

The Economic Club of New York

Some Problems of Private Enterprise  
in a Dividend World

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March 6, 1962

Hotel Astor  
New York City

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Mr. Chairman, Your Excellency, Gentlemen: It is a privilege and a pleasure to have been invited to speak to this famous and influential club. But I must confess that when I looked down the list of distinguished speakers who have addressed you in the past, my diffidence in accepting the invitation became the greater. I cannot claim and shall not try to be as stimulating as Mr. Robert Kennedy, or as provocative as Mr. Khrushchev.

The shoemaker should stick to his last, and as one who has spent all his business life in international industry I thought perhaps you would allow me to talk to you about some of the less recognized problems which affect private enterprise in this troubled world.

It is a divided world. And in two ways. There is the division between two main political blocs, with competing ideologies of democracy and free enterprise against dictatorship and communism.

There is also the division created by great economic and social contrasts between the older, more developed countries on the one hand, and the emerging less developed countries on the other. These latter countries, rapidly taking stock of their capabilities and their needs, may seek

alignment with one bloc or the other, -- or may pursue an independent course. The course they decide to follow is a matter of vital importance to the free world, one which will be influenced by the part which private enterprise can play in assisting the development of their economies.

It is an over simplification to think that the choice before the developing nations is one between the way of life of the Soviet bloc or that of the free world, or that it necessarily involves political alignment with either. The countries which have achieved or are on the way to achieving independence have at least one thing in common. Having emerged from one form of political tutelage, they are not anxious to accept any other, from whatever quarter it may come. "Non alignment" is the course they want to follow, and that is fair enough. But what they also want, and understandably, is prosperity.

**THE COMMUNIST ALTERNATIVE:** The Communists claim to offer an alternative to the time tested ways of private enterprise and initiative by which the developed countries of the free world have built up their prosperity over centuries of effort and growth. The Communists do all they can to persuade the peoples of the new countries that their route is the best and quickest to prosperity and power. Their propaganda is immense. They can concentrate effort and money on the more spectacular kind of achievements in a way not practicable in a free society. It is a variation of the "guns before butter" policy of the Nazis.

They make the emerging nations aware of Russian technology, ceaselessly stressing the tremendous material development achieved in 40 years despite the devastation of the Second World War. The peoples of the less developed countries are impressed and see no reason why what has been achieved in some of the Communist countries should not be achieved also in their own.

Nor does the fact that in many of their countries foreign business enterprises have operated with success, bringing great benefit to the economy, scrupulously observing the local laws, and behaving as good citizens, necessarily pre-dispose the peoples of these countries in our favor. Foreign private enterprise is too often associated, wrongly, with foreign political domination. Perhaps as a result many of the new governments are devoted to state enterprise in the mistaken belief that only this will bring them true independence.

There is no doubt that the Communist states, in carrying out their ideological and essentially imperialist aims, are directing their activities particularly against private enterprise and big business, most of all against big international business. They know that the main barrier against their own political advance is the successful operation of private enterprise. And so they do all they can to impede and destroy the free enterprise system. They distort its aims. They misrepresent it as avaricious monopolistic imperialism -- dollar colonialism. They insist that it is incapable of their own spectacular achievements which they advertise so well.

This challenge has not succeeded in the mature and developed countries of the West. It should not succeed in the emerging or less developed countries. But we must realize that this is a part of the conflict between the free world and international Communism. Moreover, it is a part which presents free enterprise with special difficulties because the attack against it operates through political as well as economic channels.

The peoples of the emerging countries as I have said want prosperity -- and want it fast. For them the belief that life at subsistence levels need not be the inexorable rule for the majority of men and women is a new idea. The idea has an explosive quality. It has been called the "revolution of rising expectations." A revolution it certainly is and no government of any new nation can ignore its compulsive power. It is inevitable, therefore, that there should be frustration, irritation, tension -- even in extreme cases political explosions, -- when it is realized that independence does not of itself necessarily bring this prosperity any nearer.

It is in these circumstances, and in this economic and social field, that the Communists are trying to destroy the private enterprise and democratic systems against which they are united.

TWO DEFENSES - AID AND TRADE: Against the Communist attack we in the free world have long recognized that the economic defenses are aid and trade. But as the struggle goes on, the question we need constantly to ask ourselves and keep under review is whether we are deploying our resources to the best advantage.

Let me deal first with aid. Here, as I have good reason to know from first-hand experience in the Netherlands during the period immediately after the war, no country in the history of the world has been so generous as the United States. By contrast with the Western effort the total flow of funds from the Soviet bloc to emerging countries from 1954 through 1960 amounted to less than was contributed by the Western world in one three-month period. But the Russians are adept at making a little go a long way politically. They have deployed their aid to their own advantage, concentrating it on projects which they believe will do the maximum of damage to private enterprise. The developing countries, of course, feel free to take aid from any source. If they think the aid will promote their economic development they tend to close their eyes to its political implications.

But while aid from the governments of the developed countries or through governmental agencies is essential to winning to struggle, it will not win it alone. Large as it is, it can never be adequate to the needs of others, nor can we be sure that it will always be used in the best way.

Aid from the Western Powers has been largely without strings. But the attitude of delegates to the Belgrade Conference of the “uncommitted nations” last year certainly suggests that such generosity does not necessarily win either friendship or influence. The giver is seldom quite forgiven and “loan oft loses both itself and friend.” Certainly we should not imagine that aid will

make the recipients love us, or persuade them that our kind of parliamentary democracy constitutes the only system of government in which freedom exist.

THE ROLSE OF PRIVATE ENTERPRISE: Aid is not in itself enough. I sometimes wonder whether our Western governments make it sufficiently clear to the emerging countries that aid cannot be and is not meant to be enough. Its object must be to set in motion or give impetus to the receiving countries' own economic effort. The ultimate and indeed the primary responsibility for attaining economic development rests with each community itself.

Foreign aid will assist in building the so called infrastructure without which industries cannot develop. This vital, since really rapid advance towards the prosperity for which the new nations are striving depends upon the development of industry and trade. It is here that private enterprise must play a vitally important part. It is here that the Governments of investing countries, particularly the United States and Western European nations, could, I venture to think, do much more than they do to emphasize the role that private enterprise should play. Governmental aid and private foreign investment are necessarily complementary to each other.

Indeed the Communists recognize the accomplishments of private enterprise. That is why they attack it so bitterly. In the past year or two all around the developing countries one propaganda theme has been advanced with more and more vigor. The theme of neo-colonialism; the

argument that the colonialists may seem to move out politically but will come back by means of economic penetration.

This is the kind of image which our opponents paint of us. We shall not change the image simply by making more private investment, or by increased quantities of foreign aid. We can banish it only by countering with the correct image. Here governments can help. Given a sustained program, in which the roles of private and of governmental investment support each other, we could within a decade make nonsense of the Communist lie that capitalist states are mere colonial exploiters. For the plain truth is we can help these countries, upon whom much of the future of freedom in the world depends, to raise themselves to a far higher economic and social standard -- with freedom as well -- than the Communists have any possibility of providing.

So far, we must admit, the combined flow of official and private capital to the emerging countries has failed to produce as great an impact on their development as one might have expected from the magnitude of the figures. In the early fifties the total annual flow was about 3-1/2 billion dollars per annum. By 1960 the flow had reached 8 billion dollars, to which private foreign capital contributed over 3 billion.

But although industrial production in the developing countries rose by more than 6% per annum, the actual wealth of the individual members of these communities improved by barely 1% per annum. Much of the impact of development was in fact being lost through the sheer size of the

problem, through the rise in population, through the downward trend of commodity prices, and -- I venture to suggest -- through the inadequacy of the infrastructure on which the development had been built.

The real way to a rapid advance towards the prosperity these countries seek lies in the development of new industries, with increasing diversification as development proceeds. This will free them from undue dependence upon one or two basic commodities and will promote a broadly based economy. Where local capital is available it should be encouraged to come forward, in suitable cases in cooperation with foreign investors. But quite often there is no local capital. In all these countries the rapidity of economic advance and industrial development depends upon the extent to which foreign private investment can be attracted and stimulated.

By creating the conditions under which private enterprise can operate effectively, governments of these countries would be practicing a real and practical form of self-help which would strengthen their economic and political independence -- the very opposite of the "economic domination" theme preached by the Communists.

THE EXAMPLE OF THE OIL INDUSTRY: May I turn from the general to the particular, to the example of the oil industry? I do not pretend to speak in any spirit of pure altruism. Those who engage in private enterprise do so to make profit. But I do speak in the absolute conviction that our continued ability to make profits, indeed to live in a free society, depends on the extent to

which we can help the emerging countries to come swiftly forward with us to share in prosperity as well as freedom.

Ours is a much maligned industry. The familiar terms of abuse -- monopolists, cartels -- are frequently hurled against us by those who have no reasoned grounds on which to attack our activities. But we are by our very nature free enterprisers. We are prepared to take big risks in investment upon our own initiative; we accept fully the consequences of competition. No industry is more free or more competitive. And the oil companies are among the largest investors in the otherwise less developed countries; they have indeed brought tremendous economic gain to many of those countries.

I can think of few examples anywhere in the free world in which a state enterprise has had much success in searching for or developing oil. On the contrary, large amounts of public money which could more usefully have been spent on public works for which private capital is not usually available, and which would have been of immediate benefit to the community, have been spent on oil ventures with little or no return.

On the other hand, many private oil companies, operating internationally, have been able to bring great benefits to countries in which their search for oil has been successful. And even where it has not, the possibilities have been explored with no cost to the country concerned and usually in a way which has brought it considerable, if temporary, economic advantage.

It is private enterprise which is able to shoulder risks of this kind and provide the capitals and skills required. And where oil has been found revenues have been fairly shared with the governments of the countries concerned.

We have in fact brought these countries much more than capital and skill. Oil companies are not only large taxpayers and purchasers of locally produced goods. Wherever they become established they develop interests that are identical with those of the community.

They do all they can to promote its social and economic development. Not for reasons of altruism, but for those of enlightened self-interest. We know that our continuing success depends upon the economic progress of the country in which we operate. Being good citizens helps that progress. As a matter of set and deliberate policy, oil companies train the local nationals to take increasingly responsible posts in local companies and pay for the higher education of the more promising ones in universities and technical colleges, both locally and abroad.

They help to develop the educational resources of the country itself, both with money and with skills, and this without strings. At the end of the day, whether men trained with the oil companies stay with them, move to other industries or go into government service, something significant has been done to reinforce the countries' resources in trained manpower, always in desperately short supply.

ROUGH TREATMENT FOR FOREIGN CAPITAL: But while good citizenship is an essential condition to successful foreign investment, foreign investors are entitled for their part to be treated in good faith. Modern capitalism, which has been described as “peoples’ capitalism”, and which does in fact employ the accumulated savings of many millions of private individuals, mostly people of modest means, has had some rather discouraging experiences in recent years. Oil companies perhaps more than most, because they have to operate in countries where political temperatures sometimes run high. Indeed it is sometimes the countries which need foreign capital most which treat it most roughly. And action in one country may discourage investment in others, as the Cuban confiscations have shown.

What therefore is required from both capital importing countries and from the foreigners who invest in them is a farsighted appreciation of realities -- in particular a realization of their mutual and interdependent self interest. While the investor must of course pay the fullest regard to a country’s national susceptibilities and problems, he is also entitled to a fair deal. He has a right to expect adequate safeguards for the security of tenure and service of his investment and observance of specific undertakings which governments may have made with him. And here may I be a little more precise?

NEED FOR RULE OF LAW: Large governmental insurance schemes and guarantee funds have their value. But something more is needed. The basic task to which I believe all governments --

and certainly all governments of the free world -- should be wholeheartedly devoted to the establishment of rules of honest conduct in these relationships. The Rule of Law in its full sense, as between the different nations of the world, and between states and nationals of other states, will no doubt develop very slowly. But there are certain elementary principles which it would be very much to the advantage of all countries, capital investing and capital receiving, to establish.

We need the constant and positive support of governments both in promoting respect for the basic principles of law and in countering the ceaseless campaign against private enterprise.

Ambassador Stevenson and many others have referred to the need for treaties which will reinforce basic principles. This I think is the right way gradually to build up a system of rules of fair behavior and indeed of law. Obviously it is not possible to agree with all nations about everything. That is no reason for not agreeing with as many nations as possible about as many things as possible. Gradually the sphere of those nations prepared to enter into multilateral agreements with each other will grow; the field of subjects on which there is common ground will enlarge.

**PROVISIONS OF MULTILATERAL TREATY:** This subject of commercial and financial relationships between states and individuals is one which is perhaps ready for treaty cultivation.

In Europe, many governments in the OECD have been working for several years on the preparation of a multilateral treaty. This would have four very simple provisions: (1) Contracting

states would pay proper compensation of they expropriated the property of nationals of other contracting states; (2) They would fulfill their own contractual obligations to such nationals; (3) they would submit disputes to neutral adjudications; and (4) They would not give recognition to acts done in breach of the treaty.

Your government has recognized the value of such provisions in a number of bilateral treaties. In this way many of these principles have been accepted by developing countries but progress appears recently to have been slowed. Possibly the matter should now be developed on multilateral lines. Whichever approach is pursued it seems to me essential to continue the effort to obtain treaty recognition of basic principles.

Even if none of the developing countries were to accede to a multilateral treaty (and I do not believe that would be the case) still a significant step forward would have been taken if a number of important states re-affirmed among themselves that these are the basic principles which they accept in their relations with each other. The precedent thus established would be one no developing country need reject for reasons of national dignity, or through any feeling of being imposed upon by a particular investing state. On the contrary multilateral negotiations can be conducted collectively, and on a basis of equality. European industry has given its strong support to these proposals, so have many European Governments; from Turkey to Sweden; from the United Kingdom to Switzerland. We in Europe sincerely hope that your government will be able, if not fully to participate, at least to give the project a fair wind.

Throughout the whole effort to develop trade, industry and investment in the emerging countries maximum cooperation is essential between the governments of the free world, and between those governments and the private enterprise which carries on the trade, conducts the industry and provides the capital for investment.

The strategy of the Communist countries, openly declared, is divide and conquer. They themselves operate with massive unity. Their monolithic industrial and financial apparatus can be turned in any direction at any time. But they seek to promote and exploit antagonism between governments and their nationals. Active competition is of course essential to dynamic private enterprise but we cannot always fight monopoly Communism without some coordination.

That leads me to say something which you may consider a domestic matter for yourselves and inappropriate for comment by a foreigner. I hope, however, that you will remember the large American shareholdings in the Royal Dutch/Shell Group of companies and forgive me for what might otherwise seem an impertinence. I refer to certain aspects of your anti-trust jurisdiction.

**ANTI-TRUST LAWS AND THEIR APPLICATION:** Having had the privilege of working in the united States during the first seven years of my business career -- I was in Texas in the thirties when oil was 10 cents a barrel -- I believe I understand the philosophy of your anti-trust legislation, I am myself, as are all my colleagues, a strong believer in the competitive system.

Yet there are situations in many of the developing countries where alignment with local government policies requires some cooperation between competing entities. The capital needs of these countries are enormous. In some cases their governments are critical of duplications of facilities and expect some measure of cooperation among the various companies investing large sums in industrial and commercial development in order to make maximum use of the capital available.

Some way must therefore be found to reconcile such wishes with our own competitive philosophy. I have no doubt that this requires that all relevant factors -- economic, social and political -- be given most careful consideration before particular anti-trust measures, designed originally for internal domestic situations, are sought to be applied to business activities in such countries. Specific measures that may be needed for the domestic scene to ensure that competition is given free play are not always right for conditions abroad; and an attempt to impose them may be positively harmful in the economic struggle with the totalitarian giants.

Moreover the enforcement of national anti-trust laws in international situations has already led to antagonism and competing claims to jurisdiction between the Western governments themselves. Now that there are strong anti-monopoly laws in Europe it would seem more than ever necessary that each country, operating such legislation for its own domestic economy, should exercise restraint in imposing its own pattern on activities by others outside its own territories. A due

regard for the interests of other countries and other peoples is essential in attempting to regulate competition abroad, particularly in the very special circumstances of the developing countries.

ADVERSE PUBLICITY EXPLOITED: there is another aspect. The publicity involved in anti-trust proceedings in this country is exploited by our enemies to produce a distorted image of business abroad which does great harm and provides ammunition for irresponsible elements. Our antagonists are masters of the art of exploiting mere allegations of wrongdoing.

What is merely an accusation is treated by those seeking to destroy our private enterprise system as if it were already established. Subsequent vindication in long drawn out court proceedings is often too late to erase the false image created by earlier publicity.

It is, I dare say easier to call attention to the dangers of this adverse publicity than to say it should be voided. But I mention the matter as worthy of consideration when discussing the problems of private enterprise in the international field.

Please do not misunderstand me. I am not advocating putting the clock back. I want to put it to the correct modern, international time. Attempts by Western governments to enforce the details of their orthodox anti-trust legislation in the developing countries will slow down the clock and create uncertainty and confusion as to what may or may not be done.

I leave these thoughts with you for I am convinced that governments and private enterprise must be partners in progress, to the benefit of each country, and to hasten the economic and social

development of the whole world. It is our task and the task of our governments to convince the peoples of the emerging countries that our system of free enterprise, with the encouragement of individual initiative, is the best way in which they can achieve prosperity and raise living standards in their time -- and is also the best way in which they can secure true economic independence and the basic freedoms to which they are entitled to aspire.