Part One

Multinational Corporations, Corrupt Dictators, and U.S. Military Power

by Mason Gaffney

Part One

"It is an investment, not a loss, when a man dies for his country" —Dinsmore Ely. (In marble, Memorial Park, Winnetka, Illinois, from a letter by Dinsmore Ely, 1917, killed in action, 1918).

Defense is the largest public outlay, and many other budget items are inflated if thought to be of defense value. Unless we incorporate defense in a deliberation of who benefits from public spending, we might swallow a camel as we strain at gnats. Military spending has resisted analysis, even in its own terms, and the cost-effectiveness teams of yesteryear are in the shadow. It has invited local impact studies catering to provincial interests, and macroeconomic conjectures of all kinds. But no economist to my knowledge has submitted military spending to a benefit-cost study in welfare terms. I propose a few steps in this direction.

Is defense a "public good"?

Many writers on welfare economics offer defense as the prototypical "public good," indivisible in production and undiminished by use. [i] United we stand, divided we fall, like a row of, well, dominoes.

I doubt if the domino hypothesis is ready for the dignity of a theory. [ii] It presumes a community of interest behind the defense wall where there is diversity, and it overlooks the care of nationals outside the wall. It does not fit the world's greatest maritime and air power, possessed of high mobility with the option of focusing force anywhere.

Thinking of defense as a public good runs counter to the historical origin and nature of national governments, including the United States. National governments originated to establish, maintain, legitimize, expand, allocate and police the tenure of land—both inside and beyond their borders. Thus landowners benefit from defense in proportion to the value of their holdings. Benefits are unevenly distributed among landowners, too, because governments have given disproportionate care to their borders, the oceans and other no-man's-lands, power vacuums, and the control of small, weak, backward and turbulent nations. The public goods argument becomes even more tenuous when military power is used on foreign soil to protect the economic interests of Americans abroad. Owners of outpost resources are usually large and influential. They benefit disproportionately from military outlays.

I begin with a postulate that one aim of military spending by the United States today is to extend sovereignty outside its borders. Since the prior goal of securing the heartland itself has been achieved, a high share of the discretionary or marginal military dollar should be imputed to marginal expansion or territoriality. It goes by names like policing the world, naval patrol, help against Communist subversion, counter-insurgency, technical advice, surveillance, C.I.A., overseas bases, military aid, A.I.D., NATO, OAS, SEATO, CENTO, and so on.

Some of this marginal expansion has been rationalized as helping to secure the U.S. heartland. [iii] We must hold Vietnam to sustain the raw material base of Japan in Southeast Asia, and thus hold Japan on our side said Eisenhower in 1959 (speech, cited in Magdoff, 53). We must hold Western Europe and its raw material bases to keep the Russians from turning them against us, was Howard Ellis' thesis in his *Economics of Freedom* (Ellis 1950). Walt Rostow said our military security and our way of life as well as the fate of Western Europe and Japan are at stake in the evolution of the underdeveloped areas (1956 testimony, cited in Magdoff, 54). And we must hold sources of raw materials required by our military itself.

There is a scintilla of truth in the security arguments. Yet a nation that dominates most of the world must be engaged in more than simple "defense." We threaten others more than they threaten us from any objective, third-party view. Edward Mason even wrote, "The American economy is relatively invulnerable to a curtailment of foreign sources of raw material supply" (Mason 1964, 20). Certainly our gross import of crude oil—about $50-60 billion—is small next to our defense budget of somewhat less than $300 billion. The argument of holding raw materials to fuel the armed forces is dangerously circular. A nation whose nationals are acquiring surplus resources around the world, and invoking the flag to help them, is aggressing. A nation whose philosophers preach that its way of life requires continuous expansion is dangerous in a finite world.

Truth is to be found in trade-offs. Official U.S. policy would have us believe that continental or homeland security is the primary end and that protection of offshore resources acquired by American firms is a means. That would mean trading off or sacrificing the interests of U.S. businesses for the security of the American public. Yet, the evidence presented below leads me to believe that U.S. policy makers often act as though expansion of investments were the ultimate aim. They use and trade off U.S. homeland security as a means to achieve that goal, and occasionally wager U.S. survival at the brink.

The beneficiaries of U.S. power

The main rationale for a standing army in the U.S. and bases overseas is the protection of Americans. Yet, the main beneficiaries of U.S. military power overseas are not ordinary citizens. Extraterritoriality is not generally extended to U.S. citizens abroad in their capacity as persons. The U.S. tourist may repine in jail on the same basis as native miscreants, or worse. No one has suggested invading Spain or Turkey to rescue U.S. drug offenders.

U.S. soldiers receive no special benefits either. William the Conqueror confiscated England from the losing team and parceled it among his warriors, and the United States democratized the process by granting land scrip to veterans in the 19th century. But no more: the draft is cheaper. The winning soldiers come off worse than the losing landowners. Lives are at stake, but property is usually not. Losing landowners are vulnerable to inroads by war-nourished property interests of the winning team, so there may result a post-war transfer of property, but it is not taken by soldiers. That would be looting. As for POWs, they have had a long wait. “We don’t see it as a major political problem,” said an administration aide recently (*BW* 1971c).

The obvious beneficiaries of the extension of U.S. sovereignty are resource owners in America *outre-mer*, overseas America, with preference to U.S. nationals and native allies. Prominent classes of such beneficiaries are 1) caciques (defined below), 2) European and Japanese-based firms, and 3) multinational corporations.

Beneficiary 1: Caciques

“Caciques” are native landowner-administrators (in less developed countries the two offices merge) who cooperate with U.S. forces and firms, and in return enjoy the tenure of land free of taxes that might otherwise be needed for their defense and other public functions. (The term “cacique” is of Arawak Indian or Haitian origin, and was used in former Spanish colonies.)

“Cacique” is a generic name, often applied to people playing this role, but the role is universal in the annals of mercantilism: “Zamindar” is the East Indian term. The metropolitan power does not rule directly at the lower echelons. It works with willing locals, permitting it to control some policies over a large area or population with a skeleton crew of metropolitans, and without being obnoxiously obtrusive.

Conspicuous caciques have included Mr. Nguyen Van Thieu and the ruling group in South Vietnam; Mohammed Resa Pahlevi, the Shah of Iran; Col. Papadopoulos in Athens; Yahya Khan of Pakistan; Anastasio Somoza of Nicaragua; Alejandro Lanusse of Argentina; Chiang Kai-shek of China; Francisco Franco of Spain; Alfredo Stroessner of Paraguay; King Hassan of Morocco; Lon Nol of Cambodia; Vang Pao of Laos; King Faisal of Saudi Arabia; Kittikachorn and Charausathien of Bangkok; Ramon Cruz of Honduras; Joaquin Balaguer in Santo Domingo; and so on around the world.

Cacique turnover is very high, but under and around them are the less visible, more permanent landowning-military oligarchs such as Las Catorce, the 14 families who own El Salvador; Las Diez y nueve of the Dominican Republic; Pakistan’s 22 families; Iran’s 1,000 families; and so on. These form the cacique matrix, which survives palace revolutions.

Our caciques enjoy a greater piece of the action than Vidkun Quisling in Norway under the Nazis, and they have more leverage. Often they antedate our presence at least as a class and have some history of rule. Many we inherited from falling European empires. Others we cultivated under the Monroe Doctrine of 1828.

They cooperate because the U.S. government keeps them in power and enables them to extract wealth from their own people. (Some also receive foreign aid from the U.S. With tacit support from the U.S. government, caciques treat the public lands and enterprises of their countries as their private domain, to be leased or sold to U.S. companies, with private gains on both sides. Thus, the cacique no more represents the interests of his country than overseas U.S. companies represent the interests of the average American.

The cacique also is relieved of pressure to win support from his country's submerged classes. He needn't educate them to build industry or increase the tax base or handle modern weapons. He can cooperate with the United States to discourage industry at home that might pull up wage levels, while confirming U.S. dominance in manufactures. [iv]

The cacique is expected as a rule to open the door to U.S. firms and influentials, at least the small number of them who dominate offshore. W. W. Rostow sees imperial powers pushing "colonial society along the transitional path" (Rostow 1964, 7), but he offers no evidence, and there probably is little. The cacique assigns the foreign firm valuable concessions and resources, especially minerals, routes, and communications. The gains made by foreign firms abroad are as isolated from the host economy as from the home economy; investment in export-oriented production or plantation agriculture does little to develop the local economy.

The cacique must accommodate U.S. military bases. In Latin America he is often graduated from U.S. Army and Air Force Southern Command schools in Panama. Cacique governance is not likely, therefore, to be very popular at home, and U.S. aid is used for internal security.

Secretary McNamara testified in 1968 that the *primary* objective in Latin America is to aid "indigenous military and paramilitary forces capable of providing, in conjunction with police and other security forces, the needed domestic security" (testimony, cited in Magdoff, 121). Ambassador George Wadsworth said the object of strengthening the Saudi army was "maintaining of internal security … the army would … support the throne …" (1957 testimony, cited in Engler, 254). He also indicated concern over raids by our allies, England, France, and Israel, intimating a partiality towards U.S. concessionaires and no immediate concern about Russia. Senator William Fulbright has noted the anomaly of the United States supporting 3.5 million "foreign mercenaries" under arms who "usually remain neutral while *we* fight brushfire wars with our own soldiers" (Fulbright 1966, 230). The foreign mercenaries secure their own caciques. We help in that, too.

The cost in U.S. force to secure cacique tenure varies with circumstances. It may run as high as the Vietnam War. Before the United States came, the Viet Minh had driven away the landlords. Diem, U.S.-financed, had a primary objective of restoring this lost tenure. (The operation was carried out under the heading of Diem's "land reform.") It was and is the main source of Viet Cong support in the rural south (Scheer 1965, 48-50). According to Professor Roy Prosterman, the landlords rode back into the countryside on the jeeps of U.S. soldiers to collect rent from peasants (oral statements, January 1971). In 1970, "The government will not make any early efforts to collect more direct taxes from wealthier farmers because of the difficulties involved" (NYT, 11 October).

In return for U.S. involvement in his nation, the cacique can return the intrusion. He is more than a puppet—he has large discretionary assets to parlay. With money he can enter into the mainstream of U.S. society and politics. The English once beheaded a king they thought took French money, but the U.S. voter seems bored when retiring U.S. Congressman become lobbyists for foreign powers seeking sugar quotas, aid, support, and other benefits. The China Lobby once aroused some backlash, and Thomas A. Pappas, Exxon's Athens partner and an executive vice chairman of the Republican Finance Committee, might too (Evans and Novak 1971). But most caciques are too small to pose a perceived threat to national masculinity.

Beneficiary 2: European and Japanese-based firms

Citizens and firms of older European metropolitan nations retain large holdings behind our protective shield. Even Spaniards retain sugar plantation-refineries in the Philippines. Frenchmen keep rubber plantations in Annam, and rice in Cochin China. Royal Dutch/Shell is everywhere, as is British Petroleum. U.S. diplomats have seen our interest in sustaining these older mercantilist nations' colonial bases, even as we elbowed in.

Indeed, as "far-called their navies melt away," they are cacique material themselves. Lest we forget, this depends on how much load U.S. taxpayers and conscripts will bear, but caciquism is a matter of degree. Note that many benefiting firms in Europe are subsidiaries of U.S. corporations already. Others are closely allied in cartels which the Marshall Plan did little to weaken and much to support (Engler, 254). We also hold Japan's shield, of course, over the Greater East Asia Co-Prosperity Sphere we once denied them, only with U.S. firms participating.

Beneficiary 3: Multi-national corporations

These, if U.S.-based, are in the strongest position to benefit. Any U.S. national owning land offshore is a potential multi-national, but most U.S.-owned offshore lands are in a few hands, as we will see. As corporate shares are owned internationally, the distinction between American-owned and other corporations becomes increasingly one only of degree. Giant corporations also own assets everywhere. There is an international comity of property which transcends national loyalty, and when one's treasure is scattered around the world, so may his heart be, and his residence, and his social peer and reference groups. The United States is useful as a police force, and so far has been willing to be used as such, being partial, as a rule, to subsidiaries of corporations with U.S. charters. I will give primary attention to these U.S.-based interests.

One should not equate them with the United States, or "our side," or "U.S. business," or the "free world." They are individual firms, vertically integrated, each holding its own individual resource base. They are an international society, internationally owned, owning international assets, transcending nations. They cooperate in cartels, but they do not supply other firms except at a price and with efforts to expand supply into control. They do not supply the nation as such, and sell to the government only at market price, and frequently above it. They often control world markets and sell dearer inside the United States than outside. They do not guarantee us supply in wartime, but depend on U.S. forces for that even in peacetime. They have achieved virtual tax exemption for their offshore holdings. "Their" relationship with "us" is rather one-sided.

The Nature of the Benefits

Cheap labor

The umbrella of U.S. military protection enables companies that acquire resources abroad to tap a low-wage workforce that will not be demanding. That is a great advantage to U.S. firms that own mineral reserves, plantations, timber, communications systems, transport facilities, factories, and distribution networks. These firms are the world's new absentee landlords. They own everywhere and they sell everywhere.

As a result of the overseas operations of American companies, the U.S. is an indirect importer of cheap labor, through farming out cheap-labor operations abroad. Tariff Code Item 807 has facilitated this, by limiting re-import duties to value added abroad. But the $2 billion output under Item 807 is only 1% or 2% of our offshore output. And labor-intensive offshore operations are not, by definition, property-using. They involve minimal commitment of capital, and minimal resource control. They feature quick recovery of small capital. They do not therefore require much U.S. force. In addition, they do not loom large in the exports of “less developed countries” (LDCs). About 84% of the exports of LDCs are extractive (Magdoff, 97).

American companies (and households) also import cheap labor directly. The Immigration and Naturalization Service is never funded enough to close the Mexican border. An estimated 200,000 illegal aliens reside in Southern California, and a middle-class family makes no secret of keeping one as a domestic, so weak are the sanctions against it (*Washington Post* 19 February 1972). At cross purposes, the U.S. Department of Labor contracts with client governments like Jamaica to import cheap field labor for specific employers (*Washington Post*, 22 February 1972). Some application of U.S. force is involved, but the labor comes voluntarily by and large. Organized U.S. labor works to contain both situations, and again this export of cheap labor does not dominate the balance for LDCs.

U.S. miners and oilmen, on the other hand, are less concerned about cheap foreign labor, because labor, especially foreign, looms small among their costs (Gaffney 1967, 409
-413). In Kuwait, Adelman reports that lifting costs, including capital, are less than 5% of the F.O.B. value of oil, and much of the payroll is for U.S. and British nationals anyway. Kuwait represents an extreme, but few extractive industries are labor-intensive. Creole Petroleum, Exxon’s Venezuela arm, in 1960 paid $3.19 in dividends for each $1 of wages and salaries (O’Connor, 8; Rollins, 186). The prime concerns of U.S. extractors are tenure, taxes, and avoiding pure competition. Here is where U.S. force may be helpful or vital, because here are the provinces of government and politics.

Enormous asset growth

The net value of assets owned by America *outre-mer* comes from four main sources: net capital flows into overseas investments; plowbacks; appropriation; and appreciation. The gross value of what is controlled also rises as U.S. firms borrow abroad. As we shall see, for a very small initial investment, American companies abroad have pyramided their assets, largely due to appreciation in the value of resources.

Net reported capital flows have been quite small. They were well under $1 billion yearly until 1956, when they jumped to a new level about $1.5 billion (Krause and Dam 1964, 5, 64, 69; Nisbet, 93-6). The book value of U.S. private investment abroad was only $37 billion in 1962 (Krause and Dam 1964, 64), and most of that came from plowbacks (Kindleberger 1969, 7).

Return flows are disproportionately large, around $3 billion, and income larger yet, because over half of reported income is plowed back, and reported income is understated by inflating depletion and depreciation. Even the return flows are too high for the cumulated capital outflows, unless at implausibly high rates of return. Assuming away the last, the high return flows betray the presence of a larger base than could result from cumulated capital flows, suggesting a large role for plow-backs, appropriation, and appreciation.

James Akins, U.S. Department of State, has said U.S. policy in the Middle East is premised on the “huge U.S. investment in oil,” and few would doubt it. But what is this huge investment, and whence?

According to Robert Engler, Bahrein Petroleum Co., Ltd. had an original capital of $100,000. In 15 years, spanning World War II, it had accumulated profits and surplus of $91 million. Caltex, a Bahaman-chartered child of Texaco and Socal, set up to market Bahrein oil, accumulated $25 million from an original one million in ten years (Engler, 222). These may be extreme cases, but they do suggest the relative importance of plowbacks, appropriation, and appreciation. Indeed they may omit the last two.

The forebear of Aramco was organized in 1933 with a capital of $100,000. In 1947 its assets were reported at $150 million (Mikesell and Chenery 1949, 55-56, n. 31). Actually, in 1947 Esso and Socony Mobil paid $l01 million for 40% of Aramco, indicating a total value around $250 million. The Middle East was not at that time very secure, and the willingness of U.S. taxpayers to police the world not yet established. In 1956 Aramco netted $280 million after all taxes and royalties (1957 testimony of F.A. Davies, cited in Engler, 224). Capitalizing at 6%, that flow of net income was worth nearly $5 billion, and if its growth rate were projected it would be much more. "Book value" in 1972 is reported at $500 million. But Aramco doesn't believe it, either. Now that Arabia is demanding a share of ownership, Aramco is citing a much higher value based on future profits (*Time* 1972, 88).

The Chase Manhattan Bank's "oil balance of payments" for 1964 showed an investment income of $1.9 billion, less new investment of $0.9 billion, for a net inflow of $1.0 billion, projected to increase to $2.3 billion in 1975 (Tanzer 1969, 45-47). The Bank reported the capital exported for oil exploration in the entire Mideast, 1947-62, at $2.7 billion (Tanzer, 131). Putting it *all* together, it would seem that appropriation and appreciation loomed large. Or, as the American Enterprise Association (AEA) put it, "[N]one of the private foreign investment figures allow for increases in the value of direct investment attributable to changes in profitability; *book values* may represent half or less of market values" (AEA 1957, 21; 2 n. 2).

Other indices of offshore asset accumulation are disproportionately large next to cumulated capital investments.

One index of the huge volume of overseas assets is the return flow of income, as we have seen. Definitions of income are treacherous. It is understated by expensing exploration and development investments, omitting unrealized capital gains, accelerating depreciation (this results in net understatement so long as there is growth, as there has been), and taking percentage depletion not limited by cost. Some for promotional purposes may overstate their income, as Occidental Petroleum is charged. On the whole it is grossly understated, and we should not only double return flows to account for plow-backs but then raise them more again. But doubling $3 billion is quite enough to show a flow too large to come from cumulated capital exports.

A second index is output. America *outre-mer* now has a GNP estimated at over $100 billion. One estimate is $200 billion, making it the third fourth largest economy in the world (*The Milwaukee Journal*, 29 June 1971, p. 16; Model, 640-41). It is four or five times larger than exports from the United States.

In theory, labor-using multinationals could pile up large gross products on a small base of capital, since output is only loosely related to assets. But $100 billion of output from some $40 billion capital would mean a capital-output ratio of 0.4, which is too low to believe. Most studies indicate 3 as more typical of the ratio, which would imply at least $300 billion in assets held abroad. By this standard, Peter G. Peterson's recent figure of $78 billion as the value of U.S. private overseas investments is also much too low (*Washington Post*, 20 January 1970).

Mineral holdings generally, and large offshore ones especially, are capital and resource-intensive. David Martin (1967, p. 126) estimated the ore reserve/output ratio of U.S. Steel in 1963 at 100 years. The life-index of Caribbean bauxite held by U.S. firms is 50 years or more. Lumber firms often hold more than half a century's timber reserve behind a mill, ridiculous as that may be. World oil reserves are more than 35 times annual out
put (Gaffney 1967, 389). E. N. Avery has put this ratio at 45 for the international majors, and 24 for all others (cited in Tanzer 1969, 45-47). Oil and mining firms are near the top of any list of industrial firms ranked by assets per employee, or per unit of output (Gaffney 1967, 338). Utilities, transport and communications rank even higher (Hilgert 1945, 47-48, citing Ingalls 1931). The use of property tends to be regressive, because the cost of capital is regressive. [v] Foreign holdings are large holdings (see next section). Therefore, foreign holdings would loom larger measured by value than by output.

A third index is earnings. These are a closer index to asset values than is gross output, since earnings come primarily from assets, rather than labor. In 1965, reported earnings from corporate foreign investment were $8 billion, compared to $36 billion domestic (Magdoff 1969, 183). Mineral earnings are badly underreported by expensing investments in exploration and development, and (for tax accounting only) taking percentage depletion not limited by costs. Moreover, a large share of offshore income comes as accrual of asset value which is not even counted in the statistics on gross product. A large share of U.S. capital export goes into exploration for or other acquisition of minerals, and reserve/output ratios abroad are much higher than at home. Minerals generally appreciate between acquisition and use. Appreciation is a form of income that rewards the capital committed but does not appear in data on output or earnings.

A fourth index is market power. Although it is not cardinal or precise, it means more than most things that are. U.S. firms are known to dominate world markets in many fields to a degree not very credible if premised on the tiny sum of capital exports. U.S. holdings abroad are concentrated in mining and banking, communications and manufacturing—not in local service (other than utilities). Just as a corporation can dominate a small town, so U.S.-owned factories can have influence beyond their own value in native economies.

The importance of appropriation and appreciation relative to actual capital outlays was charmingly expressed by Abraham Chayes, State Department legal adviser, concerning Intelsat: "The fact is the Europeans are anxious to put up a greater share of the money than we think they are entitled to" (1964 testimony, cited in Phillips 1969, 197). Those are words to ponder. Mr. Chayes had not gone through the looking glass. He was adapting his lexicon to the special world of those who get in on the ground floor.

Concentration of ownership

Another characteristic of the beneficiaries of American military power overseas is that they are relatively few in number. In other words, ownership of U.S. foreign holdings is highly concentrated (AEA 1957, 2). Absentee ownership has ever been the province of large investors. Small capitals stay close to their owners, who need capital in their own businesses and to complement their own labor. Small assets go into declining areas and rapidly depreciating capital of high turnover, where the ratio of management input to capital is high.

Large concentrations of capital move into offshore interests for the opposite set of reasons. They have surplus capital and a management bottleneck. They favor assets requiring minimal management per dollar of capital. Resource industries with high reserve/output ratios are an excellent way to invest large amounts of capital and minimize volume and the management effort each cycle of turnover entails. Larger firms enjoy economies of scale in influencing government, including the State Department, C.I.A., and Pentagon.

Accordingly, many empirical studies have shown that absentee investment is large investment (Gaffney 1971, notes 16-19). When the United States was a colony, it was the Europeans here who looked large. Now we are Mother, it is large U.S. firms that dominate our colonial interests. In 1950, 10 firms held 40% of U.S. assets abroad (Mikesell 1957, 23). In 1957, 45 firms held 57% of U.S. direct foreign investment, as the Department of Commerce defines and measures "investment" (Magdoff, 192-93; Phillips, 188; U.S. Department of Commerce 1960, 144).

To a degree this reflects concentration of domestic control, but the larger firms are more committed offshore. In the oil industry, the largest one, the pattern is well known. The domestics are small "independents." The giants all become international, and the largest are five of the seven sisters, the international majors who dominate the world. The friction between the small domestics and the large internationals is one of the basic parameters of U.S. politics.

Twenty-four U.S. oil firms have about 93% of U.S.-owned holdings abroad. Other minerals are comparable: twenty U.S. mining firms have 95.1% of all foreign holdings (Magdoff, 193). Two U.S. firms produced 90% of Chile's copper; three mine 83% of Peru's copper; two control 100% of Zambia's copper; and one Belgian firm controls 100% of Congo's copper (Mikesell 1971a, 10, citing *International Financial News Survey* 1967). Magdoff (p. 73) alleges that 259 out of 298 foreign branches of U.S. banks were owned by the top 3 (National City, Chase Manhattan, and Bank of America) in 1967. [vi] Forty percent of U.S. direct investment in West Germany, France and Britain belongs to 3 firms (Exxon, GM, and Ford) (Magdoff, 62, citing Layton, 18). Seventy-eight percent of the chrome ore running the embargo out of Rhodesia is from Union Carbide (*BW* 1971b). The top three nickel producers have 95% of the world market (*BW* 1971a). One could go on.

Benefits to U.S. nationals abroad are then quite progressive. [vii] The old safety-valve concept of the frontier in U.S. history made it an outlet for the poor. Our present colonial frontiers are frontiers for great wealth, instead.

Vertical integration has ever been the way of giant firms, as well as nations, seeking total autarky and surety against other's cornering open markets in primary products, their raw materials. As we go to world markets, this means world land acquisition. Not far beyond that lies cartel formation and world control of markets, adding monopoly rent to Ricardian rent, doing un
to others what we feared their doing to us.

How are Benefits Received?

Securing tenure: making the world "safe" for investment

U.S. nationals benefit from military spending in their capacity as owners of property in foreign lands, especially lands of turbulent political conditions where U.S. forces constitute an important part of the police force.

Protection of existing property is the most obvious part of this benefit. Some simple iron-hand examples are the CIA overthrow of Jacobo Arbenz Guzman in Guatemala, 1954, with the return of confiscated lands to United Fruit; landing Marines in Lebanon, in coordination with British paratroopers in Jordan, in 1958 to ensure the revolutionary government in "Iraq respects Western oil interests" (Engler, 264, citing *NYT*, July 1958; Tanzer, 311); the Bay of Pigs episode of 1961; the Santo Domingo landing of 1965 to keep Bosch from power and protect the privileges which Trujillo had granted to influential William Pawley (*Washington Post*, 22 February 1972); the Congo intervention of 1964; and the CIA overthrow of Mossadegh in Iran in 1954 to denationalize oil. It is hard to know what Kindleberger (1969, 71) has in mind when he writes, "The days of sending gunboats and Marines to protect U.S. property abroad have gone." The Eisenhower Doctrine is that we intervene when asked.

The Vietnam War is only slightly less simple. Henry Kissinger, Rockefeller-linked, is widely quoted as saying, "Ridiculous! There is no oil in Vietnam" (Ramparts, May 1971, 8). It is only frosting on the cake that Thieu is leasing offshore grants to some twenty firms. The domino theory says that those supporting the war had in mind the wealth of the Indies, which is much in oil, dominated by Jersey, Mobil, and Caltex. It is an old concern. In 1941 FDR also drew the line at Saigon, provoking the attack on Pearl Harbor. In 1945 Secretary of State Cordell Hull, picking up the pieces, evinced only a "narrow concern" over Indonesia—a concern that U.S. firms, then mainly Stanvac, retain their tenures there (Gardner 1964, 189). [viii]

More generally, keeping some 400 air, naval and army bases around the world, with air and naval patrol, helps create respect for U.S.-held tenures, The effect is everywhere, but is pinpointed where there are U.S.-owned minerals. Secretary McNamara put it: "We also have a strong interest in maintaining our alliance relationships with Greece, Turkey, and Iran, for these three countries stand between the Soviet Union and the warm water ports and oil resources of the Middle East" (1967 testimony, cited in Magdoff, 120). This is equated with national defense. The President's International Development Advisory Board (IDAB) concluded: "The loss of any of these ("strategic") materials, through aggression, would be the equivalent of a grave military setback" (Magdoff, 51; from IDAB, *Partners in Progress*, March 1951, 46).

To view the benefits in static and defensive terms would be, however, to underestimate the dynamism of Americans abroad, and to misapprehend the whole process of overlaying an advanced commercial culture on the vaguely defined tenures and wayward governments of the less developed world. "The British gunboat in the harbor when d'Arcy got his first oil concession in Persia … conveys an air of market imperfection" (Kindleberger, 110). U.S. force today is not just protecting tenure, it is creating tenure where there was none; firming up precarious tenures and enriching lean tenures; and easing transfer of tenure to the hands of U.S. nationals.

Much of U.S.-held tenures in turbulent lands are not really property until policed, or to the extent policed. Tenure granted by unstable governments is not worth much, and is cheap to acquire. In 1960 "Premier Patrice Lumumba of the Congo signed over one-half of his country's riches for 50 years" to Wall Street financier Edgar Detwiler, for a small loan (*Post Dispatch* (St. Louis), 7 September 1960). If an extension of Pax Americana stabilizes the pliant government, the quality of tenure rises: precarious becomes firm. Thus a small stake can swell into a large one. It may be done by shoring up a shaky Sheik. Or we may impose an Anglo-Saxon construction of strict tenure on a concession made, like Manhattan, by Indians under a limited concept, or by Hispanic peoples with their regalian concept of an overriding *utilidad publica* in minerals. Where words mean different things to different contracting parties, *lex fortioris* speaks a universal tongue.

International economists have neglected this aspect of the return on capital. Unrealized capital gains are invisible to the unschooled eye, and the schooling has been weak. Mikesell (1957, 32) can stress that U.S. firms make only moderate returns on foreign holdings (other than oil) and chide the "delusion" of host nations that alien corporations may exploit them. If one overlooks a large part of the return, and, like the IRS looks only at realized ordinary cash income net of inflated deductions, one may so conclude. But investors look deeper and so should economists.

Dean Acheson wrote he was *Present at the Creation*. He was too modest. The State Department has presided over the creation of more than the Truman Doctrine containment policy. Tenure over resources is constantly in creation at the margins of settlement and technology, and constantly being refined and tightened at each succeeding level of higher density, technology, and commercialization. Creating new tenure is not a sometime thing; it is a constant process and a major preoccupation of metropolitan investors in colonies. The State Department helps (Tanzer, 52-53).

Submarginal resources are not generally defined, surveyed, measured, known • or policed. Lack of policing alone can make them submarginal. Tenure is vague, ambiguous, shared, or irrelevant to what turns out to be the highest use (like the right to fish in the Los Angeles River, or farm over a strip mine). In this limbo, tenure is established by a nice combination of discovery, prior appropriation, and power. The Rule of Capture is the worldwide custom of miners when operating (as they often do) outside of matters yet defined by law. Prior position did not win much for the Indians, who lacked power, and power did not win oil or gold for the Mexicans who never discovered it, but the Anglos put all thr
ee together and pushed Manifest Destiny around the world. Priority, discovery, and power, these three: and the greatest of these is power. The major asset of U.S. concessionaires abroad is the capitalized value of the flag.

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[i] Editor's note: Although the term "public good" is used in casual speech to mean any service that government provides (roads, health, education, and so on), economists have a more specific meaning. A public good is one which a) benefits everyone no matter how many people use it, b) makes exclusion of those who don't pay for it difficult, and c) is produced as an indivisible package rather than as discrete units. Thus, education, for example, is only a quasi-public good. It has some properties of a private good (since it permits exclusion, is produced in discrete units, and mostly offers direct benefits). Military spending ("national defense") however, has always been viewed as being a prime example of a pure public good. Prof. Gaffney's article raises serious questions about that assumption. In many countries—Burma, Chile, Guatemala, Iran, Iraq, and Nigeria, to name a few—where the military has been used mainly to repress domestic dissent and protect the power of an elite, the assumption that military spending benefits everyone is especially questionable. Prof. Gaffney's thesis generalizes those specific cases by arguing that the owners of valuable urban land, farms, and mineral deposits benefit disproportionately from military spending.

[ii] The U.S. government relied heavily on the "domino theory" to justify its support of the regime in South Vietnam through 1975. The idea was that once Vietnam "fell" to the Communists, the rest of Southeast Asia would eventually follow—like a row of dominos.

[iii] Editor's note: For example, the defense of Western Europe during the Cold War was justified in

terms of protecting allies with whom the U.S. shared security interests. Today, the fight against terrorism abroad could theoretically be justified as preventing terrorist attacks on American soil, if American policies in Central Asia were truly aimed at catching terrorists rather than securing the territory that proposed oil pipelines would traverse. Because American taxpayers spend about $50 billion a year to project American power into the Persian Gulf, the true net cost of oil from that region is around $100 per barrel during peacetime (http://www.theatlantic.com/issues/96apr/oil/wheels.htm, Amory B. Lovins, L. Hunter Lovins, Reinventing the Wheels, *Atlantic Monthly*, January 1995.). Moreover, since World War II, the imprudent fight against terrorism abroad has actually increased the likelihood of terrorism in the U.S., as Chalmers Johnson has argued in his book *Blowback*.

[iv] Editor's note: In the 1990s, caciques provided foreign companies with free trade zones in which their labor force could be regimented and controlled, while providing a cheap source of labor for the companies.

[v] Editor's note: In other words, large firms (with more assets) use more property per unit of output than smaller firms because large firms can borrow more cheaply.

[vi] Calculated from mimeographed list issued by the Federal Reserve Board, *Overseas Branches and Corporations Engaged in Foreign Banking and Financing in Operation, on December 31, 1967*.

[vii] Editor's note: "Progressive" here refers to a purely mathematical relationship. It means that the correlation between size and benefits received is positive: the larger firms receive the most benefits.

[viii] Gardner's sources: Admiral Leahy, *Diary*, December 6, 1945, Leahy MSS; Cordell Hull, *Memoirs* (II, 1600); Roosevelt, *Public Papers* (1944-45, 563-564); and Lewis (1948, 209-211).

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