Folder Title:	Operational - Investments - Promotion and Protection of Private and Foreign Investment - Correspondence - Volume 2
Folder ID:	30357182
Series:	Operations policy and procedures
Dates:	12/22/1950 - 04/01/1959
Fonds:	Central Files
ISAD Reference Code:	WB IBRD/IDA ADMCF-04
Digitized:	08/18/2023

INVESTMENT-Promotion and Protection of Private and Foreign Investment Vol. II

A124

859

Javits

FILE COPY

Mr. A. F. Luxford December 22, 1950

Allen W. Morton

N.R. Files N.R. Files

I do not feel that the letter attached answers the specific question raised in Mr. Javits' letter regarding "openings" for foreign investment. I would be inclined to write Mr. Javits to the effect that specific projects are generally brought to the attention of the Bank by representatives of the government of the member countries and in some few instances by private capital and that most of the loans made by the Bank have been for the so-called public type of development projects. All projects for development that are presented to the Bank are carefully investigated and frequently projects of greater importance to the member country are uncovered in these investigations and financial arrangements made for a different project from the one originally submitted. A priority of development projects is often suggested to the member country by the missions sent to investigate specific projects.

The need to stimulate private investment is recognized by the Bank and, to some extent, private investment will be assisted by the loans to Development Banks in Turkey and Ethiopia and the consortium of Banks in Mexico. The representatives of other member governments have expressed a great interest in these Development Banks as a means of assisting private capital to finance productive enterprises.

I would also be inclined to suggest to Mr. Javits that a meeting be arranged at his convenience to discuss this subject, since recent world events have so changed the outlook for foreign investments that it would be difficult to make an appraisal of openings at this time.

AWM.

AWM/jg

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

FROM - 1. Office of the President

2. Office of the Vice President ✓

Date 1/11/50

TO-	Name	Room No.
1	~~Mr. Rucinski~~	
2	~~Mr. Garner~~	1002
3	~~Mr. D~~	
4	General Files	

FOR-

	Action		Initialing
	Approval		Preparing Reply
	Comment		Previous Papers
	Filing		Noting and Returning
	Full Report		Recommendation
	Information		Signature

REMARKS

Mrs Willard will send copy of Ltr. 1/5/51

2/9

Javits

JACOB K. JAVITS
21ST DISTRICT, NEW YORK
(COLUMBIA UNIVERSITY
MANHATTANVILLE
HAMILTON GRANGE
WASHINGTON HEIGHTS
INWOOD AND MARBLE HILL)

COMMITTEE ON FOREIGN AFFAIRS

NEW YORK OFFICE:
SUITE 2070
630 FIFTH AVENUE
NEW YORK 20, N. Y.
TELEPHONE:
JUDSON 6-0989

Congress of the United States
House of Representatives
Washington, D. C.

Noted
1/11/51

January 10, 1951

Honorable R. L. Garner
International Bank for Reconstruction and Development
Washington 25, D. C.

Dear Mr. Garner:

Thank you very much for your fine letter of January 5th. I certainly appreciate your attention to my inquiry and am pleased to have your informative answer.

Sincerely yours,

J. K. Javits, M. C.

JKJ:eg

INTERNATIONAL B[illegible] FOR
RECONSTRUCTION AND DEVELOPMENT

Helen,

I noted on my chrono copy that a copy had been sent to you, routed via Public Relations I believe; so here's a white copy.

G.M.
1/19/51

Javits

January 5, 1951

Honorable J. K. Javits
House of Representatives
Washington 25, D. C.

Dear Mr. Javits:

In Mr. Black's absence from the city I want to acknowledge your letter of December 7 regarding "openings" for foreign investment.

The problem of calculating the magnitude of the "openings" available for foreign investment involves so many assumptions and variables that a brief answer is not possible. Development needs are almost without limit and even the absorptive capacities of the underdeveloped areas is probably greater than the amounts now available for foreign investment. As far as eligibility (in the sense of credit-worthiness) is concerned, that is so dependent on world economic circumstances, including the flow of private investment, grants and technical assistance, that it cannot be judged in isolation.

I assume that you have considered this subject in terms of the Gray Report which discusses this general problem at some length. While there are several aspects of that report which may require further study, it does furnish one informed opinion as to the magnitudes involved on certain assumptions.

We are, of course, giving constant attention to the investment needs of our member countries and the extent to which these needs can be filled from domestic and external resources. Recent events, however, illustrate how fluid the problem is. As you indicate, an appraisal of the investment needs of underdeveloped countries involves the consideration of both their requests and their eligibility. But a further factor i.e. the availability of supplies, may be even more important today. The mobilization program of the United States and other countries already date some

1/10/51 - [illegible]

aspects of the Gray Report for the real problem emerging is to what extent will it be possible to obtain capital goods for development purposes even assuming the requisite financing is available.

Thus, we find it essential to re-examine the whole problem in terms of today's realities and tomorrow's probabilities. Without venturing any conclusions, I do suspect that greater emphasis will need to be placed now on expanding those sectors of development requiring a minimum of imported capital equipment and a maximum of local goods and services. Thus, this may be the time to concentrate on the expansion of agricultural, road, health, educational and housing programs as well as on technical assistance programs designed to increase the productivity of existing facilities. Nor will this be easy, for the spectre of domestic inflation will be ever present in underdeveloped countries pressing such investment programs and it will require real courage and resoluteness to hold these inflationary pressures within bounds.

You may be assured that we in the International Bank will be doing all we can on every front to assist countries in formulating and executing realistic programs for economic development designed to cope with today's problems.

Very truly yours,

/s/ R.L.G.

R. L. Garner

FORM No. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

rec'd 3/12/51 GM.
Art I (iii) - 2U553

OFFICE MEMORANDUM

TO: Mr. Ansel F. Luxford

DATE: March 7, 1951

FROM: S. W. Anderson SWA

SUBJECT: Tax Incentives to Stimulate Private Foreign Investment

My file
3/12/51

I have read your memoranda of November 21 on the subject of tax incentives. This is a very interesting approach to me.

There is one aspect of U. S. tax regulations as it affects owners of risk capital to which I would like to address myself. It has been my experience over a long period of years that more often than not the owner of risk capital, whether a corporation or an individual, wants if possible to "get his stake back" as a first priority in any venture. After he has succeeded in doing this, I think in general his attitude is more speculative. He is, in other words, willing to ride his profits. Traditionally the method by which this desire on the part of risk capitalists has been at least partially satisfied was the issuance of senior securities, such as debentures or preferred stock, for as large a percentage of the actual cash investment as counsel would permit. This device also made it possible for promoters and management to acquire, for little if any investment, an equity interest in the project, the value of which would depend upon the ability of the enterprise to retire the senior securities out of earnings. The risk capitalist, in these instances, recovered most if not all of his capital without income tax liability by the device of retiring the senior securities.

As you doubtless know, the boys in the Tax Bureau have become tougher and tougher in reviewing set-ups of this kind and have repeatedly attempted to show that if an investor acquired both preferred and common stock in something like the same proportions, the retirement of preferred stock out of earnings of the corporation might be considered as a distribution of earnings and subject to income tax. This natural tendency on the part of the taxing authorities, in my opinion, has been a detriment to the risk capitalist in attempting to follow a perfectly sound concept of investment.

Turning to the foreign field, if the U. S. taxing authorities were willing to sanction, as a matter of principle, the retirement of senior securities in a foreign company without raising the taxability of such recoveries up to the full amount of the investment and without regard to the identity of the common stockholders, it would do a great deal to whet the appetite of American risk capital. It is of course true that such a device would be attractive to the American investors only if the commercial and noncommercial risks in the enterprise itself appealed to him as reasonable and attractive and that the subsequent dividends on his no-cost common stock proved to be alluring enough even in the face of current income tax returns to persuade him to take the risks.

Your device goes further of course in one respect and not as far in another. You go further in permitting an investor to make cash recoveries on his investment irrespective of the success of the venture in an amount equal to his investment multiplied by his percentage tax rate, e.g., 40%. You go less far in limiting his tax free recovery of his investment to a figure dependent upon the magnitude of his tax return.

Maybe the two ideas could be combined. For example, suppose the investor was permitted to do what you have suggested and then recover the balance of his investment by the retirement of senior securities on a nontaxable basis.

These are interesting speculations and I would like to talk further to you about them after the Rockefeller report has been floated.

cc: Mr. Black
Mr. Garner
Mr. Demuth
Mr. Rist
Mr. Sommers
Mr. Hoar

Mr. R. L. Garner March 23, 1951

S. W. Anderson

Conversation with Mr. Richard Johnson

X CHILE
NEG

This morning I had a telephone conversation with Dick Johnson of Harriman's staff which I think I should report to you.

He called me principally to be brought up to date on the Chilean situation in which he has evidenced some interest in the past. You will recall that he was present at the meeting when the draft letter to Pico was discussed. The only point worth mentioning with respect to Chile was the question as to whether Bill Martin had suggested to the Bank that its Chilean policy be related in any way to U. S. Government negotiations with Chile on copper. I told him I had never heard of any such discussions but said that I was really uninformed.

We then got into a discussion of the report, "Partners in Progress," by the Rockefeller Committee. Incidentally, Johnson was in on all the final drafting of the report, including one all-night session.

Johnson told me that "they," by which I assume he means Harriman's office, are in full agreement with the basic concept of the report, including the necessity of a single agency which would absorb the claimant function from the Department of Commerce. He did not, however, think that the proposal to create the International Development Authority for the purpose of providing grant funds was either feasible from a Congressional standpoint or particularly desirable. With respect to the proposed International Financial Corporation, however, his attitude was more favorable. He inquired whether the Bank proposed to take any initiative with respect to either of these proposals. Without attempting to answer him, I asked him what initiative was to be expected from the Executive Branch of the U. S. Government on them. His attitude was that probably no substantial amount of initiative would be displayed by the White House, and he seemed to think that either the Bank or perhaps Rockefeller himself should take the initiative. He informed me that the Executive Branch proposes to go to Congress in April for the necessary legislation to create the central agency. This is more or less in line with the New York Times article today by James Reston.

I would like to discuss with you at your early convenience some of these matters, particularly the questions revolving around the International Financial Corporation proposal.

SWAnderson:ml

cc: Mr. Iliff
Mr. Hoar

INT. DEV. ADVIS. BOARD

March 26, 1951

Dear Nelson:

I have just finished reading "Partners in Progress," and I cannot resist the temptation of writing you to say that I think this is one of the most lucid and statesmanlike documents that has seen the light of day in recent years.

I know it will be attacked upon a good many fronts, but for my money, it represents a brilliant exposition of one of the most crucial problems facing this country. You and your associates are certainly to be greatly congratulated.

Sincerely yours,

Samuel W. Anderson
Special Advisor to the
Loan Director

Mr. Nelson Rockefeller
13 West 54th Street
New York, New York

SWAnderson:ml

IVESTMENT

FORM NO. 59
(3-49)

CROSS REFERENCE SHEET

COMMUNICATION: Memo

DATED: March 13, 1951

TO: Files

FROM: Mr. Wheelock

SUMMARY:

Mr. Blackwell Smith called at IBRD to inquire if we would undertake to guarantee transferability of earned interest & amortization on investment in Cuba by a U. S. life insurance Co in a housing project.

FILED UNDER: Cuba Inq.

CROSS REFERENCE: Investment. Private

Smith, Blackwell.

INVESTMENT
✓X YUGO NEG

FILE COPY

March 30, 1951.

Dear Alan:

Mar. 30

I should be grateful if you would send the attached cable to Sir Ernest Rowe-Dutton.

Yours sincerely,

A. S. G. Hoar
Assistant Loan Director.

Mr. A. Christelow
U.K. Treasury Delegation
WASHINGTON, D.C.

FORM NO. 27
(1.50)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INVESTMENT
✓ x YUGO NEG.

OUTGOING WIRE

DATE: MARCH 30, 1951

TO: SIR ERNEST ROWE-DUTTON
TREASURY CHAMBERS
GREAT GEORGE STREET
LONDON, S.W.1, ENGLAND

TEXT:

CLASS OF SERVICE DESIRED			
NIGHT LETTER	☐	CODE	☐
DEFERRED	☐	FULL RATE	☐
TELETYPE ☐			

I UNDERSTAND THAT DISCUSSIONS NOW TAKING PLACE IN LONDON ARE INTENDED TO COVER NOT MERELY IMMEDIATE NEEDS BUT LONG TERM INVESTMENT PROGRAM AND AM CONCERNED THAT DECISIONS MAY BE TAKEN AFFECTING BANK'S LONG TERM APPROACH TO YUGOSLAV DEVELOPMENT STOP I STILL FEEL DISCUSSIONS IN WASHINGTON WOULD BE BEST SOLUTION BUT AS THIS IS PRESUMABLY IMPOSSIBLE SHOULD NOT BANK HAVE SOMEONE AT PRESENT DISCUSSIONS IN LONDON STOP WOULD APPRECIATE YOUR REACTION

HOAR

INTBAFRAD

AUTHORIZED BY:

NAME A.S.G.Hoar

DEPT. Loan

For Use by Archives Division
Checked for Dispatch

20

FILE COPY

Sent through U.K. from Mr. Hoar's office

FORM No. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Files

DATE: May 3, 1951

FROM: S. W. Anderson SWA

SUBJECT: John D. Hall

Mr. John D. Hall, introduced by Mr. August Maffry, Vice President of the Irving Trust Company, called on me yesterday. Mr. Hall is President of the International Research and Development Corporation as well as a newly formed company called the "American Investment and Development Corporation". Mr. Hall has as his associates a number of New York interests such as Andre de St. Phalle, certain Europeans and a number of others. X

Mr. Hall described to me the activities of the former company in promoting privately financed projects in Turkey for which ECA financing in part has been arranged. He is now proceeding to Brazil with the view of establishing contacts there to promote mixed capital, or otherwise privately financed enterprises. He visualizes his firm not only as promoters as such, but also as suppliers of economic studies, market studies, engineering work and generally as an organization for the background work of bringing the project to the point of financing, preferably by private capital. He has discussed his plans with David Rockefeller and will see Clarence Dauphinot. I also urged him to see Frank Truslow before he left.

Mr. Hall makes a good impression. At one time he was the foreign Manager of Reynolds and Company, but in my opinion he has a far more sophisticated point of view than Mr. McKenna.

I told Mr. Hall that the activities which he outlined to me seemed to be constructive and that we would be very glad to help him in any way open to us.

cc: Mr. Garner
Mr. Hoar
Mr. Rist
General Wheeler
Mr. Rucinski - for Mr. Mason
Mr. Schmidt
Mr. Cope

S.W.Anderson:JF

FORM NO. 75
(7-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

ROUTING SLIP

Date May 29

TO-	Name	Room No.
1	~~Mr. Rucinski~~ e	421
2	~~Mr. Wheelock~~	417
3	Files	210
4		

FOR-

	Action		Initialing
	Approval		Preparing Reply
	Comment		Previous Papers
	Filing		Noting and Returning
	Full Report		Recommendation
	Information		Signature

REMARKS

MAY 10 1951

FROM- S. W. ANDERSON

AMERICAN INVESTMENT AND DEVELOPMENT CORPORATION
44 WALL STREET
NEW YORK 5, N. Y.

TELEPHONE
WHITEHALL 4-4240

CABLE ADDRESS
"AIDCOR, NEWYORK"

May 10, 1951

Mr. Robert Garner,
Vice President,
International Bank for Reconstruction and Development
Washington, D.C.

Dear Mr. Garner:

It was a very great pleasure to meet you in Washington last week and to have the benefit of your advice and counsel in respect of our plans in Latin America.

We were pleased to learn that the Bank welcomes our efforts there along the lines of the activities which our Group of affiliated companies has been pursuing in Turkey. We sincerely believe that an urgent need for such work exists and we hope that an opportunity exists for us in filling it, but we are firm in our conviction to take no steps which are not completely in accord with the policies and plans of your Bank and the various economic agencies of our own Government. With your permission, we shall continue to keep you informed and seek your guidance as well as that of Mr. Truslow with whom we understand you will be working closely.

In accordance with your suggestions, I am enclosing a memorandum which outlines briefly the members of our Group and something of our past work and future plans. If there are any points which are not clear I should be very happy to try to clarify them.

As to the present status of our Turkish projects, I have asked our office in Istanbul to write you directly to be sure that any memo that you have is up to date. I am also sending a note of introduction to you to Mr. Loomis in Istanbul, who is a very able young man in our office there, who would be most happy to meet you and discuss our various projects on which he is fully informed.

My very best regards,

Sincerely yours,

John D. Hall

John D. Hall
President

JDH:mh

Enclosure

ack. 5/29/51

AMERICAN INVESTMENT AND DEVELOPMENT CORPORATION
44 WALL STREET
NEW YORK 5, N.Y.

TELEPHONE WHITEHALL 4-4240

CABLE ADDRESS "AIDCOR, NEWYORK"

May 10, 1951

Mr. Robert Garner,
Vice President,
International Bank for Reconstruction and Development
Washington, D.C.

Dear Mr. Garner:

It was a very great pleasure to meet you in Washington last week and to have the benefit of your advice and counsel in respect of our plans in Latin America.

We were pleased to learn that the Bank welcomes our efforts there along the lines of the activities which our Group of affiliated companies has been pursuing in Turkey. We sincerely believe that an urgent need for such work exists and we hope that an opportunity exists for us in filling it. We are firm in our conviction to take no steps which are not completely in accord with the policies and plans of your Bank and the various economic agencies of our own Government. With your permission, we shall continue to keep you informed and seek your guidance as well as that of Mr. Truslow with whom we understand you will be working closely.

In accordance with your suggestions, I am enclosing a memorandum which outlines briefly the members of our Group and something of our past work and future plans. If there are any points which are not clear I should be very happy to try to clarify them.

As to the present status of our Turkish projects, I have asked our office in Istanbul to write you directly to be sure that any memo that you have is up to date. I am also sending a note of introduction to you to Mr. Loomis in Istanbul, who is a very able young man in our office there, who would be most happy to meet you and discuss our various projects on which he is fully informed.

My very best regards,

Sincerely yours,

John D. Hall

John D. Hall
President

JDH:mh

Enclosure

RECEIVED
INTERNATIONAL BANK FOR
RECONST. AND DEVEL.
MAY 17 9 04 AM 1951

Ack. 5/29/51

AMERICAN INVESTMENT AND DEVELOPMENT CORPORATION AND ASSOCIATED FIRMS

American Investment and Development Corporation (A.I.D.C.) is an entity set up to represent and direct the activities of a group of U.S. and European financial and engineering firms in the work outlined below. These firms and their personnel or outside consultants they will hire will perform the major part of work undertaken by A.I.D.C. and most will participate in its earnings through stock ownership and through various profit sharing arrangements.

Firm		Liason Officer
International Research and Development Corp.,	New York	John D. Hall, President
Andre de Saint Phalle & Co.(Member N. Y. Stock Exchange)		Carel Van Henkelom, General Partner
Smith, Kirkpatrick & Co., Inc.	New York	Robert L. Clarkson, Jr. President
Braithwaite & Co. Engineers Ltd.,	London	R.J.N. Taylor Managing Director
Morris & Van Wormer, Engineers,	New York	Wm. J. McCudden
J. G. White Engineering Corp.,	Cleveland and New York	J. M. Patten
Menken, Ferguson & Idler, and Burt	New York	Wm. Burt

Outside consulting firms will be engaged as needed by A.I.D.C. directly or through the associated firms and working arrangements will be established with other foreign firms.

The work to be undertaken will follow a pattern already established and followed with some success by members of the group. Mr. John D. Hall, who is president both of A.I.D.C. and of International Research and Development Corporation, (I.R.D.C.), was for some years in charge of the foreign activities of Reynolds & Co. under the supervision of Herbert A. McKenna, a general partner who devotes much time to foreign activities and with the help of Mr. A. Worthington Loomis, now an employee of I.R.D.C.

The aim of these activities in Reynolds & Co. was to investigate investment opportunities abroad and to interest clients of the firm, either individual or corporate, in them. The results, in achieving these particular aims, have been disappointing to date. However, in the course of extensive investigations and negotiations abroad, an opportunity appeared in the urgent need of private business interests in the undeveloped countries for the skills possessed by U.S. investment banking and technical groups and the confidence they inspired for:

(1) The mobilization of domestic capital within the foreign country.

(2) Assistance in the selection of sound projects for local investment.

(3) The analysis of economic factors involved and the preparation of appropriate studies.

(4) The preparation of financial plans and analyses and for existing firms the transformation of available financial statistics into a form understandable abroad.

(5) The undertaking, with the assistance of associated engineers, of necessary preliminary engineerings studies and the coordination of such studies with the problems of external finance.

(6) Obtaining for the foreign private interests sound technical and commercial collaboration on a continuing basis from firms in the U.S. or Europe.

(7) The negotiation in Europe or the U.S. of credits or other capital, largely for foreign exchange requirements, on the basis of the successful completion of (1) to (6). Where private capital is not available, the International Bank, the Export-Import Bank and the ECA provide alternative sources.

The firm conviction of the A.I.D.C Group, as a result of actual experience, is that only through the provision of such services in a coordinated manner and largely on a risk basis, can sufficient private investment opportunities be developed for private U.S. or European capital or to enable International Bank, Export-Import Banks or ECA funds to be channelled to private enterprise. The reason is that businessmen abroad either:

(a) Lack an appreciation of the necessity for such services;

(b) cannot engage them from any one engineering firm or in any coordinated manner;

or (c) are unwilling to risk the very considerable cost involved until they are sure external financing can be assured.

It became clear that if such work was to be done at all it would have to be performed largely at the expense of the financial technical group which could be compensated for technical services in cash or by an equity interest only when studies were completed and financing and other requirements were assured.

I.R.D.C. was organized in early 1950 to represent a group including Andre de Saint Phalle & Co., Braithwaite & Co. and former members of the Reynolds & Co. organization as well as that of General William Donovan to undertake work of the type outlined above on behalf of various Turkish private business interests. Reynolds & Co. and Donovan Leisure, which had participated in early negotiations, decided as firms not to participate further because of the unwillingness of the Turks to commit themselves in advance to pay any substantial portion of expected expenses.

Mr. Hall and Mr. Loomis left Reynolds to join the new company as did Mr. William Burt from Donovan Leisure. Mr. Burt, a reserve Air Force Colonel, during the last War, was Assistant to General Vandenberg and later in England as a civilian to Mr. Finletter, then Chief of the ECA Mission there, and is now a director of both I.R.D.C. and A.I.D.C.

The new firm I.R.D.C. and other firms associated with it in the work arranged to finance the effort themselves with only minor contributions from the Turks and have so expended in total several hundred thousand dollars on the basis of out-of-pocket expense and personnel time. Approximately sixty engineers, economists, accountants, management consultants and others were utilized and projects worked out for five textile mills, a pharmaceutical plant, a cement plant, a cannery, a hydroelectric development, a cotton seed oil plant, and preliminarily for a nitrate fertilizer plant. Approximately 40,000,000 Turkish lira were raised for the local costs of projects other than fertilizer and external financing of one textile mill and the pharmaceutical plant has been assured to date, the latter with the technical and commercial collaboration of Sterling Drug Co. The two for which financing is completed are to receive credits from ECA counterpart funds and negotiations are virtually complete for private credits from England for a large textile project involving about $9,000,000 in total cost. Other negotiations are under way for private credits in France, Belgium and Switzerland, and from the new Industrial Bank in Turkey.

I.R.D.C.'s experience in raising capital for a Hydroelectric project in Southern Turkey was an interesting development in the mobilization of local capital. The Turkish Government did not wish to approve a project originally proposed by I.R.D.C. on behalf of two private companies in the area and requested I.R.D.C. to try to work out a larger project which could furnish sufficient power for the entire area. Accordingly I.R.D.C., together with its engineering and legal consultants worked out the preliminary technical and financial aspects of a new project including a plan for setting up a private power company. With letters to the Governors, Mayors, and local banks of the area, the officers of I.R.D.C. and their engineering and legal advisors visited various towns there, organized preliminary meetings of the officials and three or four principal capitalists, then larger meetings of one hundred or more in each town. The plan was explained in detail by the Governors and by I.R.D.C. and assurances were given:

(1) That the Turkish Central Government would not control the new company.

(2) That the U.S. and British financial advisors, engineering consultants, and accountants would provide competence and integrity.

Eventually each member of the meeting was publicly polled as to his subscription to the new company and later signed the subscription agreement. A committee was appointed to complete the formalities of corporate organization and to negotiate on behalf of the company for further financing.

American Investment and Development Corporation was organized with the participation of the same Group as I.R.D.C. but with the addition of further engineering associates and particularly with an arrangement for close collaboration with Smith, Kirkpatrick & Co.,Inc.

A.I.D.C. will operate throughout the world other than in Turkey but principally in Latin America. It has been demonstrated in the course of the work of I.R.D.C. that there are excellent possibilities for obtaining private credits in Europe for sound situations in Latin America and that private corporate and individual investors in Europe are most interested in opportunities there. Also since the Korean

War, the prospect of higher taxes in the U.S., boom conditions in Latin America, and the improved exchange situation there has greatly improved the possibilities of obtaining private capital in the U.S. for investment in Latin America. Further it is expected that A.I.D.C. will take a financial participation for its own account or on behalf of associated firm in certain industrial enterprises there.

Banks which are familiar with the activities of the Group include:

Irving Trust Company
Dr. August Maffry, V.P.
Mr. Theodore Sedgewick, Jr. V.P.

Guaranty Trust Company
Mr. Robert Manapace, V.P.

Chase National Bank
Mr. Otto T. Kreuser, V.P.

J. Henry Schroder Banking
Mr. Peter Carpenter, V.P.

Ottoman Bank-London
Mr. Perrin, Manager London

Lloyd's Bank, Ltd., London
Overseas Dept.

Banque de Paris et des Pays Bas - Paris
Mr. Henry Burnier, Managing Director

INVESTMENT

May 29, 1951

Dear Mr. Hall:

Just before he left for Turkey, Mr. Garner passed your letter of the 10th to me for acknowledgment.

We are glad to have the material which you appended to your letter and, as Mr. Garner has told you, we will continue to be interested in your activities and hope that you will advise us in this connection from time to time.

I am glad that you will see Mr. Truslow. He presently plans to leave for Brazil on June 14, and will start organizing his activities in July.

Sincerely yours,

Samuel W. Anderson
Special Advisor to the
Loan Director

Mr. John D. Hall, President
American Investment and Development Corporation
44 Wall Street
New York 5, New York

SWAnderson:jf

FORM No. 57
(5-49)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

Ex.

TO: Mr. A.S.G. Hoar

DATE: May 22, 1951

FROM: Hector Prud'homme

P.

SUBJECT: Private Investment - Policy

Discuss at Cabinet Ex.

In my first few months at the Bank there will be, I am sure, a number of issues of loan and investment policy about which I should like to raise questions. If you permit, I shall put these down on occasion, in the hope that a newcomer's reactions may be of interest to you, in addition to the value which exploring the questions will have for me.

From the discussion at the Staff Loan Committee yesterday morning (on the Pakistan paper plant, specifically), I gather that one of the more difficult, and perhaps also one of the more interesting problems of Bank policy is how to implement Charter provisions with respect to encouraging investment by private investors.

I do not wish to comment on the Pakistan question per se: it is not my area, and I know little of conditions there. May I, however, use it as a means of pursuing issues of general policy? The juxtaposition of language in Article I of the Charter suggests that, in order of desirability, encouraging private investment comes before Bank lending. To the layman, the provision that it is a purpose of the Bank to lend "when private capital is not available on reasonable terms," means that the Bank lends its own funds only when a program cannot be financed through private capital. This concept seems simple and clear. However, I guess that it conceals the possibility of considerable variation, depending not on differences in theory about private versus public capital, but on whether the Bank can afford to expend more or less effort in promoting the concept.

For instance, one can satisfy the Charter by accepting the fact that there is insufficient local private capital to venture into a paper project in Pakistan, that money rates are too high, that a Pakistani company would have no luck trying to finance in the foreign capital markets. Or, on the other hand, one might seek out possible Swedish and American sources of equity money (paper companies), encourage them to undertake the construction and management of a plant, then to induce the Pakistan Government to give them tax advantages, tariff advantages, a monopoly for a period of years, convertibility of a share of their profits, etc. etc.

My question is whether the Loan Officer has a responsibility for promotional activity in the field of private investment, and if so, how much. In the paper plant instance, such promotional activity would presumably involve (a) pressing the Pakistanis to offer conditions attractive to private foreign capital, (b) initiating inquiries in other countries as to possible investors, (c) acting as a kind of broker between the two parties, and (d) arranging for Bank participation in financing.

If the answer to my question were that the Loan Officer should put in some time on means of attracting private capital, whenever a project presents itself, some additional questions of policy and procedure would arise. Means of establishing contacts with investors willing to venture abroad would have to be further developed, and the Bank might have to be quite bold and firm on some suitable project in order to get the ball rolling in the desired direction. The Loan Department would become an "investment department."

FORM NO. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Investment-Gen.

OFFICE MEMORANDUM

TO: Mr. Paul N. Rosenstein-Rodan

DATE: May 31, 1951

FROM: D. Crena de Iongh

SUBJECT:

With reference to our discussion, I am sending you herewith a copy of a draft agenda for a conference on investment problems. I would be very pleased to ~~get~~ your reaction.

Attachment

May 31, 1951

DRAFT AGENDA FOR CONFERENCE ON INVESTMENT PROBLEMS

I.

a. Description of the financial machinery through which in each participating country savings are channeled into investments.

b. Relative importance of equity financing versus financing by loans in each participating country.

c. Need for supplementing savings by international loans in each participating country.

II.

a. Coordination of policy of national lending to that applied to international lending.

b. Forms of cooperation of local long-term finance institutions with international lending institutions.

c. Selection of type or types of local institutions to implement this cooperation.

d. Methods of assistance in stimulating the use of the private money market for the financing of investments.

III.

a. Interest rates for national and international loans.

b. Exchange risk to be borne by borrower or government.

IV.

a. Methods of disbursement.

b. Commitment commission.

c. Other commissions.

d. Methods of end-use supervision.

FORM NO. 59
(3-49)

CROSS REFERENCE SHEET

COMMUNICATION: Translation of Law

DATED: August 1, 1951

TO: Mr. Fraser

FROM: Mekin Onaran

SUMMARY:

The Law for the encouragement of Foreign Capital Investment (in Turkey).

FILED UNDER: Turkey Gen.

CROSS REFERENCE: Investment

INVESTMENT
JX EX-IM

FILE COPY

Messrs. Black, Iliff, Hoar, Sommers, Crena de Iongh, Demuth, Rodan

June 12, 1951

Martin M. Rosen

The U. S. Foreign Aid Program

The Senate Committee on Foreign Relations and the House Committee on Foreign Affairs have jointly published a document on "The Mutual Security Program for Fiscal Year 1952" which contains the basic data on the U.S. foreign aid program supplied to Congress in support of the program by the Administration.

The Bank is referred to in a number of places in the document; in fact, in the very beginning it is stated that the foreign aid program "takes into account the lending capacities and the probable programs of the International Bank for Reconstruction and Development and the Export-Import Bank."

The portion of the report which is probably of most importance to the Bank is the section on "Public Lending and Private Investment." This section says that substantial loans by the Export-Import Bank are an integral part of the mutual security program and that many projects can best be carried out by public loans. The size of the grant program was determined on the assumption that public lending would be continued at at least the levels prevailing in recent years. "Specifically it was assumed that the Export-Import Bank would expand its loans for economic development purposes." An increase in the Export-Import Bank lending authority of $1 billion is requested in order to carry out the part of the mutual security program which should be financed by U. S. Government loans, including loans to finance expansion of strategic and other essential materials.

The section on public lending is predominantly concerned with the Eximbank with only one paragraph on the IBRD which does, however, contain the sentence that "it can be expected that the International Bank will continue to extend large-scale financial support to sound development projects." On the other hand, the case for the expansion of the Exim lending authority is based not only on the need for financing strategic materials projects but also, and apparently primarily, for the "financing of essential economic development."

The report does not specifically state that it has been given a proposed loan program for various areas of the world by the Bank, but it does imply strongly that this is the case. For example, there is a sentence that the various programs by geographic areas "have been worked out in the light of consultation with the officials of the International Bank for Reconstruction and Development and the Export-Import Bank and they take cognizance of the loan commitments that are likely to be made. Account has been taken of the fact that the resources of these Banks will be available in the region and will provide means of financing for certain major undertakings."

The report deals briefly with the problem of coordination of various programs of grant assistance with Eximbank and International Bank loans but contains no specific proposal for coordination. In fact the way the report is phrased, there is no problem of coordination since it states that grant and loan programs are all worked out in close consultation to make sure that there is a proper balance between loans and grants.

MMRosen:dbs

Talk to Garner

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

Mr. Pommers

I had a brief talk with the V.P. about this last night.

We agreed:-

(a) that we should participate

(b) that our ~~[illegible]~~ Observer should be a U.S. national

(c) that we might pick from

Demuth

Rosen

Schmidt

(but Rosen probably has enough on his plate at the moment).

I'd be grateful if you would take up with the V-P tomorrow as I may not be here.

W.I.

29/11.

JAN 28 REC'D

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF THE DIRECTOR FOR MUTUAL SECURITY
WASHINGTON 25, D. C.

January 25, 1952

My dear Mr. Black:

Section 516 of the Mutual Security Act of 1951 provides in part: "It is hereby declared to be the policy of the Congress that this Act shall be administered in such a way as to eliminate the barriers to, and provide the incentives for, a steadily increased participation of free private enterprise in developing the resources of foreign countries consistent with the policies of this Act. . . ."

As you know, a considerable amount of work has already been done in this area. However, in order that I may be advised on further ways and means by which the Mutual Security Act may be administered to encourage private enterprise and private investment abroad, it will be helpful to have an advisory committee of representatives from the several other agencies of the government whose interests are also closely related to this objective.

I have asked the following Departments and Agencies to name representatives for this Committee: the Departments of State, Treasury, Defense, Interior, Agriculture, Commerce, and Labor, Export-Import Bank, Defense Materials Procurement Agency, Mutual Security Agency, and Technical Cooperation Administration.

You have had, in the International Bank, a great interest in this subject. Although this is a U. S. government committee, I would like to have your representative join the group from time to time on appropriate subjects as an observer. I know you can be most helpful.

I have asked Mr. Richard N. Johnson, Assistant Director for Resources and Requirements, to chair this committee. Mr. George F. Lawrence will act as Executive Secretary. Mr. Wayne C. Taylor has agreed to act as Special Consultant for the committee.

I hope that such staff studies and operations as the committee may determine to be required can be undertaken by the appropriate Departments and Agencies.

In view of the urgency of continuing to move forward with this program, the first meeting of the Advisory Committee will be held in Room 272½, Executive Office Building (Old State), at 2:30 PM, February 4, 1952.

I will appreciate it, therefore, if you will notify the Executive

ack. 1/30/52

Secretary as promptly as possible of the name of your representative to this committee.

I am enclosing herewith a brief agenda for the first meeting. I hope your representative will come to the first meeting.

Sincerely,

W. A. Harriman
Director for Mutual Security

Enclosure

Mr. Eugene Black, President
International Bank for Reconstruction
and Development
Washington, D. C.

AGENDA

Meeting Scheduled for February 4, 1952
at 2:30 PM, Room 272½, Old State Bldg.

1. Arrangements for review of existing programs and policies of each agency for encouraging private foreign investment.

2. Discussion of the need for studies or examination of special fields where private capital is required, such include manufacturing, distribution, finance, transportation, agriculture, utilities and minerals development. Assignment of study tasks to appropriate agencies.

3. Discussion of other topics to which attention should be given.

2/4 Meeting : 2:30 P.M. State Dept.

1. MSA will get from each agency statement → what its line of attack has been — what has it done on encouragement PF1.

1- Govt [illegible]
2- Loan projects
3- Dev. Banks
4- Dev of capital Market
5- I.F.C.

Mar 1 go to Congress (will IFC studies be available)

AGENDA

Meeting Scheduled for February 4, 1952
at 2:30 PM, Room 272½, Old State Bldg.

- Industry
- [illegible]
- Banks
- Procurem
- Taxation
- Invest treaties

Com
Agri
Ex Imp
Army
Treas
State

1. Arrangements for review of existing programs and policies of each agency for encouraging private foreign investment.

2. Discussion of the need for studies or examination of special fields where private capital is required, such include manufacturing, distribution, finance, transportation, agriculture, utilities and minerals development. Assignment of study tasks to appropriate agencies.

3. Discussion of other topics to which attention should be given.

Meet again in 2 weeks.
members to get back studies by them.

SUMMARY OF RECOMMENDATIONS AND SUGGESTIONS MADE BY VARIOUS BUSINESS ASSOCIATIONS, GOVERNMENT-APPOINTED COMMITTEES AND CONSULTANTS, AND PRIVATE INDIVIDUALS FOR STEPS TO BE TAKEN TO ENCOURAGE PRIVATE INVESTMENT ABROAD.

---- ----

TAXATION

1. Income on direct investments abroad be taxed only in the country where it is earned.

2. The Congress enact legislation to authorize the inclusion of the above principle in bilateral tax treaties. Expedite the negotiation of tax treaties.

3. Steps be taken to eliminate taxes by foreign countries which discriminate against foreign-owned enterprises.

4. Study be given to the desirability and possibility of promoting private investment through tax incentives in areas where economic development will promote mutual interests.

5. U. S. Government allow for tax purposes a very rapid depreciation of foreign plants owned by U. S. nationals.

TREATIES (OTHER THAN TAX)

1. Press aggressively the negotiation of investment treaties.

2. Seek to eliminate various onerous requirements relating to the workings of patents and the excessive fees and taxes imposed under the patent laws and regulations of certain foreign countries.

3. Seek by negotiation with foreign governments to secure the removal of restrictions imposed by foreign governments on activities of private insurance firms and the elimination of government monopolies of commercial insurance and re-insurance.

4. Eliminate from the Havana Charter Articles 11 and 12; re-examine in a more appropriate context the whole question of the rights and obligations of capital supplying and receiving countries with respect to international investment.

5. The making of selective tariff cuts with countries which have evidenced their willingness to cooperate with us on a competitive enterprise basis.

GUARANTEES AND INSURANCE PLANS

1. Study the present provisions in the Economic Cooperation Act for extending guarantees to ascertain if this program should be continued as an investment incentive.

2. Consider if $100 million of the loan and guarantee authority of the Export-Import Bank should be earmarked to underwrite for a fee the transfer risk on new foreign debt obligations purchased by private U. S. investors.

3. Undertake consideration of various insurance plans against risks inherent in foreign investment such as (a) inviting private insurers to offer protection against specified investment risks with or without the protection of re-insurance by the U. S. Government up to some high percentage of the risks underwritten, and (b) the U. S. Government assisting capital-importing countries in establishing guarantee funds in the U. S.

CONSIDERATION OF PRESENT U. S. GOVERNMENT POLICY WITH RESPECT TO GOVERNMENT AID

1. International lending agencies to clearly define their fields of activity and consideration should be given to restricting the activities of such agencies in fields clearly more appropriate for development by private capital.

2. Public disbursing agencies, governmental or international, should consider how their prestige, influence and economic power could be used to insure that recipient governments exercise the maximum practical efforts to attract private investment capital before supplementary public investment is made.

3. The U. S. Government should only make credits which are quite outside the scope of private financing and where the use of government funds in carefully selected fields definitely broadens the opportunity for investing both for U. S. citizens and for nationals in the countries receiving the loans.

4. ECA concentrate its facilities in underdeveloped areas in the development of a small number of important projects rather than a large number of small projects.

5. Give priority to key projects which bring about additional installations and projects financed by private capital and which would serve as a nucleus for an industrial heart-land of an area that might be developed.

ESTABLISHMENT OF GOVERNMENTAL, INTERNATIONAL, OR OTHER AGENCIES TO FURTHER PRIVATE INVESTMENT

1. The U. S. Government take the initiative in creating an international finance corporation as an affiliate of the International Bank with authority to make loans for local and foreign currencies to private enterprises without the requirement of government guarantees, and also to make non-voting equity investments in local currencies in participation with private investors.

2. The U. S. Government establish a special agency for the promotion of export of capital.

3. Set up some form of public development corporation to (a) assist with public funds the development of those types of facilities which must be developed on a public basis and (b) at the same time develop by extensive investigation and negotiation the conditions for entry into specific underdeveloped areas of private foreign investors.

4. Interest foreign countries in the establishment of private associations or agencies whose business it would be, working with the local government, to develop situations of economic benefit to the country requiring foreign capital to develop, and to present these to the attention of U. S. capital in a manner calculated to arouse their interest.

POSSIBLE U. S. GOVERNMENT LEGAL AND LEGISLATIVE ACTION

1. Give clear authority and adequate funds to an agency of the U.S. Government to make long-term contracts for the purchase of strategic materials with escalator clauses and reasonable anti-dumping provisions.

2. The U. S. Government should seek to improve the legal relations between U.S. investors and foreign people through clarifying existing legal relations and by attempting to increase the stability of such relations and their uniformity as between countries. The U. S. Government should use its good offices to bring about equitable understanding if disagreements arise between American private investors and a foreign country where their funds have been placed.

3. Explore the possibilities of removing the present interpretation and application of the anti-trust laws of the U. S. by means of a statutory provision for registration with the Department of Justice of all agreements between U.S. business interests and foreign interests covering patent licensing, exchange of technical information and joint investment, and provision for rendering inapplicable the arrangement so registered the more punitive provisions of the anti-trust laws.

TECHNICAL ASSISTANCE

1. Extend and press the use of technical assistance, especially of a survey character which might reveal hitherto unknown resources and opportunities for development by private enterprise.

2. Immediately after the signing of investment treaties with other countries, the next step should be at a technical assistance level. We should set up missions to review the resources of those nations and the opportunities there for industrial as well as agricultural development. The chief technical assistance which we can render will come from the establishment of actual plants in which our businessmen have a true interest.

3. Bring teams from dependent overseas territories for indoctrination in American investment and business practices.

4. Bring a special group from each DOT for general conference and study of special papers to develop a sound and larger plan for DOTs including indoctrination of American investment and business practices, but on more comprehensive economic lines.

PUBLIC RELATIONS

1. There is need for a strong unilateral statement by this country which faces up without embarrassment to the fact that we are a competitive enterprise nation. We should say that for the long pull we shall be unable to help other peoples raise their standards of living unless they are willing to count on competitive enterprise for the biggest part of the job. Until this is done there will be lingering hopes among government people in other countries that government-to-government grants from the U.S. Treasury will continue indefinitely.

2. Foreign countries by facing up to the fact that exploitative practices, more characteristic of a past day, are no longer followed by typical private investors could do much to stimulate greater private investment opportunity abroad.

3. The U. S. should dispel the belief that foreign countries can obtain all the investment capital they need from the U.S. Government or from inter-governmental agencies without taking the measures of self-discipline required to create a favorable environment for private investment.

4. Dispel the belief in foreign countries that because of low interest rates obtaining in the U. S. foreign capital should not be permitted to earn a return commensurate with the risk taken and sufficient to attract private capital.

5. Publicize the benefits of private enterprise.

6. Exercise care in the selection of men to represent us abroad.

7. An unequivocal statement by the U. S. Government on foreign development policy. Such a statement must (a) lay out both principles and practical measures designed to secure a maximum flow of technology and capital to foreign countries; (b) make clear that applied technology is a scarce commodity and obtainable only for a consideration; (c) emphasize in particular that only private enterprise can do the job and that private enterprise will do the job only if conditions favorable to private investment are created by foreign countries seeking outside help; (d) say in unmistakable terms that financial assistance from the U. S. Government will be available only to those countries which subscribe to a code of fair treatment for foreign investments; (e) emphasize that upon securing the cooperation of the creative forces of foreign private enterprise, capital importing countries will obtain important economic benefits and that in the wake of higher standards of living flowing from economic growth come many social improvements.

MISCELLANEOUS

Make a study of measures to improve the American market for sound foreign dollar securities, including examination of the delay or failure of certain defaulting countries to offer satisfactory adjustments on their securities held by American citizens.

GFL/r

Invest. Pro. & Prot.
Prt. & For. Invest
II

Brokey	AUG 27 1969	

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Operational - Investments - Promotion and Protection of Private and Foreign Investment - Correspondence - Volume 2	30357182

Document Date	Document Type
January 10, 1951	Memorandum

Correspondents / Participants

Subject / Title
Obstacles to American Private Investment Abroad - Selected list of classified material

Exception(s)
Information Provided by Member Countries or Third Parties in Confidence

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Kim Brenner-Delp	August 14, 2023

U.S. DEPARTMENT OF STATE
January 10, 1952

DIVISION OF LIBRARY AND
REFERENCE SERVICES

OBSTACLES TO AMERICAN PRIVATE INVESTMENT ABROAD

A SELECTED LIST OF REFERENCES

Bibliographic List No. 64

ACADEMY OF POLITICAL SCIENCE, New York. The American foreign aid program. New York, 1950. 122p. (Proceedings, V.23, no.4, Jan.1950)
H1.A3 v.23 no.4
Typical obstacles to private investment abroad, included by the composite authors: magnitude of readjustment, small compartmentalizations of Europe, perennial dollar shortage, third country gain and prejudicial choice between the old and the new.

ALDRICH, W.W. Economic problems of western Europe; conditions necessary for increasing American private investments. In Vital speeches of the day (New York) June 1, 1949, 15:488-490.

AMERICANS IN FRANCE find it's hard to do business. In United States news & world report (Washington) April 14, 1950, p.28:24.

ANGELL, JAMES W. Financial foreign policy of the United States. A report to the second International studies conference on the state and economic life, London, 1933, prepared for the American committee appointed by the Council on foreign relations. New York, 1933. 146p. (Institute of Pacific relations conference, Banff, 1933. Documents, v.6, no.2)
DU1.I5 1933 v.6 no.2
Policy for American foreign investment based on security and general political considerations, and the meeting of abnormal demands, distort estimates, p.81-84.

AUL, H.E. Crucial problems confronting today's investor. In Commerical and financial chronicle (New York) June 30, 1949, 169:2805.

BRUINS, G.W. and others. Report on double taxation. Geneve, Atat, 1923. 53p.
HJ2341.A2A5 1923
Broad application of double taxation elicits four un-tested alternates for American investments abroad.

BUHLER, OTTMAR. Les accords internationaux concernant la double imposition et l'evasion fiscale. In Hague. Academy of international law. Recüeil des cours, 1936, I. (Paris) 1936, 55:433-506. JX74.H3 t.55
Lack of definition as a danger of taxed investments abroad, with special reference to the Standard Oil Company.

If this Bibliographic List is of no further interest to your Division, please return it to LR, Room 205 SA-1

BUCHANAN, NORMAN S. International investment and domestic welfare; some aspects of international borrowing and lending in the postwar period. New York, Holt, 1945. 249p. HG4538.B8

Real capital, including immovable assets and borrowing status. Capital depletion by war, reconstruction and industrialization aspects, foreign borrowing and types of investment. Imports, foreign lending and change of United States policy. Exchange difficulty for the three types of investment.

CARROLL, MITCHELL B. A study of the principle of reciprocity and other means employed in treaties and legislation to avoid multiple taxation. New York, National foreign trade council, 1949. 19p. (Ref. no.M-1656) HJ2341.C38

Reciprocity for research abroad not provided, p.18, taxes obstructing technical knowledge, p.17-18.

CLARK, JOSHUA R. Collecting on defaulted foreign dollar bonds. In American journal of international law (Concord, N.H.) 1940, 34:119-125. JX1.A6 v.34

Differentiated risks of American investors in private or governments enterprise abroad, p.124.

COBLEIGH, I.U. Labor bite: labor cost ratios and investment. In Commercial and financial chronicle (New York) April 12, 1951, 173:1531.

CRICK, W.F. International financial relations: some concealed problems. In International affairs (New York) July 1951, 27:297-305.

DOLLAR TROUBLE in Latin America; U.S. businessmen in Argentina. In United States news & world report (Washington) February 11, 1949, 26:18-19.

DOMKE, MARTIN. Some aspects of the protection of American property interests abroad. New York, 1949. 6p. JX6561.D65

From Record of the Association of the Bar of the city of New York. Foreign exchange, nationalization legislation and future coordination of the Economic Cooperation Administration Act of 1948 as obstructions to American investment abroad.

DULLES, ALLEN W. The protection of American foreign bondholders. New York, Council on foreign relations, inc., 1932. 13p. HG4538.D78

What is the requisite need, character and method of finance to remove obstructions here from American foreign investment?

DURAND, JOHN. For investment progress in 1950. New York, Magazine of Wall street and Business analyst, 1949. 141p. HG4521.D8

Dynamics of new competition exchanges obstacles for precedents to American investment abroad.

EXPORTERS' ENCYCLOPAEDIA, 1951. New York, 1951. 1952p.
HF3011.E9 1951 Ref.

Exchange restrictions, rates, ports-of-call, customs, law, trademarks and other handbook information pertinent to foreign commerical transactions.

FEDERATION OF INDIAN CHAMBERS of commerce and industry. Federation's reply to Fiscal commission's questionnaire. New Delhi, February 1950. 82p. HC435.F4

Dependence on foreign markets as drain on exchange, p.7; nine weaknesses of industrial development, p.21-24.

FIGHTING CURBS ON CAPITAL; Havana ITO conference considers national restrictions on outside investment. In Business week (New York) December 20, 1947, p.101-102.

FOREIGN BONDHOLDERS PROTECTIVE council, inc. Annual report 1950. New York, 1951. 241p.

Summary of the 1950 foreign bond situation followed by a survey by individual country.

FRANKEL, SALLY H. Capital investment in Africa; its course and effects. Issued by the Committee of the African research survey under the auspices of the Royal institute of international affairs. London, Oxford univ. press, 1938. 487p. HG5822.F7

GARY, HOWARD C. The United States and Point Four problems. New York, Foreign policy assoc. 1950. 94-103p. (Foreign policy reports, v.26, no.9) D443.F65 v.26 no.9

GRAHAM, BENJAMIN. World commodities and world currency. New York, McGraw-Hill, 1944. 182p. HF1041.G7

Inadequate solutions, unstable commodity units, and paradoxes of commercial values that block the foreign investor.

GRAY, GORDON. Report to the President on foreign economic policies. Washington, Govt.print.off., November 10, 1950. 131p.
HC106.5.G7 1950 Ref.

Narrow economic concept tends to throttle American investment abroad, especially as it leads to discrimination against foreign goods and instability of currency.

HANSON, SIMON G. Economic development in Latin America; an introduction to the economic problems. Washington, Inter-American affairs press, 1951. 531p. HC165.H35

HARRIS, SEYMOUR E. Foreign aid and our economy. Washington, Public affairs institute, 1950. 15p. (Bold new pamphlets no.7) HC59.B6 no.7

The greater amount given than received in trade by underdeveloped areas, p.68.

HEILPERIN, M.A. Private means of implementing point four. In Annals of the American academy of political and social science (Philadelphia) March 1950, 268:54-65.

HEMISPHERE BARRIERS TO U.S. capital in Latin America. In United States news & World report (Washington) April 30, 1948, 24:24-25.

HERZ, JOHN H. Expropriation of foreign property. In American journal of international law (Concord, N.H.) 1941, 35:243-262. JX1.A6 v.35
Definitions, exceptions and disagreement, the law among the countries concerning.

HOW TO GET DOLLARS for earnings in Europe. In United States news (Washington) July 23, 1948, 25:59.

HUTCHESON, H.H. and J.S. Hutcheson. Fair treatment for foreign investments. In Foreign policy reports (New York) June 1, 1949, 25:76.

INTERIM COMMISSION OF THE INTERNATIONAL trade organization. Liberating world trade. Second report on the operation of the General agreement on tariffs and trade. Geneve, 1950. 29p. (GATT/1950-2) HF1721.I5
Removal of controls for transition periods, and similar strategy, fails to solve the investment problem.

INTERNATIONAL AMERICAN CONFERENCE. 9th, Bogota, 1948. Delegation from U.S. International technical and cultural cooperation. United States participation, 1938-1948. 147p. JC361.I6
Weaknesses of communications as obstacles to investment, p.48-73.

INTERNATIONAL ASSOCIATION OF MANUFACTURERS. International relations committee. The bold new plan, a program for under-developed areas, with Statement of principles prerequisite to the free flow of foreign investment capital. New York, 1949. 16p. HC59.N3 1949

INTERNATIONAL CHAMBER OF COMMERCE. Committee on double taxation. Double taxation. Paris, International headquarters, 1925, 23p. (Brochure no.34) HF294.I68 no.34
Resolutions and their limitations stated. Other subjects covered by the volume: communications, aviation, arbitration and industrial property. Earlier resolutions on the same subjects were issued from the year 1921.

INTERNATIONAL CHAMBER OF COMMERCE. United States associates Committee on the flow of capital. Report. New York, 1946. 28p. HG4538.I65
Positive approach, but negative implications. Eight goals to be attained by policies stimulating private enterprise, with reference to Export-Import Bank and International Bank for Reconstruction and Development. Main obstacles to repayment, p.22. Special problems of reconstruction loans, p.23. Code of fair practice for international investment, with special contractual observations, p.25.

INTERNATIONAL CHAMBER OF COMMERCE. United States council. Committee on business participation in foreign economic development. Intelligence international investment. New York, 1949. 16p. HG4538.I72
Pro-con considerations pertinent to Point IV developments, and suggestions of what "might" be done.

INTERNATIONAL CONFERENCE OF AMERICAN STATES. 9th, Bogota, 1948. Economic proposals. New York, National foreign trade council and council for inter-american cooperation, 1947. 22p. HC59.N3
Only eight treaties embody requisite protection to capital of foreign investors.

JAVITS, BENJAMIN A. Peace by investment. New York, Funk & Wagnalls and United nations world, 1950. 242p. HC59.J3
Reasons for Point IV and related failures "are to be found in lack of imagination ... to grasp the magnitude of the task of world economic recovery, reconstruction, and regeneration and in lack of boldness ... to carry out that task." This is statistically applied to the individuals composing the nations.

JENNINGS, H.C. Inflation: post war France. In Current history (Philadelphia)July 1948, 15:17-21.

KINDLEBERGER, CHARLES P. The dollar shortage. New York, Massachusetts institute of technology, 1950. 276p. HG3826.K5

KIRSH, BENJAMIN S. Trade associations: the legal aspects. Philadelphia, 1928. 271p.2 LC:HD2425.K5
Background material on restriction of distribution and problems of trade cooperation.

KLEIN, JULIUS. Frontiers of trade. New York, Century, 1929. 328p. HF3031.K6
Surveys trade control, problems, policies and competition. "American investments abroad", p.159-175, stresses types of loans denied and statistical dangers of loan proportions.

LATIN AMERICA: why dollar is shy. In United News & world report (Washington) March 25, 1949, 26:25.

LEAGUE OF NATIONS. Prevention of international double taxation and fiscal evasion; two decades of progress under the League. Geneva, 1939. 53p. HJ2341.A2A5 1939
Unfulfilled obligations augmenting obstacles to American investment abroad.

LEAGUE OF NATIONS. Special joint committee on private foreign investment. Conditions of private foreign investment. New York, Columbia university press, International documents service, 1946. 45p. (C.14.M.14.1946.II.A) (II. Economic and financial. 1946.II.A.1) HG4538.L35 Ref.
Evaluations of rules and procedures on: incentive, treatment and conduct, fixed-interest, equality and direct investment, public finance, taxation, and other weak spots in the invitation to invest abroad.

LEWIS, CLEONA. America's stake in international investments. Washington, Brookings institution, 1938. 710p. (Institute of economics. Publication no.75) HG4538.L4 Ref.

Statistics include shift; e.g., direct to portfolio status of Mexican railways after nationalization, p.320. Detailed index by type of commodity.

LEWIS, CLEONA. Debtor and creditor countries: 1938, 1944, by Cleona Lewis, assisted by Louise Bebb. Washington, Brookings institute, 1945. 99p.

LEWIS, CLEONA. The United States and foreign investment problems. Washington, Brookings institution, 1948. 359p. HG4538.L43

"Responsibilities of the private investor," p.169-189, includes also informal practices. "Summary and conclusions", p.275-279, considers also the impossibility of competing with U.S. government loans and pleads for a court and code of international investments.

LITTELL, N.M. Guarantee idea; government underwriting of political risks will boost U.S. investment abroad. In Fortune (Chicago) November 1949, 40:95-96.

LURIE, SAMUEL. Private investment in a controlled economy; Germany, 1933-1939. New York, Columbia university press, 1947. 243p. HD5492.L8

Passivity enforced upon private investment by nationalization and armament trends, p.18-25. Specific investment controls in specific fields, and [illegible], p.183-212.

McLEOD, A.N. U.S. foreign investment in underdeveloped areas; symposium; reply with rejoinder. In American economic review (Evanston, Ill.) June 1951, 41:411-421.

LYNCH, T.J. Taxation and foreign investment. In Commercial and financial chronicle (New York) December 15, 1949, 170:2411-

MANAGED CURRENCIES check flow of international trade. In Saturday evening post (Philadelphia) October 1, 1949, 222:12.

MIKESELL, R.F. International disequilibrium and the postwar world. In American economic review (Evanston, Ill) June 1949, 39:618-645.

MILLER, JOHN T. Les gouvernements et les placements prives a l'etranger. Paris, Montchrestien, 1950. 212p. HG4538.M5

Restrictions, p.22-62.

NATIONAL ADVISORY COUNCIL on international monetary and financial problems. Foreign assets and liabilities of the United States and its balance of international transactions. A report to the Senate committee on finance. Washington, Govt.print.off., 1948. 177p. HJ8085.N3

Depleted foreign reserve problems, their effect on trade controls and United States policy, p.61-66. Default status of private United States loans to foreign countries, p.124-126.

NATIONAL INDUSTRIAL CONFERENCE BOARD. Obstacles to direct foreign investment, by J. Frank Gaston. New York, National industrial conference board, 1951. 382p. (Technical papers no.2) HG4538.N3
Prepared for President's committee for financingb Foreign Trade. Report compiled from the experience of 107 American companies on obstacles encountered in 1,097 foreign investments.

ORGANISATION FOR EUROPEAN economic co-operation. Report on international investment. Paris, 1950. 119p. HG438.05 Ref.
"Explansion of dollar private investment abroad", p.71-83. The book surveys the current situation, states improvement measures taken and those under consideration.

ORGANISATION FOR EUROPEAN economic co-operation. The steps that might be taken to facilitate capital movements between Member countries to enable better use to be made of material and financial resources and encourage a return to multilateral trade. London, 1951. 72pl

PATTERSON, GARDNER. Survey of United States international finance, 1949. Princeton, University press, 1950. 222p. HJ8085.P3
Contradictions in the climate for private investment abroad, p.67,76,82-87, 102, 200-201. Positive and negative effects of technical aid programs on private investment, p.200-203. Limitation of investment guaranties by Economic Cooperation Administration, p.77-85.

PATTERSON, GARDNER and Jack N. Behrman. Survey of United States international finance 1950. Princeton, Princeton university press, 1951. 310p. HJ8085.P3 1950
Refers to difficulties for American private investment abroad through export controls applying to Russian dominated countries and through stockpiling of strategic materials, casusing fear of inflation in foreign countries.

PERU: what U.S. investors face. <u>In</u> United States news and world report (Washington) March 4, 1949, 26:28.

PHILIPS, R.H. Latin America for natives only. <u>In</u> American mercury (New York) August 1947, 65:156-162.

POMERANZ, M. Legal considerations in inter-American trade and investment. <u>In</u> Foreign commerce weekly (Washington) April 10, 1950, 39:41-42.

PROTECTION OF FOREIGN INTERESTS IN GERMANY; text of report prepared by Inter-governmental group, with United States memorandum. <u>In</u> U.S. Dept. of State Bulletin (Washington) October 17, 1949, 21:573-584.

PUBLIC NOTICES affecting U.S. property owners in Germany; land central banks, Law no.66 and Law no.60, revised. <u>In</u> U.S. Dept. of State bulletin (Washington) August 21-28, 1950, 23:314-317, 350-353.

RELAXATION OF FOREIGN INVESTMENT policy in Germany. In U.S. Dept. of State Bulletin (Washington) March 12, 1951, 24:412-413.

REEVES, W.H. and P.D. Dickens. Private foreign investments, a means of world economic development. In Political science quarterly (New York) June 1949, 64:211-244.

SALTER, ARTHUR. Foreign investment. Princeton, University, Dept. of economics and social institutions, 1951. 56p. (Essays in international finance, no.12) HG136.P7 no.12

SAMMONS, ROBERT L. and Milton Abelson. American direct investments in foreign countries, 1940. Washington, Govt.print.off., 1942. 43p. (Bureau of foreign and domestic commerce. Economic series no.20) HF105.A6 no.20

SCHRAM, E. Obstacles to American capital. In Commercial and financial chronicle (New York) September 29, 1949, 170:1249-

STALEY, EUGENE. Foreign investment and war. Chicago, University of Chicago press, 1935. 23p. (Public policy pamphlet no.18) HG4538.S68
Private investment abroad is obstructed by its growing potency in international contact as exemplified by Ethiopia.

STALEY, EUGENE. War and the private investor; a study in the relations of international politics and international private investment. Foreword by Quincy Wright, introduction by Sir Arthur Salter. Garden City, Doubleday, Doran, 1935. 562p. HG4538.S7

TWENTIETH CENTURY FUND. Committee on foreign economic relations. Rebuilding the world economy: America's role in foreign trade and investment, by Norman S. Buchanan and Friedrich A. Lutz. New York, 1947. 434p. HF1411.T85
"Earmarked gold" of United States as a liability to foreign investment p.110-111. Dissimilar attitudes toward employment as a phase of foreign investment, p.154. Continuing surpluses of commerce, p.211. Lessons from experience and lack of coordinated restrictions impeding investment, p.231-248.

UNITED NATIONS. Non-self governing territories; summaries and analyses of information transmitted to the Secretary-General during 1950. New York, 1951. 3v. (ST/TRI/Ser.A/5 and Add.1-2) JX4021.U6 1950
"Labor", 1:99-123, seasonal fluctuation, provision for emergency corps and other factors. Sub-standard conditons as background of foreign investment, 2:388-389. Training of personnel: general, teacher, indigenous medical, agricultural technicians, labor and trade union officers and social workers, 3:155-334.

UNITED NATIONS. Dept. of economic affairs. Economic survey of Europe, 1949-1950. Geneva, 1950-1951. 2v. (1950.II.E.1, 1951.II.E.1)
HC240.U5252

Uncomparable definitions, and statistics for investment in fixed capital, 1949:38. Disrupted price structure, 1950:8-10; shortage of basic materials, 1950:57-84; and problems of inflation, 1950:131-164, as deterrents of foreign investment.

UNITED NATIONS. Dept. of economic affairs. The effects of taxation on foreign trade and investment. Lake Success, 1950. 87p. (ST/ECA/1)
HJ2341.U6

Questionable devices to stimulate foreign investment include blanket tax incentives.

UNITED NATIONS. Dept. of economic affairs. Measures for the economic development of underdeveloped countries. Report by a group of experts appointed by the Secretary-General of the United Nations. New York, United Nations, 1951. 108p. (1951.II.B.2)

Chapter 11. External capital. See expecially the section on private investment for an enumeration of obstacles to direct investment.

UNITED NATIONS. Dept. of economic affairs. World economic report 1949/50. New York, 1951. 247p. (E/1910/Rev.1 5-/ECA 9, 1951.II.C.1)
HC57.U4 1949/50 Ref.

Exchange restrictions, including U.S., p.140. Liquidation of private investments, p.104. Restrictions on transfer of income, p.118.

UNITED NATIONS. Economic and social council. Economic and legal status of foreign investment in selected countries of Latin America. Foreign investments in Brazil. Lake Success, 1950. 45p. (E/CN.12/166/Add.2, 24 April 1950)
HG4538.U42B5

UNITED NATIONS. Economic commission for Asia and the Far East. Committee on industry and trade. Foreign investment laws and regulation in the ECAFE region. Lake Success, 1950. 149p. (1951.II.F.1) HG4538.U53

Arranged by country with a final section on taxation, tax concessions, discrimination against foreign enterprises and relief from double taxation.

UNITED NATIONS. Economic commission for Europe. Legal aspects of hydro-electric development of rivers and lakes of common interest. Geneva, March 1950. 325p. (E/ECE/EP/98) 621.31 B93218

UNITED NATIONS. Economic commission for Asia and the Far East. Economic survey of Asia and the Far East 1950. New York, United Nations, 1951. 541p. (1951.II.F.4)
HC411.A3U5 1950

Includes discussions on import controls, tariff policies, control over investment, nationalization, exchange and trade controls.

UNITED NATIONS. Economic commission for Latin America. Economic and legal status of foreign investments in selected countries of Latin America. Foreign investments in Argentina. Lake Success, 1950. 37p. (E/CN.12/166/Add.1) HG4538.U42A6

Yield on profit from foreign equity investment are low for Latin America as a whole, p.23. British liquidation, controls instituted and provision for government intervention are considered.

----- Foreign investments in Bolivia. Lake Success, 1951. 28p. (E/CN.12/166/Add.10) HG4538.U42B4

----- Foreign investments in Chile. Lake Success, 1950. 33p. (E/CN.12/166/Add.3, 12 April 1950) HG4538.U42C5

----- Foreign investments in Mexico. Lake Success, 1950. 47p. (E/CN.12/166/Add.8, 14 April 1950) HG4538.U42M4

----- Foreign investments in Uruguay. Montevideo, 1950. 25p. JX1977 E/CN.12/166/Add.6

----- Policies affecting foreign investments in Colombia. Lake Success, 1950. 15p. (E/CN.12/166/Add.4, 21 April 1950) HG4538.U42C6

----- Policies affecting foreign investments in Guatemala. Lake Success, 1950. 15p. (E/CN.12/166/Add.7) JX1977 E/CN.12/166/Add.7

Disproportional participation by national investors obstructs the private foreign investor.

----- Policies affecting foreign investments in Venezuela. Lake Success, 1950. 11p. (E/CN.12/166/Add.9) HG4538.U42V4

Restrictions on the nature, distribution field, entry and exchange of foreign investments.

UNITED NATIONS. Secretariat. Survey of policies affecting private investment. Lake Success, 1950. 103p. (E/1614) HG4538.U52

UNITED NATIONS. Secretariat. Dept. of economic affairs. International capital movements during the inter-war period. Lake Success, 1949. 70p. (Sales no. 1949. II.D.2) HG4538.U51

U.S. COMMERCE DEPT. Office of international trade. World trade developments in 1948 in selected countries; a series of seventeen articles on postwar trade of the United States and other leading trading countries of the world. Washington, Govt.print.off., 1949. 141p. HC59.U6 1948 Ref.

Includes factors of negative fluctuation.

U.S. CONGRESS. HOUSE. Committee on banking and currency. Export-import bank loan guaranty authority. Hearings 81st Congress, 1st session on H.R. 5594: a bill to amend the Export-import bank of 1945, as amended, to vest the power to guarantee United States investments abroad. Washington, Govt.print.off., 1949. 160p. HG2613.W34E8 1949a

Exploitation, exchange and non-intervention of U.S. government in domestic affairs of another country even for business, p.49-57. Guaranty risks: private, local and international controls, p.60-82, 84-142, 148.

U.S. CONGRESS. HOUSE. Committee on banking and currency. Guaranties of United States private capital investment abroad. Report to accompany H.R. 8083, 81st Congress, 1st session. April 27, 1950. Washington, Govt.print.off., 1950. 5p. (81st Congress, 1st sessions. House. Report 1960)

U.S. CONGRESS. Joint committee on the economic report. Volume and stability of private investment. Hearings, 81st Congress, 1st session, pt.1. Washington, Govt.print.off., 1949. 114p. HC4910.06

Investment risk, local or foreign, reflected in plan for stimulating investment.

U.S. CONGRESS. SENATE. Committee on banking and currency. Foreign investment guaranties. Hearings, 81st Congress, 1st session on S. 2197, a bill to amend the Export-import bank act of 1945. Washington, Govt.print.off., 1949. 116p. HG2613.W34E8 1949

"Private enterprise and American foreign policy" implementation of Point IV by Norman Littell before legal and other associations, p.99-111. Four obstacles, p.3. What the Department of State can do, including statements of the President, p.4-6, 17, 19-20,29,36,41,43,79.

U.S. CONGRESS. SENATE. Speical committee investigating petroleum resources. American petroleum interests in foreign countries. Hearings, 79th Congress, 1st session, pursuant to S. Res. 36 (extending S. Res. 253, 78th Congress) providing for an investigation in relation to the national welfare. Washington, Govt.print.off., 1946. 462p. HD9560.5.U6 1945

"Risks to foreign investments:" economic, political, nationalization, exporpriation, retroactive legislation, refining and marketing, duties and exchange, substitutes fuels and war, p.244-254. Extent and relative position, p.157-203. Economically sound and unsound foreign refineries, p.204. Transportation, p.208-212. Marketing, p.212-225¢

VISA AND TAXATION REQUIREMENTS for representatives of United States firms in Iraq. In Foreign commerce weekly (Washington) April 25, 1949, 35:23.

WHAT HOPE FOR REMOVAL of import restrictions can international cooperation offer? The views of Delegates at the GATT meeting in Geneva seemed more skeptical than optimistic. In Export trade and shipper (New York, New York) January 7, 1952, v.64, no.24, p.5-6.

Elimination of trade barriers imperative for world wide economic stabilization.

WILL U.S. INVESTORS get paid? Industrial properties that have been nationalized. In Business week (New York) July 3, 1948, p.76-78.

YATES, P. LAMARTINE. Commodity control; a study of primary products. London, Cape, 1943. 248p. HF1041.L3

Eighty commodities reviewed and reduced to lessons on inelastic supply, over-production and commodity policy reccommendations. Remedies proposed in terms of rubber stocks, quota schemes, middle-of-the road interference, advisory council, working standards and power economics.

WOOLSEY, LESTER H. The expropriation of oil properties by Mexico. In American journal of international law (Washington) 1938, 2:519-526. JX1.A6 v.32

Augmented demands upon private investors: 1917, 1925, 1936; with documentary citations.

McGHEE, G.C. Economic outlook in India and Pakistan. In State department bulletin (Washington) October 30, 1950, 23:698-701. U450

Weighs positive and negative factors of resources and policy. Stresses lack of foreign investment and program of technical aid.

INVESTMENT

Mr Rist

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25 D. C.

TEL. BABYLONE 17-10
CABLE ADDRESS INTBAFRAD PARIS

PLEASE REPLY TO

PARIS OFFICE ADDRESS
67, RUE DE LILLE
PARIS (7E), FRANCE

P.1222

November 15, 1951

Mr. Robert L. Garner, Vice President
International Bank for Reconstruction
and Development
Washington 25, D.C.

Dear Mr. Garner:

Mr. Truptil, a young and enterprising French banker and an acquaintance of long-standing who has done much in organising the financing of the reconstruction of the French merchant navy, is leaving for the United States today in search of private American capital. Mr. Guindey, whom I asked him to consult, made it clear that he would not sponsor a loan from the Bank. However, I suggested to Mr. Truptil that I was sure that you would be glad to give him useful advice in his search for private funds, but that this might be rather difficult in present circumstances. I should be grateful, therefore, if you could spare Mr. Truptil a few minutes. I believe Mr. Rist knows him too.

I have asked Mr. Truptil to set out his object in a brief note. A translation of this and of his letter to me are enclosed, as well as other explanatory papers.

R.F. 12/11/51 W.C.

Best wishes.

Yours sincerely,

Walter

Walter Hill
Special Representative in Europe

Enclosures: 6

1951 NOV 19 AM 9 16

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25 D. C.

PLEASE REPLY TO
PARIS OFFICE ADDRESS
67, RUE DE LILLE
PARIS (7e), FRANCE

TEL. BABYLONE 17-40
CABLE ADDRESS INTBAFRAD PARIS

P.1222 November 15, 1951

Mr. Robert L. Garner, Vice President
International Bank for Reconstruction
and Development
Washington 25, D.C.

Dear Mr. Garner:

Mr. Truptil, a young and enterprising French banker and an acquaintance of long-standing who has done much in organising the financing of the reconstruction of the French merchant navy, is leaving for the United States today in search of private American capital. Mr. Guindey, whom I asked him to consult, made it clear that he would not sponsor a loan from the Bank. However, I suggested to Mr. Truptil that I was sure that you would be glad to give him useful advice in his search for private funds, but that this might be rather difficult in present circumstances. I should be grateful, therefore, if you could spare Mr. Truptil a few minutes. I believe Mr. Rist knows him too.

I have asked Mr. Truptil to set out his object in a brief note. A translation of this and of his letter to me are enclosed, as well as other explanatory papers.

Best wishes.

Yours sincerely,

Walter

Walter Hill
Special Representative in Europe

Enclosures: 6

NOV 19 9 19 AM 1951

RECEIVED
INTERNATIONAL BANK FOR
RECONST. AND DEVEL.

COPIE

GROUPEMENT
DE LA
CONSTRUCTION NAVALE

Le Président

31 rue Danielle Casanova, 1er

Paris, le 7 novembre 1951

Mon cher ami,

Comme suite à notre récent entretien, je vous envoie ci-joint une note succincte sur l'opération dont je voudrais jeter les bases lors de mon prochain voyage aux Etats Unis.

Je vous rappelle que je pars le jeudi 15 sur le LIBERTY et que je séjournerai aux Etats Unis du 21 Novembre au 6 Décembre.

J'ai vu ce matin seulement Monsieur GUINDEY qui est tout à fait favorable à mon projet à condition que je ne négocie qu'avec des groupes privés. Il ne serait pas favorable à ce que l'opération à l'étude soit traitée avec votre Banque, mais il me recommande lui aussi de voir ses dirigeants dont les conseils me seront certainement très précieux.

En vous remerciant encore de votre aimable accueil, je vous prie de croire, Mon cher ami, à mes sentiments les meilleurs.

(signé) R. Truptil

M. Walter HILL

Rough trans tion
by R.F. Skillings

GROUPEMENT
DE LA
CONSTRUCTION NAVALE

31 rue Danielle Casanova, 1er

President's Office

Paris, November 7, 1951

My dear Hill:

Following our recent conversation, I am enclosing a short note on the operation for which I would like to establish a basis during my coming trip to the United States.

You will remember that I am leaving on Thursday, November 15, on the "Liberté" and that I will be in the United States from November 21 to December 6.

I was able to see Mr. Guindey only this morning. He is entirely in favour of my project on condition that I only deal with private groups. He would not agree to the operation being concluded with your Bank, but he recommends that I talk to the Management of the Bank who will certainly be able to give me some good advice.

Thanking you again for your kindness, I remain, my dear Hill,

Yours sincerely,

(signed) R. Truptil

M. Walter HILL

January 30, 1952

Mr. George F. Lawrence
Office of the Assistant
  Administrator for Supply
Mutual Security Agency
Room 1103
806 Connecticut Avenue
Washington, D. C.

Dear Mr. Lawrence:

With reference to the letter which Mr. Harriman addressed to Mr. Black on January 25, we are pleased to be represented as an observer on the advisory committee which is to study how to eliminate the barriers to, and provide the incentives for, an increased participation of free enterprise abroad.

We would like to have Mr. Orvis Schmidt of the Bank's Loan Department to be our representative, with Mr. Irving Reynolds of the Legal Department as an alternate and believe it advisable to have both of these attend the first meeting on February 4 at 2:30 p.m.

Sincerely yours,

R. L. Garner

RLGarner:mcr

cc: Messrs. Schmidt and Reynolds

FORM NO. 57
(5-48)

INTERNATION BANK FOR RECONSTRUCTION ANI EVELOPMENT

OFFICE MEMORANDUM

TO: Files

DATE: February 4, 1952

FROM: Orvis A. Schmidt

SUBJECT: Meeting of U.S. Government Inter-Departmental Advisory Committee on Encouragement of Private Enterprise Abroad

1. Reference is made to Mr. Harriman's letter of January 25, 1952, to Mr. Black requesting the IBRD to send an observer to attend the first meeting of the Advisory Committee on Encouragement of Private Enterprise Abroad and to Mr. Garner's letter of January 30 designating Mr. Irving Reynolds and me as IBRD representatives. This afternoon Mr. Reynolds and I attended the first meeting which was held at 2:30 p.m. in the Old State Department Building.

2. In brief, the Committee decided to do two things:

(a) to obtain from each US Government agency a statement of what it has been doing to encourage the growth of private enterprise in foreign countries;

(b) to establish a number of sub-committees to study special fields to see whether such an approach would be a fruitful approach to the problem. Six such committees were set up, chairmaned by the agencies designated in parenthesis:

(i)	Industry	-	(Commerce)
(ii)	Agriculture	-	(Agriculture)
(iii)	Banks	-	(Eximbank)
(iv)	Procurement	-	(Army)
(v)	Taxation	-	(Treasury)
(vi)	Investment Treaties	-	(State)

3. In the course of the discussion I was asked to indicate what the IBRD approach to the problem had been. In a brief oral statement I indicated that:

(a) projects financed by us tended to stimulate and provide a basis for the development of private enterprise;

(b) we encouraged member governments to follow policies and practices conducive to the growth of private enterprise;

(c) we had established two development banks and the Mexican Consortium to stimulate and assist in financing private enterprise;

(d) we were assisting governments in the development of local capital markets; and

(e) we were preparing the study of an International Finance Corporation.

4. The Chairman requested that the material referred to in para. 2(a) and the studies of the sub-committees be available within two weeks so that the Committee could meet again some time shortly thereafter. MSA has to go before Congress early in March and hopes that the Committee will provide some material which could serve as the basis for reporting to Congress on this subject.

cc: Messrs. Demuth
Reynolds

OAS:jml

INVESTMENT

FILE COPY

Mr. O. A. Schmidt March 14, 1952.

W. A. B. Iliff

Mr. Jacques Oudiette
Directeur, de la Banque Nationale
pour le Commerce et l'Industrie

I had a call yesterday from M. Jacques Oudiette (introduced to me by M. Hoppenot), whose card is attached.

M. Oudiette will be over in this hemisphere for a few weeks and will be visiting Mexico, Colombia and Venezuela. He is especially interested in Colombia and he talked to me about the possibility that French banks (including his own) might find some opportunities for joint participation with the International Bank in operations in that country.

I told M. Oudiette that we were always willing to look at any proposals for association with private finance. It was difficult for me, however, to make any pronouncement in the abstract. I therefore suggested to him that, if, after his visit to Colombia, he had anything concrete to put before us, we would be glad to hear from him.

He will look in and see me on his way back to Europe.

W.A.B. Iliff

WABIliff/mo.
cc: Mr. Hoar

X Oudiette, Jacques

Investment

FORM No. 59
(1-50)

CROSS REFERENCE SHEET

COMMUNICATION: Memorandum

DATED: March 27, 1952

TO: Mr. D. Sommers

FROM: W. Koster

SUMMARY: Article in Dutch Financial Press concerning investment problems in under-developed countries.

FILED UNDER: Netherlands - General

CROSS REFERENCE: Investment

Investment

NEW YORK STOCK EXCHANGE

ELEVEN WALL STREET

NEW YORK 5, N.Y.

G. KEITH FUNSTON
PRESIDENT

April 21, 1952.

Dear Mr. Garner:

I was delighted to hear from John Haskell that the International Bank would make an informal survey to ascertain which government departments, agencies, special commissions, advisory committees and quasi-official organizations in Washington are particularly interested in the problem of facilitating American private investment overseas.

There appears to be a good deal of discussion and study going on in governmental circles on this subject. The New York Stock Exchange is very much interested in keeping abreast of developments and believes that the facilities of this market could be an important factor in this field. For example, listings of more foreign companies should be helpful to equity capital financing of such concerns in this country.

While, as you know, the comparatively little flow of private American capital abroad which has occurred in recent years has been mainly in the form of direct investments by American companies in overseas properties and subsidiaries, in recent months we have noticed the beginning of a wider interest on the part of individual investors in foreign stock issues. Canada, of course, has been the area of special attention lately, but some interest appears to be developing in Japan and other capital-poor countries.

I know that you and your associates are hopeful that the World Bank may serve more and more as a bridge between governmental and quasi-governmental investment overseas and the development of a flow of private capital abroad. The experience of our member firms and the studies made in recent years by our staff, can, I believe, contribute constructive information, particularly in connection with the numerous technical problems which handicap the free flow of investment capital on an international basis, toward improving the present situation.

Thank you very much for your willingness to help us in this matter.

Sincerely yours,

G. Keith Funston

Mr. Robert L. Garner, Vice President
International Bank for Reconstruction
and Development
1818 H Street, N. W.
Washington, D. C.

ack. April 23/52

RECEIVED
INTERNATIONAL BANK FOR
RECONST. AND DEVEL.
APR 22 1 31 PM 1952

Investment

FILE COPY

April 23, 1952

Dear Mr. Funston:

I have received your letter of April 21. We did some checking around after talking to John Haskell and I will give you our frank reaction.

We doubt that any of the government agencies are likely to take an active and definitive interest in a way that would be of practical help. Most people will pay lip service to the idea of facilitating American private investment overseas, but there have been few practical steps taken to accomplish anything. Therefore, we think that any organized effort which depends on getting positive assistance from government agencies would be disappointing. It would be our suggestion that the Stock Exchange take the initiative of working along the lines that John Haskell suggested without wasting much time in trying to get direct government participation.

Not to be entirely negative, we think that it would be worthwhile having a talk with Richard Johnson of the Mutual Security Agency here in Washington. His office is at 17th and Pennsylvania Avenue, N. W. He is probably as much interested as anyone. Naturally, if he was willing to take off his coat and help, all to the good, but in any event you can keep him informed of what you are doing.

We in the Bank will be glad to discuss the matter further with your people and to give any assistance we can, provided you will carry the ball.

We are vitally interested in the promotion of the flow of private capital and specifically are studying a proposal made by Nelson Rockefeller for the formation of an International Finance Corporation. This is a little different angle but directed to the same end. We expect to have a report available in the near future and I would be glad to send you a copy.

Best wishes.

Sincerely,

RLG

R. L. Garner

Mr. G. Keith Funston
President
New York Stock Exchange
11 Wall Street
New York 5, New York

RLGarner:mcr

X27C

Investment

FORM NO. 59
(3-49)

CROSS REFERENCE SHEET

COMMUNICATION: Letter

DATED: April 22, 1952

TO: Mr. Black

FROM: Dr. Josue Saenz

SUMMARY: H ave decided for time being not to proceed with our plans for the sale of Mexican National Savings Bonds in the U.S. Wanted to discuss subject with you.

FILED UNDER: Mexico - General

CROSS REFERENCE: Investment

Investment

NEW YORK STOCK EXCHANGE

ELEVEN WALL STREET

NEW YORK 5, N.Y.

JOHN HASKELL
VICE PRESIDENT

April 30, 1952

Mr. R. L. Garner, Vice President
International Bank for Reconstruction
and Development
Washington 25, D. C.

Dear Bob:

Many thanks for your note of April 23rd to Mr. Funston, which I am acknowledging in his absence on the West Coast. He will see your letter on his return, and I know that he will be gratified for your help in exploring the Washington interest in encouraging private overseas investment.

Your report of the apathy and the absence of any coordinated study of this problem in governmental circles is disappointing but about what we anticipated.

The Exchange can certainly make some contribution towards a solution of the problem by identifying some of the technical, practical difficulties blocking progress in this direction. However, it is difficult to see how much can be accomplished without the active interest and support of government because so many of the deterrents to free international capital movements cannot be removed except by government action.

Thank you again for your help. We will surely keep in touch with you on this matter.

Sincerely yours,

John

NEW YORK STOCK EXCHANGE

ELEVEN WALL STREET

NEW YORK 5, N. Y.

JOHN HASKELL
VICE PRESIDENT

April 30, 1952

Mr. R. L. Garner, Vice President
International Bank for Reconstruction
and Development
Washington 25, D. C.

Dear Bob:

Many thanks for your note of April 23rd to Mr. Funston, which I am acknowledging in his absence on the West Coast. He will see your letter on his return, and I know that he will be gratified for your help in exploring the Washington interest in encouraging private overseas investment.

Your report of the apathy and the absence of any coordinated study of this problem in governmental circles is disappointing but about what we anticipated.

The Exchange can certainly make some contribution towards a solution of the problem by identifying some of the technical, practical difficulties blocking progress in this direction. However, it is difficult to see how much can be accomplished without the active interest and support of government because so many of the deterrents to free international capital movements cannot be removed except by government action.

Thank you again for your help. We will surely keep in touch with you on this matter.

Sincerely yours,

RECEIVED
INTERNATIONAL BANK FOR
RECONST. AND DEVEL.

Investment

FORM NO. 59
(3-49)

CROSS REFERENCE SHEET

COMMUNICATION: Letter

DATED: May 19, 1952

TO: Dr. Josue Saenz

FROM: E ugene R. Black

SUMMARY: Acknowledging April 22nd. letter. Glad to know success of the savings bond program in Mexico justified my hopes. Relieved to hear that plan for s elling Mexican savings bonds in the U.S. is to be shelved for the present.

FILED UNDER: Mexico - General

CROSS REFERENCE: Investment

Messrs. Garner, Hoar, Crena de Iongh, Sommers, Rist and Howell

July 2, 1952

Hector Prud'homme

"Special Assistant for Private Investments"

Attached is a copy of a letter, dated June 30, 1952, from Mr. Curtis of the State Department. I think you will be interested to know of the intention of the Point IV people to study the possibility of American private investment abroad.

Further, I should appreciate it if any names occur to you which we could pass on to the State Department as candidates for the job as Special Assistant for Private Investments.

Att.

DEPARTMENT OF STATE
WASHINGTON

June 30, 1952

In reply refer to
DP:ES

My dear Mr. Prud'homme:

In accordance with our recent telephone conversation, I should like to tell you a little bit more about the position we discussed: "Special Assistant for Private Investments".

The Administrator of the Technical Assistance Program, Mr. Stanley Andrews has need, on his staff, for a person to be responsible for stimulating and encouraging the investment of United States capital in sound business ventures, to be established in the various Point Four countries. This man will analyze data concerning proposals to establish businesses of any kind: utilities, transportation, manufacturing and so on, in foreign countries, to determine whether or not they appear to be suitable for private investment. These analyses will involve consideration of the needs of the country, availability of raw materials, labor, local capital, markets and many other factors. While this may involve trips to the various countries involved, in general, his relations will be with major investment interests in the United States, working with data received from the field.

His function of interesting private investors will be on a large scale basis and will extend to such major operations as financing a railroad, establishing a large industry and other similar ventures. As a result of his relations with private investment groups, he will determine the kinds of industry in which there is the greatest interest and available skills and funds, and inform the various elements of Point Four concerning such availabilities.

The salary for this job is fixed at $10,800. We realize that a man who might be able to do this job for us is probably making a much higher salary at this time. However, if you have any suggestions of people whom we might contact in connection with this situation, I would appreciate it if you would let me know.

With kindest regards.

Sincerely yours,

/s/ Charles W. Curtis, Jr.
Chief
Executive Selection Staff

C
O
P
Y

Internatnl. Development Advisory Board

INTERNATIONAL DEVELOPMENT ADVISORY BOARD

WASHINGTON 25, D.C.

Mr DeMuth

July 7, 1952

Mr. Robert L. Garner
Vice President
International Bank for
Reconstruction and Development
Washington, D. C.

Dear Mr. Garner:

Thank you very much for your courteous attention the other day when I presented to you several problems with which the International Development Advisory Board is currently concerned. You were very helpful. I shall be looking forward to meeting with you again in connection with the development of the Board's idea for its San Francisco meeting, at which we hope to get someone like the Ambassador from Colombia to speak.

There is enclosed a copy of the Board's recent Policy Guide for Point 4. This is a very general one, which will be supplemented later by more specific guides with respect to each particular point taken up in the over-all guide.

You will notice on page 3 that we have quoted from your speech at the National Conference on International Economic and Social Development. We have had some excellent comments regarding your statement. Mr. Harry L. Bullis, Chairman of the Board of General Mills, recently wrote Mr. Eric Johnston, Chairman of our Board, thanking him for a copy of the Guide and saying that he was particularly impressed by the quotation from your speech.

Sincerely yours,

Frank C. Kimball
Frank C. Kimball
Executive Assistant to the Chairman

Enclosure

International Development Advisory Board

INTERNATIONAL DEVELOPMENT ADVISORY BOARD

WASHINGTON 25, D. C.

Mr DeWitt

July 7, 1952

Mr. Robert L. Garner
Vice President
International Bank for
Reconstruction and Development
Washington, D. C.

Dear Mr. Garner:

Thank you very much for your courteous attention the other day when I presented to you several problems with which the International Development Advisory Board is currently concerned. You were very helpful. I shall be looking forward to meeting with you again in connection with the development of the Board's idea for its San Francisco meeting, at which we hope to get someone like the Ambassador from Colombia to speak.

There is enclosed a copy of the Board's recent Policy Guide for Point 4. This is a very general one, which will be supplemented later by more specific guides with respect to each particular point taken up in the over-all guide.

You will notice on page 3 that we have quoted from your speech at the National Conference on International Economic and Social Development. We have had some excellent comments regarding your statement. Mr. Harry L. Bullis, Chairman of the Board of General Mills, recently wrote Mr. Eric Johnston, Chairman of our Board, thanking him for a copy of the Guide and saying that he was particularly impressed by the quotation from your speech.

Sincerely yours,

Frank C. Kimball

Frank C. Kimball
Executive Assistant to the Chairman

JUL 8 1 07 PM 1952

Enclosure

RECEIVED
INTERNATIONAL BANK FOR
RECONST. AND DEVEL.

GUIDELINES

FOR

POINT 4

RECOMMENDATIONS
OF THE

INTERNATIONAL DEVELOPMENT ADVISORY BOARD

WASHINGTON, D. C.
JUNE 5, 1952

INTERNATIONAL DEVELOPMENT ADVISORY BOARD

ERIC JOHNSTON, *Chairman*

Dr. Robert P. Daniel, President, Virginia State College.

Mr. Harvey S. Firestone Jr., Chairman and Chief Executive, Firestone Tire and Rubber Company.

Dr. John A. Hannah, President, Michigan State College.

Miss Margaret A. Hickey, Public Affairs Editor, *The Ladies' Home Journal.*

Mr. Lewis G. Hines, Special Representative, American Federation of Labor.

Miss Bertha Coblens Joseph, Industrial and Business Consultant.

Dr. Thomas Parran, Dean, Graduate School of Public Health, University of Pittsburgh.

Mr. Clarence H. Poe, Editor, *The Progressive Farmer.*

Mr. Jacob F. Potofsky, President, Amalgamated Clothing Workers of America.

Mr. John L. Savage, Civil Engineer, Chief Designing Engineer, Hoover and Grand Coulee Dams.

Mr. Charles L. Wheeler, Executive Vice President, Pope and Talbot.

Dr. William R. White, President, Baylor University.

INTERNATIONAL DEVELOPMENT ADVISORY BOARD

June 5, 1952

Dear Mr. President:

It has been two years today since you approved the Act for International Development, embracing the "bold new program" which you announced in your inaugural address in January, 1949, as the fourth point of our program for peace and freedom.

In these two years, this program has been organized and carried forward into thirty-four of the underdeveloped countries of the world.

It has become, in our opinion, a strong and effective instrument of the foreign policy of the United States.

Though still developing, it is safely and soundly on its way. Behind it is a record of real achievement. Before it is an almost unlimited opportunity to bring new hope to millions and to strengthen immeasurably the defenses and resources of the free world.

The Board has therefore felt this to be an opportune time to take a bearing, as it were, and to offer the attached recommendations as a guide to further progress toward the objectives of Point 4.

Respectfully yours,
Eric Johnston, Chairman

The President
The White House
Washington, D. C.

FOREWORD

The International Development Advisory Board was established by the President in September, 1950, to advise and consult on general and basic policy matters arising in connection with the Point 4 program authorized by Congress in the Act for International Development.

These recommendations of the Board relate specifically and exclusively to the bilateral technical cooperation programs authorized under the Act and administered by the Technical Cooperation Administration of the Department of State.

They do not relate to the programs of military aid and economic assistance now being prosecuted by other agencies of the Government to implement the foreign policy of the United States. These programs—together with Point 4—form a total pattern of action to extend American economic support and assistance to the other nations of the free world.

The Board is here concerned only with that part of the total pattern authorized by the Congress in the Act for International Development—the technical cooperation program now identified most directly with the idea projected by the President as Point 4 of his inaugural statement of foreign policy.

These recommendations are intended to clarify and identify the nature and scope of the Point 4 program, as the Board sees it, and to offer helpful guidelines along which it hopes the program may progress even more swiftly to real accomplishment.

NATIONAL POLICY

The Act for International Development says—

That we have an interest in the freedom and in the economic and social progress of all peoples . . .

that such progress can further the secure growth of democratic ways of life, the expansion of mutually beneficial commerce, the development of international understanding and good will, and the maintenance of world peace . . .

that it is the policy of the United States to advance these broad objectives of world well-being by helping the people of underdeveloped areas to develop their resources and improve their working and living conditions . . .

that the United States will implement this policy by encouraging the exchange of technical knowledge and skills and the flow of investment capital to underdeveloped countries . . .

that these countries must provide conditions under which our assistance and capital will be effective in raising standards of living, creating new sources of wealth, increasing productivity, and expanding purchasing power . . .

OBJECTIVES

Point 4 objectives might therefore be stated in this way—

to help the people of underdeveloped countries realize the economic progress and political freedom which is the common aspiration of the common man wherever he may be . . .

to demonstrate that the democratic way is the surest way to realize this hope . . . and to make the aspiration for a better life the parent of adjustment rather than the nursery of communism . . .

to develop new sources of wealth and higher levels of productivity in order to strengthen not only the underdeveloped countries but the entire community of nations of the free world . . .

TIME FACTOR

The Act for International Development clearly contemplates a long-range program.

Point 4 is developmental. It is an instrument of orderly change, an attack upon the status quo.

The Board believes that any serious departure from this concept will tend to diminish the acceptance and effectiveness of the program.

It believes that Point 4 cannot and should not encompass operations calculated to produce quick results through large and dramatic projects.

At the same time, the Board recognizes that it may be necessary or advisable, in certain circumstances, to accelerate or expand operations in one country or another. This should be done, however, without resort to measures at variance with the fundamental character of Point 4.

The Board believes the Point 4 program, so far as the time factor is concerned, should be thought of this way:

"Development is a state of mind. People have to develop themselves before they can change their physical environment and this is a slow process. . . . It involves changes in relations between classes and races. It requires the improvement of governmental organization and operation; the extension of social institutions, schools, courts, and health services. These things take much longer than the building of factories and railroads and dams. . . . Habits of thought and of conduct are the most stubborn obstacles to development . . ." *

---

* Robert L. Garner, Vice President, International Bank for Reconstruction and Development.

RELATION TO OTHER FOREIGN AID

The Act for International Development contains no indication that the Point 4 program is to be related directly or indirectly to military defense activity abroad.

Other agencies functioning under the Mutual Security Act are concerned with programs of direct military aid and economic assistance.

The Board believes there is a fundamental distinction between the philosophy underlying Point 4 and the philosophy underlying programs of military assistance.

It believes these philosophies and the programs deriving from them should be kept separate and apart. It believes that Point 4 operations are fully justifiable without reference to military or military-support objectives.

The Board feels that the creation of sound economic defenses against political aggression is as necessary as the creation of military defenses against armed aggression.

LINES OF ACTION

The Act for International Development contemplates two lines of action to implement Point 4 . . .

> . . . on the one hand, a program of technical cooperation calculated to help the peoples of the underdeveloped countries acquire the knowledge and skill they need to develop their own economic resources and productive capacity.
>
> . . . on the other hand, an effort to encourage private capital, both domestic and foreign, to invest in enterprises conducive to the economic development and stability of these countries.

The Board believes that Point 4 is neither one nor the other of these but both. They should be pursued with equal vigor. They should be integral parts of a balanced and coordinated developmental plan.

This is not to disregard the question of emphasis. First things come first.. . . and in most of the less-developed countries, the first thing, obviously, is to attack the fundamental problems of hunger, disease, and illiteracy.

The Board believes, therefore, that technical cooperation directed toward an alleviation of these elementary problems should normally have priority in terms of time.

The Board believes, however, that the attack upon these problems should include efforts to improve existing industrial facilities and encourage new industrial development through private capital investment.

It believes that sound industrial development can contribute to the social and economic well-being of the people of a country no less than direct technical assistance. It believes that the development of industrial and commercial potentials may often be the means of financing greater economic and social advancement.

GRANTS IN AID

The Act for International Development authorizes the President . . .

> "to make . . . advances and grants in aid of technical cooperation programs to any person, corporation, or other body of persons, or to any foreign government or foreign government agency . . ."

The Board notes that advances and grants are to be made "in aid of technical cooperation programs." It believes that grants and advances under the Act should, therefore, be incidental to the main purpose of helping people to help themselves.

The Board believes that grants, whether of money, material, supplies or equipment, should be employed only as the means to an end. They should not be permitted to become the end itself.

At the same time, the Board clearly recognizes the importance of providing tools to make the work of technicians effective. Whether these tools are in the form of machines for an industrial project, improved seeds for an agricultural project, of vaccines or stethescopes for a public health project, of books and blackboards for an educational project—their form is beside the point, so long as the purpose of helping to impart knowledge and stimulate self-help is clear.

The Board believes the grant-in-aid authority was intended to be used for one purpose only—to provide the wherewithal of an effective technical cooperation program. It believes it neither feasible nor wise to attempt to limit grants in aid by establishing a fixed ratio between expenditures for supplies and equipment and expenditures for technicians and training. This is an equation that will differ greatly from country-to-country and project-to-project, as the circumstances in each case differ.

The Board believes the grant-in-aid authority should be used only to provide material, equipment, or supplies which cannot be furnished by the cooperating government itself.

FAIR SHARE

The Act for International Development provides that "assistance shall be made available only where the President determines that the country being assisted pays a fair share of the cost of the program."

The Board fully subscribes to the "fair share" concept as a matter of principle.

It believes the Point 4 program will be effective in proportion to the stake the cooperating countries have in its success.

The Board believes insistence on the "fair share" principle is the surest way to avoid the implications of a "give-away" program and put Point 4 objectives on a sound cooperative basis.

The Board believes, however, that the "fair share" of a cooperating country should not be computed solely in terms of direct allocations by the host government for specific projects.

Instead, the Board believes the "fair share" of the cooperating country should include cash, supplies, equipment, facilities and services, which the Government, municipalities, or the people concerned may contribute directly and expressly to the prosecution of a specific project.

The Board believes that the "fair share" so calculated, should, at a minimum over any reasonable period, be in the ratio of at least one to one. It believes, moreover, that the "fair share" of the cooperating country should increase gradually as the program develops and economic well-being increases until, ultimately, the country assumes full responsibility.

INDUSTRIAL DEVELOPMENT

The Act for International Development authorizes technical assistance programs—

> ". . . to assist other interested governments in the formulation of programs for the balanced and integrated development of the economic resources and productive capacities of economically underdeveloped areas."

The Board believes that the "balanced and integrated development of economic resources and productive capacities" calls, in many cases, for the improvement of public works and local industrial facilities and, where circumstances warrant, the development of new industrial and commercial enterprises.

The Board feels that emphasis on improvement in agricultural techniques, public health standards, and education should not be permitted unduly to delay the extension of technical assistance for industrial development. It believes, on the contrary, that in some instances improvements in agriculture, education, health and other community services, will demand increasing emphasis on the development of local industries and commerce.

The Board believes, therefore, that the assistance of technicians and experts in industrial development and management should be made available as an integral element of the technical assistance program.

The Board is opposed in principle to the use of Point 4 funds for direct grants of capital for private industrial and commercial development.

PRIVATE CAPITAL

The Act for International Development puts equal reliance upon technical cooperation and private capital investment to do the Point 4 job.

The Board believes that technical cooperation alone, on any conceivable scale, will be inadequate to give the underdeveloped countries the degree of economic strength and stability that represents the Point 4 objective.

The Board believes that economic development, in the full sense of the term, requires an investment of capital resources far in excess of any amount now or likely in the future to be available from public funds.

The Board believes that positive efforts to open the way for economic and social development through the investment of private capital, local and foreign, are urgently necessary and indeed indispensable to the ultimate success of the Point 4 program.

It believes that steps to this end should be taken without delay, through incentive legislation, negotiation of commercial treaties, and exploration of investment potentials in the underdeveloped countries.

The Board believes that foreign capital should be encouraged to invest in the underdeveloped countries in partnership with local capital and in a spirit of cooperation rather than of exploitation. It believes that foreign capital in these countries should be creative as well as profitable; contributing to economic growth and better lives for the people of the country, recognizing their national pride and national interests. It should make friends, not lose them.

The Board believes the initiative in developing a rounded program to encourage private investment under the Act for International Development should come from the agency designated by the President to administer that Act. It believes this initiative should be expressed, however, in terms of enlisting the active participation of other agencies in matters properly coming within their special fields of competence, such as the negotiation of commercial treaties.

PARTICIPATION OF PRIVATE AGENCIES

The Act for International Development stipulates that "the participation of private agencies and persons shall be sought to the greatest extent practicable" in carrying out the Point 4 program.

The Board believes this provision opens the way for a considerable expansion of Point 4 activities abroad through the facilities of private organizations, communities, universities, philanthropic institutions, and similar voluntary agencies.

It believes that the efforts of these private institutions can often be more effective than governmental operations and that they should be employed to supplement and strengthen the Point 4 program in each of the underdeveloped areas.

The Board notes that the assistance of voluntary agencies, in the language of the Act, should be "sought" and not merely accepted if proffered.

This implies the necessity of positive steps to enlist their cooperation and the need of coordination and direction to avoid diffuse and ill-advised undertakings.

The Board believes that TCA, as the agency responsible for administering the Act for International Development, should be prepared to supply these essential elements of coordination and direction.

Investment

THE OHIO STATE UNIVERSITY

HOWARD L. BEVIS, *President*

COLUMBUS 10

DEPARTMENT OF ECONOMICS

August 6, 1952

Dr. Rosenstein-Roden, Economist,
The International Bank for
Reconstruction and Development,
1818 H Street, N. W.
Washington 25, D.C.

Dear Sir:

You may recall an interview I had with you at your office on behalf of a research project entitled "U.S. Private Long Term Foreign Investment and Point Four" sponsored by this university. Our conversation was directed primarily to the investment instrumentation of the "Point Four Technical Assistance" program. I was extremely gratified by your graciousness in giving me so much of your time.

I am writing now to inquire if it would be possible for me to visit you at your office briefly to discuss recent developments in Point Four, the changing investment outlook, and particularly "The Bank's" new "Finance Corporation". I am planning on being in Washington from the 18th of August until September 10. If it is convenient for you to see me during this period, would you please let me have a communication on or before August 16.

✓ X I.F.C.

With kindest regards,

John R. Nichols

John R. Nichols
Assistant Instructor

JRN:nal

INTERNATIONAL DEVELOPMENT ADVISORY BOARD

WASHINGTON 25, D.C.

August 7, 1952

Mr. Robert L. Garner
Vice President
International Bank for
Reconstruction and Development
Washington, D. C.

Dear Mr. Garner:

Since some time has passed since I last spoke to you about the proposal for a meeting in San Francisco to discuss international development through private investment, I thought you might want to have a report.

The San Francisco Chamber of Commerce, the World Affairs Council of Northern California, the World Trade Association of San Francisco, and the Propellor Club of the Port of San Francisco, sent a telegram to Mr. Eric Johnston, Chairman of the Board, inviting him to hold the next Board meeting in San Francisco late in September, and to hold a conference in cooperation with them to discuss international economic development through private enterprise and capital investment. Mr. Johnston accepted their invitation and sent me to San Francisco to work out the program details with them. There is great enthusiasm there for this kind of meeting, and they are going to expand the participation to include Chambers of Commerce up and down the Pacific Coast. Invitations will be sent to membership of the Chambers and to selected businessmen and investors.

The conference will be held on September 24 and 25 at the Fairmont Hotel in San Francisco. It will start with a key-note luncheon at 12:00 noon in the Gold Room. Mr. Johnston will give the key-note address. The afternoon will be devoted to a session on the general aspects of private investment. The following day, there will be two additional meetings, one in the morning to discuss in greater detail the investment opportunities and problems in Latin America, and another one in the afternoon to be concerned with the Middle East and South and Southeast Asia. We had at first intended to concentrate solely on Latin America, but there was considerable pressure in San Francisco, because of their interest in other areas, to expand the areas to be considered.

There is attached hereto for your personal information a working draft of the program as we agreed upon it in San Francisco. All of the persons indicated thereon as speakers or panel members have not as yet been approached. Therefore, we cannot officially release any of this information at this time. Just as soon as we are able to obtain the necessary acceptances from those to take part in the program, we will issue a printed program and special invitation, to be circulated well in advance of the meeting.

You will notice that much emphasis is being placed on discussion instead of formal speeches. The people in San Francisco who are vitally interested in this insist that they be given a chance to discuss their problems rather than be told. Therefore, it is very important that the panel members be very competent to handle various segments of the problem, so that the discussion leader will have an adequate group from which to draw out a full discussion and cover the main points involved. We have listed under the various discussion panels more persons than can be called upon to participate in the panels. This is merely to provide for declinations and to afford a wide field from which to draw in order to answer the questions that might be proposed. Actually, when they finish up, the panels will have only five or six members.

I had a very good talk yesterday with our good friend, the Ambassador of Colombia. He seems to be an outstanding person and is very interested in this conference. By the way, he is a graduate of the University of California, which will very much please the San Francisco group. The Ambassador tells me he is going to have a talk with you at which he will request you to invite Martin del Corral to come to San Francisco to participate in the meeting. Mr. Johnston would appreciate it very much if you could get him to attend since we hope to have some people at the meeting who will be interested in business in Colombia.

We had originally proposed that Ambassador Merwin Bohan be the chairman and discussion leader for the session on Latin America on Thursday morning, September 25. I talked to Ambassador Bohan and he told me that he was leaving for South America and did not think it would be practical for him to come back for the meeting, but that he would do so if requested by the Department of State. I asked Assistant Secretary of State Edward Miller if he thought it would be possible to have Ambassador Bohan back here for the meeting. He felt it would not be practical to do so and recommended that we get Burke Knapp. I understand that Mr. Knapp is going to take over the Latin American desk in the International Bank. Would you ask Mr. Knapp to take this assignment?

As I told your secretary on the phone, we would also like to have you present if it is at all possible. You have a great many friends in the business world who would appreciate your contribution and many of them have told me we would be very fortunate if we could get you to be present. If you can be there, we would like to have you as a panel member for the general discussion from 2:15 to 5:00 on Wednesday, September 24.

You have been most helpful to me in getting this idea on its way, and as a matter of fact, you were the inspiration for going forward with it. I certainly appreciate all you have done for me and look forward to any possible opportunity to repay your kindness. If you have any suggestions regarding persons whom we should put on the panels or regarding the program in general, I would certainly appreciate having them.

Sincerely yours,

Frank C. Kimball

Frank C. Kimball
Executive Assistant to the Chairman

Enclosures

OFFICERS AND BOARD OF DIRECTORS
SAN FRANCISCO CHAMBER OF COMMERCE
1952

W. P. Fuller, III	President
J. W. Mailliard, III	First Vice President
Ray W. Turnbull	Second Vice President
Maitland S. Pennington	Third Vice President
G. L. Fox	General Manager
Belford Brown	Treasurer
M. A. Hogan	Secretary

Phil R. Bradley, Jr.
President, Pacific Mining Co.
620 Market Street (4)
SU 1-0414

Belford Brown, Vice President
The San Francisco Bank
526 California Street (4)
DO 2-5757

Warren Burke, District Sales Mgr.
United Air Lines
400 Post Street (2)
YU 6-0818

Thomas Coakley
Littler, Coakley, Lauritsen & Ferdon
593 Market Street (5)
EX 2-5188

Edward W. Engs, Jr., President
Diamond T. Motor Truck Co.
2225 Folsom Street (10)
AT 2-4884

H. H. Fuller, President
Bethlehem Pacific Coast Steel Corp.
P.O. Box 3494 (19)
MA 1-3200

W. P. Fuller, III, Treasurer
W. P. Fuller & Co.
301 Mission Street (19)
EX 2-7151

C. W. Griffin, Jr., Vice President
California Packing Corporation
215 Fremont Street (19)
SU 1-7760

Everett Griffin, President
Griffin Chemical Company
1000 Sixteenth Street (7)
UN 1-8610

Horace A. Guittard, President
Guittard Chocolate Company
139 Main Street (5)
GA 1-1518

Walter A. Haas, Jr., Asst. Secretary
Levi Strauss & Company
98 Battery Street (6)
GA 1-6200

King Harris
Russell, Harris & Wood, Inc.
149 California Street (11)
YU 6-6836

Glen Ireland, Vice President
Pacific Telephone & Telegraph Co.
140 Montgomery Street (5)
GA 1-9000

Henry C. Judd, Treasurer
Standard Oil Company of California
225 Bush Street (20)
SU 1-7700

John Lawler, Manager
Poultry Producers of Central California
840 Battery Street (11)
GA 1-5900

Donald Maclean, President
California and Hawaiian Sugar Refining Corp., Ltd.
215 Market Street (5)
EX 2-7400

J. W. Mailliard, III
Mailliard & Schmiedell
451 Montgomery Street (4)
GA 1-0131

Thomas G. McGuire
Executive Vice President
Industrial Indemnity Company
155 Sansome Street (6)
YU 6-4466

William G. Merchant
57 Post Street (4)
YU 2-0481

James E. O'Brien
Pillsbury, Madison & Sutro
225 Bush Street (4)
GA 1-6133

Maitland S. Pennington, Vice Pres.
Pacific Transport Lines, Inc.
262 California Street (11)
YU 2-6221

Harold Pischel, Exec. Vice Pres.
Dohrmann Commercial Co.
984 Mission Street (3)
GA 1-5600

John B. Quigley, Managing Owner
Drake Wiltshire Hotel
340 Stockton Street (8)
GA 1-8011

R. H. Rebele, Vice President
Wells Fargo Bank & Union Trust Co.
4 Montgomery Street (20)
SU 1-1500

Leo E. Sievert, Exec. Rep. of the Pres.
The Atchison, Topeka & Sante Fe
Railway Company
114 Sansome Street (4)
SU 1-7600

Jesse W. Tapp, Exec. Vice Pres.
Bank of America, N.T.&S.A.
300 Montgomery Street (20)
DO 2-6112

Ray W. Turnbull, Commercial Vice Pres.
General Electric Company
235 Montgomery Street (6)
DO 2-3740

John B. Watson, Partner
Goodyear Rubber Co.
2400 Third Street, (7)
AT 2-1202

Frederic B. Whitman, President
The Western Pacific Railroad Co.
526 Mission Street (5)
YU 2-2100

Lloyd E. Yoder, General Manager
The National Broadcasting Co.
420 Taylor Street (2)
GR 4-8700

J. D. Zellerbach, President
Crown Zellerbach Corp.
343 Sansome Street (4)
GA 1-3100

Ex-Officio Directors

Richard S. Bishop, GA-1-8550
Hadsell, Murman & Bishop
405 Montgomery Street (4)
(Pres., San Fran. Chamber of Comm-Junior)

Frank M. Jacobs, Foreign Representative
Union Oil Company of California
425 First Street (20)
SU 1-1400
(Pres. World Trade Assn. of the San Fran. Chamber of Commerce)

Jerome P. Newbauer, YU 6-1717
Davis Schonwasser
290 Sutter Street (8)
(Pres. Retail Merchants Assn.of the San Francisco Chamber of Commerce)

General Counsel

Wright & Larson
220 Montgomery Street (4)
1010 Mills Building
GA 1-2650

FORM DS-10
2-10-47

DEPARTMENT OF STATE

REFERENCE SLIP

DATE 8/19

TO: Mr. Garner

IBRD

	ADVISE		NOTE & FORWARD
	APPROVE & RETURN		NOTE & RETURN
	AS YOU REQUESTED		PER TELEPHONE TALK
	ATTACH FILE		PREVIOUS CORRESPON.
	ATTENTION		PRIORITY ACTION
	COMMENT & RETURN		RECONSIDER
	CONSIDER		RECOMMEND ACTION
	COPYING		RECORD
	CORRECT		REPLY
	FILE		RETURN TO SENDER
	FOLLOW-UP		REWRITE
	FOR YOUR INFORMATION		SEE ME
	HOLD		SIGNATURE REQUIRED
	INITIALS NEEDED		TAKE ACTION
	INSTRUCT		TRANSFER
	INVESTIGATE & REPORT		TYPE
	JUSTIFY		VERIFY
	KEEP ME ADVISED		REPLY FOR SIGNATURE OF
	LEGAL MATTER		
	MEMO REQUIRED		
	NOT INTERESTED		
	NOTE & DESTROY		
	NOTE & FILE		

REMARKS:

Please note toward end of letter that TCA will provide for expense of travel and a per diem of $10.

FROM Frank C. Kimball
IDAB

GPO 83-21030

August 18, 1952

Dr. Martin del Corral
Presidente
Banco de Bogota
Bogota, Colombia

Dear Dr. del Corral:

The International Development Advisory Board, which is appointed by the President of the United States to counsel him and others who are responsible for the administration of the Point 4 program, has for some time been re-emphasizing the importance of private enterprise and capital investment as a means of international economic development.

Leading business groups in San Francisco, California, including the San Francisco Chamber of Commerce, the World Trade Association of San Francisco, the World Affairs Council of Northern California, and the Propeller Club of the Port of San Francisco, have jointly invited this Board, the Technical Cooperation Administration of the Department of State, and the U. S. Department of Commerce, to join with them in holding a conference in San Francisco on September 24 and 25 to discuss international development through private enterprise and capital investment. It is proposed that leaders in business and industry and potential investors be invited to attend this conference where they will be given an opportunity to participate in a forthright discussion of the opportunities and problems relating to this subject.

The Conference will be divided into four parts, starting on Wednesday, September 24, at 12:00 noon, with a luncheon meeting in the Gold Room of the Fairmont Hotel in San Francisco. I have been asked to give the key-note address which will be entitled, "Let's Get Down to Business." On Wednesday afternoon, there will be a session devoted to the more general problems of when, where, and how to invest, which will include a general discussion of the opportunities and problems in the field of capital investment in the less advanced countries and will consider such matters as investment climate, incentives, deterrents, and a weighing of advantages over disadvantages, etc. There will be two additional sessions on Thursday, September 25, one in the morning on Latin America as a field for investment and one in the afternoon regarding the Middle East and South and Southeast Asia. Each of the sessions will be chaired by a very competent discussion leader who will draw out from a specially selected panel and from the floor as full a discussion as possible of the problems to be considered.

We are developing for the Latin American session of the conference a panel of outstanding business and industrial leaders who believe in the private enterprise system and who are anxious to see greater economic development through the investment of private capital. The matter has been discussed with several prominent leaders here in the United States, including Robert Garner, Vice President of the International Bank for Reconstruction and Development; Ambassador Restrepo-Jaramillo of Colombia; Henry Drath, Vice President of the Bank of America; and all feel that you would be able to make a very excellent contribution if you could find it possible to leave your affairs long enough to come to San Francisco for this meeting. If you find it possible to accept this invitation, we would like to have you explain to those present some of the opportunities for investment in Colombia and also the conditions which make up the investment climate. The Technical Cooperation Administration of the Department of State will provide your transportation and a per diem of $10.00.

We are most anxious to complete arrangements for our program and would therefore appreciate it greatly if you could cable your acceptance.

Sincerely yours,

Eric Johnston, Chairman

PACIFIC COAST CONFERENCE
ON
INTERNATIONAL ECONOMIC DEVELOPMENT
THROUGH
PRIVATE ENTERPRISE AND CAPITAL INVESTMENT

TIME AND PLACE

September 24 and 25, 1952 at the Fairmont Hotel, Nob Hill, San Francisco, California.

ORIGIN AND PURPOSE

The Act for International Development, commonly referred to as the "Point Four" Act, stresses the importance of private capital investment as a potent force in raising the economic and social status of the various peoples of the economically less-advanced areas of the world. In addition to the needed capital, private investment is coupled with technical knowledge and management experience which are so vital to progressive and sound development. It relieves to a considerable extent, the burden of governmental foreign aid and offers an appropriate means for close cooperation between private citizen and private citizen, rather than between government and government. The International Development Advisory Board, appointed as advisors to the President and those responsible for the Point Four Program, has continually stressed the importance of private capital in accomplishing the Point Four objectives of helping others to help themselves by creating new sources of wealth, increasing productivity, raising living standards, and expanding purchasing power.

Leading business groups in San Francisco interested in international development and investment invited the International Development Advisory Board, the Technical Cooperation Administration of the Department of State and the Department of Commerce to cooperate with them in holding a joint conference at which business men and investors, actively or potentially interested in international investment, can get together and discuss the opportunities and problems in this field. Both small and large business will be represented. Government experts will also be available to give information regarding the role of the U.S. Government and to receive suggestions and criticism with regard thereto.

SPONSORS

San Francisco Chamber of Commerce
World Affairs Council of Northern California
World Trade Association of San Francisco
Propellor Club of the Port of San Francisco
International Development Advisory Board
Technical Cooperation Administration
U.S. Department of Commerce

EXECUTIVE COMMITTEE

Charles L. Wheeler, Executive Vice President, Pope & Talbot, Inc.
General Chairman
J. D. Zellerbach, President, Crown-Zellerbach Corporation
S. D. Bechtel, President, W. A. Bechtel Co.
C. P. Dunn, Vice President, Morrison-Knudsen Co.
Russell C. Smith, Executive Vice President, Bank of America. N.T. & S.A.
Ted Peterson, President, Standard Oil Company of California
W. P. Fuller, III, President, San Francisco Chamber of Commerce, Treasurer, W. P. Fuller & Co.
Dr. John B. Condliffe, Director, Institute of Economics, U. of Cal.
Dr. J. E. Hobson, Director, Stanford Research Institute
Brayton Wilbur, Wilbur-Ellis Company
Robert Pomeroy, J. H. Pomeroy & Co., Inc.
Harry Hunt, Guy F. Atkinson Co.
Leland Cutler
George Killion, President, American President Lines
George T. Cameron, Publisher, SAN FRANCISCO CHRONICLE
Charles Mayer, Publisher, SAN FRANCISCO EXAMINER
Randolph A. Hearst, Publisher, SAN FRANCISCO CALL BULLETIN
Joseph L. Cauthorn, Publisher, SAN FRANCISCO NEWS

PROGRAM

Paul A. Bissinger, Vice President, Bissinger & Co., Chairman
George Killion, President, American President Lines
Henry W. Drath, Vice President, International Banking Department, Bank of America, N.T. & S.A.
W. J. Gilstrap, Vice President, Wells Fargo Bank & Union Trust Co.
Dr. Wayne Mackenzie Stevens, Director, School of World Business
H. D. Armstrong, Assistant to the Chairman of the Board, Standard Oil Company of California
Richard Burdick, World Affairs Council of Northern California
Frank C. Kimball, Executive Secretary, International Development Advisory Board
Rafael Dorman, Personnel Director, Bechtel Corporation
Dr. Weldon Gibson, Institute of Economics, Stanford Research Institute
Alvin C. Eichholz, Manager, World Trade Department, San Francisco Chamber of Commerce
Harley Stevens, American Ind. Oil Co.
Paul H. Brent, Business Specialist, U.S. Department of Commerce

CONFERENCE AGENDA

Wednesday, September 24

12:00 Noon: KEYNOTE LUNCHEON MEETING IN THE GOLD ROOM

CHAIRMAN: W. P. Fuller, III, President, San Francisco Chamber of Commerce.

KEYNOTE SPEAKER: Eric Johnston, Chairman, International Development Advisory Board.

KEYNOTE ADDRESS: LET'S GET DOWN TO BUSINESS.

2:15 p.m. - 5:00 p.m.: WHEN, WHERE AND HOW

CHAIRMAN AND DISCUSSION LEADER: Dr. J. E. Hobson, Director, Stanford Research Institute.

A general discussion of the opportunities and problems in the field of private enterprise and capital investment in the less-advanced countries. Problems considered will include, among others, investment climate, incentives, deterrents, a weighing of advantages over disadvantages and in general a frank examination of questions as to when, where, and how to invest in international development.

1. A PROGRESS REPORT ON THE POINT FOUR PROGRAM
   Stanley Andrews, Technical Cooperation Administrator.

2. HERE'S HOW IT LOOKS TO US
   General Robert E. Wood, Sears Roebuck & Co., or
   Walter Silbersack, President, American Home Products Co.

3. CREATING FAVORABLE CONDITIONS FOR INVESTMENT
   Willard Thorpe, Assistant Secretary of State, or
   Harold Lindner.

DISCUSSION PANEL: (Use 5 or 6)

1. Robert Garner, Vice President, IBRD
2. Edward Mason
3. John Gillis, Vice President, Monsanto Chemical Co., and Director, N.F.T. Council; was member of Culbertson Mission to North Africa.
4. James Farley, Coca-Cola Company.
5. Morris Sayre, Vice Chairman, Board of Corn Products' Refining Co., former President, NAM.
6. Sprague Johnson, President, Ottis McAllister Co., San Fran.
7. Lampert, Counsel, Standard Oil of California
8. Emil Schnellbacher, Deputy Director, OIT.
9. Dudley Miller, Counsel, Veg. Oil Ind., California.
10. Philip Glick, General Counsel, TCA.
11. Brayton Wilbur, President, Wilbur Ellis & Co., President, Federal Reserve Bank of San Francisco.
12. Bell, Export-Import Bank.

5:30 p.m.: RECEPTION, NOB HILL ROOM, FAIRMONT HOTEL

Thursday, September 25

9:30 a.m. - 12:00 Noon: LATIN AMERICA AS A FIELD FOR INVESTMENT

A more detailed discussion of the opportunities and problems related to private capital investment in Latin America as seen by businessmen and Government officials of this country and Latin America.

CHAIRMAN AND DISCUSSION LEADER:

who will give overall summary of situation and then open up the discussion through the panel and from the floor.

DISCUSSION PANEL:

1. Ambassador Resprepo-Jaramillo of Colombia (went to U. of Cal.)
2. Martin del Corral, President, Bank of Bogota.
3. Ambassador Walter Salles of Brazil.
4. George Wythe, Director, Am. Rep. Div., OIT.
5. Henry W. Drath, V.P., Int. Banking Department, Bank of America.
6. H. Lutcher Brown, Pres., Brown Paper Mills, Co., West Monroe, La. (Tel. Monroe 1990 - Recommended by Dave Zellerback.)
7. Julius Klein (Peru) U. of Cal. man.
8. Robert La Follette
9. Someone from minerals.

2:00 p.m. - 4:30 p.m.: MIDDLE EAST - SOUTH AND SOUTHEAST ASIA

A discussion of opportunities and problems relating to private capital investment as seen by government and business representatives.

CHAIRMAN: Stephen D. Bechtel

1. MIDDLE EAST
2. SOUTH & SOUTHEAST ASIA
3.

DISCUSSION LEADER: Dr. John B. Condliff, Professor of Economics, University of California.

DISCUSSION PANEL:

1. John L. Savage, Civil Engineer and member, IDAB
2. Harvey Firestone, Jr.
3. Harley Stevens, Assistant to the President, American Independent Oil Co. (Persian Gulf)
4. George Killian, President, Am. Pres. Lines, Ltd.
5. Carlton Wood, Director, Far Eastern Div., OIT.

4:30 - 5:00: GENERAL SUMMARY OF CONFERENCE - Charles Wheeler

EXHIBITS:

INFORMATION SERVICE:

INTERNATIONAL DEVELOPMENT ADVISORY BOARD

(Biographical Material)

Eric A. Johnston, Chairman. (Appointed February 18, 1952. Replacing Nelson A. Rockefeller.) Civic Leader - Business Man. President, Motion Picture Assn. of America, Inc., since September 1945. President Motion Picture Export Assn. On leave of absence during 1951, served as Administrator, Economic Stabilization Agency. Organized Brown-Johnston Co., electrical retail business, Spokane, Wash., 1923 and since president. Organized Columbia Electric & Manufacturing Co., Spokane, 1933, and since president. Board Chairman Washington Brick & Lime Co. since 1934. President Colombia Elec. Instrument Co. Director Seattle First National Bank, New World Life Insurance Co., Spokane and Eastern Trust Co., United Air Lines, Bank of America, America Security and Trust Co. Served as Captain U.S. Marine Corps., 1917-22. President Spokane Chamber of Commerce, 1931-32. Director Chamber of Commerce of U.S., 1934-41, and President 1942 to May, 1946. (4 terms) President Inland Empire Mfrs. Assn., 1929. Chairman, Washington State Progress Commission, 1937-42. Chairman Eastern Washington Welfare, 1931-33. Chairman Inter-American Econ. Development Committee. Member Econ. Stabilization Bd., 1943. Member Economic Development Committee, under Paul G. Hoffman. Member War Manpower Commission and Committee for Drafting of Federal Employees, 1943. Member War Mobilization and Reconversion Committee. Awarded Medal for Merit, 1947. Director American Cancer Society, Jan., 1945, and Board Chairman, 1946. Member Public Advisory Board, Economic Co-op Administration, 1948. Trustee Whitman College. Home: Washington, D.C.

Robert P. Daniel. Educator. President, Virginia State College. On faculty of Virginia Union University from 1924-36, rising to rank of Professor of Education and Chairman of the Division of Education, Psychology, and Philosophy. Also served as university's Extension Director. President, Shaw University, Raleigh, N.C., 1936-50. Member of North Carolina Commission on Inter-racial Cooperation; member of Inter-racial Activities Com. of National Council, Boy Scouts of America; president of the Ass'n of Northern Baptist Educational Institutions, and of the Association of Colleges and Secondary Schools for Negroes; member of American Psychological Ass'n, NEA; National Student Council, Y.M.C.A. Home: Petersburg, Virginia.

Harvey S. Firestone, Jr., Businessman-Philanthropist. Chairman and Chief Executive of Firestone Tire & Rubber Co., President 1941-48. Actively associated with company since 1920 and has been active in the many Firestone

foreign development

foreign development projects. Dir., Firestone Steel Products Co.; Pres., Firestone Plantations Co.,; member of Rubber Advisory Panel, Dept. of State, of Rubber Advisory Comm. of Munitions Board, of Industry Advisory Committee, Rubber Division, Dept. of Commerce, of National Security Policy Committee of Rubber Mfrs. Ass'n, of Natl. Citizens Comm. of Community Chests and Councils, Inc., of the National Council of United Negro College Fund, and of Int'l Committee of Y.M.C.A. Director, National Ass'n of Mfrs. Nat'l Chairman, Thomas Alva Edison Foundation Fund. Home: Akron, Ohio.

John A. Hannah. Educator. President of Michigan State College since 1941; poultry husbandry specialist; member Michigan State Board of Control for Vocational Education; member Michigan State Council of Defense; president, Association of Land Grant Colleges and Universities, 1948-49; chairman, Joint Committee on Extension programs, policies, and goals of U.S. Dept. of Agriculture. Home: East Lansing, Michigan.

Margaret A. Hickey. Educator-Lawyer-Business Woman. Director of Miss Hickey's Training School for Secretaries, St. Louis. Practiced law 1928-33; chairman, National Women's Advisory Committee and observer Labor-Management Comm., War Manpower Commission, 1942-45; member, Bd. of Governors, American Red Cross and Chairman of Program Review Committee; chairman, U.N. Com., International Federation Business and Professional Women; past pres., Nat. Fed. of B. P. W. and V. P. of International; member of Women's Bar Association; Vocational Consultant, American Youth Foundation; Public Affairs Editor, Ladies Home Journal. Consultant for non-governmental organizations to Economic & Social Council of United Nations. Home: University City, Missouri.

Lewis G. Hines. Labor Leader. Special Representative, American Federation of Labor. Member of Metal Polishers, Buffers, Platers & Helpers Int'l Union for past forty years; former Bus. Agt. and Repr. of International; member Bur. of Mediation, Dept. of Labor, Pa. for seven years; Penna. State Dir. of U. S. Employment Service for three years; Gen'l Organizer and Regional Dir. of Am. Federation of Labor, 5 yrs; Dir. of Org. of Am. Fed. of Labor, 3 yrs; Secy, Dept. of Labor & Industry, Commonw. of Pa., 4 yrs; Nat. Legis. Repr., Am. Fed. of Labor, 6 yrs. Home: Arlington, Va.

Bertha Coblens Joseph. Industrial and Business Consultant. President of Bertha Joseph, Inc. Formerly statistician. Consultant in the field of industrial accidents. Investment Adviser: executive secretary to United States Senator.

States Senator. Home: Washington, D. C.

Thomas Parran, M. D. Health Educator and Administrator. Dean, Graduate School of Public Health, University of Pittsburgh. Commissioned officer in U. S. Public Health Service 1917, appointed Ass't Surgeon General in 1926. Health Commissioner, N. Y. State, 1930-36; Surgeon General U. S. Public Health Service 1936-48; Chief of Far Eastern Mission for U. N. Int'l Children's Emergency Fund; chairman of U. S. Delegation to the First World Health Assembly in Geneva, June-July, 1948; dir. council, Pan-American Sanitary Bureau; member Advisory Committee National Foundation for Infantile Paralysis. Home: Pittsburgh, Penn.

Clarence Poe. Journalist-Agriculturalist. Editor of Progressive Farmer; president of Progressive Farmer Co. since 1903. Chairman, Exec. Committee, Board Trustees, N.C. State College of Agriculture & Engineering, 1913-31; on exec. comm., Consolidated Univ. of North Carolina since 1931; past president, State Farmers Convention, State Dairymen's Ass'n, American Country Life Ass'n, N. C. Forestry Federation; member, Federal Bd. for Vocational Education, 1936-45; Nat. Commission on Hospital Care, 1944-46; member, State Bd. of Agric., 1913-31, of State Committee to draft revision of N. C. State Constitution, 1931-32; chairman, campaign for balanced prosperity in the South, 1940-43. Has studied agricultural, economic and social conditions in Europe and Asia. Home: Raleigh, N. C.

Jacob F. Potofsky. Labor Leader. President, Amalgamated Clothing Workers of America. With Amalg. Clothing Workers since 1914, pres. since 1946; pres. Amalgamated Insurance Co; Chairman of Board, Amalgamated Bank of N. Y.; Director, Amalgamated Trust & Savings Bank, Chicago; member and representative, Executive Bd., CIO; Chairman, Committee on International Affairs, CIO: member, Mayor's Business Advisory Committee, N. Y. C.; chairman, CIO Committee on Minimum Wage; Board of Directors, American Jewish Joint Distribution Committee, United Jewish Appeal. President, Sidney Hillman Foundation. Home: Hollis, L. I., N. Y.

John L. Savage. Civil Engineer. U. S. Reclamation Service 1903-08 and 1916-25, Chief Designing Engineer, Hoover and Grand Coulee Dams and Power Plants. Consulting engineer on various projects for Govt. of Puerto Rico, U. S. Dept. of State, Bur. of Reclamation and T.V.A., the Burrinjuck and Yarra Dams in Australia, and irrigation and hydro projects to governments of Mexico, India, China, Pakistan, Ceylon, and projects in Afghanistan, Palestine, Spain, and Switzerland. Home: Denver, Colo.

Charles L. Wheeler.

Charles L. Wheeler. Businessman. Executive Vice President, Pope & Talbot. Manager, St. Helens Dock & Terminal, subsidiary of Charles R. McCormick Lumber Co., St. Helens, Oregon, 1917-21; organized Pope & Talbot, Inc. (successors to McCormick Steamship Co.) in 1921; Director National Federation of American Shipping; trustee, Douglas Fir Export Co.; director, California Society for Crippled Children. President, Rotary International; past president of San Francisco Pan American Society; member, Bd. of San Francisco State College, International House at Univ. of California, Advisory Committee to Transportation Div. of Graduate School of Business at Stanford University, Advisory Council on Latin America for Dept. of Commerce, and National Explorer Committee, Boy Scouts of America. Home: Redwood City, California.

* * *

INTERNATIONAL DEVELOPMENT ADVISORY BOARD

(Biographical Material Continued)

William Richardson White. Church official, Educator. President, Baylor University since 1948. Educated, Howard-Payne College, Brownwood, Tex., A.B. 1917 - D.D. 1927; Southwestern Baptist Theological Seminary, Fort Worth, Tex., Th. M. 1922 - Th. D. 1924; Baylor University, D.D. 1930. Ordained ministry Missionary Baptist Church, 1911. Pastor, Goldwhaite, Tex., 1917-19 and Royce City, 1919-23. Professor, Southwestern Baptist Theological Seminary, 1923-27. Pastor, First Baptist Church, Greenville, Tex., 1927 and 1928; First Baptist Church, Lubbock, 1928-29. Executive Secretary, Baptist General Convention of Tex., Dec. 1929 - Aug. 1931. Pastor Broadway Church, Fort Worth, 1931-35; First Church, Oklahoma City, 1935. Flennikan lecturer, Ouachita College, 1935. President, Hardin-Simmons University, 1940-43. Editorial secretary, Sunday School Board, South Baptist Convention 1943-45. Pastor, First Baptist Church, Austin, Tex., 1945-48. Director, Baptist General Convention of Tex. (Member of finance committee 3 years); Director, Foreign Mission Board of Southern Baptist Convention, Richmond, 1931-35; Executive Secretary, United Forces Against the Liquor Traffic, Dec. 1932 - Feb. 1935; Director, Oklahoma Baptist University, 1935-40 (resigned); President, Hardin-Simmons University, Abilene, Tex., 1940-42. Mason (32o - Shriner). Contributor to Baptist Standard, Baptist Messenger, and author of "The Royal Road to Life," 1938. Address: Baylor University, Waco, Texas.

Private Investment -

FORM No. 58
(5-48)

INTERNATIONA BANK FOR RECONSTRUCTION AND VELOPMENT

OFFICE MEMORANDUM

TO: Mr. W. A. B. Iliff

DATE: August 11, 1952.

FROM: John H. Adler JHAdler

SUBJECT: Mr. Heffernan's Inquiry

Mr. Rist has O.K.'d the attached memorandum on "Local Financing of Public and Private Investment in Underdeveloped Countries", which I hope covers the points raised by Mr. Heffernan.

Also, I enclose a copy of the U. N. Report on "Domestic Financing of Economic Development", and the paper by Mr. Alter on the development bank loans of the IBRD, in case you want to send them to Mr. Heffernan. E-229.

Attachments

Investment

Economic Department
John H. Adler
August 6, 1952.

LOCAL FINANCING OF PUBLIC AND PRIVATE INVESTMENT IN UNDERDEVELOPED COUNTRIES

I. General Observations

Two factors limit the level of public and private investment in underdeveloped countries. One is the level of private savings, the other the lack of an organized capital market through which savings can be channelled from private savers to the financing of private and public investment.

This note is concerned with the second factor, i.e., with the limited availability of institutional arrangements through which private savings are channelled into productive investment, and with the various methods by which underdeveloped countries have attempted to overcome the shortage of investment funds available for the financing of public and private investment.

In virtually all of its loan operations, the International Bank had to pay close attention to the financing of local expenditures connected with projects, the foreign exchange cost of which was financed by IBRD loans. Therefore, a brief account of the methods by which local funds were mobilized for financing of the local expenditures of Bank projects gives a broad sample of the various methods by which the borrowing countries provided means for financing investment expenditures. But since many of the loans of the International Bank were made to governments or government agencies, the sample by necessity is somewhat onesided. It reflects more the methods of financing public investment than of financing the investment in the private sector of the economy.

In the course of its investigations of the economic problems of underdeveloped countries and the appraisal of their fiscal and monetary policies, the Bank has found that in many of the underdeveloped countries the amount of private savings is surprisingly high and compares not too unfavorably with the rate of private savings in the countries of Western Europe and in the United States. There is, however, one fundamental difference between the utilization of the savings in underdeveloped and more advanced countries. In advanced countries, a large proportion of private savings becomes available for the financing of private and public investment through the operations of the capital market into which funds are channelled through savings banks and insurance companies, and through purchases of stocks and corporate and government bonds; another important source of investment funds in advanced countries are the undistributed profits of corporations. In less developed countries, the bulk of private savings does not flow into an organized capital market, but is utilized by the savers themselves, either for the expansion of their own business enterprises or for the financing of new ones, for the purchase of real estate or landed property or, intermittently, for the financing of speculative transactions in import or export commodities. A substantial proportion of private savings is also held idle either in the form of currency hoards, or used for the acquisition of precious metals (in the Middle East and South East Asia); or, savings are exported through the maintenance of dollar balances in the United States. The latter use of savings is particularly prevalent in Latin American countries.

There are, of course, notable exceptions to this general pattern. In countries such as Brazil, Mexico, Colombia, Chile and India - to name but a few - an active market in corporate stocks has developed and has resulted in a large expansion in the ownership of corporate enterprises. The establishment of stock exchanges in these countries and others has provided a suitable mechanism for the financing of private industrial and commercial enterprises. But because of the instability of corporate earnings, the limited protection which shareholders enjoy against unsound corporate practices, and the risks inherent in stock ownership, the flow of savings into corporate stock has been limited and has not solved the fundamental deficiencies of the capital markets of the underdeveloped countries.

Governments and government agencies and municipalities have virtually no access to private savings and the availability of medium- and long-term loan capital for private enterprises is severely limited. The authorities of underdeveloped countries have attempted, with varying degrees of success, to remedy this situation. In essence, they had to use tax receipts for the financing of investment expenditures. In a number of countries, however, where an increase in tax revenues was considered impossible or politically unwise, governments resorted to inflationary credit expansion by borrowing from the central bank or commercial banks. In some countries, (e.g., Mexico, India) attempts to create a market for government bonds or bonds of government institutions were successful.

Government revenues were used for the financing of investment expenditures in two different ways. Investment expenditures of central and local governments were financed directly out of tax receipts, supplemented, as mentioned before, by borrowings from the banking system or, in the postwar period, by the liquidation of accumulated Treasury surpluses. In some countries, fiscal revenues were also used to finance industrial enterprises operated directly by the governments or by government agencies (development corporations) established for that purpose. Some countries went further, in a direction more conducive to the functioning of free enterprise economies: they used government funds to establish financial institutions for the purpose of making medium- and long-term loans to agricultural and industrial enterprises.

The establishment of official financial institutions engaged in lending operations to private enterprises has been hailed as a development of the last few years. As a matter of fact, however, credit institutions of this type have been in operation for decades in a large number of countries in Latin America and other underdeveloped areas. Mortgage banks, for instance, mostly financed through public funds and only to an insignificant extent by savings deposits, have been operating in many countries for 25 years or more.

However, the emphasis on the financing of industrial activities directly by the government or by government-financed institutions and government ownership of industrial enterprises and such public utilities as railroads and electric power facilities is a relatively new development. The administrative difficulties and the limited experience of government authorities in the management of industrial enterprises and their financial affairs have in recent years, however, led to a tendency to disassociate the operations of these enterprises as much as possible from the governments' other activities, and in many countries government enterprises have been established, or reorganized, as autonomous entities. This tendency towards greater independence of government-owned enterprises is also reflected in the loan operations of the International Bank which has, in many instances, made loans to autonomous entities, or has taken the initiative in proposing the creation of such autonomous agencies or "authorities". The administrative independence of public enterprises has the advantage that their revenues can be used to finance, at least in part, the expansion of their own operations. Also, these enterprises frequently obtain access to capital - in the form of bank credit or bond issues - which is not readily available to the government.

Local financing of economic development is the subject of an expert's study on "Domestic Financing of Economic Development" prepared by the Economic Affairs Department of the United Nations. In addition to some general observations, it gives an account of the experience and the institutional arrangements in a group of underdeveloped countries and colonial areas.

II. Local Financing in connection with IBRD Loan Operations

As indicated above, the local financing of projects for which IBRD loans have been made, reflect the various methods of investment financing of underdeveloped countries. The summary of IBRD loan operations which follows, does not include those loan operations which involved only purchases from abroad and thus did not give rise to local currency expenditures. Also, loans to countries with well-established capital markets and investment institutions (e.g., Finland, Italy) are not included. From the point of view of local currency financing the experience of three financial institutions (i.e. Turkey, Ethiopia, and Mexico) established with the cooperation of the IBRD, which made loans to them, is of particular interest. A research memorandum prepared by a member of the Bank's staff, supplements the information presented below.

A. Asia

1. India -

Agricultural Development Loan for Kansgrass Eradication ($10 million)

The local currency component of the loan is estimated at approximately 110 million rupees ($23 million). Funds are advanced through the budget of the central government and are then recovered from the State governments which, in turn, assess the individual owners of the improved properties.

Bokaro-Konar Power Loan ($18.5 million)

The local currency expenditures are estimated at 216 million rupees ($45 million). The project is part of the multi-purpose development of the Damodar Valley by the Damodar Valley Corporation, a public agency similar to TVA. The capital requirements of the corporations are supplied through budgetary appropriations of the Government of India and the States of Bengal and Bihar. The two states, however, have met their share of the contributions largely from funds advanced by the central government.

2. Pakistan -

Agricultural Development Loan ($3.25 million) for Land Clearing Operations

The local currency cost of the project amounts to approximately 13 million rupees ($4 million). It is financed through the budget of the Punjab provincial government, from provincial tax receipts and advances from the central government.

3. Thailand -

Irrigation Loan ($18 million)

The local currency costs of this project amount to 504 million baht ($40 million), which sum is provided for in the budget of the central government. The Thai Government covers its total capital expenditures mostly from fiscal revenues and, to a small extent, from credits from the central bank.

Railway Rehabilitation Loan ($3 million)

The local currency cost of 82 million baht ($6.5 million) is financed by the State Railways of Thailand from funds advanced by the Government.

Port of Bangkok Loan ($4.4 million)

An autonomous port authority has been established for the rehabilitation and development of the port of Bangkok. The authority obtains funds to cover local expenditures (46 million baht or $3.7 million) from the government.

4. Iraq -

Wadi Tharthar Flood Control Project ($12.8 million)

The local currency costs of the project amounting to 5.65 million dinars ($15.8 million) are financed from the budget of the Development Board of the

Government to which accrue 70% of the Government's oil royalties.

B. Africa

1. Ethiopia -

Immediately prior to the first loans granted to Ethiopia, the Ethiopian Government revised the regulations governing the issue of currency notes. The statutory reserve of foreign exchange was reduced from 75% to 30% of the total note issue. As a result, some Eth.$11 million ($4.4 million) of foreign exchange was released from the currency reserve and the local currency counterpart was earmarked for the Bank projects.

Highway Project ($5 million)

The local currency from this project, amounting to Eth.$19 million ($7.6 million), came from three sources: Eth.$5 million ($2 million) from the currency fund; an annual contribution of Eth.$2 million ($.8 million) from general budget receipts for the first three years of the project; and the proceeds of taxes on gasoline and oil. The amount derived from the gasoline and oil taxes was guaranteed by the government to be not less than Eth.$12 million ($4.8 million) for the first three years, (Eth.$4 million per year) and thereafter not less than Eth.$5 million per year.

Development Bank Loan ($2 million)

Eth.$5 million ($2 million) was provided by the currency fund and Eth.$1 million came from the assets of the previously existing Agricultural Development Bank.

Telecommunications Projects Loan ($1.5 million)

Eth.$3 million ($1.2 million) was subscribed by the government, Eth.$1 million of this amount came from the currency fund.

2. Southern Rhodesia -

Electric Power Development Loan ($28 million)

The Bank loan financed the foreign exchange cost of one project in a major four-year development program, the total cost of which is estimated at £100 million ($280 million). According to present plans, £32 million are to be raised in the local capital market, £40 million in the London market, and £12 million in capital markets of the European Continent; £16 million are still to be found. These amounts include the financing of expenditures in non-dollar countries as well as in Southern Rhodesia itself. It is expected that the amounts to be raised in the local capital market will suffice to cover local expenditures.

3. Belgian Congo -

Equipment and Materials for Development Program ($70 million)

The Bank loans financed a substantial part of the import requirements of the development program which is also to be financed by loans in the Belgian capital market and in other foreign countries. These loans are expected to amount to the equivalent of $120 million. The equivalent of $30 million is to be raised through government loans in the Congolese local market.

C. Latin America

1. Mexico -

Loans to Federal Electricity Commissions ($24.1 million and $29.6 million)

These loans were made to finance more than 95% of the foreign exchange cost of the electrification program for the years 1949-56. The local expenditures of the program are estimated at 990 million pesos ($114.5 million). Of this amount, 280 million pesos is to be derived from a 10% tax on the sale of electric power, and the remainder from government appropriations to the Federal Electricity Commission. Additional government appropriations also cover operating deficits incurred in the earlier years of the program; these deficits are to be offset, however, by profits in subsequent years.

Electrification Loan to Mexican Light and Power Company ($26 million)

When the loan was made the Company was expected to finance the local cost of 165 million pesos ($19 million) entirely out of its earnings. However, due to increases in wages and other costs without corresponding increases in power rates, the earnings proved to be inadequate. The Company received loans from the Nacional Financiera (a government-owned investment banking institution) and from the Federal Electricity Commission. At the end of 1951, these loans totalled 57 million pesos ($6.6 million).

2. Nicaragua -

Highway Construction Loan ($3.5 million)

Funds for local expenditures for the highway construction project amount to 7.5 cordobas ($1.5 million); they are covered partly by budget appropriations, and partly by exchange surcharges collected by the central bank.

Grain Storage Loan ($550,000)

Local expenditures for the construction of grain storage facilities amount to 750,000 cordobas ($150,000). They will be provided from the exchange surcharge funds of the central bank.

3. El Salvador -

Hydroelectric Power Loan ($12,545,000)

Local expenditures for this project amount to 13.1 million colones ($5.24 million). This amount has been raised through the sale of bonds of the Commision del Rio Lempa, an autonomous agency of the government which constructs and will operate the power plant. The 5% bonds bear the guarantee of the government. The issue was made with the assistance of a marketing expert of the International Bank. In September 1951, the distribution of the bonds was as follows:

	Colones
Government funds	4,000,000
Financial institutions	1,500,000
Central bank	2,097,600
Commercial banks	2,097,400
Private investors	2,955,000
Corporations	450,000
Total Colones	13,100,000

4. Brazil - Electric Power Loans to

Brazilian Traction and Power Company ($90 million)

The local currency expenditures in connection with these loans amount to 3,330 million cruzeiros ($180 million). They are financed out of the current earnings of the Company and out of previously accumulated cruzeiro reserves.

Sao Francisco Electric Power Development ($15 million)

The Sao Francisco Hydroelectric Company is an autonomous public entity. The local currency expenditures in connection with the Bank-financed expansion project amount to 758 million cruzeiros ($41 million); they are financed partly out of the Company's earnings and partly out of government appropriations.

Railway Rehabilitation ($12.5 million)

The local currency expenditures for the rehabilitation of the government-owned Central Do Brasil Railroad amount to 1,165 million cruzeiros ($63 million); they are to be financed through funds of the Lafer Plan.

Rio Grande do Sul Electrification ($25 million)

This project involves local expenditures of 1,314 million cruzieros ($71 million) which amount is to be raised by a special electrification tax which is levied as a surtax on all state taxes of the State of Rio Grande do Sul.

5. Chile -

Endesa Electric Power Development ($13.5 million)

The local currency expenditures in connection with the Endesa project amount to 2,148 million pesos ($35.8 million). They are to be financed through the Chilean Fomento Corporation which, in turn, obtains funds through budgetary appropriations of the Chilean government.

Rio Elqui Project for Exploration of Underground Water Resources ($1.3 million)

The local currency expenditures for this project are estimated at 24 million pesos ($0.4 million) and are to be covered through the Chilean Fomento Corporation.

6. Colombia -

Hydroelectric Development Loans to Anchicaya, La Insula and Rio Lebrija Power Works (total amounts of 3 loans $11.13 million)

The three power companies are set up as independent publicly-owned coporations whose share capital is held by the Federal Government, states and municipalities - the central government participating in the corporations and in the financing of local expenditures through the autonomous Institute of Water Utilization and Electrification. Local currency expenditures are estimated at 39 million pesos ($16.9 million). They are shared in varying proportions by the stockholders of the individual corporations.

Highway Construction and Rehabilitation Loan ($16.5 million)

The local expenditures for the highway construction and rehabilitation program amount to 95 million pesos ($38.2 million), and are financed through government appropriations.

7. Paraguay -

Agricultural Development Loan ($5 million)

The bulk of this loan is to be used for the importation of agricultural equipment which does not give rise to any significant amount of local currency expenditures. A small part of the loan, however, is to be used to finance the importation of road construction supplies. Local expenditures of $1 million are to be financed through budgetary appropriations.

8. Peru -

Port Development Loan ($2.5 million)

The local expenditures connected with this project are expected to amount to 15.5 million soles ($1 million); they are to come out of the investment budget of the Peruvian Government.

9. Uruguay -

Electric Power and Telecommunications Loan ($35 million)

This loan was made to UTE, an autonomous agency of the Uruguayan

Government. The local currency expenditures in connection with this loan were estimated at 48.3 million pesos ($25.4 million). They were to be covered in part by the earnings of the agency and in part by a government bond issue totalling 30 million pesos. The proceeds of the bond issue were to be used to rehabilitate the financial position of UTE and to cover local currency expenditures over and above those financed by current earnings, and a small amount of import requirements not covered by the IBRD loan.

D. Europe

1. Turkey

Grain Storage Loan ($3.9 million)

The local currency cost of 16.2 million Turkish lire ($6.1 million) is provided through a government agency which, in turn, receives funds from the government.

Port Development Loan ($12.5 million)

Domestic expenditures on this project amount to 53.7 million lire ($26.1 million). The entire amount is provided for in the budget of the Ministry of Public Works and of other government departments.

Electric Power, Irrigation and Flood Control Loan ($25.2 million)

The local expenditures amount to 29.9 million lire ($10.6 million). They will be incurred by a power company, the capital of which will be raised by the Turkish Government from private investors, particularly from industrial enterprises which have a direct interest in increased power supply. It is expected that approximately 30% of the local cost will come from private sources.

Industrial Development Bank Loan ($9 million)

The local currency resources of the industrial development bank consisted originally of 12.5 million lire ($4.5 million) subscribed by private banks and industrial corporations, and a loan of 12.5 million lire which the development bank obtained from the central bank of Turkey. Later, the bank also obtained from the government 36.6 million lire ($12.9 million) from counterpart funds of

Marshall Plan Aid.

2. Iceland -

Power Development Loan ($2.45 million)

The local currency expenditures connected with the project amount to 90.4 million Icelandic Kronur ($5.58 million). Approximately 14 million Kronur will be financed through loans from the municipalities of Reykjavik and Akureyre. The remainder through the Icelandic Government come mainly from ECA counterpart funds.

- Int - Dev - Advisory Board

FILE COPY

August 15, 1952

Dear Martin:

The International Development Advisory Board, which was first headed by Nelson Rockefeller and now by Eric Johnston, is holding a meeting in San Francisco September 24 and 25, under the auspices of various business groups in California. They expect to have present representative business and financial leaders, as well as certain representatives of the Point 4 Program and the United States Department of Commerce to discuss the problems of private foreign investment.

The Board asked my opinion as to the desirability of inviting a few outstanding people from Latin America. It seems a good idea to me and I suggested you. Ambassador Restrepo-Jaramillo has also been invited and hopes to attend. I have accepted an invitation to be present and sit on one of the discussion panels.

You should receive a formal invitation within the next few days and I trust very much you will be able to attend. Perhaps you intend to make a visit to the States after the Mexican conference and, if so, I think it would be worth your while to include this San Francisco meeting.

I am hopeful that they will have present some really leading American industrialists and bankers and that the discussions will be realistic and practical. I am sure that it would be very useful for you to hear the discussions and to tell something of the problems in your country and the possibilities for investment.

I am leaving next week for Brazil and will arrive back in Mexico on September 2. I am looking forward to seeing you there.

Sincerely,

Bob

R. L. Garner
Vice President

Mr. Martin del Corral
President
Banco de Bogota
BOGOTA, Colombia

RLGarner:ms

R... E. Investment

August 11, 1952

Dear George:

You will remember our conversation with Paul Heffernan. I am sending you to pass on to him, a paper which has been prepared by John Adler in the Economic Department which I think will give him some basic material that may help him in his consideration of this problem of local financing of public and private investment in underdeveloped countries.

I am also sending to you to pass on to him, copy of a study which has just been produced by Alter which has a bearing on the subject. E, 2-2-9.

I forget whether I suggested when I last spoke to you on the telephone that Paul might find it helpful to read "Domestic Financing of Economic Development", United Nations Publication Serial Number 1951 IIB1.

Yours ever,

W.A.B. Iliff

W. A. B. Iliff
Assistant to the President

Mr. George L. Martin
Director of Marketing
International Bank for Reconstruction
and Development
33 Liberty Street
New York 5, N. Y.

WABIliff:cl

FORM NO. 75 (3.52) INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

ROUTING SLIP

Date

NAME	ROOM NO.
Central Files	210

	Action		Note and File
	Approval		Note and Return
	Comment		Prepare Reply
	Full Report		Previous Papers
	Information		Recommendation
	Initial		Signature

Remarks

From E. Lopez Herrarte

Int-Dev-advisory Board

INTERNATIONAL DEVELOPMENT ADVISORY BOARD

WASHINGTON 25, D.C.

August 20, 1952

Dr. Enrique Lopez-Herrarte
Department of Technical Assistance
and Liaison
International Bank for Reconstruction
and Development
Washington, D. C.

Dear Dr. Herrarte:

Thank you very much for being so helpful to me the other day. Your suggestions were good and I am proceeding to take advantage of your assistance.

Already we have been able to convince the Ambassador of Pakistan and Mr. Amjad Ali that the latter should remain in this country for a few extra weeks to participate in the San Francisco Conference we are planning for September 24 and 25.

Your enthusiasm and spirit of helpfulness are most refreshing.

Sincerely yours,

Frank C. Kimball

Frank C. Kimball
Executive Assistant to the Chairman

Record Removal Notice

File Title	Barcode No.
Operational - Investments - Promotion and Protection of Private and Foreign Investment - Correspondence - Volume 2	30357182

Document Date	Document Type
August 27, 1952	Letter

Correspondents / Participants
To: Mr. Charles W. Curtis, Executive Selection Staff, Department of State
From: Hector Prud'homme

Subject / Title
Position of Special Assistant for Private Investments

Exception(s)
Personal Information

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Kim Brenner-Delp	August 16, 2023

INTERNATIONAL DEVELOPMENT ADVISORY BOARD
WASHINGTON 25, D.C.

September 10, 1952

Mr. Robert L. Garner
Vice President
International Bank for
Reconstruction and Development
1818 - H Street, N. W.
Washington, D. C.

Dear Mr. Garner:

Thanks to your many courtesies and those of some of your staff, we have been able to complete plans for the Pacific Coast Conference on private capital investment in international development, to be held in San Francisco on September 24 and 25. A preliminary draft of the program is enclosed.

We did have some difficulty in locating top brass for participation on the program. It seems that half of the leading businessmen in the United States are either in Europe or on their way. We feel, however, that we have a good representation and will have a good attendance.

You will notice that we have you down on the panel for the first day of the Conference. Each person on the panel will be asked to make a specific contribution with respect to the topic of discussion. The panel leader will rely upon you for information concerning the work of the Bank in making economic surveys of various countries and also for an explanation of how World Bank loans have paved the way for industrial development and capital investment.

Since the Conference will be held at the Fairmont Hotel we have called your secretary and suggested to her that we make reservations for you there. We would appreciate it very much if you would check in at the Conference Headquarters at the Fairmont upon your arrival so that we might be able to keep in touch with you with respect to any receptions that might be scheduled later, and also so that the Chairman and Panel Leader will be able to locate you.

We are suggesting to the Chairman of the September 24 panel that he hold a briefing session with all participants that morning at 10 a.m. Please check at the Conference Headquarters concerning the place of this meeting.

Mr. George Barnes and I, of the Board's staff, will be at the Fairmont Hotel on and after September 15.

Sincerely yours,

Frank C. Kimball

Frank C. Kimball
Executive Assistant to the Chairman

Enclosure

Investment

September 24, 1952

Dear Mr. Nichols:

I have been away for two months in Brazil and find your letter of August 6 on my return. This will explain the fact that I could not reply before, and have missed your visit in Washington. If you were to come through again, I should be naturally very glad to see you.

With the kindest regards,

Yours sincerely,

P.N. Rosenstein-Rodan

Mr. John R. Nichols
Department of Economics
The Ohio State University
Columbus 10, Ohio.

cc: Files

PNRR/js

+6?
1205
7165

INTERNATIONAL DEVELOPMENT ADVISORY BOARD
WASHINGTON 25, D.C.

September 30, 1952

Mr. Robert L. Garner
Vice President
International Bank for Reconstruction
and Development
Washington, D. C.

Dear Mr. Garner:

Many thanks for your assistance in putting over the Pacific Coast Conference on Private Capital Investment in International Development.

Mr. Kimball of my staff has told me how helpful you have been to him in formulating the program for the conference. We of the Board also enjoyed and appreciated your contribution during the various sessions.

At a time convenient to you, I would like to discuss with you what we might do to further the recommendation of the Board that an International Finance Corporation be established as an affiliate of the International Bank for Reconstruction and Development.

Thanks again for your excellent help to our Board.

Sincerely yours,

Eric Johnston

Eric Johnston, Chairman

INTERNATIONAL DEVELOPMENT ADVISORY BOARD
WASHINGTON 25, D.C.

September 30, 1952

Mr. Robert L. Garner
Vice President
International Bank for Reconstruction
and Development
Washington, D. C.

Dear Mr. Garner:

Many thanks for your assistance in putting over the Pacific Coast Conference on Private Capital Investment in International Development.

Mr. Kimball of my staff has told me how helpful you have been to him in formulating the program for the conference. We of the Board also enjoyed and appreciated your contribution during the various sessions.

At a time convenient to you, I would like to discuss with you what we might do to further the recommendation of the Board that an International Finance Corporation be established as an affiliate of the International Bank for Reconstruction and Development.

Thanks again for your excellent help to our Board.

Sincerely yours,

Eric Johnston, Chairman

Confidential

Private Investment
General.

Mr. Eugene R. Black

October 8, 1952

Leonard B. Rist

Mr. August Maffrey.-

Mr. Maffrey told me today that Mr. Andrews, head of TCA, has asked him whether he would be available to make a new study of the problem of developing American private foreign investment. The general idea is that this question will be in the foreground as soon as a new administration is established in Washington and that an up-to-date report on the subject would be very much needed in January or February.

Mr. Maffrey has not yet accepted, but he is seriously considering the proposal. He has made it clear that if he did accept he would want to make it a one-man's report and while consulting each department or agency who may be interested or connected with the subject, he would not want his report to be the work of a committee.

He asked whether he could expect some cooperation from the part of the International Bank and asked that you be informed of this request. I assured him that, on my part, I would do all I could to be of assistance to him, but I am sure you will wish to give him personally the same assurance on behalf of the Bank.

√X Maffrey, August

K.A. Bohr
Economic Staff

October 9, 1952

UNITED STATES PRIVATE INVESTMENT GUARANTY PROGRAM

I. Introduction

Since April 1948 the United States Government has operated two programs to provide insurance protection for new American investments abroad against the risk of inability to convert foreign currency receipts into dollars and against the risk of loss through confiscation or expropriation.1/ At present the main investment guaranty program is administered by the Mutual Security Agency, while a specialized guaranty program dealing only with informational media is handled by the Department of State. In both cases the actual guaranty contracts are executed on behalf of the Government by the Export-Import Bank. This paper is concerned with the main guaranty program; a few remarks on the informational program are included in the final section of the paper.

All countries participating in Point Four and Mutual Defense programs are eligible to participate in the guaranty program. (Table I). However, before guaranties can be made available for investments in a country an agreement must be made between the country and the United States providing for the treatment to be accorded foreign currency, property and claims acquired by the United States Government if guaranties are invoked. These agreements assure that foreign currencies acquired by the United States Government through the program will be accorded the same treatment given to currency in the hands of private investors arising from similar transactions. They also deal with the use the United States Government may make of such currencies and provide that any claims acquired by the United States as the result of guaranties may be negotiated on a diplomatic level rather than litigated through foreign judicial or administrative tribunals.

1/ Under authority of the Economic Cooperation Act of 1948, as amended and the Mutual Security Act of 1951 as amended.

At the present time, of the 56 countries eligible to participate in the guaranty program the following 15 governments have signed the required agreements and guaranties have actually been made in the six countries indicated.

Country	Kind of Guaranty Covered
Austria	Convertibility, Expropriation
Belgium	" "
China (Formosa)	" "
Denmark	" "
* France	" "
* Germany (Federal Republic)	" "
Greece	" "
Israel	" "
* Italy	" "
* The Netherlands	" "
Norway	" "
Philippines	" "
* Turkey	Convertibility
* United Kingdom	"
Yugoslavia	Convertibility, Expropriation

* Countries in which guarantied investments have actually been made.

The total amount of guaranties issued from April 3, 1948 through September 30, 1952 is $38 million (Table II). Of this amount $33.6 million in guaranties is still outstanding.1/ The extent of this activity may be judged by the fact that during the years 1948 through 1951, United States private direct investment in OEEC countries, the only area where the program has been active, was $231 million with estimates for the first half of 1952 bringing it up to about $300 million. Not all the investments included in this figure would have been eligible for guaranties and some guaranties for investments already made in 1952 are yet to be issued. United States private direct investment in all countries except Canada was $430 million in 1950 and $330 million in 1951.

1/ The difference, $4.4 million, is accounted for as follows:

$1.0 million	-	cancellation of guaranty contracts
1.6 "	-	reduction in value of guaranty contracts
1.8 "	-	dollar payments of foreign currency earnings effected through regular banking channels reducing United States Government's liability.

II. The Investment Guaranty Program

A. Eligible Investments

To be eligible for this program an investment must be new; it must have an expected life of at least five years, (in the case of loans three years is sufficient) and it must be approved by the foreign government for guaranty purposes.1/ It may be in the form of an equity investment, a loan investment or a royalty agreement and the contributions may be made in cash; materials or equipment; patents, processes or techniques; or services.

B. Convertibility Guaranties

This type of guaranty provides protection against the risk of inability to convert investment receipts into dollars. Both transfers of earnings and repatriation of capital are protected. Convertibility cannot be insured in the face of exchange regulations and practices under which it is clear that conversion can be made only through the guaranty.

A convertibility guaranty does not insure against loss from devaluation or depreciation of the exchange rate for a foreign currency. It does, however, insure the transfer of receipts into dollars at approximately the rate at which exchange transactions are being made at the time of the transfer. The guaranty also protects against loss which might occur with the introduction of multiple exchange rates.

In making payment under this type of contract a basic reference rate for the foreign currency is used. This is usually the exchange rate for the currency used for assessing United States customs duties on importations from the country.2/ If when the investment is made, transfers of local currency

1/ Guaranty for convertibility of payments for capital goods and related services is available to a supplier if the contract has been appoved for dollar financing under the Mutual Security Program, calls for payment after the end of the current fiscal year and provides for payment in local currency if dollars are unavailable from usual sources.

2/ In cases where different rates are used for different commodities exported to the United States the reference rate will be the rate at which that country provided dollars on the date in question for the largest group (by annual value) of its imports from the United States.

receipts from investments can be made at approximately the reference rate, the investor is insured that he can transfer his receipts under the guaranty contract at 95% of the reference rate prevailing at the time he desires to make the transfer. (The 5% discount is to allow for minor fluctuations and such ordinary expenses as transfer commissions, cable transfer charges, etc. usually borne by foreign investors transferring local currency into dollars). Thus, if during the life of a guaranty contract a foreign government blocks transfers or institutes a multiple rate system under which there is a difference between the reference rate and the exchange rate for the service in dollars of investments, the investor is protected against loss from this blocking or rate differential.

The amount of protection given by a convertibility guaranty can vary within broad limits. These limits depend upon the amount and form of the investment. In the case of equity investment the maximum is normally 175% of the dollar amount (or dollar value) of the investment. For loan investments it is the value of the principal plus interest at a reasonable rate and for royalty agreements the sum of payments which can be reasonably expected over the life of the contract.

The amount of protection is distributed by years over the life of the contract in a schedule of conversion rights known as the "face amount". The face amount of the guaranty states the conversion rights cumulatively, year by year, in a schedule usually based on an estimate of the expected receipts from the investment (dividends, repayments of loans, royalty receipts, etc.). Failure of actual receipts to equal expectations in any one year simply means that the unused protection is carried forward to subsequent years. For equity investments the maximum rate at which protection may accrue is 100% of the amount invested in the first year with increments of 15% of the original investment per year until the maximum of 175% is reached in the 6th year.

The cost of the protection is computed from the face amount and is composed of two parts; 1% of the face amount of the guaranty for the year in question minus all receipts from the investment that have thus far been converted into dollars, and 1/4% of the largest face amount scheduled for any year during the life of the guaranty minus the face amount for the year in question.

An example may make this more clear. Assume an investment of $100,000 with protection accruing at the maximum rate. Assume that earnings are actually converted through usual banking channels at the rate of $10,000 per year and that the principal is not repatriated but protected each year to maximum allowable amount. Under these conditions a schedule of conversion rights and fees would appear as follows: (figures in thousands).

Contract Year	Face Amount	Conversion Rights 1/	1% Fee	Standby Amount 2/	1/4% Fee	Total Fee
1	100	100	1.00	75	.19	1.19
2	115	105	1.05	60	.15	1. 20
3	130	110	1.10	45	.11	1.21
4	145	115	1.15	30	.08	1.33
5	160	120	1.20	15	.04	1.24
6	175	125	1.25	0	0	1.25
7	175	115	1.15	0	0	1.15
8	175	105	1.05	0	0	1.05
9	175	95	.95	0	0	.95
10	175	85	.85	0	0	.85

1/ Face amount minus the accumulated receipts.
2/ Highest face minus face for each year.

Protection may be reduced or deferred during the life of the contract, and the contract may be cancelled by the investor at any time. But the face amount of guaranty coverage for any contract year may not be increased.

C. Expropriation Guaranties

This type of guaranty assures investors that in case of expropriation or confiscation they will be compensated in accordance with a formula fixed in the guaranty contract.

The nature of the protection varies with the form of the investment. For equity investments expropriation is deemed to have occurred if the foreign government prevents the exercise of substantial control over the investment for a period of one year. Taxation or regulation by the foreign government is not considered expropriatory unless it can be shown that the primary object is to divest the owners of the investment property. Contracts are usually written to treat as a total loss expropriation of either all the assets of a foreign enterprise or of a portion sufficient to destroy its value as a going concern.

For loan investments expropriation is deemed to have occurred if the foreign government prevents any repayment of principal for a period of one year or any payments of interest for a period of three years in cases where repayment of principal is deferred. This prevention of payments can occur either by direct intervention in the payments (other than through exchange regulations of a kind which can be covered by a convertibility guaranty) or as a direct consequence of expropriation of the borrower's property as described for equity investments. If the foreign government should assume the loan obligation on expropriation, a guaranty of this type cannot be invoked. However, under circumstances where the investor is lending to an existing subsidiary or acquiring a large proportion of the borrowers stock in addition to the loan transaction, the loan can be protected against expropriation of assets rather than against governmental prevention of payments under the loan.

In royalty agreements expropriation is deemed to have occurred under circumstances similar to those cited for loans. The prevention of payment of royalties must continue for a period of three years.

For equity investments protection under an expropriation guaranty may be obtained for the amount originally invested plus future earnings which the investor expects will be retained in the enterprise. For loan investments the maximum protection is the principal plus the interest called for in the loan instrument. In the case of royalty agreements protection can be obtained for a minimum amount of royalty payments if there is a firm obligation on the licensee to make payments which are of a fixed or minimum amount and if the reasonableness of such payments can be substantiated. The criterion of reasonableness is more important in this case than for a convertibility guaranty for in the latter case the earnings have already been established by their receipt in foreign currency before the liability of the United States government is called upon.

In the event of expropriation the loss will be determined for equity investments as the amount of dollars (a dollar value of other assets) originally invested adjusted to reflect subsequent operation by adding the investor's proportionate share of undistributed earnings and realized capital gains and subtracting the investors proportionate share of any capital distributions, operating losses or realized capital losses. For loan investments and royalty agreements the loss will be the sum of the unpaid obligations, principal, interest and royalty payments. But since the guaranty does not protect against insolvency of the borrower or licensee the loss may be adjusted downward if on the date of expropriation the books of the borrower do not show an excess of total tangible assets over total liabilities (including the guarantied loan and excluding capital and surplus). Such adjustment will reflect both the degree of impairment and the seniority of other obligations of the borrower.

The annual cost of an expropriation guaranty is usually 1% of the total dollar amount of protection. If protection is desired against partial expropriation which does not destroy the value of the foreign enterprise as a going concern,a higher fee is required.

III. The Informational Media Guaranty Program

This is a program for insuring convertibility for short-term transactions dealing with the production and distribution of informational media. Guaranties under this program do not cover investments in the usual sense but rather sales of books, periodicals, films, etc. And contrary to the practice followed with the M.S.A. program, guaranties are issued even when it is obvious that conversion can only be made through the guaranty itself. The same countries are eligible for this program as in the case of the M.S.A. program and participation is subject to the same conditions.

Since April 1948 guaranty contracts for over $13,000,000 have been issued and payments of over $6,600,000 have been made to convert foreign currencies into dollars under these contracts. Guaranties have been made in Austria, France, Germany, Italy, Netherlands and Norway.

TABLE I

COUNTRIES ELIGIBLE TO PARTICIPATE IN GUARANTY PROGRAMS

(Those Participating in Point Four and Mutual Defense Programs Authorized by the Mutual Security Act) as of July 1, 1952.

Afghanistan
Austria
* Belgium
Bolivia
Brazil
Burma
Chile
China (Formosa)
Colombia
Costa Rica
Cuba
* Denmark
Dominican Republic
Ecuador
Egypt
El Salvador
Ethiopia
* France
Germany (Federal Republic & West Berlin)
Greece
Guatemala
Haiti
Honduras
Iceland
India
Indochina
Indonesia
Iran
Iraq
Israel
* Italy
Jordan
Korea
Lebanon
Liberia
Libya
Luxembourg
Mexico
Nepal
* The Netherlands
Nicaragua
Norway
Pakistan
Panama
Paraguay
Peru
Philippines
* Portugal
Saudi Arabia
Thailand
Trieste
Turkey
* United Kingdom
Uruguay
Venezuela
Yugoslavia

---

* Including dependent overseas territories

TABLE II

INVESTMENT GUARANTIES ISSUED
(Through 30 Sept. 1952)

Company	Product of Foreign Enterprise	Amount of Guaranty Issued: Converti-bility	Amount of Guaranty Issued: Expropri-ation	Amount of Guaranty Issued: Total
France				
Concrete Chemicals Co.	Concrete Admixes	$ 90,000		$ 90,000
Carhart Refractories Co.Inc.	Refractories	70,000		70,000
Dana Corp.	Automotive Parts	200,000		200,000
Dow Corning Corp.	Silicones	61,381		61,381
Ford Motor Company	Trucks and Cars	920,108		920,108
Foster Wheeler Corp	Construction Engr.	213,500		213,500
Heyden Chemical Corp.	Streptomycin	300,000		300,000
Morrison-Knudsen Co.Inc.	Construction Engr.	252,000		252,000
National Fastener Corp.	Slide Fasteners	17,500		17,500
Singer Manufacturing Co.	Sewing Machines	717,000		717,000
Yoder Co., The	Metal-Working Mach.	204,500		204,500
TOTAL FRANCE (11 guaranties)		$3,045,989		$3,045,989
Germany				
Gardner-Denver Co.	Mine Car Loaders	$ 140,000		$ 140,000
Firestone Tire & Rubber Co.	Tires and Tubes	1,841,700	$1,052,400	2,894,100
Otis Elevator Co.	Elevators		250,000	250,000
TOTAL GERMANY (4 guaranties)		$1,981,700	$1,302,400	$3,284,100
Italy				
Associated Seed Growers, Inc.	Seed Cultivation	$ 87,500		$ 87,500
Caltex Oil Products Co.	Oil Refinery	4,630,000		4,630,000
National Aluminate Corp.	Boiler Compounds	1,331,000		1,331,000
Joseph Pacifico	Building Stone	20,000		20,000
Standard Oil Co. (N.J.)	Oil Refinery	14,487,500		14,487,500
W tinghouse Air Brake Co.	Railroad Equip.	60,300		60,300
TOTAL ITALY (6 guaranties)		$20,616,300		$20,616,300
The Netherlands				
H. H. Sonnenberg	Venetian Blinds	$ 175,000		$ 175,000
TOTAL NETHERLANDS (1 guaranty)		$ 175,000		$ 175,000
Turkey				
Charles Lockton	Pharmaceuticals	$ 96,863		$ 96,863
E. R. Squibb & Sons	Pharmaceuticals	2,711,450		2,711,450
TOTAL TURKEY (2 guaranties)		$ 2,808,313		$ 2,808,313

Continued next page ---------

Table II—Investment Guaranties Issued - page 2

Company	Product of Foreign Enterprise	Amount of Guaranty Issued: Convertibility	Expropriation	Total
United Kingdom				
Barber-Greene Co.	Construction Mach.	$ 47,565		$ 47,565
Godfrey L. Cabot, Inc.	Carbon Black	2,025,000		2,025,000
Cooper Alloy Foundry Co.	Stainless Steel Valves	153,500		153,500
Dictaphone Corp.	Dictaphones	350,000		350,000
Thomas A. Edison, Inc.	Miners Lamps	250,000		250,000
Euclid Road Machinery Co.	Earth-Moving Equip.	857,500		857,500
General Time Instruments Corp.	Clocks and Watches	1,000,000		1,000,000
Jacobs Manufacturing Co.	Drill Chucks	584,150		584,150
Metallizing Engineering Co.Inc.	Metal-spray Equip.	103,750		103,750
McGraw-Hill International Corp.	Publishing	40,000		40,000
Minneapolis-Honeywell Regulator Co.	Regulating Instruments	300,000		300,000
Parke, Davis and Co.	Pharmaceuticals	735,000		735,000
ocket Books, Inc.	Publishing	218,750		218,750
S.F. Appliances, Ltd.	Home Appliances	49,000		49,000
E.R. Squibb and Sons	Pharmaceuticals	735,000		735,000
Standard Brands, Inc.	Soluble Coffee	75,000		75,000
TOTAL UNITED KINGDOM (16 guaranties)		$7,524,215		$7,524,215
TOTAL ALL COUNTRIES (40 guaranties)		$36,151,517	$1,302,400	$37,453,917
Forward Contracting Guaranty				
France	Petroleum Refining	$550,000		$550,000
OTAL GUARANTIES ISSUED		$36,701,517	$1,302,400	$38,003,917

Source: Mutual Security Administration.

Private invest:

Mr. Leonard B. Rist

October 13, 1952

J. Burke Knapp

United States Private Investment Guaranty Program

M= Knapp

I was most interested to read Mr. Bohr's memorandum dated October 9 regarding the United States Private Investment Guaranty Program. Many thanks for your ready cooperation in this matter.

There is one point on which I should very much like to get further clarification; namely, the terms and conditions governing the disposition by the U. S. Government of foreign currencies which it may acquire under this program, What are the legislative requirements on this matter, what in practice are the policies which have been followed, and what difficulties, if any, have been encountered in negotiating the agreements with foreign governments on this matter. It does strike me that the practicability and usefulness of the guaranty approach may depend very largely upon the answers to the foregoing questions.

Would it be possible for Mr. Bohr to prepare a supplementary statement covering these questions.

JBK

JBKnapp:ehb

cc: Messrs. Schmidt, Larsen

Investment

FORM NO. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Messrs. Garner, Sommers, Demuth, Hoar, Knapp and Rucinski

DATE: October 9, 1952

FROM: Leonard B. Rist L.R.

SUBJECT: Attached memorandum

Please find herewith for your information a description of the guaranties granted by United States Government agencies to foreign private investors.

This study was requested by Mr. B. Knapp.

Mr DeMuth

C
O
P
Y

October 15, 1952

Mr. Stanley Andrews, Administrator
Technical Cooperation Administration
Department of State
Washington, D. C.

Dear Mr. Andrews:

I am now in a position to agree to lend you my services as a part-time consultant on the joint TCA-Department of Commerce program for stimulating private investment in underdeveloped countries. You would have had an earlier reply to the proposition you made me in Washington last week, but I wanted, first, of course, the approval of my Company and, second, the blessing and promised cooperation of those in MSA concerned with the same program. I now have both.

I would be able to devote two days a week to the assignment until the first of the year. This time would be spent either in Washington or in New York, in the latter case for the purpose of consultations with business organizations and individual business firms located here. I would want to serve as a consultant purely, with no administrative or operating responsibilities either during the preparation of my report or after its completion. I would want no assistants (except stenographic, which I might provide myself) and would not wish to be obligated to work through any interdepartmental or other committees in Washington. However, I would undertake to consult the U.S. Government agencies, including TCA, the Department of Commerce, MSA, the Department of State, and the Export-Import Bank, which are concerned with the encouragement of private investment in underdeveloped areas and also with the International Bank and to give full justice to their views in my report.

On these terms and on the lines outlined to you in our conversation last week, I am prepared to make a diagnosis of the problem of stimulating private investment in foreign countries and to write a prescription for an effective program designed substantially to increase such investment. I would prefer that no publicity be given to my appointment, if it should be made, in order that I might work in peace and make my own contacts as the work progresses. (I see that Al Friendly has already reported my appointment in his column in the Washington Post of October 14, but this cannot be helped.)

As regards my headquarters in Washington, I understand that both you and Mr. Schneider would be able to make an office available to me. Since two offices would be an unwarranted and unnecessary luxury, I suggest that I be given space wherever it is most readily available; or, if you prefer, I should be glad to arrange for my own quarters on "neutral" ground.

If you wish to proceed with the appointment on the basis suggested in this letter, I am prepared to begin work next week in Washington either on Monday, October 20, or Tuesday, October 21.

Sincerely yours,

AM

Vice President

Mr. August Maffry

Private invest.

Mr. Eugene R. Black October 20, 1952.

Leonard B. Rist

Stimulation of Private Investment

You may be interested in the attached copy of a letter which Gus Maffrey sent to Mr. Andrews. According to the letter Maffrey has accepted the position as a consultant on the "Stimulation of Private Investment in Underdeveloped Countries".

You will remember that Maffrey had informed me of his intention to take on the job and had asked for our cooperation.

Attachment

cc: Mr. Garner
Mr. Sommers
Mr. Demuth

JHAdler/med.

Private investment

FORM No. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Files

DATE: October 20, 1952.

FROM: John H. Adler JHA.

SUBJECT: Stimulation of U. S. Private Foreign Investment

I had today a brief conversation with Mr. Irvin Anderson, Assistant to Mr. R. Johnson, Assistant Director of MSA, about reports that MSA was preparing a major study on the stimulation of U. S. private investment. Mr. Anderson told me that only last week MSA had begun some internal discussions on the subject in connection with TCA, but that it was not planned that any action would be taken before early next year. He said that MSA hoped that Mr. Maffry and other consultants would come up with some practical ideas and that, at the moment, the field was wide open for suggestions. It was not intended to get other government departments involved in these discussions because Mr. Harriman is anxious to establish and clarify the position of his own agency. Mr. Anderson pointed out, however, that tentatively, intra-agency agreement had been reached on two points: (a) that private investment, excluding investment in oil, could not be a major source of dollars available to foreign countries since it was not likely to exceed $500 million per year; and (b) little would be gained through an increase of promotional and information activities by the government, but that other incentives would have to be relied upon.

In the course of the conversation Mr. Anderson inquired about the IFC proposal. In particular, he wanted to know what objections had been raised against it in Mexico. I got the impression that his interest in the IFC reflected to some extent previous discussions in his agency.

cc: Messrs. Black
Rist
Sommers

Copy in MSA

Investment

FORM No. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Messrs. Black, Garner, Hoar, Demuth, C.de Iongh, Knapp, Rucinski, Sommers

DATE: October 29, 1952

FROM: Leonard B. Rist L.R

SUBJECT: Study of U. S. Department of Commerce on Private Foreign Investment

Attached please find a copy of a letter which I received from Mr. Carlton L. Wood of the U. S. Department of Commerce requesting the Bank's assistance in the preparation of a study on the impediments of U. S. private investment abroad, and on means of removing those impediments.

Mr. Wood, who was recently appointed Director of the "Investment Study Staff" at the Department of Commerce, and Mr. Sethian, his deputy, called on me on October 28. He explained that his study was to be completed by the beginning of January and that it was concerned mainly with assembling factual information. Policy implications or practical suggestions are expected to be explored by Mr. A. Maffry, now consultant to Mr. Andrews (TCA) for that purpose.

I propose to discuss the Bank's reply to the request in the Economic Staff Committee and report on the progress of our cooperation with the Department of Commerce to the Staff Loan Committee.

Attachments

C
O
P
Y

DEPARTMENT OF COMMERCE
Office of International Trade
Washington, D.C.

Mr. Leonard Rist, Director,
Economic Staff, IBRD,
1818 H Street, N.W.,
Washington, D. C.

October 28, 1952.

Dear Mr. Rist,

Attached for your information is a preliminary outline of the study of impediments to private foreign investment which the Department of Commerce, in cooperation with other agencies, is conducting pursuant to Sub-Section 516(c) of the Mutual Security Act as amended (copy attached).

The general approach employed is to select basic factors in the investment picture and then to analyze them on a topical basis in Part I and on a geographical basis in Part II. The analysis in Part I will draw not only on the country material of Part II, but also on other literature available on the subject. This will be supplemented by interviews with representative American firms and business organizations in respect to successful and unsuccessful foreign investment ventures.

As you know, the Congress has asked the Department to seek the cooperation of the International Bank for Reconstruction and Development in this undertaking, and we appreciate your expressed willingness to be of assistance. Of course, we should be grateful for any suggestions, comments, or background material which you would care to offer, but at this stage of the study we feel the special need to have information which you can best supply concerning studies already made and material already collected by the Bank. In particular we have in mind the following:

1. Studies of general or specific factors affecting private investment and private foreign investments. (Such a study of legal limitations understood to have been made by Miss Virginia Morsey and Paul Dickens' study of U. S. firms.)

2. Surveys of facilities for mobilizing local or foreign capital for private investment. (Especially for countries studied by IBRD Survey Missions.)

3. Any studies completed relating to the need for new international investment institutions.

4. Criteria used in lending, by area and by project.

5. Methods used to determine whether private capital is available for projects.

6. Any material relating to experience in the marketing of Bank securities.

Sincerely yours,
(Signed) Carlton L. Wood, Director
Investment Study Staff

Enclosures

C
O
P
Y

EXCERPTS FROM MUTUAL SECURITY ACTS OF 1951 AND 1952.

I. ACT OF 1951 (PUBLIC LAW 165, 82ND CONGRESS)

"Encouragement of Free Enterprise"

"SEC.516. It is hereby declared to be the policy of the Congress that this Act shall be administered in such a way as (1) to eliminate the barriers to, and provide the incentives for, a steadily increased participation of free private enterprise in developing the resources of foreign countries consistent with the policies of this Act, (2) to the extent that it is feasible and does not interfere with the achievement of the purposes set forth in this Act, to discourage the cartel and monopolistic business practices prevailing in certain countries receiving aid under this Act which result in restricting production and increasing prices, and to encourage where suitable competition and productivity, and (3) to encourage where suitable the development and strengthening of the free labor union movements as the collective bargaining agencies of labor within such countries."

II. ACT OF 1952 (PUBLIC LAW 400, 82ND CONGRESS)

"Section 7(k). Amend section 516 by inserting '(a)' after 'SEC. 516' and by adding at the end of such section the following new subsections:

"'(b) To accomplish the purpose of clause (1) of subsection (a) of this section, under the coordination of the Director for Mutual Security, the Mutual Security Agency, cooperating with private business groups and governmental agencies to the fullest extent possible, shall encourage a greater participation by private capital in the guaranty program and shall develop broad criteria to facilitate such participation, including programs consistent with the purposes of the Act for International Development.

"'(c) The Department of Commerce shall, in cooperation with such groups and agencies (including the International Bank for Reconstruction and Development), conduct a thorough study of the legal and other impediments, foreign and local, to private investment abroad, and the methods and means whereby those impediments can be removed or decreased and shall make recommendations thereon to the Director for Mutual Security.

"'(d) The Department of State, in cooperation with other agencies of the Government concerned with private investment abroad, and taking into account the study and recommendations described in subsection (c) of this section, shall accelerate a program of negotiating treaties of commerce and trade, or other temporary arrangements where more suitable or expeditious, which shall include provisions to encourage and facilitate the flow of private investment to countries participating in programs under this Act.

"'(e) The Technical Cooperation Administration, taking into account the study and recommendations described in subsection (c) of this section, shall encourage and facilitate a greater participation by private industrial groups or agencies in private contracts awarded by the Administration, and shall, in cooperation with the Department of Commerce and the Mutual Security Agency, find and draw attention of private enterprise to opportunities for investment and development in underdeveloped areas.

"'(f) The reports required by section 518 of this Act shall include detailed information on the implementation of this section.'"

C
O
P
Y

Investment Study Staff/OIT
Draft 2, 10/21/52

IMPEDIMENTS TO PRIVATE FOREIGN INVESTMENT

---

* See Appendix I for detail

** See Appendix II for detail

C
O
P
Y

Investment Study Staff/OIT
Draft 2, 10/21/52

Impediments to Private Foreign Investment
APPENDIX I
Part I - Detail

BASIC FACTORS AFFECTING PRIVATE FOREIGN INVESTMENT

Chapter 1 **Role of Private Investment in the World Economy of Today**

Characteristics of National Economies and International Economic Relations Today
Increased Role of Public Funds in Relation to Private Investment
Role of Foreign Private Investments in Relation to Private Investment in General
Relationship between Trade and Foreign Investment

Chapter 2 **Survey of Foreign Investment Patterns**

Amount and Character of Foreign Investments in General
- Amount and Character of Private Foreign Investments
- Amount and Character of Public Foreign Investments
- Patterns of Public Loans and Grants as Compared with Private Investment

Patterns of United States Foreign Investments
Form and Types of Investment in Relation to Amount and Geographical Distribution of Capital

Chapter 3 **Basic Non-Economic Factors Influencing Decisions of Parties to Private Foreign Investment**

General Insecurity and Uncertainty
Political Instability
Weaknesses of Government Administration
Aspirations for National and Social Welfare
Nationalist Opposition to Foreign Investment
Political Orientation
Defense Preparations
Traditional and Cultural Resistance to New Ventures
Differences in Social Customs, Cultural Traditions, and Environment
Misunderstandings as to Actual Conditions or Intentions

Chapter 4 **Basic Economic Factors Influencing Decisions of Parties to Private Foreign Investment**

Lack of Economic Stability
Insufficient or Underdeveloped Resources
Inadequate Basic Facilities - Transportation, Power, Port and Storage Facilities
Insufficient Local Investment Capital
Inadequacy of Labor Supply and Productivity
Other Labor Problems
Cost Factors and Relative Levels of Profits

Inadequate Business, Banking, and Commercial Facilities
Differences in Standards of Business Practices
Limitations in Local Markets
Limitations Resulting from the Volume or Character of Foreign Trade
Shortages of Foreign Exchange Leading to Trade and Exchange Restrictions
Long-term Capacity to Service Foreign Debts
Limitations Resulting from International Trade and Financial Ties

Chapter 5 The Role of Government in Influencing and Regulating the Flow and Pattern of Private Investments

Government Policies with Regard to Economic Development and Investment Activities
Regulatory Controls Affecting Private Investment
Taxation Policies and Practices
Effects of Direct Government Participation in Investment Activities
Government Promotion of Private Investment
Treaties and International Commitments

Chapter 6 Private Foreign Investment Facilities and Methods

Forms and Techniques of Private Foreign Investments
Facilities of the Securities Market and Other Investment Institutions
Licensing Arrangements
Locating Investment Opportunities
Bringing Potential Investor and Opportunity Together
Investment Promotion Activities in Private Field

C
O
P
Y

APPENDIX II

Investment Study Staff
Draft I, 9/9/52

Impediments to Private Foreign Investment
COUNTRY STUDIES, GENERAL

A. Political, Social and Cultural Factors Affecting Private Foreign Investment

Brief analysis of the non-economic factors which affect private foreign investment. Consideration when pertinent of such factors as the nature of the government, political parties, stability, responsibility and efficiency of government administration, nationalism, international orientation; vulnerability to attack or invasion, defense preparations; level of social development; health, education, population pressures, religious and racial prejudices.

B. The Nature of the Economy

1. General nature and level of economic activity

Consideration in general terms of the principal industries, development of natural resources, labor and technical competence, power, transportation and communications, national income indicators, level of profits, financial stability, general economic trends, development programs.

2. Economic organization

Analysis of those factors of the economic organization which bear on foreign investments, such as business structure, labor unions, land ownership and tenure, role of government in the economy.

3. Position in world economy

Analysis of trade patterns, markets and sources of supply, financial ties, commercial treaties, trade and payments arrangements, balance of payments position, participation in international economic organizations.

4. Basic investment opportunities

Evaluation (in terms of basic resources, facilities, markets and other factors mentioned in Section B) of the investment potential of the country.

C. Financial Resources and Facilities

Consideration of available domestic sources of investment capital such as banks, bankers, insurance companies, investment trusts, private individuals, and government. Consideration of character, type, flexibility, domestic and foreign connections of local institutions. Present utilization of foreign sources of capital. For capital exporting countries, evaluation of these and other factors governing capital export.

D. Role of Government in Economy

Consideration of general attitude toward free enterprise and degree of government planning and protectionism; toward expropriation and nationalization. Description of nature and extent of direct government participation in trade, industry and finance. Participation in bilateral and multilateral commercial and financial agreements. Analysis of effects of government policy and attitude on the promotion or limitation of private investments, particularly foreign investments. When applicable consideration of policies and practices toward restrictive business practices.

E. Government Controls Affecting Private Investment

Survey of government controls and practices with regard to the following: entry and scope of foreign investment, screening procedures, foreign participation in capital and management, property acquisition by foreigners, exploration and development of mineral resources by foreigners, transfer of earnings and dividends, repatriation of capital, other exchange restrictions, reinvestment of profits, convertibility, guaranties, subsidies and rebates, trade controls, labor-industry relations, access to credit and basic facilities, taxation, labor legislation, entry and employment of foreign personnel, operating permits and concessions, other controls and general treatment of foreign investors by officials and courts, etc. For capital exporting countries, consideration of controls affecting outflow of capital, controls over financial institutions and capital market.

F. <u>The Nature and Mechanism of Foreign Investment in Country X</u>

Description of present status of foreign investments in the country by amount, type and source. Effect of U. S. and other foreign investments in country. Review of practices with regard to cooperation or competition between foreign and local interests. Presentation of as much detail as available on the experience of private foreign firms in making or attempting to make investments, experience with various types of private foreign investment, experiences with application of laws and regulations, access to appropriate officials, difficulties of locating investment opportunities, making contacts with potential borrowers, and experiences in consummating deals. For capital exporting countries, description of present status of capital investments abroad by amount, area, type and current rate of capital outflow.

G. <u>Summary and Conclusions - Country X as a Market for Private Foreign Investment</u>

Evaluation of the impediments to private foreign investments in Country X, distinguishing between business and non-business risks. Consideration of these impediments in relation to investment incentives, including the level of profits, and in relation to profits and degree of security in the U. S. and other capital exporting countries. Recommendations as to feasible means of overcoming or reducing obstacles to foreign private investment in Country X, by government or private action, either here or abroad, within a reasonably short period of time.

FORM No. 57
(5-48)

Economics

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OCT 30 REC'D

OFFICE MEMORANDUM

Private Inv.

TO: Messrs. Black, Garner, Hoar, Demuth, C.deIongh, Knapp, Rucinski, Sommers

DATE: October 29, 1952.

FROM: Leonard B. Rist L.R.

SUBJECT: Study of U. S. Department of Commerce on Private Foreign Investment

Attached please find a copy of a letter which I received from Mr. Carlton L. Wood of the U. S. Department of Commerce requesting the Bank's assistance in the preparation of a study on the impediments of U. S. private investment abroad, and on means of removing those impediments.

Mr. Wood, who was recently appointed Director of the "Investment Study Staff" at the Department of Commerce, and Mr. Sethian, his deputy, called on me on October 28. He explained that his study was to be completed by the beginning of January and that it was concerned mainly with assembling factual information. Policy implications or practical suggestions are expected to be explored by Mr. A. Maffry, now consultant to Mr. Andrews (TCA) for that purpose.

I propose to discuss the Bank's reply to the request in the Economic Staff Committee and report on the progress of our cooperation with the Department of Commerce to the Staff Loan Committee.

Attachments

C
O
P
Y

DEPARTMENT OF COMMERCE
Office of International Trade
Washington, D.C.

Mr. Leonard Rist, Director,
Economic Staff, IBRD,
1818 H Street, N.W.,
Washington, D. C.

October 28, 1952.

Dear Mr. Rist,

Attached for your information is a preliminary outline of the study of impediments to private foreign investment which the Department of Commerce, in cooperation with other agencies, is conducting pursuant to Sub-Section 516(c) of the Mutual Security Act as amended (copy attached).

The general approach employed is to select basic factors in the investment picture and then to analyze them on a topical basis in Part I and on a geographical basis in Part II. The analysis in Part I will draw not only on the country material of Part II, but also on other literature available on the subject. This will be supplemented by interviews with representative American firms and business organizations in respect to successful and unsuccessful foreign investment ventures.

As you know, the Congress has asked the Department to seek the cooperation of the International Bank for Reconstruction and Development in this undertaking, and we appreciate your expressed willingness to be of assistance. Of course, we should be grateful for any suggestions, comments, or background material which you would care to offer, but at this stage of the study we feel the special need to have information which you can best supply concerning studies already made and material already collected by the Bank. In particular we have in mind the following:

1. Studies of general or specific factors affecting private investment and private foreign investments. (Such a study of legal limitations understood to have been made by Miss Virginia Morsey and Paul Dickens' study of U. S. firms.)

2. Surveys of facilities for mobilizing local or foreign capital for private investment. (Especially for countries studied by IBRD Survey Missions.)

3. Any studies completed relating to the need for new international investment institutions.

4. Criteria used in lending, by area and by project.

5. Methods used to determine whether private capital is available for projects.

6. Any material relating to experience in the marketing of Bank securities.

Sincerely yours,
(Signed) Carlton L. Wood, Director
Investment Study Staff

Enclosures

EXCERPTS FROM MUTUAL SECURITY ACTS OF 1951 AND 1952

I. ACT OF 1951 (PUBLIC LAW 165, 82ND CONGRESS)

"Encouragement of Free Enterprise"

"SEC. 516. It is hereby declared to be the policy of the Congress that this Act shall be administered in such a way as (1) to eliminate the barriers to, and provide the incentives for, a steadily increased participation of free private enterprise in developing the resources of foreign countries consistent with the policies of this Act, (2) to the extent that it is feasible and does not interfere with the achievement of the purposes set forth in this Act, to discourage the cartel and monopolistic business practices prevailing in certain countries receiving aid under this Act which result in restricting production and increasing prices, and to encourage where suitable competition and productivity, and (3) to encourage where suitable the development and strengthening of the free labor union movements as the collective bargaining agencies of labor within such countries."

II. ACT OF 1952 (PUBLIC LAW 400, 82ND CONGRESS)

"Section 7(k). Amend section 516 by inserting '(a)' after 'SEC. 516.' and by adding at the end of such section the following new subsections:

"'(b) To accomplish the purpose of clause (1) of subsection (a) of this section, under the coordination of the Director for Mutual Security, the Mutual Security Agency, cooperating with private business groups and governmental agencies to the fullest extent possible, shall encourage a greater participation by private capital in the guaranty program and shall develop broad criteria to facilitate such participation, including programs consistent with the purposes of the Act for International Development.

"'(c) The Department of Commerce shall, in cooperation with such groups and agencies (including the International Bank for Reconstruction and Development), conduct a thorough study of the legal and other impediments, foreign and local, to private investment abroad, and the methods and means whereby those impediments can be removed or decreased and shall make recommendations thereon to the Director for Mutual Security.

"'(d) The Department of State, in cooperation with other agencies of the Government concerned with private investment abroad, and taking into account the study and recommendations described in subsection (c) of this section, shall accelerate a program of negotiating treaties of commerce and trade, or other temporary arrangements where more suitable or expeditious, which shall include provisions to encourage and facilitate the flow of private investment to countries participating in programs under this Act.

"'(e) The Technical Cooperation Administration, taking into account the study and recommendations described in subsection (c) of this section, shall encourage and facilitate a greater participation by private industrial groups or agencies in private contracts awarded by the Administration, and shall, in cooperation with the Department of Commerce and the Mutual Security Agency, find and draw the attention of private enterprise to opportunities for investment and development in underdeveloped areas.

"'(f) The reports required by section 518 of this Act shall include detailed information on the implementation of this section.'"

59430

Investment Study Staff/OIT
Draft 2, 10/21/52

IMPEDIMENTS TO PRIVATE FOREIGN INVESTMENT

Introduction

PART I*
BASIC FACTORS AFFECTING PRIVATE FOREIGN INVESTMENT

Chapter 1	Role of Private Investment in the World Economy of Today
Chapter 2	Survey of Foreign Investment Patterns
Chapter 3	Basic Non-Economic Factors Influencing Decisions of Parties to Private Foreign Investment
Chapter 4	Basic Economic Factors Influencing Decisions of Parties to Private Foreign Investment
Chapter 5	The Role of Government in Influencing and Regulating the Flow and Pattern of Private Investments
Chapter 6	Private Foreign Investment Facilities and Methods

PART II**
AREA SURVEYS OF DETERRENTS TO PRIVATE FOREIGN INVESTMENT

Chapter 7	Topical Survey of Findings
	Section A: Latin America
Chapter 8	General Survey of Latin America
Chapters 9 to 15	Argentina, Brazil, Chile, Colombia, Cuba, Mexico, Venezuela
	Section B: Europe
Chapter 16	General Survey of Europe
Chapters 17 to 22	Belgium, France, Germany, Italy, Netherlands, United Kingdom
	Section C: Near East and Africa
Chapter 23	General Survey of Near East and Africa
Chapters 24 to 28	Egypt, Iraq, Turkey, Union of South Africa, Dependent Territories in Africa
	Section D: Far East
Chapter 29	General Survey of Far East
Chapters 30 to 34	Australia, India, Indonesia, Japan, Philippines

PART III
SURVEYS OF IMPEDIMENTS AS SEEN BY U. S. FIRMS AND ASSOCIATIONS

PART IV
CONCLUSIONS AND RECOMMENDATIONS

Summary and Outlook
Recommendations

---

* See Appendix I for detail
** See Appendix II for detail

Investment Study Staff/OIT
Draft 2, 10/21/52

Impediments to Private Foreign Investment
APPENDIX I
Part I - Detail

BASIC FACTORS AFFECTING PRIVATE FOREIGN INVESTMENT

Chapter 1 Role of Private Investment in the World Economy of Today

Characteristics of National Economies and International Economic Relations Today
Increased Role of Public Funds in Relation to Private Investment
Role of Foreign Private Investments in Relation to Private Investment in General
Relationship between Trade and Foreign Investment

Chapter 2 Survey of Foreign Investment Patterns

Amount and Character of Foreign Investments in General
- Amount and Character of Private Foreign Investments
- Amount and Character of Public Foreign Investments
- Patterns of Public Loans and Grants as Compared with Private Investment

Patterns of United States Foreign Investments
Form and Types of Investment in Relation to Amount and Geographical Distribution of Capital

Chapter 3 Basic Non-Economic Factors Influencing Decisions of Parties to Private Foreign Investment

General Insecurity and Uncertainty
Political Instability
Weaknesses of Government Administration
Aspirations for National and Social Welfare
Nationalist Opposition to Foreign Investment
Political Orientation
Defense Preparations
Traditional and Cultural Resistance to New Ventures
Differences in Social Customs, Cultural Traditions, and Environment
Misunderstandings as to Actual Conditions or Intentions

Chapter 4 Basic Economic Factors Influencing Decisions of Parties to Private Foreign Investment

Lack of Economic Stability
Insufficient or Underdeveloped Resources
Inadequate Basic Facilities - Transportation, Power, Port and Storage Facilities
Insufficient Local Investment Capital
Inadequacy of Labor Supply and Productivity
Other Labor Problems
Cost Factors and Relative Levels of Profits
Inadequate Business, Banking, and Commercial Facilities
Differences in Standards of Business Practices

APPENDIX II

Investment Study Staff
Draft I, 9/9/52

Impediments to Private Foreign Investment
COUNTRY STUDIES, GENERAL

A. Political, Social and Cultural Factors Affecting Private Foreign Investment

Brief analysis of the non-economic factors which affect private foreign investment. Consideration when pertinent of such factors as the nature of the government, political parties, stability, responsibility and efficiency of government administration, nationalism, international orientation; vulnerability to attack or invasion, defense preparations; level of social development; health, education, population pressures, religious and racial prejudices.

B. The Nature of the Economy

1. General nature and level of economic activity

Consideration in general terms of the principal industries, development of natural resources, labor and technical competence, power, transportation and communications, national income indicators, level of profits, financial stability, general economic trends, development programs.

2. Economic organization

Analysis of those factors of the economic organization which bear on foreign investments, such as business structure, labor unions, land ownership and tenure, role of government in the economy.

3. Position in world economy

Analysis of trade patterns, markets and sources of supply, financial ties, commercial treaties, trade and payments arrangements, balance of payments position, participation in international economic organizations.

4. Basic investment opportunities

Evaluation (in terms of basic resources, facilities, markets and other factors mentioned in Section B) of the investment potential of the country.

C. Financial Resources and Facilities

Consideration of available domestic sources of investment capital such as banks, bankers, insurance companies, investment trusts, private individuals, and government. Consideration of character, type, flexibility, domestic and foreign connections of local institutions. Present utilization of foreign sources of capital. For capital exporting countries, evaluation of these and other factors governing capital export.

D. Role of Government in Economy

Consideration of general attitude toward free enterprise and degree of government planning and protectionism; toward expropriation and nationalization. Description of nature and extent of direct government participation in trade, industry and finance. Participation in bilateral and multilateral commercial and financial agreements. Analysis of effects of government policy and attitude on the promotion or limitation of private investments, particularly foreign investments. When applicable consideration of policies and practices toward restrictive business practices.

E. Government Controls Affecting Private Investment

Survey of government controls and practices with regard to the following: entry and scope of foreign investment, screening procedures, foreign participation in capital and management, property acquisition by foreigners, exploration and development of mineral resources by foreigners, transfer of earnings and dividends, repatriation of capital, other exchange restrictions, reinvestment of profits, convertibility, guaranties, subsidies and rebates, trade controls, labor-industry relations, access to credit and basic facilities, taxation, labor legislation, entry and employment of foreign personnel, operating permits and concessions, other controls and general treatment of foreign investors by officials and courts, etc. For capital exporting countries, consideration of controls affecting outflow of capital, controls over financial institutions and capital market.

F. The Nature and Mechanism of Foreign Investment in Country X

Description of present status of foreign investments in the country by amount, type and source. Effect of U. S. and other foreign investments in country. Review of practices with regard to cooperation or competition between foreign and local interests. Presentation of as much detail as available on the experience of private foreign firms in making or attempting to make investments, experience with various types of private foreign investment, experiences with application of laws and regulations, access to appropriate officials, difficulties of locating investment opportunities, making contacts with potential borrowers, and experiences in consummating deals. For capital exporting countries, description of present status of capital investments abroad by amount, area, type and current rate of capital outflow.

G. Summary and Conclusions - Country X as a Market for Private Foreign Investment

Evaluation of the impediments to private foreign investments in Country X, distinguishing between business and non-business risks. Consideration of these impediments in relation to investment incentives, including the level of profits, and in relation to profits and degree of security in the U. S. and other capital exporting countries. Recommendations as to feasible means of overcoming or reducing obstacles to foreign private investment in Country X, by government or private action, either here or abroad, within a reasonably short period of time.

Investment

Mr. Garner November 3, 1952

Harold Graves

The meeting on a proposal to establish a clearing house for information about international private investment is to be held tomorrow morning, November 4, from 10 A.M. to noon. The place of the meeting is at the offices of the Motion Picture Association at 1600 I Street, N.W.

Among the other participants in the conference will be representatives of the U. S. International Development Advisory Board, of the Export-Import Bank, of the Social Security Administration, of TCA, and of the Office of International Trade in the Department of Commerce.

cc: Mr. Patterson French

HGRAVES:mb

Private invest

November 3, 1952

Mr. Carlton L. Wood, Director
Investment Study Staff
Department of Commerce
Office of International Trade
Washington 25, D.C.

Mr Rist

Dear Mr. Wood,

I thank you for your letter of October 28. It is hardly necessary to reitarate the International Bank's desire to extend to you all possible assistance in your present work. Encouragement of foreign private investment is one of the main tasks of our institution and we are, therefore, happy to seize this opportunity to cooperate with you in this regard.

As a first step you have asked us for material on a certain number of precise points. I shall take them up one after the other.

1. Studies of general or specific factors affecting private investment and foreign private investment:
In this regard I am sending you as documents A

- a study made by Miss Virginia Morsey on legal limitations affecting investment in foreign securities in this country. (restricted)

as document B:

- a study made some years ago by Mr. Paul Dickens on attitude of U.S. firms towards expanding their operations outside of the United States. (Restricted)

In addition we are preparing as document C:

- a summary of the findings of our "General Survey Missions" with respect to your problem, by Mr. Lombard (Restricted).

2. Surveys of facilities for mobilizing local and foreign capital for private investment.

In this respect you will find as document D:

- a description of institutions involved in the financing of economic development in selected countries. This study which was directed by Professor Frank Fetter is not quite complete and not quite up to date. As a reference it might serve a useful purpose. (Unrestricted)

as document E:

- a description of the International Bank's experience with investment financing organizations in Turkey, Ethiopia and Mexico. This paper was prepared by Mr. Gerald Alter. (Unrestricted).

as document F:

- a report on the development of the private capital market of Colombia prepared by Mr. Manero and reviewed by Mr. John Adler. (Unrestricted).

3. Studies relating to the need for new internal investment institutions.

In this respect you will find as document G:

- the report submitted by the International Bank to the Economic and Social Council on the proposed "International Finance Corporation". (Unrestricted).

as document H:

- a speech by Mr. Eugene Black on the same subject. (Unrestricted)

as document I:

- an excerpt from the International Bank's last Annual Report. (Unrestricted)

as document J:

- a report of the President of the International Bank to the Executive Directors on the reaction of the business interests to the proposed "International Finance Corporation". (Restricted).

4. Criteria used in IBRD lending by area and by project:

As I understand it, this question relates to a definition of the considerations the Bank takes into account when it determines the amount and the purpose of its loans in a given country (rather than in an area). In this connection I am sending you

as document K:

- excerpts from our Annual Reports relating to lending policy (Unrestricted)

as document L:

- a speech made by me to the Bank's staff on the subject of creditworthiness. (Restricted)

as document M:

- a speech made by me before the International Conference on agricultural and cooperative credit. (Unrestricted)

5. Methods used to determine whether private capital is available for projects:

Our Articles of Agreement preclude us from lending unless "the Bank is satisfied that in the prevailing market conditions the borrower would be unable otherwise to obtain the loan under conditions which in the opinion of the Bank are reasonable for the borrower." There is no standardized method by which this can be ascertained. Information given to us by the prospective borrower, coupled with our general familiarity and constant contact with the possible sources of financing, banks, investment houses or manufacturers, form the basis for this determination.

It may be useful to point out here that there are also several ways in which the Bank can facilitate the participation of private investors in its lending operations. It is the Bank's practice to obtain from its borrower bonds set in such form and possibly with such guarantees (mortgage on plants, etc.) as would be required by private bondholders. This has allowed the Bank to sell to private investors - with and without its guarantee - some of the bonds representing Bank loans. In one instance (South Africa) a Bank loan was informally associated with another loan to the same borrower granted by private lenders who would not have been able or willing to take up the entire amount of the borrowing. In another instance (K.L.M.) a New York bank directly participated without the Bank's guarantee in the loan made by the IBRD. In no case has there been any indication that private investors would have been willing to make financing available without the Bank.

6. Any material relating to experience in the marketing of Bank securities:

There is no study available at present on the distribution of our bonds by holders, although I hope to be able to send you one very shortly. Broadly speaking, our bonds issued in the United States have been overwhelmingly subscribed to by institutional investors (some of them foreign), and the evidence available so far tends to indicate that individual investors are the exception. I do not believe, however, that our bonds can be taken as a good sample of the public's interest in foreign investment. While the purchasers and holders of of IBRD securities always express a great interest in our lending operations, it is clear that the de facto multiple government guarantee attached to them has been of considerable value in creating a market for them. As a result, they appear more comparable to U.S. Government bonds and their yield has moved parallel to that of U.S. Government securities.

I shall be pleased to discuss with you at your convenience any further point you may have in mind.

Yours sincerely,

Leonard B. Rist,
Director, Economic Staff

att.

Investment

FORM No. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Mr. R. A. Wheeler

FROM: C. W. Flesher

DATE: November 6, 1952

noted RAW

SUBJECT: Foreign Investment Guarantees by Mutual Security Agency

The information contained in this memorandum was obtained from Mr. Mattingly who is in the Guarantee Section of M.S.A.

M.S.A. was created by a law in 1949. One of the first functions of M.S.A. was the guarantee of U.S. investors against inconvertibility in Marshall Plan countries. Guarantees in the aggregate were limited to $200 million and guarantees are to remain in force until 1962. In 1951 the law was amended to include a guarantee against expropriation, and in 1952 it was further amended to include all countries outside the "Iron Curtain".

To date, M.S.A. has guaranteed investments of about $40 million against inconvertibility. While the latest amendment (1952) has greatly increased the number of applications for guarantees, they do not approach the total value permitted by the law.

According to Mr. Mattingly, the U.S. investor is satisfied with the protection which M.S.A. offers. In his opinion, the reason why industry has not shown more interest is because of factors which make foreign investments financially unattractive. The more important factors are:

1. Payment of foreign, corporate, social and income taxes.

2. Payment of taxes on earnings brought into the U.S.

3. Too much U.S. and foreign government interference.

4. Guarantee fees of 1% against expropriation and 1/4% against inconvertibility while desirable further reduce the margin of profit.

It was Mr. Mattingly's belief that greater interest in foreign investments on the part of industry would be obtained only by tax law revisions which would permit the investor to retain a greater percentage of earnings. The amount of net return on invested capital is apparently the controlling factor.

cc. Dr. E. W. Rembert
Mr. S. Aldewereld

Copy in M.S.A.

Investment

TELEPHONE: CENTRAL 7474

Mr. Stiff would you pls. reply
ERB

UNILEVER HOUSE,

BLACKFRIARS, E.C.4.

7th November, 1952.

NOV 10 REC'D

Mr. Eugene R. Black,
President of the
International Bank for Reconstruction and Development,
Washington 25, D.C.

cc Mr. Rosen

Dear Mr. Black,

You will no doubt have noted that the Norwegian Government have tabled a "Prices and Rationalisation Bill", which is intended to give the Government absolute control over industry and trade. The alleged object of this Bill, of which you will find a summary enclosed, is to ensure a stable economy, but the proposed means are such that the function of business leaders is reduced to a mere guardianship under the active direction of government officials. The Bill contains numerous restrictions, one of them being the limitation of dividends of joint stock companies to a maximum of 5 %. It is true that exceptions from this rule would be possible for new ventures, but these would no doubt be granted for a certain time only, after which nobody knows what will happen. From the summary you will see that the state administration would get enormous powers which they could use arbitrarily.

Whilst realising that the Norwegian Government will not particularly welcome criticism from abroad, I cannot help thinking that this is a matter of more than domestic importance, and I wonder if nothing could be done to warn them of the damage they are doing to their chances of attracting foreign capital. I can think of no one who could utter such a warning with greater authority than the President of the International Bank. Do you think you could, either privately or in public, make a stand against these harmful proposals ? In case you think it unwise in your position to do so yourself, you would certainly be able to induce some authoritative American official, businessman or editor to raise his voice. I would very much like to know how you feel about this.

With kind regards, I am,

Yours sincerely,

P Rykens.

P. Rykens.

ack. 11/19/52

encl.

NORWEGIAN PRICE CONTROL LEGISLATION

One of the most controversial bills ever submitted to the Norwegian Parliament, the Labour Government's proposal for a permanent price law, was published in Oslo on September 19. Combining the provisions of the temporary price law of 1947 and of the trust law of 1926, the new proposal is based principally on the recommendations of the Price and Rationalisation Committee of 1947, though these have been substantially revised and the scope of the bill, prepared by the Ministry of Finance, is more limited than that of the Committee's recommendations.

It is proposed to give the Government power to decree ceiling and minimum prices and to promulgate rules for calculating current prices, estimating costs and price labelling, and also rules covering production, distribution, and other economic factors deemed essential for the control and regulation of prices, profits, and trade terms.

The provisions of the bill would be administered by the Ministry of Finance through the Price Directorate and its regional offices. In addition, there would be a government-appointed five-member Price Council with limited authority.

The imposition of improper prices or trade terms would be a punishable offence. Unreasonably high prices might be checked either by direct control or by the threat of control. The right to sell below ceiling prices is established in principle, but the specific provisions for establishing this right are to be drawn up by the authorities. Industrialists and traders will be forbidden (1) to refuse to sell goods which they have produced or obtained for the purpose of selling; (2) to curtail, alter or discontinue their business without the approval of the authorities. The authorities can compel the owner of a firm to modernise or improve production and working methods if they consider it necessary and also to introduce such standardisation of goods and services as they may deem necessary. It will be an offence to start new businesses or expand existing ones without permission from the authorities; owners of firms may also be compelled to restrict their business or move it to another locality.

Annual dividends on corporate stock are to be limited to 5 per cent on company profits totalling 10,000 kroner or more. However, the Price Directorate could approve the distribution of higher dividends, and also give advance assurance of such approval if this would facilitate the adoption of a socially desirable rationalisation plan, the establishment of a new enterprise, or the expansion of an established company.

Mr. Robert L. Garner | November 10, 1952

Leonard B. Rist

Study on Foreign Investments by Department of Commerce.

pc being held -

Mr. Bury called me up to find out what we were doing in connection with the Department of Commerce inquiry. I showed him the letter sent to Mr. Wood. Nov. 3

He was particularly pleased that Miss Morsey's study of the legal limitations to insurance companies investment in foreign bonds had been included, and quite understandably, expressed the great interest of the Australians in this particular aspect of the problem. As a matter of fact, Australia is probably the only country besides Canada in which insurance companies and savings banks might be tempted to invest at present.

I told Mr. Bury that the Department of Commerce study was not concerned with recommendations but that Gus Maffry was working on these. I also told him that I would suggest to you to talk to Gus about this aspect of the problem when he comes next week.

Investment

NOV 18 REC'D

UNITED NATIONS

NATIONS UNIES

WORLD HEALTH ORGANIZATION

ORGANISATION MONDIALE DE LA SANTÉ

Office of the Director General
Bureau du Directeur Général

Palais des Nations, GENÈVE
Télégr.: UNISANTÉ, GENÈVE

DECLASSIFIED
AUG 16 2023
WBG ARCHIVES

Ref. :

GENEVA, 10 November 1952.

PERSONAL ATTENTION

Dear Mr. Black,

One of the important aspects of economic development with which all of us have been concerned is exploring methods of encouraging private enterprise to invest its capital in the parts of the world which are so badly in need of such development. Under Council Resolution 368(XIII), your Organization is entrusted with the task of exploring methods to promote the financing of productive private enterprise. It is for this reason that I am passing on to you what seems to me to be an idea of some merit which relates to this important question.

It seems that the political situation acts as a deterrent, especially as a result of the nationalization of industries or expropriation which has occurred in some countries. A plan to guarantee to private enterprise its capital investment against hazards such as these seems to us to warrant consideration. This could be achieved by providing insurance for such capital investment, the insurance being provided through an international finance corporation and designed to cover only the hazards which could result from nationalization or expropriation. This provision for insuring capital investment by private enterprise should be considered as supplemental to some of the other plans being pursued relative to the establishment of an international finance corporation.

Should you and your staff find that this idea has merit, I would be quite content if you would pursue the development of it in such manner as may be warranted.

Yours sincerely,

Brock Chisholm

Brock Chisholm, M.D.
Director-General

Mr. E.R. Black
Executive Director
International Bank for Reconstruction
and Development
WASHINGTON 25, D.C.

ack. 11/25/52

NATIONS UNIES

UNITED NATIONS

NOV 18 REC'D

ORGANISATION MONDIALE
DE LA SANTÉ

WORLD HEALTH
ORGANIZATION

Palais des Nations, GENÈVE
Télégr.: UNISANTÉ, GENÈVE

Office of the Director General
Bureau du Directeur Général

Ref. :

DECLASSIFIED
AUG 16 2023
WBG ARCHIVES

GENEVA, 10 November 1952.

PERSONAL ATTENTION

Dear Mr. Black,

One of the important aspects of economic development with which all of us have been concerned is exploring methods of encouraging private enterprise to invest its capital in the parts of the world which are so badly in need of such development. Under Council Resolution 368(XIII), your Organization is entrusted with the task of exploring methods to promote the financing of productive private enterprise. It is for this reason that I am passing on to you what seems to me to be an idea of some merit which relates to this important question.

It seems that the political situation acts as a deterrent, especially as a result of the nationalization of industries or expropriation which has occurred in some countries. A plan to guarantee to private enterprise its capital investment against hazards such as these seems to us to warrant consideration. This could be achieved by providing insurance for such capital investment, the insurance being provided through an international finance corporation and designed to cover only the hazards which could result from nationalization or expropriation. This provision for insuring capital investment by private enterprise should be considered as supplemental to some of the other plans being pursued relative to the establishment of an international finance corporation.

Should you and your staff find that this idea has merit, I would be quite content if you would pursue the development of it in such manner as may be warranted.

Yours sincerely,

Brock Chisholm, M.D.
Director-General

Mr. E.R. Black
Executive Director
International Bank for Reconstruction
and Development
WASHINGTON 25, D.C.

NOV 17 4 47 PM 1952
RECEIVED
INTERNATIONAL BANK FOR RECONST. AND DEVEL.

ack. 11/25/52

Investment

Mr. Leonard B. Rist
Mr. Richard H. Demuth
Mr. Davidson Sommers

November 24, 1952

J. Burke Knapp

— Not attached.

Please find attached two articles recently published by Norman Littell regarding private investment abroad. The first of these seems to me pretty worthless, but the second has an interesting account of some specific actions being taken by individual foreign countries to create a favorable "climate" for foreign investment.

JBKnapp:ehb
Encl.

Investment

November 19,1952.

Dear Mr. Rykens:

Mr. Black has read your letter of November 7 about the "Prices and Rationalization Bill" recently introduced into the Norwegian Parliament. Mr. Black has just gone to Europe and before he left he asked me to send you his reply.

We agree that the measures proposed in the Bill may affect the inflow into Norway of private investment capital. It would be difficult to devise any set of measures as comprehensive as these which would not have external repercussions as the price of the search for internal monetary stability.

Mr. Black feels, however, that any intervention by him (or the Bank) at this stage would be construed as pressure, rather than as disinterested advice, and might therefore have the opposite effect to the one which you intend.

Although Mr. Black cannot follow your suggestion, he has asked me to say that he was glad to have your point of view. We have this whole question of "climate" for private foreign investment very much in mind. Any concrete examples of hindrances to a freer flow of investment capital are helpful to us in making a general case in favor of the removal of obstructions to foreign investment.

I am,

Yours sincerely,

W.A.B. Iliff

W. A. B. Iliff
Assistant to the President.

Mr. P. Rykens X
Unilever House
Blackfriars
LONDON, E.C. 4, ENGLAND.

X Norway Gen.

AIRMAIL

WABIliff/mo. cc: Messrs. Cope, Stevenson, Miss Ladue.

Investment

December 8, 1952

Mr. Luis G. Legorreta
Banco Nacional de Mexico
Mexico, D.F.

legal

Dear Mr. Legorreta:

Thank you for your letter of December 3.

Please call on us if we can be of further assistance.

Sincerely yours,

(Signed) Davidson Sommers

Davidson Sommers
General Counsel

DS/km

L.

Investment

FILE COPY

December 3, 1952.

Mr. Arthur H. Pattou
5031 Cedar Springs
Dallas 9, Texas.

Dear Mr. Pattou:

Mr. Garner has asked that some references to literature on the problems of private international investment be forwarded to you. A list of selected references is attached.

In the U.S. Government, the Technical Cooperation Administration and the Department of Commerce are presently engaged in exploring methods of increasing private investments in Point Four countries. More extensive information might be available from these agencies.

Very sincerely,

John H. Adler
Assistant to the Director
Economic Staff

Att:

JHAdler/jab

FILE COPY

SELECTED REFERENCES ON PRIVATE FOREIGN INVESTMENT

U.S. Department of Commerce:	The U.S. in the World Economy (Statistical data on prewar U.S. investments)
	Balance of Payments, 1949-1951; Supplement to the Survey of Current Business (Statistical data on postwar U.S. investments)
France:	Data on New Investments by Area, 1945-51, in Le Monde - October 28, 1952.
Economic Commission for Latin America:	Economic and legal status of foreign investments in Latin America. (Individual country surveys)
United Nations:	Foreign Investment Laws and Regulations of the Countries of Asia and the Far East, 1951 - II.F.1
	Effects of Taxation on Foreign Trade and Investment 1950 - XVI - 1.
National Planning Association:	Case Studies of U.S. Business Experience Abroad (in progress).
National Foreign Trade Council:	Private Enterprise and Point IV, 1949.
National Industrial Conference Board:	Obstacles to Direct Foreign Investment. New York, 1951.
International Chamber of Commerce -	Financing Economic Development - Paris, 1950.
	Draft International Code for Fair Treatment of Foreign Investment.
	Government Guaranties to Investors - Paris, 1951.
League of Nations:	Conditions of Private Foreign Investment. Princeton, 1946.
Virginia Law Review: November, 1950	N. Littell, Obstructions to Private Investment Abroad.
U.S. Chamber of Commerce:	Investment Opportunities in British Africa
U.S. Department of State Bulletin, Vol.XXVII No.699, November 17, 1952:	"Achievements of Public and Private Investment in Underdeveloped Areas".
Mutual Security Administration:	"Investment Guaranty Manual".

FILE COPY

I.B.R.D:	Report on Proposal for an International Finance Corporation, 1952.
U.N:	Debate on IBRD Report (Plenary Meetings 606 to 610, 613 to 615 of the 14th Session of ECOSOC).
	"Government Funds and Private Investment" (E/C2/328). Written statement presented by the International Chamber of Commerce before the 14th Session of ECOSOC.
	Debate on fiscal incentives to increase the international flow of private capital. (Plenary Meetings 626 and 627 of the 14th Session of ECOSOC).
Columbia Federal Savings & Loan Association:	Private Capital Formation in Latin America, 1951.
More General References:	Sir Arthur Salter; Foreign Investment. Princeton, 1951.
	Gray Report to the President on Foreign Economic Policies, 1950.
	Partners in Progress: Report to the President by the International Development Advisory Board, March, 1951.
FAO	Report on International Investment and Financing. Washington, 1949.
OEEC	Report on International Investment. Paris, 1950.
	Investment in Overseas Territories.
National Association of Manufacturers; 1949:	Capital Export Potentialities After 1952.
U.N:	Methods of Financing Economic Development in Underdeveloped Countries, 1949 - II.B.4.
	Measures for Economic Development of Underdeveloped Countries, 1951 - II.B.2.
See Also	Studies of particular areas. These generally contain references to the problems and achievements of private foreign investment in these areas.
	Studies of particular industries such as petroleum.

FORM NO. 75 (3. 2) INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

ROUTING SLIP	Date 11-28

NAME	ROOM NO.
~~Mr Barangai~~	~~402~~
Central Files	208

	Action		Note and File
	Approval		Note and Return
	Comment		Prepare Reply
	Full Report		Previous Papers
	Information		Recommendation
	Initial		Signature

Rem

From GENERAL FILES AND CORRESPONDENCE, chives Division

Investment

UNITED STATES SAVINGS AND LOAN LEAGUE

...Founded in 1892...

EXECUTIVE OFFICES - 221 NORTH LA SALLE STREET, TELEPHONE CENTRAL 6-2234

CHICAGO 1, ILLINOIS

JOHN URBANEK
Assistant Vice President

November 25, 1952

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C.

Attention: Dr. Baranyai

Dear Dr. Baranyai:

Thank you once again for your time and efforts in discussing with Mr. Divers, Dr. Schuon, Herr Flatz and me the international investment problem we brought you yesterday.

I know that Dr. Schuon and Herr Flatz were particularly gratified to speak with you. Mr. Divers and I greatly appreciated the opportunity to have your counsel on this matter.

Sincerely yours,

John Urbanek

JU/jrc

Investment

November 25, 1952.

Dear Dr. Chisholm:

In Mr. Black's absence in Europe I am replying to your letter of 10 November about a plan to guarantee to private enterprise its capital investment against hazards resulting from nationalization or expropriation.

In our studies connected with the proposal to establish an International Finance Corporation, we have kept this idea in mind. I may say, however, that we have reason to think that the idea would not be altogether acceptable to an important segment of the financial community, in the United States at all events, and, anyhow, the practical difficulties of working out something of the kind are not easily surmounted. Moreover, the experience under existing United States legislation authorizing guarantees of this kind, supports our view that the idea does not meet with wide acceptance. We are, however, continuing to study this particular proposal together with other measures which have been suggested as a means of increasing the flow of private investment in the underdeveloped parts of the world.

I shall put your letter before Mr. Black on his return to Washington.

Yours sincerely,

W.A.B. Iliff

W. A. B. Iliff
Assistant to the President.

Dr. Brock Chisholm
Director-General
World Health Organization
Palais des Nations
GENEVA, SWITZERLAND.

AIRMAIL

WABIliff/mo.
cc: Miss Ladue

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

November 21.

Mr. Iliff:

I think this is good but I would add that the experience under United States legislation authorizing such guarantees supports our opinion that the idea will not meet wide acceptance.

D. Sommers

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

Mr. Sommers

Any comment on my proposed reply?

W.I.

20/XI.

November 20, 1952.

Dear Dr. Chisholm:

In Mr. Black's absence in Europe I am replying to your letter of 10 November about a plan to guarantee to private enterprise its capital investment against hazards resulting from nationalization or expropriation.

In our studies connected with the proposal to establish an International Finance Corporation, we have kept this idea in mind. I may say, however, that we have reason to think that the idea would not be altogether acceptable to an important segment of the financial community, in the United States at all events, and, anyhow, the practical difficulties of working out something of the kind are not easily surmounted. We are, however, continuing to study this particular proposal together with other measures which have been suggested as a means of increasing the flow of private investment in the underdeveloped parts of the world.

I shall put your letter before Mr. Black on his return to Washington.

Yours sincerely,

W. A. B. Iliff
Assistant to the President.

Dr. Brock Chisholm
Director-General
World Health Organization
Palais des Nations
GENEVA, SWITZERLAND.

AIRMAIL

WABIliff/mo.
cc: Miss Ladue

Program For Increasing

PRIVATE INVESTMENT

In Foreign Countries

Report prepared for: Technical Cooperation Administration
Department of State

Department of Commerce

Mutual Security Agency

by:

August Maffry

December 18, 1952

PROGRAM FOR INCREASING PRIVATE INVESTMENT IN FOREIGN COUNTRIES

I. PROGRAM OF ACTION

1. All agencies of government concerned with promoting private investment abroad should launch a program of total diplomacy directed towards improving the climate for foreign investment in friendly foreign countries.

Good

2. The issue which has arisen as regards the right of foreign countries to "screen" new investments of American and other outside capital should not be allowed longer to impede the conclusion of additional bilateral investment treaties which are otherwise satisfactory.

3. Industry advisors should be assigned without delay to key diplomatic missions.

4. The Export-Import Bank should aggressively extend its activities by providing loan capital on attractive terms to domestic corporations willing to extend their operations in foreign countries and to foreign corporations for economic development, in both instances without the requirement of government guaranties.

But see qualif p vii

5. It should be made clear to Congress that it is entirely feasible to establish a government investment guaranty system which would effectively stimulate private investment abroad and at the same time be fully self-supporting.

Ouched

6. A policy decision should be made promptly as to whether tax measures for the stimulation of private foreign investment will be recommended to the Congress. If so, the partial tax exemption now extended to Western Hemisphere Trade Corporations should be extended to qualified corporations operating in other parts of the free world, and tax inducements should be offered to individual and institutional purchasers of foreign securities.

II. FINDINGS AND RECOMMENDATIONS

Findings

1. There are no pronounced trends in the amount or character of American private investment in foreign countries during the postwar period. Private investment abroad since the war has been very largely special purpose investment and highly concentrated geographically in the western hemisphere and in a few other areas with oil resources. There has been very little general purpose or portfolio investment except in Canadian securities and in obligations of the World Bank.

2. The problem of increasing private investment in foreign countries breaks down into three constituent problems of:

   a. Improving the climate for investment by large corporate investors already operating extensively abroad.

   b. Improving the interest in, and knowledge of, investment opportunities abroad, especially in the manufacturing field, on the part of small corporate investors.

   c. Reviving portfolio investment in foreign countries by individual and institutional investors.

3. The fields of public and private investment in foreign countries are largely mutually exclusive. The fields of transportation, communications, water control, and power generation fall almost entirely in the public sector. The production and distribution of goods and services fall almost entirely in the private sector. Existing sources of public or quasi-public capital have for policy and practical reasons stayed out of the field of manufacturing and distribution. An increase in private investment will not reduce the need for public investment but rather increase it, because basic facilities such as transportation, irrigation, and power are prerequisite to agricultural and industrial development.

4. Great emphasis should be placed in any program for increasing American private investment abroad on reviving the flow of portfolio investment from the United States to the industrialized countries of Europe and Japan in order to enable them to send venture capital in turn to the underdeveloped areas of Asia, Africa and Latin America. Less emphasis should be placed on the stimulation of a direct flow of private capital from the United States to these underdeveloped areas. Efforts in this direction are likely to be largely abortive because of the deep-seated inhibitions of American investors as regards investments in unfamiliar areas where the climate of investment is considered uncongenial.

Interesting but very questionable

5. The counterattraction of investment opportunities in the United States is strong and is likely to remain so. Accordingly, except where special motives are involved, extraordinary measures will be required to produce a substantial increase in the volume of American private investment in foreign countries.

Agree

6. The problem of increasing American private investment abroad presents massive difficulties. It will yield to action by the U.S. Government in the short-run only by the application of radical inducements with particular reference to noncontrolling investments in foreign securities by individuals and institutions. In the absence of such radical measures, the problem becomes one of bits and pieces to be attacked on many fronts by many agencies by many techniques. Results will be slow in coming, but the effort must be continued and intensified. There is no plausible way other than the stimulation of private investment to assist friendly foreign countries to achieve balanced economic development.

Why? See p. 6

??

Recommendations

1. All agencies of government concerned should join in an effort of total diplomacy directed towards improving the climate of investment in friendly foreign countries.

2. The work of the Department of Commerce in assembling and disseminating information on investment conditions abroad should be continued and extended.

3. The program of the Department of State for the conclusion of additional bilateral treaties containing assurances of fair treatment of American investors should proceed in regular course. The "screening" issue should not be allowed to block the conclusion of treaties which are otherwise satisfactory.

4. The U.S. Government should assist in every way possible the efforts of individual private investors to obtain concessions from foreign countries with a view to getting them extended to other private investors.

Very ambig.

5. The dissemination of information on specific investment opportunities abroad is useful but should be concentrated in one agency and kept within the bounds consonant with the limited results to be obtained by this means.

6. Industry advisors should be assigned without delay to key diplomatic missions.

7. The Export-Import Bank should aggressively extend its activities by (a) providing loan capital on attractive terms to domestic corporations willing to extend their operations in foreign countries and (b) making loans to foreign corporations for economic development without the requirement of government guaranties.

8. Every effort should be made by suasion and tangible inducements to secure the creation of international mutual funds, to induce the purchase of foreign securities by investment trusts and insurance companies, and in this way to assist in reestablishing a broad market in the United States for foreign securities.

Meaning?
Legal obstacles

9. The competent committees of Congress should be fully informed regarding the elements of an investment guaranty system which would effectively stimulate private investment abroad and be fully self-supporting. However, it should also be made clear to the Congress that there are alternative ways of accomplishing the same purpose, such as by extending the operations of the Export-Import Bank.

10. The Treasury and the Executive Branch should decide promptly whether tax measures to stimulate foreign investment are to be recommended to the Congress. If so, the emphasis should be on measures designed to encourage investments abroad by individual and institutional investors through the purchase of foreign securities and on measures designed largely or exclusively to attract new investment rather than to give tax relief to existing investors.

No - (see p6)

This is big issue (but see p.27)

In line with this principle, the partial tax exemption now accorded to Western Hemisphere Trade Corporations should be extended to qualified corporations operating anywhere in the free world, and tax inducements should be offered to individual and institutional purchasers of foreign securities.

Not consistent with foregoing

11. Government responsibility for promoting private investment abroad should be fixed at some point in the Executive Branch in order to secure coordination of the activities of various agencies concerned with different phases of the problem.

12. TCA and MSA should contribute to the stimulation of private investment

   a. by joining in the total diplomatic effort of the United States to improve investment climates in foreign countries.

   b. by promoting in every way possible the mobilization of local capital for productive investment.

   c. by identifying areas of private investment, especially in the industrial sphere, and assisting potential private investors to explore specific opportunities within these fields.

   d. by continuing in underdeveloped countries programs of technical assistance in government administration, education, public health and sanitation, and agriculture and in this way laying a necessary foundation for private investment.

III. PROGRAM FOR INCREASING PRIVATE INVESTMENT IN FOREIGN COUNTRIES

A. THE PROBLEM

The investment of private American capital in foreign countries since the end of the recent war has ranged between $400 million in 1946 and $1,700 million in 1951, including the reinvestment of earnings. A high proportion of these additions to private foreign investment during the postwar period has been in extractive industry, particularly in oil producing and refining properties, and has been concentrated geographically in the western hemisphere and in a few other areas such as the Middle East where investments by the oil companies have been important. Manufacturing investment has been mainly in the western hemisphere and in Europe.

1. Types of Investment

Of the two types of investment, namely, direct or controlling investment in foreign corporations by American corporations and the purchase of noncontrolling foreign securities by individual investors, the first accounts for the great bulk of the new investment abroad of private American capital during the postwar period, as it has, indeed, ever since the early thirties. The second type of investment, or portfolio investment, has consisted largely of the purchase of Canadian securities and of obligations of the World Bank.

Two features of private American investment in foreign countries since the end of the last war stand out. One is its dynamic character. As investment by the oil companies has fallen off, investment in mining and smelting operations in foreign countries has increased. In the field of manufacturing and distribution, there have been many new corporate investors going into foreign operations in many new and old fields of industry. As regards portfolio investment, the International Bank has appeared as an entirely new vehicle for private investment abroad.

The second outstanding feature of postwar private investment abroad is its special motivation. In the case of investments in extractive industry, the motivation has been the need for additional sources of raw materials, particularly oil, outside the United States and the desire on the part of the individual investing companies to maintain and, if possible, improve their relative position in the industry. In the case of investments abroad in manufacturing industry, the motivation has been the desire on the part of investing corporations to gain or maintain markets which would otherwise be closed to them because of currency and other restrictions on trade. There has been very little general investment in the sense of investment primarily or exclusively for the sake of a higher return. This is another way of saying that the amount of portfolio investment in foreign countries since the war has been very small.

2. Types of Investors

This analysis of the character of postwar private investment serves also to identify the principal types of investors. These are: (1) large corporate investors in extractive and manufacturing industry; (2) small corporate investors, chiefly in the manufacturing field; and (3) institutional and individual investors.

The problem of increasing private American investment in foreign countries resolves itself into a problem of:

(1) enhancing the already great interest of large corporate investors in foreign operations, which is largely a matter of improving the climate of investment;

(2) extending the interest of small corporate investors in foreign operations, which is a matter both of improving climate and spreading information regarding investment conditions and investment opportunities abroad; and

(3) reviving the interest of institutional and individual investors in foreign investment which, as indicated below, is the greatest potential possibility but one which calls for extraordinary measures of inducement.

3. Problem of "Climate"

The climate of foreign investment is correctly regarded as a fundamental means to any substantial or sustained increase in private investment abroad. The improvement of climate calls for the removal of existing obstacles to the flow of private American capital to foreign countries.

The approach to this problem in the business community in the United States, and especially in the leading business organizations, is what might be called a "purist" or "perfectionist" approach. The usual position is that, if investment climate were favorable, private capital would flow abroad in large volume and there would be no need for special inducements or extraordinary expedients. Indeed, in the view of the business community, the responsibility for removing obstacles to private investment rests squarely and solely on countries desiring outside capital. They have the choice between creating and maintaining a favorable climate for private foreign capital or not doing so and taking the inevitable consequences.

Furthermore, the argument runs, any measures taken by capital-exporting countries such as the United States to increase investment abroad by their nationals will serve only to weaken the incentive of capital-importing countries to improve the climate of investment. In this connection, the case of Canada is frequently cited as an example of correct behavior. Canada maintains obviously favorable conditions of investment for outside investors. Hence, if other countries followed the example of Canada, private capital, and American private capital in particular, would flow abundantly to all parts of the free world, and there would be no problem of stimulating private international investment.

In the same context, spokesmen for the business community frequently contend that loans by governments or government agencies or specialized institutions such as the International Bank for Reconstruction and Development, by offering "easy" sources of public capital to foreign countries, weaken the pressure on them to attract private capital. The business community often declaims, as a consequence, against government loans and insists that they be kept to an absolute minimum.

By contrast with this perfectionist business approach, there is what might be called the "practical" approach. This approach is based on the assumption that obstacles to private foreign investment are likely to persist despite all efforts to remove them or, in other words, that the ideal world envisaged by spokesmen for the business community will not in fact be achieved. The problem, therefore, is to find practical means, if possible, of overcoming existing obstacles to private foreign investment, while doing everything possible at the same time to reduce and eliminate them. This is the approach which has been emphasized in the foreign economic policy of the United States in the postwar period and especially since the beginning of large-scale foreign aid in 1948.

4. Special Problem of DOT's

There is a special problem of investment climate in the colonial possessions of European countries. The countries concerned are the United Kingdom, France, Portugal and Belgium in respect of their dependent overseas territories in Africa, Asia and elsewhere. The problem here is one of breaking through the virtually exclusive access to these territories enjoyed by nationals of the countries concerned. Foreign interests are effectively excluded by a variety of means, some open and some veiled. These include the close control by colonial offices of development activities in the public sphere (often broadly defined) and, in the private sector, the exclusive financial relationships between the financial institutions of metropolitan countries and the colonies. While there has been in recent years some lip service given by the governments of the countries concerned to the admission of foreign investment, the dependent overseas territories of European powers remain effectively closed to outside capital, including American capital.

5. Public vs Private Investment

It is fundamental to the problem of increasing private investment abroad that a clear distinction be made between the roles of public and private capital. Failure to make this distinction is responsible for the commonly held view that public investment abroad can be reduced to the degree that private investment is increased. This is not only fallacious; the contrary is actually the case. The fact is that large areas of investment are no longer of interest to private capital. These include land transportation and harbors, communications, development of water resources, and, for the most part, the generation of electric power. Investment in these fields will be public investment, either local or foreign, whatever the amount of private investment. Furthermore, public investment in these fields is a prerequisite for private investment in its particular field, which is that of the production and distribution of goods and services.

This is by no means a theoretical distinction. The International Bank, as a source of quasi-public funds for international investment, has made and is making loans almost exclusively for projects in the fields of transportation, water resources, and power. Loans to finance industrial projects are exceptional. The same thing is true of the loans of the Export-Import Bank, made entirely out of public capital, to finance foreign economic development. Neith institution operates in any significant way in the field of manufacturing investment.

There is also the notion that an increase in the flow of private American capital to foreign countries will help to fill the dollar gap and make less necessary the use of other means, such as increased imports or continued large-scale foreign aid, of financing United States exports at their current high level. This is also a misconception for several reasons. One is that private investment is not susceptible of short-run increase even by the application of altogether extraordinary expedients. Another is that private capital may not go at all to the countries or areas suffering most acutely from dollar shortage. Canada, Venezuela and the Middle East are examples of countries and areas which have received very large amounts of private American capital in recent years but which are not short of dollars. On the other hand, Europe, which has a chronic dollar shortage, has received a very small volume of private investment funds from the United States. A third reason is that private investment abroad, if successful, sets up a return flow of dividends and interest. Hence, unless the volume of new investment is continually accelerated, it will soon be exceeded by the return flow of investment service.

The investment of private American capital in foreign countries should be desired, not in order to reduce the need of public investment and not as a means of closing the dollar gap, but for its own essential economic purposes, which are to help foreign countries develop their resources and to improve their productivity to the mutual advantage of themselves and of the United States. Private investment is preferable, where a choice exists, to the investment of public capital, primarily because it carries with it the technology and management so necessary to the effective use of capital.

Good - but inconsistent with your notion of portfolio investment

6. Role of Other Capital-Exporting Countries

A third common misconception of the problem of foreign investment is that it is primarily a question of increasing the direct flow of capital from the United States, as the principal source of international capital, to the underdeveloped areas of the world which most need it. This is an over-simplification of the problem and one which leads to major errors in the attempts to solve it. It fails to take sufficiently into account the broad processes of international trade and investment in the free world and, in particular, leaves out of account the vital role of capital-exporting countries in Europe and of Japan in developing the resources of Africa, Asia and Latin America. To be specific, much more emphasis should be placed upon reviving the movement of private capital from the United States to Western European countries and to Japan in order that these countries will be better able in turn to export capital to underdeveloped areas. Unless the international movement of capital is restored in this sense, the problem of providing the underdeveloped areas with adequate outside capital will not be solved.

The advantages of this approach are several-fold. Western Europe and Japan have been familiar areas of investment for American investors in the past and could become so again under suitable inducements. On the other hand, the underdeveloped areas are familiar fields of investment for European and Japanese investors, who are prepared to invest in these areas free of many of the inhibitions which frustrate American investors. Furthermore, a movement of private capital from the United States to other industrialized countries of the free world and from them to underdeveloped areas could contribute significantly to the solution of the world's payments problem.

Contradicts point under para 5

7. Counterattraction of Domestic Investment

Another aspect of the problem of private investment abroad which must be kept continually in mind is the strong counterattraction of investment opportunities in the United States. Statistical comparisons between the return on foreign investment and domestic investment are difficult at best and may be misleading. It is clear, however, that the return on existing foreign investment is not sufficiently higher than the return on comparable domestic investment to compensate for greater risks of foreign investment. This is why, to repeat, there has been in recent years so little investment abroad by American investors mainly or primarily for the sake of higher returns and why, by the same token, most of the foreign investment in recent times has been corporate investment under special motivation.

Furthermore, there is no reason to believe that the counterattraction of domest: investment will become less in the years ahead or that, if it should become less there would be an increased outflow of private capital for investment abroad as a consequence. The return on domestic investments will become less attractive only if there is a downturn in business activity in the United States. If this should happen - and there are no good grounds for believing that it will in the near future - the repercussions on the world economy would be such as to make investment opportunities abroad even less attractive by comparison than they are today. It is a gross misunderstanding of the problem to assume that a business recession in the United States will produce a plethora of investible funds which lacking outlets in the United States, will be forced into investment in foreign countries.

If the attraction of domestic investment remains strong and if, therefore, no considerable amount of private investment abroad can be expected except under special motivation, if follows that extraordinary measures will be required to produce a substantially increased volume of private American investment in foreign countries.

B. MEASURES FOR INCREASING PRIVATE FOREIGN INVESTMENT

1. Improving Climate

The improvement of the climate for foreign investment throughout the free world is a basic measure for increasing private foreign investment in friendly foreign countries. To the extent that this is achieved, the need for other measures of stimulation will be obviated. However, improving conditions of investment in foreign countries belongs to what might be called the "slow accretions" approach to increasing private investment abroad as opposed to what might be called the "quick increase" approach involving the application of extraordinary expedients such as guaranty and tax measures.

Investment climate is not susceptible of quick or easy betterment and occasional setbacks must be expected, such as have occurred recently in Argentina, Bolivia, and Iran. Furthermore, fair and equitable treatment for American investors in foreign countries cannot be legislated by the American Congress or imposed by the executive agencies of the U.S. Government by any manner of bargaining or "threat" techniques. Such methods do not work as between free and equal countries.

2. Information on Conditions of Investment

The improvement of the climate for American private investment in foreign countries requires a variety of methods. The collection and dissemination of information regarding conditions of investment in itself contributes to a better climate simply because knowledge of these conditions and of the existing obstacles to private investment is more reassuring than ignorance. Such efforts are particularly important with respect to areas not familiar to American investors, including, for example, countries recently transformed from colonial status to political independence. The work of the Department of Commerce in assembling the disseminating information on investment conditions abroad should be continued and extended. Since it represents a type of activity which should be a permanent function of the Department of Commerce as the business department of the U.S. Government, the Department should be provided with adequate staff and appropriations for this purpose.

Contrast luke-warm recomm. on p vi

3. General Measures

Among the general measures for improving investment climates in foreign countries are (1) the reduction of barriers to larger imports into the United States, which will improve the capacity of foreign countries to service foreign investments in general and American investments in particular; (2) restoring convertibility to the major currencies of the world, which will contribute greatly to the willingness of investors to place their capital abroad; and (3) the creation of basic facilities, such as transportation, water resources, power and labor, as a means of improving the economic environment for private investment.

These general measures for improving investment climate are obviously measures which will take time and which therefore offer no quick stimulants to private investment. (Restoring convertibility would operate in a perverse sense, since one of the important present motives of private corporate investment in manufacturing facilities is to secure or retain markets in foreign countries otherwise inaccessible because of exchange controls. This is one of the anomalies of the foreign investment problem.) Without them, however, no sustained increase in private foreign investment can be expected.

. Total Diplomacy

The improvement in investment climate in freindly countries by more direct measures should be the objective of a total and sustained diplomatic effort by the United States. The conclusion of bilateral treaties containing assurances of fair treatment for American capital should come as the culmination of a broad diplomatic effort. The result of over-reliance on the treaty technique alone or of an attempt to negotiate bilateral treaties under forced draft will almost certainly be treaties which fall far short of what is desirable and necessary to reassure private investors.

The efforts of the U.S. Government to improve conditions of investment in foreign countries by diplomatic means have fallen far short of what would be possible with a coordinated program. Although major responsibility in this area rests with the Department of State, other agencies of government can make significant contributions. The Technical Cooperation Administration in its administration of technical assistance, the Mutual Security Agency in the administration of foreign aid and investment guaranties, the Department of Commerce through the foreign service, and the Export-Import Bank in the extension of loans out of public funds to foreign countries can all play their part in a total effort designed to remove obstacles to private investment abroad. So also can the U.S. representatives in the International Bank, the Monetary Fund, and the United Nations.

The end purpose of this combined effort should be to obtain by means of bilateral treaties, or by unilateral declarations or legislation, assurances against nationalization or expropriation without prompt, adequate and effective compensation and of non-discriminatory treatment of American investors in the application of all laws and regulations affecting their interests. By the same token, all agencies of the U.S.Government concerned with foreign economic development should exercise constant vigilance for discriminatory or other actions by foreign governments adversely affecting the interests of American investors and employ all possible diplomatic pressures to forestall or remedy them

5. Treaty Program

The treaty program itself has made progress despite the fact that it has been regarded more as an independent effort by the Department of State than as a task for all agencies of government concerned with foreign economic policies and operations. Treaties have been concluded and ratified with three countries and executive agreements of a simple character entered into with two other countries. Treaties have been concluded with seven additional countries, of which one has been ratified by the United States although not by the other country concerned, while the remaining six await ratification by both parties. Other treaties are under active negotiation with several countries important from the point of view of potential private investment, and still others are under preliminary discussion.

6. The "Screening" Issue

One major obstacle to the conclusion of additional treaties has developed which should not be allowed to stand in the way of the conclusion and ratification of additional commercial treaties. This is the obstacle created by the insistence on the part of the U.S.Government, supported by substantial business sentiment, that foreign countries permit free entry of business enterprises. Many of the countries concerned insist, however, on their right to scrutinize contemplated investments and to admit only those which they believe will contribute to balanced development or to the foreign exchange position or which are considered desirable from other points of view.

This attitude on the part of foreign governments is not only understandable but indeed inescapable, especially in the case of underdeveloped countries seeking to develop their resources in the shortest possible time.. However, if the business community persists in its objections to clauses in commercial treaties which recognize explicitly or implicitly the right of foreign countries to scrutinize proposed investments, then it would be better to omit the relative clauses altogether and leave the matter to diplomatic negotiation as individual cases arise, rather than to permit this issue to continue to be a stumbling block in the conclusion of treaties which are otherwise satisfactory. It would seem that threaty provision for full national treatment of admitted investments would be a satisfactory compromise.

7. Private Diplomacy

There is still another and a very promising way in which the U.S. Government can assist in achieving better conditions for investment in foreign countries. This is by aiding and abetting by all available means the efforts of private investors to obtain concessions from foreign countries in connection with specific proposed investments. The concessions recently granted by the Government of India in connection with the building of oil refineries by private companies in India constitute a case in point. Once concessions have been won through combined private and official efforts in a particular case, then the way is open to generalize them for the benefit of all other private investors.

8. Dissemination of Specific Investment Opportunities

The collection and dissemination of information regarding specific investment opportunities in foreign countries and propaganda compaigns designed to stimulate interest in foreign investment generally also belong to the "slow accretions" approach to the problem of foreign investment. The Department of Commerce has for years been engaged in the dissemination of trade opportunities abroad and, in recent years, also in the dissemination of investment opportunities. Opportunities in both categories are reported to the Department of Commerce under standing instructions to the Foreign Service and distributed by the Department of Commerce through its publications and field offices and further by means of secondary distribution media. This dissemination is carried out at small cost largely by the use of facilities which would exist in any event for other purposes. The result obtained in the case of investment opportunities in terms of investor interest and investments actually consummated is difficult to ascertain but is probably very small.

9. Contact Clearing House

Another and more ambitious effort to bring together investment opportunities abroad and private investors in the United States is the Contact Clearing House located in the Mutual Security Agency. This program, originally set up for European countries, is now being extended to countries in other parts of the world. Opportunities for the investment of capital, patents, processes or services are collected from a large number of private sources in the cooperating foreign countries and distributed in the United States to potential investors through a variety of public media and private channels. Again, it is difficult to appraise the actual results obtained by this technique. Judging by the number of letters received by the Contact Clearing House from recipients of its material, there has been a considerable stimulation of investor interest, and some investments have been actually consummated.

The usefulness of this dissemination of information on specific investment opportunities is directly related to the importance, actual and potential, of smaller corporate dinvestors. Such a service is of no value to large corporate investors, who are well aware of foreign investment opportunities in their own fields. It is of value only in the case of medium and small corporate investors who do not have the same facilities for obtaining information on their own resources. By this and other means the number of American corporations operating abroad may possibly be considerably increased, but the amount of additional investment secured will be quite small as compared with the dinvestments of large corporate investors. Since the results to be obtained are therefore limited in the nature of the case, the amount of money and effort spent by the U. S. Government in collecting and disseminating information on specific investment opportunities should be restricted accordingly The Contact Clearing office in the Mutual Security Agency is a fairly expensive operation. What is more, it is difficult to see why two such similar activities as those tin the Department of Commerce and the MSA are not combined in the interests of efficiency and economy. This is a problem for the Budget Bureau to resolve.

10. Central Clearing House

Proposals for stimulating in other ways the interest of private linvestors in investment opportunities in foreign countries are of very questionable feasibility and utility. One proposal is for the creation under private auspices of a central clearing house for investment opportunities abroad on the theory that a private entity could more effectively bring together investment opportunity and potential investor than could a government agency. The difficulty is that private contributions will scarcely be forthcoming in support of such a clearing house designed to serve the interests of private investors in general but of no investor or class of investors in particular. This is especially true since many private entities, including commercial banks, investment banks, international development companies, and individual promoters are already active in the field and not anxious, naturally to be superseded by a central clearing house in pursuit of noble idea. As indicated below, however, it is quite possible that existing private agencies could come to play a more important role as intermediaries and "finders" than they now do.

11. Industry Advisors in Diplomatic Missions

The assignment to diplomatic missions of industry advisors can be a very good means of promoting investments by private American investors in foreign countries. Their prescribed duties are among those which a commercial attache was once expected to perform. However, these officers have become so burdened with administrative and reporting duties that they cannot give the problem of investment the attention which it requires under present circumstances. Industry advisors, as specialists unburdened by routine and free to travel, can perform three useful functions. They can assist local interests in preparing investment proposals and put them in touch with prospective American investors or with reputable finders who will undertake to locate interested American capital. They can assist visiting representatives of American interests to obtain essential information on conditions of investment and on specific investment opportunities and put them in contact with local groups interested in joint undertakings with American capital. They can advise, if requested to do so by the foreign government concerned, on measures which will improve the climate of investment in the eyes of American investors.

The difficulty as regards industry advisors is not in finding useful things for them to do but to find qualified men who are willing to serve. Furthermore, there are major pitfalls to be avoided. In the first place, the job of assisting industrial development is totally different from that of giving technical assistance in the fields of public health, agriculture, education, and public administration. In these latter fields, there are accepted techniques which are common property and which can be transmitted often by pilot demonstrations. In the industrial field, up-to-date technology is private property and can be had only at a price. Industrial technology is moreover largely useless unless accompanied by the capital and management necessary for its effective application. Hence, it should not be imagined that industry advisors can give technical assistance to foreign countries in the same way that this is being done in agriculture and public health.

In the second place, the bringing together of investment opportunities in foreign countries and potential American investors is a function which must be carried out almost entirely by private agencies in the United States. The function of finder cannot be successfully performed by an industry advisor. All he can usefully do is to assist local entrepreneurs and capitalists to obtain the services of competent finders in the United States among banks, development companies, industrial research organizations, and individual promotors and, if appropriate, to see that information about general and specific investment opportunities is disseminated through official and private channels. In short, an industry advisor should undertake to give advice and concern himself primarily with improving climate, reporting conditions of investment, and giving technical assistance on mobilizing local capital for productive investment.

12. Increased Activities by Export-Import Bank

An extension of the activities of the Export-Import Bank in the field of development financing offers one of the most promising possibilities for encouraging new private investment abroad. The Export-Import Bank has for many years extended loans to both foreign and domestic borrowers in order to assist in financing development projects in foreign countries. The statutory powers of the Bank for this purpose are broad and flexible and make possible practically any type of international financial operation save only the provision of equity capital, which is not permitted to the Bank.

What is required on the part of the Bank in order to induce new private investment in foreign countries is increased activity in two directions and perhaps an increase in the Bank's lending authority. A third possibility, which is that of putting the Bank into the field of investment guaranties in its own right, is considered elsewhere.

. Partnership with Private Capital

The Export-Import Bank could as a matter of deliberate policy go into extensive partnership with American corporations willing to extend their operations in foreign countries. The Bank could advertise its willingness to supply loan capital for approved development projects, on relatively easy terms as regards interest and amortization, to be combined with equity money, technology and management supplied by American corporate investors. The inducement to corporate investors would be the frank offer of relatively cheap loan capital.

It may be objected that the availability of loan capital at low rates of interest is not one of the important obstacles to increased private investment abroad because high-grade American corporations willing to do so could now, and could have at any time during the postwar period, used their own funds or raised funds in the market for investment in foreign countries. The fact is, however, that they have been willing to do so, and accordingly to increase their own commitments, only within definite limitations. If the Export-Import Bank is effectively to stimulate increased investment abroad by American corporations it must stand ready not only to provide them with loan capital on easy terms on the security of their own names but also to provide such capital to foreign borrowers affiliated with American corporate investors in such a way as to create no direct obligation on the part of the American corporate investor to the Bank. To be concrete, an American corporation may be quite willing to borrow from the Export-Import Bank through a foreign affiliate, although it would not be willing to do so against its own obligations.

The Export-Import Bank could go still further in this direction. It could select in various fields of manufacturing the relatively few American corpora-
7 tions possessing the financial and technical resources and the managerial talents which would qualify them to extend their operations outside the United States. Having identified these eligible potential corporate investors, the Export-Import Bank could quite properly make commitments of loan capital on agreed terms to any who were prepared to go into partnership with the Export-Import Bank and to bring to the Bank specific development projects for its consideration and approval. It should be repeated that this would involve no essentially new activity on the part of the Bank but only an extension of past activities under an aggressive policy for increasing private investment in foreign countries.

14. Loans Without Government Guaranty

The second direction in which the Export-Import Bank could extend its activities would be to make loans for development purposes to qualified foreign corporations not affiliated with American corporate investors and to make such loans without the requirement of government guaranties. The Export-Import Bank has made such loans in the past. The suggestion here is that it stand ready to extend its activities of this kind and vigorously to seek opportunities for combining its loan capital with equity money, technology and management provided by local or other foreign sources.

An extension of the Bank's activities in these two directions would put the Export-Import Bank squarely in the role envisaged for the proposed International Finance Corporation. It would be a much easier solution to the problem which the International Finance Corporation was expected to solve, because it would require neither a new institution nor new statutory authority, except perhaps an increase in the lending limit of the Export-Import Bank. Under an aggressive pursuit of the proposed policies by an alert management in the Export-Import Bank, the Bank could quite conceivably commit several hundred million dollars a year to the cause of foreign economic development, particularly in the manufacturing sphere.

5. Division of Field With International Bank

There would be another signal advantage to these new departures on the part of the Export-Import Bank. It would carve out for the Bank a unique field of international finance in which it would not be competing in any true sense with private capital and in which the International Bank cannot operate because of the express provisions of its charter. Thus could be ended the confusing and frustrating competition between the Export-Import Bank and the International Bank as regards the financing of basic facilities in foreign countries. Except where there is a compelling national interest to be served, the Export-Import Bank should remove itself entirely from the financing of basic facilities such as transportation, water control, and power generation in countries which are members of the International Bank and which, as members, have access to its resources. By the same token, this would give the International Bank a clear field of action and remove one of the most embarrassing anomalies in the international financial relations of the United States.

Why is this recomm. made dependent on Eximbank's "new role"?

6. Equity Investment

As indicated above, the suggested expansion of the activities of the Export-Import Bank would require no action by Congress, escept possibly to increase the

Bank's lending authority over the $4.5 billion now authorized. It would be useful to amend the Bank's charter to give it authority to make equity investments in foreign countries and thus provide the Bank with all of the powers of the proposed International Finance Corporation. However, while desirable, the authority to make equity investments is not indispensable to increased participation by the Export-Import Bank in foreign economic development. If the power existed, the Bank could by means of equity investment facilitate in many instances a sounder financial structure for the foreign enterprises to which it was contributing capital; it could by means of equity investment participate in the profits of successful enterprises to the benefit of the United States Treasury; and it could proceed in a general sense to its task of encouraging private investment with a more complete kit of tools at its disposal.

17. Staff Requirements

If the Export-Import Bank is to go into development financing on a much broader scale and on somewhat different terms than in the past, there would be required, in addition to new aggressive policies on the part of its Board, a considerable increase and upgrading of staff. The latter would be required in order to equip the Bank to deal expeditiously and competently with what is hoped would be numerous proposals from private interests for loans by the Bank. There should be no possible objection to an expansion and upgrading of the Bank's staff in view of its very large earnings over and above the cost of the public money which it uses and the present extremely small administrative expense which it incurs.

18. Stabilization Loans

There is still another field in which the Export-Import Bank could play an important role, although one only indirectly related to the problem of stimulating private investment in foreign countries. This would be the extension by the Bank of stabilization loans in order to assist foreign countries to make their currencies convertible. The Export-Import Bank would be an excellent instrumentality for this purpose, and its assumption of the role would avoid the necessity of creating machinery elsewhere for the extension and administration of stabilization loans. Furthermore, it is a function which the International Monetary Fund is not authorized to perform under its statutes and one which the International Bank, although authorized, would probably carry out reluctantly and with considerable concern for its effect on its credit standing in the private capital markets of the world.

agree

19. International Finance Corporation

There are several new institutional devices which might be used to stimulate private investment in foreign countries. The report to the President of the International Development Advisory Board, entitled Partners in Progress, suggested the creation of an International Finance Corporation as an international institution affiliated with the International Bank for Reconstruction and Development and authorized to make loans without the requirement of governments guaranties and also to make equity investments. The basic idea was to repair two existing deficiencies in the powers of the International Bank and to overcome what was believed to be a reluctance on the part of the Export-Import Bank to make loans without the requirement of a government guaranty. It was conceived that an International Finance Corporation, using capital subscribed by the United States Government and other members of the International Bank, would respond to the initiatives of private investors by making available either equity money or loan capital as required to assist in the financing of sound development projects in membera countries. It was conceived that the International Finance Corporation, although sometimes in the role of equity investor, would under no circumstances assume a controlling interest in enterprises in which it participated and would not share in the responsibilities of management except to the extent indispensable to the protection of its minority interest.

The proposed International Finance Corporation has been the subject of careful study by the International Bank, which, while taking no formal position, has come to the conclusion that it could be a very useful device for encouraging private investment. The proposal has also received the attention of the Economic and Social Council, in which it has been the subject, on the whole, of favorable comment. On the other hand, the attitude of the United States Government towards the proposal has been lukewarm at best and in some interested agencies actually hostile. It is now evident, moreover, that there will be no support for the proposal from leading business organizations in the United States. The National Foreign Trade Convention meeting in November 1952 resolved in strongest terms against the creation of the proposed International Finance Corporation. Another business organization, while so far taking no public position on the proposal, has tested the sentiment of its Executive Committee and found it almost unanimously opposed in principle to the new institution.

Thus, the business community, in whose interest the proposal for an International Finance Corporation was ostensibly brought forward, indicates through some at least of its major organizations that it thinks the idea is bad and should be abandoned. It would be difficult or impossible under these circumstances to push the project forward and to secure the support of the new Administration and the necessary enabling legislation from the new Congress. It is suggested, therefore, that the same purposes be accomplished in other and easier ways, the most important of which would be, as recommended above, an extension of the activities of the Export-Import Bank in the field of unguaranteed development loans.

But same objections apply, refer'g to equity invest't as authorized

20. International Mutual Funds

Another institutional device for the mobilization of private capital for investment abroad is the creation of international mutual funds. Such funds, set up as open-end investment trusts, would offer their shares to individual private investors and use the funds thus mobilized for investment in the securities of foreign enterprises and foreign governments. Ideally, the establishment of mutual funds of this character should be left entirely to private initiative. The fact is, however, that private initiative, left alone, has not so far seized upon the device.

The question, therefore, is whether or not private initiative in this direction might not be stimulated in one way or another. It is suggested that high officials of the new Administration, such as the Secretary of the Treasury or the Secretary of Commerce, could, if they were so disposed, stimulate interest in the establishment of international mutual funds through their personal and official connections in the business and financial community. It should not be difficult for a cabinet officer to persuade leaders in the financial community to raise the necessary starting capital and to make an experiment along the lines suggested.

?

The Government could, however, do more than this. It is suggested elsewhere that one of the tax measures which might be adopted for stimulating private investment abroad would be the creation of a class of foreign securities either partially or completely exempt from federal income tax. Consideration should be given in this connection to the possibility of extending such tax preference to international mutual funds qualified by appropriate government authority to mobilize private capital for investment abroad. This would have the advantage of restricting the tax benefits to areas in which additional private investment is most desired and withholding it from areas where there is no real problem of stimulating private investor interest. For example, international mutual funds making investments in Latin America, Africa and Asia might be qualified for tax preference, but investments in Canada might not qualify.

21. Investment Trusts

A third possibility in the category of institutional devices would be increased interest in foreign securities on the part of the numerous existing investment trusts. At present, the portfolios of these trusts include negligible amounts of foreign securities. It should be possible by means of suasion and possibly by the offering of tangible inducements to stimulate interest in foreign securities on the part of nonspecialized investment trusts. The tangible benefits which might be offered would consist presumably of tax benefits, as suggested above in connection with international mutual funds, and guaranties, as suggested below. If the investment trusts could be persuaded to go to some extent into foreign securities, a very large pool of investment funds would be tapped and a long step taken towards the reestablishment of a market in the United States for foreign securities.

22. Insurance Companies

An even larger pool of private capital could be tapped for investment abroad if insurance companies, particularly life insurance companies, were permitted and disposed to invest even a small portion of their assets in foreign obligations. The problem is, in the first instance, one of securing necessary changes in state laws governing the investments of insurance companies. This is the same problem which existed with respect to insurance company investment in the obligations of the International Bank for Reconstruction and Development. These obligations are now eligible in most states as a result of an extensive campaign on the part of the International Bank and the insurance companies, assisted in many instances by sympathetic state insurance authorities. It must be recognized, of course, that International Bank obligations involve a minimum of risk as compared with foreign securities in general.

The problem in the second instance as regards insurance companies would be to persuade them that opportunities for safe investment are to be found among foreign securities and, again, to offer tangible inducements by way of tax benefits or guaranties.

13. Investment Guaranties

The investment guaranties which the Director of Mutual Security is authorized to extend under existing legislation are being ably and imaginatively administered. It is clear, however, that the existing system is of very small consequence indeed as a means of stimulating private investment abroad. The reasons for its ineffectiveness are not far to seek. In the first place, Congress has authorized guaranties against only two of the risks of foreign investment, namely, the risk of inconvertibility of foreign currencies and the risk of loss as a result of expropriation or nationalization by a foreign public authority. But there is no provision for guaranties against a third major risk of foreign investment under existing conditions - and in large areas of the world by far the greatest risk - which is the risk of loss as a result of w ar or civil disorder.

In the second place, the cost of the guaranties now offered to prospective investors, at one percent per annum of the guaranteed amount for each of the two types of coverage, is a very high cost in relation to the anticipated returns from many contemplated investments and one which many prospective investors are unwilling to assume in view of the limited risk coverage which they get in return.

In the third place, there is undoubtedly great reluctance on the part of many prospective investors to submit their investment plans to the detailed scrutiny of government agencies or to expend the time and effort which may be required to negotiate a guaranty contract.

It is worthy of note, on the other hand, that the corporate investors which have availed themselves of the present guaranty system have been in almost all cases really first-class companies in their respective fields. This would seem to indicate that investment guaranties, if offered on a satisfactory basis and at a reasonable cost, might be widely availed of and not be a facility, as has been suggested in some quarters, chiefly for the benefit of fringe elements in the American business community.

24. Elements of an Effective System.

It should be made clear to the Congress that a guaranty system could be devised which would not only effectively stimulate private investment abroad but which would be completely self-supporting except under circumstances of an international cataclysm. The elements of an effective and self-supporting guaranty system would be the following:

1. The administering agency should be authorized to offer guaranties against risks peculiar to foreign investment. These would include all risks of foreign investment other than ordinary business risks and would specifically include the risk of loss as a result of international or civil war.
2. This all-risk coverage should be offered to investors to the very maximum extent possible by means of standard contracts available at standard rates to all bona fide investors. In other words, the system should be, insofar as possible, on what the British call a nonvetting principle, so that it would not be necessary, save in exceptional cases, to examine in detail into a proposed investment and so that it would not be necessary under any circumstances to examine into the business merits of a proposed investment. This nonvetting principle, long applied in the British and Canadian systems of export credit insurance, is based on a sound insurance principle. The principle is that, with a sufficiently large number and with a satisfactory distribution of individual risks, the individual risk need not be subjected to examination except to the extent required to see that it is eligible on its face.
3. The cost of all-risk coverage to the investor should be as low as possible in order to attract the largest possible volume of guaranteed investment

and in order thus to secure, again on a sound insurance principle, an adequate volume and distribution of risk. To the same end (and also as indicated below to remove one of the principal business objections to investment guaranties) the guaranties should be offered to old and new investors alike.

But see p. vii re taxes

Now, it is manifestly impossible to fix a "correct" rate by any actuarial calculation. The rate should be fixed rather on the basis of a desired accumulation of premium payments out of which claims could be paid. For example, if, by an extension of the existing guaranty system to include war risk as well as convertibility and expropriation risk and to existing investors as well as to new investors, a volume of guaranteed investments of, say, $5 billion could be secured, then a rate of one percent per annum of the principal amount would produce annual premium payments of $50 million. If there were no claims other than sporadic claims over a period of five years, there would then be a reserve fund of $250 million out of which to meet losses.

There is an analogy here with the reserve accumulation by the Export-Import Bank. The Export-Import Bank uses public funds which cost the United States Government approximately two percent per annum. The Bank's average lending rate is at least one percent higher. This margin has enabled the Bank to accumulate during the postwar period a reserve against contingencies of nearly $300 million, out of which it could meet any future loses without cost to the Government.

It is suggested here that a fee of not to exceed one percent per annum for all-risk coverage of private foreign investment would attract a large volume of guaranteed investment and make possible a rapid accumulation of loss reserve.

4. It is implicit in what has been suggested above that the agency administering a system of investment guaranties should be given wide administrative discretion. Specifically, there should be no detailed specification of guaranteed risks but only the stipulation that they be risks peculiar to foreign investment. There should be no statutory requirement of agreements with foreign countries to make them eligible for guaranteed investments, and there should be no statutory fixing of fees.

5. Investment guaranties should be applicable not only to investments abroad by American corporations but also to foreign obligations publicly offered, or privately placed with individual and institutional investors in the United States. (This is possible under existing legislation authorizing MSA guaranties but there have been no cases to date.)

Why? See p. 6

25. Business Attitudes

The organized business community has opposed the extension by the United States Government of investment guaranties. All of the major business organizations have publicly declared their objections. This opposition is largely one of principle, on the ground that it is the responsibility of the capital-importing country to create an investment climate attractive to private capital and not the responsibility of the government of the capital-exporting country to compensate for any unsatisfactory investment climate by offering guaranties to investors and assuming the consequent financial liability. Furthermore, it is the view of the business community that the offering by the United States as a capital-exporting country of investment guaranties may weaken the incentive of capital-importing countries to give fair treatment to foreign investors. These objections of principle cannot be overcome by any revision of the existing guaranty system. It should be noted again, however, that the existing guaranties have been availed of by corporate investors which are first-class companies in their respective fields. This indicates that many corporate investors, acting as individual business organizations, would be able to overcome their objections of principle if comprehensive guaranties are offered on an attractive basis.

There are other objections of the business community to investment guaranties which can be overcome and which would be overcome if the suggestions made above were adopted. One of the strongest objections to the existing system is that it applies to new investments only, so that old investors are discriminated against and are faced with competition from what they regard as government-assisted new investments. This objection would be overcome, of course, by making guaranties available to new and old investors on the same basis. As already indicated, this would also have the advantage from an insurance point of view of obtaining a larger volume and better distribution of risk and making possible a more rapid accumulation of loss reserves.

?

A third objection to guaranties from the business community is that there is too much red tape involved and too much hazard of "getting the Government in their hair". This difficulty could be largely overcome, as suggested above, by offering to the maximum extent possible standard contracts at standard rates to all bona fide investors on a nonvetting principle.

6. Private Insurance

It would be highly desirable if private insurance companies would undertake to insure American investors against the risks peculiar to foreign investment under an arrangement for reinsuring most of the risk (say 90%) with the U.S. Government. This would avoid all of the problems incident to a large-scale government operation. However, explorations of private interest in this field of insurance have been wholly negative, and there is no indication that private capital would be forthcoming for the purpose.

27. Alternative Approaches

All of this should be made clear to the Congress. However, the Congress may be unwilling to authorize a guaranty system which would be effective in stimulating private investment abroad. It should therefore also be made clear to the Congress that there are other and, all things considered, perhaps more desirable ways of accomplishing the same purpose. The easiest of these would be the extension of the activities of the Export-Import Bank as recommended above. This would amount to putting the Bank into the field of merchant banking on a large scale. It would involve, however, the assumption by the Bank, as an agency of the United States Government, of the whole risk of business loans for foreign economic development, whereas under a guaranty system the U.S. Government would assume only a contingent risk. There is the added difference that under the loan technique it is necessary to raise public funds whereas under the guaranty technique all of the funds come from private sources. The case should be put to the Congress in terms of alternatives and the pros and cons of each alternative made clear. Then it is up to the Congress to decide which of the alternatives it is prepared to accept if it wishes to authorize further Government measures for the encouragement of private investment abroad.

28. Tax Measures

Undoubtedly the most effective single means of stimulating additional private investment in foreign countries would be tax measures. This is because of the prevailing high level of income and capital gains taxes in the United States and the corresponding strong incentives on all classes of taxpayers to reduce their tax bills and thereby increase disposable income. The special tax inducements to domestic investment in extractive industry, and especially in the oil industry, provide a striking example of the effectiveness of tax measures in inducing capital to flow into particular fields of investment.

29. Basic Policy Decision

Before specific tax measures for stimulating private investment abroad can be considered, there must be a policy decision to use such measures and to depart further from the principle of equal tax treatment of all income whether received from domestic or foreign sources, a principle which has already been breached with respect to Western Hemisphere and China Trade Act Corporations, income derived from sources within U.S. Possessions, and the excess profits levy. ?

Since the Treasury Department has primary responsibility for the revenue system and fer formulating tax proposals for the consideration of Congress, the required policy decision must be made, in the first instance, in that Department. However, since the problem of foreign investment is a problem which is of interest to all agencies of government concerned with foreign economic policy, the Treasury should have no monopoly either of tax expertness or of tax policy with respect to foreign investment. There should be created without delay a staff of tax experts in the Department of Commerce, as the Department which can most appropriately represent both the business and the national interest in using tax devices to stimulate private investment in foreign countries.

30. Fundamental Distinctions

As regards specific tax measures to encourage the flow of private capital to foreign countries, two fundamental distinctions must be made. The first is the distinction between measures designed to stimulate additional investment abroad by cornorate investors and the measures designed to stimulate investment by individual investors. The second distinction is between measures which would primarily benefit existing investors in foreign countries and measures designed mainly or exclusively to attract new investors.

Unfortunately, practically all of the discussion in recent years of tax inducements to foreign investment has involved measures affecting corporate investment, to the virtual exclusion of measures affecting investment by individual and institutional investors. Furthermore, most of the measures brought forward in connection with corporate investment have been measures which would benefit existing investors rather than attract new investors in any significant way. The emphasis here will be on tax measures designed to encourage investments abroad by individual investors through the purchase of foreign securities and on measures designed largely or exclusively to attract new investment rather than to give tax relief to existing investors. This is not to say, of course, that tax relief to existing investors is not justified or desirable.

Straddle

31. Categories of Tax Measures

The tax measures applying to foreign investment which have been brought forward during recent years fall into three categories or levels. These are:

1. the correction of anomalies and inequities of existing tax laws applicable to American investments abroad.
2. the extension to other areas of the free world of the partial tax exemption accorded to Western Hemisphere Trade Corporations.
3. complete exemption from Federal income tax of corporate income from foreign investments and partial or complete exemption of individual income from foreign sources.

In the first category fall measures to postpone until brought home the payment of tax or coporate income derived from foreign branches as well as from foreign affiliates (as is now the case) and measures to give more complete credit for taxes paid abroad. A Treasury-sponsored bill providing for the postponement of tax on income received from foreign branch operations until the income is transferred to the United States was introduced at the last session of Congress (the Simpson Bill) and approved in principle by the House Ways and Means Committee but not reported out. The Treasury has also proposed the elimination or liberalization of the overall limitation on foreign tax credits, which operates to reduce the amount of the allowable credit where an investor suffers a loss from operations in one country which has to be offset against profits from operations in another country in determining total net income from foreign sources. However, no legislation to accomplish this purpose has been placed before the Congress.

These limited tax reforms are clearly desirable from the point of view of tax equity. Moreover, the postponement until transferred to parent companies of earnings of foreign branches of American corporations will encourage their re-investment abroad. The main effect of the reforms, however, would be to benefit existing corporate investors rather than in any important way to stimulate new corporate investment in foreign countries. It cannot be emphasized too strongly that tax considerations are not, in the great majority of instances, the prime inducements for corporate investment abroad. As pointed out elsewhere, ?? corporate investment in foreign countries is undertaken for business reasons. Tax considerations are distinctly subordinate. They may under some circumstances cause a contemplated investment to be abandoned, but they would only in rare cases constitute the main reason for investment abroad by American corporations. This means that the tax reforms mentioned above may have some effect in inducing marginal investments in foreign countries; they cannot be expected to provide an important stimulus to private corporate investment abroad.

True but not on basis foregoing

32. Western Hemisphere Trade Corporations

The extension to other areas of the partial tax exemption given to Western Hemisphere Trade Corporations has a great deal to recommend it. The reasons for the adoption of the partial exemption in the case of corporations deriviving most of their income from operations in this hemisphere are equally valid with respect to operations in other parts of the world. The main purpose was to place American corporations on a more equal footing as regards taxes with other foreign corporations operating in Latin America. The present exemption works out at approximately fourteen percentage points and has the effect of reducing the tax rate from a normal 52 percent to approximately 38 percent. This partial exemption combined with the tax credit allowed for taxes paid locally, means that the residual tax liability of corporations qualifying as Western Hemisphere Trade Corporations may be small or nil.

The extension to other areas of this principle of partial tax exemption (through what might appropriately be called "Point IV Corporations"), together with the maximum possible allowance for foreign taxes paid, would undoubtedly constitute a considerable stimulus to new corporate investment in areas outside Latin America, although, as argued above, it would still affect only marginal investments and could not be expected to produce any quick or spectacular results. Moreover, in view of the heavy concentration of existing corporate investment in the Western Hemisphere, the extension of the Western Hemisphere Trade Corporation principle to other areas, where existing investment is comparatively small, would not do great violence to the objective of stimulating new investment rather than benefitting existing investors. Something should be done, however, to confine the tax exemption to income from bona fide investments.

Meaning? Licensing type?

33. Tax Exemption

The complete exemption from Federal income tax of corporate income from foreign operations is an attractive idea. It can be justified in principle on the ground that capital should be taxed where it is at work and not in the country in which it happens to originate. This is a principle followed by numerous other countries including a few capital-exporting countries in the same position as the United States. Furthermore, it involves no departure from the principle of progressive taxation of individual incomes since the income involved, although received free of tax by the parent corporation, would be taxed at full rates if and when distributed to individual stockholders.

Complete exemption from income tax of corporate income from foreign operations, however justifiable in principle and however desirable as a means of stimulating private investment abroad, would nevertheless be politically difficult to obtain; and much the same result can be achieved by an extension of the partial exemption accorded to Western Hemisphere Trade Corporation, as suggested above.

All of the foregoing has to do with tax inducements to corporate investment in foreign countries. It is manifestly important to increase this type of investment if the foreign policy objectives of the United States are to be attained—for the obvious reason that corporate investment carries with it the technology and management so greatly needed in the developed as well as the underdeveloped areas of the world. Everything possible should be done, accordingly, to increase the volume of American corporate investment in foreign countries. Tax measures, while not in themselves sufficient to induce a greater increased flow of corporate capital to foreign countries, will nevertheless, when combined with efforts to improve climate and the provision of loan capital on satisfactory terms by the Export-Import Bank where needed, give a substantial fillip to American corporate investment abroad.

34. Tax Inducements to Individual Investors

Quantitively
But is this so desirable?

A much more important possibility for increasing private investment abroad by means of tax measures concerns, however, not corporate investment but the purchase of foreign securities by individual and institutional American investors. The objective should be, by tax and other measures, nothing less than the re-establishment of a broad market in the United States for foreign equity and fixed-income securities. This is a matter for the tax experts to explore. However, the types of tax measures which would be effective are apparent. In the first place, there is a possibility of creating a class of tax-exempt, or partially tax-exempt, securities. The exemption might be a blanket exemption for all new issues of foreign securities placed in the United States or an exemption accorded only to income on foreign securities held by mutual funds especially qualified for this purpose. By the latter means, as opposed to blanket exemption, it would be possible to restrict the tax benefit to investments in specified areas exclusive, for example, of investments in Canada, where, under present circumstances, no special inducements of any kind are require·

Could be done much more simply

A second possibility would be the reduction or elimination of the capital gains tax as applied to foreign equities. This would be especially effective with respect to investors in the highest income-tax brackets.

A third possibility would be the allowance of individual losses from foreign investment as an offset, not to taxable income, but to tax liability. It should not be supposed that tax measures of the kinds outlined above would result in any outpouring of private capital into foreign investment. Even substantial exemption would only partially compensate for the higher real risks of foreign investment as contrasted with domestic investment and would compensate still less for the typical exaggeration of the risks of foreign investment in the mind of the individual investor.

It would also be possible to use tax measures as an alternative to some of the other means proposed for reducing the risks of foreign investment. For example, one of the greatest of these risks, affecting both the corporate and the individual investor, is the risk of expropriation without adequate or effective compensation. It would be entirely feasible, by setting up loss allowances agains income-tax liability, to cover this major risk of foreign investment, and it might be easier to do this by a tax measure rather than under an investment guaranty system.

35. Revenue Considerations

Needless to say, most of the tax measures suggested above can be justified only if the Administration and the Congress decide that the encouragement of private investment abroad is an overriding national purpose calling for extraordinary expedients and only if it is judged that tax measures, with the direct loss of revenues which they would entail, are preferable, all things considered, to alternative methods of achieving the same ends. In any case, the amount of revenue involved is very small as compared with total Federal tax revenues and amounts to perhaps one-half of one percent of existing revenues from all sources. The revenue involved is also small as compared with the amount of money appropriated in recent years for grants and other forms of aid to foreign countries. As emphasized elsewhere, however, it should not be conceived, and Congress should not be led to believe, that additional private investment which may be induced by tax and other measures would reduce the necessity, such as it is, for grants and loans to foreign countries out of public funds.

36. Anti-Trust Laws and SEC Registration

There are two further problems of foreign investment which urgently need examination. One is the application of the anti-trust laws to foreign investment, especially in the light of the Timken case. The other is the requirements of the Securities and Exchange Commission for the registration of foreign issues, particularly small issues, offered in the United States market.

C. ORGANIZATION

The organization of the activities of the Executive Branch directed towards the encouragement of private investment abroad cannot be considered in isolation from the general problem of government organization for the formulation of foreign economic policy and the conduct of foreign economic operations. The principal current issue is whether government activities in this sphere can or should be centralized into some sort of foreign economic administration. Whatever may be the decision on this issue as affecting other aspects of foreign economic problems, the problem of increasing private investment abroad involves so many facets and so many varied activities that it would probably be impractical to concentrate them in any one agency of government.

For example, the matter of improving investment climate in foreign countries involves not only the negotiation of treaties, which is reserved to the Department of State, but also, as suggested elsewhere, a total diplomatic effort by all agencies of the United States Government involved in foreign economic policy and foreign economic operations.

The collection and dissemination of information regarding investment conditions and investment opportunities is a natural function of the Department of Commerce and one which should be an integral part of its normal information and research activities carried out in the interests of American business and the general publi

Again, the administration of an investment guaranty system, either in its present or in some extended form, is a specialized operation which probably ought to be lodged in an agency of government such as the Export-Import Bank, which has corporate continuity and the authority to execute contracts.

The use of public funds in combination with private capital, in order to encourage the latter to go abroad, is clearly a function of the Export-Import Bank, which must maintain its present degree of autonomy if it is to maintain its prestige in the eyes of Congress and the business community.

The promotion of the use of existing and new institutional devices for mobilizing private capital for foreign investment would seem to be a logical function of the Department of Commerce.

The formulation of tax measures to encourage private investment abroad is an activity to which the Treasury can contribute expertness and to which the Department of Commerce, as recommended above, ought to contribute a business point of view, as well as some expertness of its own.

Thus, it would seem that the various phases of the foreign investment problem would fall, in the nature of the case, within the provinces of a number of government agencies certainly as regards operations and to some extent as regards policy formation. It would seem highly desirable nevertheless to fix responsibility for the problem as a whole at some point in the Executive Branch, so that one agency and one responsible official would be in a position to co-ordinate the activities of the whole government establishment towards the given end. If the foreign economic assistance activities of the United States Government were centralized in one agency instead of being divided as they now are between MSA, with respect to certain parts of the world, and TCA, with respect to other parts of the world, the responsibility for promoting private investment would properly be placed in such a single agency. Lacking a single agency of this type, there is no apparent alternative to fixing this responsibility on the official responsible for coordinating the foreign economic aid programs of the United States, that is, on the Director of Mutual Security or his successor. As regards TCA and MSA in their respective fields, these agencies should contribute to the program for stimulating private investment in the following ways:

1. by joining in the total diplomatic effort of the United States to improve investment climates in foreign countries.
2. by promoting in every way possible the mobilization of local capital for productive investment.

3. by identifying areas of private investment, especially in the industrial sphere, and assisting potential private investors to explore specific opportunities within these fields.

D. CONCLUSION

The problem of increasing American private investment abroad presents massive difficulties. It will yield to action by the U. S. Government in the short-run only by the application of radical inducements with particular reference to non-controlling investments in foreign securities by individuals and institutions. In the absence of such radical measures, the problem becomes one of bits and pieces to be attacked on many fronts by many agencies by many techniques. Results will be slow in coming, but the effort must be continued and intensified. There is no plausible way other than the stimulation of private investment to assist friendly foreign countries to achieve balanced economic development.

MURRAY HILL 7-6988

RALPH I. STRAUS

331 MADISON AVENUE
NEW YORK 17, N. Y.

Keep with Vol II
P. P. Invest. Promotion of Pvt [illegible]

EXPANDING PRIVATE INVESTMENT FOR

FREE WORLD ECONOMIC GROWTH

A Special Report PREPARED AT THE REQUEST OF THE DEPARTMENT OF STATE

A REPORT AND RECOMMENDATIONS PREPARED PURSUANT TO SECTION 413 (C) OF THE MUTUAL SECURITY ACT OF 1954, AS AMENDED

EXPANDING PRIVATE INVESTMENT FOR

FREE WORLD ECONOMIC GROWTH

Prepared under the direction of **RALPH I. STRAUS**, *as Special Consultant to the Under Secretary of State for Economic Affairs*

Washington, D.C. April 1959

MARCH 30, 1959

My dear Mr. Secretary:

I am transmitting herewith the study which you asked me to make under the authority contained in Section 413(c) of the Mutual Security Act of 1954, as amended, entitled, "Expanding Private Investment for Free World Economic Growth."

When you requested me to undertake this assignment for the Department of State, you asked me to concentrate on a study of the role of private foreign investment in advancing the purposes of the Mutual Security Act and the foreign policy objectives of the United States.

In connection with this study the Department of Commerce prepared and sent to 955 domestic companies, firms, organizations and their executives a letter and questionnaire, requesting opinions and recommendations on expanding private enterprise abroad. Copies of the replies to this questionnaire were made available to us as they were received. In addition, the Department of Commerce prepared a summary and analysis of these answers and recommendations, which were most valuable in the preparation of my report. The summary and analysis of the Department of Commerce is being published separately as an Annex to this report.

The text of Section 413(c) follows:

"Under the direction of the President, the Departments of State and Commerce and such other agencies of the Government as the President shall deem appropriate, in cooperation to the fullest extent practicable with private enterprise concerned with international trade, foreign investment, and business operations in foreign countries, shall conduct a study of the ways and means in which the role of the private sector of the national economy can be more effectively utilized and protected in carrying out the purposes of this Act, so as to promote the foreign policy of the United States, to stabilize and to expand its economy and to prevent adverse effects, with special reference to areas of substantial labor surplus. Such study shall include specific recommendations for such legislative and administrative action as may be necessary to expand the role of private enterprise in advancing the foreign policy objectives of the United States."

The problem of increasing private investment in the newly developing countries has been explored extensively since World War II, and many reports and studies have been prepared on the subject by both the Legislative and Executive branches of the Government and by private organizations and individuals. It seemed essential to review this mass of literature and to abstract from it pertinent recommendations for Government action. This research task was carried out under a contract with the Stanford Research Institute, whose summary of this work and bibliographies will be found as an appendix to this Report.

In accordance with Section 413(c), the Report was prepared "in cooperation to the fullest extent practicable with private enterprise concerned with international trade, foreign invest-

The Honorable C. DOUGLAS DILLON,
Under Secretary of State for Economic Affairs,
Washington 25, D.C.

ment, and business operations in foreign countries." This was accomplished in the following principal ways:

a) A series of round table discussion meetings were held attended by specialists from government departments concerned and by private consultants in the pertinent fields of inquiry;
b) The many suggestions contained in replies to the questionnaire sent out by the Department of Commerce were considered; and
c) Consultations were held with individuals interested and knowledgeable in these matters, including businessmen, bankers, and lawyers.

Representatives of the Departments of State, Treasury, Commerce, the International Cooperation Administration, the Development Loan Fund, and the Export-Import Bank have been most cooperative and have contributed much of their time and ideas.

I am particularly indebted to Professor Lincoln Gordon, of the Harvard Graduate School of Business Administration, and to Professor Kingman Brewster, of the Harvard Law School, for their contributions of time and thought. Mr. Leroy Stinebower of Standard Oil Company (New Jersey), Mr. William B. Dale of the Stanford Research Institute, and Messrs. Vincent V. Checchi, James L. Morrisson and Steuart L. Pittman of Washington were particularly helpful with certain parts of the report.

I am especially indebted to Mr. Hamlin Robinson of your staff and Mr. Solomon H. Chafkin of ICA, both of whom have been of invaluable assistance throughout; and to Mr. Dayton H. Frost of ICA who, as Executive Officer, has ably handled the administrative work load.

The representatives of the Government agencies and the private individuals who assisted me in the preparation of this Report may not necessarily agree with all of its conclusions and recommendations. The responsibility for the final document is mine alone.

Respectfully submitted,

Ralph I. Straus

Ralph I. Straus,
Consultant to the Under Secretary of State
for Economic Affairs

Enclosure

CONTENTS

I. INTRODUCTION

This report has been undertaken in response to section 413(c) of the Mutual Security Act of 1954, as amended. It attempts to identify problems and to suggest measures related to increasing the participation of private business in the economic growth of the less developed countries. There have been several previous legislative references to this subject and the literature on it is voluminous.

We do not here purport to restate the foreign policy objectives of the United States. We accept as basic our national economic, political, and humanitarian interests in helping the less developed countries in their efforts to achieve economic development; our national interest in meeting the politically motivated challenge of the Soviet economic offensive; and our national interest in achieving expansion of the world's economy generally by facilitating the international movement of capital and goods.

Why then do the Government and people of the United States concern themselves with the relationship of the private sector of the American economy to our foreign policy objectives?

The answer lies in part in our own experience as a nation. Through an economic system which has relied principally on individual initiative, we have achieved our high standard of living while preserving and enlarging the area of human rights and individual freedom.

The answer lies in part in our recognition that most of our great economic assets as a nation—capital, know-how, and resourcefulness—are in private hands and have not been brought adequately to bear on the problems of the newly developing countries.

The answer lies in part in an awareness that the human and financial resources which the government can devote directly to foreign economic objectives are limited and that their effectiveness will be greatly enhanced by complementary private activity abroad.

This report is based on the conviction that, even in countries which have adopted a large measure of central economic direction, the encouragement and release of private initiative will greatly accelerate the rate of growth. Furthermore, dispersion of economic power is important in preserving and enlarging the scope of freedom and individual dignity.

This report does not claim that private foreign investment will solve all of our foreign policy problems. Indeed, it recognizes that increased foreign investment may itself create certain additional foreign policy problems, ranging from the fear of foreign economic domination in the developing nations to their difficulties in allocating scarce foreign exchange among competing demands.

This report does not claim that private American or other outside investment will solve all the problems of economic growth. The primary requirements include a healthy growth of local investors and a local tradition of private initiative, operating within a framework of sound governmental institutions and policies. We do believe that a better understanding in the developing countries of the American system of private enterprise, its methods and its sources of strength, is essential if our cooperation in furthering their economic growth is to be most effective.

Private enterprise offers a unique advantage in the development effort—adaptability. The underdeveloped world is one only in its intense desire for economic growth. In every other respect it is highly diverse. The peoples demanding development range from the nearly primitive to the very advanced, from the nearly destitute to the nearly developed. No single formula, either of governmental or of private assistance, will assure success. In the history of development in the West, private enterprise has had to adapt itself to almost every kind of economic and political situation. Where it has been allowed to work, it has generally succeeded.

It is crucial to generate the resourcefulness, organizational talent, and technical skill without which capital cannot achieve economic expansion. It is especially in these skills that the developmental potential of private enterprise lies. Each business enterprise sets in motion a chain reaction of constructive economic activity and broadens the base of local technical competence which will determine, in the end, the degree of success of any development program.

Private U.S. business abroad can have a dynamic and beneficial effect on the economies of other countries which cannot be created by government-to-government activities alone. In supplying capital, providing new production facilities, and creating employment, private foreign investment expands tax bases and increases tax revenues for the governments of the developing countries and enables these countries to earn and save more foreign exchange. It often broadens local capital markets and induces local capital to embark on complementary investments. It encourages modern marketing techniques and low-margin, high-volume production, enabling a larger number of people to have more goods at lower prices.

It is recognized that American business cannot be expected to abandon the profit motive as the normal basis for its decisions. Private capital rightly seeks sound investments and, if the risks appear to be high, it demands a rate of return commensurate with the possibilities of loss.

A great deal of private investment has already gone abroad from the United States, particularly to Canada, Western Europe, and Latin America, and private activity in the developing nations has been increasing.[1] In addition to such investment, private American firms and individuals have been increasingly active abroad and, indeed, have been employed under contract with the government throughout the history of the Mutual Security Program.

The program we are suggesting is aimed at breaking through some of the barriers that have thus far kept private investment out of certain areas, or out of many lines of development, and at creating the conditions in which American and foreign capital can together and cooperatively—with each other and with the governments involved—accelerate economic development.

This report proposes the use of government authority and public funds to induce more private economic activity abroad. Because we should spend only what is necessary to achieve our objectives, certain of these proposals are limited to the least developed areas of the free world.

This report recognizes that in many of these areas the basic problem of the place of private enterprise is still unsettled. Governments are in some cases subject to continuing pressure to keep out "foreign economic imperialism." Foreign-owned industrial operations in countries without a healthy local enterprise system of their own can easily become a target for resentment and suspicion.

An effective program to stimulate private investment abroad should take into account not only the large companies and those interested in extractive industries but also the potential of small- and medium-sized American enterprises. It should also take into account capital which is concerned with investing in, as distinct from controlling, local enterprises. For this reason, many of the proposals in this report are designed specifically to encourage the flow of capital on a loan or partnership basis to local enterprises. An effective program will be more likely to evoke the support of foreign governments if it emphasizes opportunities for association and cooperation.

This report does not pretend that public policy and private business are always in harmony. There is, however, an important area where the interests of private business, of the U.S. Government, and of the people and governments of the less developed countries coincide. This is the area that this report seeks to enlarge. Such a community of interest must go beyond measures to facilitate and assist investment projects. It must find expression in the efforts of all countries concerned to foster an international legal system which makes reliable the obligations of both states and businesses. It must also be reflected in our trade policy, for investment will not take place without confidence in the foreign country's ability to earn sufficient foreign exchange for the transfer of earnings and capital.

It may be argued that the recommendations of this report, if successful in assisting industrial development abroad, will adversely affect our own exports and will provide increased import competition. History has demonstrated, however, that the highest levels of trade take place between developed countries to their mutual advantage. Moreover, the surge toward economic progress in the developing countries is too strong to be denied, and their lasting commercial and economic ties will be with those countries which respond to their needs. It is in our interest to identify the United States with the achievement of their aspirations by the broadest American association—governmental and private—in their development effort.

[1] Statistical information regarding the nature and extent of U.S. foreign investment is contained in appendix A.

Our approach reflects a policy and administrative preference for those measures which will release and stimulate as much private activity as possible with a minimum of government interference in the free play of private decisions. We feel that business will do more, and do a better job, to the extent that it does not have to seek government approval or negotiate for government assistance before going ahead on its own. The sequence of the chapters which follow reflects this perspective by moving from those governmental activities which interfere least with particular transactions to those types of government assistance which require case-by-case scrutiny by a public agency.

U.S. Government services and assistance directed toward encouraging local private enterprise and improving the investment situation within developing countries operate without involving the Government in particular private business decisions. The possibilities of such assistance we discuss in chapter II.

When turning to measures bearing directly upon American business abroad, there is again a preference for techniques which do not require transaction-by-transaction scrutiny prior to government help. Thus we next turn to tax measures of general applicability in the first sections of chapter III. Some tax measures, however, may have to be restricted to selected geographical areas if they would not be justified for investors elsewhere. These selective tax measures are discussed in the latter parts of chapter III.

A degree of selectivity is inherent when the U.S. Government affords direct or indirect financial assistance by way of loan, guaranty, or grant. Even here, however, there is a preference for those techniques whose administration can be decentralized through non-U.S. Government financial institutions rather than requiring corporate borrowers to negotiate in Washington. These possibilities are discussed in the first part of chapter IV.

Case-by-case negotiation is inevitable when the U.S. Government is asked to make a direct loan or to guarantee a loan for a particular project. When to commercial factors are added a variety of foreign economic and political considerations which may warrant governmental assumption of a large part of the cost, financial assistance begins to merge into techniques of government contracting for private services. Problems of extraordinary governmental financial participation, whether by loan or contract, shift the center of decision-making more nearly into government hands. The spectrum of public financial assistance, from direct lending through government contracting, is discussed in the second part of chapter IV.

This report then turns to two matters which bear on administration: first, the specialized field of antitrust in chapter V and, finally, in chapter VI some of the general administrative responsibilities within the executive branch for encouraging private participation in foreign economic development.

II. PRIVATE ENTERPRISE IN DEVELOPING COUNTRIES

The Background

The nature and rate of economic growth in the developing countries, as well as the encouragement of private enterprise, depend primarily on the efforts and decisions of the leaders and citizens of those countries. Capital and know-how from outside sources—public or private—can help but cannot substitute for those efforts.

As governments succeed in meeting initial needs for public works and other facilities, they will be faced with a steady growth in the number and complexity of needed economic activities which are less susceptible to central planning. The hundreds of varied enterprises upon which economic growth depends and the thousands of decisions that go into establishing and operating them call for a vigorous and growing private business community.

It is significant that the impediments which tend to inhibit private initiative are frequently the same as those inhibiting economic development.

Private investment cannot flourish nor can development be accelerated where the attitudes toward the treatment of private enterprises are hostile, where there is internal or external insecurity, or where chronic foreign exchange shortages accompany chronic monetary instability. In addition, both governments and local businesses are also handicapped by weak banking systems, inadequate government services, and ineffectual legal frameworks for business activity.

Most of these conditions can be changed, however, where there is a will to change them.

Most governments in the developing countries are already attacking the deficiencies in the physical base on which private economic activity must rely—the highways and the railroads, the ports, the communications, the power grids, and the irrigation systems. Foreign assistance has been and continues to be made available to governments and to public utility enterprises for these purposes.

Foreign assistance has also in some cases helped to provide the financial stability necessary for development activity. Likewise, technical assistance and equipment have been furnished to improve health, agriculture, education, public administration, and other services vital to the development process. In this sense, government-to-government economic programs are basic to the encouragement of private enterprise.

Within the framework of U.S. assistance programs, projects have been established or are being planned to provide managerial training, industrial development centers, development banks, labor education, industrial research, industrial zones or districts, and assistance in developing laws and legal institutions conducive to effective business operations. In recognition of the need for increased private economic activity for the accomplishment of their development objectives, a number of countries have proceeded independently to adopt programs to encourage private enterprise. There is reason to believe, on the basis of what is already being done, that many of the developing countries are prepared to move more rapidly in this direction.

This is a significant area where the coincidence of interest of the U.S. Government, of U.S. business, and of the developing countries can be identified and enlarged. The private sector of the United States can promote the foreign policy of the United States by stimulating the growth of the private sector in the less developed countries. At the same time, foreign capital will be attracted by an energetic and successful class of local investors.

Where developing countries demonstrate an interest in receiving help for making the best use of the private potential in their own countries, U.S. Government and U.S. business should be ready to respond quickly, systematically, and effectively.

U.S. Government Cooperation With Local Efforts

Program Emphasis

The U.S. Government has instruments to assist governments where they want to stimulate local private enterprise and attract private foreign investment. Assistance of this kind coupled with the measures recommended later in this study relating directly to American private investment can help to develop links between local and American investors which strengthen the concept of a partnership approach to economic development.

We recommend that projects designed to develop private enterprise in the participating countries be made an integral part of foreign assistance programs. This will require clear-cut policy decisions and the assignment of specific responsibilities to competent, specialized U.S. staff, both in Washington and in the field, to secure as great an organized concentration upon the private sector as has heretofore been accorded to agriculture, health and public works programs.

This recommendation would facilitate more systematic use by U.S. Embassies and economic aid missions of the experience and expertise of the local and foreign business and financial communities. In programming projects U.S. missions abroad must have flexibility and techniques to enable them to respond quickly and effectively to emerging opportunities and problems in each host country. No standard formula to encourage productive enterprise can be devised to fit all countries. There is a wide variety of diplomatic approaches, technical assistance arrangements, and possible uses of available dollars and local currencies which can be applied. The initial focus in the programming process must be on the diagnosis of the problems on the ground to determine which among the various elements should be emphasized and in what order.

We recommend that the analysis upon which to base a program for stimulating private industry be carried out on a trial basis by means of specially qualified survey teams in a few selected countries that demonstrate interest in such programs.

These survey teams should, in consultation with U.S. missions:

1. Appraise on the ground, in each country, what should be done to expand private business activity.
2. Suggest measures for encouraging locally owned private enterprises, including improved arrangements for bringing together opportunities, men, and capital.
3. Specify those fields of needed local enterprises in which American capital might be interested and indicate (a) the steps that might be taken within the country to attract American capital, and (b) the steps to be taken in the United States to bring specific opportunities to the attention of possible investors.

Local Institutions Serving Local Enterprises

During the last 10 years many of the newly developing countries have created promising institutions which have furthered private initiative and business development. These include industrial development centers, development banks, industrial research institutes, productivity centers, small business and handicraft centers, agricultural credit banks, and various types of cooperatives.

Among the most promising have been the industrial development centers and the development banks.

Industrial development centers are generally designed to furnish the broad range of technical and other skills needed in creating, expanding, and operating business enterprises.[1] Centers of this kind or similar institutions can provide specialized channels for exploring fully the possibilities of private investment in, and private operation of, specific industries which might otherwise never come into being or by default be undertaken by governments. They can and should particularly encourage private ventures in new production activities as part of the diversification required by so many countries.

Development banks include any institution, public or private, which has as its principal function the making of medium- or long-term investments in basic development projects or in industrial, mining, or agricultural projects, or in a combination of these. Such banks have already been established successfully in some countries with technical and financial support from the International Bank for Reconstruction and Development (World Bank), the U.S. Government, and private capital sources.

For example, the Industrial Credit and Investment Corporation of India, Limited (ICICI), was capitalized by private Indian, British, and American capital and assisted by a World Bank loan and rupee funds derived from the sales proceeds of commodities provided as a grant by the United States to India.

In some countries, the establishment of a full-fledged self-supporting development bank is not immediately practicable and other financial

[1] See appendix B for description of two examples of such centers.

arrangements, such as special loan funds, are more suitable. The formation of privately owned and managed savings, investment, and special purpose institutions, such as banks to serve agriculture and cooperatives, should be encouraged. Countries should be assisted in establishing investment and loan guaranty arrangements administered by their banking systems. In particular, consideration should also be given to devising techniques to assist small business, analogous to our own small business legislation.

WE RECOMMEND that the U.S. Government be prepared to extend support in the form of technical assistance to strengthen existing local institutions specifically designed to assist private enterprise and to create new institutions of this kind where deemed desirable.[2]

The formation of trade and management associations among the small as well as large businesses can do much not only to help the individual members but also to build up a respected private enterprise "presence." Developing links between local universities and business groups through management training courses and sponsorship of legal, economic, and business research can also be mutually beneficial in a social as well as economic sense. The operations of these institutions should bring them into contact with entrepreneurs for whom further training should be provided.

WE RECOMMEND that U.S. aid programs increasingly emphasize:

1. Training of foreign teachers and students at American business schools;
2. University contracts whereby American business schools establish programs and assist local institutions abroad to train businessmen;
3. Analogous arrangements for training in public administration, law, and economics bearing on the institutional framework for effective business activity;
4. Programs for establishing local trade, manufacturing, and business management associations;
5. Practical on-the-job training in industrial plants.

American Business and Local Efforts

American private investment has brought and can increasingly bring to foreign nations not only the direct benefits of investment but also many indirect benefits. One of the chief virtues of this aspect of private investment is the natural, informal, and day-to-day manner in which it achieves secondary benefits in the normal course of business. Each U.S. enterprise abroad is inevitably a source of technical assistance and a training center for personnel, contributing significantly to the total quantity of skills available in the country. Each tends to be a focal point of capital accumulation for further useful investment, particularly in service and supply industries—e.g., stores, production of components, transportation, and housing.

Some American companies operating abroad have followed a deliberate policy of helping in the development of locally owned enterprises to which they have provided financial and technical assistance in order to generate local sources of supply. This is a type of developmental assistance impossible to duplicate in any government assistance program. For example, American companies operating in Latin America spent locally more than $4 billion in 1955, of which $1.8 billion was for local purchases—materials, services, and equipment—and the balance for wages, salaries, and taxes. During the same period, they employed 625,000 persons of which only 9,000 were sent from the United States.[3]

Business Behavior and Technical Assistance

American companies can increasingly help create a favorable climate for private business by careful effort in harmonizing their own interests with those of the people and governments of the countries in which they operate. They can improve their relations abroad by careful selection, orientation and language training of their American personnel. They can—as some have already done on an extensive scale—assist directly in programs for the betterment of health, education, and social welfare. They can set up—and this, again, is being done by some companies—specific training programs to teach industrial, commercial, and financial skills, thereby making a direct contribution to development. Their research facilities can be focused on the solution of local technical problems, including additional uses of local products.

[2] The subject of financial assistance to such institutions is discussed in chapter IV.

[3] *U.S. Investment in the Latin American Economy*, U.S. Department of Commerce, 1957.

Establishment of quality standards for products and the introduction of modern management-worker relationships can exercise a beneficial influence on local business.

American business and professional associations can promote and sponsor international business conferences and exchanges of study groups. Particular attention could usefully be devoted to establishing contacts and the flow of information between American organizations and such local institutions as development banks and industrial development centers. Private American business organizations are in a position to help provide or recruit specialized technical and managerial talent for employment by local business, banks, and promotional organizations. The creation of links of this kind provides an important source outside governments for local entrepreneurs or investment institutions to seek advice, partners, capital, and know-how.

There may also be possibilities of pooling the talent of a wide range of American firms in a private cooperative effort to provide technical assistance to one or more developing countries. It is difficult for government personnel to transmit U.S. business procedures and to assist in the establishment of credit and other institutions abroad as effectively as could be done by personnel drawn directly from business.

The Challenge to U.S. Business

Private business itself is increasingly aware of its own self-interest in the growth of the less developed countries. Even if business practices and expectations must in many respects become adapted to conditions abroad which would be unpalatable at home, the business stakes in the economic success of these countries are great enough to warrant such accommodation.

Business, of course, shares the national political, economic, and humanitarian interest in the world's economic growth. But private business in particular has a stake in demonstrating that private management and private capital offer a prospect of economic development no less promising than the offers of the propagandists of ruthless regimentation. Disillusioned rejection of the potentialities of private enterprise by large segments of the developing world is bound to mean a shrinkage of private commercial freedom everywhere. Failure to invest in world economic development carries with it the prospect of losses no less real than the risks of investment.

Even if the U.S. Government continues and increases its assistance to foreign governments designed to foster private enterprise, even with increasing awareness on the part of private firms of their longrun self-interest, and even if the governments and peoples of the developing countries pursue policies favorable to private enterprise, an adequate flow of private capital and skills from this country will require U.S. Government action to assist directly those willing to invest. This justifies close examination of the positive things the U.S. Government might do in the fields of tax incentives and financial assistance as set forth in chapters III and IV.

III. TAXATION OF FOREIGN INVESTMENT

Introduction

Tax considerations often determine where American firms invest, how much, and for what purposes. Experience in Puerto Rico and in other countries, and with our own World War II program for accelerated amortization for defense facilities, shows that tax incentives can be effective in stimulating particular investments. Tax incentives for private foreign investment, however, which are equitable and acceptable in the light of other policy objectives affecting taxation, cannot overcome all the obstacles to needed private investment in developing countries. Nonetheless, appropriate changes in taxation are the broadest type of device for promoting the objectives of this study without requiring direct or indirect case-by-case administration.

We have considered a number of tax measures designed to stimulate foreign investment in general, as well as special devices that give added incentives for investment in the less developed countries. Consequently, our tax proposals for foreign investments fall under two general headings:

1. Those applicable to all foreign investment; and
2. Those that apply only to investments in the less developed countries.

We have attempted to weigh these measures and their objectives against the requirements of our tax system and to choose tax incentives that do not threaten to create windfalls, special privileges, or revenue losses without corresponding advantages that further the foreign policy objectives of the United States.

The Foreign Business Corporation

WE RECOMMEND that the Internal Revenue Code be amended to give special tax treatment to domestic corporations known as Foreign Business Corporations (FBC's), such special treatment to have the effect of deferring payment of U.S. income taxes on the profits of an FBC arising from foreign investments and operations until those profits are actually distributed to U.S. stockholders or otherwise diverted from foreign uses.[1]

A Foreign Business Corporation would, we believe, stimulate foreign investment by U.S. firms by permitting eligible companies to defer their U.S. tax on income accumulated abroad, provided such income is reinvested abroad. In addition, the proposed FBC would enable companies operating abroad to integrate the management of their foreign activities, to decide without regard to tax considerations whether to operate abroad through a U.S. branch or through a foreign subsidiary, and to transfer their foreign earnings from one country to another without tax liability.

Many U.S. companies presently achieve similar objectives through foreign subsidiary "tax haven" holding companies. The FBC will create an incentive to domesticate such companies and at the same time subject them to the requirements of filing U.S. income tax returns annually, whether or not tax liabilities exist.

We favor a system of tax deferral instead of tax exemption or tax reduction because either of the latter would cause a permanent revenue loss without important reciprocal incentives to foreign investment.

There are, of course, practical limits on the incentives resulting from U.S. tax reduction or exemption. The tax rates in such countries as India, Pakistan, Burma, Ceylon, Ghana, and Nigeria, for example, are so high that the credit now allowed by our tax law for the tax paid in those countries offsets most, sometimes all, U.S. tax liability on income from those countries. Neither a U.S. rate reduction nor U.S. tax deferral would give an incentive to a potential U.S. investor in some countries in the absence of either a rate reduction or a period of tax forgiveness or tax deferral by the foreign country.

We believe that there should be no geographical limitation on the foreign activities and sources of income of an FBC because the diplomatic problems and domestic pressures involved in choosing particular countries or areas would make a general system of legislative or administrative

[1] The effect would be similar to the Foreign Business Corporation proposed in section 2 of the bill recently introduced by Representative Hale Boggs (H.R. 5, 86th Cong., 1st sess.).

selection very difficult. Moreover, since the FBC involves tax deferral rather than tax reduction, it is appropriate for investment both in developed and underdeveloped countries.

When a U.S. investor is hesitant because of unfamiliarity with local conditions and uncertainty as to political stability, the tax deferral approach offers a substantial incentive by providing an opportunity to expand foreign activities from earnings that would otherwise be taxable. On balance, therefore, we believe that tax deferral through an FBC would be a conservative, practical, and potentially very useful element in a program to stimulate foreign investment.

Two Alternative Methods of Tax Accounting for an FBC

An FBC would pay U.S. income taxes only when and to the extent that earnings and profits are distributed or loaned to stockholders of the FBC. *Corporations* owning stock in FBC's would have a 100 percent deduction for dividends received from the FBC instead of the 85 percent deduction applied to dividends received from U.S. subsidiaries by their parent corporation. Under this method, however, an *individual* stockholder of an FBC would be subject to double taxation: by the payment of U.S. taxes by an FBC and by payment of personal income taxes.

A second method would be to exempt an FBC from U.S. income tax on income derived from sources outside of the United States, as in the case of existing foreign base or tax haven corporations. A U.S. stockholder would be granted no deduction for dividends received from an FBC. Thus, the U.S. income tax would be paid by the U.S. parent corporation or individual stockholder on the full amount of dividends from an FBC.

Both alternatives should achieve substantially the same tax result when applied to the U.S. corporate shareholder in an FBC. The choice between them should be made by technicians concerned with the problems of drafting and administering the legislation. However, to make the first method of benefit to individual shareholders without subjecting them to double taxation would seem to create complicated problems regarding the tax treatment of domestic corporate dividends to individuals. For this reason we recommend the second method.

The suggested characteristics of the proposed Foreign Business Corporation (FBC) are contained in appendix C. A table of foreign tax rates and charts showing the tax effect of three leading tax proposals currently under discussion are contained in appendix D.

Other Proposals Applicable to All Foreign Investment

Tax on Branch Banking Abroad

U.S. banks normally operate abroad through branches, rather than foreign subsidiaries, so as to provide the added confidence of their full capital and resources. Consequently, there are special reasons for conducting banking operations abroad through branches that do not apply to other foreign operations. However, banks are denied the tax advantage of operating through foreign subsidiaries.

We recommend that branches abroad of U.S. banks be permitted to treat their foreign branches as FBC's for tax purposes, under appropriate accounting regulations, in the event that such branches would qualify as FBC's if separately incorporated.

Foreign Taxes "In Lieu Of" Income Taxes

Under present law U.S. taxpayers may credit against their domestic tax liability foreign income taxes and foreign taxes "in lieu of" income taxes. The great variety of foreign taxes has presented a difficult problem to the Treasury Department in determining those which are "in lieu of" income taxes. However, the present interpretation of "in lieu of" is restrictive in that it is interpreted as meaning a tax directly substituted for, or replacing, an income tax that otherwise would apply.

We have considered the possibility of an amendment to the Internal Revenue Code designed to bring within the tax credit system foreign taxes other than those directly substituted for income taxes. The problem of defining which of the many kinds of foreign taxes have effects similar to income taxes is practically insurmountable. Accordingly, we have concluded that the best practical way of dealing with this problem is through the negotiation of tax treaties, where the full effect and impact of particular foreign taxes can be examined.

WE RECOMMEND that:

1. The problem of recognizing foreign taxes for tax credit purposes be dealt with in tax treaty negotiations; and
2. The Treasury Department reexamine its interpretation of the present statutory language and seek legislative support for a more liberal interpretation of such taxes.

Portfolio Investment

Under existing law (as amended in 1954) regulated investment companies, 50 percent of whose assets are in foreign securities, are permitted to pass foreign tax credits through to their shareholders. This provision has been little used.

WE RECOMMEND that all regulated investment companies should be able to pass their available foreign tax credits through to their shareholders.

Devaluation of Foreign Balances

Financial losses due to depreciation or devaluation of foreign currencies is a major source of concern to U.S. foreign investors. We have found no generally applicable method of protecting or insuring investors against these losses which is both administratively and legally practical and which would not expose the U.S. Government to unwarranted risk and cost.

We believe, however, that there is one practical method of providing limited relief through tax treatment. Working capital funds held abroad by U.S. corporations in the form of cash balances and short-term accounts receivable will sustain a loss in dollar value whenever a devaluation occurs in the currency in which they are held. Under applicable Securities and Exchange Commission regulations, this loss must be shown by the U.S. company in reporting its financial position as an operating loss due to exchange rate changes. The loss shown must be the difference in the dollar value of working capital, computed at the applicable exchange rates at the beginning and at the end of the year. It is not clear however that existing law recognizes this loss for tax purposes.

WE RECOMMEND that existing law be clarified to provide that the loss due to exchange rate change, required by the Securities and Exchange Commission to be shown in published financial statements, also be recognized as an ordinary loss for tax purposes.

Tax Treaties

We believe that tax treaties are a very useful mechanism for mutually adjusting the tax jurisdictions of the United States and other countries. The negotiating process itself provides an effective forum for technical review of the two tax systems and their impact on each other. We are concerned, however, at the length of time which frequently elapses between an expression of interest by a foreign government and the initiation of a tax treaty negotiation—and its eventual conclusion. We feel that a serious effort should be made to accelerate the negotiating process.

As we have indicated in the section of this chapter on the Foreign Business Corporation, tax reduction or deferral by the United States may not be an effective incentive to foreign investment in some cases because the tax rates of the other country are as high as, or higher than, the U.S. rate. Consequently, when high foreign taxes are applied as a credit against the U.S. taxes the latter are virtually eliminated. Thus, the deterrent to investment is often the foreign rather than the U.S. tax.

Several tax conventions are in the process of negotiation, whereby the United States is prepared to recognize for tax credit purposes temporary income tax reductions offered by foreign governments as an incentive to new, productive investment under local legislation and procedures to be specified in the conventions. Thus, the U.S. taxpayer would be permitted a tax credit for the foreign income tax waived under such incentive legislation. This would achieve a mutual tax reduction which should be quite effective in stimulating investment. We believe that tax treaties embodying this "tax sparing" concept should be negotiated as rapidly as is feasible with underdeveloped countries.

In endorsing the tax sparing policy, we believe that further consideration should be given to allowing special U.S. tax credit for the foreign tax "spared" or deferred by tax legislation which offers other incentives such as special or accelerated depreciation allowances.

We believe that a foreign government is likely to be less willing to reduce its foreign tax rate in response to a U.S. rate reduction than to defer its tax on reinvested earnings as a counterpart of similar U.S. action. Thus, tax deferral as contemplated with respect to an FBC may provide a more favorable basis than tax reduction for international tax negotiations with foreign countries.

We recommend more rapid negotiation of tax treaties with "tax sparing" and similar provisions, and the use of such treaties to achieve a more liberal recognition of foreign taxes in allowing tax credits.

We also recommend negotiations leading to deferral by foreign governments of income tax on reinvested earnings to match the recommended U.S. tax deferral through the device of a Foreign Business Corporation.

Proposals for Investment in Less Developed Countries Only

The following proposals are presented in order to meet one of the major objectives of U.S. foreign policy, namely, to accelerate the rate of U.S. investment in the less developed areas. These proposals offer special incentives not accorded under existing law to foreign investment and should be limited in their application to investment in the countries of Asia, Africa, and Latin America, with provision for the addition or deletion of individual countries by the Secretary of State depending upon the requirements of national policy.

U.S. Tax Treatment of Foreign Capital Losses

Under existing law capital losses on foreign investments, like capital losses incurred on domestic investments, can generally be deducted only against capital gains. Losses on foreign investments in the less developed countries deserve special treatment. Fear for the safety of capital has been a major deterrent to private investment abroad, especially in the less developed and less familiar areas.

We recommend that a deduction against ordinary income be allowed for capital losses sustained by individual investors and corporations (including Foreign Business Corporations) on their new investments in the less developed areas.

We also recommend that capital losses sustained by a Foreign Business Corporation on its new investments in the less developed areas should be carried through to its stockholders and made available to them as a deduction against their ordinary income and applied by them to reduce the basis of their stock in a Foreign Business Corporation.

These benefits should be available for a definite statutory period, say 10 years, or be made reliably and permanently applicable to any eligible investment made prior to a change in policy, even if the losses themselves are incurred thereafter.

The tax benefits afforded by these recomendations would correspond directly to some of the major fears and risks which now deter foreign investment, that is, risk of total loss for noncommercial reasons and risk of intermittent interruptions of foreign operations and other harassments which may from time to time cause large operating losses. Moreover, the government would not lose revenue except when the feared risks have in fact turned out to be real and the desired investment has actually been made and lost.

Deferral of U.S. Tax on Investment of Property and Technical Services

Investments of property for stock and securities are discouraged by the provisions of U.S. tax laws requiring that unless the U.S. investor has the prior approval of the Commissioner of Internal Revenue, and unless he and other investors own 80 percent or more of the stock of the foreign subsidiary when they complete the investment, he will have to pay a U.S. tax on his paper profit, even though he has received no cash from the transaction with which to pay the tax.

Moreover, under existing law, even if an engineering firm or some other technical service organization is willing to take stock or securities for its labors, it would have to include the value of the stock or securities in its taxable income. The obligation to pay a tax before receiving any cash from a transaction with which to pay it obviously deters investment of property and technical services. This puts pressure on those investors who have actually taken stock or securities to liquidate their investment, thus terminating the partnership between the American investor and the foreign enterprise.

We believe that it is highly desirable to encourage American businessmen to invest not only money, but also plant, equipment, inventory, and services in the less developed countries. Such investments enable these countries to receive valuable capital equipment without any equivalent drain on their limited dollar supply. Where the investment involves a substantial but not a controlling equity, it puts American business in partnership in the foreign enterprise to the obvious advantage of both the United States and the host country.

WE RECOMMEND a change in existing tax law so that:

1. Where technical services are rendered in exchange for the stock or securities of companies in the less developed countries, the U.S. tax will be deferred until the stock or securities are sold; and
2. Where property is invested in a company in one of the less developed countries in exchange for stock or securities, the U.S. tax will also be deferred until the stock or securities are sold, provided the U.S. investor has an interest of 10 percent or more in the foreign company.

Tax Deferral for Reserves to Guarantee Loans

Institutional lenders in the United States (i. e., insurance companies, pension funds, savings institutions, and the like) have large financial resources but are generally precluded by law and practice from lending to foreign borrowers without the guaranty of a U.S. corporation.[2] Such a U.S. corporation may, however, be reluctant to reduce its own credit resources for domestic operations in order to guarantee a loan to its foreign affiliate.

To facilitate access to institutional sources of capital, it is suggested that a domestic corporation should be permitted to defer the U.S. corporate tax of 52 percent on that amount of its gross income equal to the face amount of a loan extended to its foreign affiliate by an institutional lender and to pledge that amount to guarantee the loan.

In order to permit the Treasury to obtain the current use of the taxes thus deferred, it is suggested that the borrower be required to purchase an interest-free government note which then can serve as security for 52 percent of the loan. When the loan is in fact paid off without resort to the guaranty, the deferred tax could be paid by a cancellation of the note.

If the loan is defaulted, the lender would collect on the government note for 52 percent of the amount in default and from the guarantor corporation for the balance. This would represent no loss of tax revenue in any case, since payments made under the terms of a guaranty to meet a defaulted loan would be deductible under existing law from the corporation's gross income.

The advantage of this arrangement is two-fold:

1. It permits the borrower to assure the lender that the loan is fully guarantied at the time it is made even though only 48 percent of it is a drain on the borrower's domestic borrowing capacity; and
2. Neither the borrower nor the lender would have to negotiate for anything from the government in advance of the transaction.

In order to prevent perpetual deferral of taxes through indefinite renewal of loan guaranties, it would be essential to specify that the government's obligation would in no case extend beyond the loan period initially contracted for. The government might also want to set limits on the duration of loans eligible for this tax treatment. Also, of course, the borrower would be subject to normal tax obligations and appropriate interest charges and penalties if he could not demonstrate the genuineness of any default which invoked the guaranty. The policing problem would be no different than that now presented when a payment of similar kind is claimed as a proper deduction from taxable income.

WE RECOMMEND that the Internal Revenue Code be amended to permit a domestic corporation to defer its U.S. income tax on that amount of its gross income equal to its guaranty to institutional lenders of loans made to its foreign affiliate in the less developed countries.

Exemption of an FBC From the Personal Holding Company Tax

The proposed FBC would ordinarily be subject to the penalty tax imposed on personal holding corporations when owned 50 percent or more by five or less individuals and members of their families.

WE RECOMMEND that consideration be given to exempting from the personal holding company tax FBC's which receive 90 percent or more of their gross income from the less developed countries.

We recognize, of course, that this recommendation might raise political issues because it would give wealthy taxpayers and their families certain

[2] The special problems of certain institutional lenders are discussed further in chapter IV.

tax advantages which they do not now enjoy. On the other hand, a large potential source of ingenuity and investment, available from individuals and closely held corporations which could fruitfully be employed in the less developed countries, might otherwise be lost.

IV. U.S. GOVERNMENT FINANCING AND CONTRACTING FOR PRIVATE ENTERPRISE OVERSEAS

Introduction

It is our hope and belief that the measures covered in previous chapters, for action in the developing countries to encourage private enterprise and for certain changes in U.S. taxation of foreign investment, will go a long way in broadening the scope and expanding the volume of constructive private participation in economic development. All these measures have the great merit of not requiring case-by-case negotiation between the private companies concerned and agencies of the U.S. Government. Nevertheless, it would be unrealistic to suppose that such measures can do all that is needed in the face of the political, economic, and social uncertainties which characterize much of the underdeveloped world.

The urgency of more rapid development, compounded by the pressures of the cold war, requires in many cases direct governmental sharing in some of the risks if the full potential of private participation is to be realized. This chapter deals with specific techniques for such risk-sharing, ranging from various forms of U.S. Government financial participation with private enterprise to outright governmental contracting for private services in the exploration and operation of specific development investment projects.

In order to achieve the maximum private participation in enterprises overseas, and to retain the advantages of private initiative and decision-making insofar as possible, the recommendations in this chapter follow four major general lines:

1. Greater use by the government of intermediate financial institutions, both here and abroad, such as commercial banks, development banks, investment companies, and insurance companies.
2. Greater use by the government of partial guaranties against nonrepayment of private loans for any reason.
3. Imaginative use of techniques of financial participation in private enterprises, including such devices as nonvoting equities, dollar loans repayable in local currencies, loans in local currencies, and partial guaranties by foreign banks, American banks, or American parent corporations—designed in each case to create a financial package tailored to meet the special needs of individual situations, particularly those of special importance to national policy objectives.
4. Wider use of government contracts with private concerns for exploration and operation of specific investment opportunities and projects.

The specific techniques will need to be adapted to individual business and political situations which present varying degrees of risk to the private participants and varying degrees of importance to U.S. Government objectives.

The recommendations which follow are not intended to replace the current programs for assisting the development efforts of other countries. They are clearly complementary to such programs. Their initial impact will be modest. Their effect on future requirements for U.S. Government resources for foreign economic development can only be determined after a serious effort is made by both government and business to use the techniques presently available, and those which are recommended in this study, in imaginative ways to bring to bear on development problems private resources of capital, skills, energy, and initiative.

While substantial flexibility is essential to meet the policy objectives of the government and to reflect the wide variety of investment problems and situations, there is also a need for well understood standards and procedures in administering U.S. Government financial assistance to private business. Failure to identify as clearly as possible the criteria of eligibility for such assistance could arouse false hopes, with consequent resentment and charges of unfair discrimination when such hopes prove illusory. The methods employed should be designed to accelerate progress toward our goal of having private trade and investment take over more and more of the task of economic growth.

We have not attempted in this study to specify all the criteria and standards because of the complexity of the political, economic, and commercial problems which face the developing countries, American business, and the U.S. Government. For this reason, some of our principal recommendations envisage pilot programs. Only out of case-by-case experience can meaningful standards and procedures be expected to evolve.

Furthermore, we recognize that the combined effect of our recommendations in this chapter on financing and contracting techniques and in chapter IV on taxation, if adopted, may present problems to the administering agencies and those who may translate our legislative recommendations into specific statutory proposals.[1]

Decentralization—the Greater Use of Intermediate Organizations

Strong financial and developmental institutions, such as investment and commercial banks, development banks, and investment companies, are essential to the dispersion of initiative and decision-making characteristics of an effective private enterprise system. They enable private business to obtain capital with a minimum of direct governmental involvement, particularly in the numerous cases where the financial assistance needed is small.

The U.S. Government can encourage and support these institutions in various ways. In this section we are concerned primarily with broadening their role as "retail" institutions which serve as intermediaries between the U.S. Government lending agency and the private enterprise needing financial assistance. This necessarily involves placing responsibility for the use of limited amounts of public funds with a wider group of private American and foreign organizations.

This is already being done in the case of foreign development banks primarily serving local enterprise. We see real merit in a similar delegation of responsibility to American private investment and financial organizations in a position to share the financial risks of foreign investment activity. In fact, there is a domestic precedent for this kind of intermediate arrangement in the recently enacted Small Business Investment Company Act (see below) which has stimulated our thinking in this regard. The government supplies long-term debt capital to Small Business Investment Companies which, in turn, invest their funds together with the government funds in a variety of small businesses. The government prescribes the rules and regulations by which the investment companies make their investments in small businesses but does not participate in the individual investment decisions.

WE RECOMMEND that the U.S. Government give further encouragement, by means of financial support, to soundly organized foreign development banks. In addition, WE RECOMMEND that the government undertake to supplement the resources of American financial institutions prepared to invest in private enterprises contributing to economic development in the less developed countries.

The U.S. Government should satisfy itself, of course, that the organizations involved are financially sound and have the ability, purpose, and resources to assist private enterprise contributing to local economic growth in the less developed countries. U.S. Government financing in such cases should be carefully circumscribed as to amount and purpose, but on a basis which leaves to the private institution substantial discretion in making individual investment decisions. For example, advance U.S. Government approval of individual transactions should not be required where U.S. Government funds involved do not exceed a specified amount or a specified proportion of the total financing required and periodic reports of operations are submitted for review by the U.S. Government lending agency.

Main Types of Intermediate Institutions

The following types of institutions are illustrative of those which would be eligible for the kind of activity outlined above:

Foreign Development Banks. Development banks and similar institutions have been estab-

[1] The appendixes to this report contain material regarding certain foreign financial activities of the U.S. Government related to private enterprise. The principal lending agencies are the Export-Import Bank and the Development Loan Fund. The main differences in their lending objectives, together with the tables covering their financing activities relating to private enterprise, are contained in appendix F. The authority to guarantee U.S. investment abroad against defined nonbusiness risks is administered by the International Cooperation Administration, and appendix G contains detailed information regarding this program. Information regarding the uses of foreign currencies derived from the sale of surplus agricultural commodities under P.L. 480 will be found in appendix H.

lished in several of the underdeveloped countries because of the absence of sources of medium- and long-term capital for private ventures. Both the International Bank for Reconstruction and Development and the U.S. Government have supported the establishment of many such banks by supplying financial and technical assistance. Development banks are important particularly to small local businesses as sources of capital on reasonable terms. Such banks are familiar with the local scene and the soundness and credit-worthiness of the local businessman—knowledge which obviously would be impossible or impracticable for a U.S. Government agency to obtain. Where local governments furnish a major part of the initial capitalization of development banks, they should be encouraged to permit the progressive replacement of their interest by private capital.

It may not always be feasible or practicable to establish new development banks, particularly in very small or extremely undeveloped countries. In these situations a special local development fund may be more practical, administered by a local government agency or by some existing private institution. Thus, alternative arrangements should be sought for accomplishing the same purposes if an adequate development bank does not exist or if there is no immediate prospect for establishing one.

Edge Act Corporations. Section 25(a) of the Federal Reserve Act, normally referred to as the Edge Act, authorizes the Federal Reserve Board to charter banking and financing corporations:

> "for the purpose of engaging in international or foreign banking or other international or foreign financial operations . . . either directly or through the agency, ownership or control of local institutions in foreign countries . . . and to act when required by the Secretary of the Treasury as fiscal agents of the United States . . ."

An Edge Act Bank is permitted a much greater range of activities than the ordinary commercial bank operating outside the United States. In general, Edge Act Banks may conduct all types of banking activity permitted within a particular country. There are important exceptions, e.g., they cannot buy or sell commodities for their own account.

An Edge Act Corporation can provide credit on terms longer than those normally extended by commercial banks. Another advantage is that they can, with the consent of the Federal Reserve Board, purchase and hold stock in other corporations, including foreign banks. The Edge Act subsidiary of one American bank, for example, has acquired minority interests in three development banks in the developing countries. Thus, these specialized American banks are in a position to assist the less developed countries in mobilizing their own capital resources and in obtaining outside capital for their economic development programs.

Very few Edge Act Corporations have been established since the passage of the act in 1919, although U.S. commercial banks are currently showing some increased interest in its provisions. Various reasons have been given for this previous lack of interest. Among other things, it has been suggested that the regulations affecting Edge Act Corporations[2] are unduly restrictive in requiring the consent of the Federal Reserve Board prior to their investments in shares of other corporations. We have not had the opportunity to determine the extent to which this has, in fact, been an obstacle to greater use of the Edge Act, although it is likely that this requirement has at least had some adverse psychological effect. In any case, the desirability of expanding American banking operations, particularly of an investment type, into the less developed countries warrants further review of the use and potentialities of the Edge Act and the regulations issued thereunder.

We recommend that the Federal Reserve Board be requested to review, in the light of needs and conditions in the developing countries, the adequacy and effectiveness of the regulations regarding Edge Act Corporations, with particular reference to the requirement that the Board's consent be obtained in advance of purchases by such Corporations of stock in other corporations.

U.S. Investment Companies. Investment companies (including "investment funds" and "investment trusts") have become major instruments in the U.S. for the mobilization of capital for a wide variety of industries. To a limited extent they have also been used for equity participation in foreign enterprises, primarily in Canada and Western Europe. Similar organizations in Western Europe have served as a channel for European investment in the less developed areas. Managers

[2] Regulation K of the Federal Reserve Board, as amended January 15, 1957.

of such companies are familiar with a wide variety of financing practices and are in close contact with sources of capital. Being responsible for the funds at the disposal of their companies, they insist on sound management of the individual enterprises in which they invest.

This kind of managerial competence, together with the financial resources of these companies, makes them an important potential instrument in filling the needs of local enterprises in the less developed countries.

Because existing companies do not normally invest in the less developed countries, we believe that the possibilities of government action to stimulate the adaptation of the mechanism of the investment company to the needs of these countries warrants serious study. It should be feasible by means of special tax and financial incentives to interest the private American financial community in organizing special International Development Investment Companies (IDIC's) for the specific purpose of participating in new productive enterprises in Latin America, Asia, and Africa, on a partnership basis with local businessmen in which the latter would normally retain the majority interest. Illustrative characteristics of such special companies, as well as the suggested tax and loan incentives which could be provided by the U.S. Government, are set forth in appendix E.

WE RECOMMEND that appropriate legislative and administrative action be taken on the basis set forth in this report to provide governmental financial, tax, and legal support for the formation of International Development Investment Companies to invest in new or expanded private enterprises in the less developed countries.

Small Business Investment Companies. The Small Business Investment Company Act of 1958 was passed by the Congress for the purpose of providing equity and long-term loan capital for the domestic needs of small business. The Small Business Administration is empowered to license investment companies and to provide debt capital in amounts related to the capital raised privately by these companies. Such companies also are given certain tax advantages.

Since these investment companies are formed solely for the purpose of providing capital to domestic small business, the regulations prohibit investments in, or loans to, foreign enterprises, even though they may be subsidiaries of U.S. small business. The regulations are silent, however, on whether the proceeds of financing by Small Business Investment Companies can be applied to the foreign as well as the domestic activities of U.S. small businesses; by making this possibility clearly permissible, both the small business program and foreign economic policy objectives would be advanced. The experience of small business might be more readily adaptable to many situations in the developing countries than that of a large corporation.

WE RECOMMEND that the Small Business Administration be requested to consider, in consultation with appropriate congressional committees, authorizing Small Business Investment Companies to finance foreign investments of U.S. companies qualifying as small businesses.

Commercial Banks

The special characteristics of commercial banks, both American and foreign, present possibilities which require treatment separate from the institutions described above. Because of their concentration upon short-term commercial financing, they probably should not be considered as a potential source of large amounts of long-term private developmental capital. Nevertheless, American commercial banks are already participating with government lending agencies in foreign financing activities, for example, by taking the early maturities on government loans, and they should be encouraged to play a larger role in promoting developmental objectives.

There is reason to believe that under certain circumstances American commercial banks will undertake longer term financing. They can do this in some cases when they have recourse to partial government repayment guaranties of their loans. In other cases groups of banks may be prepared to form syndicates to share in a particular financing activity. By means of this kind, American banks could help to provide the medium-term capital needed by many private enterprises in the developing countries and hence could serve the "intermediate" function cited above.

In addition, local private commercial banks, including branches of American banks, could assist U.S. lending agencies and missions abroad in appraising the soundness of, and availability of local and foreign private capital for, projects being considered for U.S. Government loans. Some of these banks also have direct channels to the capital markets of the world through their main offices and correspondents, and can thus bring promising investment opportunities and related information to the attention of potential investors and obtain advice regarding private sources of capital.

Expanded Use of Guaranties

We are proposing in this section a new emphasis on government guaranties of private loans and investments as a means of unlocking additional sources of private U.S. capital for foreign economic development purposes. This emphasis contributes to assuring that private applicants make full use of private financing and that government assistance will be limited to what is necessary to complete the financial package.

Government Guaranties of Loan Repayments

The government has had very limited experience in the use of guaranties of the repayment of private loans for foreign enterprises. Wider use of such guaranties would enlist the skills and resources of private financial institutions, would tend to preserve the normal banker-client relationship, and would stretch the financing which can be accomplished within the resources of U.S. Government financing agencies.

Greater Use of Private Skills and Resources. The main function of this type of guaranty should be to draw upon the resources of American institutional lenders such as the commercial banks, insurance companies, and pension funds. The special problems of the last two categories are discussed in the section on Special Problems of Certain Institutional Lenders.

Even though the government guaranty might cover most of the risk taken by a private institutional lender, there are frequently sound reasons to use guaranties rather than direct government loans. The fact that some portion of the risk, even a relatively small portion, is assumed by the private institution assures the government that the financial judgment and experience of the guaranteed lender are employed in setting up the financing and in administering the loan.

It is worth emphasizing that, in the judgment of some investment bankers, a workable program of credit guaranties, which encourages reputable commercial lenders to extend credits abroad in connection with particular transactions, would greatly increase the possibility of finding in the United States and other capital-exporting countries individuals and companies who would be willing to invest in the same transactions on an equity basis or on a loan basis subordinated to the senior, guarantied credits.

From the standpoint of the investment banker attempting to find financing for a project abroad, it is quite helpful if a commercial lender is prepared to supply what may be called "senior" debt. In many cases, therefore, it may be anticipated that a guaranty of "senior" debt advanced by a commercial lender may attract very substantial amounts of private risk capital.

Fractional Reserves—Stretching the Resources of Government Financing Agencies. Because private rather than public funds would be disbursed to the borrower, it should not be necessary to back fully the government's contingent liability with appropriated funds. No cash payment by the government is involved in a guaranty of a private loan unless and until default occurs; and it is highly unlikely that defaults would occur on all or even a substantial proportion of such loans.

The necessary legislation or legislative clarification should be sought to enable the government financing agencies to establish reasonable fractional reserves to back up guaranties issued on private loans, since it is unnecessary to tie up funds beyond a conservative estimate of reserves needed to meet anticipated defaults on loans covered by guaranties. In addition to determining the proper reserve proportion, a ceiling should of course be established on the amount of guaranties that can be extended.

There must be assurance that the *full faith and credit* of the government is pledged to the total amount of guaranties issued regardless of the resources actually earmarked for covering defaults. Without such assurance, it is questionable whether most financial institutions would be in a position to participate in the program. The Federal budget documents should disclose clearly the full amount of contingent liability, as well as the reserve amounts established on a fractional basis. It should be borne in mind that the budget already reflects credit programs under which domestic private obligations of nearly $60 billion are wholly or partially guaranteed by the government.[3]

WE RECOMMEND that government guaranties of the repayment of loans made by private lenders for enterprises in the developing countries be used more extensively in lieu of direct loans; that an expanded program be undertaken to test the effectiveness and feasibility of such guaranties; and that the reserve against such guaranties be based on a conservative estimate to cover amply the maximum foreseeable net cost to the government, rather than 100 percent of the amount of guaranties issued.

Rediscount Facilities. Of special concern to commercial banks in connection with any foreign credit guaranty program is the problem of liquidity. Unlike life insurance companies and many other institutional investors, commercial banks must be in a position to convert a substantial portion of their assets into cash on relatively short notice by disposing of their assets or borrowing against them. Therefore, in order to make the guaranty program of greater appeal to commercial banks, consideration should be given to according them rediscount facilities at the Federal Reserve Banks for relatively short periods (say, up to 90 days), against the guaranteed portion of loans made under the guaranty program.

Special Problems of Certain Institutional Lenders. The situation of the life insurance companies and pension funds warrants special mention. In recent years they have become a most important source of capital for domestic investment purposes. They are largely uninterested in investing abroad (except in Canada) because of the limitations of State laws and the basic policies governing their operations. Also, the range of investment opportunities within the U.S. has been so great that there has been no pressure upon the insurance companies or pension funds to invest abroad.

Security of investment is of prime importance to the insurance companies and pension funds. This security is normally achieved by limiting investment to U.S. and State governmental obligations, securities guaranteed by Federal or State governments, and securities of U.S. corporations having assets in the U.S. within reach of American courts. In order to lend abroad, the insurance companies and pension funds are likely to insist on the full guaranty of principal and interest by the U.S. Government or by a domestic U.S. corporation.

However, a partial government guaranty on loans to enterprises in the developing countries, such as we recommend, need not be a bar to such loans by insurance companies and pension funds, *if* U.S. corporations affiliated with foreign enterprises are prepared to guarantee the difference between the amount of the government guaranty and the full amount of the obligation. This technique suggests a way of dealing with the special problems of the insurance companies and pension funds which encourages association between U.S. and foreign enterprises, and should be fully explored in administering a repayment guaranty program.

The use of this technique would be greatly facilitated by the adoption of the recommendation in chapter III, the section on Tax Deferral for Reserves To Guarantee Loans, that U.S. corporations be permitted a tax deferral for their guaranty of loans made to their foreign affiliates by institutional lenders. This would greatly lessen the financial burden on a company's domestic assets of foreign investment. We believe that the combination of government and corporate guaranties of private loans may be a very effective way of drawing upon the resources of the institutional lenders.

Relation of Government Guaranties to Treasury Obligations. We have carefully considered the possible effect of loan guaranties on the market for U.S. Government securities. A full government guaranty of payment of interest and principal is so close to the character of a Treasury obligation that the private lender should receive little return over what he would receive by investing in a government bond of comparable maturity.

There are a number of variables that can be injected into the terms of a guaranty to differentiate it from a Treasury obligation and at the same time make it attractive to the private lender. The guarantied lender can be required to assume responsibilities in addition to the interest and the part of the principal of the loan which is not guaranteed. The guaranty can impose responsibilities on the lender to take preventive action to avoid

[3] Special Analysis E of the U.S. Government Budget for FY 1960, pp. 957-969, Federal Credit Programs.

defaults. It might also impose collection responsibilities on the lender for a defined period of time or up to a limited amount of collection expenses. In cases where a lender incurs extraordinary expenses in connection with a guarantied loan, part of these costs might properly be covered by specific fees rather than be included in the interest charges.

We assume that a guaranty of less than full repayment of principal and interest can carry a higher rate of return than a Treasury bond of the same maturity. The agency extending the guaranty might set up a sliding scale of fees whereby the return to the private lender increases as the amount of the government's guaranty decreases, as in the Regulation V Loan Program administered by the Federal Reserve System during World War II. The scale of guaranty fees should be designed to build up a reasonable reserve against probable losses but must not be so high that, when added to the reasonable interest charges of the lender, the cost of the capital to the ultimate borrower will be prohibitive.

Our recommendation for a policy of partial rather than full guaranties is based principally on the benefits that accrue to the government financing agency from the financial judgment and experience of the private guarantied lender when he bears a portion of the risk. At the same time, our recommendation significantly differentiates such guaranties from Treasury obligations.

Guaranties Against Defined Nonbusiness Risks

The investment guaranty program, operating under the authority contained in section 413(b) of the Mutual Security Act, authorizes guaranties of American overseas investment against losses due to expropriation, nonconvertibility of earnings and return of capital, and war damage.

About $400 million in guaranty contracts have been issued as of December 31, 1958, with nearly half of this amount issued in the last 6 months. The program has resulted in a fee income of over $3 million, without a single call having been made on the guaranties during the 10 years of the program's operations. There has been a progressive increase in the importance attributed to these guaranties by investors as the program has been broadened in scope, become better known, and more widely used. Pending applications are in excess of $1 billion. Statistical information on this program is contained in appendix G.

We believe that this guaranty program has an important place among government financing devices. Guaranties against defined risks are particularly useful as a way to associate the U.S. Government financially with private U.S. financial institutions. The defined risks are primarily political in character and thus are distinguished from the commercial risks with which private financial institutions are accustomed to dealing. The provisions of guaranties against defined risks, therefore, do not involve as much need for government appraisal of the commercial merits of the project as do loan repayment guaranties or direct loans.

A guaranty against loss resulting from revolution, insurrection, or civil strife appears to be a logical and feasible extension of the present war damage guaranty.

We recommend that the investment guaranty provision of the Mutual Security Act be amended to include coverage of losses arising from revolution, insurrection, or civil strife associated with war, revolution, or insurrection.

Based on the current rate of guaranty applications, the present ceiling on outstanding guaranties, $500 million, will soon be exhausted and should be increased to something like $1 billion. An increase in the authority will maintain the confidence of the business community in the continuity of the program, as well as facilitate further negotiations of guaranty agreements with foreign governments.

We recommend that the Mutual Security Act be amended to increase the issuing authority for investment guaranties to $1 billion, with such additional borrowing authority as may be considered necessary.

Combined Use of Loan Repayment Guaranties and Nonbusiness Risk Guaranties

Guaranties against nonrepayment of loans for any reason, discussed in the section on Government Guaranties of Loan Repayments, clearly also cover the defined nonbusiness risks discussed in the section on Guaranties Against Defined Nonbusiness Risks. On the other hand, loan repayment guaranties are addressed only to private lending, whereas the nonbusiness risk guaranties also apply to private equity investments. There may well be situations in which both types of guaranty could be used to advantage. For example, if a private loan is partly covered by a repayment guaranty, the balance might be covered by a guaranty against inconvertibility, or the private borrower's equity might be covered by one or more of the defined nonbusiness risk guaranties.

Export Credit Insurance

Consideration of guaranties raises the question of the possible benefits of a system of export credit insurance. The ability of foreign importers to obtain favorable credit terms from American exporters of industrial and capital equipment clearly affects the economic development of the particular country as well as U.S. export opportunities. To the extent that credit availability makes it possible for a foreign private company to obtain needed equipment, the growth of private enterprises abroad is facilitated—a principal objective of this report. Moreover, the fact that private investment frequently follows private trade suggests an additional reason why considerations which motivate trading relationships have investment implications. However, because the immediate purpose of export credit is to assist American exports rather than foreign investment projects, this subject is frequently given insufficient attention in the consideration of foreign development financing.

In addition to export credits presently extended by the Export-Import Bank and private commercial banks, the Export-Import Bank is currently considering arrangements whereby it will guarantee against losses resulting from political risks on export financing where private interests are prepared to assume the commercial risks. Furthermore, we believe that there would be particular merit in a privately organized and administered system of export credit insurance whereby private parties would underwrite the commercial risk and the political risk would be insured by the government. A system of this kind, particularly if designed for exports to the underdeveloped areas of the world, would encourage more private trade and financial relationships with the developing countries. It would have particular advantages for banks and small exporters throughout the country whose facilities and resources for financing export transactions are frequently limited.

Care would have to be taken in administering such a system to avoid overstimulating exports to countries facing balance of payments difficulties. In this connection it would become increasingly important for the United States to consult with other interested countries, particularly those having export credit systems.

Because this subject has ramifications not related directly to the basic objective of our study, we are not proposing any specific plan of export credit insurance. However, we believe that the subject should be reexamined at this time.

WE RECOMMEND that consideration be given by the government, in consultation with representatives from private business, to the desirability of establishing a system of credit insurance for exports, especially to the underdeveloped areas of the world, privately organized and administered, with the government assuming the political risks only.

Direct Dollar Financing

The techniques of indirect U.S. Government financing through intermediate financial institutions (see the section on Decentralization—the Greater Use of Intermediate Organizations) and through guaranties (see the preceding section) cannot meet all the situations requiring U.S. Government financial assistance. It will also be necessary for U.S. Government lending agencies to continue to provide financial assistance directly for individual projects abroad, U.S. and foreign. It is in this field that the U.S. Government has accumulated a substantial body of experience in associating private capital with government loans.

Private Bank Participation

The government lending agencies have been able to reduce their part of the financing of a particular project by making loans on terms which reduce the risk of parallel private loans to the same borrower. Furthermore, the Export-Import Bank has established the willingness of commercial banks to take notes maturing in up to 3 years and, less frequently, up to 5 years. The Development Loan Fund may also be able to find private loan capital on similar terms.

In the case of a development loan for 10 to 15 years, the government participation could be reduced by requiring the borrower to issue serial notes, the early maturities of which would be taken by private banks. These notes would have the intangible but significant protection of being part of an issue which also constitutes an obligation to the U.S. Government. The government lending agency's participation may be progressively reduced under an arrangement whereby the private bank has an option to purchase additional serial notes from time to time which will mature within a period of time acceptable to the bank.

Extent of Government Participation in Private Projects

There should continue to be a strong presumption against the government's providing more than half of the total capital required for an enterprise or project. The government has on occasion exceeded this proportion in projects of particular importance. Care must be taken in such cases, however, to prevent excessive profits from accruing to the private investor because of an unusually high percentage of government funds. Arrangements should be made for the government to participate in any such profits, through convertible debentures, stock warrants, income bonds, and similar instruments, or by providing for accelerated repayment of the loan when the earnings of the enterprise in any one year exceeded an agreed reasonable rate of return. This would enable the government to turn over its loan funds more rapidly.

Nonvoting Equity Securities in Government Financing

It would be advantageous for the U.S. Government to have the power to acquire equity securities in private foreign firms in the course of financing certain special projects with an unusually high percentage of government funds. The voting rights of such securities would be suspended during the time they are held by the government. The Development Loan Fund, as well as the International Finance Corporation (IFC), currently has power to acquire securities that permit participation in profits such as convertible debentures, stock warrants and contingent income bonds. It cannot, however, acquire equity securities under existing legislation.

The advantages of providing the government with the right to acquire equity securities with restricted voting rights are:

1. It would make the securities more marketable so that the government could more easily sell to private investors participation in its financings and thereby revolve its funds more rapidly. An equity security is likely to be more readily saleable to private investors than a debt security dressed up to give it some of the same features. The resulting complexities of the latter instrument will limit its appeal to all but the most sophisticated private investors and thus greatly impair its marketability.
2. Convertible debentures or other debt securities giving the holders certain preemptive rights raise problems under the legal system of many foreign countries. Equity securities, with restricted voting rights, would raise no such legal problems.
3. Equity securities would not add fixed obligations to the foreign exchange burden of countries facing balance of payments difficulties.
4. The ability to acquire equity securities may enable the government to reduce its initial portion of the total financing.

It can be argued that the U.S. Government should not have an ownership interest in a foreign enterprise. However, since the voting rights of the security would be suspended until it is sold to a private investor, the practical effect of the transaction is very little different from the case in which the government extends substantial financial assistance to a foreign enterprise on some other basis. Questions of possible legal difficulties or conflicts with local laws would, of course, have to be carefully examined in each case.

We do not propose the indiscriminate use of the nonvoting equity security in government financing. We believe, however, that there are situations in which this technique could be used to the government's advantage and that it should be available for use in appropriate cases.

WE RECOMMEND that existing legislation be amended to authorize U.S. Government financial assistance to be extended in the form of nonvoting equity participation in private enterprises abroad.

Local Currency Repayment of Dollar Loans

The question has been raised as to the propriety of making dollar loans repayable in local currency to private borrowers, American or foreign. Were this authority restricted solely to loans to foreign governments, it might lead to discrimination against establishing enterprises in private hands by governments facing balance of payments difficulties.

The necessity for local currency repayment of private loans is related to the balance of payments situation of a country and not to the credit-worthiness of the private borrower. It follows, therefore, that when the Development Loan Fund makes a dollar loan repayable in local currency to a private company, U.S. or foreign, that loan should carry a maintenance of value clause. This would preserve the dollar value of the local currency repayment and avoid possible windfall profits to borrowers if repayment is made in a depreciating currency. (This situation should be distinguished from *local currency* loans to private enterprise which, as is the present practice under the Cooley Amendment,[4] should carry interest charges consistent with the going rate in the countries concerned and should not be subject to a maintenance of value provision.) On loans to private local borrowers repayable in local currency, it would be useful to obtain the guaranty of a local bank in order to preserve the banker-client relationship and to obtain the judgment of the bank in appraising the project.

Dollar loans to American companies or their foreign subsidiaries repayable in local currencies, moreover, present the difficult problem of the proper division of the risk of inconvertibility between the borrower and the U.S. Government. To protect the government and to return dollar capital to the Development Loan Fund in such situations, the American company might be required to apply some portion of any earnings received in dollars to the repayment of the Development Loan Fund loan.

Local Currency for Private Enterprise Projects

The availability of local currency financing is frequently at least as important to potential investors as dollar capital. The substantial amount of local currencies already available to the U.S. Government will continue to be augmented in large amounts from several sources, including sales of surplus agricultural commodities under Public Law 480[5] and repayments of past and future loans under P.L. 480 and the Mutual Security Act.

These financial resources represent an important asset, alone and in conjunction with the dollar resources discussed in preceding sections, for the development of private enterprise, both local and foreign, in less developed areas. Missions in the field should have substantial discretion in developing uses for local currencies to encourage the growth of local financial and service institutions which will substantially improve the climate and facilities for private enterprise.

For the immediate future, certain useful adjustments would be desirable in connection with section 104(g) of P.L. 480[6] as follows:

WE RECOMMEND that Public Law 480 legislative history with respect to section 104(g) make clear that local currencies accruing from sales under that section are available:

1. For lending by the Development Loan Fund in connection with its dollar loans to private borrowers—either U.S. or local; and
2. For grants to nonprofit organizations in the less developed countries which extend technical assistance and other services for the encouragement of local private enterprise.

Experience under the Cooley Amendment of P.L. 480 since its enactment in 1957 suggests that there is likely to be insufficient demand by American business to use up the local currencies available under this amendment in several countries. We believe it would be inconsistent with the spirit underlying the Cooley Amendment for large amounts of such local currencies to be thus immobilized. Flexibility should be built into the program to permit the allocation of such local currencies for lending to other private enterprise, both American and, in some cases, foreign. This could be accomplished by broadening the defini-

[4] The Cooley Amendment, section 104(e) of P.L. 480 (The Surplus Commodity Disposal Act), provides for loans of local currency generated from the sale of surplus commodities abroad to private American and, in certain limited conditions, to private foreign enterprise. These funds are administered by the Export-Import Bank.

[5] See appendix H for statistics on local currencies generated under P.L. 480.

[6] This section authorizes use of local currencies to promote multilateral trade or economic development through established local banking facilities or otherwise.

tion of American enterprise to include loans for economic development to private enterprise owned by U.S. citizens living abroad or in which American individuals have a substantial interest.

In addition, funds found by the Export-Import Bank to be in excess of current requests and foreseeable requirements of American business, and which would revert to U.S. Government uses at the end of 3 years under present loan agreements, should be released at the end of 18 months for loans to private foreign business in that country, by agreement with the foreign government under section 104(g).

WE RECOMMEND that necessary action be initiated to permit:

1. Economic development loans under the Cooley Amendment to private enterprises owned by U.S. citizens living abroad;
2. Economic development loans under the Cooley Amendment to foreign private enterprises in which American individuals have a substantial interest, e.g., over 10 percent of the voting stock;
3. The transfer after 18 months, at the sole discretion of the United States, of Cooley Amendment funds—in excess of present and estimated requests for loans by U.S. companies—to be used by the foreign country to encourage private enterprise.

Three U.S. Government agencies now administer local currency funds available for lending to, or otherwise supporting, private enterprise: namely, the International Cooperation Administration, the Development Loan Fund, and the Export-Import Bank. We are concerned about the possibilities for confusion and lack of flexibility inherent in this situation. Moreover, the problems will increase rather than decrease as new P.L. 480 agreements are negotiated and loan repayments begin mounting up.

The present legislation makes no provision for the use of the repayments (also in local currencies) of P.L. 480 loans, including those extended under the Cooley Amendment.

WE RECOMMEND that any legislation which may be enacted to clarify the lending of local currency repayments should take into account the desirability of (a) making available maximum amounts of these funds to encourage private enterprise, and (b) procedural arrangements which would make it possible for such local currencies as may be available for lending to private business to be supervised by a single U.S. Government agency in each country.

Financing the Identification and Exploration of Investment Opportunities

Despite the well-known shortage of capital in less developed countries, there appears to be an even greater shortage of specific, well-planned industrial projects seeking to attract capital. Thus, there is considerable need and scope for a more active U.S. Government program to assist the developing countries to identify opportunities for private foreign investment and to bring them to the attention of potential investors.

Sheer unfamiliarity with the problems and potentials of business abroad is a major deterrent to overseas investment by Americans. This is reflected in the fact that most new foreign investment is made by firms already operating abroad in the areas with which they are most familiar. The much greater expense and effort of exploring investment opportunities overseas, both because of distance and because of the larger number of unknown factors to be studied, discourages some companies contemplating their first investment abroad or considering expansion into unfamiliar areas.

Foreign entrepreneurs who have projects that might be of interest to American investors are likewise discouraged by the high cost of surveying and proving projects to the extent needed to attract American investor interest. In underdeveloped countries, where the concept of long-term risk taking is not deeply embedded, the idea of spending thousands of dollars on technical and exploratory work that is not certain to show a return is a radical departure from the traditional way of doing business, and only a small minority of the businessmen in these countries have the means or the desire to take such a step. Because of this unwillingness to spend on technical preliminaries, many projects that might otherwise be of interest to American or other private investors die or remain dormant or, in some cases, are eventually undertaken as government projects.

These obstacles are most severe in the less developed countries where the U.S. foreign aid program is now primarily concentrated.

There are two basic techniques which would reduce these obstacles within the framework of the existing foreign aid program:

1. Investment identification survey contracts with engineering and economic consulting firms, described in the section on General Surveys of Investment Opportunities and Priorities; and
2. Financing detailed exploration of specific ventures by operating and investment companies, described in the section on Financing Exploration Costs.

Wherever possible, these arrangements should be made by local development banks or industrial centers with the foreign firms, and should be financed by funds from local as well as U.S. Government sources. This would give greater assurance of local support for foreign investors and foster the partnership approach discussed in chapter II.

General Surveys of Investment Opportunities and Priorities

There should be some expansion, on a selective basis, of U.S. financing of surveys, normally by private American consultant firms, to identify and broadly evaluate in particular countries the most promising general fields or specific projects for private investment and their relative priority in terms of the country's overall economic growth. The contractual arrangements for such surveys would be most effective if made between the private organization and the foreign governments or local development-promoting institutions.

Surveys should be conducted only where adequate information is not available, where there is a basis for believing that private investment could effectively contribute to the country's economy, and where there are reasonable grounds to believe that the surveys can be put to early practical use rather than adding to the already overly large library of unused studies. In this connection, it would be desirable after completion of the survey for the consultant firm to be retained on an "as needed" basis so as to utilize its experience in dealing with future problems related to the subject of its survey.

The followthrough on such surveys is of prime importance. The results of previous surveys have not always gotten into the hands of potential private investors, either in the U.S. or in other developed countries. It is essential, therefore, that adequate and effective procedures be designed for this purpose.

The main responsibility for the followthrough should rest with local governments and institutions in the developing countries. The survey firm, retained on an "as needed" basis, can provide valuable assistance for this purpose. In some cases it may be desirable to include in survey contracts arrangements for the survey firm to explore the availability of local and foreign capital for the proposed projects. In other cases, separate contracts may be desirable with financing institutions or other qualified organizations to use the surveys as a basis for interesting potential investors and operating companies in putting together workable proposals.

Financing Exploration Costs

For a limited number of project possibilities of high priority, a program should be adopted for financing part or all of a potential investor's actual costs of detailed exploration, including such matters as market surveys, studies of availability of labor and raw materials, site location studies, engineering studies, preliminary design, cost analyses, financing arrangements, studies of applicable legal requirements and political conditions, and salaries, travel, and subsistence of personnel engaged in making or arranging for such studies. The financing could cover all costs required to make a project "investable."

Financing of this kind could be provided to operating companies and to investment institutions for whom detailed exploration costs represent a real obstacle. The advance would have to be repaid only if the borrower went forward with the project. If it elected not to go forward, all studies, reports, data, and technical information developed in connection with the project would become the property of the United States, which could make them available without limitation to other potential investors and to the government of the country concerned.

It is not contemplated that this type of assistance could be made available generally on the basis of private applications. Rather, it is expected that such assistance will normally result from cases in which the U.S. Government and the host country, having identified a project as of sufficiently high priority to warrant such assistance, take the initiative in inviting proposals for exploratory financing. If more than one proposal were received for the same project, they would be evaluated not solely on the basis of the financial aid requested, but also on the basis of the manner in which the firm could successfully carry out the project, taking into consideration its financial and technical capabilities.

Advances would be approved after a determination that the proposed project would contribute to the development of economic resources or to the increase of productive capacity in the country involved; that there is reasonable promise that the technical and economic soundness of the project can be established; that the applicant is capable of obtaining adequate technical and financial resources to carry out the project; and that the proposed program of detailed exploration is sound.

The financing agreement should make it clear that the U.S. Government assumes no obligation to make available further financing for the project after completion of the exploration study. The recipient, however, would not be precluded from subsequently applying to U.S. lending agencies, under normal procedures.

The scope of the exploration financing arrangement makes this technique valuable in two important ways. First, it brings together a potential investor and an investment opportunity which, in the absence of private initiative, might not be explored at all. Second, it provides a possibility for operating and investment companies to participate in the resulting project in ways which reduce the financial and managerial burden on the foreign governments for those projects which otherwise would be financed, owned, and operated wholly by governments.

The availability of survey contracts and exploration financing, even on a limited basis, can provide important instruments for governments or local investment promotion institutions in breaking the climate barrier. Further, they provide U.S. aid missions on the ground with specific tools to increase the effectiveness of economic aid programming.

WE RECOMMEND that survey contracts and exploration financing be employed under the Mutual Security Program for encouraging new ventures which contribute to economic development in less developed countries and that special funds be reserved for these techniques from appropriated funds.

Management Contracts

The U.S. Government will find it necessary to finance contracts for projects for fulfilling urgent development objectives for which private capital is not forthcoming. In such cases the U.S. Government should endeavor:

1. To make the best use of the business and technical skills of American operating companies to assure sound execution and management; and
2. To build into the financing arrangements the maximum possibility for later private financial participation.

Present foreign aid contract regulations and techniques encourage a segmented approach to contracting. They encourage separate contracts for feasibility studies, architect-engineer services, and construction, as opposed to centralizing managerial responsibility for an entire project in a single company. These policies also lend themselves to the selection, as prime contractors, of architect-engineers and construction companies rather than companies with operating experience.

There are important advantages in a management contract, following the necessary feasibility studies, whereby the U.S. or foreign government contracts with a single company to undertake on a cost-plus-a-fixed-fee basis to design and construct a plant, train local operating personnel, and operate the plant for a period such as 3 to 5 years. The full support and cooperation of the foreign government is vital to the successful use of this technique. Some of its advantages are:

1. The judgment of an experienced operating company is obtained as to such matters as site selection, size and design of plant, and nature of product.
2. Local personnel are given training in efficient production, sales, and distribution methods.
3. The American management is enabled, at no out-of-pocket cost or risk to itself, to gain experience in foreign operations which, if favorable, could lead it to undertake other projects with its own funds and at its own risk.
4. Contacts are made by the local community with private American businessmen and their operating methods which should help build up local acceptance and support for private investment and business activities.

WE RECOMMEND that, where necessary to accomplish high priority projects, greater use be made of management contracts which centralize managerial responsibility for an entire project, including its operation for an initial period, in a single operating company; and that these contracts be developed in close cooperation with the foreign governments.

Contractor Selection

In many cases there will be a problem in finding a contractor who is both qualified and willing to undertake a task which will require him to devote important personnel to a new investment activity. The problem of contractor selection requires careful attention and understanding on the part of the American business community and the Congress. Elements other than cost, which enter into decisions on projects important to foreign policy objectives, require at some point the exercise of qualitative judgment. We recognize the congressional and public concern with some of the problems of contractor selection but believe they are inherent in the situation. We have been unable to uncover any suggestions which will adequately meet the intrinsic difficulties of contractor selection.

The problems of contractor selection must not adversely prejudice the prime objective of increasing *effective* private participation in the economic development process. Problems of this kind which become a major issue within the executive or legislative branches not only delay the very project which is designed to achieve U.S. objectives but also influence adversely the attitudes of other contractors as well as foreign countries. The aid agency cannot in the final analysis avoid responsibility for contractor selection decisions. It should, however, obtain the most qualified disinterested advice available from the American business community whenever possible.

Arrangements for Later Private Financial Participation

Since the contract concept contemplates only a limited period of contract operation, it would be appropriate to try to develop means, by agreement with the recipient government, for later conversion into a private project. The contractor could be given an option to purchase an interest in the project at the end of the operating period, at an agreed price or a price to be arrived at by agreed formula, subject to local legal requirements regarding the percentage of local ownership. The contractor could be encouraged, as consideration for such an option and as an earnest of its interest in the project, to contribute some of its own funds to the cost of the project to be credited against the option price. Conceivably some form of incentive to efficient management could be provided in the fee or other terms of the contract. Nevertheless, the project, until such an option was exercised, would be wholly government-owned and must be regarded as a government and not a private project.

It may sometimes be desirable to finance for local government the construction and equipment of the particular plant to the specifications of a potential U.S. private investor. The plant could then be leased (outright or on a lease-purchase basis) to the investor so that his investment would be limited to know-how and working capital. This device has been used by some U.S. communities seeking to attract new industry.

In addition to specific arrangements looking toward ultimate private investment participation by the project contractor, it may be feasible for the foreign government to undertake to offer, at a stated future time or times, opportunities for private investment participation in the project.

WE RECOMMEND that procedures be established to assure consideration and exploration with foreign governments of possible arrangements for later private financial participation prior to extending financial assistance for foreign government owned and operated projects.

V. ANTITRUST AND FOREIGN INVESTMENT

The application of the antitrust laws to American business abroad raises many complicated questions of national and international policy. This report is concerned only with those aspects of the problem which bear on fostering more useful private investment in developing countries and on creating a world economy in which economic growth can flourish. We are, therefore, concerned principally with the role of antitrust policy as an instrument of U.S. foreign economic policy and with the role of antitrust law in business decisions. Only incidentally is this report concerned with the role of antitrust law in our relations with foreign governments and the development of international law.

General Policy and Problems

Continued U.S. opposition to international cartels and monopolies has a triple significance for the foreign economic objectives which are the concern of this report. First, keeping business accountable to the public interest by bargaining in competitive markets is a cardinal element in our belief that free enterprise is a superior way of organizing economic activity. If we were to retreat from this insistence in any significant way, we would be playing into the hands of those propagandists who preach that capitalism inevitably means exploitation by cartels and monopolies. Second, we believe that world economic development can ultimately be achieved only by assuring ever-higher levels of multilateral trade, increasingly free of private and public barriers alike. Agreements that curtail developing countries' export or investment potentials are directly opposed to our objectives of economic growth. Third, we believe that smaller and medium-sized private American businesses abroad would be placed at a disadvantage if they could easily be foreclosed or excluded by restrictive or monopolistic practices on the part of larger rivals.

For all these reasons we would oppose any wholesale withdrawal of the antitrust laws from the maintenance of competition in American exports or imports. On the affirmative side, we would urge even greater efforts by the Department of State to encourage other countries to forbid private restrictions on trade and investment, either through local laws such as the recently enacted British and German laws against restrictive business practices or through international action. In particular, where protectionist restraints have the effect of excluding investment, or where cartel restraints have the effect of restricting trade, we would urge diplomatic efforts to achieve their removal in order to foster a higher level of developmental investment and trade.

However, even though law and diplomacy should continue to be used to remove private barriers to world development, both legal standards and administrative procedures should take account of the difficulties caused by attempting to apply our law to foreign transactions. These difficulties fall into two main categories: first, deterrents to useful private foreign investments; second, clashes with the interests and prerogatives of other sovereign states. We feel that wise and orderly administration can handle these problems better than would be likely by new legislation.

In part this is because we do not think that the variety of considerations demanding flexibility lend themselves to statutory direction. In part also, however, it stems from the particular terms of reference of this report. We are concerned primarily with fostering productive investment in the least developed areas of the world.

With the possible exception of some large-scale extractive investment, it does not seem to us that investment in Asia, Latin America, and Africa is likely to raise as many or as difficult antitrust problems as those encountered when American firms are doing business with major competitors in the industrialized countries. For one thing, investment in such areas outside the extractive field is not likely to involve any significant export or import commerce of the United States. Further, local firms with which partnership is to be affirmatively encouraged are not likely to be significant enough in world markets to raise cartel fears. Antitrust problems in relations with our industrial allies fall outside the scope of this report. We do not think that new legislative treatment by way of substantive change or exemption on the grounds of fostering investment in the less developed areas is warranted.

We are, however, making certain administrative recommendations which follow.

Administrative Determinations

Weighing of Special Considerations

Deterrents to useful investment must, of course, be balanced against the positive advantages of freeing investment and trade from private restraints generally. On balance, as we have said, we think more good than harm is done by the general policy of prohibiting restraints. However, some language in recent court decisions has gone beyond what was necessary to decide the particular cases, and has implications which seem to exceed the actual application of the law either in the courts or by the Department of Justice. These have the effect of inhibiting initiative in some situations involving the formation of subsidiaries, the establishment of joint ventures, licensing arrangements, and managerial assistance by American firms.

As long as a restraint or arrangement does not substantially limit American export or import potential as a whole, it is our understanding that conclusions regarding its legality would take into account the extent to which it was forced upon the American firm, either by foreign laws or foreign business practices, as a condition of doing any business at all. Thus, a restraint which might be clearly illegal at home might be upheld as reasonable in foreign commerce because it was essential in order to do business abroad. To the extent that the Department of Justice would take such considerations into account in deciding whether or not to prosecute, it would seem highly advantageous for it to say so in some authoritative way.

Even though the Department of Justice does not have a formal rulemaking power and would not want to tie its hands by generalized declaratory pronouncements, it would seem possible for it to make clear that it does not intend to prosecute a foreign arrangement on the grounds that all joint ventures or license restraints are illegal *per se* or on the grounds that cooperation among a parent and majority-owned subsidiaries is, in itself, a basis for a conspiracy charge.

We recommend authoritative indication of the extent to which the Department of Justice will take into account elements of legal or quasi-legal compulsion or business necessity in assessing the legality of a foreign arrangement under the antitrust laws.

Advance Clearance

A second technique, aimed at the deterrent effect of antitrust policy in private foreign investment decisions, would be greater resort to advance clearance of proposed transactions with the Department of Justice. The Department is now willing to give a limited clearance to proposed arrangements submitted to it if, upon examination, it is felt that they involve no violation of the law. The availability of this willingness should be publicized. Especially where the restraint stems from the requirement of a foreign government, prior examination might permit either U.S. diplomatic action to remove the compulsion or permit the acquiescence of the Department of Justice in the restraint as a matter of antitrust policy.

We do not think, however, that any regime of advance clearance as a matter of routine procedure for foreign transactions would be a healthy thing either for the business community or for antitrust enforcement. If clearance became the rule rather than the exception, business would be saddled with one more burden of negotiation with government. Also, the antitrust agencies would be burdened with an impossible administrative task which would lead either to an unwarranted relaxation of standards or to casting doubt on a host of transactions which otherwise could have taken place undisturbed.

We recommend clarification of and more public information concerning the willingness of the U.S. Government to consider in advance the legality under antitrust laws of proposed investments abroad.

Consultation With Foreign Governments

Relations with foreign governments may be upset by precipitous filing of complaints or requests for relief which are thought by a foreign state to infringe its sovereignty. The Department of Justice in recent years has not taken any action involving foreign relations without prior consultation with the Department of State.

If an application to the Department of Justice for the advance clearance of a proposed foreign transaction involves the interest of a foreign government or a possible conflict with foreign law, again the State Department should be consulted prior to a definitive ruling. Such consultation should leave room for diplomatic efforts to remove the legal or official compulsion to restraint as well as opportunity to take into account the overall foreign policy interest of the United States.

WE RECOMMEND that, barring unusual circumstances, time should be permitted for consultation with representatives of the foreign government affected if the basis for the proposed antitrust action might be removed by negotiation or if advance notice might soften the impact on foreign opinion.

VI. GEARING THE GOVERNMENT MACHINE FOR INCREASED AMERICAN INVESTMENT ABROAD

It is important to recognize that the less developed countries are undergoing a process of change, the results of which cannot now be foreseen clearly. Therefore, the recommendations set forth thus far in this report can do no more than point the direction in which we believe the United States should move.

The recommendations themselves contain the seeds of new problems for the U.S. Government. To the extent that they are adopted, they will have to be translated into specific actions by many individuals in a number of agencies in Washington and in farflung missions abroad. To the extent that the recommendations succeed in stimulating markedly greater interest of U.S. private business in exploring investment in the less developed countries, corresponding U.S. Government efforts will be needed to assure that such momentum is not lost. However, our recommendations would require primarily a redirection of the machinery of government concerned with these problems, rather than increased personnel.

The chain of the investment process is difficult to forge and is breakable at many points. Incentives which arouse interest and expectations among private investors and foreign countries must be supported by sound and comprehensive followthrough measures. The potential frustrations and dangers in a poorly understood set of partial measures suggest that in this case no loaf might well be preferable to half a loaf.

Diplomatic Activities Abroad

Even if the government were not to adopt special measures to expand the role of private investment in foreign economic development, Americans doing business abroad deserve the strong diplomatic support of their government. On a day-to-day basis this means the good offices of our diplomatic representatives and vigorous representation in the face of unfair or discriminatory treatment. More fundamentally, it means persistent efforts on the part of our Department of State to encourage the development of an international legal system which assures the responsibility of states toward each other and toward each other's nationals and their property.

If the recommendations of this report are adopted and succeed in inducing a substantial increase in American investment in the newly developing countries, the need for such support will become correspondingly greater. A major diplomatic and private effort will be required to make clear to them how American business operations fit into and contribute to their economic life and aspirations. Without such understanding, the very increase of American private business activity and the accompanying negotiations could create a false impression of our basic objectives.

Our official missions abroad are responsible for representing and supporting American interests in the widest sense. One of the most important functions of the Foreign Service officers engaged in economic and commercial work abroad is to receive American businessmen and to give them prompt, courteous and efficient assistance. This includes providing general economic information and specific commercial and investment information and making introductions to local businessmen and government officials. Such assistance is rendered daily by Foreign Service officers stationed abroad, within the limitations imposed by competing demands upon their time.

Officers should not, of course, favor or appear to favor any one among competing American enterprises or seek preferential treatment for one over the others. Where actual competition exists there may be problems; but theoretical or imagined competition should be no bar to the extension of appropriate official support and assistance.

A program of government-business partnership in overseas operations requires a close relationship between official and business representatives abroad—and on a two-way basis. The resulting interchange of information, opinions, and problems can be mutually beneficial. Moreover, the early identification of problems and potential conflicts affecting American interests often facilitates remedial action; whereas frictions which are permitted to develop into fires are unlikely to be susceptible to the same treatment. American enterprises abroad, assuming that they have not abused their hospitality, are entitled to fair and nondiscriminatory treatment. We understand that our official missions abroad have standing instructions to take steps to insure that they receive such treatment, through sound public relations or missionary work of an educational nature and through appropriate representations when the occasion warrants.

We have noted with particular interest the personal request by Secretary Dulles early last year that the chief of each diplomatic and consular mission abroad review the relations of his mission with visiting businessmen and other representatives of the American business community and take any steps for improvement that he might deem appropriate. The replies to this request were most encouraging, and we believe that every post is aware of the importance of this aspect of its responsibilities.

Efforts of American missions abroad to improve their services would be facilitated if business representatives who felt that they had not received adequate support and assistance gave full particulars to the Departments of State or Commerce. General charges of failure to cooperate can never be as effective as the examination of particular cases in which such cooperation is felt to be lacking.

It is important, of course, that overseas posts be manned with competent and sufficient staff to conduct their economic and commercial activities and to express the American faith in private enterprise. Personnel should be selected and trained with this purpose in mind. We have noted with approval the efforts in recent years to strengthen the economic and commercial staffs abroad, both in numbers and in quality. The arrangement for the limited interchange of officers between the Departments of State and Commerce is a step in the right direction, but we believe that there is scope for considerable expansion in the arrangements for tapping outside resources of economic and commercial talents.

We recommend that efforts be intensified to provide adequate economic and commercial staffs for U.S. official missions in the less developed countries, including expansion of arrangements for drawing talent from business and industry.

Treaty commitments regarding the treatment of American individuals and enterprises abroad give added force to official representations with respect to discriminatory or unfair treatment and are directly related to our foreign economic development objectives. The 17 modern treaties of friendship, commerce, and navigation which have been signed since World War II contain important provisions affecting the rights and treatment of American individuals and enterprises and constitute real progress in developing recognized standards. As these standards become more widely accepted, they become less identified with purely U.S. objectives and thus more acceptable in the eyes of other potential signatories. Moreover, the negotiating process itself provides a valuable forum for the technical review of all aspects of the investment climate in the other country, in an atmosphere uncharged by the heat that controversies in particular cases usually develop.

We recommend that the program of commercial treaty negotiation be given continued attention and emphasis and that every reasonable effort be made to initiate or pursue negotiations with those less developed countries which are not already party to such treaties or to active negotiations.

The support and protection of American business interests and the negotiation of commercial treaties must, of course, be considered in the light of other national objectives. Thus, the government's ability to support individual business interests may face practical limitations imposed by considerations of national policy with respect to the particular foreign country involved.

Services to Business at Home

The pace of economic and commercial events abroad, the need for greater emphasis on investment in the developing countries, and the widening interests of American business in overseas operations need to be reflected in the services rendered to American business by the U.S. Government. These services include commercial intelligence and the reporting of specific investment opportunities abroad. In the context of our foreign policy objectives and the Soviet economic offensive, it is essential to have effective government services to, and communications with, American business. We have not been able to appraise these services and we doubt that the government agencies concerned are in the best position to evaluate their effectiveness to the business community. Hence, we suggest that an independent survey be made by a private consulting firm based on comprehensive consultations with business end-users.

WE RECOMMEND that the Departments of State and Commerce undertake a comprehensive review of their services to business, preferably by employing an independent firm or organization working in collaboration with the American business community.

Continuing Government Attention

The principal need within the U.S. Government is to assure that adequate attention on a continuing basis is devoted to expanding "the role of private enterprise in advancing the foreign policy objectives of the United States," as stated in section 413(c) of the Mutual Security Act of 1954, as amended.

The various operating agencies now carry on a number of highly useful activities designed to discharge their responsibilities in this regard under existing legislation. What is lacking is continuity of high level attention and coordination.

Because of the large potential benefit to the United States of greater private participation in the economic development process, we feel that special administrative arrangements are warranted within the U.S. Government to realize this potential. It is impossible to consider allocation of responsibilities regarding private investment except in the context of the administration of foreign economic policy as a whole, which is beyond the scope of this report. It seems clear, however, that as a minimum there should be an identified point of responsibility within the Department of State at an appropriately high level to assure adequate and continuing attention to the utilization of private enterprise in overseas economic development. It is in this Department that foreign economic policies and activities are integrated with the foreign political objectives of the United States.

WE RECOMMEND that a senior official at an appropriately high level within the Department of State, and supported by the necessary staff, be assigned responsibility for assuring the fullest possible use of private enterprise in foreign economic development.

This official would have a three-fold responsibility:

1. To follow for the Department of State on a continuing basis the activities of the operating agencies in enlisting the participation of private enterprise in achieving the objectives of the Mutual Security Act.
2. To provide a focal point within the Department of State to identify projects fulfilling particularly urgent foreign economic development requirements in which private participation is desirable and to initiate appropriate measures to facilitate such participation.
3. To take the initiative, within the Department of State, for recommending such legislative or administrative measures as he may consider necessary for making fullest possible use of private enterprise in foreign economic development.

In carrying out these responsibilities, this official will need to maintain close working relationships with the principal operating agencies. It is not intended that he supplant the functions of these operating agencies in any manner. In fact, it is assumed that each agency will reinforce its own organization, where necessary, to carry out the recommendations of this report if they are adopted.

He should also maintain close contact with the private financial and business community on broad policy problems—as distinct from the operating problems of individual agencies. For this purpose, it may be desirable to establish a panel of consultants drawn from outside the government who would be available as and when necessary.

APPENDIX A

Table A-1

International Investment Position of the United States, 1939–1957

(billions of dollars)

	1939	1946	1950	1953	1955	1957
I. Total U.S. investments abroad	11.4	18.7	32.8	39.5	44.9	54.2
A. Private investments	11.4	13.5	19.0	23.8	29.0	36.8
1. Long term	10.8	12.3	17.5	22.2	26.7	33.6
a. Direct	7.0	7.2	11.8	16.3	19.3	25.3
b. Other	3.8	5.1	5.7	5.9	7.4	8.3
2. Short term	0.6	1.3	1.5	1.6	2.4	3.2
B. U.S. Government credits and claims [a]	—	5.2	13.8	15.7	15.9	17.4
II. Foreign assets and investments in the United States	9.6	15.9	19.5	23.6	29.6	31.4
III. Net U.S. investment abroad (I minus II)	1.8	2.8	13.3	15.9	15.3	22.8

[a] Excluding World War I loans, of which the principal was $11.4 billion at end of 1939. Includes U.S. Government claims on international institutions.

Source: Department of Commerce.

Table A-2

Geographic Distribution of U.S. Long-Term Private Foreign Investment, Selected Years, 1946–1957

(billions of dollars)

Direct Investment

Area	1946	1950	1953	1955	1957
Canada	2.5	3.6	5.2	6.5	8.3
Latin America	3.0	4.7	6.0	6.6	8.8
Western Europe	1.0	1.7	2.4	3.0	4.0
Other countries	0.7	1.8	2.7	3.2	4.2
Total	7.2	11.8	16.3	19.3	25.3

Other Investment

Area	1946	1950	1953	1955	1957
Canada	3.0	3.4	3.3	3.8	4.2
Latin America	0.6	0.4	0.4	0.7	0.9
Western Europe	1.2	1.4	1.4	1.6	1.8
Other countries	0.2	0.3	0.4	0.8	0.8
International institutions [a]	—	0.2	0.4	0.5	0.6
Total	5.0	5.7	5.9	7.4	8.3

[a] Mainly private holdings of securities of the International Bank for Reconstruction and Development.

Source: Department of Commerce.

Table A-3

Geographic Distribution of Value of U.S. Direct Private Foreign Investment, 1950–1957

(billions of dollars)

Geographic Areas	End of 1950		Increase 1950-1957	End of 1957	
	Amount	%		Amount	%
Canada	3.58	30.4	4.75	8.33	33.0
Latin America	4.74	40.2	4.07	8.81	34.9
Western Europe	1.72	14.6	2.27	3.99	15.9
Middle East	0.73	6.2	0.55	1.28	5.1
Other countries	0.79	6.5	1.48	2.27	9.0
International institutions	0.23	2.0	0.34	0.57	2.3
Total	11.79	100.0	13.46	25.25	100.0

Source: Department of Commerce.

Table A-4

Average Annual Increase in Value of U.S. Direct Private Foreign Investment, 1946–1957

(billions of dollars)

	1946-50	1950-53	1953-55	1955-57
1. Canada	0.28	0.55	0.62	0.92
2. Latin America	0.43	0.43	0.29	1.10
3. Western Europe	0.17	0.22	0.31	0.50
4. All others	0.26	0.30	0.29	0.45
Total	1.14	1.50	1.51	2.97
Of which:				
a. New dollar investment [a]	n.a.	0.70	0.72	1.96
b. Reinvestment of earnings of subsidiaries	n.a.	0.80	0.77	1.01

n.a.—Not available.
[a] Includes reinvested earnings of branches.

Source: Department of Commerce.

Table A-5

Value of U.S. Direct Private Investments Abroad by Major Industries and Geographic Areas, End of 1957

(billions of dollars)

Industries	Canada	Latin America	Western Europe	Middle East	Others	Total
Mining and smelting [a]	1.00	1.24	—	—	0.39	2.63
Petroleum [a]	2.15	3.16	1.18	1.18	1.31	8.98
Manufacturing [a]	3.51	1.69	2.08	[b]	0.64	7.92
Public utilities	0.35	1.29	0.05	—	0.18	1.82
Trade	0.47	0.54	0.34	—	0.24	1.59
All others	0.85	0.89	0.29	0.10	0.18	2.31
Total	8.33	8.81	3.99	1.28	2.94	25.25

[a] "Mining and smelting", and "Petroleum", include substantial amounts of investment in manufacturing activity directly associated with those industries.
[b] Included in "All others."

Source: Department of Commerce.

APPENDIX B

Description of Examples of Industrial Development Centers

Statement by J. P. Grant, Deputy Director for Programs and Planning, International Cooperation Administration, before the Subcommittee on Foreign Trade Policy of the Committee on Ways and Means, House of Representatives, December 1, 1958.

Mr. Chairman, I should preface my description by noting that no two of these development institutions operate in exactly the same pattern. Each is tailored to meet the needs and the situation of the country in which it operates.

However, the purpose can be described generally as being to provide in one central institution the broad range of technical and financial skills needed by local private industry and by local institutions lending funds for development purposes.

We in America, where such skills are so widely dispersed and readily available, frequently fail to recognize the extent of the absence of such skills in many underdeveloped countries and the consequent retarding effect on the development of private enterprise.

In Ceylon, the last country I was in, private industry establishments hardly exist. Such few establishments as do exist are primarily foreign owned. This means that American investors seeking to establish themselves in Ceylon have the greatest difficulty in finding local partners. There are few Ceylonese looking for Americans. There is nothing to provide for further growth unaided and private local industry is looked upon with considerable suspicion because of its non-Ceylonese origin.

The United States has helped to develop the Ceylon Institute of Scientific and Industrial Research, designed to meet in part at least this problem. The CISIR is a nonprofit institution which makes its advisory services available to private industry, usually, but not always, for a fee.

Management services and training are provided to industrial establishments, entrepreneurs desiring to set up a factory and secure advisory services on market studies, plant layout, and equipment. New and developing industries can receive advice on cost accounting and production problems. It is the situs of the best library on industrial technology in Ceylon.

The second major function of the CISIR is to serve as the technical arm of the recently established Development Finance Corporation of Ceylon, a privately operated credit institution which for the first time in Ceylon provides a source for medium- and long-term credits for the establishment of new private enterprise.

The Development Finance Corporation sends loan applications to the CISIR for evaluation as to the technical and economic feasibility of the proposed new establishments.

If the proposal is sound in principle, but needs considerable further development before implementation, the CISIR will help the applicant refine his proposal. The extent of the contribution of such an institution in an underdeveloped country almost has to be seen to be believed, Mr. Chairman.

The United States has provided assistance to the CISIR in several ways: Through a contract with an American engineering firm, three American industrial engineers and management specialists are provided on a several-year basis and short-term consultants can be called for from the United States as needed.

The American personnel are actively training their Ceylonese replacements. Necessary technical equipment and informational materials have been provided to the Institute. Staff members are sent abroad for training in various industrial fields.

A similar but broader organization, the Industrial Development Center, exists in the Philippines. This institution provides technical services in such matters as plant layout, production methods, product design and quality control. More than a hundred Filipinos in the past 3 years have been sent to the United States and other countries for advanced training in various manufacturing fields. Top and middle management trainees are given courses in the Philippines on supervisory methods and techniques, well over 1,000 in inservice plant courses alone.

The Harvard Graduate School of Business Administration has participated in conducting a series of advanced management seminars. More than a thousand firms have received assistance in the field of cost control accounting. Labor-management principles have been widely disseminated and an industrial informational research program has been undertaken.

The Center also provides services to principal credit institutions in the Philippines. It operates a loan guaranty fund under which local banks are guaranteed repayment of long- and medium-term loans in a field in which such banks were not previously engaged.

The Center will also provide time deposits in local banks as these banks make loans to industrial enterprises.

At the conclusion of the first 3 years of this program, 9,700 new production jobs in related enterprises could be identified, plus a large volume of secondary employment. One hundred and fourteen million dollars have been added to the annual industrial output of the country.

These are two illustrations, Mr. Chairman, of the wide variety of ICA programs designed to promote small- and medium-sized industry.

I should repeat again that these programs not only add to the economic growth of the country, but they assist private foreign investment through improving the investment climate of these countries and increasing the availability of the frequently indispensable local partners.

APPENDIX C

Suggested Characteristics of the Foreign Business Corporation (FBC)

A. A domestic corporation could elect to qualify as an FBC if at least 90 percent of its income is derived from sources outside the United States and at least 90 percent of its income is from the active conduct of trade or business abroad, either directly or through equity participation in foreign subsidiaries so engaged.

B. An FBC would be exempt from U.S. tax on income derived from foreign sources in all categories (e.g., sales of goods or services, profits, dividends, interest, royalties, compensation for technical, engineering, and similar services). This exemption would be subject to the following limitations:

1. Income derived from sources within the United States would be subject to United States tax;
2. Income from foreign dividends, interest, and royalties would qualify for exemption only when received from a foreign corporation at least 10 percent of whose voting shares were owned by the FBC;

3. A corporation which earned more than 50 percent of its gross income from exports would not qualify as an FBC. Moreover, eligible income from exports would be only that income attributable to merchandising activity abroad. Manufacturing and wholesaling profits actually earned in the U.S. would remain subject to U.S. tax by strict enforcement of the existing pricing provisions now applicable to transactions between U.S. parent corporations and their Western Hemisphere and foreign subsidiaries. This provision is included in order to prevent purely trading activities that take place without substantial overseas investments from enjoying the tax benefits of an FBC.

C. The stockholder in an FBC (corporate or individual) would be subject to regular U.S. income tax on dividends from an FBC in the same way that dividends paid by a foreign subsidiary to a U.S. stockholder would be taxed, i.e., without any deduction for dividends received. The dividends to the corporate stockholders should be taxed even where the FBC is a member of a group of affiliated corporations filing a consolidated return, or it may be advisable to make FBC's ineligible to participate in such groups.

D. Foreign tax credits, including those available under tax-sparing treaties, would remain available as at present as an offset against the U.S. tax on dividends paid by the FBC to its stockholders.

E. Under existing law a foreign base corporation can be used by U.S. stockholders to overcome the per country limitation on their foreign tax credit. Thus, they can enjoy as a credit the tax imposed in excess of 52 percent by certain countries through averaging such higher tax with a lower tax (less than 52 percent) imposed by other countries. In order to make a similar result available to stockholders of an FBC, the FBC should be allowed the alternative of choosing the overall limitation on the foreign tax credit instead of the per country limitation.

F. In order to enable domestic corporations with existing foreign investments and operations to take advantage of an FBC, the proposed law will make possible the tax free transfer at any time of property, such as the assets of foreign branches, stock and securities of foreign subsidiaries, patent and trademark rights and license agreements, from a U.S. corporation to an FBC in exchange for stock or securities of the latter. Furthermore, it will be possible to reorganize existing foreign branches into foreign subsidiaries, wholly owned or owned jointly with others, without U.S. tax consequences. The tax treatment of such transfers of property and reorganizations will be subject to safeguards which prevent an FBC or its U.S. parent from realizing ordinary income as a capital gain and which prevent reorganizations otherwise designed to avoid U.S. tax.

G. Percentage depletion is not now available to foreign corporations since their income is fully exempt from U.S. tax and, therefore, should not be available to FBC's.

H. An FBC would be exempt from the accumulated earning tax since its stated purpose is to stimulate the accumulation and reinvestment of earnings from foreign investment.

APPENDIX D

Data on Taxation of Foreign Source Income

This appendix provides data on the effective rates of foreign and U.S. tax on foreign-source income. An effort has been made to provide accurate information of general applicability, without entering too deeply into the more technical aspects of taxation and without considering in detail all of the special factors of taxation that may apply to particular cases.

1. *Foreign Tax Rates*

Table D–1 shows effective rates of taxation generally applied by 53 foreign countries to the earnings of the locally incorporated subsidiary of a U.S. corporation. Throughout this appendix the data refer to taxation of the earnings of the subsidiary of a U.S. corporation for two reasons:

a. The subsidiary form, rather than the branch form, is the most commonly used method of investment abroad and covers by far the largest proportion of the value of U.S. direct investment abroad in all areas of the world.

b. Among investments abroad in the form of branch operations, a large proportion is in extractive industries. The availability of percentage depletion and other tax advantages to these operations makes them rather special cases which are not comparable to other investments in terms of the definition of earnings which are actually taxed.

The figures in table D-1 were supplied by the Bureau of Foreign Commerce, Department of Commerce. The figures for Western Hemisphere countries have been brought up to date through the end of 1958, while those for other countries were applicable as of early in 1958. Few changes of major importance occurred during 1958 in these countries so that the data are believed to be adequately representative.

It is of considerable importance to recognize that the tax rates shown in table D–1 are the effective rates which apply *in the absence* of special incentives provided by the foreign countries. Many of the countries shown offer to foreign investors generally, or to selected foreign investors (sometimes on an individually negotiated basis), such special incentives as complete or partial elimination of income tax for a limited time, or special or accelerated depreciation allowance for new investment. The rates shown in table D–1 are those that apply *in the absence* of such incentives or *after* they have ceased to operate. The succeeding charts and tables, which show the combined incidence of foreign and U. S. taxation, do, however, also show the incidence for a situation where there is no foreign tax, as would usually be the case during the limited period when special foreign tax incentives operate.

Conditions and rules of income taxation vary considerably from one country to another. Hence, table D–1 can only be an approximation to comparable tax rates. It is especially important to recognize that the definition of taxable income may vary among countries. The following *assumptions* were made in arriving at the figures in table D–1:

1. All countries have about the same deductions and exemptions.
2. The rate given is the one *generally* applicable to foreign subsidiary corporations, wholly owned by a U.S. corporation. Special income tax regimes in some countries designed to apply primarily to a few enterprises, especially those in extractive activity, are not covered in the table.
3. Where there is a progressive corporation income tax, the rate shown is based on the highest overall effective rate that would apply to income on a good-sized U.S. investment.
4. Where there is an excess profits tax based on a relationship to capital, and the taxpayer can avoid it by paying a smaller capital tax, the latter alternative is chosen. Where the excess profits tax is progressive, it was assumed that the U.S. subsidiary corporation earned 40 percent on its capital.
5. There is strict enforcement.
6. All corporate profits of the subsidiary, after foreign taxes, are declared as dividends to the U.S. parent company.
7. The rates shown include both taxation on the earnings of the subsidiary as such and taxation on the dividends transferred to the U.S. parent corporation.

2. *Total Foreign and U.S. Tax on Income from Foreign Subsidiaries*

Tables D–2, D–3, D–4, and charts A, B, and C show the combined incidence of foreign and U.S. taxation on the income of a U.S. corporation earned through and by a wholly owned foreign subsidiary. In all instances it is assumed that all of the profits of the foreign subsidiary, after foreign taxes, are declared as dividends to the U.S. parent corporation. While this assumption departs considerably from common practice (since a large volume of U.S. direct investment abroad occurs through reinvestment of the profits of subsidiaries), it is necessary in order to achieve reasonable comparability in the data.

The tables and charts are based on the figures for foreign taxation shown in table D–1. To these are added the U.S. tax, if any, that would apply under one of three alternate methods of U.S. taxation on foreign income, which have been proposed:

1. The existing system which would effectively remain the same *for distributed dividends* under the proposal for a Foreign Business Corporation contained in this report;
2. The 14 percentage point tax reduction proposal contained in the Boggs Bill (H.R. 5, 86th Cong., 1st sess.). This proposal is used for comparative purposes because it is currently

under consideration and because it is necessary to have a specific form of such a proposal, since there are technical differences of tax computation among different 14 point proposals.

3. The Committee on World Economic Practices (CWEP) proposal (c below), which would replace the present tax treatment of income from foreign investments (held by a Foreign Business Corporation) by an effective flat tax of 7.8 percent in many instances.

The calculation of the total tax incidence under each alternative is shown briefly below.

a. *Existing System.* After foreign tax is taken from profits, the remaining profits are distributed as dividends. The dividend is subject to taxation at 52 percent on the U.S. parent corporation, but the foreign tax credit system as applied to foreign subsidiaries provides, in effect, that the rate of foreign tax is deducted from the rate of U.S. taxation, with only the remaining rate of U.S. tax being applied. Note that this provides relief from foreign taxation twice; once because the foreign tax is deducted from the profit of the subsidiary *before* it declares a dividend, and once when the rate of foreign tax is deducted from the rate of U.S. tax *on* the dividend. This double relief often has the effect of making the combined incidence of foreign and U.S. tax less than 52 percent, as the tables and charts indicate. Illustrative calculations are shown below for a country with no income tax, and for Panama, with an effective income tax of 26 percent.

	No foreign tax	*Panama*
1. Profit of subsidiary	100	100
2. Rate of foreign tax on profit	0%	26%
3. Amount of foreign tax	0	26
4. Profit of subsidiary, after foreign tax	100	74
5. Dividend to U.S. parent	100	74
6. U.S. tax rate (52%) minus foreign tax rate	52%	26%
7. Net U.S. tax (6 times 5)	52	19.24
8. Total tax (3+7)	52	45.24

b. *Representative Boggs' 14 Percentage Point Proposal.* Under the Boggs bill (H.R. 5, 86th Cong., 1st sess.) the effective rate of U.S. taxation on income from a foreign investment (when distributed as dividends in the U.S.) would be 38 percent. There would usually be no intercorporate dividend tax on the dividend from a corporation qualifying for the 38 percent rate, because in nearly all cases it would also qualify as a Foreign Business Corporation, dividends from which would carry a 100 percent dividends received deduction. In these circumstances the calculation of the total incidence of foreign and U.S. taxation would be the same as under the above system but substituting a 38 percent rate of U.S. taxation for the existing 52 percent rate. The calculation is as shown below.

	No foreign tax	*Panama*
1. Profit of subsidiary	100	100
2. Rate of foreign tax on profit	0%	26%
3. Amount of foreign tax	0	26
4. Profit of subsidiary, after foreign tax	100	74
5. Dividend to U.S. parent	100	74
6. U.S. tax rate (38%) minus foreign tax rate	38%	12%
7. Net U.S. tax (6 times 5)	38	8.88
8. Total tax (3+7)	38	34.88

c. *The Proposal of the Committee on World Economic Practices (CWEP)* (shown as "An Alternate Proposal" in appendix D, charts A, B, and C). This proposal would permit income from foreign investment to be received by a tax-exempt Foreign Business Corporation. Dividends from this corporation to an ordinary U.S. corporation would be taxed under *one* of two alternatives:

1. They would carry the usual 85 percent dividends received deduction common to dividends declared from one U. S. corporation to another. This would have the effect of making them subject to a 7.8 percent tax rate (52 percent times 15 percent).
2. They would receive the same foreign tax credit treatment as at present, but would *not* enjoy the 85 percent dividends received deduction. Wherever the effective rate of foreign taxation on the foreign subsidiary is below 44.2 percent, the first alternative will give the lowest U. S. tax. Wherever the foreign tax rate is 44.2 percent or above, the second alternative

will minimize the U. S. tax. When the second alternative is used, the net effect is to subject income from foreign investment to the same over-all incidence of tax as the existing system referred to above.

The same two cases are shown below in illustrative calculation, using the first alternative.

	No foreign tax	*Panama*
1. Profit of subsidiary	100	100
2. Rate of foreign tax on profit	0%	26%
3. Amount of foreign tax	0	26
4. Profit of subsidiary, after foreign tax	100	74
5. Dividend to U.S. parent	100	74
6. Effective U.S. tax rate (no foreign tax credit)	7.8%	7.8%
7. U.S. tax (6 times 5)	7.8	5.77
8. Total tax (3 + 7)	7.8	31.77

3. *The Effect of Taxes on Net Return From Foreign Investment*

Tables D-5, D-6, and D-7 illustrate the effect of the total incidence of foreign and U. S. tax on the net return, after all taxes, from a foreign investment. It is assumed illustratively that, in all cases, a return of 20 percent of capital, *before any* taxes, is earned or anticipated from investment in a foreign subsidiary.

These tables portray only the tax results to the U. S. stockholder on the theoretical complete distribution of accumulated foreign earnings. They do not show for any of the three methods the tax advantages of reinvestment of accumulated earnings which would be made available by the proposed deferral of U. S. income tax. However, it should be noted that the three methods of taxation discussed in this appendix would all provide the same effect for reinvested foreign earnings.

The total tax incidence, shown in the previous three tables, when applied to this 20 percent level of return before tax, yields the net rates of return, *after* foreign and U. S. tax, shown in the following three tables.

The following interpretive comments appear merited by these tables:

a. The lower the rate of foreign taxation, the greater the incentive provided by the CWEP proposal. This is especially true where there is no foreign tax, as during the period when a special foreign tax incentive applies.

b. In the absence of special foreign tax incentives, or after they have ceased to operate, the advantage of the CWEP proposal is much less marked. It ceases to have any advantage over the Boggs 14 percentage point proposal when the foreign tax rate reaches 30.2 percent. Hence, referring to table D-1, the CWEP proposal would provide particular incentives to investment in countries with special tax incentives, in some of the Central American countries, and in Iran, Turkey, and the Belgian Congo.

c. The Boggs proposal would provide the greatest degree of incentive for foreign investment in countries with tax rates of from 30.2 to 52 percent.

d. Except for countries with special tax incentives (for the period during which they operate) and countries with very low rates of taxation (some Central American countries, Iran, the Belgian Congo, and Turkey), the difference in the effect of the three systems on net return after tax is not as large as may be commonly supposed. This may justify the following distinctions:

1. For many *existing* investments, either the Boggs proposal or the CWEP proposal may bring considerable tax relief.
2. However, for *newly* contemplated investments, the question arises whether the additional net return provided by either of these two proposals would swing many investment decisions substantially, when the prospective investor is faced with a multitude of uncertainties, especially in the more unfamiliar countries.

e. It is clear that in many countries where the national interest would be served by larger U.S. investment (including the larger and more important Latin American countries and many countries in Southeast Asia and Africa—except to the extent special initial incentives apply), neither of these two alternatives would provide any significant additional incentive.

NOTE: In the foreign tax data in this appendix, information on a number of foreign countries and territories has been omitted. The data for

Europe are intended to be for comparative purposes only, and for this reason no special effort was made to make them complete. The omitted countries or areas also include several in the Middle East and a number in Africa and Southeast Asia. The reasons for the omission of these countries from the tables are the following:

1. In some cases, adequate factual detailed information is not available in Washington on the country's tax system. While all of the data in this appendix are only representative of tax rates under certain specific assumptions, some countries were omitted when it was not possible to verify what the tax effect of these assumptions would be.
2. In other cases, the country's income tax system is so complex, or so uncertain, that it could not be calculated on a comparable basis with the other figures given herein. This included some countries whose major sources of revenue are other than income taxes.

Table D-1

Effective Foreign Tax Rates on the Locally Incorporated Subsidiary of a U.S. Corporation

(percent of taxable income)

Western Hemisphere		Europe and Australasia (Selected countries)		Asia and Africa (Selected areas)	
Nicaragua	13.0%	Greece	35.0%	Iran	16.0%
Paraguay	19.0	Germany	40.5	Morocco	20.0
Ecuador	22.0	Austria	40.8	Turkey	23.5
El Salvador	24.0	Italy	41.1	Belgian Congo	25.0
Honduras	25.0	Australia	42.2	Iraq	30.0
Panama	26.0	Belgium	45.3	Syria	30.0
Costa Rica	27.0	United Kingdom	45.5	Ethiopia	31.1
Cuba	31.9	Netherlands	46.5	Saudi Arabia	34.0
Dominican Republic	32.1	Norway	47.5	Lebanon	35.0
Guatemala	35.0	Sweden	48.4	Federation of Rhodesia and Nyasaland	37.5
Haiti	35.5	New Zealand	50.8	Union of South Africa	37.5
Venezuela	37.5	Spain	51.0	Sudan	40.0
Brazil	42.0	France	53.7	Philippines	41.2
Canada	43.0			Ghana	45.0
Chile	44.0			Nigeria	45.0
Mexico	44.6			Japan	52.0
Peru	45.0			Ceylon	57.7
Colombia	45.2			India	58.0
Argentina	48.5			Israel	63.0
Bolivia	52.0			Pakistan	64.2
Uruguay	75.0			Burma	69.4

Note: The above are the effective total rates of foreign taxation. The figures are based on generally applicable rules and do not account for special incentives such as initial tax forgiveness or liberal depreciation allowances.

Source: Bureau of Foreign Commerce, Department of Commerce.

WESTERN HEMISPHERE **Table D-2**

Effective Total (Foreign Plus U.S.) Tax Rates on Earnings of a Foreign Subsidiary of a U.S. Corporation Under Three Alternate Methods [a]

Country	Foreign tax	Total foreign and U.S. tax		
		Existing system and proposed FBC	14% point proposal in Boggs Bill (H.R. 5)	CWEP proposal [c]
1. No foreign tax [b]	—%	52.0%	38.0%	7.8%
2. Nicaragua	13.0	46.9	34.8	19.8
3. Paraguay	19.0	45.7	34.4	25.3
4. Ecuador	22.0	45.4	34.5	28.1
5. El Salvador	24.0	45.3	34.6	29.9
6. Honduras	25.0	45.3	34.8	30.9
7. Panama	26.0	45.2	34.9	31.8
8. Costa Rica	27.0	45.3	35.0	32.7
9. Cuba	31.9	45.6	36.1	37.2
10. Dominican Republic	32.1	45.6	36.1	37.4
11. Guatemala	35.0	46.1	37.0	40.1
12. Haiti	35.5	46.1	37.1	40.5
13. Venezuela	37.5	46.6	37.8	42.4
14. Brazil	42.0	47.8	42.0	46.5
15. Canada	43.0	48.1	43.0	47.4
16. Chile	44.0	48.5	44.0	48.4
17. Mexico	44.6	48.6	44.6	48.6
18. Peru	45.0	48.7	45.0	48.7
19. Colombia	45.2	48.7	45.2	48.7
20. Argentina	48.5	50.3	48.5	50.3
21. Bolivia	52.0	52.0	52.0	52.0
22. Uruguay	75.0	75.0	75.0	75.0

[a] When all foreign earnings after foreign tax are declared as dividend to U.S. parent corporation.

[b] This would be the case during the application of any period of initial tax forgiveness offered by a foreign country as an incentive to foreign investment.

[c] Shown as an alternate proposal on chart A.

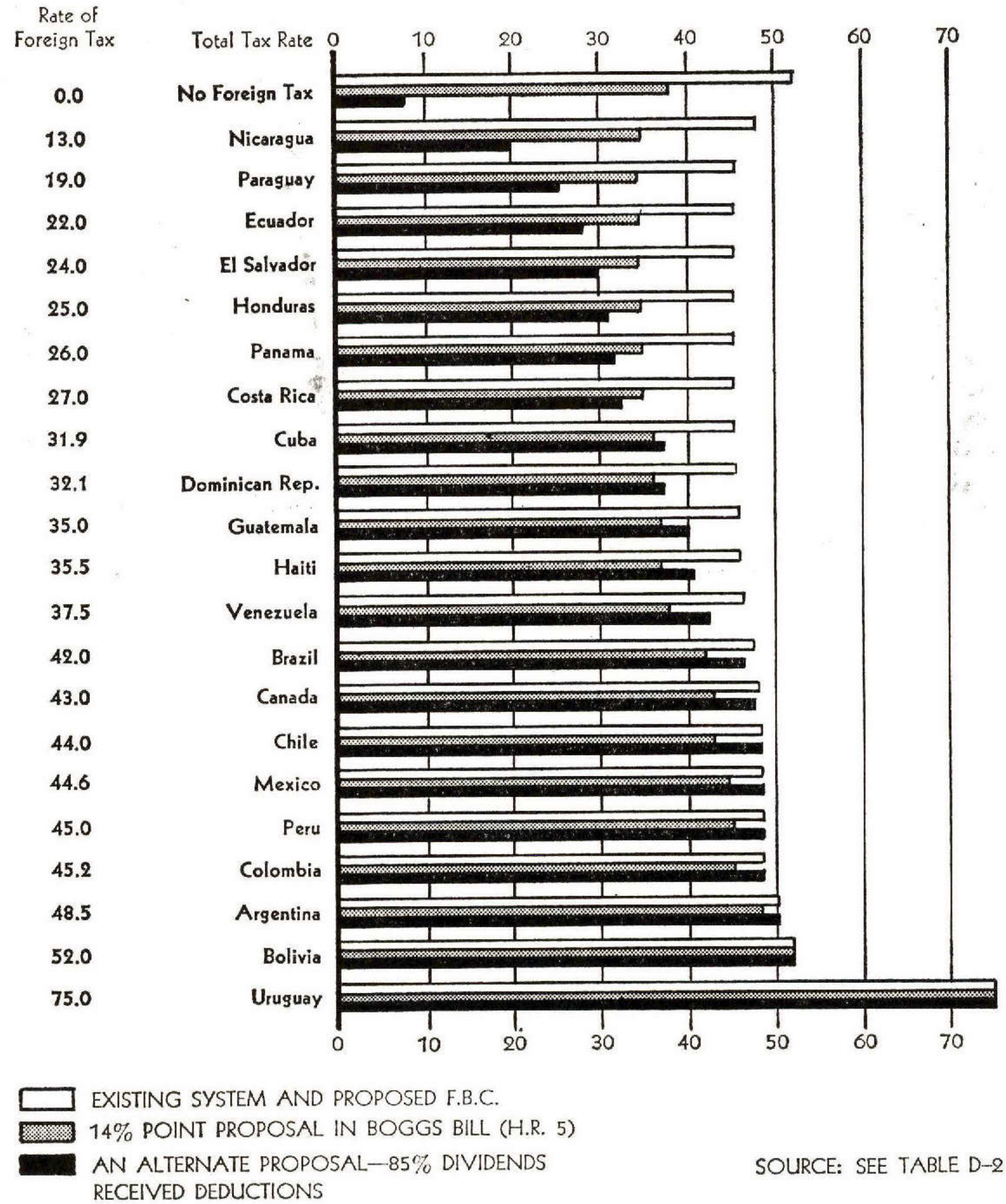
Source: From data on foreign tax rates supplied by Bureau of Foreign Commerce, Department of Commerce.

WESTERN HEMISPHERE

Chart A

TAXATION OF CORPORATE FOREIGN INVESTMENT

Effective Total (Foreign plus U.S.) Tax Rates on Earnings of a Foreign Subsidiary Under Three Alternate Methods



SOURCE: SEE TABLE D-2

EUROPE AND AUSTRALASIA (SELECTED COUNTRIES) **Table D-3**

Effective Total (Foreign Plus U.S.) Tax Rates on Earnings of a Foreign Subsidiary of a U.S. Corporation Under Three Alternate Methods [a]

Country	Foreign tax	Total foreign and U.S. tax		
		Existing system and proposed FBC	14% point proposal in Boggs Bill (H.R. 5)	CWEP proposal [c]
1. No foreign tax [b]	—%	52.0%	38.0%	7.8%
2. Greece	35.0	46.1	37.0	40.1
3. Germany	40.5	47.3	40.5	45.1
4. Austria	40.8	47.4	40.8	45.4
5. Italy	41.1	47.5	41.1	45.7
6. Australia	42.2	47.9	42.2	46.7
7. Belgium	45.3	49.0	45.3	49.0
8. United Kingdom	45.5	49.0	45.5	49.0
9. Netherlands	46.5	49.4	46.5	49.4
10. Norway	47.5	49.9	47.5	49.9
11. Sweden	48.4	50.3	48.4	50.3
12. New Zealand	50.8	51.4	50.8	51.4
13. Spain	51.0	51.5	51.0	51.5
14. France	53.7	53.7	53.7	53.7

[a] When all foreign earnings after foreign tax are declared as dividend to U.S. parent corporation.

[b] This would be the case during the application of any period of initial tax forgiveness offered by a foreign country as an incentive to foreign investment.

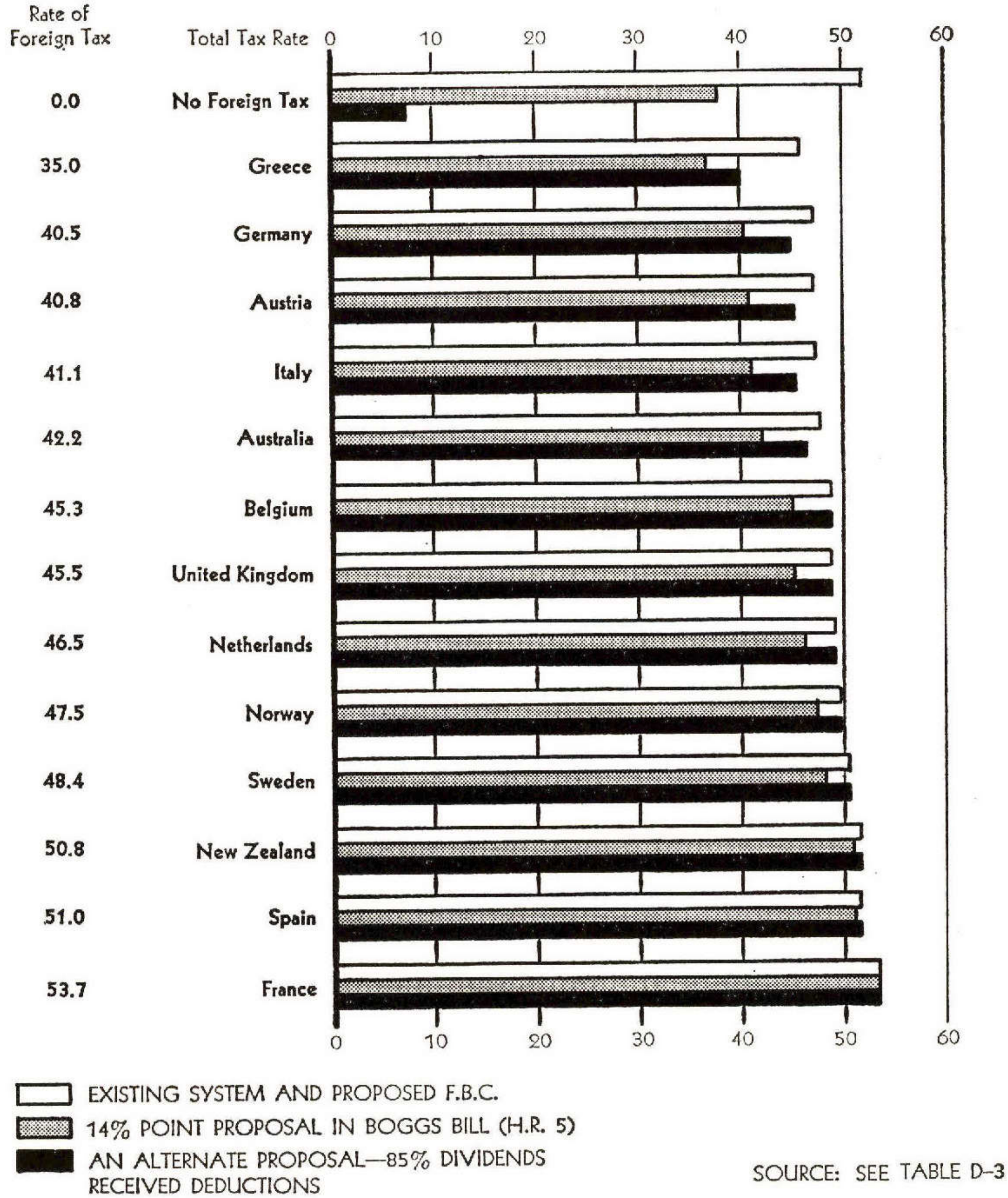
[c] Shown as an alternate proposal on Chart B.

Source: From data on foreign tax rates supplied by Bureau of Foreign Commerce, Department of Commerce.

EUROPE AND AUSTRALASIA (SELECTED COUNTRIES) Chart B

TAXATION OF CORPORATE FOREIGN INVESTMENT

Effective Total (Foreign plus U.S.) Tax Rates on Earnings of a Foreign Subsidiary Under Three Alternate Methods



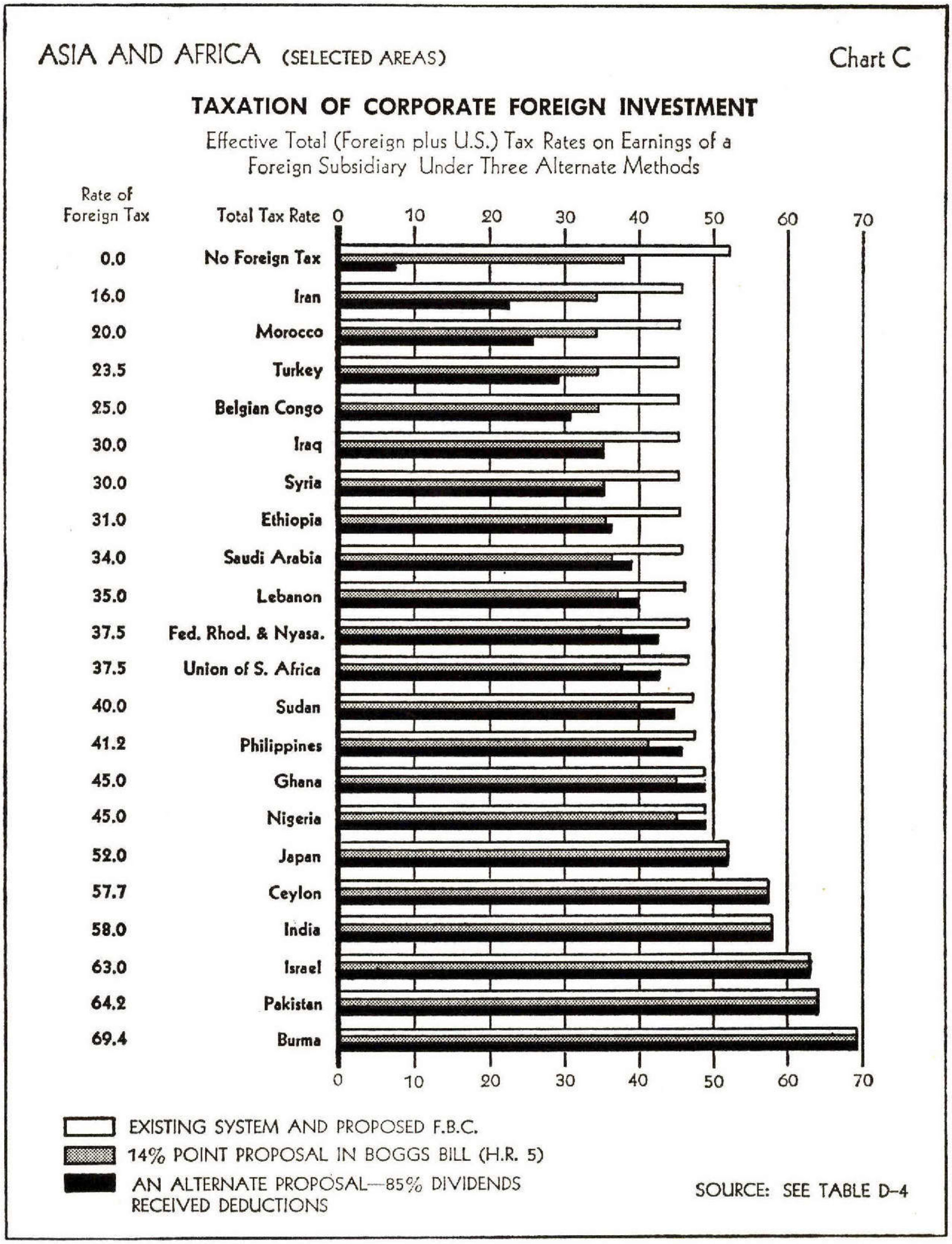
SOURCE: SEE TABLE D-3

Effective Total (Foreign Plus U.S.) Tax Rates on Earnings of a Foreign Subsidiary of a U.S. Corporation Under Three Alternate Methods[a]

Country	Foreign tax	Total foreign and U.S. tax		
		Existing system and proposed FBC	14% point proposal in Boggs Bill (H.R. 5)	CWEP proposal[c]
1. No foreign tax[b]	—%	52.0%	38.0%	7.8%
2. Iran	16.0	46.2	34.5	22.6
3. Morocco	20.0	45.6	34.4	26.2
4. Turkey	23.5	45.4	34.6	29.5
5. Belgian Congo	25.0	45.3	34.8	30.9
6. Iraq	30.0	45.4	35.6	35.5
7. Syria	30.0	45.4	35.6	35.5
8. Ethiopia	31.0	45.5	35.8	36.4
9. Saudi Arabia	34.0	45.9	36.6	39.1
10. Lebanon	35.0	46.1	37.0	40.1
11. Federation of Rhodesia and Nyasaland	37.5	46.6	37.8	42.4
12. Union of South Africa	37.5	46.6	37.8	42.4
13. Sudan	40.0	47.2	40.0	44.7
14. Philippines	41.2	47.6	41.2	45.8
15. Ghana	45.0	48.9	45.0	48.9
16. Nigeria	45.0	48.9	45.0	48.9
17. Japan	52.0	52.0	52.0	52.0
18. Ceylon	57.7	57.7	57.7	57.7
19. India	58.0	58.0	58.0	58.0
20. Israel	63.0	63.0	63.0	63.0
21. Pakistan	64.2	64.2	64.2	64.2
22. Burma	69.4	69.4	69.4	69.4

[a] When all foreign earnings after foreign tax are declared as dividend to U.S. parent corporation.
[b] This would be the case during the application of any period of initial tax forgiveness offered by a foreign country as an incentive to foreign investment.
[c] Shown as an alternate proposal on Chart C.

Source: From data on foreign tax rates supplied by Bureau of Foreign Commerce, Department of Commerce.



ASIA AND AFRICA (SELECTED AREAS)
Chart C
TAXATION OF CORPORATE FOREIGN INVESTMENT
Effective Total (Foreign plus U.S.) Tax Rates on Earnings of a Foreign Subsidiary Under Three Alternate Methods
Rate of Foreign Tax
Total Tax Rate
0 10 20 30 40 50 60 70
0.0 No Foreign Tax
16.0 Iran
20.0 Morocco
23.5 Turkey
25.0 Belgian Congo
30.0 Iraq
30.0 Syria
31.0 Ethiopia
34.0 Saudi Arabia
35.0 Lebanon
37.5 Fed. Rhod. & Nyasa.
37.5 Union of S. Africa
40.0 Sudan
41.2 Philippines
45.0 Ghana
45.0 Nigeria
52.0 Japan
57.7 Ceylon
58.0 India
63.0 Israel
64.2 Pakistan
69.4 Burma
EXISTING SYSTEM AND PROPOSED F.B.C.
14% POINT PROPOSAL IN BOGGS BILL (H.R. 5)
AN ALTERNATE PROPOSAL—85% DIVIDENDS RECEIVED DEDUCTIONS
SOURCE: SEE TABLE D-4

The Effect of Three Alternative Tax Proposals on Net Return From Investment by a U.S. Corporation in a Foreign Subsidiary [a]

Subsidiary earns 20% on capital, before tax, in:	Net earnings after foreign and U.S. tax would be:		
	Existing system and proposed FBC	14% point proposal in Boggs Bill (H.R. 5)	CWEP proposal
1. No foreign tax [b]	9.6%	12.4%	18.5%
2. Nicaragua	10.6	13.0	16.0
3. Paraguay	10.9	13.1	14.9
4. Ecuador	10.9	13.1	14.4
5. El Salvador	10.9	13.1	14.0
6. Honduras	10.9	13.0	13.8
7. Panama	11.0	13.0	13.6
8. Costa Rica	10.9	13.0	13.5
9. Cuba	10.9	12.8	12.6
10. Dominican Republic	10.9	12.8	12.5
11. Guatemala	10.8	12.6	12.0
12. Haiti	10.8	12.6	11.9
13. Venezuela	10.7	12.4	11.5
14. Brazil	10.4	11.6	10.7
15. Canada	10.4	11.3	10.5
16. Chile	10.3	11.2	10.3
17. Mexico	10.3	11.1	10.3
18. Peru	10.3	11.0	10.3
19. Colombia	10.3	11.0	10.3
20. Argentina	9.7	10.3	9.7
21. Bolivia	9.6	9.6	9.6
22. Uruguay	5.0	5.0	5.0

[a] Assuming all foreign earnings after foreign tax are declared as dividends to U.S. parent corporation.
[b] This would be the case during the application of any period of initial tax forgiveness offered by a foreign country as an incentive to foreign investment.

Source: From tax rate data in Table No. D-2.

EUROPE AND AUSTRALASIA (SELECTED COUNTRIES) **Table D-6**

The Effect of Three Alternative Tax Proposals on Net Return From Investments by a U.S. Corporation in a Foreign Subsidiary [a]

Subsidiary earns 20% on capital, before tax, in:	Net earnings after foreign and U.S. tax would be: Existing system and proposed FBC	14% point proposal in Boggs Bill (H.R. 5)	CWEP proposal
1. No foreign tax [b]	9.6%	12.4%	18.5%
2. Greece	10.8	12.6	12.0
3. Germany	10.5	11.9	11.0
4. Austria	10.5	11.8	10.9
5. Italy	10.5	11.8	10.9
6. Australia	10.4	11.6	10.7
7. Belgium	10.2	10.9	10.2
8. United Kingdom	10.2	10.9	10.2
9. Netherlands	10.1	10.7	10.1
10. Norway	10.0	10.5	10.0
11. Sweden	9.9	10.3	9.9
12. New Zealand	9.7	9.8	9.7
13. Spain	9.7	9.8	9.7
14. France	9.3	9.3	9.3

[a] When all foreign earnings after foreign tax are declared as dividends to U.S. parent corporation.
[b] This would be the case during the application of any period of initial tax forgiveness offered by a foreign country as an incentive to foreign investment.

Source: From tax rate data in Table No. D-3.

ASIA AND AFRICA (SELECTED AREAS) **Table D-7**

The Effect of Three Alternative Tax Proposals on Net Return From Investment by a U.S. Corporation in a Foreign Subsidiary [a]

Subsidiary earns 20% on capital, before tax, in:	Net earnings after foreign and U.S. tax would be:		
	Existing system and proposed FBC	14% point proposal in Boggs Bill (H.R. 5)	CWEP proposal
1. No foreign tax [b]	9.6%	12.4%	18.5%
2. Iran	10.8	13.1	15.5
3. Morocco	10.9	13.1	14.8
4. Turkey	10.9	13.1	14.1
5. Belgian Congo	10.9	13.0	13.8
6. Iraq	10.9	12.9	12.9
7. Syria	10.9	12.9	12.9
8. Ethiopia	10.9	12.8	12.7
9. Saudi Arabia	10.8	12.7	12.2
10. Lebanon	10.8	12.6	12.0
11. Federation of Rhodesia and Nyasaland	10.7	12.4	11.5
12. Union of South Africa	10.7	12.4	11.5
13. Sudan	10.5	12.0	11.1
14. Philippines	10.5	11.8	10.8
15. Ghana	10.2	11.0	10.2
16. Nigeria	10.2	11.0	10.2
17. Japan	9.6	9.6	9.6
18. Ceylon	8.5	8.5	8.5
19. India	8.4	8.4	8.4
20. Israel	7.4	7.4	7.4
21. Pakistan	7.2	7.2	7.2
22. Burma	6.1	6.1	6.1

[a] When all foreign earnings after foreign tax are declared as dividends to U.S. parent corporation.
[b] This would be the case during the application of any period of initial tax forgiveness offered by a foreign country as an incentive to foreign investment.

Source: From tax rate data in Table No. D-4.

APPENDIX E

Illustrative Proposal for an International Development Investment Company

In order to provide greater substance and detail to the recommendation for the establishment of a class of U.S. corporations known as International Development Investment Companies (IDIC's), the following is presented as an illustration of specific proposals which might be adopted. Affirmative action on the proposals, as presented here, would require consideration of the impact of applicable securities statutes, including the Securities Act of 1933, the Trust Indenture Act of 1939, and the Investment Company Act of 1940. Consideration would also have to be given to amending the National Bank Act and the Internal Revenue Code.

Much of the concept and substance for this illustrative proposal may be found in the general framework of legislation passed in 1958 for U.S. domestic Small Business Investment Companies (SBIC's).[1] The experience of existing investment companies operating abroad has also been drawn upon.

[1] Small Business Investment Act of 1958, P.L. 85–699.

Objectives

The International Development Investment Companies would provide a private corporate form for partnership investment between U.S. investors and foreign private businessmen. The investments of an IDIC would be restricted to new investment and business activity in Asia, Africa, and Latin America—the less developed areas of the world.

It should not be the purpose of IDIC's to seek majority control of foreign businesses. However, to incorporate a rigid restriction against majority control either in the legislation or the administrative regulations would probably unduly hamper the management of IDIC's. The burden of proof should be on the IDIC, however, to show that its acquisition of majority control is required in particular cases to protect its investment.

The functions of IDIC's would be to:

a. Provide a private financing source whereby management and other services important to the establishment and growth of sound business enterprises abroad could be made available to new or expanding private enterprises in the less developed countries.

b. Provide a mechanism by which private American capital can be accumulated for investment abroad in partnership with local business.

c. Provide a private point of contact in the United States for entrepreneurs in the less developed countries who wish to obtain private U.S. capital and/or technical assistance.

d. Create private U.S. organizations which have a strong business incentive to search out and develop private investment opportunities in the less developed countries.

Specific Characteristics

The following illustrative provisions for an IDIC will identify some of the basic features that will need to be considered:

a. Fundamentally it would appear most practical for IDIC's to be organized in the normal corporate way under State law. However, consideration might be given to the alternative of providing for Federal licensing or chartering under specific statutory authority.

b. National banks should be allowed to subscribe to shares of IDIC's up to 1 percent of their capital and surplus. This would require an amendment of the National Bank Act.

c. An existing or newly organized Edge Act Corporation should be able to subscribe to shares of IDIC's, or to be treated as IDIC's if they otherwise qualify. An Edge Act Corporation is organized under section 25(a) of the Federal Reserve Act:

"for the purpose of engaging in international or foreign banking or foreign financial operations . . . either directly or through the agency, ownership or control of local institutions in foreign countries . . . "

d. In order to assure diversity of activity, an IDIC might be prohibited from investing more than a specified proportion, e.g., 15 percent, of its capital and surplus in any single foreign corporation. For this purpose, "foreign corporation" should be defined to include affiliates of a corporation whose securities were owned by an IDIC.

e. A minimum initial private capitalization should be required for an IDIC, e.g., $500,000. The government should be prepared, under appropriate conditions to be determined by regulations, to make loans and/or guaranties to IDIC's or to foreign corporations in which IDIC's invest. It would be necessary to outline general or broad standards which would govern the relationship of the government lending agencies to these companies in connection with the availability of government loans or guaranties. Suitable broad contractual arrangements could be worked out for loan and guaranty relationships between the government and appropriate IDIC's whereby the latter would have substantial discretion in individual investment decisions subject to agreed criteria and post audit by the government. Such arrangements could, of course, be terminated in specific circumstances.

f. An IDIC should be authorized to hold only such assets in the U.S. as are indispensable to its operations.

g. In order to assure full protection to the government and to ultimate investors that might purchase the securities of IDIC's, it would appear desirable to require that books and records of IDIC's be available for inspection by the appropriate government agency or agencies.

h. Some or all of the following tax incentives might be offered to provide encouragement for the establishment and operation of IDIC's:

1. The net income of an IDIC would not be subject to U.S. tax until such time as dividends were distributed to U.S. stockholders.
2. Capital losses sustained by an IDIC, upon disposal or liquidation of its investment in a foreign corporation, would be deducted from its ordinary income in a manner similar to the capital loss deduction available under existing law for Small Business Investment Corporations.
3. Dividends distributed by an IDIC would be regarded as distributed from capital to the full extent of any foreign capital loss incurred by the IDIC, instead of being distributed from accumulated earnings and profits. Thus, to the extent the dividends are distributed from capital they would not be ordinary income to the stockholder for tax purposes but would reduce the basis for his stock in the IDIC.
4. Capital losses incurred by shareholders in an IDIC, when they dispose of or liquidate their shares, would, as in the case of a Small Business Investment Company, be deductible from their ordinary income.
5. An IDIC would be exempt from the 75 percent to 85 percent penalty tax imposed on the accumulation of profits from dividends, interest and royalties, and the like, imposed by existing law upon personal holding companies.

APPENDIX F

U.S. Government Lending Agencies

The two agencies authorized to extend loans to private enterprises abroad are the Export-Import Bank (Eximbank) and the Development Loan Fund (DLF). Statistical information on their resources and lending operations are contained in the tables which follow immediately. Without attempting to describe their authority in detail, it should be noted that both agencies have broad authority to extend loans and guaranties. Their authority is contained in the Export-Import Bank Act of 1945, as amended, and in section 202(b) of the Mutual Security Act of 1954, as amended. For the purposes of this report it may be useful to note some of the differences in the authority and policy of the two agencies insofar as their loans to private enterprises are concerned.

a. The Eximbank must require dollar repayment on its dollar loans; the DLF can and does accept local currency repayment. The practical effect is to enable the DLF to make loans to enterprises in countries whose unfavorable foreign exchange prospects preclude loans by the Eximbank or in countries to which the United States is extending such large amounts of defense support assistance as to make loans repayable in dollars inappropriate.

b. The DLF is prepared to extend loans to enterprises in politically sensitive or exposed areas where the Eximbank may be unwilling to do so. This arises not so much from the legislative authority of the two institutions as from their different histories and basic purposes. For example, the Eximbank normally takes a fixed interest debt obligation on its loans, whereas the DLF is prepared to take convertible debentures on similar instruments permitting it to share in the profits of an enterprise in those cases where the DLF provides an unusually large share of the total financing of an enterprise.

c. The Eximbank requires that its loans be used to purchase U.S. commodities and equipment; borrowers from the DLF, on the other hand, are free to make purchases on a worldwide competitive basis. (The Eximbank normally does not make dollar loans to finance local currency costs although the DLF occasionally does so.)

Table F-1

Export-Import Bank Dollar Credits and Guaranties[a] by Type of Borrower and Purpose[b]

(millions of dollars)

	Active credits[c] at December 31, 1958		Credits authorized During calendar 1958	
	Number	Amount	Number	Amount
Group I—Loans to foreign governments, to enterprises controlled by foreign governments, or to government agencies				
Public works	53	$209.8	8	$31.2
Transportation	145	887.6	33	76.3
Irrigation and land reclamation	15	145.8	1	24.2
Industry	44	370.3	3	17.5
Mining	12	74.6	2	5.5
Miscellaneous	26	73.5	1	0.4
Total group I	295	1,761.6	48	115.1
Group II—Loans to foreign governments or government agencies for special purposes				
Lend lease and reconstruction	11	1,585.6	—	—
Balance of payments assistance	12	1,295.6	5	257.8
Agriculture commodities, etc.	1	11.1	—	—
Total group II	24	2,892.3	5	257.8
Group III—Loans to or for the benefit of private enterprise[d]				
Public utilities	48	268.6	8	55.3
Transportation	100	63.2	13	4.0
Mining	71	337.8	1	15.0
Industry	796	403.0	114	68.8
Agriculture	126	399.7	46	80.7
Miscellaneous	65	16.6	—	—
Total group III	1,230	1,488.8	181	223.8
Grand total	1,549	6,142.7	234	636.7

[a] Guaranties are included on the same basis as loans since they are required to be charged in full against the Export-Import Bank's lending authority. Total guaranties outstanding at December 31, 1958, were less than $53 million, of which nearly $41 million were to nine U.S. commercial banks for loans to the Government of Colombia and approximately $8 million were for cotton export credits to Japan.

[b] The breakdown is by the ultimate use abroad of the commodities or financing provided, not by the nature or activity of the borrower, especially in the case of exporter credits.

[c] "Active credits" include total credits authorized since 1934, less cancellations, less credits completely repaid. Partial repayments and undisbursed amounts have not been deducted. For this reason, the total of this column is considerably larger than the actual amount of loans outstanding on December 31, 1958. The total authorized lending authority of the Export-Import Bank is $7.0 billion, of which $2.1 billion was uncommitted on December 31, 1958.

[d] Including loans to governments, government enterprises, or government agencies for relending to private enterprise.

Source: Export-Import Bank.

Table F-2

Private U.S. Financing in Connection With Export-Import Bank Loans to All Borrowers (Public or Private), 1952–1958

	(millions of dollars)	
	1952 through 1958	Calendar 1958
1. Gross Eximbank loans authorized	$4,603.5	$992.3
2. Gross Eximbank loans with which there was private participation	1,476.6	417.5
3. Private financing[a] associated with Eximbank loans through:		
a. Participation in Eximbank credits[b]	199.0	12.4
b. Concurrent bank loans	167.4	137.6
c. Concurrent loans from other U.S. sources	205.0	32.5
d. Concurrent equity investment	264.7	35.0
Total private financing	835.6	217.5

[a] All private financing shown is by private U.S. lenders without guarantee of, or recourse to, Eximbank. Guaranteed loan- are included in Eximbank loans since they are charged fully against its lending authority.

[b] "Participations" refer to loans in which priavte organizations participate jointly with the Eximbank (but without its guaranty) in disbursing and collecting loan funds under what is, in effect, a single joint loan. The private participations are normally in the shorter maturities with Eximbank holding the longer maturities. Participations have been almost entirely by banks.

Source: Export-Import Bank.

Table F-3

Development Loan Fund Status of Funds and Loan Proposals as of January 31, 1959

(millions of dollars)

	Amount
A. Status of available funds	
Lending authority available[a]	$ 698.7
Less: Commitments against available funds:	
(a) Loans and guaranties approved	−593.6
(b) Other project commitments	− 85.5
Net available for loans	19.6
B. Status of loan proposals	
Total loan proposals received (adjusted)	$2,828.3
Less: Loans and guaranties approved	−593.6
Less: Other project commitments	− 85.5
Less: Proposals no longer under consideration[b]	−601.8
Net proposals under consideration	1,547.4

[a] An additional $225 million has been requested from the Congress for fiscal year 1959, and an additional $700 million will be requested for fiscal year 1960.

[b] $138.0 million of proposals inappropriate for DLF financing; $255.6 million of proposals withdrawn by borrower or having insufficient information; plus $208.1 million of proposals being considered by other lending institutions.

Source: Development Loan Fund.

Table F-4

Development Loan Fund Summary of Loans Approved as of January 31, 1959

(millions of dollars)

Type of project and industry	Borrower area					
	Europe	Africa	Far East	Near East and South Asia	Latin America	Total
A. For public projects						
1. Food, agriculture and irrigation	$ 7.7	$ 2.0	$ 0.7	$ 28.8	$ 0.3	$ 39.5
2. Mining	—	—	—	1.4	—	1.4
3. Water resources	—	—	—	—	—	—
4. Transportation and communications	19.9	5.4	47.2	140.5	12.4	225.4
5. Power	—	5.0	43.0	50.4	—	98.4
6. Industry	22.5	—	15.4	83.6	5.0	126.5
7. Health and sanitation	—	—	19.5	5.5	1.6	26.6
8. Community development, etc.	3.0	—	—	9.3	—	12.3
9. Miscellaneous	—	—	—	—	—	—
Total	53.1	12.4	125.8	319.5	19.3	530.1
B. For private projects						
1. Food, agriculture and irrigation	—	—	—	—	0.6	0.6
2. Mining	—	—	—	—	—	—
3. Water resources	—	—	—	—	—	—
4. Transportation and communications	—	—	—	—	—	—
5. Power	—	—	—	1.2	—	1.2
6. Industry	—	16.4[a]	14.9[bc]	25.3	5.1	61.7
7. Health and sanitation	—	—	—	—	—	—
8. Community development, etc.	—	—	—	—	—	—
9. Miscellaneous	—	—	—	—	—	—
Total	—	16.4	14.9	26.5	5.7	63.5
Total loans approved	53.1	28.8	140.7	346.0	25.0	593.6
Funds earmarked	—	—	26.3	34.5	24.7	85.5
Grand total	53.1	28.8	167.0	380.5	49.7	679.1

[a] Including $6.3 million to a mixed private-government enterprise.
[b] Including $2.5 million to a mixed private-government enterprise.
[c] Including $4.5 million in the form of guarantee to private loans.
Source: Development Loan Fund.

Table F-5

Development Loan Fund Summary of Proposals Under Consideration as of January 31, 1959

(millions of dollars)

	Europe[a] and Africa	Far East	Latin America	Near East and South Asia	Total
A. By status and geographic area					
1. Scheduled for Board action	$ 8.7	—	$ 19.1	—	$ 27.8
2. Under active review	98.5	$108.4	21.9	$166.3	395.1
3. Projects of lesser priority	325.9	138.7	66.5	567.0	1,098.1
4. New proposals	3.8	16.7	2.0	3.9	26.4
Total	436.9	263.8	109.5	737.2	1,547.4
B. By type of project and geographic area					
1. For public projects	276.5	169.0	84.7	488.2	1,018.4
2. For private projects[b]	160.4	94.8	24.8	249.0	529.0
Total	436.9	263.8	109.5	737.2	1,547.4
C. By industry					
1. Food, agriculture, and irrigation	—	—	—	—	113.0
2. Mining	—	—	—	—	37.9
3. Water resources	—	—	—	—	61.0
4. Transportation and communications	—	—	—	—	371.9
5. Power	—	—	—	—	319.0
6. Industry	—	—	—	—	560.6
7. Health and sanitation	—	—	—	—	33.4
8. Community development, etc.	—	—	—	—	36.6
9. Miscellaneous	—	—	—	—	14.0
Total	—	—	—	—	1,547.4

[a] Includes Spain and Yugoslavia.

[b] Including a small amount in mixed private-public enterprises.

Source: Development Loan Fund.

APPENDIX G

Table G-1

ICA Investment Guaranties Issued 1948–December 31, 1958

	(value in millions of dollars) Type of guaranty			
	Convertibility	Expropriation	War risk	Total
Europe (9 countries)	$170.8	$ 79.1	—	$249.9
Latin America (4 countries)	26.5	3.5	—	30.0
Africa (1 country)	—	72.0	—	72.0
Asia (9 countries)	26.6	21.2	—	47.8
Totals—Dec. 31, 1958	224.0	175.9	—	399.9*

* While total of $399.9 million represents all guaranties issued as of Dec. 31, 1958, the maximum outstanding liability was $340 million.

Source: Investment Guaranties Staff, International Cooperation Administration.

Table G-2

ICA Investment Guaranty Applications Pending at December 31, 1958

	(value in millions of dollars) Type of guaranty			
	Convertibility	Expropriation	War risk	Total
Europe[a] (10 countries)	$182.4	$156.8	$ 77.1	$416.4
Latin America (11 countries)	118.2	57.4	0.9	176.5
Africa[b] (3 areas)	98.2	—	58.5	156.7
Asia[c] (12 countries)	189.5	70.8	30.7	290.8
Total (36 areas)	588.3	284.8	167.1	1,040.2

[a] Including Greece.

[b] Including French Africa.

[c] Turkey accounts for $96.7 million in convertibility guaranty applications and $147.4 million in total applications.

Source: Investment Guaranties Staff, International Cooperation Administration.

Table G-3

Countries With Which ICA Investment Guaranty Agreements Were in Force, December 31, 1958

	Type of guaranty covered		
Area and country	Convertibility	Expropriation	War risk
Europe (15 countries)			
Austria	X	X	X
Belgium	X	X	
Denmark	X	X	
France	X	X	
Germany	X	X	
Greece	X	X	

Countries With Which ICA Investment Guaranty Agreements Were in Force, December 31, 1958

Area and country	Convertibility	Expropriation	War risk
Europe (15 countries)—Continued			
Ireland	X	X	
Italy	X	X	X
Luxembourg	X	X	
Netherlands	X	X	
Norway	X	X	
Portugal	X	X	
Spain	X	X	
United Kingdom	X		
Yugoslavia	X	X	
Totals	15	14	2
Latin America (10 countries)			
Bolivia	X	X	
Colombia	X		
Costa Rica	X	X	
Cuba	X	X	
Ecuador	X	X	
Guatemala	X	X	
Haiti	X	X	
Honduras	X	X	
Paraguay	X	X	
Peru	X		
Totals	10	8	—
Africa (1 country)			
Ghana	X	X	
Asia (12 countries)			
Afghanistan	X	X	X
China (Taiwan)	X	X	X
India	X		
Iran	X	X	
Israel	X	X	X
Japan	X	X	
Jordan	X	X	X
Pakistan	X	X	
Philippines	X	X	
Thailand	X	X	X
Turkey	X	X	
Viet-Nam	X	X	X
Totals	12	11	6
Grand total	38	34	8

Source: Investment Guaranties Staff, International Cooperation Administration.

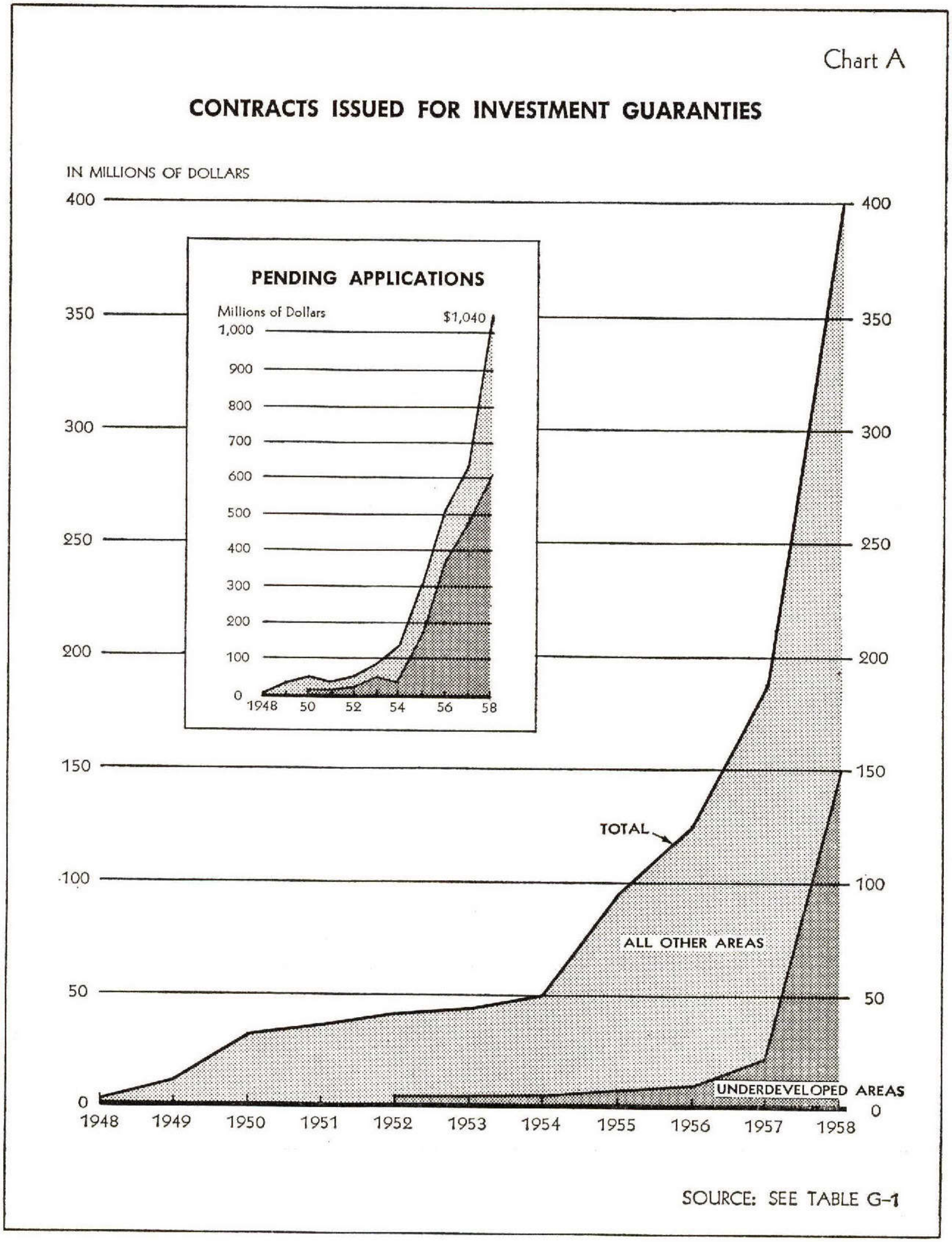


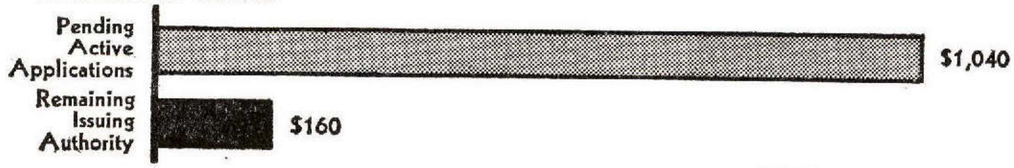
Chart A
CONTRACTS ISSUED FOR INVESTMENT GUARANTIES
IN MILLIONS OF DOLLARS
400
350
300
250
200
150
100
50
0
PENDING APPLICATIONS
Millions of Dollars
$1,040
1,000
900
800
700
600
500
400
300
200
100
0
1948
50
52
54
56
58
TOTAL
ALL OTHER AREAS
UNDERDEVELOPED AREAS
1948
1949
1950
1951
1952
1953
1954
1955
1956
1957
1958
SOURCE: SEE TABLE G-1

Chart B

INVESTMENT GUARANTY PROGRAM

Pending Applications vs. Remaining Issuing Authority
as of December 31, 1958

IN MILLIONS OF DOLLARS



SOURCE: SEE TABLE G-1

Chart C

ACTION ON PENDING APPLICATIONS FOR INVESTMENT GUARANTIES CALENDAR 1958

		IN MILLIONS OF DOLLARS
APPLICATIONS AT BEGINNING 1958		$631
NEW APPLICATIONS RECEIVED IN 1958		939
TOTAL		$1,570
ACTION		
APPLICATIONS WITHDRAWN	$265	
ADJUSTMENTS.*	53	
GUARANTIES ISSUED	212	530
BALANCE PENDING 12-31-58		$1,040

*Over estimates of investments, etc.

SOURCE: SEE TABLE G-1

APPENDIX H

Planned Uses of Foreign Currencies From Sale of Surplus Agricultural Commodities Under P.L. 480 Agreements Signed July 1, 1954 Through December 31, 1958

Area	Total	Loans to private enterprise (Cooley amendment)[a]	Loans to foreign governments[b]	All other uses
	(million dollar equivalents at the deposit rate of exchange)			
A. Latin America				
1. Argentina	$ 31.1	—	$ 20.0	$ 11.1
2. Brazil	179.9	—	149.2	30.7
3. Chile	39.6	—	31.6	8.0
4. Colombia	39.2	$ 3.4	25.3	10.5
5. Ecuador	9.9	0.5	7.2	2.2
6. Mexico	28.2	7.1	13.6	7.5
7. Paraguay	3.0	—	2.2	0.8
8. Peru	25.2	1.9	16.0	7.3
Total	356.1	12.9	265.1	78.1
B. Asia				
1. Burma	40.7	—	32.5	8.2
2. Ceylon	6.3	1.5	2.2	2.6
3. China (Taiwan)	21.9	3.0	—	18.9
4. India	658.2	73.9	383.8	200.5
5. Indonesia	96.7	—	77.4	19.3
6. Iran	12.4	—	2.5	9.9
7. Israel	130.3	19.7	91.4	19.2
8. Japan	150.8	—	108.9	41.9
9. Korea	132.0	2.0	—	130.0
10. Pakistan	268.3	28.7	89.1	105.5
11. Philippines	14.4	1.0	5.2	8.2
12. Thailand	4.6	—	2.1	2.5
13. Turkey	162.6	7.8	23.6	131.2
14. United Arab Republic	44.5	6.2	13.6	24.7
15. Viet-Nam	6.0	1.5	—	4.5
Total	1,749.7	145.5	832.3	772.1
C. Europe				
1. Austria	42.9	—	26.3	16.6
2. Finland	40.0	3.3	19.0	17.7
3. France	29.7	6.9	—	22.8
4. Germany	1.2	—	—	1.2
5. Greece	66.0	2.9	37.4	25.7
6. Iceland	5.9	0.8	3.9	1.2
7. Italy	152.9	6.2	100.5	46.2
8. Netherlands	0.3	—	—	0.3

Planned Uses of Foreign Currencies From Sale of Surplus Agricultural Commodities Under P.L. 480 Agreements Signed July 1, 1954 Through December 31, 1958

Area	Total	Loans to private enterprise (Cooley amendment)[a]	Loans to foreign governments[b]	All other uses
	(million dollar equivalents at the deposit rate of exchange)			
C. Europe—Continued				
9. Poland	$ 138.0	—	—	$ 138.0
10. Portugal	7.1	—	$ 3.4	3.7
11. Spain	295.7	—	153.7	142.0
12. United Kingdom	48.2	—	—	48.2
13. Yugoslavia	389.3	—	204.5	184.8
Total	1,217.2	$ 20.1	548.7	648.4
Grand total	3,323.0	178.3	1,646.1	1,498.6

[a] The Cooley amendment (section 104e of P.L. 480) has been in effect only since August 1957. Loans of $20.9 million had been made from the currencies of four countries (Mexico, Israel, France, Pakistan) up to December 31, 1958.

[b] Of which appreciable amounts, in some cases, are to be used in support of institutions providing financial assistance, or services, to private industry.

Source: Ninth Semiannual Report on Activities Carried on Under Public Law 480, 83rd Congress, as Amended.

APPENDIX I

Stanford Research Institute Literature Search Project[1]

Introduction

Among the several sources of suggestions, approaches, and information for the conduct of the study presented in this document, one was a thorough review of existing literature in the field. This review was conducted by Stanford Research Institute, under contract with the International Cooperation Administration. The results of this review were prepared for and delivered to Ralph I. Straus to be used in connection with the special report being prepared for the consideration of the Departments of State and Commerce.

The literature search was carried on in the Washington Office of Stanford Research Institute and thus benefited directly from the cooperation of the interested U.S. Government agencies and many private persons and organizations in Washington. The review was conducted in the period from October 6 to November 24, 1958. In this interval, three senior research economists participated in the project, together with the necessary clerical persons.

Review of Literature

The result of the series of steps to select literature for review, as described below, was to identify approximately 1,100 pieces of literature judged appropriate for review. In the literature review itself, several standards and methods of procedure were established, in consultation with Mr. Straus and members of his staff. The objective of the literature review project was to produce material for use by Mr. Straus and his staff, though not to produce material suitable, in itself, for publication. Because of this objective, the summaries of literature which were prepared were very brief and cryptic and were thus of use

[1] Prepared and submitted by Stanford Research Institute.

only to individuals already expert in matters of international investment and business operations.

The major standard applied in deciding whether to summarize a particular piece of literature, or any part of it, was one relating to the degree to which a *specific* course of government action was suggested or implied by the writing. Since the study conducted by Mr. Straus was obligated to recommend specific legislative or administrative action by the U.S. Government, this criterion of exactness was placed on the conduct of the literature search program. Thus, a general recommendation that there be "tax incentives" for U.S. private foreign investment had no place in the literature search results nor did a recommendation that such tax incentive take the form of either "tax deferral" or "tax reduction." All of these general approaches to stimulating private foreign investment could readily be identified as possibilities before the study began; the purpose of the literature review was to identify specific suggestions as to how best these and other general recommendations could be placed in force and carried out.

In a few cases summaries of important and representative points of view were prepared, but generally the literature review concentrated on precise recommendations for U.S. Government action. Similarly, a few suggestions were reviewed, even though they were not well developed as specific recommendations, in cases where it appeared that the germ of a useful idea that had not appeared elsewhere was presented.

In deciding which pieces of literature should be summarized and in preparing the summaries, no analysis or evaluation of the recommendations being summarized was made. In this respect, the purpose of the review was solely to provide a compendium of the various specific courses of action which had been suggested and not to attempt to determine which actions would be desirable or what the ultimate effects might be of the actions suggested. Thus, the persons working on the overall study would have before them substantially all of the proposals which had been made, so that these could be evaluated and alternatives chosen.

Each separate suggestion for action was reviewed and summarized very briefly, usually on a single page. The purpose was simply to present the central point of the suggestion and such elaboration as was essential to understanding it. In addition, data were included which would permit the reader quickly to locate the original literature reviewed in the collection maintained by Stanford Research Institute. Each review was then placed in a category by subject, so that the compendium of reviews as a whole would comprise a comprehensive indication of suggestions by subject area.

Many specific recommendations appeared more than once in the various pieces of literature reviewed. In these instances the first piece of literature reviewed was regarded as the source of the recommendation for the purpose of the compendium. Unless a subsequent piece of literature added substantially to the definition or the substantive content of a recommendation, the subsequent literature was not included in the review. There was no attempt to maintain statistics on the frequency with which specific suggestions appeared in the literature, since there was no indication that such data would have any great significance to the study. In this connection the frequency with which a suggestion was made in replies to the Department of Commerce questionnaire would have much greater significance.

The literature looked at included a large number of internal Government documents. Wherever possible, a particular recommendation included in the compendium was taken from a nongovernmental source. In nearly all cases this could be accomplished, so that it was not necessary to cite documents which are not available to the general public.

The particular recommendations were classified under the following nine subject categories:

1. General support to U.S. investors
2. Improvement of general climate abroad for private investment
3. Measures for U.S. Government protection for private investment abroad
4. U.S. taxation of foreign source income
5. U.S. Government financial assistance to private enterprise abroad
6. Measures to encourage forms of private foreign investment not now flowing on a large scale (e.g., portfolio investment)
7. Antitrust laws and private foreign investment
8. Proposals for major reorganizational steps by the U.S. Government to emphasize and en-

courage the role of private enterprise in economic development
9. Other proposals

The resulting compendium was made available to Mr. Straus and the people working directly with him.

Source of Literature

In conducting the literature review, the first step was to identify and obtain literature that would yield ideas and approaches likely to be useful. For this purpose, four methods were employed simultaneously.

1. A letter was addressed to approximately 100 individuals and institutions generally regarded as knowledgeable about the subject. This letter explained the project and solicited both literature and suggestions regarding literature that should be included in the survey.
2. A number of individuals in Washington and New York were personally contacted for their suggestions.
3. The Departments of State and Commerce and the International Cooperation Administration provided many suggestions by requesting them from staff members concerned with international private business activities and related matters. These Departments also made available many internal documents for review.
4. A search for published material was conducted through the use of standard library methods, including the following:

a. Nineteen published bibliographies on economic development and related subjects were used. A list of these bibliographies is attached (exhibit 1).

b. A search was made of such standard periodical indexes as *Index to Legal Periodicals, Public Affairs Information Service, Business Periodicals Index, Industrial Arts Index,* and *Reader's Guide to Periodical Literature.*

c. The card catalogs of the libraries of the Department of Commerce and the International Cooperation Administration were searched under a number of headings.

While the resulting identification of literature to be reviewed could not be considered exhaustive, owing to the severe time limits placed on the project, there was good evidence that the coverage was very thorough. This evidence was the high degree of redundancy with which titles appeared through the various methods of identifying literature. A selected bibliography of the literature reviewed is attached (exhibit 2).

Exhibit 1

Bibliographies Used in Identifying Literature for Review

Baster, J.—"Recent Literature on the Economic Development of Backward Areas," in *Quarterly Journal of Economics,* November 1954.

Documentation, Inc.—*Technical Assistance in Latin America,* a bibliographical study prepared for the Ford Foundation. Washington, D. C., 1952.

Hazlewood, A.—*The Economics of "Underdeveloped" Areas; An annotated reading list of books, articles and official publications.* London, Oxford Press, 1954.

Organization for European Economic Cooperation—"Social Implications of Technical Change; A Tentative Bibliography." *International Social Science Bulletin,* summer, 1952.

Rand Corporation—*A Selected Bibliography of Economic Development and Foreign Aid.* October 22, 1957.

Stanford University—*Bibliography on the Economic Development and Industrialization of Under-developed Areas,* mimeographed, Palo Alto, Calif., 1953.

Trager, Frank N.—"A Selected and Annotated Bibliography on Economic Development, 1953–1957," in *Economic Development and Cultural Change,* July 1958.

United Nations Economic and Social Council—*Bibliography on Industrialization in Under-developed Countries.* New York, 1956.

UNESCO—*Assistance to Under-developed Countries; An annotated bibliography.* Paris, 1957.

UNESCO—*International Bibliography of Economics.* Paris, annual.

U.S. Library of Congress—*The Economic Development of Underdeveloped Countries; A selected bibliography of books and journal articles.* September 3, 1958.

U.S. Library of Congress—*International Economic and Social Development; A selected background reading list.* Washington, D. C., 1952.

U.S. Library of Congress—*Need for More Foreign Investment by U.S. Individuals and Corporations in the Underdeveloped Areas of the World; A brief bibliographical* *estimate of the work accomplished by existing organizations.* Washington, D.C., April 10, 1957.

U.S. Department of State—*Economic Problems of Underdeveloped Areas.* Prepared by the Office of Intelligence Research, External Research Staff. Washington, D.C., 1956.

U.S. Department of State—*Point Four: A Selected Bibliography of Materials on Technical Cooperation With Foreign Governments.* Washington, D.C., 1950.

U.S. Department of State—*Point Four, Far East: A Selected Bibliography of Studies on Economically Underdeveloped Countries.* Washington, D.C., 1951.

U.S. Department of State—*Point Four, Latin America and European Dependencies in the Western Hemisphere: A Selected Bibliography of Studies on Economically Underdeveloped Countries.* Washington, D.C., 1950.

U.S. Department of State—*Point Four, Near East and Africa: A Selected Bibliography of Studies on Economically Underdeveloped Countries.* Washington, D.C., 1951.

Wolf, C., Jr., and S. C. Sufrin—*Capital Formation and Foreign Investment in Underdeveloped Areas.* Syracuse, N.Y., 1955.

Exhibit 2

Bibliography

A Selected Bibliography of Literature Containing Suggestions for U.S. Government Action To Encourage Private Business Activity Abroad

Abbott, Charles C.—*The International Position and Commitments of the United States,* Washington, D.C., American Enterprise Association, 1953.

Allen, G. C. and Audrey G. Donnithorne—*Western Enterprise in Far Eastern Economic Development,* New York, Macmillan, 1954.

Alvord, E. C.—*Private Investment in Underdeveloped Countries,* memorandum submitted to International Development Advisory Board, January 1954.

The American Assembly, Graduate School of Business, Columbia University—*International Stability and Progress: United States Interests and Instruments,* New York, N.Y., Columbia University, 1957.

American Friends of the Middle East—*The American Businessmen and the Middle East,* 1955.

American Management Association—*The Taxation of Business Income From Foreign Operations,* New York, 1958.

The American Society of International Law—*International Investment Law Conference,* Washington, D.C., February 24, 1956.

Baker, Russell—*United States Tax Laws Relating to Income From Foreign Trade and Investment,* 3d Institute on International Trade, University of Illinois, June 1955.

Baker, Russell—"Frustration of National Objectives by Tax Policy and Practice," *Export Trade and Shipper,* March 22, 1954, pp. 4-6; March 29, 1954, pp. 13-14; April 5, 1954, pp. 7-9, 19.

Barlow, E. R. and Ira T. Wender—*Foreign Investment and Taxation,* Englewood Cliffs, Prentice-Hall, Inc., 1955.

Beitz, Berthold—"Needed—International Credit Guaranties," Deutsche Entwicklungsarbeit im Ausland, Supplement to *Der Volkswirt,* July 19, 1958, pp. 22–24.

Berenson, Robert L., William M. Bristol, and Ralph I. Straus—*Accumulation and Administration of Local Currencies,* Washington, D.C., International Cooperation Administration, August 5, 1958.

Black, Eugene R.—Address before 23d session of the Economic and Social Council of the United Nations, New York, April 18, 1957, issued by International Bank for Reconstruction and Development.

Blair, Floyd—"Proposed Amendments to Internal Revenue Code To Promote Foreign Investments by Regulated Investment Companies," revised May 25, 1955.

Bodfish, Morton—Presidential Address, International Union of Building Societies and Savings and Loan Associations, 7th Congress, Stuttgart, September 1957.

Bowles, Chester—"A New Approach to Foreign Aid," *Bulletin of the Atomic Scientists,* February 1957, pp. 42–47.

Brewster, Kingman, Jr.—"Legal Aspects of the Foreignness of Foreign Investment," *Ohio State Law Journal,* summer, 1956, pp. 267–273.

Bronfenbrenner, M.—"The Appeal of Confiscation in Economic Development," *Economic Development and Cultural Change,* Chicago, April 1955, pp. 201–218.

Brown, William Adams, Jr.—"Treaty, Guaranty, and Tax Inducements for Foreign Investments," *American Economic Association—Papers and Proceedings,* Vol. XL, No. 2, May 1950, pp. 486–521.

Butler, W. Jack—"Business Fights Communism Overseas," *Harvard Business Review,* Vol. 34, No. 4, July–August 1956, pp. 96–104.

Carroll, Charles R.—*Private Investments Abroad,* No. 454 in the series "National Economic Problems," Washington, D.C., 1954.

Carroll, Mitchell B.—"How Tax Treaties Benefit U.S. Companies Doing Business Abroad," *The Journal of Taxation,* April 1958, pp. 248–249.

Carroll, Mitchell B.—"Administration's Program of Tax Incentives for Foreign Investments," *Export Trade and Shipper,* April 18, 1955, pp. 7–9, 14, 15.

Carroll, Mitchell B.—*Foreign Tax Attractions, Treaties, and General Developments*, National Foreign Trade Council, Inc., New York, 1956.

Chamber of Commerce of Greater Philadelphia—*Interim Report on the "Proposal for the Establishment of an Executive Board To Coordinate Governmental and Private Overseas Investment and Production Activities,"* October 1, 1958.

Chamber of Commerce of the United States—*What American Businessmen Abroad Think of Foreign Aid*, February 1958.

Cleveland, H. van Buren, Ragnar Nurske, Gordon Gray, and Max F. Millikan—*American Foreign Aid: A reappraisal*, National Academy of Economics and Political Science, Special Publications Series No. 12, October 16 and 17, 1956.

Collado, Emilio G.—*Private U.S. Direct Investment Abroad*, remarks before the 9th International Banking Summer School, 1956, mimeographed.

Committee for a National Trade Policy—*Foreign Investment and the Trade Program*, background information, Washington, D.C., April 28, 1958.

Committee for Economic Development—*Economic Development Assistance, A Statement on National Policy*, New York, 1957.

Committees on Foreign and International Law, Association of the Bar of the City of New York—"Report on American Investments Abroad," *Committee Reports*, Vol. 6, No. 3, March 1951.

Conick, M. C.—"Stimulating Private Investment Abroad," *Harvard Business Review*, Vol. 31, No. 1, Jan.–Feb., 1953, p. 104.

Coon, Carleton S.—"Operation Bultiste: Promoting Industrial Development in Saudi Arabia," *Hands Across Frontiers*, Cornell University Press, Ithaca, N. Y., 1956.

Crockett, J. P.—"Tax Sparing; A Legend Finally Reaches Spirit," *National Tax Journal*, Vol. 11, June 1958, pp. 146–155.

Dale, William B. and Richard N. Bale—*Private United States Venture Capital for Investment in Newly Developing Countries*, International Comparative Studies, Investment Series–2. IIDC, Stanford Research Institute, Menlo Park, Calif.

David, Donald K.—*The New Relationship of Business to Society*, address before 50th Anniversary Conference, Harvard Business School Association, Soldiers Field, Boston, Mass., mimeographed, September 5, 1958.

"Due Process," *Fortune*, August 1958, p. 52.

Fayerweather, John—"Foreign Operations: A Guide for Top Management," *Harvard Business Review*, Jan.–Feb. 1957, pp. 127–135.

Folsom, Victor C.—*Return of Enemy-Owned Property*, statement before American Society of International Law, Washington, D.C., April 1958.

Friedman, Milton—"Foreign Economic Aid: Means and Objectives," *The Yale Review*, summer, 1958, pp. 500–516.

Fulton, David C.—*Proposal for an American Corporate Technical Assistance Program (ACTAP)*, mimeographed, n.d.

Funston, G. Keith—*Problem for Latin America—Importing Growth Capital*, pamphlet, November 11, 1957.

Gaston, J. Frank—*Obstacles to Direct Foreign Investment*, report prepared for the President's Committee for Financing Foreign Trade, April 1951, National Industrial Conference Board, Inc., New York.

Gibbons, William J.—"Tax Effects of Basing International Business Abroad," *Harvard Law Review*, Vol. 69, No. 7 (May 1956), pp. 1206–1249.

Gibbons, William J.—*Tax Factors in Basing International Business Abroad; A Study of Law of the United States and of Selected Foreign Countries*, Harvard Law School International Program in Taxation, 1957.

Glazer, J. Henry—"A Functional Approach to the International Finance Corporation," *Columbia Law Review*, Vol. 57, No. 8, December 1957, pp. 1089–1112.

Goodman, Bernard—"The Political Economy of Private International Investment," *Economic Development and Cultural Change*, University of Chicago, Vol. 5, No. 3 (April 1957), pp. 263–276.

"Government Guarantees of Foreign Investments," *Harvard Law Review*, Vol. 66, No. 3 (January 1953), pp. 514–524.

Graham, William—*Recommendations and Proposals*, unpublished paper, n.d.

Grasberg, Eugene—*American Portfolio Investment in Foreign Securities, A Promising Field in Want of Information*, unpublished paper, July 1957.

Gray, Gordon, Special Assistant to the President—*Report to the President on Foreign Economic Policies*, November 10, 1950.

Grow, N. R.—Cambridge, Massachusetts—*An Overseas Mutual Fund—A New Vehicle for Foreign Portfolio Investment*, April 25, 1955.

Hagen, Everett E.—"The Process of Economic Development," *Economic Development and Cultural Change*, University of Chicago, Vol. 5, No. 3 (April 1957), pp. 193–215.

Harrington, Roby, Jr.—*Foreign Insurance Problems in our Expanding Economy*, New York, November 26, 1956.

Harris, Seymour E., ed.—*Foreign Economic Policy for the United States*, Harvard University Press, 1948.

Harvard Business School—*Investment Guarantee Program*, International Cooperation Administration publication, Washington, D.C., April 25, 1958.

Heilperin, Michael A.—"U.S. Foreign Economic Policy," *Fortune*, New York, June 1958.

Higgins, Benjamin—"Western Enterprise and the Economic Development of Southeast Asia: A Review Article," *Pacific Affairs,* Vol. XXXI, No. 1, March 1958, pp. 74–87.

Hirsch, Paul—*International Clearing Plan,* unpublished paper, 26 Broadway, New York 4, N.Y., n.d.

Hunter, John M.—"Long-Term Foreign Investment and Underdeveloped Countries," *Journal of Political Economy,* Vol. LXI, No. 1, February 1953, pp. 15–24.

International Chamber of Commerce—*Summary of Decisions, Paris,* Commission on Foreign Investments and Economic Development, Doc. No. 111/77/21.VII.1958, July 21, 1958.

International Chamber of Commerce—*Fair Treatment for Foreign Investments, International Code,* Paris, 1949.

International Development Advisory Board—*An Economic Program for the Americas,* Washington, D.C., September 1954.

International Development Advisory Board—*Conclusions and Recommendations,* report to Harold E. Stassen, Director of Foreign Operations, Washington, D.C., December 1953.

International Development Advisory Board, Washington, D.C.—*Partners in Progress,* New York, Simon and Schuster, March 1951.

International Development Advisory Board—*A New Emphasis on Economic Development Abroad,* Washington, D.C., March 1957.

International Development Advisory Board—*Summary of the Discussions,* Pacific Coast Conference on Private Investment in International Development, San Francisco, Calif., September 24 and 25, 1952.

"International Investment To-Day in the Light of Nineteenth-Century Experience," *The Economic Journal,* London, December 1954, pp. 744-758.

Jalan, B. L.—*A Scheme of World Corporation of Investment Insurance,* unpublished paper, 1955.

Javits, Benjamin A.—*Peace by Investment,* New York, Funk & Wagnalls, 1950.

Javits, Jacob K.—Report to the Senate of Senator Jacob K. Javits, August 14–15, 1958, mimeographed.

Kanter, B. W.—"U.S. Income Tax Treaty Program," *National Tax Journal,* Vol. 7, March 1954, pp. 69–88.

Kirkland, William—*The Accumulation of Foreign Currencies by the United States,* paper prepared for Committee on Foreign Investment and Economic Development, U.S. Council of the International Chamber of Commerce, c. August 1958.

Kust, Matthew J.—*A Program for American Private Investment and Technical Assistance in Underindustrialized Areas,* Cambridge, Mass., January 1957.

Kust, Matthew J.—"Pakistan Tax Treaty," *Tax Executive,* April 1958.

Lee, Charles Henry—"How To Reach the Overseas Market by Licensing," reprint, *Harvard Business Review,* Jan.-Feb. 1958, pp. 77–81.

Lewis, Cleona—*The United States and Foreign Investment Problems,* Washington, D.C., The Brookings Institution, 1948.

Littell, Norman M.—"Improvements in Legal Climate for Investments Abroad," reprinted from Vol. 38, No. 6, *Virginia Law Review,* Virginia, October 1952.

Littell, Norman M.—"Legal Incentives for Private Investments Abroad," *Virginia Law Review,* Vol. 40, No. 8, December 1954.

Loganathan, C.—*The Private Sector and Economic Development in the Underdeveloped Countries of the Free World in Asia,* unpublished paper, 1957.

Maddox, James G. and Howard R. Tolley—*Training Through Technical Cooperation,* Washington, D.C., National Planning Association, February 1957.

Maffry, August—*Private Investment; Program for Increasing Private Investment in Foreign Countries,* report prepared for Technical Cooperation Administration, Dept. of State, Dept. of Commerce, and Mutual Security Agency, December 18, 1952, mimeographed.

Managing Board, European Payments Union—*Protection of Investments and Private Property Rights in Foreign Countries,* Paris, Organization for European Economic Cooperation, December 23, 1957.

Melady, Thomas Patrick—*Taxation as a Factor in the Development of the Underdeveloped Countries,* abstract of Ph.D. dissertation, Washington, D.C., Catholic University of America, 1954.

Mikesell, Raymond F.—*Promoting United States Private Investment Abroad,* Washington, D.C., National Planning Association, October 1957.

Mikesell, Raymond F. and Hollis B. Chenery—*Arabian Oil, America's Stake in the Middle East,* Chapel Hill, N.C., University of North Carolina Press, 1949.

Millikan, Max F. and W. W. Rostow—*A Proposal—Key to an Effective Foreign Policy,* Massachusetts Institute of Technology, 1957.

Model, Leo—Unpublished paper regarding plan under which American private investment capital can operate jointly with private funds in countries where new industries are to be located, Model, Roland & Stone, 120 Broadway, New York 5, N.Y., September 19, 1957.

Moyer, David G.—*Does Business Consider Taxes in Making Foreign Investments?,* New York, National Foreign Trade Council, Inc., No. M-8025, November 28, 1956.

National Foreign Trade Council, Inc.—*Final Declaration of the Thirty-Fifth National Foreign Trade Convention,* New York, November 1948.

National Foreign Trade Council, Inc.—*A Statement on Foreign Economic Policy by the National Foreign Trade Council,* New York, September 1951.

National Foreign Trade Council, Inc.—*Final Declaration of the Thirty-Ninth National Foreign Trade Convention*, New York, November 1952.

National Foreign Trade Council, Inc.—*Final Declaration of the Forty-Second National Foreign Trade Convention*, New York, November 1955.

National Foreign Trade Council, Inc.—*Final Declaration of the Forty-Fourth National Foreign Trade Convention*, New York, November 1957.

National Foreign Trade Council, Inc.—*The Record for 1957*, New York, February 1958.

National Planning Association—*A New Approach to Foreign Economic Assistance*, Washington, D.C., April 17, 1957.

National Planning Association—*A Positive Foreign Policy for the United States*, Washington, D.C., July 1958.

National Planning Association—*The United States and the Lesser Developed Countries of the World*, Washington, D.C., February 19, 1951.

National Planning Association—*The Foreign Aid Programs and the United States Economy, 1948–1957*, Washington, D.C., May 1958.

National Planning Association—*Private Investment in Underdeveloped Countries*, Washington, D.C., October 16, 1951.

National Planning Association, Special Policy Committee on Technical Cooperation—*The Role of Universities in Technical Cooperation*, Washington, D.C., July 1955.

National Planning Association, Special Policy Committee on Technical Cooperation—*Administration of Bilateral Technical Cooperation*, Washington, D.C., January 1956.

National Planning Association, Special Policy Committee on Technical Cooperation—*Technical Cooperation—Sowing the Seeds of Progress*, Washington, D.C., June 1955.

National Planning Association, Special Policy Committee on Technical Cooperation—*Organization of U.S. Government for Technical Cooperation*, Washington, D.C., May 1955.

National Planning Association, Special Policy Committee on Technical Cooperation—*Recommendations for the Future*, Washington, D.C., June 1956.

"Nationalization and International Investment," *Business and Economic Conditions*, First National City Bank, pp. 118–119.

Netherlands Economic Institute—*Second-Hand Machines and Economic Development*, Rotterdam, May 1958.

Nielsen, Waldemar A.—"Why We are Losing the Ruble War," *Harper's Magazine*, New York, September 1958, pp. 25-31.

Nurske, Ragnar—*Problems of Capital Formation in Underdeveloped Countries*, New York, Oxford University Press, 1953.

Nuveen, John—*The Underdeveloped Countries: The Battleground of the Cold War*, paper presented before Chicago Literary Club, hectographed, February 20, 1956.

Olmsted, George—Statement before House Foreign Affairs Committee on Mutual Security Program, March 25, 1958, unpublished paper.

"On Foreign Private Investment," *Quarterly Review and Investment Survey*, New York, Model, Roland & Stone, Vol. 9, No. 1, First Quarter 1955.

Organization for European Economic Cooperation—*Private United States Investment in Europe and the Overseas Territories*, Paris, December 1954.

Organization for European Economic Cooperation—*Report on International Investment*, Paris, 1950.

Pan American Union—*Foreign Investments in Latin America*, Washington, D.C., 1955.

Pendleton, Edmund, Jr.—"Foreign Currency Loans to Private Business," *The Journal of the Bar Association of the District of Columbia*, Vol. XXV, No. 3, Washington, D.C.

Petersen, Howard C.—*Needed: A New Foreign Aid Policy*, Committee for Economic Development, New York, 1957.

The Political Economy of American Foreign Policy, report of a study group sponsored by The Woodrow Wilson Foundation and The National Planning Association, New York, Henry Holt & Co., 1955.

Pomeranz, Morton—"Taxation of U.S. Investments in Latin America," *Virginia Law Review*, February 1958, pp. 205–228.

Posner, Stanley I. and Herbert J. Allan—*What the Businessman Should Know About: Federal Taxes and Foreign Investments*, Public Affairs Press, Washington, D.C., 1958.

Private Investment: The Key to International Industrial Development, ed. James Daniel, New York, N.Y., McGraw-Hill, 1958.

The Profitable Partnership: The Story of U.S. Private Enterprise as a Partner in the Economic Development of Latin America, U.S. Inter-American Council, Montevideo.

Randall, Clarence B.—*A Foreign Economic Policy for the United States*, University of Chicago Press, Chicago, 1954.

Re, Edward D.—"Nationalization and the Investment of Capital Abroad," *Georgetown Law Journal*, Vol. 42, No. 1, Washington, D.C., November 1953, pp. 44–68.

The Responsibilities of American Business Abroad, The Business Council for International Understanding, Columbia University, Arden House Conference, October 14–16, 1957.

Rhyne, Charles S.—"World Law To Protect World Investment," *The Trust Bulletin*, March 1958, pp. 20–24.

Rist, Leonard B.—*Prospects for Private Investment Abroad*, address to the Council on Foreign Relations, San Francisco and Houston, December 1953, mimeographed.

Rivkin, Arnold—"An Economic Development Proposal for Africa: A New Multilateral Aid Organization," *International Organization*, Vol. XII, No. 3 (1958), pp. 303–319.

Robinson, Richard D.—*Turkey: Challenge to American Business,* a letter from Richard D. Robinson, Cambridge, Mass., September 10, 1957.

Rockefeller Brothers Fund—*Foreign Economic Policy for the Twentieth Century,* Special Studies Report III, Garden City, New York, Doubleday & Co., 1958.

Rogers, William N.—*Private International Economic Cooperation,* statement for the U.S. Senate Special Committee to Study the Foreign Aid Program, February 22, 1957.

Rottenberg, Simon—*How United States Business Firms Promote Technological Progress,* National Planning Association, Washington, D.C., August 1957.

Rozental, Alek—"International Finance Corporation and American Foreign Investment," *Economic Development and Cultural Change,* April 1957.

Salter, Sir Arthur—*Foreign Investment,* essays in international finance, International Finance Section, Princeton University, February 1951.

Schuck, Dr. Walter P.—*Financing the Advance of the Under-Developed Countries,* New York, January 1955.

Secretariat for the Inter-American Economic and Social Council—*Financing of Economic Development in Latin America,* Pan American Union, Washington, D.C., 1958.

Sonne, H. Christian—*United States Foreign Economic Policy,* National Planning Association, Washington, D.C., June 1953.

Staley, Eugene—*The Future of Underdeveloped Countries,* published for the Council on Foreign Relations by Harper Brothers, New York, N.Y., 1954.

Stead, William H.—*The Economic Development of Puerto Rico,* National Planning Association, Washington, D.C., March 1958.

Stewart, Chas. W. and George Terborgh—*Federal Tax Reform,* statement of Machinery and Allied Products Institute before the Committee on Ways and Means, U.S. House of Representatives, January 10, 1958.

Stires, Hardwick—"Expanding International Investment," *Vital Speeches of the Day,* June 15, 1958, pp. 519–522.

Surrey, Stanley S.—"Current Issues in the Taxation of Corporate Foreign Investment," *Columbia Law Review,* Vol. 56, June 1956, pp. 815-859.

Surrey, Stanley S.—"Pakistan Tax Treaty and Sparing," *The National Tax Journal,* Vol. 11, June 1958, pp. 156–167.

Teele, Stanley F.—*The Businessman of the Future,* a talk at Harvard Business School Conference, September 5–6, 1958.

Tidd, J. Thomas—"The Investment Guaranty Program and the Problem of Expropriation," *George Washington Law Review,* Vol. 26, No. 5, pp. 710–729, Washington, D.C., June 1958.

Tolley, Howard R.—*Using American Agricultural Surpluses Abroad,* National Planning Association, Washington, D.C., May 1955.

United Nations—*United States Income Taxation of Private United States Investment in Latin America,* Department of Economic Affairs, New York, January 1953.

United Nations—*Economic Development of Under-Developed Countries, International Tax Problems, Taxation in Capital-Exporting and Capital-Importing Countries of Foreign Private Investments,* UNESCO Doc. E/3074, June 3, 1958.

United Nations—*Financing of Economic Development, The International Flow of Private Capital, 1956,* UNESCO Doc. E/3021, June 21, 1957.

United Nations—*The Effects of Taxation on Foreign Trade and Investment,* Dept. of Economic Affairs, New York, February 1950.

United Nations—*Convention on the Recognition and Enforcement of Foreign Arbitral Awards Adopted by the Conference at its 24th Meeting,* New York, Economic and Social Council, Doc. E/CONF.26/8/Rev. 1, June 10, 1958.

U.S. Council, International Chamber of Commerce—*Free World Development Through Foreign Investment: A U.S. Tax Program,* New York, June 1958.

Congressional Hearings—*Double Taxation Conventions,* Hearings Before the Committee on Foreign Relations, U.S. Senate, 85th Cong., 2d Sess., Washington, D.C., July 1, 1958, 53 pp.

Congressional Hearings—*Foreign Economic Policy,* Hearings Before the Subcommittee on Foreign Economic Policy of the Joint Committee on the Economic Report, Congress of the United States, 84th Congress, Washington, D.C., November 1955.

Congressional Hearings—*International Development Association,* Hearings Before a Subcommittee of the Committee on Banking and Currency, U.S. Senate, 85th Cong., 2d Sess., March 18–19–20, 1958.

Congressional Hearings—*Mutual Security Act of 1958,* Parts I thru XVI, Hearings Before the Committee on Foreign Affairs, House of Representatives, February–April 1958.

Congressional Hearings—*General Revenue Revision,* Committee on Ways and Means, House of Representatives, 85th Cong., 2d Sess., January 7, 1958, Part 1.

Congressional Hearings—*Protection of Private Investments Overseas,* Hearings Before the Ad Hoc Subcommittee of the Committee on Foreign Affairs, House of Representatives, February and March 1957.

Congressional Hearings—*Review of Foreign Policy, 1958,* Hearings Before the Committee on Foreign Relations, U.S. Senate, 85th Congress (Part I), Washington, D.C., February and March 1958.

Congressional Hearings—*Mutual Security Appropriations for 1959,* Hearings Before the Committee on Appropriations, U.S. Senate, 85th Congress, Washington, D.C., July, 1958.

Congressional Hearings—*Federal Tax Policy for Economic Growth and Stability,* Hearings Before the Subcommittee on Tax Policy of the Joint Committee on the Economic Report, Congress of the U.S., 84th Congress, Washington, D.C., December 1955.

Congressional Hearings—*Mutual Security Act of 1958*, Hearings Before the Committee on Foreign Relations, U.S. Senate, 85th Cong., Washington, D.C., March and April 1958.

Congressional Hearings—*World Economic Growth and Competition*, Hearings Before the Subcommittee on Foreign Economic Policy, 84th Congress, December 1956.

United States Congress—*World Development Corporation*, A Bill in the Senate of the United States, Washington, D.C., August 12, 1958.

United States Congress—*Foreign Economic Policy*, Report of the Joint Committee on the Economic Report, Congress of the United States, 84th Congress, January 1956.

United States Congress—*Foreign Aid Program*, Compilation of Studies and Surveys Prepared Under the Direction of the Special Committee to Study the Foreign Aid Program, U.S. Senate, Washington, D.C., presented by Mr. Green, July 1957.

United States Congress—*Foreign Aid*, Report of the Special Committee to Study the Foreign Aid Program, 85th Congress, May 1957.

United States Congress—*The Mutual Security Act and Overseas Private Investment*, Committee on Foreign Affairs, Preliminary Report of the Subcommittee on Foreign Economic Policy, 83d Congress, June 3, 1953.

United States Congress—*Technical Assistance*, Final Report of the Committee on Foreign Relations, U.S. Senate, Washington, D.C., March 1957.

United States Congress—*Bill To Establish a United States Trading Corporation To Meet the Challenge of Attempted Soviet Penetration of World Markets*, H. R. 13805, 85th Cong., 2d Sess., August 18, 1958.

U.S. Department of Commerce—*Study of Factors Limiting American Private Foreign Investment, Summary of Preliminary Findings and Recommendations*, Washington, D.C., July 1953.

U.S. Department of Commerce—*Factors Limiting U.S. Investment Abroad*, Parts I and II, Washington, D.C., June 1954.

U.S. Department of Commerce—*Factors Limiting U.S. Investment Abroad*, Supplement to Part 2—Business Views on the U.S. Government's Role, June 1954.

U.S. International Cooperation Administration—*Development Loan Fund: Legislative History; A compilation for reference purposes of extracts from the statutory and legislative history*, Washington, D.C., September 13, 1957.

U.S. International Cooperation Administration—*Private Enterprise, Staff Study: An Analysis of ICA Responsibilities and Activities for the Stimulation of Private Enterprise*, July 7, 1958.

U.S. International Cooperation Administration—*Information Relating to Selected Investment Loan Fund and Industrial Development Projects*, Technical Aids Branch, Office of Industrial Resources, Washington, D.C.

U.S. International Cooperation Administration—*General Principles Which Should be Incorporated in a Foreign Investment Induction Law*, mimeographed, March 10, 1958.

U.S. International Cooperation Administration—*ICA Industrial Loan Credit and Loan Guarantee Programs*, a brief survey, NESA Industry Officers' Conference, Istanbul, August 26–30, 1957, Washington, D.C.

U.S. International Cooperation Administration—*Management Information*, Development Loan Fund, abstract from statements made during hearings, congressional presentation of MSP, FY 1958, Washington, D.C., August 21, 1957.

Report to the President by the President's Citizen Advisers on the Mutual Security Program, Washington, D.C., 1957.

Report to the President and the Congress, Commission on Foreign Economic Policy, Washington, D.C., Superintendent of Documents, January 1954.

Staff Papers, Presented to the Commission on Foreign Economic Policy, Washington, D.C., Superintendent of Documents, February 1954.

Task Force Report on Overseas Economic Operations, prepared for the Commission on Organization of the Executive Branch of the Government by the Task Force on Overseas Economic Operations, June 1955.

Walker, Herman, Jr.—*Treaties for the Encouragement and Protection of Foreign Investment: Present United States Practice*, reprinted from the American Journal of Comparative Law, April 1956, Vol. 5, No. 2.

Wolf, Charles, Jr., and Sidney C. Sufrin—*Capital Formation and Foreign Investment in Underdeveloped Areas*, Syracuse University Press, 1955.

"World Trade Advisory Group Makes Recommendations," *Foreign Commerce Weekly*, June 23, 1958, p. 16.

Yuan-Li Wu—"Government Guarantees and Private Foreign Investment," *American Economic Review*, Vol. 40, No. 1, March 1950, p. 61.