

Princeton University

PRINCETON, NEW JERSEY 08540

PRESIDENT'S ROOM

May 16, 1978

To Members of the Princeton University Community:

The Trustees have adopted the attached statement^{*} on University Investments and South Africa and have asked that it be distributed broadly to members of the University community.

For me personally, and for the Trustees generally, it is hard to find words that convey adequately our opposition to an institutionalized system of racial discrimination that is so repressive and utterly dehumanizing. The specific questions concerning right actions for the University are extremely difficult ones, however, given both the variety of viewpoints concerning the likely effects within South Africa of alternative policies and our obligation to be faithful to our long-term responsibilities as an educational institution.

The views contained in this statement, arrived at following extensive discussion and much individual soul-searching, reflect a strong consensus of the Trustees. At the same time, the Trustees recognize that reasonable people have disagreed -- and may well continue to disagree -- with particular points of substance or emphasis. Because of the importance of the fundamental issues, we hope that everyone interested in Princeton and in the values for which the University stands will take the time to read the statement and to think carefully about the conclusions reached and the reasons for them.



William G. Bowen

Enclosure

^{*}Including additions adopted by the Board of Trustees on June 6, 1983, attached as an Addendum to the Statement.

UNIVERSITY INVESTMENTS AND SOUTH AFRICA

Statement by the Board of Trustees
of Princeton University

May 16, 1978

This statement on University investments and South Africa was adopted by the Board of Trustees at a special joint meeting of the Finance and Executive Committees held on May 15, 1978.

Questions regarding South Africa have been presented to the University in its capacity as shareholder, identified by the Resources Committee of the Council of the Princeton University Community (CPUC) as especially compelling, ^{*/} and reinforced by the evident and deeply felt concern of many students and others associated with Princeton. While we recognize that there are violations of human rights in many countries and that we have an obligation to develop policies that can be fairly and consistently applied, we agree with the Resources Committee that the racially defined and repressive policies of South Africa create a situation so compelling as to warrant special attention.

We say this while recognizing -- indeed emphasizing -- that the basic functions of the University are to transmit and to expand knowledge through teaching and scholarship. In carrying out these functions there is a "strong presumption against the University as an institution taking a position or playing an active role with respect to external issues of a political, economic, social, moral or legal character." ^{**/} We should be extremely reluctant to override

^{*/} The Resources Committee is made up of three faculty members, three students, one administrative officer, and one representative of other groups. It is the University group established by the campus community to present recommendations to the Trustees on shareholder resolutions and related questions. The Trustees have appreciated greatly the diligent efforts of the Resources Committee to ascertain the relevant facts and to provide careful analysis and thoughtful advice. As will be evident, this statement of the Trustees owes much to the recent report of the Resources Committee.

^{**/} See the statement by President William G. Bowen, "The Role of the University as an Institution in Confronting External Issues," Princeton Alumni Weekly, February 13, 1978, p. 28.

this presumption because to do so may threaten the essential independence of the University. But this presumption does not exempt the University from its responsibility as a shareholder to take positions on questions raised by shareholder resolutions.

The Trustees first adopted a statement regarding South Africa on March 4, 1969. In light of developments in South Africa since that time, and in response to a specific recommendation this year of the Resources Committee, the Trustees have again discussed the basic issues at length and have prepared this statement. The first part describes our general policies concerning business activities in South Africa, as they are reflected in actions we have taken on issues raised by shareholder resolutions. The next sections discuss general and selective disinvestment, and in considering these broader questions we have, of course, had to consider carefully not only issues pertaining specifically to South Africa but also our fiduciary responsibilities as Trustees. Finally, there is a brief concluding section.

POLICIES RELATED TO SHAREHOLDER RESOLUTIONS

Since 1969, the University has taken a number of actions with respect to South Africa. We have supported requests for disclosure by banks and other companies which do business in or with South Africa, and we have communicated our views on a number of policy questions to the companies concerned.*/

In deciding how to act on shareholder resolutions, we have followed the general policy of voting for a resolution only if we believed that the resolution should be put into effect as stated. As was explained in one letter to the management of a company: "We do not vote for resolutions merely as symbolic gestures but rather support resolutions that we believe would produce desirable

*/ For a history of consideration of these questions at Princeton, see the statement by R. Claire Guthrie, "The University and South Africa -- A Brief History" (available from the Office of the Secretary, Princeton University).

results." At the same time, we have been reluctant to vote against shareholder resolutions when we have agreed with part of a resolution (or favored its general intent) even though we could not agree with all of it. Thus, in some instances we have decided to abstain from voting on resolutions that seemed to have substantial merit but were also seriously defective in one regard or another; in these situations we have communicated the substance of our concerns to companies through letters and sometimes in meetings as well. It has been our view that this approach is both more accurate in conveying our position on the substance of an issue and likely to be more effective in encouraging the management of a company to take seriously the concerns expressed by the Trustees.

General statements of current policy have evolved through actions taken and statements made since 1969:

1. Apartheid is morally repugnant; it has caused great suffering; it contradicts our most fundamental beliefs concerning relationships among people of different races; it offends our sense of human rights. In all discussions of South Africa, and in every communication on this subject, the University has clearly and emphatically opposed apartheid.

2. The University has stated its belief that companies doing business in South Africa should take action to ensure equal employment opportunity and improved standards of living for black workers, including the establishment of minimum wages at fair levels. The University believes strongly in color blind treatment of labor groups.

3. The University supports adoption and aggressive implementation of the "Sullivan Principles"^{*/} and similar corporate policies. We urge the companies in which we hold

^{*/} Attached as Appendix A.

stock to participate in the development of an independent and credible means of monitoring and reporting performance in these areas by the approximately 80 companies that have signed the Principles, and we will follow closely such efforts.

Our support for the Sullivan Principles is based on our sense that these Principles are intrinsically right and on our strong feeling that there is merit in helping individual black workers acquire better training, better jobs, and an improved standard of living. It is also possible that efforts by American companies to promote equal opportunity may have some positive effect on the outlook for a peaceful transformation of South Africa. While we are not sanguine about this possibility, it clearly should be the goal. At the same time, we wish to be clear that our support for the Sullivan Principles is not predicated on a belief that actions of this kind are likely in themselves to play a major role in ending apartheid. We recognize the extremely limited power of American companies to have a significant impact on a system of racism that is deeply imbedded in the society of South Africa and buttressed by laws and a police system that has demonstrated how repressive it can be.

4. The University has taken the general position that the United States government has the responsibility for deciding if particular products should not be sold to South Africa and specifically to the government of South Africa. The University will, of course, expect all the companies in which it holds stock to comply with such determinations -- for example, embargoes on the sale of arms and other military equipment and on all sales to the South Africa military and police.

5. Although we believe governmental regulation is the preferred way of controlling such activity, in certain carefully considered situations the University has opposed the sale of a product if it seemed linked directly and primarily to repressive

purposes -- even if the sale of the product was not prohibited by U.S. law.^{*/}

6. As a general principle, the University has urged banks not to loan money directly to the government of South Africa and government-owned corporations, as long as that government maintains racially discriminatory policies through apartheid laws and regulations. We have opposed such loans on the grounds that they constitute direct support of the government.

7. We have had serious reservations concerning the desirability of "new starts" or additional net new investment in South Africa by U.S. companies, and in one recent instance (Union Carbide) have decided to respond to a proxy resolution by recommending against further expansion in South Africa under present conditions. While recognizing that the effects of expanding could be positive or negative, and in many situations are hard to assess, our general policy at present is to recommend against expansion, primarily because of our desire not to support new business initiatives that could appear to be a vote of confidence in the South African government. We have not voted to prohibit all investment (including investment for replacement purposes), since this would be tantamount, over time, to forcing withdrawal.

8. As a matter of general policy, the University has not recommended that the companies in which we hold stock withdraw from South Africa.

On this last question, the strongly conflicting views of people united in their opposition to apartheid, in and out of South Africa, suggest that one

^{*/} In the recent case of an Eastman Kodak proxy, the University has written to the company opposing the direct sale to the government of South Africa of photographic equipment used in applying the pass laws; the University abstained on the shareholder resolution, however, because the resolution could have prevented the sale of supplies for all purposes -- including medical purposes -- and would have imposed an unworkable requirement concerning subsequent sales of Kodak products by Kodak's customers.

should be skeptical about any claim to confidence in assessing the ultimate effects of companies' staying or leaving. Our decision not to urge withdrawal as a general proposition has been and continues to be based less on a clear conviction that it is best for companies to remain in South Africa than on the complicated nature of the issue and the lack of any persuasive evidence that under current conditions withdrawal would be clearly beneficial. (Thus, we have abstained on the most recent proxy resolution calling for Texaco to withdraw from South Africa, rather than voting for or against it.) Some argue strongly, with the late Stephen Biko, Donald Woods, and a number of the younger black South Africans, that the presence of U.S. companies supports the present regime, and that any negative effects on individuals that would be caused by the withdrawal of U.S. companies are outweighed by this consideration. Others, including such outspoken critics of apartheid as Alan Paton and Percy Qoboza, argue that the departure of U.S. companies would serve only to create a vacuum (that might well be filled by other companies less concerned with race relations in South Africa) and would, in Qoboza's words, "expedite the very thing we are all trying desperately to avoid: a bloody racial confrontation."

We certainly do not claim any special insight in evaluating these conflicting arguments. We do believe that, faced with an ambiguous set of assessments, there is a strong case for respecting the views of the State Department, the institution in our government with the presumptive knowledge and authority in this area; and the State Department has not favored withdrawal. It should also be noted that the Clark Committee of the U.S. Senate, strong as it was in its criticism of many aspects of the role of U.S. corporations in South Africa, did not conclude that companies should be asked to withdraw.

THE ISSUE OF GENERAL DISINVESTMENT

The Trustees recognize that some members of the University community believe strongly that the only proper course of action for the University is to refuse to hold stock in any companies which have affiliates or subsidiaries in

South Africa and to sell all stock now held in such companies (either immediately or over time). Neither the report of the University committee chaired by Professor Malkiel in 1968-69 nor subsequent reports of the Resources Committee of the CPUC have advocated general disinvestment, and the Trustees continue to believe that this would not be the right response by the University to the deep concerns about South Africa that all of us share. We want to discuss the reasons for this conclusion in some detail.

A basic premise of arguments in favor of general disinvestment is that U.S. companies should withdraw from South Africa. As indicated above, well-informed and thoughtful people have very different views on this question, and the Trustees have not felt that the weight of available evidence and opinion justifies advocating withdrawal as a general policy. And of course those who believe with Paton and Qoboza that on balance staying is a more responsible act than leaving are hard pressed to see merit in a general policy of disinvestment.

An even more important consideration pertaining specifically to the issue of disinvestment by the University is that, in actual practice, it is by no means the same as corporate "disinvestment" in the sense of withdrawal from South Africa by the companies whose stock we hold. It would not lead in any direct way to corporate withdrawal and would have no direct effect on apartheid in South Africa. Moreover, it seems highly unlikely that disinvestment by Princeton would have any significant impact on the companies concerned. Other investors -- in this country and elsewhere -- are available to purchase stock owned by the University, and the transfer of ownership by such sales of securities does not hold promise for changing corporate policies. On the contrary, we may presume that those purchasing these stocks would be, if anything, less likely to be opposed to the racial policies of the South African government. In fact, disinvestment deprives the University of any continuing opportunity to argue for actions it believes to be right -- including withdrawal if that action were to seem the right one.

We recognize that "symbolic" effects are what many of those proposing general disinvestment chiefly seek to achieve. But we are not persuaded that

a symbolic gesture of this kind -- a one-time action of very limited practical impact -- would be seen by people generally as an effective or reasoned expression of opinion. Nor do we believe that such an action by Princeton would have any lasting effect on public opinion. In addition, it is by no means clear that the role of the University is to take actions for the purpose of achieving an effect of this kind.

The purely moral dimension of an act of disinvestment must also be considered carefully. We recognize that some who advocate disinvestment see such an action as a way of eliminating any connection, even an indirect one, between the University and the present policies of the South African government. We are not persuaded, however, that disinvestment would achieve this goal, and we also believe that such an action would in itself create serious moral problems -- raising significant issues of fairness and consistency -- quite apart from its effects on the ability of the University to pursue its central purposes.

The kind of purity which is sought is not attainable simply by selling stock in those companies with affiliates or subsidiaries in South Africa. There are, for example, many other companies which have important trade relations with South Africa but which do not have affiliates or subsidiaries there. In addition, there are other linkages. It is not simply earnings on endowment, but also other sources of revenue that are traceable in some degree to companies or individuals with ties of one kind or another to South Africa. Gifts from individuals, gifts from companies, investments in pension funds that provide benefits for faculty and staff, and tuition payments made by parents who may work for such companies (or who may have investments in them) all constitute associations of varying kinds and differing degrees. Thus, if we were to consider, as an objective, the elimination of all linkages to South Africa, and were to pursue this objective for moral reasons, we would have to recognize that a focus on disinvestment alone is artificial and partial. Such a focus is misleading in its suggestion of an apparently simple solution to the moral problem raised here, and the Trustees

have to be concerned with meeting a more exacting standard of consistency and fairness.

It is necessary not only to examine all linkages, but also to consider the full range of activities of any group of companies doing only a very small fraction of their business in South Africa, before deciding to dissociate the University from them (a point discussed more fully in the next section of this statement). If disinvestment were to be used as a means of achieving moral ends for the University, there would also be an obligation to develop and maintain a generally consistent policy with respect to the practices and policies of all countries and all companies world-wide. Many of us believe South Africa is unique in important respects, especially in that the policies of its government represent a systematic, institutionalized form of racial repression directed by the members of a racial minority against all other people. South Africa can be seen -- and is seen by many of us -- as imposing a very special moral burden on all Americans. At the same time, it is the case that there are many other governments in the world whose political systems, or political and moral practices, are deeply objectionable to some significant number of serious and concerned people. Many companies do business in, or with, a number of countries around the world which engage in practices or pursue policies many find reprehensible. It is difficult in the extreme to imagine developing an overall policy that would have a real chance of being perceived as impartial and capable of consistent application.

Finally, the moral aspect of the disinvestment question has to be examined in the light of the special obligation of Trustees to oversee the investment of University funds in a prudent way that is consistent with fiduciary responsibilities. From this standpoint, there is a major difference of kind between acting vigorously to express views as a shareholder (actions which do not change the composition of the portfolio or affect the return earned by the University for its educational purposes) and excluding from the portfolio altogether certain classes of securities on what are said to be moral or social grounds (actions which clearly would affect our ability to serve our

educational purposes). Before deciding in any situation to move across this important line, the Trustees have a moral and legal duty to consider the potentially very serious consequences of any such decision.

Looking at the question of disinvestment in this way, we have had to recognize that, while the likely effects on American companies and on South Africa are unclear at best and almost certainly minimal, the effects on Princeton would be dramatic and clearly negative. This would be true whether such an action were taken all at once or gradually, since the ultimate impact would be much the same in either case. The financial consequences cannot be measured precisely, but none of us doubts that they would be very large, almost certainly involving reductions in the total return of the University of millions of dollars per year. The impact on fund-raising and the one-time transactions costs could also be very significant. There would be an immediate and continuing impairment of the University's overall capacity to carry out its teaching and research responsibilities.

What is involved here is not a simple choice between high moral principles and the pursuit of economic gain. In the setting of a non-profit institution chartered to pursue educational purposes, financial resources are never an end but only the means used to pursue larger objectives. Thus, there is an inescapable moral obligation to weigh carefully, consciously, and conscientiously what may be conflicting obligations -- specifically to compare (a) the effects of disinvestment on the University's long-term ability to contribute to the general welfare through the students it educates and the scholarship it supports, against (b) whatever positive contribution to racial justice one believes will follow from purging the University's investment account of the stocks of companies that do some small part of their business in South Africa.

It is after having tried to consider carefully all of these aspects of the question that we have concluded that the case against general disinvestment is a compelling one. To summarize: (1) The argument for disinvestment rests, first, on a conclusion concerning the desirability of companies'

withdrawing from South Africa that many do not share. (2) Disinvestment would not, in any case, cause companies to withdraw; it would be unlikely to have any significant direct impact on American business or the people of South Africa; and it would preclude further efforts by the University to affect corporate policy through its role as a shareholder. (3) Disinvestment would not cleanse the University of all associations with companies that do business in South Africa, even if that were one's primary objective, and would also raise serious problems of fairness and consistency. (4) Disinvestment would have such direct and serious adverse consequences for the educational and teaching functions of the University and for individuals who study, teach, and work at the University as to raise fundamental questions concerning the performance by the Trustees of their fiduciary responsibilities.

THE ISSUE OF "SELECTIVE DISINVESTMENT"

The University decided in 1969 not to hold stock in companies doing a primary amount of their business in South Africa. This policy is in effect a form of anticipatory "selective disinvestment." It indicates an explicit decision to exclude from Princeton's investment portfolio specified securities when the arguments are so exceptionally persuasive and compelling as to override the normally governing considerations set forth above.

Any such decision is a serious one because it amounts to a formal statement that the University is unwilling to be associated, even as a very partial owner, with a particular company or companies. Fairness to the companies involved, an obligation to respect the diversity of views within the University community, and the clear need to satisfy fiduciary responsibilities call for the utmost caution in taking such a step. In our view it would be wrong for Princeton to single out particular companies for this kind of public disapproval principally as examples or symbols of the University's opposition to the policies of the South African government.

Dissociation from companies doing "a primary amount of business in South Africa" has seemed appropriate for the following reasons: First, companies in this category would almost necessarily owe primary allegiance to South Africa rather than to the United States or some other nation, and association with such companies would imply a commitment to a very different set of policies and value judgments than ours. Second, American investors would have less opportunity to play constructive roles in such companies. Third, the "primary activity" standard is a clearly definable one that applies to limited numbers of companies in which Princeton might be a potential investor and therefore can be monitored and applied consistently.

The question before us now is whether selected companies, whose business is not primarily in South Africa, should nonetheless also be excluded from the Princeton investment portfolio -- and, if so, what criteria should be applied in identifying such companies.

One possible way of proceeding would be to follow a general policy of selling the stock of companies which do not accept, even over some period of time, the views we express to them through proxy votes or letters to management; by extension, the University could also refuse to buy stock in other companies that followed practices inconsistent with our stated views. There are, however, extremely serious objections to proceeding in this way. First, in many situations the University is not -- and cannot be -- certain its own position is necessarily right. There are many issues which simply are ambiguous, and we should not be too confident of our own conclusions (especially when they conflict with the views of other knowledgeable people including governmental representatives). Nor should we expect to prevail in every instance even if we are convinced that ours is the right position. To set as a condition for continuing association full agreement on all questions -- even all important questions -- is unreasonable.

More generally, even if Princeton were convinced that its views were correct and that the issue involved was an extremely important one, the University would still have an obligation to judge the companies in question

on an overall basis, and not simply on one action or set of actions. They deserve to be judged comprehensively. Disinvestment must be acknowledged as implying disapproval of the companies, consideration having been given to the full range of their activities and policies.

There is also an important procedural consideration. We do not believe that Princeton should single out a company or group of companies for what is in effect public dissociation unless every reasonable effort has been made to bring the University's views to the attention of the corporation, to have a candid discussion of alternative viewpoints, and to achieve an accommodation. This is the way in which we treat relationships with all individuals and groups. Disinvestment is such a serious step as to require an extensive deliberative process, allowing full opportunity for the company in question to explain its views and for the Trustees to make an overall assessment of the company's policies.

In summary, in coming to any final decision to exclude a company from the Princeton portfolio, we would have to have a strong sense of the importance of the issue at stake, and we would have to be convinced that the University's position was clearly correct. We would consider disinvestment in the context of the full range of the company's activities. Opportunity for a full exchange of viewpoints between the company and the University would be essential. We would weigh heavily our sense of the intent of the company, its overall commitment to pursue generally accepted canons of corporate responsibility, and its willingness to discuss thoughtfully and candidly the reasons for the positions it has taken. Finally, we would consider such a decision in light of the general implications of disinvestment discussed earlier.

We believe that this approach is consistent with the spirit of the recommendation of the Resources Committee concerning circumstances under which selective disinvestment should be considered, except that we note more explicitly our intention of taking into account all aspects of corporate behavior as well as the general attitudes of the company.

The recommendation of this year's Resources Committee report concerning specific bank stocks has to be considered in this framework and in the same way that we would consider any other proposal for disinvestment. As stated above, we have opposed direct bank loans to the South African government -- and that continues to be our policy. However, we do not believe that under present circumstances application of the above criteria justifies a decision to exclude such stocks from our investment portfolio. Nor do we believe that Princeton should declare its intention to sell stock currently held if our views are not accepted within six months or some other specified period of time. Such a statement is in effect an ultimatum; we believe it would be ineffective, if not counterproductive, and would be broadly construed as coercive. At the same time, we intend to talk directly with the managements of the banks in this category, in an effort to determine their views on the questions at issue and to convey as fully as possible our reasons for advocating a change in their stated policies.

In general, we continue to believe that we have a better chance of having some influence on decisions reached if we retain a voice as a stockholder than if we give up our standing to express an opinion by dissociating ourselves from the company in question. In this sense, disinvestment in any form -- whether general or selective -- not only raises difficult questions from the standpoint of our fiduciary responsibilities but also seems to us to be an ineffective way of actually having an impact.

CONCLUSION

The strong expressions of concern on this campus and on others have had the important effect of making more immediate -- of reducing the sense of "distance" from -- the problem of racism in South Africa. Among other things, they reflect a yearning for consistency between our country's aspirations for a multiracial society characterized by equality and the policies we project as a national community vis-à-vis other nations. Thus, United States policy

toward South Africa is important not only for the people of that troubled country but for our own self-perceptions and values -- our moral identities as citizens.

As a multiracial university, Princeton shares in and, we hope, makes a contribution toward the achievement of our country's aspirations for itself. The fact that we are also members of a broader multiracial society, still struggling with the effects of racism in our own history, gives a special meaning to our opposition to racism wherever it continues to exist.

Racial injustice is so deeply antithetical to the values for which Princeton stands that all of us associated with the University want to do whatever we can to diminish the power of bigotry and racism. We are obligated, however, to use means consistent with the peculiar nature of the University as a center of learning. We must recognize our limitations, be careful not to misunderstand our special role, and acknowledge an appropriate degree of institutional humility.

The University can be a powerful agency for social change; but it exerts its power primarily through individuals and ideas. These are our instruments. They can be extremely effective, but they are most effective over the long run, and in ways that are rarely dramatic or newsworthy. The question of what should be done about South Africa has been difficult and frustrating for many of us precisely because the major contributions the University can make are not apt to have immediate effects, and they do not satisfy very well the felt need of many for more direct actions: to do something and to do it now.

With respect to those corporations who do some share of their business in South Africa, we intend to continue to make strong representations in our capacity as shareholder. We shall do all that we can to encourage constructive actions, and we shall argue strongly that companies should be more responsible than many have been in carrying out their obligations for fair treatment of all employees. At the same time, all of us need to recognize the limited degree to which companies can be expected -- or should be expected -- to make

decisions which will have a major impact on the future of South Africa. Without governmental guidance beyond what currently exists, companies are not in a position to make decisions on the broad political basis advocated by some. Nor is it at all clear that they should be encouraged to do so.

Such fundamental questions as the desirability of discouraging any American presence in South Africa should be decided through the political process in a democratic society, and we urge all associated with Princeton who are concerned about these issues to make their views known to their Congressional representatives and to the State Department. While it is not for the University as such to propose foreign policy measures, it is right for all of us, as individuals, to urge the government to exercise its full responsibilities.

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We recognize that this statement goes further than some believe we should go in urging particular actions on companies in which we hold stock and in stating general views which we expect to follow in overseeing our investments. At the same time, we recognize that it does not go far enough to satisfy others. Our purpose, in any event, has been to arrive conscientiously and thoughtfully at what seem to us to be the most responsible answers, all things considered, to hard questions. We respect the views of those who have come to different conclusions, as we hope that they will respect our views. It should be clear that our major differences are over means, not over ends, and we hope that further discussion will be marked by a strong sense of shared commitment to the values which so many of us hold in common.