

HOW TO ATTRACT-*Capital*

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THE DEVELOPMENT of a country requires the investment of large sums of money. Where this money comes from and the manner in which it is spent are critical problems which go far beyond economic theory and are likely to have an impact on the political future of the world.

Many years ago Mr. Thomas Braniff at the inaugural flight of the Braniff Airways into Buenos Aires, had an interview with the then dictator of the Argentine, Juan Perón, who inquired of him how to attract private capital. Mr. Braniff replied that it was a very simple thing. "Capital goes where it is wanted and it stays where it is well treated." Nobody has ever said it better. It is true of all capital, both foreign and domestic, for domestic capital flees from the same conditions which repel foreign capital.

The number one condition for

the retention of local capital and the attraction of foreign capital is a relatively stable currency. If the currency of your country is depreciating at the rate of 20 to 40 per cent a year, there is not much point in saving your money as all that will happen is that you will watch the reward of your labor wiped out by rising prices. People who work hard and acquire capital quite naturally want to invest it in something to conserve the fruit of their labor, to take care of their old age, and to pass on to their children. It is, therefore, perfect nonsense to talk about stopping the flight of capital, much less attracting foreign capital in an atmosphere of runaway inflation. Money runs downhill toward the happiest blend of high reward and safety, and nobody has ever found a way to make it run uphill for more than a very limited period of time, even through a series of highly technical and questionable gimmicks.

The second basic requirement for the attraction of capital is some reasonable expectation that the rules of the game will not be



changed with any great frequency. Private capital can adapt itself to most rules, provided always that the expectation exists that the game will be played by those rules over a period of time. It is for this same reason that private capital is frightened away by direct economic controls. While the private investor willingly accepts the risks of the free market place, he almost inevitably shies away from situations where arbitrary decisions by government administrators can make or break his business.

Third, through curious mental processes which are unknown to me, some countries proceed to nationalize all the subsidiaries of foreign companies without fair or adequate compensation, and then express amazement that there is no capital inflow from foreign sources and, in fact, large capital outflows from their own people. Respect for property rights is a fundamental prerequisite for private investments whether foreign or domestic.

There is no real shortage of capital in the world, and I do not

know of any major project which has been held up solely because of the lack of money. Capital is plentiful wherever it is "wanted and well treated." The real bottleneck in the development of the world is the shortage of human capital: people with the skill, training, and education intelligently to employ the world's resources.

The facts are that when political freedom and free enterprise spread, markets increase, and that the expansion of markets is only prevented through political motivation. The interest of American business in the expansion of a free enterprise system around the world as part of a free political system is based not only upon moral considerations, but on the hard fact that there is no market for consumer goods among slaves. The problem is not one of division whereby the static resources of a country will be reallocated by some planner's program, but it is a problem of addition and multiplication whereby we must set our minds to increase the production forces and to broaden the areas of freedom and trade. ♦

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