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

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Part Two

Creating new tenure in new resources

Lenin (1917, 90) wrote “For the first time the world is completely divided up, so that in the future only redivision is possible.” How little he knew! True, there are no blank spots on the map. Neither were there many in 1823, but a good deal has been firmed up since then. Today, the most obvious unsettled area is the ocean floor, with oil companies taking exploration leases—a step towards tenure—on the continental shelves by the ten thousand square miles.

To legitimize drilling in the Gulf of Mexico, President Truman unilaterally extended U.S. sovereignty out to a variously defined “edge of the continental shelf.” There was no one to dispute it in 1945. We had a nuclear monopoly, and all the chips.

Twenty companies have applied for offshore concessions in Vietnam (Newsweek 1971a). All the shallow seas, gulfs, and straits of the East Indies are under lease. The entire east coast of Asia, which we have spent dearly to control, is spotted with leases and/or prospectors from Bali to Korea. Singapore is now a major producer of deep-water drilling rigs, as well as the shallow water of “swamp buggies” now being proffered to Peking (*Ramparts* 1971; *BW* 1971d; *Le Tourneau* 1971; and *San Francisco Chronicle*, 11 June 1971). Saigon, Djakarta, Seoul and Taipei are among the lessors; Hanoi, Beijing, and Pyongyang are not.

Many areas are claimed by two or more sovereigns, like Vermont in the days of the Wentworth Grants and the war with New York. Some are in dispute between different levels or agencies of the same government, like tidelands oil in the United States itself, and “freewheeling” Indonesian General

Sutowo signed oil concessions that were cancelled by his superior, the minister of mines, but upheld by General Suharto, for whose army, the oil money is earmarked (Tanzer, 364, citing *WSJ*, 18 April 1967).

Unpopulated land areas are also interesting. Indonesia has granted 30 million acres to foreign firms, mostly ones based in the United States (*BW*, 1971e).

But those are only the margins of it. A land area may be populated without having stable government, and land tenure is no more secure than the government that polices it. Where government is weak, tenure may be influenced by alien force.

When knights were bold, they would move into a troubled land, slay the defenders, and divide up their lands and chattels. We no longer use those crude methods. The American way in the 19th century was what is now called a Fifth Column. Armed Anglo-Americans settled in Louisiana Territory were so obvious an occupying force that Napoleon was glad to get a few dollars from Jefferson for a quitclaim. He was in no position to sell a warranty deed. In 1821, Spain likewise recognized the Anglo occupation of Florida. When Mexico ceded us another empire in 1846, we had already occupied in force, and Queen Liliuokalani met the same fate in 1893.

As we wax wealthier, our methods grow more capital-intensive: fewer bodies, more money. This calls for modified procedures drawing on the models perfected by Imperial Britain. How can U.S. firms influence foreign statesmen? Just as they do at home, only cheaper. A U.S. firm pioneers, allying with a local ruler or would-be ruler who needs Yankee dollars. Lending is a common entry. Weak governments have the highest time-preference, and have been known to barter away the nation's future for a pittance in front money. The local ruler may be corrupt and ready to sell out his nation's wealth to increase his own by a much smaller amount. As Henry Gomez puts it, "During the dictatorship (in Venezuela), any differences that arose between the government and the companies were settled within the context of a gentlemen's agreement" (Gomez 1971, 324). There are rival juntas and cabals and cliques, and just plain gangs like the Ton Ton Macoutes of Haiti, to back. In some cultures that has become habitual, so the U.S. firm suffers no guilt of originating sin. It is enough to excel at it. What U.S. firms sometimes lack in finesse they make up in wealth.

After that they may invoke what Mikesell calls the "powerful sanctions" of the U.S. Government, and "sanctity of contracts," "property rights," and "legal justice and international morality". As examples of these qualities and "constitutional and responsible government," he cites the present [1971] regime in Brazil as the product of what he calls a "military coup" ((Mikesell 1971b, 31 and Mikesell 1971c, 356).

The cacique has a survival problem and needs friends, preferably rich and powerful. "fPeru allowed Occidental to explore for oil on the frontier only because it felt the United States might intervene if Ecuador caused trouble." (*Newsweek*, 1971b). Internal survival is the more common problem. What better solution than to grant land tenure to a U.S. firm with influence at State? The less legal and more one-sided the grant, the more it depends on the cacique retaining power, and the greater personal support he commands from his U.S. friends. This arrangement benefits the U.S. firm as well, with the added benefit that U.S. force can help discourage the cacique or his successor from reneging.

The best thing for a cacique to give away is something he needn't take from anyone who thinks he owns it. Answering this need is property in minerals not yet discovered, i.e., exploration leases, and invisible resources like the radio spectrum, whose use demands the sophistication that metropolitans hold over colonials. Complexity and unfamiliarity also help deflect criticism. Thus, IT&T, whose political influence at home has surfaced in March 1972 in the Kleindienst affair, "has a 20-year joint venture with the

Indonesian government to operate that country's first commercial satellite communications earth station." IT&T subsidiary Rayonier is receiving timber concessions, too (BW, 1971e). Current Anderson revelations indicate IT&T has used money and the CIA to intervene in Chilean politics, and, by inference, elsewhere.

All resources now sub-marginal but potentially rent-yielding are more interesting to metropolitans, with their superior finances and waiting power, than to colonials. Even unknown resources are interesting. Clarence Randall commented on uranium in the Congo, "What a break it was for us that the mother country was on our side! And who can possibly foresee today which of the vast unexplored areas of the world may likewise possess some unique deposit of raw material which in the fullness of time our industry or defense program may need?" (Randall 1959, 36, in Magdoff 1969, 197).

The cacique is probably strongest when he can leave traditional resources like farmland in the tenure of natives. Absentee ownership of coffee, cotton, sugar and banana lands in Cuba and Guatemala was the stuff of revolution. Bolivia, on the other hand, rejected even the charismatic Che, because Paz Estenssoro's land reform had created a conservative countryside.

Support of "friendly" governments

In today's world it is important to maintain the substance of empire without the appearance. Many like to feel, with Professor Mikesell, that critics of U.S. absentee owners are "emotional," "dominated by chauvinistic nationalism," and that absentee owners are "vilified" and "persecuted in the press by the leftist and demagogic elements," and are victimized as the "symbol of the economic imperialism of a half century or more ago (Mikesell 1971c, 352-4 & Mikesell 1971d, 425, 432). So U.S. force is mostly latent, and positive incentives are stressed instead. Mikesell summarizes this low-profiled approach:

"Diplomatic protection does not rest on formal treaties alone. The vital interest of foreign countries in maintaining cordial relations with the United States, which arises from our aid programs and other economic relations, provides an opportunity for effective representation by our officials on behalf of the interests of American (*sic*) investors. It goes without saying that such pressures must be applied subtly and with intelligent understanding of the issues and, above all, the avoidance of actions or statements which give the appearance of interference with the internal affairs of the local government" (Mikesell 1957, 48).

Dean Rusk likewise puts it in velvet: "So our influence is used wherever it can be and persistently, through our Embassies on a day-to-day basis, in our aid discussion and in direct negotiation, to underline the importance of private investment" (Rusk, 1962 Senate testimony, cited in Magdoff 1969, 128).

Such pressures control LDC standing governments, and also serve as means to intervene to undermine a man and finance his replacement, as in Brazil in 1964, when aid dried up for Joao Goulart. The succeeding military junta of Castelo Branco in 1965 got ten times as much (Magdoff 1969, 137-8). Goulart had tried to assert national control over oil, disputing Esso (Tanzer 1969, 359-360). Ambassador Lincoln Gordon supported Branco, and President Johnson wired congratulations to Branco before the exiled Goulart had packed his bags. State was punishing Brazil beginning in 1960 for refusing to grant oil concessions to ex-officials of the U.S. Government (Hanson, *Inter-American Economic Affairs*, Summer 1960, cited in O'Connor 1962, 100).

Castelo Branco, on the other hand, was "halting the previous trend toward state ownership." New

foreign investment is being sought for development of minerals and petrochemicals (U.S.A.I.D. 1966, 79, cited in Magdoff 1969, 140). When Brazilian President Emilio G. Medici, a career soldier and military dictator, visited Washington on December 7, 1971, "Nelson Rockefeller, who has been decorated by the Brazilian government for his extensive interests there, came down from New York with Happy for the dinner" (*Washington Star*, 8 December 1971). Today, Brazil "is experiencing a dynamic growth that has been helped by a steady inflow of aid dollars that have been cut back elsewhere" (*Washington Post*, 9 January 1972).

The Hanna Company of the influential George Humphrey firmed up its uncertain tenure in Brazil to iron deposits, a railroad right of way, and a port. It brought in, besides Humphrey, the strong man of the Eisenhower administration, a former Under Secretary of State and son of Herbert Hoover, the son of John Foster Dulles, and John J. McCloy, ex-President of the World Bank (Mikesell 1971c, 353). Mikesell is critical of those interpreting this as applying U.S. political pressure, yet it does seem to fit the "pressures...applied subtly" which he advocates above. Some might question the subtlety.

In 1963, the Hickenlooper Amendment provided that aid be cut off for any nation expropriating U.S. tenures without adequate compensation. It was aimed at Peru and at President Illia of Argentina (Edwards 1971, 174 & *NYT*, 11 November 1963). General Onganía replaced him in 1966 with a military dictatorship which met all criteria for receiving aid (Tanzer 1969, 355). The Hickenlooper Amendment was invoked against Ceylon, under Kennedy, on behalf of Esso. On January 19, 1972, President Nixon announced his intent to invoke it against future expropriations (*Washington Post*, 20 January 1972). The United States Senate on October 30, 1971, "killed" the foreign aid bill because the U.N. had expelled Taiwan. It was a clumsy lunge, yet betrayed something about aid.

The premise that aid will be tied to compliant behavior is the basis of the claim that "nationalization ... (of Chilean copper) would also have impaired the flow of international capital for other purposes, including loans from the international public lending agencies and from AID [the Agency for International Development]" (Mikesell 1971e, 384). Hollis Chenery, an AID official, described the agency's objectives as three: "... our own selfish interest ... internal stability ... security of the U.S.". Economic assistance, he said, is provided to "countries [in which] we value the preservation of the present government" (Chenery 1964, 81, 87). Emilio Collado, Treasurer of Jersey Standard, testified the United States should "make clear to all countries that the record of their treatment of private capital, domestic and foreign, will be an important factor in any decision on foreign aid" (cited in Schelling 1964, 150). Howard Ellis supports aid as a "weapon." "Compared to the ethical or the economic arguments, it is the political grounds for foreign aid which are overwhelmingly important" (Ellis 1964, 54, 57). Edward Mason (1964, 13) writes, "The overwhelming important explanation lies in U.S. security interests". Millikan and Rostow (1964, 98) argued that we should use aid to overcome the reluctance of LDCs to allow export of "resources which could be further exploited to provide the supplies needed by the industries of Japan, Western Europe, and the U.S."

More skillful thrusts are delivered by more sophisticated fencers, who often deplore the ham-handed Hickenlooper approach. Slowing capital flows to governments that contemplate nationalization of natural resources is often a more effective means of controlling behavior than a reduction in formal aid. According to Mikesell (1971a, 11), "Capital for (developing minerals) cannot be borrowed by state enterprises from international institutions such as the World Bank since these institutions do not want to compete with capital available from international mineral and petroleum companies" (cf Tanzer 1969, 118). The Export-Import Bank cuts off credit to government-owned oil companies (Tanzer 1969, 390). Nkrumah of Ghana was overthrown by a coup in 1967; his military successor gave concessions to U.S.

firms and enjoys a good credit line at IMF (Tanzer 1969, 363).

Excursus: Comparison with domestic corruption

In short, large overseas investors have massive leverage because they can persuade the U.S. government and international lending agencies to serve as their guarantors and to prevent competition from the public sector in LDCs. The host government is expected to provide services that will enhance the value of foreign investment but never to take actions that will reduce its value.

Once that method of exercising power is understood, the boundary between foreign and domestic policies ceases to be sharp. For example, Beloit, Wisconsin, recently annexed an island of land several miles east of its limits, qualifying it for city services. This multiplied the value of the land. It is only incidental that the owner was the brother of a city councilman; he might have been a cousin, banker, or law partner instead. When this sort of procedure takes place overseas, the cacique provides benefits to foreign investors as well as local cronies.

Public outlay turns to private gain as the central power extends its wing over a less developed country. The payoff comes to him who gets tenure cheap and then redirects public spending his way. Often the benefits are more diffused, as in Los Angeles where the cities subsidize police and water for the whole county. In either case, the way to profit from the taxpayers' money is to get in on the ground floor. That means moving out in advance of government, securing tenure cheap, and then invoking government.

The relationship between "friendly" government and investors in marginal land is particularly evident in the case of swampland and floodplains, which have almost no market value without public investment. An influential buys vast areas cheap and then summons other taxpayers to control the floods. It is entirely fitting that the federal agency administering most of the dollars spent in this way is the Army Corps of Engineers in the Department of Defense.

On the local level government brings sewer, water, streets, and so on and police. Taxes come too, but not generally in proportion to costs. Residents of core areas often subsidize residents of outlying areas, which are more costly to serve. The balance of advantage is to the frontiers. That is how we get urban sprawl, and overextended governments. On the global level it is mainly police that the U.S. finances for offshore America. There is no increase of taxes at all. This is how we get global sprawl and overcommitted armed forces.

Protection of other licenses and privileges

Minerals are not the only resource subject to these cross-subsidies between core and periphery, long lead times for development, and uncertainties of tenure. Any resource whose use entails research is similar: "research" is a kind of exploration. Taxpayer-financed research in communications has developed the communications satellite, and a novel U.S. corporation that shares ownership with forty-five governments (Magdoff 1969, 64, citing *Department of State Bulletin*, 10 May 1965, p.700; Phillips 1969, 191-203). Some \$6 billions of the defense budget each year goes for "R&D." Discoveries are patentable by private contractors, with no interest given to the United States.

Thus far, we have considered only examples of how mineral rights can serve as the point of entry by which a foreign investor influences a host government and leverages additional privileges. Developing economies teem with special privileges begging to be hooked: bank charters, airline and shipping routes, satellite systems, telephone monopolies, broadcast bands, and other communications systems,

cartels, licenses, quotas, franchises, zoning variances, price supports, water rights, rights of way, subsidies, cheap loans, patents, concessions, etc. A bit of the range of possibilities was painted by Joseph Palmer, Assistant Secretary of State for African Affairs, in 1968: "Their (Africans') respect for our interests is illustrated by their special facilities and rights made available to us...American civil and military aircraft use African airspace; U.S. naval ships call at African ports; and the U.S. maintains space-tracking and communications facilities on African soil. U.S. investment [is]...involved in copper, bauxite, iron ore, uranium, petroleum, manganese, and scarce minerals" (testimony on Foreign Assistance Act of 1968, cited in Magdoff 1969, 129).

To control or influence a client government in an LDC is to have an inside track to tenure of these privileges when they are first being passed out. It is like being able to go back in a time machine and get grandfathered in on the Kern River (California) before the Army Corps of Engineers donated Isabella Dam; or the exclusive right to truck between New York and Boston before they had ten million people and an Interstate Highway link; or a cotton farm before price supports; or the Chicago-Los Angeles air route before jets. The possibilities are limited only by the imagination.

A banking charter is a prime example of the kind of tenure in property created by granting a limited number of licenses to a privileged few. Charters are not usually sold or rented to the highest bidder, and therefore are given in the only other likely way, i.e., to those with influence. Client governments of the United States have been giving bank charters to U.S.-based banks, presumably in response to the suasion a patron exerts on a client state. The U.S. government deposits its funds in these banks, helping them get well started. In India at various times it was estimated the U.S. government held as much as 20% of the money in the nation.

Three U.S. banks have almost all the overseas branches: First National City, Chase Manhattan, and Bank of America [\[ix\]](#) (Magdoff 1969, 73). Stillman Rockefeller heads the first; David Rockefeller the second. As an added stimulus, the Edge Act of 1919 amended the Federal Reserve Act to let offshore subsidiaries invest directly in mining, trade, manufacturing, etc. Overseas loans are free from U.S. anti-usury laws, and it has been said that for the Edge Act banker life only begins at 7%.

Comsat is a splendid example of privileged positioning in the communications field. It was set up in 1963, with control pretty well vested in AT&T, to handle the "revenue-producing" aspects of satellite relays, in the words of D. D. Eisenhower. The satellite was a product of military research. Its operation required an allocation of frequency rights around the world. The United States secured these rights at an Extraordinary Conference of the International Telecommunications Union (ITU), Geneva, 1963. Dr. Charyk, President of Comsat, supported the United States claim, saying, "Who is there first has a priority, so to speak" (Phillips 1969, 193-96). Here again we see the basic trinity: discovery, priority, and power. For the third, which is still the greatest, Comsat Chairman James McCormack, said, "... (Comsat) serves as a representative of the U.S. Government (Phillips, 196, citing *Signal* 1967).

Air routes are another example of a privilege-granting license. For years Pan American, the "chosen instrument," represented the U.S. Government, like a modern East India Company. Pan Am works closely with the Air Force, contracting the management of bases. Today the U.S. Government in effect allocates rights to fly across the Pacific. The U.S. does not own the Pacific, yet victory over Japan gave us control. We also won and built air bases, and operate navigation aids. The sale of air routes is not, however, helping pay the national debt, or helping disabled veterans. The routes are given away. Then their value is enhanced by a monopoly of lucrative Military Air Command passenger contracts, and stands to rise further when Senators Magnuson and Cannon shall have succeeded in requiring MAC to

give half its oversea cargo to the commercial air lines (*Washington Post*, 17 October 1971).

There is also the kind of quota given by a cartel, that is, tenure over a share of the market in a country. While this is not usually granted explicitly by government, the creation of a cartel often entails advice, and always consent. It entails the real estate of marketing, too: tank farms, rights of way, and gas stations. Thus the funds from the ECA (Economic Cooperation Agency) and MSA (Mutual Security Agency) to “aid European reconstruction” were funneled to the seven sisters, members of the international petroleum cartel. U.S. firms got the largest part of increased refining capacity. “Marketing apportionments” were respected (Engler 1961, 218). It is likely that U.S. aid is used similarly in many recipient countries to strengthen tenure over shares of the market by cartels.

Market control often entails patents. Extension of U.S. sovereignty extends the market within which patent privileges are policeable. Sale or exploitation of U.S. patents in client nations has been a large source of revenue to U.S. firms.

The U.S. Trade Treaty with the Philippines, the Laurel-Langley Agreement of 1956, makes quite a point that the public domain of the Philippines, which under Spanish law includes all subsurface minerals under private land, shall be “open to” U.S. citizens (Magdoff 1969, 127). Government in the Philippines is corrupt, seeming to open the door to U.S. interests to acquire Philippine minerals. How this process may operate has been described in Quebec by Canadian Premier Trudeau: “the real money comes from huge corporations and wealthy enterprises that willingly give to the parties which...promise (and deliver)...special franchises, valuable contracts without tender, mining or hydro rights of inestimable value, for a row of pins—to say nothing of openly tolerating profitable infringements of the law, as is the case of timber-cutting operations” (*Vancouver Sun*, 10 February 1972, p. 6).

Once the U.S. firm has established some claim to tenure, what U.S. force provides is a kind of title insurance. Indeed, we call it that. The Economic Cooperation Act of 1948 established Overseas Property Insurance Corporation (OPIC), federally underwritten insurance against expropriation and inconvertibility abroad (Mikesell 1957, 48-9). The host country must execute a bilateral treaty with the U.S.: then U.S. investors there may be insured. The Foreign Assistance Act of 1963 denied aid to any LDC failing to enter into this “investment guarantee program.” Seventy aid-getters have signed (Magdoff 1969, 128). OPIC is not a profit-making insurance enterprise. Premiums collected claims so far total millions less than claims. Anaconda currently claims \$313 millions for its Chilean copper losses. IT&T claims \$108 million (*Washington Post*, 15 October 1971; NYT, 6 March 1972). Congress must make up the short-fall (*Washington Star*, 16 October 1971; *Newsweek* 1971c). Insurance in force, the total contingent liability, was \$3.8 billion in 1971 (*Resources*, January 1972, 15 [Washington, D.C.:Resources for the Future]).

When OPIC pays an expropriated firm it assumes its assets and claims. This puts the expropriating power in the position of violating a treaty and wrongfully holding property of the U.S. Government, provocation enough to justify bringing to bear the full-weight of U.S. pressure. Naturally we whisper before we shout: denying credit, withdrawing aid, shuffling coffee agreements, shifting support to rival juntas, cutting sugar quotas, withdrawing landing rights...there are ways and ways. The Marines are an ultimate sanction, to be spared when possible. Yet the credibility of threats hangs on latent power which has to be shown periodically. This lends substance to John MacNaughton’s Memo: 70% of our aim in Vietnam is “to avoid a humiliating U.S. defeat (to our reputation as a guarantor)f To preserve our effectiveness in the rest of the world (Sheehan et al. 1971, 432, 492).

So long as governments allocate tenures and analogous privileges without auctioning them to the highest bidder or employing some other device, such as taxing rents, to recoup gains for the public treasury, the control of government is the road to unearned riches. So long as the United States is willing, the prospective grantees will draw us into wars.

Capturing existing tenures: the spoils of empire

Another contribution of U.S. force is capturing existing tenures, the prospect that Lenin (1919, 90) emphasized. Oil is an example. Before 1914, the English and Dutch had frozen Esso out of the Persian and Southeast Asia areas. After 1918 the United States insisted that it had “contributed to the common victory,” so its firms should get concessions in the mandated lands of the old Turkish Empire (Engler 1961, 192, citing U.S. Senate 1944, 576, and U.S. FTC 1952, 51). Britannia ruled the waves, hence the minerals of the Persian Gulf area, but an ally could make waves, too. Benefits to Esso and Socony (in Iraq Petroleum Co.) evidently were regarded as compensation of some sort to the U.S. (Mikesell and Chenery 1949, 45). Charles Evans Hughes, Secretary of State, 1921-25, became known to critics as Secretary for Oil (Engler 1961, 192).

Former German holdings were also interesting. The U.S. Department of State pressed the Dutch to open those in Sumatra to U.S. firms. As part of the bargain, Dutch Shell received concessions on the public domain in the United States. “[W]ith respect to land leases,...the (Dutch) wish to maintain friendly relations with the U.S. was an important factor in creating a satisfactory atmosphere for negotiation” (Higgins et al. 1957, 40). Some people put things so nicely. The voice was State’s voice, but the hands were the hands of Esso. Thus the subsidiary Stanvac received leases, the basis of its presence in Sumatra (Engler 1961, 192). Dinsmore Ely’s “investment” was yielding a return.

In 1930, again, State stepped in to persuade Great Britain to let Socal keep a concession in Bahrein, a stepping stone that soon led to Saudi Arabia (O’Connor 1962, 17). In 1934, Gulf landed Kuwait. Had the U.S. Navy then outweighed Britain’s as it does now, Gulf would not have had to give half to B.P. (O’Connor, 12).

In 1936, Socal joined Texaco in Caltex (for marketing) and Calirabian (for Saudi Arabia; in 1944 it became Aramco). When Calirabian secured a final concession from Ibn Saud, in 1939, State “quickly established relations largely as a result of our (sic) interest in the development of Arabian oil resources (Mikesell and Chenery 1949, 54).

At a 1940 press conference, F. D. Roosevelt observed, “in carrying on this war, the British may have to part with that control, and we, perhaps, can step in. It is a terribly interesting thing” (Gardner 1964, 126). During World War II, Calirabian (Caltex, Aramco) faced rising demands from Ibn Saud. They prevailed upon the United States to provide it as Lend-Lease, and the protection of the flag to boot (Engler 1961, 199-200, 221). The Brewster Committee said, “They constantly sought the cloak of U.S. protection and financial assistance to preserve their concessions” (Engler, 222, citing US Senate 1948, 338). Mikesell and Chenery (1949, 81) added, “Company officials frequently serve as informal advisers to the King and his ministers and perform the function of an unofficial ambassador in Washington.... The foreign policy of the U.S. coincides more or less with that of the oil company.”

Wartime U.S. aid to Britain had a post-war price: opening Britain’s Empire Preferences to U.S. firms (Magdoff 1969, 125, citing Article VII of the Anglo-American Financial Agreement). This meant more Persian Gulf concessions to U.S. members of the oil cartel. The United States had helped occupied Iran evict Russia from the north in 1947. Jersey Standard was given an allocation of Iranian crude, and the

Trans-Arabian Pipeline (Tapline) came into planning (Mikesell and Chenery 1949, 43). Then began the era of U.S. foreign bases. The United States built one at Dhahran (Aramco headquarters) for \$43 million (Engler 1961, 201). The companies used the United States again to secure the right of way for Tapline (Engler, 220).

Meanwhile, back in Indonesia, U.S. eviction of the Japanese was not without cost to Royal Dutch Shell. First, we encouraged the Indonesian rebels. The Dutch fought back. In 1949, U.S. pressure on the Dutch, implying a threat to cut off economic aid funds, and on the Indonesians, who were promised U.S. support, resulted in a new cease-fire. Shell was nationalized; Stanvac survived (Higgins et al. 1957, 16). Today, U.S.-based firms hold most of the oil, mineral, timber, radio, and other concessions in Indonesia (Time 1971). The Dutch colony has become a U.S. colony.

Fencing the seas: protecting marginal, premature discoveries

On the high and open seas, force plays a third role. There is no cacique to grant a new tenure, nor any fading imperialist from whom to wrest it. It is a matter of creating tenure from primordial chaos, of which there is still a good deal in places like the South and East China Seas, Persian Gulf, and Mediterranean. Even the civilized North Sea is without unequivocal boundaries ratified by treaty. In such conditions, naval power means much. Beijing is now among those contesting the North Sea. Absurd? Not really more so than U.S. firms drilling in the East China and Yellow Seas, legitimized by dealings with client states South Korea, Taiwan, and Japan, sheltered by the 7th Fleet, and fortified by ping-pong diplomacy. Jersey Standard, the company named for an island, pops up with refineries and associated tenures on islands everywhere, including Okinawa. This worldwide insularity gives it a special interest in the doings of the U.S. Navy.

Priority also means much. Even without much power, Hawaiian Polynesians, U.S. Indians, and now Alaska Eskimos have won title to large and occasionally valuable lands based entirely on the homage, cloaked as altruism, that property owes to priority. Spain, Portugal, Holland, and Britain retain large properties from their former empires, even though their present forces could never win or hold them.

This lends urgency to U.S. firms racing for position in turbulent areas. The Soviet Navy is growing bolder. Japan is threatening a comeback. Beijing is disputing the Senkaku Islands and ordering "swamp buggy" shallow water drilling rigs from Singapore. To the experienced appropriator of unfenced resources this all shouts, "Now!" Take while you can. Establish position. Following that, you can defend your tenure with the self-righteousness of a widow being evicted on a winter's night. Sanctity, legality, and morality will be yours, for that is the way of the world.

Insecure tenure of the ocean floor discourages investment in improvements that others might exploit. But there is also capital whose function is to exploit the resource and exclude others" fishing boats, for example. Unfenced resources get oversupplied with such exploitive capital. Economists have lately rediscovered Arthur Young ("The magic of property turns sand into gold"), and it is now reestablished that the fate of the commons is not abandonment but overuse: underimprovement, perhaps, but overexploitation, certainly.

The Herring Wars of the past are a minor issue today. The Tuna War with Ecuador is a pinprick, and a sort of aid for Ecuador since the Tuna Fishers Association has lobbied through a law that the United

States pay their fines. The big prizes are the minerals under the ocean floor. The exploitive capital being applied is outlay on discovery plus whatever minimum production is required to confirm one's presence. The motive is to establish tenure.

This motive is stronger than the fisherman's, who only salts away today's haul within his wooden walls. The successful prospector secures the entire resource. Given naval support, discovery converts common into private tenure. This supercharges the incentive to invest in exploration.

Economists have established that interlopers will overcrowd common lands or waters until the interloper's average product equals his average cost, reducing everyone to the same fix, and the net gain to zero.

A similar force works with discovery, but in subtler guise, and economists have not propounded it. After discovery there is tenure, "sand into gold." Overcrowding comes in the activities that precede and create tenure, notably exploration. Explorers are most hyperactive where ownership is least certain.

Private waste manifests itself in two ways at least. The Rule of Capture leads to a Principle of Comparative Disadvantage. Resources firmly under one's wing may be held in reserve for future attention. The important thing is to move right under the rival's nose, as close in as one can get. The more convenient and logical an area is for others, and the less for our side, the greater incentive to move in when one can and preempt it. Tokyo, Seoul, Pyongyang, Taipei, and Beijing are not likely to reconcile their clashing claims in the Yellow Sea for some time. What better occasion for U.S. firms to find oil there, establish a presence, and start trading among rival lessors as they have in the various Indonesian seas? They are not without backup, dealing with clients of their government in seas patrolled by the 7th Fleet.

The other private waste is prematurity of exploration. The principle that overuse dissipates rent on the commons applies to the high seas during the period before there is tenure. One does not wait until an area is economically ripe for exploration—by then it is long gone. Where a rule of capture applies, the time to discover minerals is when the expected *discovery* value covers the finding costs. Interloping explorers will comb over an open area until the entire discovery value is eaten up by exploration costs (Gaffney 1967, 382-399).

Discovery value today is the discounted value of the future cash flow expected. Discovery value rises above zero long before the optimal date of use, and evokes exploratory outlays roughly equal to itself. What would have appeared as rent is eaten up thereafter by interest on premature finding outlays. Sometimes major explorers avoid this outcome by respecting each others' spheres of influence, playing the sovereign in a power vacuum. Or they negotiate leases before rent is dissipated. But there remains a propensity to dissipate net benefits through inflated and premature finding outlays.

On top of these inflated private costs there is the social overhead of ocean police who provide security of tenure for the premature discoveries. The private beneficiaries do not count that among their costs. The public cost is enormous, even though the net private gain after costs may be small, or zero

Extensive exploration leads to military overcommitment

The result of such uncontrolled commitment is overcommitment. One may object that net gains to U.S. firms are too small to explain much of our huge military budget. That, however, would be to assume there is a Pentagon benefit-cost analyst with authority over military deployment. During the tenure of

Secretary McNamara we did hear a good deal about PPB in the Pentagon, cost-effectiveness and all that, but the Secretary's measure of benefit was the body-count, neither moral, accurate, nor relevant. If the Pentagon measures the marginal benefits of its marginal operations by appraising the value of resources gained and tenures firmed, it reports only to those especially interested. The domino theory obviates the need, anyway; every outpost becomes vital to national survival.

In practice it would seem that U.S. firms, at least some, can commit U.S. forces even though the net gains are small and the military costs gross. The firms are not assessed for any extension of the military umbrella they may require. They proceed on the basis of their own gain and cost, treating associated military outlays as free inputs.

Some caciques, too, have power to commit U.S. forces. Saigon is an extreme case. Roy Prosterman is fond of repeating that we could buy out all the landlords of South Vietnam for two weeks' cost of the war, and while that may be overdrawn, it gives a notion of how committed we can become to achieve so little.

The resulting global overcommitment is now widely recognized, and some hard choices must be made. One may surmise that the affected firms take an interest in these. Libya presently is bullying Occidental Petroleum. Occidental has been a troublesome maverick to the world cartel (*BW* 1971f). Libya also nationalized British Petroleum, which is trying to invade the U.S. market, and may be too big for its Queen's Navy, although we will see the oil cartel has reasons for protecting it anyway. Iran and Arabia on the other hand are still treating their U.S. guests hospitably, at least relatively (all OPEC nations are increasingly fractious today). Their guests are the leaders of the cartel, and most influential. Algeria, which evicted French Petroleum, has compensated Jersey and let her back in, along with El Paso Gas. The client states of Southeast Asia are still offering more favorable terms—the majors predominating, and developing a counterweight to OPEC demands. These facts are consistent with a hypothesis that certain firms are more equal than others in their ability to commit U.S. force. [\[x\]](#)

Although choices are made among those who would commit U.S. forces to serve themselves, the general pattern is overcommitment. It is the nature of U.S. politics to promise more than can be delivered, to give away more than there is, especially in the easy form of contingent liabilities. So long as anything of value is being given away, everyone wants some and many will find a way.

The U.S. military gives away international police protection below cost, indeed free, to selected U.S. firms. As one writer sees it, "Historically, the oil companies preferred to work without any help, for government support always carried with it the potential of accountability. And so their appeals have often come in especially difficult situations" (Engler 1961, 193). Their incentive is to create a pretext for U.S. interference: get title to resources cheap, outside the military umbrella, then invoke *Pax Americana*, playing on the Pavlovian patriotism and manly stupidity of primitive citizens who respond to slogans and crises. The companies enjoy the capital gain that follows. It would be hard to contrive a system better calculated to draw out U.S. forces around the world. "[T]he prospect that the Navy may some day have to protect hundreds of U.S.-bound oil tankers from Soviet warships is creating a 'new' and 'emerging' role for the U.S. fleet, according to Adm. Elmo R. Zumwalt, Chief of Naval Operations.... The potential for coercionis ominous...U.S. officials...also explained the need for an increased U.S. naval presence in the Indian Ocean, partly in terms of protecting the flow of oil from the Persian Gulf to Japan and other U.S. allies in Asia" (Washington Post, 21 February 1972). There is no end to it.

[ix] 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*.

[x] The power to commit U.S. military strength depends on political connections, which are based in part on campaign contributions. In 1971, the Citizens' Research Foundation, published a study (reported in *Newsweek* 1971d: 30), which detailed the 1968 political contributions by the members of eleven prominent families. Of the \$3.1 million in contributions, a little over \$2 million came from 21 members of the Rockefeller dynasty, about \$300,000 from the Mellons, \$200,000 from the Pews, around \$100,000 each from the DuPonts, the Fords, and the Whitneys, with amounts ranging from \$12,000 to \$70,000 coming from the Fields, Harrimans, Lehmans, Olins, and Vanderbilts.