

ECONOMIC COLD WAR WITH RUSSIA IN THE
UNCOMMITTED COUNTRIES

10 January 1961

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NOTICE

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INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington, D. C.

Honorable Philip A. Ray, Under Secretary of Commerce, was born in Salt Lake City, Utah, on 27 May 1911. He received his preparatory education at the University of Utah and Stanford University, receiving his B.A. degree from the latter in 1932. He obtained his law degree from the Stanford Law School in 1935. During World War II Mr. Ray served as a combat intelligence officer in the U.S. Navy, and was awarded the Bronze Star at Leyte. He is a member of the State Bar of California, the Bar Association of San Francisco, the American Bar Association, the Federal Bar Association, the American Law Institute, and the Maritime Law Association. He is currently a member of the Executive Committee and Chairman of the Finance Committee, World Affairs Council of Northern California. Mr. Ray was appointed to his present position on 14 August 1959. He comes to his Commerce Department post from the San Francisco international construction and engineering firm of J. H. Pomeroy & Company, Incorporated, of which he became vice president and director in February, 1958. This is Mr. Ray's first lecture at the Industrial College.

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GENERAL MUNDY: We heard from Ambassador Chip Bohlen the other day in reply to a question that in his opinion the cold war is much more economic than it is ideological.

In our relations with foreign countries, both the developed and the underdeveloped foreign countries, I think we must recognize this basic fact, for in my opinion economic policy is every bit as important as, and in the opinion of many people it is more important than, our political policy.

Today we will examine the tactical as well as the strategic aspects of the economic cold war and particularly in the underdeveloped countries of the world.

The Honorable Philip A. Ray, the Under Secretary of Commerce, is particularly well qualified to help us in our examination this morning.

We are indebted to Mr. Carlton Ward, the president of our Board of Advisers, for Mr. Ray's presence today. As is Mr. Ward's custom, he comes by the College when he is in Washington on frequent business visits, and in a conversation in my office we were discussing the subject matter of this morning's talk. He had just left a meeting in which Mr. Ray was present. This was a formal conference, a business conference, and Mr. Ward was so impressed with Mr. Ray that he recommended very strongly that we get Mr. Ray. We concurred and Mr. Ward got Mr. Ray on the phone--in fact we had to call him out of a business session--and he kindly accepted.

Mr. Ray, it is a pleasure to welcome you to the College for your first visit.

Gentlemen, Mr. Philip A. Ray, the Under Secretary of Commerce.

MR. RAY: Thank you, General.

It is a great pleasure for me to be here, my first time in the College. I have long admired the breadth and depth of the inquiries that are carried on here, and surely we must continue through all kinds of government and nongovernment forums to mobilize all of the thought and resources we can, just as you do here, to sharpen our attack upon the cold war problem.

I would like to speak this morning about several aspects of the cold war, as perhaps we see them in the Department of Commerce, and their relationship to what government does, to what our type of capitalism is here in the United States, and what it is overseas.

Some of this thinking was prompted by a visit to my office by a dozen Latin American business leaders a few weeks ago. They had come to Washington to express to me their grim fears for the future of private enterprise south of our borders.

Their spokesman was an alert young company president from Brazil. He opened the discussion by saying, "We are scared. Every time an American firm is expropriated or forced into government ownership, the hot breath of communism closes in on all of us. "Castro," he went on, "is not just a Cuban product. The same conditions which set off the Cuban explosion prevail in varying degrees in all of the countries of Latin America."

One of his associates, from another Latin American nation, added, darkly, "I could almost reach into a drawer and pull out a list of those private companies most likely to be taken over next."

We should be scared, too. As Under Secretary of Commerce, I have tried to foster the development of sound private enterprise here and abroad. In this capacity, and earlier as a private lawyer and businessman from San Francisco, and as a naval officer in World War II, I have traveled over a half-million miles in the less-developed and uncommitted areas of the free world, observing conditions and talking to local officials and businessmen, to Americans abroad on business and working in our embassies.

Despite all of our efforts, despite all of our generous aid programs, despite all of the security actions of our military forces, we are, in my opinion, losing ground. What, then, is wrong with us? Why is

our democratic system so much on the defensive around the world?
Why is capitalism a hated phrase?

The answer, in my opinion, in part is that we are trying to fight the cold war with private enterprise, the hands of freedom, the hands of capitalism, tied behind our backs. I am pleading for a new approach, one that will untie the gigantic private forces that made America strong and free and put them in tandem with the purposeful government actions that stem from our agencies here in Washington.

Instead, however, politically and publicly, the talk of our foreign direct aid drowns out other voices to a degree, and we find ourselves talking about a crash half-billion dollars of new aid to Latin America as some kind of answer to the Cuban problem.

I think that nothing less than a new national purpose, swiftly expressed and carried into effect by our Government and our people, can save the day and offer new hopes for winning the cold war.

First I think we must stop kidding ourselves about the big picture. Approximately 800 million humans have been lost to Communist slavery since World War II. In that same period new nations, with another 800 million people, have come into being. They are not on our side. They are essentially uncommitted, and, in the light of Cuba, Latin America, with its 180 million, must be considered uncommitted, too.

At least a billion people in the free world, including Latin America, have no social or economic fabric strong enough to resist the relentless Communist campaign. Furthermore, it has taken more than 500,000 years for mankind to produce a global population of 2.5 billion. Yet at the present rate it will take us just 35 years to double that figure. Hence the drive of the less-developed nations to create a modern economy is not merely a political fetish, since in many areas their farms have been fractionated to the point of diminishing returns. The grim fact is that these people must industrialize or starve.

But the question is not will there be development and will there be growth or will there be jobs, but will there be private development and will there be private jobs, and will that growth be widely shared on a just and equitable social basis?

Let us ask the question: Will these uncommitted and unborn billions shift to communism? Again let us be realistic. In my opinion the environment is almost ideal for the rapid extension of communism to these peoples.

Let me ask you: Who cares about capitalism that never holds any personal evidence of it? Who, without a job, worries about state versus private ownership? Does a Latin American mother whose child will die before 35 applaud because yours and mine will live twice as long under the widespread benefits of a distant and mysterious private enterprise system?

Take Mexico, one of our strongest neighbors. They have a private enterprise society. Her national production and wealth have doubled, perhaps tripled, in the last 20 years. Yet the lot of the average individual has shown little improvement, if any. A limited group of local and foreign interests in country after country have failed to take aggressive steps to extend the fruits of democratic capitalism to the people at large.

Now, the modern, widely owned United States corporation ought to be the very image of constructive free enterprise in the uncommitted world. How can it be such, however, when the overwhelming majority of United States private operations overseas are 100 percent owned in the United States by United States citizens, and when over half of our private investment abroad is held by a mere 45 parent United States companies, each with over \$100 million invested abroad?

To the local citizen, this is not a reimagining of the kind of capitalism we have here. It is an image of concentrated absentee ownership. Contrast the situation of our capital structure overseas with the situation in the United States, where individual private ownership is widespread. Twelve million direct shareholders today, and millions of others, through life insurance, profit-sharing plans, home ownership, and other means, share in the profits of our capitalistic system.

The lesson is that we have a double standard of capitalism. A different kind exists in our country than we manifest overseas, and the kind of capitalism that we have in this country--and this is the lesson we must learn--does not now exist any other place in the world. Nor can we export it by public relations, propaganda, or informational means, for private ownership cannot be established as an idea or a concept. Only where it in fact exists and produces tangible results

in the way of widely shared economic and social benefits will it be regarded as superior to communism.

The nationalization of business and industry does not come about solely by expropriation. Whether it comes about by expropriation or by original state development and ownership, it is found to be the constant handmaiden of communism. Pervasive state ownership, apart from cultural and religious factors, is probably the best tangible evidence of Communist success.

What is the handwriting on the wall in this regard? Just in the past few months you have all seen these warning signs: One billion of United States overseas capital taken over by Cuba. This is one-thirtieth, approximately, of our total overseas fixed plant. There will be no more private oil expansion in Venezuela--the government is taking over. The new steel mill there, built by the Italians, will be state-owned. There will be no private production of steel or steel fabrications.

In India there are four steel mills. Three are owned by the state and one is owned by private capital. Within the last two weeks the government decreed that there will be no further private expansion of the private mill. All expansion will take place in the public sector. India's first fertilizer plant, as a series of plants, is to be government-owned, also.

In Mexico we recently financed the creation of a state-owned truck manufacturing plant. Also within the last three months the Mexican Government took over the motion picture distribution industry and squeezed out the private power company, Mex-Lite.

Now, these are only a few illustrations. They come over my desk in multiples daily. They show the drift toward state ownership of what we consider private facilities.

To one who reads these ominous signs with care, they seem to be saying, "Go home, Yankee-type capitalism."

Our Latin American friends are not the only ones who plead and work for wider local ownership as a counterweapon to the growing threat of Communist statism. Even in industrial England within the last few weeks the House of Commons debated the question whether Ford Motor of England should buy out its local English stockholders.

And you will recall that in November the Prime Minister of Canada, alarmed by the 100 percent ownership features of American capital overseas, said: "Canada shall remain Canadian. We shall bring before the House measures to insure greater participation by Canadians in the control of our industries and resources."

The Volkswagen Company of Germany, recently moved from the public sector to the private sector, now has announced a plan to make every single one of its 65,000 employees a shareholder. And imagine this: The lower your salary, the less price you pay for shares, to become a part owner of Volkswagen.

Not long ago an official of an emerging African country said to me: "I think the best we can do here is a kind of state socialism, with most of the productive facilities and jobs going under government ownership and control." Unconsciously, this official was striking his country's colors in favor of Khrushchev's now famous economic declaration of war: "We declare war in the peaceful field of trade and economics, not with ballistic missiles but with peaceful production. Let the peoples of the world choose between us on the basis of what our systems give them."

In this uncommitted world of which I speak, the following five major factors favor the extension of world communism over private enterprise:

First, mass poverty and illiteracy.

Second, weak or authoritarian governments, or both.

Third, and most important, limited native capital and skill.

Fourth, the lack of an adequate United States policy and program for the purposeful private development of these areas.

Finally, a sinister and monolithic Soviet economic trade and aid offensive, aimed as a first goal at nationalizing all enterprise.

It is not that the less-developed nations want to side with Russia, for they have deep strains of private-ownership ideology within them; but they have fiercely mounting pressures, population and otherwise, for rapid industrial development and jobs, and precious little native

capital or trained workers. So into this vacuum-like environment the Russians and their satellites bring some very alluring propositions. They will literally put a plant in place, as in India, Iraq, and elsewhere, and not even ask for a down payment. Usually these are long-term credits at low interest rates, with good technology. The recipients of this seeming largesse are told they can pay for the plant in the far-off future with some surplus commodities to be produced locally. The Russian technicians stay on and live simply with the workmen at the plant.

Now, to people clamoring for development and jobs, few of whom have any knowledge of the risks or values inherent in private ownership, the Russian proposals look like the answer to a maiden nation's prayer, whereas our insistence upon private ownership a la 19th century gets described as ugly Americanism.

Former Secretary of Commerce Lewis Strauss hit it on the head when he said: "Through perverted trade, loans, military assistance, propaganda, and endless tirades against American capitalism, the Soviet dictators hope to wean these new countries away from the free world and into the camp of their communized tributaries." Thus, unless we act swiftly and decisively, communism will carry the day, and down will go capitalism, individualism, freedom, and all.

Despite these ominous circumstances, gentlemen, our national attitude and policies toward the uncommitted nations of the world have deemphasized the role of private enterprise. We have thus far failed to evoke its full potential in creating a privately owned and operated economy with broad citizen participation in the fruits and benefits of private capital.

Marxism--let us not forget it--has failed to gain a foothold in the United States chiefly, if not entirely, because of the fact that our privately directed genius has here destroyed the Communist myth that there is an irreconcilable conflict between private capital and social progress. This same genius is not being effectively used to fulfill the legitimate aspirations of our fellow men in the emerging and newly developed nations of the world.

Meanwhile, the Communists are hard at work. Each and every time they succeed in establishing a state-owned productive enterprise

in an uncommitted nation, they strike a blow against freedom. Five, ten, or fifty years from now, if the less-developed countries are fully developed, with state owned and operated facilities, we will have lost the cold war. Then it will make no difference who gave or loaned the money in the first place. If we did, we will then have financed the bullet that killed the private-enterprise goose.

If that terrifying time should ever arrive--and Khrushchev says it has arrived in Cuba--the chance to extend the kind of private system with which we associate our freedoms will have been lost irretrievably. Lost, too, will be nearly half of our \$30 billion private overseas plant which is located in these uncommitted countries.

The Russians now work relentlessly to this end. In 1959 they made grants and credits in excess of \$3 billion to underdeveloped countries, and their captive satellites and Red China made additional investments. The evil Red master-planners care not at all for human life or values as we see them but only for cold and totalitarian control of the world's manpower. Yet this is usually not apparent to the uncommitted recipients of this Red aid, since the Communists do not speak of control or regimentation, carefully avoiding any reference to the insidious philosophy that underlies their actions. Instead they speak of socialism, social purposes, and they promise faster growth, more jobs, increased economic strength, and social welfare to the people of these low-income countries.

A friend of mine, speaking of the truck plant in Mexico recently, said to me: "I find it hard to understand that the United States must loan money to another country to establish a state-owned automobile industry." Yet this is not a fanciful case. More and more our Government banks and lending agencies are being faced with the suggestion by local leaders that we must do it this way or the business will go to the Russians. Yet the prospect of using our resources to establish Russian-type business enterprises is nothing more than expropriation in advance. We may get the money back, but the system will remain to haunt us.

Let me not be misunderstood. A great many of our businesses abroad are carrying on constructive and purposeful actions on a thousand fronts. A prominent American company doing business in South America is selling land back to the local citizens in small parcels, agreeing to assist them technically to market their products overseas.

Other well known firms, such as Creole in Venezuela, U. S. Steel, and the automobile companies, are engaged in strong vocational training programs with local citizens for jobs in their private operations. Willys-Overland of Brazil, a Kaiser subsidiary, recently sold in a public offering 2 billion cruzeiros in capital stock to approximately 46,000 Brazilians. The International Basic Economy Corporation (IBEC), a private enterprise operation of the Rockefellers, has already established three mutual funds in South America, the portfolios of which consist of shares of stock of indigenous Latin American companies, and of American and other foreign subsidiaries, so that the purchasers of those mutual funds' stocks, which are like our Massachusetts investors, and so on, own a piece of the emerging industrial spectrum of those countries.

In the Willys case the sales were made practically on a door-to-door basis, with most of the purchasers having never owned securities of any kind previously.

Still other American firms have established in their foreign branches employee stock-ownership plans of the kind prevalent in many domestic United States establishments. These efforts help to sell abroad the real meaning of American capitalism.

However, most overseas subsidiaries of U. S. companies, as I noted at the outset, are 100 percent owned and controlled by the home office. Their stock is not available in the country in which they operate nor is it listed on any local exchange or over-the-counter market there. Frequently its balance sheets and profit and loss statements are closely guarded secrets. Regardless of what they really would show and publicize, regardless of the good or bad features of our operations there, the suspicion will ever lurk that United States capitalism is an ugly American, exploiting the resources of the country, making exorbitant profits, and shipping them home to wealthy United States citizens while poverty and joblessness rule in the land of their origin.

In fairness, there are many valid reasons why this type of closed control exists in many cases. Historically, there has been a dearth of local participating capital in these nations, which still persists. Frequently, too, the local participation takes the form of a big tax bite by the host government. Finally, the business environment itself there is a 19th century environment of closely held corporations of

very wealthy individuals and individual families, of the absence of any right of entrée into the business world, of the absence of any anti-trust laws--at best a seminoncompetitive cartel system, quite unlike what we have going in this country.

Then, too, the host government often wants a free hunk of the equity stock in return for the concession to operate. Again, local partners, uninformed and fed by propaganda or greed, expect unrealistic returns in their investments in many cases.

Finally, there has been no clear U. S. Government policy to facilitate broader ownership of U. S. firms abroad and to strengthen their hands.

Granting all of these formidable justifications for our present way of operating outside our own three-mile limit, the psychological impact of these closely controlled enterprises upon the local population remains very unattractive, abetted as it is by Communist cries of exploitation and imperialism. This is truly the story in Cuba.

When I asked one of our ambassadors about this situation, he had two observations to make. He said:

"Everything you say is true, but the policy of promoting a wider dissemination of stocks and other evidences of participation in private growth would have to come from top business and government people in the United States. Furthermore," he said, "these people here have no right to complain, because a lot of their major locally-owned enterprises are closely held by single individuals or families. How can they expect us to take the lead in widening the ownership of enterprise into many hands if they themselves will not follow this course?"

This is a very valid comment. The young Brazilian said to me in response to this same criticism that business leaders there are waking up to this problem and are beginning to take steps to diversify and broaden the ownership of their firms. His particular firm, which operates in four or five Latin American countries, has thousands of local stockholders. They have spun off a majority of their stock to their employees and through public offerings to others. He and others like him are striving to broaden the face of corporate ownership south

of the border and throughout the less-developed and uncommitted nations of the free world. An enterprise-minded government official at Sao Paulo, the mayor, took two weeks off to go around and warn American enterprises and Brazilian enterprises to widen their base of ownership, or else.

Coming to what our Government has been doing, in my opinion it, too, has pursued relatively nonproductive policies for the development of the less-developed and uncommitted nations. The fact is that all of us in the United States have a little bit of continuing Marshall-Plan-itis. It has come to be a kind of big hearted, if uneasy, feeling that the way to deal with all this is to have our Government step up its grants-in-aid and other overseas governmental actions. "After all," we say, "did we not help restore the cities, factories, and jobs of war-torn Europe in just this way?" Indeed we did, and we did it for a reason. The European society had long been a society approaching the type that we have here. Our problem there was to quickly restore governments, so we moved in that direction quite deliberately, and when we poured \$50 billion or more into Western Europe and Japan it was like giving a massive shot of vitamins to a devastated industrial giant.

Centuries before our Nation was founded, centuries before the rise of the Communist scourge, these people had a long-standing social and economic culture based on private ownership. Naturally, when the giant got well he emerged pretty much as he was before, a reestablished industrial society in which the citizens shared more widely than before in the fruits and benefits of private ownership.

This is far from the case in the new and less-developed nations of the world. They are in the process of change, development, and emergence, not restoration. Agrarian or even tribal in some cases, they have not committed themselves to the type of economic society on which we base our strength and freedom. Even relatively developed countries, such as Cuba, must be classed uncommitted and undeveloped, for the reason that the great masses of people have never shared adequately in the rewards and profits of the industrial development there.

Valuable and successful as our Government programs are, it is plainly fallacious to think that, whereas our own economic strength and standards of living were created in the main by a purposeful, free initiative of the American people, these same results can somehow be achieved mostly by direct Government aid, once we get beyond our shores and into the uncommitted countries of the world.

The continued feeling on the part of the people of the United States that this is a Government job stems in part, in my opinion, from the notion that this is a constant crisis that approaches a hot war, that accordingly there is not time to do it right, and furthermore that there is not enough security in going after doing it right in the light of such things as Cuba.

But Government activity as such, whether it be loans or grants or technical aid, or conventional diplomacy, or the security that we associate with our military operations around the world, cannot recreate or establish in these emerging countries the kind of economic society that we enjoy--private ownership, private jobs, and a populationwide sharing in economic and social development.

Yet I must say that in the recent Presidential election, new campaign promises for more U.S. Government aid to virtually every underdeveloped sector of the world flooded the airwaves, largely at the expense of any suggestion for new programs and policies to unleash the forces of private capital. Overlooked in these fresh promises to the governments of India, Africa, the Americas, and elsewhere is the simple proposition that private ownership and development have always sprung chiefly from private initiative, and not, Minerva-like from the forehead of Government planning.

The plain fact of the matter is that the Government cannot and should not be the main instigator and architect of private development which, in the last analysis, must be tested in the marketplace by people used to dealing in the marketplace. Otherwise the end product will turn out to be more foreign aid, more government-to-government transactions, and, finally, the horrible eventuality of Communist triumph.

It is not my intention, gentlemen, to suggest that some of this additional government-to-government aid may not be required. Certainly, private enterprise cannot carry the whole load of building non-earning facilities, such as dams, and roads, and grade schools, and the like. However, it is abundantly clear that we must establish a new national policy with regard to the uncommitted, lesser-developed, and low-income nations in the free world under which we can give our private sector and theirs a clear chance, which they do not now have, to show their capabilities under ground rules which serve broad social purposes.

We, or course, have no nonresident hunting license to go around shooting down other people's ways of life, not any prerogative to impose our kind of system on any nation; but we do have the right, and, indeed, the obligation, to establish our own governmental and business policies in such a way as to best compete with the growing tendency to state ownership and ultimate communism.

It is quite true that private enterprise runs as a strong theme through many of our governmental aid and lending programs. The Development Loan Fund, the new Inter-American Bank, the International Cooperation Administration, and other charters contain a strong private enterprise plan. Furthermore, the administrators of those programs labor diligently to promote private enterprise and to link it with their aid and loan transactions.

It is also true that more and more business and government leaders are today emphasizing the need for a more constructive role for private enterprise in the cold war.

Stephen Bectell, of Bectell International, one of our foremost international leaders, said at Asilomar, a conference I attended last year, "Private enterprise can and must do the main job in the development of these countries ."

Our own Clarence Randall says in his book, "The Communist Challenge": "We must struggle to keep new nations free and open to private enterprise."

In a recent article Governor Stevenson suggests means for Latin American development, recognizing that "ways will have to be found, such as partial ownership of these U.S. companies by local nationals, to integrate American firms into the national economies, so that their continued growth will be welcome and not provoke more nationalism."

The Congress of the United States itself, in enacting the statutory charter of DLF, which makes loans to lesser-developed countries, payable in nonconvertible currencies, included a ringing declaration in favor of private enterprise.

"It is the policy of the United States to strengthen friendly foreign countries by encouraging the development of their economies through a competitive system of free enterprise and to facilitate the creation of a climate favorable to the investment of private capital."

The same is true of the charter of the new Inter-American Bank, in which we are a partner with the other nations of the Americas. Our foreign aid effort, administered by the International Cooperation Administration, includes an office of private enterprise overseas, which endeavors to promote private versus state development. It also can insure United States investments against expropriation and other special international risks, provided our State Department has first succeeded in negotiating a treaty of indemnification from the host government. It has had some success, but relatively the program is little used.

Parenthetically, a further fundamental weakness of the program, apart from the prerequisite of indemnification and other limiting factors, is that it does not require the insured to adopt practical measures in the way of local equity participation and otherwise to advance modern capitalism and protect against the insured risks themselves.

We in the Department of Commerce and in other public and private agencies across the land work to improve the environment for doing business abroad and to disseminate information to American business. Then a number of tax measures have been proposed to give business overseas a tax break. None of any significance has been enacted, the latest being the so-called Boggs bill. None has suggested the idea that, if you are going to get a tax incentive overseas that differs from the type of tax treatment that you receive here, and if you are going to be protected in the process, there should be a price that should be paid for such benefits stemming to overseas U.S. industries.

We have many private development banks, foundations, and other organizations working across this front, and I say, with all this recognition of the importance of the private enterprise role, why all the fuss? The fuss is due to the fact, in my opinion, that private enterprise, our kind of democratic capitalism, is under attack on every front and is in deep trouble. The fact is that our policies and programs in this field are plainly inadequate and urgently require revision.

Here are some of the principal reasons: We have acquired a national habit of putting Government aid first and Yankee enterprise second. As a result our Government programs to protect and promote purposeful private enterprise overseas are diffused, insufficient, and

ineffective. Foreign economic development offices are scattered like leaves through our Government agencies and banks. To give two examples:

Whereas Commerce has a close, natural relation to our business and industry community, the official directly responsible for private investment in each foreign country is the head of our country's foreign aid team there. He reports to Washington through the International Cooperation Administration, the operator of our foreign aid programs. This office contains a small private enterprise office that reports through a labyrinthine structure to an Assistant Secretary of State for Economic Affairs.

Take our Foreign Economic Policy Committee, on which I sit, in the White House--a vast interagency web of people interested in the subject of economic development overseas write papers on the subject, with avowedly, however, no authority to make any decisions, and so on.

But **this** is not, in my opinion, a mere matter of organization by any means. The key to the solution, in my opinion, is that we must now link together the idea that special and stronger U.S. Government benefits and incentives to our businesses operating in these areas overseas should be offered, and offered only, in exchange for business conduct overseas that serves a constructive national purpose. The result of our failure to have done so politically is that we have not been able to offer in any significant sense the needed protection and benefits to our risk-exposed enterprise overseas, and the foreign expression of our dynamic and democratic capitalism either lacks clarity of purpose or is downright hurtful to us.

The first thing we must do is to establish in the national mind the proposition that our number one policy in the development of these emerging nations is the advancement of free and private ownership and jobs. Then the roles of Government and business must be clear and constructive and mutually supported. All of the rest will flow from that, in my opinion.

I would propose that the Congress of the United States, with the firm support of the President, now enact a comprehensive statute, perhaps to be described as the Forge of Freedom Act of 1961. It

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should be clear that our primary foreign policy with regard to the lesser developed and uncommitted nations of the free world is to assist them to develop a sound, growing, privately owned and privately operated economy, and to this end that United States enterprises, provided they operate in these countries in accordance with the constructive policies set forth in the act, will receive in exchange adequate U.S. Government insurance against special international risks and--this is most important--United States Government insured credits, through private banks, for the financing of locally owned equity shares, these guarantees and credits to be chiefly administered by private United States banks.

The enactment should then spell out certain details. In essence, the Forge of Freedom Plan contemplates a new package of United States Government inducements and guarantees to United States firms doing business in the less-developed areas, in exchange for which the private firms will make available to local individuals and employees a substantial equity participation, and will provide training programs to develop local management and productive skills.

The salient features of such a law might be--first on the part of the Government: The Government would provide insurance against special international risks, such as expropriation, to be issued in qualifying cases by duly authorized private banks. This would do away with the necessity that our Government go first to the host government and ask it, "Will you please, if you expropriate our properties there, agree to pay us back?"

Government insurance of a percentage of private bank loans to qualifying enterprise to be issued by private banks in like circumstances.

All of those benefits or inducements, or both, to be offered only providing that the particular enterprise meets the qualifying conditions stated below.

Those are, first, an assurance on the part of business and industry that a given percentage of the investment will be owned locally, either through direct local purchase of equity or through financing of such purchase by the enterprise out of profits or otherwise.

Second, assurances that a percentage of the equity ownership of the enterprise will be set aside for employee acquisition under specified criteria, similar to those prevailing in a number of domestic United States concerns.

Third, assurance that the enterprise will participate in an approved indigenous training and education program designed to create a body of skilled managers and workmen in the field of endeavor in which the enterprise is to be engaged.

Fourth, there should be provision whereby enterprises already established in such countries could qualify by meeting these specified criteria.

Fifth, provision for the paying of insurance premiums by United States enterprises operating abroad to defray the cost of administration of the insurance program and any possible losses. Many of you are familiar with the V loan program. This Nation is accustomed to expanding its plant by Government incentive, by Government reinsurance of loans, provided the new capacity to be brought into being meets a national purpose--which at that time, of course, was associated with war expansion.

The advantages of such a program as this would include, I think you will recognize, stimulating personal identification of the local population with the economic, social, and political rewards of a privately developed society; enlarging the educational standards and purchasing capacities of indigenous people; countering the tendency toward state ownership of productive and business facilities, thus working against the Soviet objective; discouraging expropriation and discrimination; offering, perhaps, the best chance for private versus socialized economic development; and supplanting, by the way, balance of payments drains in the way of direct grants and government loans.

Let me say here parenthetically, despite much rather loose writing on this subject in the newspapers, private long-term investment overseas of the kind about which I have been speaking, unlike direct Government outflows overseas, is not a dollar-drain villain, as is sometimes charged. Our return from our private investments

overseas, year after year, equals or exceeds our annual new capital outflow.

This program would be strictly confined to the lesser-developed countries falling within carefully specified criteria. In other words, we see no need to stimulate further plant development in Western Europe. It will take place to a degree quite naturally, but it does not require this kind of stimulant.

Executive branch organization for dealing with United States private investment overseas, now widely diffused, would have to be made the central and sole operating responsibility of a high official.

I think, gentlemen, that only by a dynamic program of private, broad-based business action along purposeful lines, guided by government, can we stem the tide of state ownership and communism. Only thereby can we find a sound, long-range solution and an alternative to ever-expanding government-to-government aid.

As a nation, we must make these hard and realistic choices if we would put the horses of free enterprise out ahead of the carts and tumbrels of communism, thereby offering to the uncommitted peoples in underdeveloped lands the promise of strength and freedom which is our own heritage.

Thank you very much.

CAPTAIN BURKY: Mr. Ray is ready for your questions.

QUESTION: You mentioned in your talk that the problem of developing policy that would make possible the increase of private ownership abroad is not simply a problem of organization. I wonder if you could explain or comment on a little bit in detail what you think has been holding up the formulation of this purposeful policy that you say we are lacking?

MR. RAY: I think it's a combination of several things. First, in the postwar period we centered our attention on Western Europe and there we had some huge political and economic objectives which diverted our attention, I think, from these lesser-developed countries which were still then operating pretty much under the trade and capital liberalism of the 19th century.

Then, as the crisis deepened, I think we tended to think of it--and I am not talking about parties or agencies of Government but as a nation--as a crisis problem.

Private development just can't take place quickly, because it must take place naturally, and we haven't gotten around to convincing ourselves that we have enough time to do it that way. In my opinion, we have to use all of our Government resources as an umbrella to protect that time and take the time to do it right. I don't think we have come to that national point of view. And I don't think that this is a criticism of Government or of business. Business, after all, as I said, or tried to say, had to go into these countries pretty much on the basis on which they were invited to go and on the basis on which business is conducted in those countries, which is about a century behind the way we do business in the United States.

So that the Government hasn't felt particularly keen about pushing that kind of private enterprise overseas, and politically it has been impossible to get the right kind of protection for it. What I am suggesting is, let's get the protection and make it very clear, but let's have a purposefulness on the other part so that it will help Government. Government can hold itself to crisis actions and start to build a sound private-development picture overseas.

QUESTION: Mr. Secretary, would you care to discuss the profit motive that causes American business investments in overseas areas and how this profit might be reduced by your proposed plan, and how you would go about channeling American investments into areas which would be the concern of the Government--in other words, into the less-developed areas, where profits might not be so prevalent?

MR. RAY: That's a fair question. First, as to the profit motivation, some of you may have seen a recent "Harvard Business Review" paper which took a survey of our major overseas enterprises. The majority of those reported that their net profits from overseas operations were more than twice those of the comparable domestic operations. One of the reasons for that is that's the tradition in these countries. The other reason is that, since they are taking these special international risks, they feel they ought to make a special profit.

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I think if our industry was more at ease about this and felt better protected against unusual international risks, they wouldn't be deriving that kind of profit and that some of that profit could go, as it has in this country, into a wider sharing of economic benefits, which in turn, of course, means better education and all of those things which would raise the level of the intellectual and economic standard of the individual.

As to the channeling, I would like to have you think of the spectrum. On the one hand is what we do now, which is a little bit of protection, and do it any way you want. At the other end of the spectrum if you think of a Cold War Production Board and think of what we did in the NPA in Korea, or in WPB in World War II, we could get industry drawn into the cold war and have a Cold War Production Board, have huge advisory boards, and start developing country plans, and go in and provide the capital, and do those things that are necessary in a private way.

What I am suggesting is something in the middle of that spectrum. I think myself that, if you go to this end of this spectrum, I don't think it is succeeding, and, if you go to this other end, it seems to me that we are saying we will give up our freedom for a while in order to prove that a free system will work in an economic struggle with communism. I don't like having to say that.

So, admittedly, in the center of this spectrum, you take some chance that areas don't receive development, because, no matter how much capital you liberate on a V loan basis here, there still aren't the resources or the consumer capacity, and so on. These would have to be dealt with as some kind of exception.

But I say, let's do the best we can to make it purposeful without distorting its essential freedom.

QUESTION: You talked about a representative in one area, in Brazil, I believe, going around talking to industry about broadening the base of ownership. I guess it is desirable for the people down there to own stock, but, what would it mean to them to restrict this profit within the country and give it to the people in the form of more immediate dollar benefits?

MR. RAY: I feel from what I have seen that, particularly the younger elements of many of these lower income countries are

beginning to get scared, too. That's what this group that came to see me was talking about. So, if we would take the right kind of leadership, I think we have some chance that it would feed a flow into their economies and they would begin to react to it. That's the only way, I think, that we can get people in those countries to take this action.

I think you all realize that South America is still pretty much a closely controlled country. You put your finger on a very basic point, and that is the tax structures in many of these areas. It still comes out of the individual or a share of his corn. We all know people in Brazil and in Mexico who make large fortunes and pay no income tax whatsoever.

Again, I would hope that if we would take the leadership in talking about shared fruits of capitalism, act that way and recreate our system, that we would induce a constructive action on the part of others. Then, too, I think that in Cuba, and all those places, the younger people in South America, the younger leadership people, and elsewhere in the world, are beginning to think that maybe their ways haven't been exactly perfect.

I talked to the Finance Minister of Mexico last July and he said, "The thing I admire most about your country is the income tax. We can't have one, because we have these deep-seated views about taking it home in privacy, and so forth."

So they are starting to find some new kind of tax system that will be progressive and in effect will contribute to raising the standards of living.

I by no means want to suggest that this program is the whole solution. I think we have to use all kinds of diplomatic exhortations and everything we can do to make people in leadership roles in these countries realize that, if they want to have a private capital system--which they do--they won't lick the Russians with the one they are working on now.

QUESTION: You stated that the new countries must industrialize or starve. Since most of these countries have no industrial base and their people are oriented to agriculture, would we not have better

effects in the long run if we tried to assist them in establishing prosperous, middle-class, agrarian societies, rather than help them to industrialize?

MR. RAY: I think that is part of the Rostow theory of moving in stages. I don't mean to say that we don't have to have a sound approach to the agrarian problem, but I look at the figures and find them appalling. We have many countries in this world where the people sitting on the farms have eight children, and they can't divide the farm any more. When you think we are going to double our world population in 35 years, you are going to find, I think, that there is going to have to come a much more urbanized and industrialized society. But I don't disagree with you that we should have a sound agrarian approach. I don't think of it as a phase. It's quite an automatic step.

QUESTION: The underdeveloped countries are usually indicated as having annual incomes of less than \$300. The question is: In how much income like that is there a capability for investing in shares in large corporations? How do you get it going in a country where the people have a far less annual income?

MR. RAY: The thing you talk about first is creating a job. Those jobs I think are going to have to come, chiefly in industry, not in agriculture or the services in these countries. Admittedly the people have very low incomes. If you had a requirement, or a condition, rather, for widespread employee participation in profits--stock ownership or trusted stock ownership--you would have a start. Then as another condition you would require that--and most of these countries are starting to require it anyway, incidentally--if they came in you would want to have local partners, because otherwise you couldn't handle it politically, because you don't like 100 percent U. S. subsidiaries operating in your country.

You can't find in many countries people, as you stated, with that kind of money. So you are going to have to finance them. One of the things I am suggesting is that a condition of your getting the protection, and so forth, would be that you would, through Government-guaranteed loans, not merely be protected against international risk but against all risks up to a percent of the capital loaned to create local partners.

The need is to find a method of generating private equity capital to be shared on a publicly offered basis in that country. It is not

merely a piece of paper. I think everybody strives for some kind of ownership which allows him to share in the fruits of his nation. Historically, the ultimate evidence of that ownership has been the land. But, with the population factors that you are looking at, you are not going to have that evidence available, and people will, in my opinion, if they can see it, turn to a job in a plant in which they share in the profits, rather than one that the Russians hand in there and they go to work for the state.

QUESTION: Sir, would you discuss the effect of this on a national policy of employment in the United States? As I see it, this may mean competition for limited markets, which may cause unemployment here.

MR. RAY: In the first place, I believe that, if we were to take the leadership in this desire for rapid industrialization of these nations, we would not be destroying jobs here at home; we would be creating them. It would be our technology, it would be our fabrication, it would be our enterprise. I think we tend at times to think of our country as having a domestic problem that is clearly distinct from its foreign aspects, but I think that one of the things that we need to realize is that we have to have an enormously free play of capital around this world, and, if we can have a freer flow of capital and a freer flow of trade, we can learn to be competitive within that total picture.

Our trouble is that, during the postwar years, when there weren't any other sellers and there was no Red economic offensive, it became fashionable to increase our costs, because we had all the markets anyway, and not many people could buy things. Our present problem is one that we have restored our industrial competitors, and we have a cold-war competitor, and we are pretty high up in the price and cost of things.

The way to keep full employment in America is to be totally competitive in the world, and I think we are learning that. I saw the latest Gallup poll showing the spectrum of voters' preferences from 63 percent to 9 percent. The first issue, the one that most people answering the poll thought was the most important, was to prevent any further inflation or rise in the cost of living. If we can control inflation we can compete in this world, and we can have a free flow of people and a free flow of capital and a free flow of trade, or as free as we can possibly achieve. But we are a long way from that.

QUESTION: I am impressed by what you have said, but I am also disturbed by the remarks you made in that the present Administration and Congress have not appeared to supplement your philosophy that business necessarily waits on the Government to remedy its ills. I wonder if you would tell us who is holding up the works, in other words.

MR. RAY: I am afraid part of it is just an ordinary human failure on my part. Although I have been working on this for quite a while, it hasn't been very long since I, at least, thought I saw a method of going at it. That, of course, comes coincidentally with the last days of the Administration. I think that there is a very deep desire on the part of this country to do something like this. I have talked to a number of groups and I think that business wants to be purposeful.

First, they are scared, and, secondly, they want capitalism to be thought of overseas as a constructive force, and yet the average medium-sized businessman can't go into one of these environments without somebody backing him up.

Finally, though, and beyond all that, I happen to be one of those people who believe that our real, basic governmental purposes come from the people of the country, and it just isn't there yet. The problem, I think, is to get it into the consciousness and the minds of the people of the country, and then it will come back to Washington.

QUESTION: I wonder if you can tell us, sir, how you can apply these principles in a country like India, where the government seems determined to channel new investments into the public sector, and where they say quite frankly that their goal is a socialistic one.

MR. RAY: There is a tremendous private sector in India. I mean there are huge empires, like Tada and so forth. But again, to me they are operated about like worldwide industry was conducted in the days of the British Empire in the 19th century, when labor was merely a commodity and capital was where you could find it. These were the days of liberalism and a free flow of everything.

The reason India is in a tortured position about what kind of an economy it wants is partly due to the fact that its own private sector is not constructive. So, rather than have constant attacks on that they compromise and try to build a mixed society.

So I think it would be very helpful in India if purely private U. S. capital would offer itself through U. S. Government credits to a warmer and more modern development of private capitalism.

You can't guarantee success in these things, and you can't guarantee it every place, but I say we've got to give it a chance.

QUESTION: Don't you think that one of the problems is that these countries need the industry to move in, yet they fear that they can never get rid of it once it comes in? There are Anaconda Copper and United Fruit, and there is no money available to ever buy them out. They think they've got them permanently. I think that is Canada's fear right now--that eventually all its big industry is going to be owned by persons outside of the country and Canada is never going to be the possessor of it. They use Canada's resources and use its labor, and Canada never gets the real profits back. When you get really big businesses in these countries, the theory is that they are never going to get them out. It seems that we should limit our private enterprise efforts overseas.

MR. RAY: I had not thought of limiting the size, but I certainly think there should be an implicit limitation upon 100 percent ownership, because that creates the feeling that you are going to come in and dig a hole and take it all home.

I have observed that in talking with many people with governmental positions in these countries, and I am sure that many of you have. There is a growing insistence that you don't go there at all, big or little, unless their citizens have a hunk of it. So what I am suggesting seems to be fitting into an emerging environment in the host areas.

Certainly in Venezuela today you can't put in a shoe plant without local participation of a very substantial character. This is true of Mexico and it is true by and large in all these countries.

They are asking for an impossible condition unless we can find a way to generate the capital for their participation. This is why Brazilian interest rates are 20 and 30 percent. They are moving so fast toward industrialization that they don't have the capital with which to do it.

QUESTION: Mr. Secretary, I would like to ask a question about the different areas for private investment of our United States companies abroad. I am thinking particularly of areas in the Far East.

MR. RAY: I tried to say that what I was talking about was strictly confined to low-income, lesser-developed countries, spelled out with very careful criteria. What I see is, first, a limitation that confines to the areas you are talking about. Secondly, whatever your bundle of benefits is, it should be good enough to induce capital to try to go in these lesser-developed countries. There should be conditions requiring going there a la modern capitalism, and not in a way that I think gives the Communists a great advantage over us.

QUESTION: Mr. Secretary, the idea sounds very good to me, but it seems that we ought to be able to apply it to some of the existing holdings of U. S. industry overseas, so that some of these countries would not feel that U. S. industry is exploiting them, and the growth of American industry would be acceptable to them, provided they had their share of it. Would you comment on that, sir?

MR. RAY: In the quick rundown of the nuts-and-bolts statutory approach to it, I have contemplated that existing enterprise overseas could back into these benefits--you see what I mean--by retailoring their operations to meet these criteria. Again looking at this spectrum, I suppose you could order them to do it. I have tried to find a way to start which is a kind of a candystick way, rather than a compulsory way, in order to get purposefulness without paying the price of the loss of essential freedom. Maybe you will have to finally come to something closer to this end of that spectrum.

QUESTION: Mr. Secretary, I take it that you favor free trade. What are your views on tariff quotas and reconvertibility of currency to follow?

MR. RAY: I am all in favor of moving in that direction and always have been. What has happened to us in half a century in this world is that we have moved from relative free trade and free competition and a free movement of capital, with a single convertibility into sterling and gold, into areas of complicated convertibility, nonconvertibility, and a constant nationalistic struggle, with the idea that "my balance of payments can beat your balance of payments." I think we

should move away from that as rapidly as we can, without losing our social objectives, into a freer flow of capital and trade.

I can visualize that if America would take the leadership in such a plan as this, it wouldn't be long before other industrial nations--if it worked--would find themselves saying, "I am scared, too, and I want to get with it." We wouldn't be the only fellow, in other words, who was going around trying to develop everything. Our leadership in being purposeful would pervade in the free world.

QUESTION: Mr. Secretary, a number of the underdeveloped countries have highly nationalistic feelings and I think would turn very hesitatingly toward taking foreign capital of any sort. At the same time they are not pro-Western oriented, but at least they are not in the Russian sphere. I appreciate that state-operated plants would lead and have led to communism, but it seems to me that we have to examine that to see if it is true. I wonder what you would do in countries like this. Would you offer some kind of government there, or would you just leave them alone?

MR. RAY: Let me say before answering that question that I don't think we should have double standards. I don't think we ought to shove our system down anybody's throat, but I think we ought to make every effort to assist them to create an environment in which it can succeed. Having said that, I am sure there will be areas where it can't be done, where nevertheless we have critical political considerations in dealing with it. Government is great at this. This is where they should be picking it up, where it can't be handled through the type of action that will recreate our system.

QUESTION: There are other reasons why capital goes overseas. One is to take advantage of cheap labor. If you try to improve the welfare of people who are providing that labor, that means higher wages. Will not that discourage capital from going overseas?

MR. RAY: Capital will always go if they can make a profit. Our hope is that we can maintain our costs, if you will, our prices, and whatever makes them up, at stable levels, and won't get into a spiral of inflation, so that we can hold still as the standards of living, and so forth, rise in other nations, and get more of a parity. But that's going to be a long time. I think that all kinds of business can find a

profitable environment in these areas. But the average businessman is not going to go--let alone purposely, he probably won't go at all--unless he is protected against special risks, and he can find some method to get his banker to say, "I'll put up the money to generate equity capital there on the ground."

QUESTION: Mr. Secretary, would you say in general that the Financing Freedom Act of 1961 which you describe would be a sort of substitute for what we now call foreign aid?

MR. RAY: No. I don't quite look at it that way. I do look at it as a long-range alternative, but, if you are suggesting that we enact this and wrap everything else up, I am not suggesting that. As a matter of fact, I tried to imply that perhaps in the short run we might have to go along with certain increases in aid, but I would suspect that the main attribute would be that we have a government-commercial combine, trying to recreate in fact what we have here, and have government dealing with those things that are more immediate-crisis things or basic planning, things which private industry can't handle, like roads, and so forth.

QUESTION: Mr. Secretary, we have heard from many speakers who were approaching different problems in which we were in conflict with the Communist world that our lateness was due to our democratic process. What you propose is obvious, because the next Secretary of Commerce, Mr. Stevenson, and others, have even published that it is a problem. Therefore we should recognize it. I am a bit apprehensive that the ICAF Class of 1967 will be told, "Yes, we adopted it, but a little late." It's the same answer--our democratic process. Do you care to comment on this?

MR. RAY: It is that process which gives us our freedom and the struggle really is--Can we make that survive? It isn't easy when the problems are so formidable even if there were no cold war, but when you overlay that with a monolithic attack on our system in all these countries lacking any strong economic or social pattern, this could become very difficult.

I for one am not prepared to go very far in abandoning our democratic process to prove that a free system can overcome an authoritarian one, because then I get into the horrible dilemma that I am not willing to accept. Of course that's what we do in war, and we are in

war. So there is a certain inconsistency in not saying: "Look. Let's return to our system of freedom some other time, but let's get at it right now and move."

I'd like to try something in the middle of that spectrum.

QUESTION: If we are at war, this demands action, and I think it's away too much to expect to reach the public, for instance, and give them incentive to go to their Congressmen. We try to do that in the services all the time and we don't get anywhere. So it seems to me that we've got to short-cut that and get to the Congress and have some kind of session where you will lay it on the line and say, "Gentlemen, here is what we are going to have to do," and enact this type of program and get along with it, because time is of the essence. Will you comment on that?

MR. RAY: I sure agree with you. I am willing to accept any suggestions for selling it to anybody. I believe, however, that we are a political mechanism. We are not about to change that. I suppose that if you were to say to our country: "Let's get at this. Let's have wage control and price control, let's have industry committees, let's have country committees, let's develop country private development plans with Government standing over us, let's have little business in it and big business too. In other words, let's mobilize as if this were a shooting war," you still have to go and ask the public whether they will permit it.

QUESTION: I went back to Minnesota last summer and I tried to engage in conversation with men who were executives, earning \$30,000 and \$40,000 a year, and they said: "Hey, listen. That's what we hire our Congressmen to worry about, and we have the military to worry about the President." They are worried about their boat next summer and their vacation. I think when you are talking to that strata and you can't carry on an intelligent conversation, how can you convince John Q. Public that he should rise up as a constituent and make each Congressman act.

MR. RAY: I certainly agree with you. I think that we expect Congress to take the leadership. We expect our President to take leadership, and we expect our executive departments to take leadership. What I was trying to say somewhere down the line was that I

think that we are not quite clear as a nation as to what we want to do, and this uncertainty gets reflected in all the government mechanisms.

CAPTAIN BURKY: Mr. Ray, we are all sorry that our time is up. It has been a real pleasure having you with us this morning. On behalf of the Commandant and the class, thank you very much for your outstanding contribution to our course of study.

MR. RAY: Thank you.