

[Part Three](#)

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

by Mason Gaffney

[Introduction](#)

By Clifford W. Cobb

[Part Two](#)

Creating New Tenure in New Resources

[Part Four](#) Tax Subsidies of Beneficiaries

[Part Six](#)

Conclusion

[Part One](#)

Is Defense a "Public Good"?

[Part Three](#)

Quotas and Other Privileged Entries to U.S. Markets

[Part Five](#)

Those Who Don't Benefit: American Citizens

[Bibliography](#)

Part Three

Quotas and Other Privileged Entries to U.S. Markets

If U.S. forces are devoted to securing foreign minerals, either for the nation or for a few powerful interests, it is natural to ask why some of this mineral wealth is denied access to the U.S. market.

Most of it, to be sure, is welcomed here, so long as it is not refined or processed. (We have preferred to keep pollution at home, although that could change in today's mood). The list of foreign primary products subject to high import hurdles is short, and mainly limited to those that compete with domestic owners who are independent of offshore owners. Some cases are oil, sugar, lead and zinc, tungsten, molybdenum, magnesium, fluorspar, mercury, ferrochrome, and ferrovanadium. Oil is the largest, and I will focus on it.

The oil quota system establishes a two-price system, domestic and world. It forces overseas owners to sell at the lower world price, and to other countries. For the United States to deploy and finance large military forces to secure these unwanted reserves would then entail a contradiction. That is no reason to doubt it is U.S. policy. But the contradictions are only in terms of the national interest, which may be only incidental. From the viewpoint of overseas oil interests, the quota system works favorably.

First, they have the quotas. Some 12% of domestic consumption may be imported. Quotas were allocated originally in proportion to histories of import. Refining capacity and runs are also considered

in the complex formulae, giving inland refiners an interest. If there were no quotas, world oil would flood the U.S. market and bring prices down to world levels. Thus the system lets the majors sell a lesser volume at a higher price—something monopolies like to do anyway. The majors also retain large domestic holdings, which benefit from the quotas.

Second, the majors benefit as monopsonists (single buyers). They are constantly expanding overseas, and bargaining with local owners and governments. Their privileged entree to the U.S. market keeps others from bidding as high as the U.S. majors for leases. Continuous bargaining with older host countries, banded together in OPEC, is also the rule: bargaining over taxes and royalties. The majors' bargaining strength hangs on there being a surplus of reserves *in situ* relative to the volume demanded. [xi] Thus they can buy and pay local taxes on oil under depressed world market conditions while they sell in the rich U.S. market.

Various reports put the annual value of oil quotas at \$5 billion (Nixon Cabinet Task Force under George Shultz) or \$7.2 billion (John M. Blair, former Chief Economist, Senate Antitrust Subcommittee) (Washington Post, 9 January 1972). [xii] A tariff, recommended by Shultz, would at least put this annual tax into the Treasury. The quotas let the oil firms tax the country. Capitalized at 5%, the quotas are worth \$100 billion and up. It may already be too late to undo the system, once created, without compensating the oil firms for loss of that privilege. Sanctity, morality, legal justice and responsible constitutional government forbid expropriation without compensation, as Professor Mikesell has pointed out.

The key to maximum profit is to acquire petroleum reserves on terms reflecting world prices, then gain privileged entry to the U.S. market. We have looked at the statics. The dynamics offer room for further play. Quotas are bound to expand over time. The giants' way is to acquire world reserves cheap while quotas are tight, then enjoy watching them appreciate as quotas rise.

The quota system has several leaks. Residual fuel oil is quota-free, for industry and power plants. This market alone is as large as all of the oil that falls under the quota system. Feedstock for petrochemical plants is coming next. Home heating oil is in a special class and would certainly be next if many voters got cold. The Oil Import Appeals Board can spring some oil for this, and is disposed to do so (Washington Post, 6 November 1971). Overland shipments are exempt, and there has been a great shuttle going back and forth across the Rio Grande at Brownsville. Asphalt is non-quota now. Puerto Rican and Virgin Islands refineries get extra quotas. And so on.

A large leak is military procurement itself. The same war machine that protects tenure of oil is also its largest single consumer: the means and the ends of national defense overlap. Navies have long been large consumers. Britain nationalized and promoted Anglo-Iranian Oil Co. long ago to secure bunkering for the Royal Navy. Today's forces are increasingly oil thirsty: jets, tanks, trucks, choppers, personnel carriers, generators, space heating, etc, all consume oil, the fuel of greatest mobility. No armed force in history has used so much oil per soldier as ours, operating on the other side of the world with the highest capital intensity. If Napoleon's armies traveled on their bellies, ours move on their haunches, powered by oil. "[W]ith the boom in strategic materials during the Korean War, Indonesia enjoyed a species of prosperity, with a highly favorable balance of payments" (Higgins et al. 1957, 11). One can imagine what the Vietnam War has meant to Indonesia.

The quota system is complex, and petroleum data are complex, so any summary numbers are oversimplified. Data are in barrels and gallons—dollar figures are harder to find. Roughly, however,

DOD procures one million barrels a day (mbd) of petroleum products. That is about 7% of civilian consumption, 15 mbd. Roughly half the military fuel is procured offshore, outside the quota system. For Southeast Asia operations it is 90% (U.S. Cabinet Task Force 1970, 35). [\[xiii\]](#)

The dollar flow is about \$1 billion a year for domestically procured products (estimated by Martin Bailey, based on data published by Richard Oliver, *Monthly Labor Review*, December 1971). Offshore procurement is presumably at somewhat lower prices, but information on price is not easy to obtain. It is necessary to buy domestically unless the offshore supplier bids at less than domestic plus a 5% premium for freight. That allows for some offshore procurement above domestic prices, depending on local market condition. Control has sometimes been loose, and there is suspicion of overpayment through partial delivery (US GAO 1970, cited by Martin Lobel, telephone interview, 10 March 1972.). Owing to the secrecy requirements of defense operations there is scope for overpricing without adequate audit, outside the Services themselves. AID has a reputation for paying posted prices when no one else does. An investigative reporter could probably have a field day with oil procurement, but that is beyond the scope of this work. Senator Owen Brewster, Chairman of the Senate Investigation of the National Defense Program, calculated that Aramco had overcharged the Navy \$38 million, in 1945 — that was more money then than now (Engler 1961, 221). Navy representatives were “oilmen in uniform” (Engler 1961, 222). Let me simply point to the possibility that this sort of thing may still go on.

Military-related fuel consumption by civilian contractors is not in the Defense oil budget. Airlines with contracts to ferry troops across the Pacific consume much jet fuel, for example. It would take a dissertation to add it all up. The sum would be large. Future leaks and bursts are certain. Fifty percent from abroad by 1980 is now a common forecast. So long as the oil-auto-highway juggernaut keeps us pouring tax money into concrete, subsidizing urban sprawl, undertaxing automobiles, breathing monoxide, tolerating oil spills and pandering to *Geschwindigkeitslust* [love of speed] and *Geschlechtsphantasterei* [sexual fantasies], oil owners can look forward to expanding demand and quotas. As they expand, the quotas will, being political, be based on financial strength—not overtly, of course, but via some plausible surrogate like capacity to import and refine. Those who can finance excess capacity ahead of need will continue to dominate the quotas. Privileged entry to the U.S. market means in effect privileged use of the power of U.S. forces abroad which secure resource tenure, for the value of that tenure is multiplied for those who can sell at the higher U.S. price.

Privileged United States entry may substitute for and be used to reduce military outlays, when entry is controlled by the State Department (or whoever is directing our foreign policy now) for that purpose. Sugar quotas are an intense form of suasion, and potential expropriators of all foreign assets are deterred by knowing they would be denied the richest market. Oil quotas, however, belong to the industry, which allocates them among nations as it sees fit. This aspect of U.S. foreign policy has been delegated to very competent hands, but it is likely that the hands serve the nation only as the nation serves the oil cartel. The nation serves the cartel by policing the world with a view to industry well-being.

Another kind of entry to the U.S. market is in provisioning troops around the world, and renting out bases. The United States has 400 or so military bases outside its territory, in 64 countries (Magdoff, 42, citing US A.I.D., 1968). Foreign caciques hunger after them, for the same motives as Fayetteville, North Carolina, and Junction City, Kansas. [\[xiv\]](#) But the caciques prize them even more. They get rents for the bases, instead of losing taxes, and they get survival insurance. Franco, for example, having received a few billions in U.S. aid and loans from the Export-Import Bank as base rental from 1949-67, raised the rent in 1968 to include more money and a defense guarantee (Magdoff, 119, citing *NYT*, 14 July 1968).

Franco is in the process of allocating offshore oil leases, U.S. firms being primary recipients (*BW* 1971g).

Privileged entry in the U.S. market is best, but entry into other markets is also interesting. U.S. force and associated aid are useful. P. L. 87-195 provides: "The agencies of government in the United States are directed to work with other countries in developing plans for basing development programs on the use of the large and stable supply of relatively low-cost fuels available in the free world" (Magdoff, 139, citing Sec. 647.22 U.S.C. 2406, P.L. 87-195, Part 3).

That follows the Marshall Plan tradition. ECA (Economic Cooperation Agency) and MSA (Mutual Security Agency) aid in Europe, Howard Ellis' "Economics of Freedom," was used to foster dependence of Europe on oil controlled by the cartel (Leeman 1962, chap. 5). Cartel members got the refineries and market shares (Engler, 217-220). Most of the oil came from the Persian Gulf, but the reins of control were not held there, as Iran learned in the Abadan incident. The "seven sisters" controlled entry to European markets. It is interesting to speculate on how long the nations of Western Europe would tolerate being exploited by foreign firms in the absence of their dependency on U.S. force and associated aid.

Japan depends on the U.S. Navy, having lost its own. Gulf and Esso have been given privileged entry as part of the return of Okinawa to Japan: a refinery on Okinawa, joint ventures with Japanese firms, and an import quota (*WSJ*, 26 October 1971). U.S. forces are to remain on Okinawa (*Washington Post*, 29 October 1971). U.S. oil rigs are moving into Japan's territorial waters (*Milwaukee Journal*, 10 April 1971). The U.S. Navy is shepherding Persian Gulf oil to Yokohama, and one may surmise it is not doing it only for the welfare of Japan.

Large influential firms do not fear the quota system. They control it, in nice orchestration with their influence on the military.

Maintaining Cartel Discipline

One of the most important services provided by the U.S. military to the management of corporate interests abroad is the protection of cartels. This goal is accomplished by ensuring that no nation can act independently on resource issues by nationalizing resources or by grant exploration or extraction rights to any firm outside the cartel.

Two types of tenure control

There are two levels of tenure control: 1) simple tenure and 2) monopoly control of an entire market. The first is socially useful because it prevents the dissipation of the surplus or "rent" that comes from natural resources. The second has no social value because it redistributes wealth to those with power.

The ordinary meaning of tenure is the power to exclude others from a single small resource: a parcel of land or a mineral deposit. The social value of tenure lies in preventing the dissipation of rent (or surplus).

Rent might be thought of as a sort of "natural dividend" or a "free gift of nature." [xv] It is the amount of value that is produced, over and above labor and capital costs, from a well-managed (not

overcrowded) resource. The optimal amount of rent is produced when the value of the last fish caught or last sheep grazed (the “marginal product”) is equal to the added cost associated with the final unit of production (the “marginal cost”). At that point, the average product (AP = total harvest or tonnage divided by units of input) will still be above the average cost (AC). The difference between value (AP) and cost is what generates rent. (Rent = (AP-AC) times the number of tons or other units of output.) Restricting access to a resource through some form of tenure rules yields this optimal condition for the individual and society.

Dissipation or loss would occur if a flood of interlopers were permitted to invade lands, fisheries, aquifers, or other resources. In the absence of tenure that controls access, the entrants will stumble over each other until no rents or net gains remain to any user of the resource—the point at which the marginal product is zero. At that point, so many inputs have been applied, the AP falls to the level of AC, and all rent is gone. Open range, open fisheries, open prospecting territory, open parks, and city streets thus lose their net value through overcrowding.

The second level of tenure is unified control of an entire market. Companies with a solid cartel can determine the amount of the resource that will be sold each year and thus affect the amount of rent they can extract. Adding or cutting back on the amount of the resource reaching the market affects the price at which a unit can be sold. Adding a unit of output not only raises costs; it also reduces the price by crowding into markets. Subtracting a unit raises the price. The rent-maximizing price depends on the elasticity of demand—the responsiveness of consumers to a change in price. If demand for a product (such as oil) is not very responsive to price (that is, has a small demand elasticity) then a slight curtailment of supply will dramatically raise the price and the total rent received by producers (as happened in 1974 and 1979). The incentive is thus especially strong for cartels to form around products with low elasticity of demand. [xvi] Elementary price theory decries this monopolistic price-setting and supply-restriction as antisocial. Restricting output redistributes income from buyers to sellers, and it does so at a net social cost. It limits all of the activities that would have been undertaken if more of the resource had been available.

Elementary price theory usually understates the social cost by assuming that the excluded resources go into alternative uses. It does this by using output rather than input as the independent variable and treating all inputs as variables, part of “Marginal Cost”—a technique so familiar I do not duplicate it here. This leaves unanswered the question of what keeps the excluded resources from recombining into new firms to reenter the market as competitors.

A key resource, such as expertise in oil drilling, which is highly differentiated and specific to the industry, does not go into any alternative use—none at all. It is held out of any use by underutilization or outright idling. Or if it goes into some alternative use it is noncompetitive, and under control retained by the monopolist. The monopolist preempts it, thus preventing the excluded resources—undifferentiated labor and capital—from reentering independently.

Cartels must control *global* production

But the would-be monopolist cannot control price by holding back full use of just one oil field. Other firms would move in to supply the market he abandoned. He must control the whole market. There is a world market in most primary products, to control which the monopolist must control the world. “Control the world?” It sounds like science fiction. Yet that is what world cartels have been attempting, and often accomplishing.

Time was when a monopolist might just control the U.S. market behind a tariff wall. But now that resource markets are worldwide, that is not enough. The multinational cartel leaders must preempt the world's resource base, not so much for use as to preclude competition. This of course adds an element of highest urgency to the motives for early exploration and preemption. The preemptive motive ranks high in oil exploration. "A company's objective must be to maximize its overall world profit, and this may require holding an area with the minimum expenditure" (Tanzer, 130-31, citing E. N. Avery). This helps explain active acquisition by international oil companies whose life index (of reserves) is already 45 years (Tanzer, 130-31). [\[xvii\]](#)

And it adds a new dimension to the question of who benefits from military spending. U.S. military force used to help gain tenure of overseas minerals is not merely acquiring property for U.S. firms, it is policing cartels, cartels whose customers include the U.S. consumer, and the very U.S. forces that protect the cartels. And does this not also help explain why foreign firms like Shell and BP, old reliable cartel members, fare as well as they do under the U.S. military umbrella? They are being whittled down, but not nearly so fast as the might of Britannia.

One might think that Pax Americana achieved by U.S. tax dollars and conscripts would mean an open door for many firms in the world. The right to do business under the American flag is the common property of all citizens. And yet anti-trust action based on the 1952 FTC Report, *The International Petroleum Cartel*, was quashed by demand of the National Security Council in 1953 on the grounds that it threatened national security (Engler 1961, 192, citing U.S. Senate 1944, 576, and U.S. FTC 1952, 51). (Nelson Rockefeller was among those attending NSC meetings, as chairman of the Advisory Committee on Government Organization.) The operating meaning of national security is thus closely identified with that of the petroleum cartel.

In the Iranian uprising under Mossadegh, "the industry received full backing (of the U.S. forces) in its economic blockade of Iran. This meant government sanction for the private pricing and marketing controls governing the world supply" (Engler, 204). President Eisenhower, among other things, withdrew aid from Iran and refused to buy Iranian oil (Engler, 205, citing NYT 10 July 1953). Finally the CIA moved right into Tehran and overthrew Mossadegh, with a little help from Iran's 1,000 wealthiest families. The United States has financed and controlled the Shah ever since, and as Britain withdraws from the Persian Gulf, is using Iran as U.S. front to replace her.

The National Security Council also warned in 1952 that the fall of South Vietnam would imperil the Middle East (Sheehan et al. 1971, 27). In purely military terms, that is hardly credible; Thailand is bearing up under the prospect bravely, as the Nixon Doctrine substitutes Cambodian-Laotian bases for Saigonese. But in oil cartel terms, it bears more weight. Offshore Southeast Asia is a major area of exploration for oil. One large field in independent hands could set maverick oil floating about the world, and indeed "threaten the Middle East."

Policing a cartel means being sure that only cooperative members preempt major fields by advance exploration and leasing. That means cutting down caciques who get independent, patrolling and dominating the oceans, and subsidizing exploration by cartel members. We do all three.

The nickel market makes a good case. Three firms dominate the world market: Inco, Falconbridge, and SocietZ le Nickel, with Sherritt Gordon and Hanna adding a bit. A "uniform price system" is observed. Nickel comes from Canada; from New Caledonia, won by U.S. Marines in World War II; from Guatemala, secured by a CIA coup in 1954; and the Dominican Republic, occupied by U.S. Marines in

1965 (BW 1971a; Martin 1967, 131-5). Cuban supplies from Nicaro have been contained, aided by the continuing U.S. embargo.

Economists have studied cartels for generations. Certain features are well known. Cartels are plagued by excess capacity. It is their nature. First they retire capacity. Then they allocate quotas among the members, based usually on a share of capacity. When demand surges and output can rise, higher quotas go to those who are ready and waiting to move into the breach, i.e., who have been holding excess capacity. The cartel's high price-umbrella shelters outsiders who then expand, and so must be brought into the cartel. They, too, bring excess capacity. In case of mineral producers, "capacity" means reserves of the mineral.

Excess capacity makes cartels extremely vulnerable to an outbreak of competition. One firm or nation breaking ranks would threaten the entire structure of restraint, for the maverick would expand rapidly at the expense of others, taking advantage of their withholding and rendering it worse than futile. In the Iranian case, "the chief threat to the order of oil was not so much shortages or even nationalization, but rather the possibility of oil flowing into world markets outside the control system" (Engler, 204).

Extreme vulnerability breeds extreme protectiveness. A world cartel must control the world: it hardly considers just cultivating its own garden. There is no limit to its need for power and acquisition, short of everything there is. Every cartel member needs support, for each is, indeed a domino. The domino theory easily captured the U.S. Government, staffed and dominated by cartel men. *The Pentagon Papers* show essentially that the Johnson Administration was not responding to popular will, but sought to manipulate it. *The Papers* do not show to whose will LBJ was responding. But President Johnson had devoted his career to promoting oil cartel interests in Congress. As the military became the cartel's instrument, the cartel mind became the military mind.

The Pentagon Papers discuss "foreign aid" repeatedly. Its purpose is never development, progress, improvement, reform, enlightenment, or anything dynamic and uplifting. It is always "stability" and "security." It is not *military* stability: the martial talk is "provocation strategy," "Operation Rolling Thunder," "Massive Retaliation," "brinkmanship," and so on. It is hard to avoid inferring that these policy makers were obsessed with the stability of property and world markets. What else did they stabilize and secure?

Cartels combine not only against consumers, but against suppliers. The oil cartel has a grave problem with OPEC, awakening to its latent power. To bargain best, the cartel needs more options, more sellers to play off, "... the fact that all of the parent companies of Aramco have affiliates producing oil elsewhere, has lead the (Saudi) government to avoid demands on Aramco ..." (Wells 1971, 229). In Indonesia today the multinationals are funneling billions into acquisition to have "an alternative source of supply" (Time 1971, 100-03). David Rockefeller is reported to have forecast in April, 1970, speaking in Singapore, that the international oil firms would spend \$36 billions, in Southeast Asia mainly, by 1982 (Schmitt 1971, 14).

Generally, oil firms get their best terms when newly arrived. Then the locals are thrilled to see money, and know little of the value of what they have to sell. Equally important, the firms get better terms from less secure governments. Nguyen Van Thieu cannot ask the moon for leases off the Mekong. How much is his promise worth? Now that Nixon has been en to Beijing, Chiang Kai-shek and Chung Hee Park should be more than receptive to U.S. lessees. Yet the leases are valuable to the lessees. Whatever Thieu's prospects, cartel members can respect each

other's territories. And no South Vietnamese government has learned to collect taxes anyway, whatever the levy (NYT, 11 October 1970). United States aid makes up the deficits.

Off Indonesia, some firms have their choice of more than one government office claiming jurisdiction, one being "free-wheeling" General Suwoto who pays Suharto's army from oil revenues. It could be like the good old days in Venezuela or Libya. Throughout the Java Sea, Banda Sea, Gulf of Siam, Straits of Malacca, Andaman Sea, Indian Ocean, Bay of Bengal, Makassar Straits, Sulu Sea, Celebes Sea, Flores Sea, Savu Sea, Molucca Sea, Ceram Sea, Timor Sea, Halmahera Sea, Arafura Sea, Bali Sea, South China Sea, Gulf of Tonkin, Luzon Strait, Formosa Strait, East China Sea, Yellow Sea, Korea Strait, and Sea of Japan the shores are lined with competing land powers claiming title. Most are U.S. client states, and all are susceptible of being played off against each other. This helps explain the high level of U.S. military and exploratory activity in the area. The cartel sisters need every card in their struggle with OPEC. The pliant cooperation of U.S. armed forces deals them aces.

In extreme cases the State Department can impose unified monopolistic policies on U.S. corporate subsidiaries, even though these are chartered and located abroad ostensibly subject to other sovereignty. Notable instances are the embargos of Cuba and China (Kindleberger 1969, 193). The Cuban embargo was specifically aimed against Cuba's deciding to proceed independently of the oil cartel.

Benjamin Higgins (1957, 28) wrote, "any petroleum company, large or small, faces the forces of competition which characterize the industry throughout the world It is this competitive factor which largely accounts for the dynamic quality of the oil industry." 170 Evidence cited above indicates the dynamism of oil has quite a different animus. The need for cartels to preempt and control is open-ended.

No one has claimed that Southeast Asia contains vital or strategic or unique materials for national security. It is just another rich area whose control is needed for cartel security, at whatever cost to national security: overcommitment of conventional forces and continual risk, small but finite, of major ICBM confrontations, with homeland survival itself thrown into the gambling pot. Cartels will keep exploring and expanding so long as they can draw the flag behind them. There is nothing to stop them but a loss of their capacity to provoke U.S. intervention on their behalf.

[xi] Editor's note: The reversal of this relationship gave OPEC market power in 1973. The rapid rise of demand for oil in the U.S. finally caught up with supply and forced world prices upward.

[xii] Additional studies for the Joint Economic Committee by Martin Lobel and William Barrett appear at this writing to have been suppressed.

[xiii] Telephone interviews with Keith Richard Matthews, Office of Assistant Secretary of Defense (Installation and Logistics), and George Williams, Chief of Defense Planning and Economic Analysis, Defense Fuel Supply Center, Cameron Station, Alexandria, Virginia, 10 March 1972. The farther from home we fight, the higher share comes from offshore.

[xiv] Those who question the reality of secondary benefits in benefit-cost analysis of public works might ponder this. There are no primary benefits from Ft. Bragg and Ft. Riley.

[xv] Editor's note: Rent from natural resources shows up in the account books of oil companies, ranchers, and other resource extractors as "profit," which is the difference between price and cost for an individual firm. However, the term "profit" lumps together the value produced by resources and the value produced by buildings and equipment. Conceptually, there is a big difference between the two. Rent is a gift from nature and/or monopoly control. It is not based on effort. As John Stuart Mill said: "Landlords ... grow richer, as it were, in their sleep, without working, risking, or economizing" (Mill, 1848, Book 5, Chap. 2). If rents are excluded, the remaining profits derive from productive effort. Most of the unearned "profits" that are decried by critics of corporations are actually "rents." Separating the two concepts would raise the level of debate about corporate power immeasurably.

[xvi] In technical terms, a cartel makes the following calculation in setting their price. In considering a marginal unit of input and its associated output (which lowers the price on all previous units of output), they subtract the reduced revenue on all sales from the gain on the last unit considered individually. This net gain is the "Marginal Value Product" (MVP); it equals $MP \cdot P(1 - 1/e)$ where P is price and e is elasticity of demand. The manager now limits entry to the inputs whose $MVP > MC$. This raises rent further yet, reduced volume being overcompensated by higher price.

[xvii] Editor's note: In the year 2003, this also explains why oil firms are so intent on gaining control of the petroleum in Iraq, Iran, and the Caspian Basin. The aim is not to have the oil so it can be produced. The intent is to gain control to prevent it from being extracted by someone else, thus limiting the power of the majors to control the world output and price