

The Economic Club of New York

Subject: Development, Yes; Private Enterprise, Maybe

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In September 1961, Congress, at the request of the administration passed Public Law 87-195, known as the Foreign Assistance Act of 1961.

This Act led to the establishment, within the Department of State, of the Agency for International Development, the means through which we expected to help the friendly nations of the free world meet the economic expectations of their peoples.

Because the American people believe in the effectiveness of free enterprise since they have seen what it has done for them; because for the most part the American Congress believes in the effectiveness of free enterprise since they too have seen it at work, Congress expressed this belief in this new law. Here is what they wrote: “It is the policy of the United States to strengthen friendly foreign countries by encouraging the development of their free economic institutions and productive capabilities, and by minimizing or eliminating barriers to the flow of private investment capital.”

At another point in the Act, the Congress again recognizes the importance of private enterprise, free enterprise, in helping to achieve higher levels of development, living standards and economic progress in these developing countries. Here the Act says: “The Congress of the

United States recognizes the vital role of free enterprise in achieving rising levels of production and standards of living essential to economic progress and development. Accordingly, it is declared to be the policy of the United States to encourage the efforts of other countries to increase the flow of international trade, to foster private initiative and competition...and to encourage the contribution of United States enterprise toward economic strength of less developed friendly countries, through private trade and investment abroad, private participation in programs carried out under this Act, and exchange of ideas and technical information.

“In order to encourage and facilitate participation by private enterprise to the maximum extent possible - the President shall -- Wherever appropriate carry out programs of assistance through private channels and to the extent practicable in conjunction with local private or governmental participation, including loans under authority of this Act to any individual, corporation or other body of persons.”

Based on this policy as stated in the law it would be logical to expect to find today an effective working relationship between the AID Administration and American business; to find the forces of American government and American business linking arms to demonstrate their joint faith in free private enterprise as a dynamic force for growth; linking arms to strengthen and nurture such free enterprise where it already exists in developing countries; and to try in every way possible to bring it into being I those areas where it is not yet established. Yet this is not what has happened.

It is doubtful that as much as 10% of the AID funds expended or committed since the Act was written have been used to initiate, expand or strengthen private enterprise; American, mixed, or foreign; in the developing areas of the world.

Thoughtful businessmen are increasingly reaching the conclusion that in the AID program, as it is presently structured and administered, there is simply no way in which the intent of Congress to make the fullest use of private enterprise can be carried out. In fact, their conclusions are more pessimistic than that.

There are many competent observers in the business world who feel that the United States AID program, as conducted in those areas of the developing world where free enterprise has yet to be born, is laying the foundation for government ownership instead.

In those more advanced areas of the developing world, such as Latin America, where free, private enterprise already is in being and trying to grow, many thoughtful businessmen are saying that the Alliance for Progress program is weakening the free, private enterprise system; that public acceptance of private enterprise as an important force for growth is declining; that the public and governmental will to work out their own cure for the growing pains with which they are afflicted is being replaced by the eager establishment of machinery through which to receive what one of my Latin friends described as “the shower of dollars” they have been led to expect

as a cure for their ills. If these points of view are widely held, and I believe they are, how can such a situation have come to pass?

Is it possible, as a few believe, that there is within our own government a group which believes not as Congress and you and I believe, but that the future growth, stability and strength of the world will rest more securely on the foundation of a socio-governmental economy in which most industry and business will be government owned and operated? That this group is willing, if not anxious, to replace private enterprise or to prevent its establishment in the first place or did this situation come about as a result of another statement of policy in that same law from which I quoted earlier. This statement reads as follows:

“To keep developing nations from falling under domination of communism; It is the policy of the United States to continue to make available to other free countries and peoples, upon request, assistance of such nature and in such amounts as the United States deems advisable and as may be effectively used by free countries and peoples to help them maintain their freedom. Assistance shall be based upon sound plans and programs, be directed toward the social as well as economic aspects of economic development; and should emphasize long-range development assistance as the primary instrument of such growth.”

I have underlined certain key phrases. These I think are important. At the Punta del Este Conference at which the Alliance for Progress was born, for example, there was much emphasis

and talk on the development of overall national programs of development, as well as of social reform. In the machinery designed to carry out the Alliance, again much emphasis was placed on such programs. Indeed there was a Review Group provided from within the Latin countries to review such national programs when presented, as a pre-requisite to any substantial aid from the United States Government AID program. As a result much of the talent in these countries has been devoted to the development of overall programs by and for their governments.

In retrospect, it would seem that this emphasis on plans and programs and long-range growth may have led to the creation of machinery which will effectively inhibit the birth of free, private enterprise where it has not yet come into being and is choking off its growth where it already exists.

In their anxiety to qualify for development assistance, other countries are proceeding as best they can to get on with such planning and programming. Since an agency of our government is administering these funds on behalf of the United States, it is only natural that the focal point in other countries has been government as well.

In actuality, in spite of the declaration of policy by our Congress, businessmen here in the United States as well as in other countries have played very little part in these programming efforts. Possibly this is because the planners just didn't think of it, or perhaps they did not want to be bothered.

It is not altogether because businessmen were not willing to help. As long ago as the fall of 1961, the Joint Latin American Committee of the Business Council suggested the formation of an advisory group for each of the Latin American countries. These groups, consisting of American and Latin-American businessmen, resident in each country and knowledgeable regarding the abilities and problems facing business and industry in these countries, were to serve as informal consultants to our AID missions, or their own governments, as plans and programs were under discussion and consideration. It was agreed that they should have no official status, but simply be available for consultation and guidance. The idea was well received. Names of outstanding people were submitted. But nothing happened. They were never called into action.

But, you may well ask, why hasn't American private enterprise here at home been able to work more closely with the AID administration? Is it because the AID administration has given it no place to go? No point at which to work? The answer to this last question is NO.

AID established an Assistant Administrator for Development, Finance and Private Enterprise. This office is very capably filled by Mr. Seymour Peyser, but his office is purely a Staff Office, serving the Administrator. It has done all it could to encourage the utilization of private enterprise in the AID program, but it has no authority to sit down with any business group, foreign, domestic, or mixed, and finalize a plan or make a loan for the establishment of any enterprise. In the offices of the four Regional Directors of AID there is a counterpart to Mr.

Peyser. Here again, he is a Staff Officer to the Regional Administrator. He likewise has no authority to sit down directly with any businessmen, or group of businessmen, to make a loan for the establishment of private enterprise. The final decision with respect to such a loan, and whether it will be made, rests with the actual Loan Administrators, and these same people also are heavily involved in the government-to-government operations of AID.

A great many of them are career civil servants, with a long-time experience in government-to-government operations. It is only natural that the bulk of their time will continue to be spent in such operations and since there is obviously more risk in a private enterprise loan, as well as less background on their part with which to evaluate it, their tendency is to give prior attention to the government-to-government activities.

Recently Mr. Peyser's office distributed an excellent booklet to businessmen entitled, "Aids To business (Overseas Investment)." In it his office describes clearly and fully how a businessman or a business group seeking a loan, or a guarantee, or the use of PL 480 funds in connection with the development of private enterprises overseas, should proceed.

In the normal course of events, a business deciding to invest in some developing country, would study the situation, find partners, work out a reasonably sound financial plan, and would expect, on the basis of a properly prepared case, to receive a loan based on its determination to make an

investment of its own funds. At this point our potential investor really begins to feel the impact of the emphasis on long-range planning and programming.

The AID book tells him clearly that AID has authority to make dollar loans to private enterprise, both U.S. and foreign, but it may slow him down with this statement which I quote: “It is AID policy to encourage those investments which contributed to the economic development of a less-developed friendly country in which the investment is to be made, with emphasis on assisting long-range development plans.”

If our investor is simply wanting to make bicycles, or shoes, or furniture, or soft drinks, or toys, it is highly unlikely that he finds his investment a part of a long-range government development plan.

But does it need to be? Here in the United States we have assumed for these many years that any investment which creates new jobs, starts a new industry, or expands an old one, must of necessity further the economic development of our country. Nearly every one of our states is busily engaged in undertaking to attract new industry or to create a climate in which existing industry will grow. If this is good at home, why isn't it good abroad? Why must any business investment abroad be tied instead to some overall economic program?

But even if the conclusion should be reached by AID that his is a sufficiently productive enterprise that it fits into a development program for a less-developed country, our investor finds himself in the position where he must, and I quote again, comply with this provision: “The projected new investment, or expansion or diversification must be acceptable to the government of the country in which it will be made, and it must clearly contribute to the economic development of the country. Therefore, it is advisable to discuss acceptability of the project with both the host country government and the AID mission in that country in advance of making formal application to AID.”

By this time the prospective investor is likely to have decided that there must be many other easier opportunities for him to invest his money at home here in the United States, or in other more developed parts of the Free world. But if, because his local partners still feel strongly that the business should be undertaken in their country and have managed to surmount this governmental obstacle, our prospective borrower from AID decides to persevere, he runs into this next requirement, which says:

“It is AID policy (as required by statute) to make dollar loans only for those projects for which adequate financing from other free-world sources is not available on reasonable terms. So, a prospective borrower should investigate a number of private and other public institutions before making formal application to AID.”

What does this really mean? What it means is simply this: that to secure a loan from AID, a private business group coming to Washington, ambitious to begin production, create jobs, fulfill the needs of many people, in many cases give them an opportunity for investment in industry in their own country, find that it cannot even approach AID until it has, if the Law is to be taken literally, ascertained that no one of the other private or public lending agencies here or abroad will consider lending any money for the enterprise.

By now it is becoming clear that there is need for a focal point in Washington where a private group hoping to establish a business or an industry in a developing country can work with an agency in government which is staffed by people who have had experience in and understand the problems of creating new businesses, and whose job it is to get forward expeditiously with assisting potential investors in doing so.

During the past year there have been I am sure, many potential investors from both developing countries and the united States who have considered going into business in developing countries who have finally simply given up. There probably are others who have carried a project through to conclusion, but with such a frustrating experience that their attitude afterward is that “it is just not worth the candle” to do it again.

The facts are simply these -- that as of today the way the AID Act is administered, there is very little opportunity for a widespread participation by imaginative, spontaneous private enterprise in its worldwide development activities.

This is not to say that there could not be, and this is the purpose of a recommendation developed by a special knowledgeable sub-committee of the Business Council for International Understanding, of which I am Chairman. This report, passed unanimously by our Board of Directors on February 20, recommends the establishment within the government of a focal point, staffed by men experienced in the problems of business and free enterprise, with a full realization of the importance of the establishment of job opportunities, investment opportunities, the free play of a competitive business system to the development of those countries of the world presently faced with the decision as to what kind of a business system they will have. I would like to quote some pertinent passages from that recommendation here tonight. The report points out:

“A great variety of industrial, commercial and service enterprises make up the business fabric of a nation. These comprise the largest, most diversified segment of an economy. It is the segment closest to the people. It is the economic area in which the initiative, knowledge, competence and skills of private enterprise are most essential. And it is this sector, in the development of an economy, which bring new skills to the local population, creates new jobs, increases productivity of the host nations and of individuals, provides managerial experience, produces and sells goods

including exports, meets payrolls, builds local employment and increases the well-being, abilities and purchasing power of local inhabitants. This segment of an economy earns more profits (for income or reinvestment), pays more wages and provides local government with more income from taxes than does any other.”

PROPOSAL TO ENLARGE THE PARTICIPATION OF PRIVATE ENTERPRISE

The Special Committee concludes that mobilizing the resources, experience and initiative of private enterprise in the advance nations to establish the varied new productive income-earning enterprises which are needed in growing nations is one of the most essential requirements for increasing productivity and standards of living throughout the Free World.

The Special Committee concludes that administrators in government departments and agencies by reason of their method of planning and operating on a government-to-government basis, have little desire or disposition to consider, let alone stimulate, private enterprise. Certainly, their staffs of Civil Service employees have even less. Government-to-government programs are the simplest and safest projects for both administrators and their staffs. But often they are the furthest from local masses in terms of personal contact and, perhaps, may be more vulnerable to extravagance or the misuse of funds.

The Special Committee concludes that it is highly desirable to create a new government-owned corporation to administer, on a world-wide basis, all development programs for the stimulation of foreign investments by the private sector. Such investments would not be limited to those formally included in the development programs of local governments.

The Corporation should be run on a business basis and, over the long term, should seek to generate enough revenue to more than cover its administrative costs.

The Corporation's principal objective should be to encourage private American investment in developing countries abroad. When desirable, it should encourage several American or foreign private investors to collaborate in organizing, financing and managing an overseas project. It should cooperate with and help in the arrangement of financial participation in such projects by American, international or foreign governmental or quasi-governmental lending agencies.

The scope of the Corporation's financial authority should include investment guaranties as an agent of AID, investment surveys, utilization of PL 480 local currency funds for expenses or loans and a limited authority to make dollar loans. All of its loans would be made only to income-producing private enterprises owned by private investors or to new private enterprises intended to become income-producing.

The Secretary of State should be Chairman of the Corporation's Board of Directors to assure to the government that its activities are consonant with the overall foreign policy of the United States.

The Administrator of the Agency for International Development should be a director of the Corporation -- possibly the Vice Chairman -- to assure close collaboration between the Corporation's management and AID. Beyond the foregoing relationship with AID the Corporation would operate autonomously.

The President should be the Chief Executive Officer; he and the Senior Vice Presidents of the Corporation should be members of its Board of Directors. They should be selected from private enterprise -- perhaps including some from the private financial community.

The remaining members of the Board, who will not be employees of the Corporation, should be independent private individuals of the highest caliber from industry, agriculture, banking, commerce or the professions, each with first-hand knowledge of the experience in international business.

The capital stock of the Corporation would be owned by the United States Government.

The Corporation would secure capital funds from Congressional appropriations or from Congressional authority to transfer or borrow from the Agency for International Development, to

borrow from the Treasury of the United States or possibly at some later date from the general capital market.

The officers, executives and staff of the Corporation should be recruited from or have had extensive experience with, private business. Its employees should not be included within the Civil Service nor be subject to Civil Service regulations and rates of compensation. The organization of the Corporation should follow lines normal to private enterprises and suited to its objectives.

“To improve the environment for private investment abroad, the President should instruct the Department of State and, through it, our Ambassadors to encourage and assist American private investors abroad, particularly by seeking to improve the climate for private investment in foreign countries. To this end, economic Counselors, Commercial Attaches, and heads of AID Missions.....should be made responsible for assisting in increasing the participation of private investment in the development of income-producing enterprises in such economies, through the activities of the Corporation here described.”

Unless such a positive move is made, many thoughtful men feel sincerely that private enterprise will neither be enlisted nor allowed on the battlefield in this ideological war for the developing world.

The Business Council for International Understanding recommendation offers a means through which business could be armed and our legions thrown into the battle.

A week ago today we delivered this recommendation to Mr. David Bell, the new AID Administrator, who received it with interest.

Others as well as ourselves have made similar suggestions, all with the same aim: -- to demonstrate by action, as well as words, that we, citizens of the world's free-est, free enterprise country, truly believe that this system has been a principal source of our growth and can be an equally great source of growth for the developing areas of the world.

Mr. Bell asked whether we thought it might be possible for a Corporation such as we suggested to be set-up within the AID structure instead of outside. The answer, of course, is YES -- provided it is directed by men of experience and they are given the power to act.

Within the past two weeks I have received a letter from a knowledgeable businessman who has for the past three months been intensively observing the progress of free enterprise in Latin America under our AID Program. He writes: "We have been told that in the case of the Alliance for progress the pendulum is swinging toward private enterprise." I have read a letter from Secretary Rusk instructing our foreign Missions that the emphasis is on private enterprise. I have talked on this trip to all our Ambassadors and they have shown me speeches which they have

made in line with these instructions. The fact remains, however, that little has been seen by way of deeds. There is clear evidence that the Alliance effort is still favoring the public sector; that the programs are of government, by Government, for and with government. This situation has local and national and foreign private capital discouraged and very much frustrated. This has been expressed to me in many meeting which I have held individually and collectively with the important national and foreign business groups in these countries.

“Both national and United State businessmen in these countries feel the imperative need of a solid and effective organizational structure to look after the common problems of private enterprise in the United States and Latin America.”

Gentlemen, it would be difficult to say it better. The United States desperately needs a solid, effective organizational structure dedicated to the creation and promotion of free, private enterprise throughout the developing world.

We must have one; we must use it; we must let it work. Only if we practice what our Congress has preached will the peoples and governments of the developing world become convinced by our actions, as ell as our words, that we truly believe that the system which has been the basis of our growth can do as much for them.