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Government and Capital in Point Four

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Government and Capital in Point Four

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PRESIDENT TRUMAN's call for "a bold new program" to promote "the improvement and growth of underdeveloped areas"—the much discussed Point Four in his Inaugural Address of January 20, 1949—gives timely emphasis to what has hitherto been a relatively minor aspect of the foreign economic policy of the United States.¹ As a member of the United Nations and its affiliated agencies, this country shares a common obligation to contribute to world economic, social and cultural progress. Moreover, during World War II, the Administration promised the Latin American Republics assistance to develop their economies in return for all-out production of primary products. Since V-E Day, however, implementation of our foreign economic policy has been largely in the field of reconstruction rather than development. Because of their important role in the world economy, the industrial nations of Western Europe have enjoyed priority in the allocation of grants, credits and supplies. Restoration of the productive capacity of these countries has been considered an essential preliminary to any over-all plan for overseas development. Meanwhile, the urgent requirements of the primary producers have not been entirely neglected. As noted below, several less developed countries have been aided.

Although well aware of the logic of first restoring the export capacity of Western Europe, spokesmen for the underdeveloped areas have nevertheless become increasingly critical of Washington's world recovery program. There has been a growing impatience to translate into action the promise of international co-operation to promote social and economic development. The problem was a leading item on the agenda of the autumn 1948 session of the UN General Assembly in Paris, at which four proposals to provide technical assistance to underdeveloped areas were approved.² The most

vigorous statement of the primary producer's case came during the drafting of the Charter of the proposed International Trade Organization (ITO). The movement to limit the use of import controls and other trade barriers, first sponsored by the United States, has been interpreted in some quarters as a thinly veiled attempt on the part of Washington to forestall the growth of industrial enterprise abroad. For this and other reasons, agreement on the Charter at the Havana conference in March 1948 was obtained only after protracted debate and many compromises.

UNIFIED ECONOMIC POLICY REQUIRED

Our foreign trade policy is not likely to succeed unless there is a well co-ordinated plan to achieve a better balance in the economies of countries which now depend largely on the export of food and raw materials. Nor will the countries participating in the European Recovery Program become self-supporting with a reasonable standard of living by 1952-53 if the primary producers fail to expand and diversify their production. Were the issue merely one of economic nationalism versus international co-operation in trade policy, as is commonly assumed, the problems to be solved would not be so intractable. Further examination, however, reveals that larger and more efficient productive capacity, rather than freer trade as such, is the real key to economic progress.³ In short, economic development through concerted action is the alternative to a resurgence of economic nation-

3. Data compiled by League of Nations economists may be cited in this connection. For the period 1926-29, the supply of finished factory products other than foodstuffs in the United States was roughly estimated at more than \$250 per capita; in other countries which had achieved some degree of industrialization, the average was \$104 per head. For remaining areas, which account for some two-thirds of the world's population, the average supply was less than \$7 per capita. A simple calculation shows why the majority cannot rely upon trade alone to meet their needs. To achieve a supply equal only to one-half that of the developed countries (i.e., \$52 per head), imports of manufactures would have to increase sixteen times to \$69 billion, a figure corresponding to twice the annual value of all products entering into world trade annually, 1926-29. See League of Nations, *Industrialization and Foreign Trade*, 1945, I.I.A.10, pp. 22-23.

1. For text of the President's "Inaugural Address," see Department of State *Bulletin*, January 30, 1949, pp. 123-26.

2. *New York Times*, December 5, 1948. See also, H. H. Hutcheson, "Problems of the Underdeveloped Countries—II," *Foreign Policy Reports*, October 1, 1948.

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alism on an unprecedented scale.⁴ The most promising method of avoiding conflict in commercial policies is to increase world production, and thereby the share of each participant; otherwise, every nation seeks to gain at the expense of others. In explaining his Point Four, Mr. Truman put the matter neatly when he remarked that "experience shows that our commerce with other countries expands as they progress industrially and economically."⁵

This observation is no less valid when applied to the problems confronting Western Europe. That region is more dependent than ever before on the exchange of finished goods for food and raw materials that are in short supply locally. Not unnaturally, planning has been centered on recovery of productive facilities, although of late more attention is being given to export markets. But current efforts to work out a comprehensive four-year program for all the participants have revealed a third problem of decisive importance in the long run. To reduce the dollar deficit to manageable proportions by 1952, when the Marshall plan aid is slated to end, Western Europe must develop alternative sources of supply for food and raw materials. The assumption that the level of imports from North America can be reduced and imports from other sources greatly increased is untenable unless production in the nondollar areas can be vastly expanded.

On the basis of existing arrangements to meet the needs of the less developed areas for credits, technical aid and capital equipment—as revealed, for example, in colonial development plans—the outlook for an adequate flow of primary products by 1952 is not favorable. The increase in the world's population and improvement in the standard of living in many countries have intensified the problem of short-supply, apart from the wartime disruption of production in some areas. On the whole, long-term economic prospects are not encouraging; nor are they likely to become so if the interdependence of European recovery and accelerated overseas economic development is not clearly perceived. The problem may well prove to be of such magnitude that a satisfactory solution will require

a revision of investment plans of OEEC members, with larger outlays scheduled for development of overseas resources. An agreement to avoid unnecessary duplication of domestic productive facilities will make increased capital exports possible.⁶ In its projections of trade and production through 1952, the OEEC admits that little allowance has been made "for the possibilities of developing trade by systematic cooperation between Europe and the other economic regions of the world."⁷ At the same time it is acknowledged that "the problems of Europe cannot be envisaged in isolation, and her recovery is very closely bound up with the economic well-being of the rest of the world."⁸ As indicated above, sustained economic and social development is the basis for a prosperous world economy. Unless European reconstruction is supplemented with a concerted program to assist less developed areas, United States foreign economic policy will prove inadequate. Increasing attention must be given to improvement in the productive capacity of the primary producers.

There is another reason why more attention should be given the problems of the underdeveloped areas in implementing United States foreign policy. In the long run, co-operation with other interested governments in lifting standards of living abroad may well prove to be the most fruitful phase of the postwar program to safeguard peace, freedom and security. With more than one-half of the world's population living in conditions approaching misery, there can be no lasting stability. As President Truman observed, "their poverty is a handicap and a threat both to them and to more prosperous areas." Widespread and chronic poverty, whatever the causes, tends to engender unrest. Such a situation is highly favorable to the spread of the Communist doctrine of class conflict and

6. Other than a \$6 million fund in the initial appropriation for ECA to finance technical assistance in colonial territories, Congress made no special provision to aid overseas development under ERP. Participants may employ dollar funds allocated to them by ECA in financing colonial requirements. National currencies in counterpart funds may also be used for this purpose. France, Britain and other colonial powers have already appropriated various sums to promote overseas production of food and raw materials, not merely to meet their own needs but also to provide larger exports to the dollar area, thereby reducing the balance-of-payments deficit. To give further support to plans for larger colonial output of primary products and strategic materials, ECA announced on March 23, 1949 that a colonial development division had been created. *New York Times*, March 24, 1949.

7. OEEC, *Interim Report on the European Recovery Programme*, Vol. I, p. 50. Colonial development programs have been jointly considered by French and British officials in recent months, with France proposing an eventual economic unification of British, French and Belgian overseas territories. See *New York Times*, February 7, 1949.

8. *Interim Report*, cited, p. 20.

4. The ITO Charter now contains a whole chapter on economic development. The first American proposals (1945) gave little attention to the subject, since it was then assumed that development problems were in the jurisdiction of other UN agencies, particularly the World Bank. See Clair Wilcox, *A Charter for World Trade* (New York, Macmillan, 1949), p. 141.

5. "Inaugural Address," cited, p. 125. The reference to industrial expansion should be noted, for once again it is officially stated that the United States favors industrialization abroad. A contention to the contrary is often made in Communist propaganda.

violence. In the ideology of communism, the low per capita incomes of the less developed countries are ascribed entirely to "capitalist exploitation." Foreign investments—which have increased the output of primary producers and enabled several to develop an industrial economy—are always referred to as "imperialism."

Space does not permit a detailed examination of these allegations. Suffice it to say that the problem is one of abnormally low per capita productivity, not of the distribution of income or property. With reference to the foreign policy of the United States, however, the significant point to be noted is that economic and social development of the poorer half of the world's population is an important issue in the ideological conflict between East and West. The attack on Western democracy is world-wide in scope, as witness the Communist activity in China, Burma, India, Malaya and elsewhere.⁹ According to some observers, this agitation is part of a general plan to defeat European recovery by reducing exports of food and raw materials.

U.S. ROLE IN DEVELOPMENT PROGRAM

Given the high degree of interdependence which characterizes the world economy, the Western nations have every reason, therefore, to re-examine the needs of the primary producers. While economic development is essentially a matter of self-improvement, it is also true that a policy of co-operation and assistance on the part of the more advanced nations can accelerate the necessary changes. Moreover, it is to be noted that before the advent of the world depression in 1929, an important contribution was made by the export of private capital and know-how. Foreign investment, in fact, had been a mainspring in the growth of world production. The depression years witnessed a severe contraction of the international capital market. During World War II, the economic resources of leading European creditor nations were considerably reduced, with the result that the United States is now the only large potential exporter of capital and technology. Under these circumstances, the initiative in promoting world economic development rests mainly with this country. Point Four recognizes the fact that for some time to come, United States foreign policy must give greater weight to problems of economic and social advance abroad.

How best to devise and implement a more vigorous program was not considered in detail by President Truman. An interdepartmental commit-

tee was appointed for this purpose, and specific proposals will be forthcoming shortly. The President did, however, indicate the broad outlines of the plan to be followed by the Administration. The major features are: (1) joint participation by other governments, with each contributing according to its capacity to give assistance, through the agency of the UN; (2) sharing of technical knowledge is to be the most important means by which development is promoted; and (3) such external financing as may be required will be provided largely through the investment of private capital.

The decision to formulate a program along these lines was prompted by several considerations. Co-operation of all interested governments is not only in keeping with the UN Charter, as noted above, but is also necessary to ensure the most effective use of available resources. Although the United States may be expected to make the largest contribution, other nations have much to offer. The colonial powers, for example, have had many years of experience in dealing with the problems of people whose development has been retarded. The knowledge gained can now be applied more intensively and on a larger scale. If all governments share in the program, Washington cannot rightly be charged with selfish motives. There are, however, indications that such an approach is not accepted abroad without reservations. The British and French are eager to get aid in the development of their overseas territories, but are considering the possibility that the entry of more American enterprise may be accompanied by demands for speedy reforms which will disrupt the present political and economic pattern of colonial administration.¹⁰ In particular, concern is expressed regarding the trade of overseas territories, which since 1930 has been channeled increasingly in the direction of the mother countries. In the past, the primary production of these regions has provided a large dollar revenue for the home country—an arrangement that is now of crucial importance in reducing the balance-of-payments gap. Washington, however, is well aware of the dollar problem; implementation of Point Four is much more likely to be an advantage rather than a handicap in overcoming the shortage. Participation by American enterprise in the expansion of colonial production would increase export capacity and thereby the supply of dollar exchange; at the same time, larger incomes for colonial peoples will make possible more imports from the mother countries.

9. See Woodrow Wyatt, "Chaos-Breeders in Southeast Asia," *New York Times Magazine*, April 10, 1949, pp. 10ff.

10. See, for example, criticism of United States development policy by André Siegfried, in *New York Times*, February 7, 1949; also, L'Europe et le développement des pays arriérés," *L'économie*, March 2, 1949, pp. 6-9.

The second item, emphasis on technical assistance, is readily explained by the fact that availability of know-how is of decisive importance. Modern technology is the key to effective development of resources; it facilitates self-improvement and increases the capacity to absorb capital imports productively. Technical aid includes programs to advance social standards—health, education, and so on—which is a precondition for sustained economic development.

Finally, President Truman's emphasis on private finance recognizes the advantages to be obtained from this traditional method for supplying developmental capital. The existing impasse in the export of capital by private enterprise, which is further discussed in the last section of this report, must be ended. The altered situation with respect to sources of supply, mentioned above, has been accompanied by a trend in the policies of borrowing governments which contributes to the continued stagnation of the world capital market. An obvious requirement, therefore, is the creation of a climate favorable to private investment. Moreover, the point at issue is not merely the treatment of the foreign investor but also the status of private enterprise in the economy of the less developed country. In keeping with the principles which underlie the vast increase in our productive capacity and standard of living, United States foreign policy has supported the cause of free enterprise. Of late, increasing attention has been given to the need for a more positive program, on the assumption that practical demonstrations, even if on a limited scale, of the gains to be had will evoke an upsurge of private industry in other countries. Concurrently, there have been several instances in which United States business interests have assumed a new role in the export of capital and managerial skill to sell the American idea. In short, a good beginning has already been made in applying Point Four.

PARTNERSHIP CAPITALISM

The case for a fresh approach to world economic development has been persuasively presented by Eric Johnston, former president of the Chamber of Commerce of the United States, in his book, *We're All in It*.¹¹ He calls for "partnership capitalism," which is defined as "American private capital and business genius in partnership with the capital, manpower and the resources of other countries." Its purpose, he adds, "is a mutual and co-operative development of industry and commerce

11. (New York, Dutton, 1948).

among nations."¹² The essential idea underlying this proposal is not new; as Mr. Johnston points out, several concrete examples may be cited.

INTERNATIONAL BASIC ECONOMY CORPORATION (IBEC)

A striking illustration of "partnership capitalism" is the venture organized in January 1947 by Nelson Rockefeller, his four brothers and their sister. Called the International Basic Economy Corporation—"eye-beck" for short—this company exemplifies Mr. Rockefeller's continuing interest in the economic problems of the American Republics. Previously, he had headed the wartime Office of Inter-American Affairs. His experience in this assignment convinced him that private enterprise could, and should, contribute to economic development in Latin America on a new basis, namely, that of "joint enterprise." With an original capital of \$3 million, since increased to some \$7 million, IBEC is now operating in Brazil and Venezuela. The aim is to achieve a constructive pattern of joint enterprise by applying certain well-defined principles. As stated by IBEC, the policy guides are:

1. Determine the economic bottle-necks which are holding back sound development in the countries concerned.
2. Establish under capable management joint business enterprises which will produce goods and services needed in breaking these bottle-necks.
3. Select enterprises bearing definite relation to one another, and adaptable to coordination, as investments yielding reasonable return and expectancy for capital appreciation.
4. Encourage financial participation in the enterprises by nationals of the country concerned and by such U.S. interests as can contribute the best managerial and technical direction.
5. Employ local nationals to the greatest practicable extent and train nationals for technical and managerial posts.
6. Develop enterprises that will contribute to the improvement of living standards and lower production and distribution costs with the ultimate goal of lowering prices to consumers."¹³

Activities of IBEC in Brazil and Venezuela have followed these principles, which are in effect a modification of the direct-type of foreign investments. The key to the whole program is the readiness of the promoters to meet the requirements of the local situation. The practice of partnership capitalism, it is reasoned, can be profitable to both the outside investor and the underdeveloped country. Thus, to promote development in Venezuela,

12. *Ibid.*, p. 183.

13. Quoted from a mimeographed statement issued March 1949 by the New York office of IBEC.

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IBEC organized early in 1947 an affiliate company, the Venezuelan Basic Economy Corporation (VBEC). The projected financial outlay is \$18 million, contributed jointly by IBEC, private individuals and groups, Corporación Venezolana de Fomento (the government development agency), and by oil companies operating in Venezuela. In time, a majority of the stock of VBEC enterprises will be offered to Venezuelan investors. Subsidiary companies already in operation include: the Food Production Company, with an authorized capital of \$3 million, to apply modern methods of farming and thereby increase the domestic supply of food; the Caribbean Fisheries Company, with capital resources of \$1.5 million, to improve the supply of fish, with lower prices to consumers, by refrigeration and mechanization of the industry; the Food Distribution Company, capitalized at \$2,552,000, to encourage efficient, economical methods of distributing foodstuffs; and a dairy products company.

The program in general is designed to encourage food production and distribution from Venezuelan sources, improving the basic economy of the country. Technical assistance, including the employment of native experts, is made available to farmers, who are also sold improved seeds, fertilizers, insecticides, farm implements, and so on, at cost. Concurrently, much progress is being made in developing the livestock industry through the introduction of imported strains and cross-breeding.¹⁴

In Brazil, IBEC has organized several enterprises to break bottlenecks in the economy of that country. At the end of 1948, five companies were in operation. As in Venezuela, the immediate goal is improvement of agriculture. IBEC functions as a channel for the inflow of United States capital, managerial experience and technology, and the use of these in partnership with local technology, capital and management. Participation of Brazilian capital is encouraged. What IBEC seeks to offer is a practical demonstration of efficient and profitable enterprise. Performance and not promise is the guide; hence there are no five-year plans. Thus, in line with the principles of co-ordinated projects to meet urgent needs, IBEC projects in Brazil include a hog production company, to introduce scientific methods in hog breeding and care, with particular attention to combatting cholera and other diseases;¹⁵ a company to produce hybrid corn seed, and thus increase the output of corn;¹⁶ a com-

pany to introduce modern bulk warehousing and storage methods for handling grain, seed oil and other products; an enterprise to provide mechanized agricultural services for Brazilian farmers at reasonable fees covering costs and a fair return on invested capital; and finally, a unique undertaking known as *Helico*, the purpose of which is to use helicopters for crop dusting and other operations.¹⁷ These undertakings are designed to improve Brazilian agriculture and eventually make the country self-supporting in food.

AIA

Another, and equally important, part of the Rockefeller program of joint enterprise is the American International Association for Economic and Social Development (AIA). This is a non-profit membership corporation to advance living standards and opportunities for self-improvement in several countries. Here again considerable ingenuity has been shown in devising fruitful techniques to encourage self-help in promoting health, sanitation, technical knowledge, education and other social developments. In Venezuela, AIA operations include community service programs in three rural areas, a national nutrition information program, and training courses in practical farm management, as well as short-term research projects in selected technical problems. Similar programs are under way in Brazil. The practice is for the AIA to initiate a plan with an outlay of funds which is matched by the government. For example, the community service programs in Venezuela involve an expenditure of \$1 million, with half of this sum given outright by AIA. The usual administrative device is the "consejo," which is a jointly directed and financed entity functioning within the government. In many respects, it is similar to the "servicio" arrangement devised by the Institute of Inter-American Affairs.¹⁸ The AIA supplies the major personnel requirements, but the host governments also contribute trained technicians. The object is to encourage self-help, and once the projects are well-established, they become the entire responsibility of the country concerned.¹⁹

THE LIBERIA COMPANY

Another postwar example of partnership capitalism is the Liberia Company, chartered by the Liberian legislature in 1947 at the instance of a

14. For further details, see *ibid.*

15. In 1947 cholera wiped out half of the hog stock.

16. Using American seed, Brazilian scientists developed varieties suitable for local cultivation.

17. The immediate purpose is to fight the broca disease which infests millions of coffee trees.

18. See below, p. 73.

19. See "The American International Association for Economic and Social Development" (mimeographed report issued by the New York office), January 1949.

group of business interests headed by former Secretary of State Edward R. Stettinius, Jr., and associates. The aim of this venture is to develop the natural resources of the Negro Republic by a combination of American capital and know-how. The authorized capital of the company is \$10 million. A 25 per cent interest has been given outright to the Liberian government in return for exclusive exploratory and developmental rights—with the exception of rubber and iron ore. Several subsidiary companies will be created, each to specialize in a particular field of production, e.g., lumber, iron ore, diamonds, groundnuts and coffee. Public utilities are also envisaged, and these will be transferred to local ownership once they are on a paying basis. In all the undertakings participation of Liberian capital is invited.

Commenting on current conditions in the country, Mr. Stettinius stated that he had been impressed with “the great contrast between profuse undeveloped natural resources and the needs of the people and the country for improved living standards, health and education.”²⁰ The new program will therefore include funds for public health, education and technical training. To administer these activities, a separate agency, known as The Liberian Educational Foundation, has been set up with a block of Liberia Company stock (10 per cent) as the initial endowment. Proposals are under discussion whereby this Foundation may be used by the Department of State as an instrument for the development of education, agriculture and technology in Liberia, much as the Institute for Inter-American Affairs in Latin American Republics. Concurrently, the government will implement legislation enacted in 1945 for the economic and social advancement of the country. As is true of IBEC, private enterprise is to provide the initiative in cooperation with native interests. The plans do not call for the construction of heavy industries, but concentrate on improved farming operations and the growth of extractive industries. Moreover, small farmers will be aided by methods which have been successfully used in this country; large, foreign-owned plantations are ruled out by the company.²¹

AIDS TO INDUSTRIAL DEVELOPMENT

Postwar activities of American private industry abroad are not limited, however, to schemes to increase agricultural and mineral production. Several

20. *New York Times*, September 27, 1947.

21. For further details, see *ibid.*, and *Business Week*, December 13, 1947, pp. 113-14. Recently, it is reported that the Stettinius group is considering a joint French Company with headquarters at Brazzaville to develop resources in French African colonies. *New York Times*, March 7, 1949.

leading industrial concerns are assisting development of primary producers by long-term licensing agreements which include the export of technology. In the past many companies have established branch plants in other countries, but recently there have been several instances in which a foreign business contracts to import our machinery and know-how. The Westinghouse Electric International Corporation has signed a number of such agreements since 1945. The latest, announced on January 2, 1949, is with a Brazilian manufacturing company—*Eletromar*—and provides that engineering assistance shall be given in the design and construction of plants to produce certain electrical products under Westinghouse patents. As compensation, the American concern is to receive stipulated fees. Announcing the contract, a Westinghouse official remarked that “practice has shown us that the most highly industrialized countries actually make the best customers for what America generally has to sell the world.”²²

Many more examples might be cited of the export of technical knowledge to develop the industry of other countries.²³ Since 1945, a large number of plants have been designed, built, equipped and put into operation for foreign interests by United States firms. These projects include units to produce steel,²⁴ chemical products, textiles, cement, and so on. Again, many contracts have been signed for the construction of highways, irrigation projects, power works, and port facilities.²⁵ The demand for American engineering and management advice has, in fact, grown to such proportions in the postwar period that several new businesses specializing in foreign contracts have been organized. As an example, the American Industrial Development Engineering Company might be cited. It has constructed or is now constructing plants in India, China, British East Africa, Union of South Africa, French Morocco, South America and elsewhere. Its services include not only design and building, but also arrangements to expedite ship-

22. *Ibid.*, January 3, 1949.

23. This practice is of long-standing. See P. F. Clark, *Challenge of the American Know-How* (New York, Harper, 1948).

24. The United States Steel Corp. co-operated with the Brazilian government in drafting plans for a steel mill early in 1939. Later, a mill was constructed at Volta Redonda with financial assistance from the Export-Import Bank. Another instance of technical aid is the recent study made by Koppers Company, Inc. for a steel plant to be built by the Colombian government in Paz de Rio. See IMF, *Financial News Survey*, March 17, 1949, p. 292.

25. Most of these projects receive only passing mention in the press. Aware of this lack of knowledge concerning an important part of our exports, the editors of *Business Week* published a series of articles on the subject in 1947. See issues of May 3, p. 93; July 12, p. 93; July 19, p. 98; and July 26, p. 94.

ment of machinery from this country.²⁶ Other firms doing a similar business overseas include the F. H. McGraw Company, J. G. White Engineering Company, W. W. Kellogg Company, Morrison-Knudsen Company, and so on.²⁷

Not infrequently, the government of an underdeveloped country seeking to map out a sound long-range program for social and economic progress has contracted with one or more of these companies to carry out a comprehensive survey and recommend specific developmental projects. A recent example of this is the policy followed by the Iranian government, when it announced on October 19, 1948 that an agreement had been signed with Overseas Consultants, Inc., under which this advisory group of eleven American engineering firms will study the economy of Iran and advise on the planning of that country's \$650 million development program.²⁸ Earlier, in June 1947, the Iranian Prime Minister made public a Seven-Year Plan, the details of which were based on an 800-page report prepared by the engineers of the Morrison-Knudsen International Company. The scheme envisaged substantial outlays on agriculture, mining, communications, industrial plants, social improvements and public works. Insufficient attention, however, was given the social and economic problems involved in such a vast program. Critics contended that the engineers had not been realistic; that "they have not diagnosed their patient's ailment, but have simply written out the prescription the patient himself asked for."²⁹ It would appear that these views were shared, in part at any rate, by officials of the International Bank, which rejected a loan application made in June 1948 by Teheran authorities.³⁰

The new contract with Overseas Consultants calls for a comprehensive review of Iranian economic policies and the drafting of a revised program of specific projects in the financing of which it is hoped the Bank will share. Provision is also made for the American engineers to supervise implementation of the new plan. The initial team of five experts recently completed what is known as Phase I of the survey: a quick tour to assess the capacity of the country to carry out the Seven-Year Plan. Concerning this operation, a correspon-

dent of the London *Economist* reports that "this first party greatly impressed all who met it. Its basic outlook was governed less by commercial prospects for American business than by the thought of changing Iran's rotten social structure by western and tranquil means as opposed to eastern violence."³¹ Phase II of study is now under way, and will determine project priorities judged by value in terms of immediate yield. In short, the advice of the experts will be much more realistic than was the case in the earlier survey.

ROLE OF GOVERNMENTAL AGENCIES

What has become increasingly apparent in the efforts of the less developed areas to expand and diversify their output is the need for measures to improve the social economy, particularly in the fields of food supply, education, health and sanitation. Malnutrition, disease and illiteracy are obstacles to economic progress as much as lack of capital and know-how. These deficiencies must be overcome if partnership capitalism is to function on an effective scale. There has been a growing awareness of this fact on the part of American businessmen, as noted above. But what foreign enterprise can do to advance social standards is necessarily limited. Several companies investing abroad — notably the petroleum producers — have made large outlays for the health, education, housing and recreation of their employes, native as well as foreign-born. These programs reach only a limited number of people. They nevertheless are a practical demonstration of what must be done to make the remainder of the population efficient producers. The larger task of creating a favorable social environment is one that must be executed by the government of the particular country. By providing technical advice and training, the highly developed countries can greatly assist in this undertaking.

SCIENTIFIC AND CULTURAL CO-OPERATION

Following the policy of the good neighbor, first enunciated in 1933, the United States has sponsored many projects to improve the social economy of several Latin American Republics. Two agencies have been created to supervise these activities, which are now considered an essential part of our foreign relations with less developed areas. The first is the Interdepartmental Committee on Scientific and Cultural Co-operation (SCC). Organized in 1938, this agency consists of representatives of some twenty-five federal agencies participating in technical assistance projects. Systematic arrangements have been worked out to encourage exchange

26. *Ibid.*, May 3, 1947, p. 93.

27. A survey conducted in 1948 revealed forty concerns were prepared to take on additional overseas engineering contracts. *Ibid.*, February 7, 1948, p. 104.

28. *New York Times*, October 20, 1948; *Business Week*, October 30, 1948, p. 113.

29. Heshmat Ala'i, "How Not to Develop a Backward Country," *Fortune*, August 1948, p. 145.

30. See *Business Week*, October 30, 1948, p. 113.

31. *The Economist* (London), February 26, 1949, p. 364.

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of personnel and scientific, technical and cultural knowledge. Policy guidance is provided by the Department of State. Until recently, the SCC was limited in its operations to Latin America, but now its authority is world-wide.

The program seeks to promote improved social and economic conditions, and is therefore a long-range undertaking. Aid has been extended in many fields, with each government contributing to maintenance of the work. An important project is that administered by the Department of Agriculture to develop crops that are complementary to the American economy. Under this setup, co-operative agricultural stations and extension and training facilities have been provided. Already much progress has been made. Thus, for example, the Department announced on February 27, 1949 that a new crop which "promises to be of unusual value, both commercially and strategically" had been successfully introduced in the Western Hemisphere. It is a fast-growing fiber known as "kenaf." Native to India, this fiber is expected to be a satisfactory substitute for India's jute, now used as raw material for twine, bags, burlap and carpeting. By developing the new material, the Western world will in time cease to be dependent on a distant and uncertain supply for this industrial product. Adverse conditions in India and Pakistan have already resulted in an increasing shortage of jute. Now that both countries are devoting more acreage to food production, the supply of jute may decline further.³²

Several experiments in new crops are under way in Latin America. In addition, expert advice and technical training are being given in a number of other fields. Projects have been started in fishery resources, mining, geological surveys, metallurgy, transportation and so on. There is also co-operation in the fields of public health, social security, labor standards, vital statistics and library services. Enactment by Congress of the Information and Educational Exchange Act of 1948 (Public Law 402) signifies approval of the SCC as an integral part of our foreign policy. But thus far new funds to finance this program have not been voted.³³

INSTITUTE OF INTER-AMERICAN AFFAIRS (IIAA)

The second agency set up by the United States to improve economic and social conditions abroad is the IIAA. It is an outgrowth of wartime activities carried out through government corporations

under the Office of the Coordinator of Inter-American Affairs. Certain of these functions were continued after V-E Day, and later, in 1947, two of the corporations were merged into the IIAA and placed under the Department of State. Co-operative arrangements are worked out with Latin American Republics to promote public health, sanitation, education and agriculture. Project costs are jointly financed, with the IIAA contributing on the average of about one-third. The other government also furnishes a part of the personnel.

In administering the various programs, the Institute's planners have employed a novel device known as the *servicio*. When the United States and another government agree to embark on a particular program, a new division or office is created in the appropriate ministry of the local government. The director of this *servicio* is a United States expert; he also heads the field party which the Institute sends to the country. The majority of the technicians and workers are supplied by the co-operating government. The significance of the *servicio* is to be found in the fact that "it virtually loses, or at least subordinates, its binational and bilateral character in the course of its day-to-day activities. It does not consist of two separate groups facing each other across a conference table and negotiating decisions."³⁴ This device, moreover, is easily adapted to local conditions. It was used as a model in the administration of aid to Greece and Turkey when that program was begun early in 1947. As applied to Latin America, it has been highly successful, and is an ideal instrument "to build up a mutual understanding that constitutes a barrier to the deliberately disseminated propaganda of hatred."³⁵

Thus far, the Institute has participated in ten agricultural programs, fourteen projects in health and sanitation, and a like number in the field of basic education (mainly in rural areas). Measures to improve food production were instituted in June 1942 to deal with the emergency situation arising from the war. Later, planning was concentrated on the long-range development of agricultural resources. For example, in Paraguay, a 500-acre farm was established as a research and demonstration center, called the National Institute of Agronomy. In addition, the program includes a model dairy farm and a 27,000-acre ranch. To enable the Paraguayan farmer to employ the new practices, equipment and stock, a supervised rural

32. See *New York Times*, February 28, 1949.

33. See Department of State *Bulletin*, February 27, 1949, pp. 263-64; *ibid.*, February 20, 1949, pp. 212-13. Details of SCC projects are reported in *The Record*, issued by the State Department.

34. L. J. Halle, Jr., "Significance of the Institute of Inter-American Affairs in the Conduct of U.S. Foreign Policy" (Department of State), Publication 3239, p. 3.

35. *Ibid.*, p. 5.

credit scheme was inaugurated. Elsewhere in Latin America similar projects have been started. The largest is in Peru, where the *servicio* is a national development scheme, including an extension service, a network of co-operative machinery pools, field offices to distribute improved seeds at cost, and so on.

The Institute is also functioning effectively in promoting health and sanitation. A high percentage of the rural population in tropical America is debilitated by disease, which accounts appreciably for the low agricultural productivity of many farm regions in Latin America. In the United States, safe drinking water and sanitation facilities are taken for granted; but in many American republics these public health requirements are neglected. Until these deficiencies are made good, plans to build heavy industries are not realistic. Chimbote, the finest harbor on the Peruvian coast, is close to coal mines and iron ore; but before 1943 the economic possibilities of this community could not be realized because public health conditions were unfavorable. When the Institute and the Peruvian government set up a health *servicio* in 1943, the incidence of malaria was 25 per cent; four years later it was only 2 per cent. Population increased from 5,000 in 1942 to 10,000 in 1947.

Finally, the Institute has done much to improve basic education and technical training. Provision is made for vocational instruction as well as elementary education. All in all, the many projects set in motion by the Institute have had a sizable catalytic effect on the social economy of several countries. A good beginning has been made in demonstrating the fine art of self-help. Sensational results are not to be expected, for these programs are essentially long range.³⁶

The Institute is slated to end its activities July 1, 1950. In keeping with his Point Four, President Truman sent a message to Congress on February 21, 1949 requesting that the agency not only be continued but also that funds for it be increased from the current \$5 million a year to \$10 million annually for five years.³⁷

SPECIAL AGRICULTURAL MISSIONS

Farm improvement projects developed by the Institute have been recommended for certain countries outside the Western Hemisphere by technical missions sent abroad by the Department of Agri-

36. For further details on activities of the Institute, see *ibid.*, and various publications of the Institute. A first hand report on the co-operative programs is given by a former staff member, A. E. Stuntz, *To Make the People Strong* (New York, Macmillan, 1948).

37. *New York Times*, February 22, 1949.

culture. Under this policy, surveys by experts have been conducted since 1939 in Greece, Egypt, Syria, Saudi Arabia, Lebanon, Iraq, Liberia, China and the Philippines. Missions to other countries are now being planned. These teams are precursors of the recent FAO field survey parties. Although the United States has participated in the latter, this country continues to send abroad special groups of advisers where the particular circumstances warrant such action. The missions sent to the Middle East were in response to several requests from governments in that region which wished to continue developmental programs begun during the war under the auspices of the Anglo-American Middle East Supply Center.³⁸⁻³⁹

One important point stressed in all field surveys is soil conservation, the need for which is especially acute in underdeveloped areas. The United States Soil Conservation Service has provided advice and training in the latest techniques to foreign farm specialists. Currently, forty-nine nations are carrying on programs modeled after that of the United States. Already, perceptible increases in output have been reported. An expert from Basutoland studied our methods and, on his return, applied the new methods to several thousand acres of eroded land; the corn yield was doubled.⁴⁰

JOINT TECHNICAL MISSIONS

The acute shortage of foodstuffs in many underdeveloped countries, particularly during and since the war, has prompted the United States to place much emphasis on agriculture in its foreign aid program. Moreover, adequate planning to meet the food, health and educational needs of a country is a precondition for sustained industrial development. But, as noted above, improvement in standards of living also requires a carefully considered increase in industrial facilities. Accordingly, long-range foreign assistance must give due attention to the industrial potential of the particular country. This approach has not been neglected in United States foreign economic policy, although hitherto only a few technical missions have undertaken comprehensive surveys. The experience gained, however, is sufficient to serve as a satisfactory guide in future co-operative planning of economic development.

Apart from the special wartime field parties sent to aid India and Brazil, there have been more recently two other special missions. A joint technical

38-39. See special reports of these missions, issued by Department of Agriculture.

40. See H. H. Bennett, "The Increasing Interest Abroad in Soil Conservation," *The Record*, September 1948, pp. 29ff.

advisory mission was sent to the Philippines in 1947, while another went to Brazil in August 1948. Staffed by both native and United States experts, these technical teams have studied all phases of the national economy and made recommendations for over-all development. The Brazilian mission gave particular attention to the problem of industrialization, since in that country there are many advocates of rapid industrial growth.⁴¹

FINANCING DEVELOPMENT: U.S. POLICY

Although joint economic missions and other types of technical co-operation set forth above may not be impressive in terms of the areas covered or the financial outlays involved, they are significant as new patterns for effective aid to the less developed nations. The underlying idea is that sound economic development requires full and efficient use of local resources; that the process is essentially one of self-help. It is assumed, moreover, that progress depends on the steady improvement of basic social conditions—e.g., health, education, sanitation, technical training, administration, food supply and so on. Accordingly, the policy of the United States in providing aid to the underdeveloped areas has emphasized measures which create conditions favorable to economic growth, rather than the provision of public loans and grants as such. In his address at the Bogotá conference on April 1, 1948, Secretary Marshall reminded the delegates that, "as the experience of the United States has shown, progress can be achieved best through individual effort and the use of private resources. Encouragement should therefore be given to the increase of investment capital from internal as well as external sources." "It is obvious," he added, "that foreign capital will naturally gravitate most readily to countries where it is accorded fair and equitable treatment."⁴² But proposals by the American delegation to obtain an agreement that would fully safeguard the rights of foreign investors met with considerable opposition.⁴³

Such hopes as the less developed countries might have entertained for a change in United States policy respecting the role of private investment were not supported by President Truman in his Inaugural Address. The emphasis in Point Four

is on the importance of sharing our know-how, and not our material wealth. Private capital, it is indicated, must remain the principal source of financial assistance.⁴⁴

Leading industry groups in this country, for their part, have evinced a keen interest in the program of the Administration to promote world economic development. There is general agreement that direct investments should be favored. But this flow of private capital and know-how, it is contended, will continue to be seriously curtailed so long as investors are subject to discriminatory treatment abroad. Unwillingness on the part of many nations to create a favorable climate for private investments is ascribed to their assumption that the United States government will underwrite economic development.⁴⁵

Proponents of partnership capitalism, on the other hand, interpret the situation somewhat differently. They share the view that intergovernmental financing should not replace private investment, but they also contend that the investor can and must adopt a new role in the light of conditions prevailing abroad. In an address at the Massachusetts Institute of Technology on April 1, 1949, Nelson A. Rockefeller expressed this point of view as follows: "We believed that American capitalism was ready to play a new part in world affairs, not seeking just the areas which promised the greatest profit but going to the area of greatest needs. We believed that it was ready to go where it could produce the most goods and render the greatest services, and, finally, that it would have the ingenuity and resourcefulness to accomplish these things on a sound and profitable basis which would contribute to the well-being and real wealth of the people it served."⁴⁶ But not even partnership capitalism can succeed unless the foreign enterpriser is fully assured that the receiving country will honor its obligations.

44. See Department of State *Bulletin*, February 27, 1949, p. 211, and February 6, 1949, pp. 155-56 (remarks by Secretary Acheson). Further details concerning the nature and scope of Point Four were given by Assistant Secretary of State Willard L. Thorp in a lengthy statement to the Economic and Social Council on February 25, 1949. He emphasized technical co-operation and the role of private capital. A resolution, introduced by the United States delegation, and approved by the Council, directs the UN Secretariat to prepare by June 1 a comprehensive survey of the development activities of international agencies and a plan by which these functions can be effectively co-ordinated. See *ibid.*, March 6, 1949, pp. 285ff.

45. See "Final Declaration of the Thirty-fifth National Foreign Trade Convention" (New York), November 8-10, 1948, p. 15; also Lewis, *op. cit.*, p. 277.

46. *New York Times*, April 2, 1949.

41. See *New York Times*, February 10, 1949.

42. See text of the address, *Ninth International Conference of American States* (Department of State), Publication 3263, appendix IV, p. 314.

43. For a discussion of the issues, see Cleona Lewis, *The United States and Foreign Investment Problems* (Washington, Brookings, 1948), pp. 266ff.

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Fair Treatment for Foreign Investments

BY HAROLD H. HUTCHESON AND J. S. HUTCHESON

In recent years several attempts have been made to obtain an international agreement on foreign investments acceptable to both lenders and borrowers. The breakdown of the capital market during the 1930's prompted the League of Nations to appoint a special commission on foreign investments, which clarified the issues involved, but did not reconcile the conflicting interests. During the conference held under UN auspices to draft the charter for an International Trade Organization, proper safeguards for capital exports was one of the most controversial subjects considered by the delegates. The final draft of the charter, adopted on March 24, 1948 at the Havana ITO conference, contains a statement of broad principles as well as specific provisions on foreign investments. The protective clauses desired by the United States delegation were not approved. Subsequently, at the Bogotá conference (March 30-May 2, 1948), another effort was made by this country to get a comprehensive agreement on protection of American investments in Latin America. Numerous objections and reservations were entered by some governments; an acceptable multilateral accord did not prove possible. Negotiations with countries that revealed an urgent desire to revive the inflow of private capital have continued, and it is probable that several bilateral pacts will be signed.¹

ATTITUDE OF PRIVATE INDUSTRY

Spokesmen for private industry groups, desirous of increasing investment opportunities abroad, have welcomed these intergovernmental discussions. The results thus far achieved, however, are considered disappointing. Proper protection for the private investor, it is contended, has not been obtained. Pertinent provisions of the Havana Charter are criticized on the score that they give inadequate protection, and will therefore fail to stimulate a renewed flow of private capital.

The minimum conditions insisted on by private business have been frequently stated; whether they are eventually met or not will, of course, have an important bearing on world economic development. For this reason, publication of a "Draft Code for Fair Treatment of Foreign Investments," to be adopted at the 12th Biennial Congress of the International Chamber of Commerce in Quebec,

1. A treaty of "Friendship, Economic Development and Commerce," to be signed soon with Uruguay, is expected to be a model for others under Point Four. This pact specifies "fair treatment" for foreign investors. It also calls for co-operation in promoting economic development—a new feature in such treaties. See *Wall Street Journal*, May 9, 1949, p. 1.

June 13-17, 1949, has evoked considerable interest.² The provisions of this code represent the views of leading businessmen in the United States and thirty-one other countries.

CODE PROVISIONS

Under the terms of the proposed agreement, all types of foreign investment, e.g., direct investments, credits, advances, and so forth, will receive full protection. Investments by the nationals of other countries are not to be discriminated against in any way, although an exception is made in favor of undertakings directly involving national defense. With reference to legal and judicial protection, taxation, and all other rights and obligations, native and foreign enterprise are to be treated alike. No signatory is to give preferential treatment to its nationals or those of any other contracting party. Moreover, foreign business interests must receive the full benefit of civil rights recognized by international law, or generally by the other contracting governments, in any country where these rights may not be enjoyed by its nationals. No government shall impose any discriminatory regulations on the nationality of shareholders, company officers, workers and technicians. Negotiations to reduce the burden of double taxation are prescribed. Subject only to the rules of the International Monetary Fund, there shall be freedom of transfer of earnings, amortization, upkeep and renewal expenses, depreciation funds, and so on. Full protection to the foreign investor is specified where his property is expropriated; compensation shall be decided beforehand, with payment in cash or its equivalent, the funds to be freely transferable at the prevailing rates of exchange. Finally, it is provided that any differences of interpretation or application of the code that may arise shall be settled, if need be, by an international arbitration court set up by the contracting parties.

In summary, the draft code contains no significant modifications of previous investment policy declarations by private industry spokesmen. Responsibility for ending the deadlock in the international capital market continues to rest, therefore, with the borrowers. According to a survey reported in the *New York Times*, May 1, 1949, several capital-short countries are ready to meet the terms of private lenders; but it is also indicated that one condition may be adoption by creditor nations of a scheme to guarantee private investments.

2. See International Chamber of Commerce, *Draft International Code of Fair Treatment for Foreign Investments and Report of the ICC Committee on Foreign Investment* (Paris, 1949).

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