to nurture spin-offs in financial, legal and insurance services. If such measures lead Chinalco to place a lower value on Rio, the corollary is that the firm's shareholders should wear the cost.

Mr Brown's approach is less nuanced. He argues that we should not allow Chinese communists to control our major assets because they would not allow an Australian company to do that. He goes on to say: "There is a real danger of Chinalco extending control over roads, public transport or privatised water corporations in Australia."

Mr Costello's call for a form of industry cross-subsidy and Mr Brown's new found national chauvinism both miss the point.

Australian companies are selling rather than buying equity because we, as a nation, have been saving too little.

As a result, we have become addicted to overseas borrowings, relying on foreigners to supplement our own savings.

In numbers, over the past decade, Australia's annual foreign capital inflow has averaged 5 per cent of national income. On average, that translates into nearly one quarter of private investment, or half if you exclude housing investment.

Ironically, we have been borrowing from poorer countries such as China, which have avoided Australia's spendthrift ways.

The global recession has revealed the fragility of the balance sheets of many Australian companies.

Many need injections of capital, some, like Rio Tinto, because they overpaid for assets they have acquired.

Currently, there is a lack of domestic savings for capital investment. We therefore have little option

but to watch Australian companies sell off equity to overseas buyers as they struggle to survive. The Chinese are among the few with such capital available and the options are either accept their support or face a contraction in output and jobs.

Unlike in China, Australian taxation and expenditure policies have encouraged consumption rather than building nest eggs. Over the past year Prime Minister Kevin Rudd's \$82 billion spend-a-thon, a 10th of national income, has further diverted income to consumption expenditure.

Yet, unless we build domestic savings by consuming less of our income we will end up with a shrinking economy with companies increasingly in hock to overseas owners. Economic prosperity requires high domestic savings. And those savings must finance investment, not unproductive government spending.

Raising the bar on overseas capital suppliers is no substitute for a healthy domestic savings and investment platform.

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