Benefits of Military Spending
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Article citation:
Gaffney, Mason. “Benefits of Military Spending.” 10th Annual Conference, Committee on Taxation, Resources and Economic Development, Madison, 29 March 1972.

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BENEFITS OF MILITARY SPENDING

Mason Gaffney

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BENEFITS OF MILITARY SPENDING*

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"It is an investment, not a loss, when a man dies for his country"--Dinsmore Ely.

(In marble, Memorial Park, Winnetka, Illinois**)

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.

A. Is defense a "public good"?

Many writers on welfare economics offer defense as the prototypical "public good," indivisible in production and undiminished by use. 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. It presumes a community of interest behind the defense wall where there is

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*Paper presented at 10th Annual Conference, Committee on Taxation, Resources and Economic Development, Madison, October 25, 1971. (Lowell Harriss, Chairman and Editor of Proceedings.) Updated to March 29, 1972.

**Taken from a letter by Dinsmore Ely, 1917, killed in action, 1918.

diversity, and it overlooks the care of nationals outside the wall. It fits not the world's greatest maritime and air power, possessed of high mobility with the option of focusing force anywhere.

It 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. 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. Also, owners of outpost resources are usually large and influential. They benefit disproportionately from military outlays.

I begin with a postulate that an aim of military spending by the United States today is to extend sovereignty outside its borders. Since the prior goal is to secure the heartland itself, and it is quite secure, 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 partol, help against Communist subversion, counter-insurgency, technical advice, surveillance, C.I.A., overseas bases, military aid, internal security, A.I.D., NATO, OAS, SEATO, CENTO, and so on.

Some of this marginal expansion may help secure the U.S. heartland. 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.[1] We must hold Western Europe and its raw material bases to keep the Russians from turning them against us, was Howard Ellis' theme in his Economics of Freedom.[2] 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."[3] 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 which dominates most of the world must be engaged in more than simple "defense," and threatening 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."[4] Certainly our gross import of minerals--about $4-5 billion--is small next to our defense budget of $83 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 dangerously minded in a finite world.

Truth is to be found in the trade-offs. Does U.S. policy sacrifice continental security to help its nationals acquire offshore resources? If so, we would not be acting as though expansive acquisition were the means, but the end. There is no simple answer, but evidence in this paper leads me to believe that U.S. policy makers often act as though expansion were the end. They use and trade off U.S. security as a means, and occasionally wager U.S. survival at the brink.

The obvious beneficiaries of this 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 these.

1. "Caciques" (kă-seeks). These 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.

"Cacique" is a generic name[5] often applied to men 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 natives, 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 include Mr. Nguyen Van Thieu and the ruling group in Saigon; Mohammed Reza Pahlevi, the Shah of Iran; Col. Papadopoulos in Athens; until recently, Yahya Khan of Pakistan; Anastasio Somoza of Nicaragua; Alejandro Lanusse of Argentina; Chiang Kai-shek; 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 Charusathien 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 ~~Denmark~~ Norway, and 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 ourselves under the Monroe Doctrine of 1823.

They cooperate because we relieve them of tax burdens. Most nations were historically organized on some feudal basis, where vassals of the sovereign were assigned lands from whose rent they paid their troops. The coming of a foreign protector financing his own army, and paying the natives too, relieves the vassal of his main liability while securing his income and tenure.

He suffers some risks and indignity, but the rewards are high.

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.

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."[6] 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. Mining abroad, as at home, is isolated from the rest of the local economy and affects it little; the same for plantation agriculture. He 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."[7] Ambassador George Wadsworth said the object of strengthening the Saudi army was "maintaining of internal security . . . the army would . . . support the throne . . . ."[8] 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."[9] 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 went under the head of Diem's "land reform.") It was and is the main source of Viet Cong support in the rural south.[10] The landlords rode back on the jeeps of U.S. soldiers.[11] In 1970,"The government will not make any early efforts to collect more direct taxes from wealthier farmers because of the difficulties involved."[12]

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, Esso's Athens partner and an executive vice chairman of the Republican Finance Committee, might too.[13] But most caciques are too small to pose a perceived threat to national masculinity.

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.[14] 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.

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.

B. Dimensions of the Benefiting Interests

1. U.S. mercantilism

Without quite shedding its colonial folkways, the United States has become the Metropolis of the world. In 25 years since World War II we have become the largest importer of primary products. But far beyond our position as importer is that of U.S. firms as owners, outstandingly of mineral reserves, and also of plantations, timber, communications, transport, factories, and distribution. These firms are the world's new absentee landlords. They own everywhere and they sell everywhere.

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 unto others what we feared their doing to us.

We are also an indirect importer of cheap labor, through farming out cheap-labor operations abroad. Tariff Code Item 807 has facilitated this, by limiting reimport 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 LDCs. About 84% of LDC exports are extractive.[15]

We 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,[16] and a middle-class family makes no secret of keeping one as a domestic, so weak are the sanctions against it. At cross purposes, the U.S. Department of Labor contracts with client governments like Jamaica to import cheap field labor for specific employers.[17] 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.[18] 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.[19] Kuwait represents an extreme, but few extractive industries are labor-intensive. Creole Petroleum, Esso's Venezuela arm, in 1960 paid $3.19 in dividends for each $1 of wages and salaries.[20,21] 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.

2. Multi-national firms: How great the stake?

The net value of America outre-mer comes from four main sources: net capital flows; plow-backs; appropriation; and appreciation. The gross value of what is controlled also rises as U.S. firms borrow abroad.

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.[22,23] The book value of U.S. private investment abroad was only $37 billion in 1962,[24] and most of that came from plow-backs.[25]

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 millions. 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.[26] These may be extreme cases, but they do suggest the relative importance of plow-backs, 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.[27] Actually, in 1947 Esso and Socony Mobil paid $101 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.[28] 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.[28A]

The Chase Manhattan Bank's "oil balance of payments" for 1964 showed an investment income of $1.9 billion, less new investment of $.9 billion, for a net inflow of $1.0 billion, projected to increase to $2.3 billion in 1975.[29] The Bank reported the capital exported for oil exploration in the entire Mideast, 1947-62, at $2.7 billion.[30] Putting it all together, it would seem that appropriation and appreciation loomed large. Or, as the American Enterprise Association put it, " . . . none of the private foreign investment figures allow for increases in the value of direct investment attributable to changes in profitability."[31] " . . . book values . . . may represent half or less of market values."[32]

Other measures of our offshore stake are disproportionately large next to cumulated capital outflows.

One 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 it, 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.

Another index is output. America outre-mer now has a GNP estimated at over $100 billion. One estimate is $200 billion,[33] making it the third or fourth largest economy in the world.[34] It is four or five times larger than exports from the United States.

Output is only loosely related to assets, and labor-using multinationals could pile up large gross products on a small base of capital. 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. 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.[35]

And mineral holdings generally, and large offshore ones especially, are capital and resource-intensive. David Martin estimated the ore Reserve/Output ratio of U.S. Steel in 1963 at 100 years.[36] 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 output.[37] E. N. Avery has put this ratio at 45 for the international majors, and 24 for all others.[38]

Oil and mining firms are at the top of any list of industrial firms ranked by assets per employee, or per unit of output.[39] Utilities, transport and communications rank even higher.[40] The use of property tends to be regressive, because the cost of capital is regressive. Foreign holdings are large holdings (see next section). Therefore, foreign holdings would loom larger measured by value than by output.

Another index is earnings. These are a closer index to asset values than is gross output, since earnings come from assets, basically, rather than labor. In 1965, reported earnings from corporate foreign investment were $8 billion, compared to $36 billion domestic.[41] Mineral earnings are badly underreported by expensing investments in exploration and development, and (for tax accounting only) taking percentage depletion not limited by costs. Add to this that 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 third 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."[42] 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.

3. Concentration of ownership

An important dimension of U.S. foreign holdings is the high concentration of their ownership.[43] 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 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.[44] 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.[45] In 1957, 45 firms held 57% of U.S. direct foreign investment (as the Department of Commerce defines and measures "investment").[46,47]

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: 20 U.S. mining firms have 95% of all foreign holdings.[48] Two U.S. firms produced 90% of Chile's copper; 3 mine 83% of Peru's copper; 2 control 100% of Zambia's copper; and one Belgian firm controls 100% of Congo's copper.[49] Magdoff 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.[50] Forty percent of U.S. direct investment in West Germany, France and Britain belongs to 3 firms (Esso, GM, and Ford).[51] Seventy-eight percent of the chrome ore running the embargo out of Rhodesia is from Union Carbide.[52] The top 3 nickel producers have 95% of the world market.[53] One could go on.

Benefits to U.S. nationals abroad are then quite progressive. 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.

C. How are Benefits Received?

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 parcelled 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.[54]

U.S. nationals do 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 assure the revolutionary government in "Iraq respects Western oil interests";[55] 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 Wm. Pawley;[56] 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 has in mind when he writes in 1969, "The days of sending gunboats and Marines to protect U.S. property abroad have gone, . . ."[57] 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."[58] 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.[59]

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."[60] This is equated with national defense. The President's International Development Advisory Board concluded: "The loss of any of these ("strategic") materials, through aggression, would be the equivalent of a grave military setback."[61]

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."[62] 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.[63] 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 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.[64] 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.[65]

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 world-wide 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 three 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.

Lenin wrote in 1917, "For the first time the world is completely divided up, so that in the future only redivision is possible, . . ."[66] 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.[67] 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 "swamp buggies" now being proffered to Peking.[68] Saigon, Djakarta, Seoul and Taipeh are among the lessors; Hanoi, Peking, 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 "free-wheeling" 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.[69]

Unpopulated land areas are also interesting. Indonesia has granted 30 million acres to foreign firms, mostly United States.[70]

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 moved in 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 Britian. 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."[71] 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", "legal justice and international morality". To exemplify these qualities and "constitutional and responsible government," he cites the present regime in Brazil,[72] the product of what he calls a "military coup".[73]

The cacique has a survival problem and needs friends, preferably rich and powerful. "...Peru allowed Occidental to explore for oil on the frontier only because it felt the United States might intervene if Ecuador caused trouble."[74] 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, the more one-sided the grant, the more it depends on the grantor's personal welfare, and the greater personal support he commands from his U.S. friends. This arrangement has merits for the U.S. friends as well, and 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.[75] Current Anderson revelations indicate IT&T has used money and the CIA to intervene in Chilean politics, and by inference why not 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?"[76]

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.

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."[77] 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."[78] 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."[79]

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 João Goulart. The succeeding military junta of Castelo Branco in 1965 got ten times as much.[80] Goulart had tried to assert national control over oil, disputing Esso.[81] Ambassador Lincoln Gordon supported Branco, and President Johnson wired congratulations to Branco before the exiled Goulart had packed his bags. According to Simon Hanson, State was punishing Brazil beginning in 1960 for refusing to grant oil concessions to ex-officials of the U.S. Government.[82] 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, . . ."[83] 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."[84] Today, Brazil "is experiencing a dynamic growth that has been helped by a steady inflow of aid dollars that have been cut back elsewhere."[85]

The Hanna Company of the influential George Humphrey firmed up its

uncertain tenure 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.[86] 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 Illía of Argentina.[87] General Ongania replaced him in 1966 with a military dictatorship which met all criteria for receiving AID.[88] Hickenlooper has been invoked against Ceylon, under Kennedy, on behalf of Esso. On January 19, 1972, President Nixon announced his intent to invoke it against future expropriations.[89] 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. " . . . 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, . . . "[90] Hollis Chenery, an AID official, described its objectives as three: " . . . our own selfish interest . . . internal stability . . . security of the U.S."[91] It is used "in countries where we value the preservation of the present government."[92] 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."[93] Howard Ellis supports aid as a "weapon." "Compared to either the ethical or the economic arguments, it is the political grounds for foreign aid which are overwhelmingly important."[94] Edward Mason

writes, "The overwhelming important explanation lies in U.S. security interests."[95] Walt Rostow wrote 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."[96]

More skillful thrusts are delivered by more sophisticated fencers, who often deplore the ham-handed Hickenlooper approach. "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."[97] The Export-Import Bank cuts off credit to government-owned oil companies.[98] 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.[99]

This procedure is but another instance of the leverage of private investment over public, and a homely analogy may make it more clear. 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.

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.

Another homely analogy is in swamp land and flood plains. An influential buys vast areas cheap. and <u>then</u> 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 in the Department of Defense.

On the local level, government brings sewer, water, streets, and so on--and police. Taxes come too, but 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 over-committed armed forces.

Minerals are not the only resource subject to these kinds of economic forces. 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 45 governments.[100] 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.

Yet another kind of tenure in property is the privilege of entering licensed businesses. A banking charter, where numbers are limited, is the very type of such property. 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.[101] 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%.

Bank charters are only the type, however. Developing economies teem with special privileges begging to be hooked: licenses, quotas, franchises, zoning variances, price supports, air and shipping routes, water rights, rights of way, broadcast bands, telephone monopolies, subsidies, cheap loans, patents, concessions, etc. 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 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 bit of the spectrum was painted by Joseph Palmer 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 . . . involved in . . . copper, bauxite, iron ore, uranium, petroleum, manganese, and scarce minerals."[102]

Comsat is a splendid example of the genre. 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."[103] 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."[104]

Air routes are another example. 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.[105]

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, it often entails advice, and always consent. It entails the real estate of marketing, too: tank farms, rights of way, gas stations. Thus ECA and MSA funds 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.[106] 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.[107] 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 <u>real</u> 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.)"[108]

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.[109] 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.[110]

OPIC is not a profit-making insurance enterprise. Premiums collected so far total millions less than claims. Anaconda currently claims $313 millions for its Chilean copper losses. IT&T claims $108 million.[111] Congress must make up the short-fall.[112] Insurance in force, the total contingent liability, was $3.8 billion in 1971.[113]

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). . . . To preserve our effectiveness in the rest of the world."[114]

So long as governments allocate tenures and analogous privileges without bidding, or other recoupment device like taxing rents, 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.

Another contribution of U.S. force is capturing existing tenures, the prospect that Lenin emphasized.[115] 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 "has contributed to the common victory," so its firms should get concessions in the mandated lands of the old Turkish Empire.[116] 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."[117] Charles Evans Hughes, Secretary of State, 1921-25, became known to critics as Secretary for Oil.[118]

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. ". . . with 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."[119] 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.[120] 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.[121] 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.[122]

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."[123]

In 1940, 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 . . . ."[124] 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.[125] The Brewster Committee (U.S. Senate, 1948) said, "They constantly sought the cloak of U.S. protection and financial assistance to preserve their vast concessions."[126] Mikesell and Chenery 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. . . ."[127]

After the war, "Aid to Britain" from the United States had a price: opening Britain's Empire Preferences to U.S. firms.[128] 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 Tapline came into planning.[129] Then began the era of U.S. foreign bases. The United States built one at Dhahran (Aramco headquarters) for $43 million.[130] The companies used the United States again to secure the right of way for Trans-Arabian Pipeline (Tapline).[131]

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."[132] Shell was nationalized; Stanvac survived. Today, U.S.-based firms hold most of the oil, mineral, timber, radio, and other concessions in Indonesia.[133] The Dutch colony has become a U.S. colony.

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. Peking is not 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. Peking 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 pays 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 more subtle 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, Taipeh, and Peking 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.[13]

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 looks like rent thereafter is eaten up 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. 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.

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. Under 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.[135] 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 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 not inconsistent with a hypothesis that certain firms are more equal than others in their ability to commit U.S. force. Neither are the data in Table 1.

Table 1. Contributions of Prominent Families to Political Campaigns, 1968 [136]

	Number contributing	Total
DuPont	32	$ 107,000
Field	4	39,000
Ford	8	109,750
Harriman	2	17,000
Lehman	7	51,000
Mellon	22	298,962
Olin	7	70,000
Pew	11	213,549
Rockefeller	21	2,070,375
Vanderbilt	2	12,000
Whitney	6	133,500
Total	122	$3,122,136

Source: Citizens' Research Foundation.

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."[137] Their incentive is to lead their 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. ". . . the 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 coercion . . . is 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."[138] There is no end to it.

D. Entering the U.S. Market

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 12½% 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.

Second, the majors benefit as monopsonists. 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. 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).[139] 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. It is as large as the quotas. 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.[140] 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. " . . . with the boom in strategic materials during the Korean War, Indonesia enjoyed a species of prosperity, with a highly favorable balance of payments . . . "[141] One can imagine what Vietnam has meant.

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%.[142]

The dollar flow is about $1 billion a year for domestically procured products.[143] 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 50% 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.[144] 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 millions, in 1945 -- that was more money then than now.[145] Navy representatives were "oilmen in uniform."[146] 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 and Geschlechtsphantasterei, oil owners can look forward to expanding demand and quotas. As they expand they 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 controlled by State (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 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.[147] Foreign caciques hunger after them, for the same motives as Fayetteville, N.C., and Junction City, Kansas.[148] 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 Ex-Im loans as base rental from 1949-67, raised the rent in 1968 to include more money and a defense guarantee.[149] Franco is in the process of allocating offshore oil leases, U.S. firms being primary recipients.[150]

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."[151]

That follows the Marshall Plan tradition. ECA and MSA aid in Europe, Howard Ellis' "Economics of Freedom," was used to foster dependence of Europe on oil controlled by the Cartel.[152] Cartel members got the refineries and market shares.[153] 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. Entry to European markets was controlled by the sisters. 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.[154] U.S. forces are to remain on Okinawa.[155] U.S. oil rigs are moving

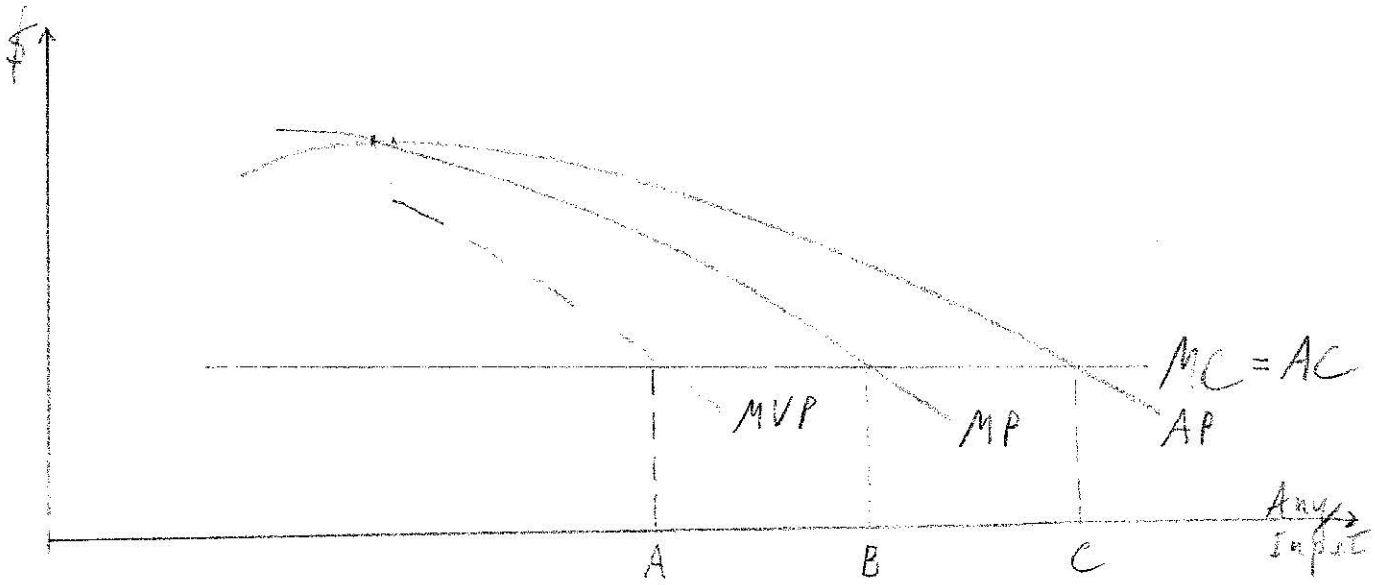
into Japan's territorial waters.[156] The U.S. Navy is shepherding Persian Gulf oil to Yokahama, and one may surmise it is not doing it only for the welfare of Japan.

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

E. Maintaining Cartel Discipline

There are two levels of tenure control. One is the power to exclude others from a single small resource. It is what "tenure" normally means. It is socially useful. Without it, a flood of interlopers invade rentable lands, and stumble over each other until no net gains remain to any user of the resource ("C" in Fig. 1).

Figure 1



That is, the Average Product of any input is reduced to equal its Marginal (usually also Average) Cost. The resource yields no surplus, or rent. Open range, open fisheries, open prospecting territory, open parks, and city streets thus lose their net value through overcrowding.

Imposing tenure control, the rational manager notes that an added, let us say, head of cattle gains the same as all heads, but reduces the others' gains by crowding them. To find the net gain from adding a head, he subtracts the reduction of others' gains from the gain of the last head considered individually. This net gain is "The Marginal Product" (MP). He limits entry to the heads whose MP > MC ("Marginal Cost") and has the range carry only B head (Fig. 1). He thus creates rent of $B(AP_B - AC_B)$. Elementary production economics applauds this as optimal, for the individual and society. It is a legitimate restriction of resources use and output, so long as costs represent alternative uses.

The second level of tenure is unified control of an entire market. Now the monopoly manager notes that an added input adds an output which sells for the same as other units of output, but reduces the price by crowding into markets. To find his net gain, he subtracts 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 $MP \cdot P(1 - \frac{1}{e})$ where P is price and e is elasticity of demand. The manager now limits entry to the inputs whose MVP > MC, ("A" on Fig. 1). This raises rent further yet, reduced volume being overcompensated by higher price. Elementary price theory decries this as anti-social. "Crowding markets" is not a real social cost like crowding resources. Restricting use to "A" redistributes income from buyers to sellers at a net social cost.

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.

In Fig. 1 the question has an implicit answer. A key resource, 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.

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 (that) this may require holding an area with the minimum expenditure."[157]

This helps explain active acquisition by internationals whose life index is already 45 years.[158]

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,[159] was quashed by demand of the National Security Council in 1953 on the grounds that it threatened national security. (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."[160] President Eisenhower, among other things, withdrew AID from Iran and refused to buy Iranian oil.[161] Finally the CIA moved right into Tehran and overthrew Mossadegh, with a little help from Iran's 1,000 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.[162] 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 Societé 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.[163] 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"[164]

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 . . . "[165] In Indonesia today the multinationals are funneling billions into acquisition to have "an alternative source of supply."[166] 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.[167]

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 to Peking, 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 Viet government has learned to collect taxes anyway, whatever the levy.[168] 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.[169] The Cuban embargo was specifically aimed against Cuba's deciding to proceed independently of the oil cartel.

Benjamin Higgins 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 power to provoke U.S. intervention on their behalf.

F. Recoupment of Subsidies through Taxation of Beneficiaries

Since income from subsidies may add to tax returns, it has been pointed out that the social cost of subsidies may be reduced by the recouped taxes. In the present case, however, the subsidy to offshore resource owners is augmented by preferential tax treatment, nowadays realistically called "tax subsidy." Some preferential treatment applies to minerals as such rather than overseas property as such, but I shall take as a standard of reference the treatment given to domestic wage earners, not to domestic oil exploration. This is because so much of the benefits of military spending go to owners of mineral reserves.

In a nutshell, the Treasury shares the costs of overseas investors without sharing in the resulting income. It is a very powerful combination. Some particulars follow.

1. Expensing intangibles

Most of exploration outlay, the "intangible" part, may be written off as current expense. It should of course be capitalized instead and written off very, very slowly as the value of the as yet unextracted residual deposit declines. No write-off at all should be allowed until production begins. On the contrary, the reserve usually appreciates and an ideal income tax would take a share of this increment. The first few years of production reduce value little or none, and write off should be equally slow.

Expensing of capital outlays is in fact full exemption from income tax, even without other privileges. The Treasury puts up t% of the capital, where t is the tax rate. Any tax revenue it gets later is just a return on this investment of other taxpayers' money. Since cartels tend to explore to preempt long before use, the Treasury has a long wait and a low rate of return. The cartel benefits from the preemption which taxpayers thus help finance.

2. Exemption of accrual

Minerals appreciate between discovery and use. Offshore, where tenures are turbulent and cartels preempt, the period is long and appreciation great. This accrual of value is never taxed, not even after it has occurred and been realized in cash, although tax neutrality would call for taxation of current accruals much earlier, as they occurred.

Some say that taxation of production income is sufficient, and taxation of prior accruals would be double taxation. They are wrong.

Let V_0 be the value of a mineral deposit in place on year zero, the date production begins. The cash flow imputable to the deposit must cover recovery of V_0 plus interest on the unrecovered value over life--say, 30 years. Only the interest element is taxable income. V_0 is fully deductible at the least. (In practice, much more is deducted under percentage depletion based on wellhead value and posted price.)

Tax-depletion of V_0 recognizes it as an asset of value that the owner possesses in year zero. How could the owner have acquired wealth of V_0 without receiving any income? He couldn't. Accrual from discovery value up to V_0 is a separate income, above and beyond the interest on V_0 received later.

On domestic minerals the local property tax, where applied, is a means to tax accruals during the ripening years. Value tends to rise along a compound interest curve. That means current accrual is a percentage of value already accrued. The ad valorem property tax is also a percentage of accrued value, and hence of income currently accruing.

In practice in the United States, ripening minerals are the most underassessed form of property, a distinction won over strong competition. Still, they do pay something and are vulnerable to paying many times more. Under salt water, on the other hand, they pay none whatever. Nor are there

property taxes of any account in most of our client nations. That is one of the rewards for being a cacique.

3. Percentage depletion.

As to Federal income taxes, accrual is exempt because it is not treated as income, but V_0 is deductible as "depletion." Only in practice, one deducts more by taking percentage depletion which is not limited to V_0. First, percentage depletion is based on wellhead value which includes lifting costs (also separately deductible). Second, it is a fixed 22% of wellhead value so long as the well shall yield. Third, it is often based on "posted" prices, in excess of market value. It can hardly fail to exceed V_0.

4. Unrepatriated income.

A foreign chartered corporation, even though fully owned by U.S. nationals or corporations, is not taxable by the United States on income from sources outside the United States. Thus U.S. corporations set up foreign subsidiaries to receive income from foreign holdings. The income is not taxable until and unless repatriated.[171] Since taxes deferred are taxes partially denied, this deferral is of great value at the least. It is an interest-free loan.

And some income need never be repatriated. Thus a foreign subsidiary might reinvest undistributed profits for 25 years as the permanent capital of a foreign operation. Then it may pay dividends earned by capital thus accumulated. The dividends would be taxed, but they would be income earned by the undistributed profits. The latter themselves would never be taxed. All the capital value of foreign subsidiaries above the cumulated value of capital exported from the United States represents prior income that has not been taxed.

There are also ways to repatriate funds advantageously. One is a distribution in complete liquidation, taxable at reduced capital-gains rates.[172] Another is a dividend disguised as an upstream long-term loan, tax-free.[173]

Use of foreign subsidiaries is less common in oil than manufacturing.[174] The branch form lets them use the U.S. percentage depletion allowance to better advantage.[175] A consolidated income statement lets them expense foreign intangible capital investments in exploration and development against current domestic income.[176]

Under section 931 of the code, investors in U.S. possessions and Puerto Rico enjoy the same benefits as foreign corporations.[177] The resulting flow of capital to Puerto Rico is large. The Virgin Islands are another beneficiary. A key refinery there adds to the insular empire of Jersey.

5. Foreign tax credit.

U.S. corporations owning foreign branches or subsidiaries may deduct foreign taxes, not from their taxable income, but from their tax.[178] This "Foreign Tax Credit" dates from 1918 (the year Dinsmore Ely invested his life for his country). Until 1954, the credit was limited to the U.S. tax due from the taxing country; since then all foreign source income may be aggregated, and the only limit is the total U.S. tax liability.

This privilege is reserved to those owning 10% or more of the stock in the foreign corporation.[179] Small shareholders pay on the regular basis.

Foreign hosts have responded to this opportunity by renaming their royalty payments as "taxes," eliminating any burden on the royalty payer. In 1949, Aramco paid $48 million in U.S. income taxes. In 1950, King Ibn Saud keyed in with the U.S. law. "Taxes" on oil companies (Aramco being the only one) replaced "royalties." In 1950, Aramco's U.S. taxes were 2/10 of

a million. In 1955, Aramco grossed $724 millions, paid $272 millions to Saud, netted $272 millions itself, and paid no U.S. tax at all.[180] Today there is great concern over increased demands on U.S.-based mineral holders abroad. But the added burden falls on the general U.S. taxpayer. The companies simply reduce their other taxes by the amount of the increase abroad.

An added wrinkle is the "Tax Sparing" treaty. Under this agreement, by treaty, a foreign host may lower taxes on a U.S. corporation, but the U.S. Treasury will let the corporation deduct the unpaid or "spared" foreign taxes from its U.S. tax.[181] So far no such treaties have been executed, however.

6. Aid to foreign hosts

Foreign taxes are not entirely painless. Most of the large oil firms have reduced their U.S. taxes to near zero, and they could easily find they lacked any more taxes to offset. Besides, a double-bolted door is safer than a single. So U.S. firms benefit from U.S. aid to their host caciques because it reduces the need for (and is implicitly conditional on not) taxing the U.S. firms heavily. Actually, we should view the two together: the Foreign Tax Credit is a form of aid, and aid is a form of tax relief, and both are part of an overall policy calculated to minimize tax burdens on U.S.-based corporations owning resources and enjoying our military umbrella overseas.

7. Devaluation increment

A large bonus to holders of offshore resources came from dollar devaluation. Since devaluation was accelerated by capital outflow and domestic deficits, and preferential tax treatment of offshore resources raises both, devaluation is a kind of surtax on domestic capital vis-a-vis offshore capital.

8. Selection of tax domicile

Corporations subject to multiple tax rates on different stages of

vertically integrated operations have become skilled at shifting profits to the stage of lower tax rate by rigging posted prices and other prices used for internal accounting. Multinationals have added options among the various countries they inhabit, which of course they use to lower their overall tax liability. The usual pattern is one of shifting profits to the extractive or shipping stage. In international affairs, that means shifting them overseas.

9. "Western Hemisphere Trade Corporations" pay a reduced rate of 34% on profit.[182]

Many of these preferences overlap, and are alternative rather than additive. No doubt there are others not listed. DISC treatment, recently enacted, could develop into a new preference luring capital offshore. The important thing is the availability of many options and lines of defense for overseas investors avoiding taxation.

The Interest Equalization Tax of 1963 appears like an exception. This tax applies a higher rate to foreign source income. However, it applies only to portfolio investments, not equities. It is the equities that gain primarily from military spending. For them, tax preference is the rule. Portfolios are the small man's foreign investment. Interest equalization used them to take the heat off the larger investor; the latter could continue to buy abroad in anticipation of dollar devaluation.

Enactment and acceptance of these preferences have moved under high phrases like Postwar Recovery, Reconstruction, Economics of Freedom, promoting Free Trade, Economic Development, Take-off, and sharing with the world's poor. We have shared, but not with the poor. We have arrived at total failure to recoup from the major beneficiaries of military spending.

G. The Insubstantiality of Other Benefits

I have focused on offshore property owners as chief beneficiaries.

Many other classes are believed to benefit from military spending. Let us review them briefly.

1. Labor

a. The frontier thesis.

Many view our world expansion as an extension of the old frontier. Occupying new virgin resources is a safety-valve for unemployed U.S. labor.

But our frontiering is no longer labor-using, it is capital-using. Americans do not migrate abroad in large numbers. We do bring primary products in, which some would equate with settling new lands. But:

i. Cartels skim off much of the benefit.

ii. Cheap foreign primary products, even if they are a reality, do not necessarily add to demand for labor at home. In their absence, we would produce more at home, under more labor-using conditions. To subsidize the use of cheap foreign primary products, as we do, is to subsidize substituting resources for labor.

An example is the labor that might be used in recycling, let us say, copper or aluminum. Recycling is labor-intensive. Infusions of foreign aluminum are resource-intensive. The mineral resource they use is foreign, but refining in the U.S. uses important domestic resources. One is fuel. Industry uses half or more of all electric power generated in the United States, and processing minerals and chemicals takes half the half. Another is environment. Pollution from refineries and power plants in effect arrogates for waste disposal part of the service flow from the polluted lands. It makes the lands inhospitable for people more than for capital, thus reducing the human intensity with which they are used.

There is a theory of equalizing nations' resources endowments through international trade: U.S. labor would benefit by importing primary

products, just as it would benefit by occupying the western frontier. Historical revisionists of the "fifties," however, brought out that labor's benefits from conquering frontiers depend on whether frontiering is labor-intensive or capital-intensive.

As noted, our offshore mineral frontiers are capital-intensive. They soak up and hold capital which is recovered slowly, depriving domestic labor of adequate fast-turning capital, the kind which most complements labor. Mining is the least labor-intensive of industries (other than transport and utilities). When Fortune annually ranks industrial corporations by assets per employee, mineral firms always lead the list (even though they underreport asset values). That is because they hold assets so long between acquisition and exhaustion,[183] a trait magnified by cartel machinations.

The capital which offshore mineral industries soak up may be produced in the U.S. Mining machinery and equipment is indeed an important export, and specialized U.S. personnel dominate exploration and mining worldwide. But that is to miss the point. Capital-intensity means that most of the industry output represents value added by capital and resources, and most factor payments go as interest and rents, not as wages. That characterizes overseas expansion because of the long lag between input of effort and output of ripe products.

b. The underconsumption thesis

Another popular notion is the Marxist-Leninist idea of underconsumptionist imperialism. Marx and Lenin emphasized a search for markets overseas. That thesis is refuted by galloping inflation in the United States today. Consumer demand is stronger than supply. Rather than needing to generate purchasing power in the United States today, we need to satisfy the excess demand we already have and find other ways to employ men.

There is still an urge by monopolies and cartels to secure privileged entry to foreign markets. This is a completely different motivation, but it is probably the source of much behavior that inspired and continues to feed the underconsumption thesis. In the 19th century, Europeans settling in China enjoyed exemption from internal tolls and duties levied on native traders.[184] It was a tariff in reverse, making life easy for old China hands.

Today that would be too direct, too offensive. One goes along with the myths of one's times. Just as cartels will lose money today to preempt minerals for tomorrow, so they "invest" in future markets by losing money in them today, if necessary, to drive out competition and establish their future grandfatherhood. In the dirigiste LDCs of today, with their licensing, market saturation laws, propensity to bureaucratize, and fear of competition, the road is open to buy one's way into a seller's monopoly.

c. Military employment

Many people are in uniform who might otherwise be competing for jobs, and the bogies of peacetime depression center around the unemployment of men, especially veterans.

The question is not one of aggregate spending. If military spending were less, other spending, private and public, could be more. Nor do we suffer from inadequate aggregate demand today, but shortage of ripe supplies to hold down inflation.

The question is one of factor proportions. Is the military dollar more labor-intensive? If so, it could benefit labor's bargaining position vis-a-vis property. While this would be only redistributive, it is an effect which our official rhetoric (if not the operating convictions of our policy-makers) would define as a benefit.

I see little substance in this view. First, the draft is not a "demand" for labor in the market sense. It is involuntary servitude, imposed under inequitable conditions by the old on the young, by women on men, by hawks on doves, by the cunning on the naive, by the rich on the poor, by insiders on outsiders, by the sick on the healthy, and, under the draft lottery system, by the lucky on the unlucky. While the slavery is temporary, the conscript is required to kill and risk death, things not required of slaves. There is clearly a net loss to conscripts. That is why they have to be forced. That is a big minus in any case for benefits to labor.

Second, labor in uniform becomes politically impotent. Congress does not declare any gentlemanly moratorium on tax law changes when men are distracted by war. Capital gains for timber, wage withholding, taxation of school teachers' salaries and removal of earned income credit are typical changes during World War II.

Third, if labor is to benefit vis-a-vis property it must be that more labor than capital is absorbed by the military--that the armed forces are labor-intensive.

On the surface one can note that the U.S. way in war is extremely capital-intensive, as the world goes. Elaborate, costly equipment is the rule. Of the 1971 defense budget of $81 billions, only $21 billions was to pay personnel. The rest goes to defense contractors, oil companies, agribusiness giants, and so on.

Of course defense contractors also have payrolls. But they also use capital and land. To resolve the issues that raises, we must look below the surface and find a more fundamental concept of what labor-intensity means.

We do not judge the labor-intensity of, say, housing by the

share of building costs paid to labor. Housing is capital-intensive because what labor builds lasts a long time, yields its services slowly over 50-100 future years. It must be "financed," and the financier gets most of the income.

If a house is to last 100 years and yield a service or cash flow of $1 a year over that time, its present value at 7% is

$$PV = \frac{1 - 1.07^{-100}}{.07} = \$14.27 \qquad (1)$$

That is, the maximum one would pay to build the house is about $14, even though it will yield a total of $100 over life. The other $86 is return on investment, shared between lender and equity investor.

Some people find it easier to perceive the matter thus. If I borrow $14 and repay it on the installment plan at 7% over 100 years, the annual level installment is $1.

The $14 capital cost is only partly payroll, too, but even were it all payroll, labor would get only 14% of what is paid for the house. Actually when we consider the land and materials in original cost, labor gets much less than 14%.

A capital-intensive industry then is essentially one where there is a long time-lag between input and output, between effort and result, between investment and recovery. It is one where the early inputs must be financed over long years before pay-off.

Viewed this way, as a social investment, how fares the military enterprise? Recall that it yields no consumable output. It is a police cost to maintain and expand land tenure. The value of the service has a crude measure in the value of land newly acquired, plus some share of the annual net income of lands acquired in the past.

As to lands newly acquired, the military product may be their

present value, but this value is not consumable. It is the present value of remote future services. The assets of U.S. nationals and allies are increased, and this is to them a form of current income, it is true. But the income is frozen in the most durable form, so that even if we regard the entire present value as the product of (military) labor, the return to property over time will dwarf the labor input, just as with housing, only more so. Besides that, of course, the initial military input is not even financed by the benefiting property owner, but by U.S. taxpayers and bondholders.

Some lands acquired have paid off quickly, like Arabian oil. The U.S. Treasury has not been paid, but Aramco has. But at the margin, pay-off is slow or nil. Land is the most durable asset, and usually its present value derives from future services anticipated to be higher than current ones. In addition, we have seen that there is no benefit-cost analysis in the Pentagon, and many incentives for influentials to lead the flag into deep waters where national police cost is many times greater than the present value of resources acquired.

Acquisition of new resources by force tends therefore to be a capital-intensive operation, financed by taxpayers and underpaid draftees. Benefits to anyone are long deferred; and tax recoupment, if any, even more so.

A hint of the capital cost is interest on the national debt. In 1969 that was $16 billions, or 76% as much as the payroll for military personnel ($21 billions). If the entire investment in war had been debt financed, that alone would make this a capital-intensive industry, as industries go. But most of the investment has been financed from current taxes, and the interest cost is the imputed capital shot away.

Viewed this way, the Defense budget is a sink of national capital. It takes resources from housing, pollution control, schools, stores, and all capital formation and spends them to acquire land, whose services are long deferred. By withdrawing capital from civilian life it raises interest rates, and increases the share of property in national income.[185] There are those who, like Howard Ellis, describe this as one of the "economic advantages" to the United States.[186] But it is no advantage to labor.

Returning to the defense contractors, only a part of what they receive results in current deliveries of materiel. A large share goes for military R&D. At best this is a capital outlay for future materiel; at worst a sink of waste, graft, boondoggle, and inveigling of intellectuals. Improving one's bridge game for the MITRE corporation is not even capital formation. $6.1 billions went for military R&D in 1960.[187] In 1969 it was $7 billion, plus $4 billion for space research.

A large element of diversion of funds and waste is built right into it: findings are patentable by the contractor, with nothing for the financier, the taxpayer.[188] The contractor's incentive is to divert as much R&D as possible into forms that benefit him. These benefits, too, are deferred. Invention is, as noted, analogous to exploring for minerals. Each is a form of discovery. The inventor is seeking to discover and gain tenure of nature's stock of secrets. R&D is thus subject to the economic wastes found when rivals are searching for oil on a common, like the unfenced high seas: prematurity and comparative disadvantage. It is another sink of capital.

From a world viewpoint, of course, force is sterile. The "product" is purely acquisitive or redistributive--one gets only what others lose. The only net gain might be in creating security against predators, allowing fuller use of land. But from a nationalistic view this worldwide

sterility is reflected in the principle that what one takes by the sword one must keep by the sword. Other nations will naturally react to our expansion and apply counterforce, as they are doing. That means the full value of lands acquired in this year cannot be credited to this year's budget. There is a continuing commitment to police--one of those contingent liabilities so easy to promise, so painful to deliver. This is a recurring yearly expense to be charged against annual income rather than capital value. I do not know what share of the Defense budget should be allocated here, nor, I surmise, does anyone. Admiral Elmo Zumwalt is currently campaigning to increase the naval budget to protect us against the "ominous" threat of "coercion" applied against the world fleet of oil tankers. Whatever the amount, it reduces the net national pay-off from foreign resource holdings, further delaying the recovery of national capital invested in military budgets.

This kind of accounting needs to be developed and used to guide defense spending. PPB and body-counts and game theory are not going to save us from national bankruptcy. But the present point is that the military enterprise is not labor-intensive, it is capital-intensive because of the long lag between effort and result. Lags have to be financed. The lag is financed by taking capital from other uses. Property may benefit by this. Labor certainly loses.

AID programs may be interpreted the same way. They are a promotional investment, giving out free samples of U.S. exports to create future dependency. The taxpayers finance the investment, but do not share in the payoff, if any. On the contrary, AID programs have been used to establish an "American presence" and a proprietary interest in marginal nations to expand our contingent liability to police the world, imposing costs on taxpayers.

To fortify the point, the non-military aspects of territorial

expansion are also very capital-using, and in the same sense, there is a lag between labor and results. Urban sprawl today is highly capital-intensive. Continental sprawl in the 19th century frontier days was too--canals, railroads, land clearing, county trunks, fencing, drainage, irrigation, wharves, terminals, new cities, all these paid out in trickles over generations, not right away, often not at all.

Now it is world-wide sprawl, with the same kinds of infrastructure needs, requiring long-term financing, which our banking-governmental establishment is assiduous to supply. As Equation (1) shows, long-term financing means capital-intensity. It doesn't mean much that U.S. labor produces the steel, or generators, or drilling rigs. American capital finances them, and they are capital-intensive.

2. Consumers

One can easily portray United States control of foreign raw materials as a boon to U.S. consumers. One can imagine that U.S. forces are making the world safe for free trade, to secure the gains of specialization and comparative advantage, registered in cheap imports. It would be an excellent thing. But it is not really the idea.

The emphasis, as shown, is not on simple competitive trade but on acquiring tenure to resources and privileges, and suppressing competition.

Few would argue, other than ex parte, that cartels intend or act to benefit consumers. Yet U.S. policy is built around cartels, as shown. The premium price of oil maintained inside the U.S. quota wall indicates where the consumer stands, and the silencing of the FTC by NSC epitomizes the military's role.

Even so, could not Pax Americana raise world efficiency through international specialization? It is a good thought, but too fuzzy a picture

not to be misleading.

Pax Americana is more to be likened to urban sprawl, on a global scale. Urban sprawl means that developers leapfrog over empty land near in and build far out, pulling social overhead capital along behind them, subsidized by milking the center. Global sprawl means we underutilize resources in the continental United States. Prospectors leapfrog overseas, pulling the United States flag behind them. They find some rich mines out there, just as centrifugal urban land developers find lovely view lots, lakes and trees. But the whole process is heavily subsidized by milking the heartland. There are elements of optimal international trade, but they should not blind us to the forced, uneconomical directions given by taxes and subsidies. The resulting patterns of trade are not natural, but preternatural. They do not increase welfare any more than we have raised urban welfare by moving everyone farther apart so they must drive farther to accomplish the same ends. Transportation interests benefit, but only at the expense of everything else. The social overhead cost of international transport is not charged in price. The largest part of that overhead is the military budget.

The net result of pumping spending into an enterprise that yields no output until much later, or never, is to inflate consumer prices, adding a new form of tax to the others that finance the military. It is no boon to consumers.

3. Taxpayers

There was a time when Roman generals returned home to victory parades with slaves and spoils, and foreigners paid the taxes of Rome. Under modern imperialism, the dominant power pays taxes for the colonials; and the average domestic taxpayer pays taxes for the internationals, as already shown above.

4. Military contractors

A generation has been reared in the faith that spending makes the world go 'round, so we all benefit from defense contracts. If the idea ever fit the facts, it does not now. Defense spending comes either from taxes, reducing other spending on consumption or investment; from new borrowing, reducing other investment; or from new money, which is either another form of debt instrument or, more likely, raises prices. In the world of inflation-with-unemployment, all the old knee-jerks must go. Military spending does not increase aggregate spending much; and there is no longer any gain from increasing spending, as such, anyway.

That means that benefits to contractors are partial, they are taken from others. Particular firms and regions gain; others lose. The gainers are vocal and organized into weapons constituencies. The care and feeding of Lockheed shareholders and employees has become an end in itself, as much as a means to defend the nation. AID has become part of the farm price support program designed to make U.S. consumers pay more for cotton, wheat, rice and milk. Ernest Fitzgerald, the Pentagon cost analyst who unturned the C-5A cargo aircraft cost overrun, becomes a Pariah and is fired. Mendel Rivers' indifferent district around Charleston becomes a major arsenal of the nation. Scores of generals retire into the waiting arms of contractors they have been dealing with. Caciques grow wealthy overnight, Saigon being more typical than exceptional. Senator Allen Ellender of the Appropriations Committee sees that Food for Peace money is used to buy unwanted, overpriced U.S. rice for export to Southeast Asia, which remains a rice surplus area in spite of the war.[189]

If in this there is a net benefit to the nation, it must be that those who gain are more meritorious than those who lose. The most evident

distinction between military contractors and other businesses in that the former are larger. Influence goes with size. In addition, government purchasing agents ease their workload by buying from a few huge suppliers rather than from many small ones.

Public business is not very public, so various estimates of concentration vary, but all are impressive. The Joint Economic Committee said five firms got 25% of military prime contracts in 1964.[190] William Baldwin said the top 50 got 66%.[191] For 1969, Kaufman presents a lower figure, 68% to the top 100.[192] I do not know if this reflects a drop in concentration or a difference of sources and definitions. The point here is that all sources indicate extreme concentration.

There were instances during World War II of the use of war contracts to foster competition, as in aluminum. Those days are gone. And the power is overriding: procurement policy is legally superior to anti-trust policy.[193]

The choicer plums are more concentrated. R&D contracts, where the contractor may keep patent rights as a fringe benefit, went 80% to the top 100 in 1959.[194]

In addition, regions of heavy dependence on defense contracts and military bases are above average in concentration. In the United States, Hawaii tops both lists: it is most dependent of all states on military spending, and its ownership of land and business is the most concentrated of any state. Southern California ranks high in both departments, too. But nothing matches the dependence of overseas oil on military procurement. We have seen that offshore DOD oil procurement runs around 4% of domestic use. Imports run 12½% of domestic use. Thus the military adds very roughly a third to U.S. demand for overseas oil--and who knows how much more if we had data on jet fuel used in contract troop ferrying, etc.? And nothing matches the concentration of the benefits in the hands of the richest people in the world.

Another distinction of military contractors is their non-competitive nature. They operate on cost-plus. They indulge a gold-plated Cadillac syndrome among procurers, so a new aircraft carrier costs $1 billion, and the F-15 Air Force fighters, now in development, will cost $10 million each, or 100 times more than the P-47 of World War II.[195] Service bureaucrats do not spend as though they were concerned about national security: they buy one weapon for the price of five, or fifty. Pentagon procurers give advance commitments to production of new weapons without having competitive prototypes. Overhead on idle capacity is passed along in costs.[196] Control is weak and costs escalate wildly. Congressmen and Presidential candidates use their clout to prevent closings of unneeded bases. Retiring procurement officers move into high positions with contractors. A 1969 check found 2122 "former top military men working in industry" for the 100 largest defense contractors.[197]

An ominous aspect of military spending is its use to suppress critics and reward the faithful. Congressman Edward Hebert of Louisiana, Chairman of the House Armed Services Committee, "has launched a battle to keep the military services from sending officers to study at universities that have barred ROTC." "Harvard," Hebert says, "is the No. 1 target. . . . They fight the military more than anyone else." A Committee report says, "It is morally wrong for the military to spend dollars sending students to a particular university which has chosen not to cooperate with the military services. . . ."[198] "Citing possible loss of $16 million in NASA and Defense Department research funds, Stanford University President Richard W. Lyman yesterday (3/8/72) rejected the 8-to-1 recommendation of a student-faculty committee to bar military recruiters from the campus placement center."[199] Several universities with contracts to advise abroad have done little to dispel a hypothesis that they are used by the CIA, and that this influence may reach back into academic

programs and personnel decisions.

It would appear, then, that the net effect of military contracting is to concentrate wealth and power, and destroy the free market system. Military contracting has proved to be corrupting, wasteful, inefficient, anti-democratic and anti-competitive. This is incongruous with the alleged goal of promoting a free world.

Conclusion

Defense is not a "public good". The benefits are unevenly received. Particular groups who benefit heavily are resource owners in the overseas area we police. These include caciques, European and Japanese firms, and U.S.-based multi-nationals.

U.S. force is especially important to resource owners, because their prime concerns are tenure, taxes, and avoiding competition, matters in the domain of politics. "Aggressive imperialism, which costs the taxpayer so dear, which is of so little value to the manufacturer and trader . . . is a source of great gain to the investor. . . ."[200]

U.S. multi-nationals have acquired huge assets overseas. The sources of the assets are less capital flows from the United States than they are plow-backs, appropriation, and appreciation. Ownership of these assets is more concentrated than that of domestic assets, high as the latter is. The assets are heavily concentrated in resources. The owners benefit from U.S. force because it firms up and protects precarious tenures and helps appropriate loosely held or unfenced resources. Private appropriators often lead the flag, securing bargains for themselves but imposing great costs on the public in the form of contingent military liabilities. These have grown so large as to prejudice national solvency and lead us into dangerous confrontations.

U.S. force is also deployed in the interests of cartels whose customers include U.S. consumers and the military itself.

Recoupment of the military subsidy through taxation of beneficiaries is nil. On the contrary, overseas investments enjoy tax treatment so favorable as to constitute an additional subsidy.

Labor as such does not gain from military spending. Offshore U.S. industry is capital-using, not labor-using. Access to cheap foreign minerals is not of great benefit to U.S. labor. The frontier safety-valve analogy does not apply to our present mercantilistic stance. The Marx-Lenin doctrine of underconsumptionist imperialism is belied by inflation in the United States.

As for direct military employment, the military enterprise absorbs more capital than labor because of the lag between expense and recovery. It is a social investment of deferred payout, requiring long-term financing. It sucks capital away from domestic uses of quicker payout and therefore of higher complementarity to labor.

Consumers do not benefit from foreign trade which is more distorted than facilitated by military pressures, and they suffer from inflation.

Military contractors do gain. The gain is not macro-economic and general, but redistributive. Losses are diffused and hard to pinpoint, hence, under-appreciated. Gains are concentrated in a few hands, contractors being larger than the average firm. Waste and corruption abound.

For most Americans, the benefits of military spending are to be found in reducing it and reshaping it so as to diffuse the gains, promote national and world security, and indeed justify calling it a "public good". Perhaps we can yet learn, as the British did not, from their Nobel laureate's "Recessional":

"Far-called our navies melt away
On dune and headland sinks the fire
Lo--all our pomp of yesterday
Is one with Nineveh and Tyre
Judge of the Nations, spare us yet
Lest we forget--lest we forget!"

--Rudyard Kipling

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124. Press Conference 614-A, 12 January 1940, The Papers of Franklin D. Roosevelt, Franklin D. Roosevelt Library, Hyde Park, New York, President's Personal File-1P, cited in Gardner, Economic Aspects of New Deal Diplomacy, p. 126.

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127. Mikesell and Chenery, Arabian Oil, p. 81.

128. See Article VII of the Anglo-American Financial Agreement, cited in Magdoff, The Age of Imperialism, p. 125.

129. Mikesell and Chenery, Arabian Oil, p. 43.

130. Engler, The Politics of Oil, p. 201.

131. Ibid., p. 220.

132. Higgins et al. Stanvac in Indonesia, p. 16.

133. "Indonesia," Time, 22 November 1971, pp. 100-103.

134. This theme has been developed more formally in Gaffney, "Editor's Conclusion," pp. 382-399 et passim.

135. "Occidental Petroleum's Unhappy Ventures," Business Week, 18 December 1971, pp. 79-82.

136. "The $400 Million Election Machine," Newsweek, 13 December 1971, pp. 23-32, p. 30.

137. Engler, The Politics of Oil, p. 193.

138. Washington Post, 23 February 1972.

139. Washington Post, 9 January 1972; Star (Washington, D.C.), 7 January 1972. Additional studies for the Joint Economic Committee by Martin Lobel and William Barrett appear at this writing to have been suppressed.

140. Washington Post, 6 November 1971.

141. Higgins et al., Stanvac in Indonesia, p. 11.

142. Telephone interviews with Richard Matthews, Office of Assistant Secretary of Defense (Installation and Logistics), and George Williams, Chief of 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. 90% of DOD procurement in Southeast Asia is from foreign sources.--Cabinet Task Force on Oil Import Control, The Oil Import Question (Washington, D.C.: U.S. Government Printing Office, 1970), p. 35, n. 30.

143. Estimated by Martin Bailey, based on data published by Richard Oliver, Monthly Labor Review, December 1971.

144. GAO Report #B-163928, "Investigation of Handling and Control of Petroleum Products in Southeast Asia," 28 July 1970, cited by Martin Lobel, telephone interview, 10 March 1972.

145. Engler, The Politics of Oil, p. 221.

146. Ibid., p. 222.

147. Magdoff, The Age of Imperialism, p. 42, from data in Agency for International Development, U.S. Overseas Loans and Grants, Obligations and Loan Authorizations, July 1, 1945 to June 30, 1967 (Washington, D.C.: 29 March 1968).

148. 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.

149. New York Times, 14 July 1968, cited in Magdoff, The Age of Imperialism, p. 119.

150. "Oil Men Scramble for Their Share," Business Week, 18 September 1971, p. 35.

151. Sec. 647.22 U.S.C. 2406, Public Law 87-195, Part 3, cited in Magdoff, The Age of Imperialism, p. 139.

152. Wayne A. Leeman, The Price of Middle East Oil: An Essay in Political Economy (Ithaca, N.Y.: Cornell University Press, 1962), Chapter 5.

153. Engler, The Politics of Oil, pp. 217-220.

154. Wall Street Journal, 26 October 1971.

155. Washington Post, 29 October 1971.

156. The Milwaukee Journal, 10 April 1971.

157. E. N. Avery, cited in Tanzer, Political Economy of International Oil, pp. 130-131.

158. Ibid.

159. The International Petroleum Cartel (cited in note 116).

160. Engler, The Politics of Oil, p. 204.

161. New York Times, 10 July 1953, cited in ibid., p. 205.

162. Sheehan et al., The Pentagon Papers, p. 27.

163. Same as note 53. See also Martin, "Resource Control and Market Power," pp. 131-135.

164. Engler, The Politics of Oil, p. 204.

165. Donald A. Wells, "Aramco: The Evolution of an Oil Concession," in Mikesell et al., Foreign Investment in the Petroleum and Mineral Industries, p. 229.

166. Same as note 133.

167. Joan D. Schmitt, "Are Our Boys Dying in Vietnam for Offshore Oil," Coronet, July 1971, pp. 11-17, p. 14.

168. New York Times, 11 October 1970.

169. Kindleberger, American Business Abroad, p. 193.

170. Higgins et al., Stanvac in Indonesia, p. 28.

171. Krause and Dam, Federal Tax Treatment of Foreign Income, pp. 6-9.

172. Ibid., p. 21.

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174. Peggy Brewer Richman, Taxation of Foreign Investment Income: An Economic Analysis (Baltimore, Md.: The Johns Hopkins Press, 1963), p. 116.

175. Krause and Dam, Federal Tax Treatment of Foreign Income, p. 13.

176. Richman, Taxation of Foreign Investment Income, p. 52.

177. Thomas E. Jenks, "Forms of Organization for Foreign Business Operations in the Extractive Industries," in Taxation and Operations Abroad, a Symposium conducted by the Tax Institute (Princeton, N.J.: Tax Institute, Incorporated, 1960), p. 51.

178. It is a little better yet. The income taxable by the U.S. is figured after the foreign tax, while the foreign tax is based on income before tax and is then allowed as a credit against this smaller U.S. liability. Sounds bewildering, but bewilderment is a vital technique of privilege.

179. Before 1951 it was 50%.

180. Same as note 28. See also 1956 Report of Operations to the Saudi Arab Government, Arabian American Oil Company, 1957. Also, Congressional Record, 85th Congress, 1st Session (27 March 1957), pp. 3981-3982; and The International Petroleum Cartel, p. 128. All cited in Engler, The Politics of Oil, pp. 223-224.

181. Richman, Taxation of Foreign Investment Income, p. 55; and Mikesell, Promoting United States Private Investment Abroad, p. 56.

182. Krause and Dam, Federal Tax Treatment of Foreign Income, pp. 7-8; and Richman, Taxation of Foreign Investment Income, pp. 53-54.

183. For a model showing the identity of slow turnover with high capital-intensity, see Gaffney, "Editor's Conclusion," pp. 342-348. To those who see the point, this relationship is so obvious that it is patronizing

to explicate it. Yet half of all economists, in my experience, do not see it at all. A few deny it vigorously, in the tradition of Frank Knight and J. B. Clark.

184. Fulbright, The Arrogance of Power, p. 143.

185. Some of the budget comes from current consumption, rather than investment. Space forbids exploring all the questions this leads to. Loan-financed spending, reflected in the national debt, comes directly from other capital. How much of current taxation is forced saving--who knows? In general, however, our practices assure that a large share of the military outlay will dig into capital formation. One practice is debt-finance of national spending. U.S. securities satisfy the demand for assets and so weaken the motive to hold real assets. The other practice is acquiring land itself. The rationale is the same. Land values are an asset that substitute for real capital, and weaken the urge to create real capital.

186. Ellis, "A Perspective on Foreign Aid," p. 56.

187. Charles E. Nathanson, "The Militarization of the American Economy," in Corporations and the Cold War, ed. Horowitz, p. 224, based on National Science Foundation, Funds for Research and Development in Industry (1960), p. 11.

188. Alfred E. Kahn, "Public Policies Affecting Market Power," in U.S. Senate Subcommittee on Antitrust and Monopoly, Administered Prices: A Compendium on Public Policy, 88th Congress, 1st Session, Committee Print, pp. 173-174, cited in Estes Kefauver, In a Few Hands: Monopoly Power in America (Baltimore, Md.: Penguin Books, 1965), p. 230.

189. "Tempest in the Rice Bowl," Newsweek, 12 January 1970, pp. 59-60.

190. Background Material on Economic Aspects of Military Procurement and Supply: 1964, Joint Economic Committee of Congress (Washington, D.C.: 1964), p. 11, cited in Magdoff, The Age of Imperialism, p. 192.

191. Phillips, "Economic Effects of the Cold War," p. 179.

192. Richard F. Kaufman, The War Profiteers (Indianapolis and New York: The Bobbs-Merrill Company, Inc., 1970), p. 41.

193. Horace M. Gray, "Supplemental Action to Reinforce Antitrust," in Administered Prices: A Compendium on Public Policy, p. 149, cited in Kefauver, In a Few Hands, pp. 230-231.

194. Testimony of Dr. Richard J. Barber at Hearings before the Joint Economic Committee, 87th Congress, 2nd Session, State of the Economy and Policies for Full Employment (1962), p. 861, cited in Kefauver, In a Few Hands, p. 229.

195. "Stopping the Incredible Rise in Weapons Costs," Business Week, 19 February 1972, pp. 60-61.

196. Ibid.

197. "A Roll-Call of Colonels," Business Week, 27 November 1971, p. 20.

198. Washington Post, 19 February 1972.

199. Washington Post, 9 March 1972.

200. John Hobson, Imperialism (London: 1902), pp. 59-60, cited in Lenin, Imperialism, p. 120.