

of writing no tax-sparing treaties had gone into effect. It is believed that this procedure has proved to be too cumbersome and inflexible to be of any real value in inducing U.S. investment in developing countries.

2. *Investment guarantees*

The new AID program provides for an expansion of the system of investment guarantees to include certain additional political risks not now covered and, in addition, provides for the use of "all-risk guarantees" including insurance against loss of investment capital (as opposed to failure to realize profits) in certain circumstances where investments are extremely risky to private enterprise but are also quite important for realizing U.S. objectives in developing countries. The AID bill also provides for authority to issue all-risk guarantees on a share-the-loss basis. Thus, the U.S. Government and the investor would negotiate at the outset a percentage split of any gross loss to be assumed by each of them. Compensation to the investor would then be paid by the U.S. Government regardless of the cause of loss, but such compensation would be limited to an agreed percentage. Such arrangements entail, in effect, a kind of partnership between the Government and the private investor in selected investments in developing countries. This approach involving private-public partnership in our foreign aid programs is a highly desirable one; and together with more generous loans to U.S. private investors in order to enable them to undertake especially risky investments, it may provide the answer to the problem of mobilizing what is perhaps our greatest strength, private enterprise, for direct employment in our development assistance programs.

Just as we have tended to favor a move toward multilateral loan and grant assistance to developing countries, so also do we see considerable advantages in an international investment guarantee program. An international guarantee institution, perhaps organized as an affiliate of the World Bank, would help to mobilize private enterprise in all free world capital exporting countries for promoting economic development abroad. A proposal for such an institution is currently under study by the staff of the International Bank and has been endorsed in principle by spokesmen for the U.S. Government.³ Eventually such an institution might supersede existing unilateral or bilateral guarantee systems under which individual capital exporting countries provide specific guarantees to their own citizens who invest abroad.

3. *Government loans to U.S. enterprises operating abroad*

Throughout much of the postwar period the Export-Import Bank has been making long-term loans to finance investments by U.S. firms operating abroad. Over the decade January 1, 1950, through December 31, 1959, roughly \$380 million in Export-Import Bank loans were made to private firms in which U.S. companies or individuals had over 20 percent capital interest. However, the vast bulk of the loans made to U.S.-controlled firms are located in Latin America and most of them are either for the development of minerals (copper, sulfur, and iron ore) or for electric power (mainly subsidiaries of American & Foreign Power Co.). Recently the Export-Import Bank has been

³ See "International Development and Security," pt. 1, op. cit., p. 266.