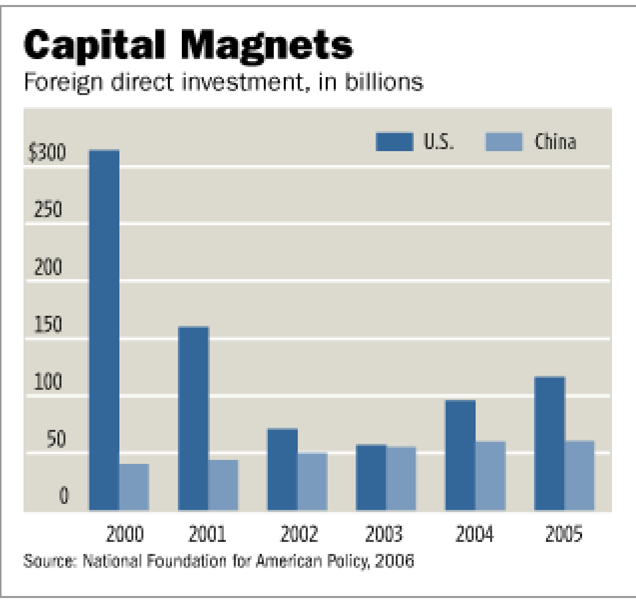
The Wall Street Journal

July 19, 2006

Review and Outlook

The Don't Invest in America Act



Members of Congress profess to dislike "outsourcing," which is said to cost American jobs. Yet some of the same Members are now preparing to erect barriers against the *insourcing* of jobs from foreign investment into the U.S. The rationale for this is "national security," but it's actually a threat to American prosperity.

Over the past 25 years, the U.S. has imported nearly $3 trillion net, which has helped to fuel our rapid growth. Roughly three-quarters of all foreign investment comes from Europe and Canada, so security fears have always been exaggerated. The economic benefits have not. Roughly one in 20 Americans now works for a foreign-owned firm, and those jobs on average pay 30% above the U.S. median. In a new study, Boston University economist Laurence Kotlikoff argues that "Foreign investment helps offset the low savings rate in the U.S. and has helped raise the average wage of American workers by increasing productivity."

As the nearby chart shows, the U.S. still attracts roughly twice the level of direct foreign investment as fast-growing China. America is winning what the late Walter Wriston, former CEO of Citibank, called "the global race for capital." The 2003 tax cuts have also helped by raising the rate of return on capital, with foreign purchases of U.S. companies totaling $118 billion so far this year, up 169% over a year ago.

So just what is the "problem" that Congress is trying to fix here? The answer: political embarrassment. Republicans are running scared after the Dubai Ports incident, and they privately concede they want to "do something," mainly to block such Democrats as New York's Chuck Schumer from getting to their right on a security issue.

Mr. Schumer is about the last person in Congress who should be agitating for higher investment barriers: New York City couldn't be a global financial center without attracting global capital. Only last year the Senator defended Italian investor AgustaWestland in competition with U.S.-based Sikorsky. Why? Because AgustaWestland and Lockheed Martin are building the Marine One helicopter in upstate New York, where new jobs are desperately needed. But this year Mr. Schumer is running the Democratic Senate campaign committee, so the interests of his state are secondary to partisanship.

Everyone wants safeguards to block the sale of U.S. strategic military assets to foreigners who might do us harm. And those safeguards already exist under the review required for every foreign investment by the Committee on Foreign Investment in the U.S., or CFIUS. This committee is led by Treasury and includes the Pentagon and Homeland Security department. Roy Blunt (R., Mo.) is sponsoring legislation in the House that would require giving more information to Congress, which is less than ideal because many investors rightly want confidentiality.

However, the big problem is the Senate, where Richard Shelby (R., Ala.) and Paul Sarbanes (D., Md.) are pushing for "unanimous consent" -- that is, no roll call vote -- for a bill that would impose new regulations if a sale could cause "any possible impairment to national security . . . or have a debilitating impact on national economic security." That definition is so potentially broad it could cover Disney theme parks.

In cases involving "critical infrastructure," another grand ambiguity, the review process could extend to 120 days from 30 now. Adding more time or bureaucratic hoops for CFIUS reviews will reduce the number of foreign bidders for U.S. assets. The big losers here won't be foreigners, who can put their money elsewhere. The losers will be Americans owners and shareholders, who will get a lower price, or perhaps no offer at all, for their holdings.

Worse, the Senate bill gives multiple Congressional committees oversight over foreign investments. The potential for political mischief on behalf of U.S. competitors, not to mention opportunities for corruption, are huge. The Senators may love this new role as investment middlemen, but the American public should think: Jack Abramoff.

Foreign investment is already politicized in too many areas, with real economic costs. Foreign ownership of U.S. airlines is barred, though cash-poor American companies could sure use the help. Foreign investment in media is also restricted, which seems absurd in a world of 500 TV channels and the Internet. These U.S. restrictions give foreign governments one more excuse to bar American investment in their countries. At the urging of unions, Canada is moving to block the $37 billion sale of one of that nation's major copper mines to Arizona-based Phelps Dodge Corporation. And China is now making noises that it will block real estate sales to foreign investors.

America has long been the biggest net winner from the free flow of global capital. By adding new political risk to private investment decisions, Senators Shelby and Sarbanes are undermining the very American economic security they say they want to protect.