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ECONOMIC ASPECTS OF U.S. IMPERIALISM

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BY HARRY MAGDOFF

Three interrelated views on economic imperialism and United States foreign policy prevail today:

(1) Economic imperialism *is not* at the root of United States foreign policy. Instead, political aims and national security are the prime motivators of foreign policy.

(2) Economic imperialism *cannot* be the main element in foreign policy determination, since United States foreign trade and foreign investment make such relatively small contributions to the nation's overall economic performance.

(3) Since foreign economic involvement is relatively unimportant to the United States economy, it follows that economic imperialism *need not* be a motivating force in foreign policy. Hence some liberal and left critics argue that present foreign policy, to the extent that it is influenced by imperialism, is misguided and in conflict with the best economic interests of this country. If we sincerely encouraged social and economic development abroad, the argument goes, even to the extent of financing the nationalization of United States foreign investment, the rising demand for capital imports by underdeveloped countries would create a more substantial and lasting stimulus to prosperity than the current volume of foreign trade and foreign investment.

Obscuring economic and commercial interests by covering them up or intermingling them with idealistic and religious motivations is hardly a new phenomenon. Wars have been fought to impose Christianity on heathen empires—wars which incidentally also opened up new trade routes or established

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This is the text of a paper delivered at the Socialist Scholars Conference on September 11th. Harry Magdoff is a lecturer in economics at the New School for Social Research.

new centers of commercial monopoly. Even such a crass commercial aggression as the Opium War in China was explained to the United States public by the American Board of Commissioners for Foreign Missions as "not so much an opium or an English affair, as the result of a great design of Providence to make the wickedness of men subserve his purposes of mercy toward China, in breaking through her wall of exclusion, and bringing the empire into more immediate contact with Western and Christian nations."[1]*

John Quincy Adams, in a public lecture on the Opium War, explained that China's trade policy was contrary to the law of nature and Christian principles:

> The moral obligation of commercial intercourse between nations is founded entirely, exclusively, upon the Christian precept to love your neighbor as yourself. . . . But China, not being a Christian nation, its inhabitants do not consider themselves bound by the Christian precept, to love their neighbor as themselves. . . . This is a churlish and unsocial system. . . . The fundamental principle of the Chinese Empire is anti-commercial. . . . It admits no obligation to hold commercial intercourse with others. . . . It is time that this enormous outrage upon the rights of human nature, and upon the first principles of the rights of nations, should cease.[2]

Perhaps the Christian principle of "love thy neighbor" and the more modern ethic that the anti-commercial is also immoral have become so habitual in accepted ways of thought that we have lost the facility to separate the various strands that make up foreign policy. Perhaps the source of the difficulty can be traced to a lack of understanding of what Bernard Baruch called "the essential one-ness of [United States] economic, political and strategic interests."[3]

There will probably be little dispute about the "one-ness" of United States political and national security aims. The only rationale of national security today is "defense" against the Soviet Union and China. To be absolutely safe, it is said, we need also to cope with the "concealed wars" which may appear as internal revolutions or civil war.[4] It is merely coin-

* Footnotes will be found at the end of the article.

cidental, to be sure, that socialist revolutions destroy the institutions of private ownership of the means of production and thereby violate the Christian precept to love thy neighbor by eliminating freedom of trade and freedom of enterprise in large and important sectors of the earth.

The "one-ness" of the political and national security aims becomes more evident on examination of the political aims, since in this realm of thought our policy-makers and policy-defenders are strict economic determinists. Political freedom is equated with Western-style democracy. The economic basis of this democracy is free enterprise. Hence the political aim of defense of the free world must also involve the defense of free trade and free enterprise. The primary departure from this rigid economic determinism appears when dealing with politically unstable nations where, obviously, the art of self-government is not fully developed. In such cases, for the sake of political stability, we permit and encourage military dictatorships, in full confidence that the people of these countries will eventually learn the art of self-government and adopt a free society just so long as the proper underpinning of free enterprise remains.

While our policy-makers and policy-defenders will identify in the most general terms the "one-ness" of the nation's foreign political and national security goals, they usually become quite shy when it comes to the question of the unity of these goals and economic interests. We have come a long way from the very straightforward bulletin prepared in 1922 by the Office of Naval Intelligence on "The U.S. Navy as an Industrial Asset."[5] This report frankly details the services rendered by the Navy in protecting American business interests and in seeking out commercial and investment opportunities which the Navy Department brings to the attention of American businessmen.

But today our national aims are presumably concerned only with political and philosophic ideals. In so far as economic interests are concerned, the tables have been turned: today it is business that is expected to serve the needs of national policy. The problem is how to stimulate private investment abroad. Private foreign investment is considered such a necessary tool of national policy that various forms of investment guaranty programs have been designed to protect foreign investors against losses due to confiscation, wars, and the uncertainties of currency convertibility.

The interrelation between economic interests and foreign policy is seen more clearly by business-minded observers. Thus the former president and chairman of the World Bank, Eugene R. Black, informs us that "our foreign aid programs constitute a distinct benefit to American business. The three major benefits are: (1) Foreign aid provides a substantial and immediate market for U.S. goods and services. (2) Foreign aid stimulates the development of new overseas markets for U.S. companies. (3) Foreign aid orients national economies toward a free enterprise system in which U.S. firms can prosper."[6]

More specifically, an Assistant Secretary of Commerce for Economic Affairs explains to businessmen that "if these [military and economic] aid programs were discontinued, private investments might be a waste because it would not be safe enough for you to make them."[7]

On a much more elevated plane, we are told by a specialist on international business practice, a teacher at MIT and Harvard: "It would seem that there is a horrible urgency in making Western economic concepts internationally viable if man's dignity is to be preserved—and incidentally, a profitable private business."[8]

And as an indication of how in fact some influential members of the business community see the "one-ness" of economic, political, and security interests, listen to the view expressed in 1965 by the Vice-president of Chase Manhattan Bank who supervises Far Eastern operations:

> In the past, foreign investors have been somewhat wary of the over-all political prospect for the [Southeast Asia] region. I must say, though, that the U.S. actions in Vietnam this year—which have demonstrated that the U.S. will continue to give effective protection to the free nations of the region—have considerably reassured both Asian and Western investors. In fact, I see some reason for hope that the same sort of economic growth may take place in the free economies of Asia that took place in Europe after the Truman Doctrine and after NATO provided a protective shield. The same thing also took place in Japan after the U.S. intervention in Korea removed investor doubts.[9]

The Size of Foreign Economic Involvement

But even if we grant the interrelatedness of economic, political, and security interests, how much priority should we assign to economic interests? Specifically, how can one claim that economic imperialism plays a *major* role in United States policy if total exports are less than 5 percent of the gross national product, and foreign investment much less than 10 percent of domestic capital investment?

Let us note first that the size of ratios is not by itself an adequate indicator of what motivates foreign policy. Many wars and military operations were aimed at control over China's markets at a time when those markets represented only one percent of total world trade. Overall percentages need analytical examination: the strategic and policy-influential areas of business activity need to be sorted out.

Above all, it is important to appreciate that the stake of United States business abroad is many times larger than the volume of merchandise exports. The reason for this is that the volume of accumulated capital abroad controlled by United States business has been increasing at a faster rate than exports. The unique advantage of capital is that it reproduces itself. That is, the output obtained by capital investment produces enough revenue to cover not only costs of labor and raw materials but also the capital and natural resources consumed plus profits. The annual flow of capital invested abroad is therefore additive: increments to capital enlarge the productive base. Even more important, United States firms abroad are able to mobilize foreign capital for their operations. The net result of the flow of capital abroad and the foreign capital mobilized by American firms is that while production abroad arising out of United States investment was 4½ times larger than exports in 1950, by 1964 this had risen to 5½ times exports. These observations are based on estimates made in a recent study conducted by the National Industrial Conference Board[10] (see table top of facing page).

When the Department of Commerce measures the economic significance of exports, it compares them with a figure

	Sales (in Billions) 1950	1964
Output abroad resulting from U.S. investment		
From direct investment*	$24	$ 88
From other investment**	20	55
Total	44	143
Sales abroad via exports	10	25
Total output abroad plus exports	$54	$168

for total domestic production of moveable goods—that is, the sales of agricultural products, mining products, manufactures, and freight receipts. The estimated total of moveable goods produced in the United States in 1964 was $280 billion.[11] There are technical reasons which make it improper to compare the $168 billion of sales abroad with $280 billion of domestic output of moveable goods. For example, a portion of our exports is shipped to United States-owned companies as components or semi-finished products. Thus, if we add such exports to output of United States-owned foreign business we are double counting. Adjusting for this and other sources of non-comparability, we arrive at a conservative estimate that the size of the foreign market (for domestic and United States-owned foreign firms) is equal to approximately two-fifths the domestic output of farms, factories, and mines.[12]

If this seems surprising to those who are accustomed to think in terms of Gross National Product, remember that the latter includes government expenditures, personal and professional services, trade, and activities of banks, real estate firms, and stock brokers. But as far as the business of farms, factories, and mines is concerned, foreign business amounts to quite a noteworthy volume relative to the internal market. Nor is this the whole story. These data do not include the considerable amount of sales abroad of foreign firms operating under copy-

* As defined by the Department of Commerce, direct investments are branch establishments or corporations in which United States firms own 25 percent or more of the voting stock.

** "Other investment" represents mainly stocks and bonds of foreign firms owned by United States firms and individuals.

right and patent agreements arranged by United States firms. As an example, one firm in the Philippines manufactures the following brand-name products under restricted licenses of United States firms: "Crayola" crayons, "Wessco" paints, "Old Town" carbon paper and typewriter ribbons, "Mongol" lead pencils, "Universal" paints, and "Parker Quink."

The Growing Importance of Foreign Economic Activity

The increasing relative importance of foreign economic activity is well illustrated by the experience of the manufacturing industries, as shown in Chart I and Table I. Here we compare total sales of domestic manufactures with exports of manufactures and sales of United States direct investments in foreign manufacturing activity. The data are plotted on a semi-logarithmic scale in the chart. Therefore, the narrowing of the distance between the two lines depicts the more rapid rise of the foreign market as compared with the growth of domestic markets.

CHART I

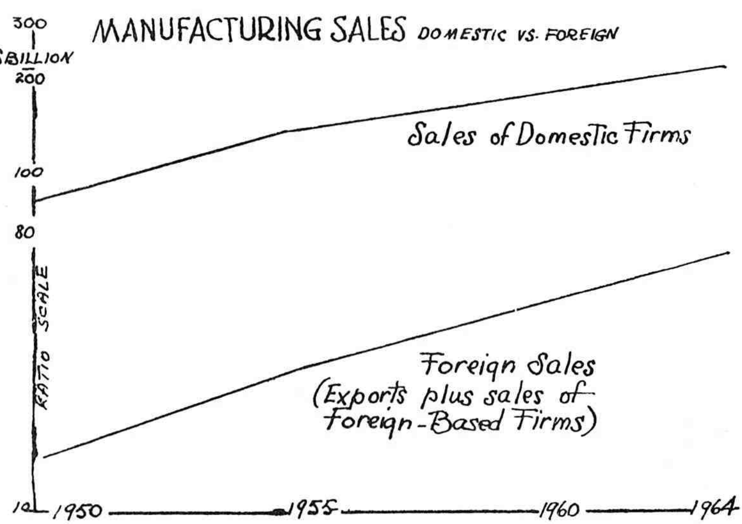


TABLE I

MANUFACTURES
FOREIGN AND DOMESTIC SALES
(In Billions)

(1) *Year*	(2) *Exports*	(3) *Sales by Foreign-based U.S. Firms*	(4) *Total Foreign Sales (2) + (3)*		(5) *Sales of Domestic Manufactures*	
			Absolute	*1950=100*	*Absolute*	*1950=100*
1950	$ 7.4	$ 8.4	$15.8	100	89.8	100
1955	12.6	13.9	26.5	168	135.0	150
1960	16.1	23.6	39.7	251	164.0	183
1964	20.6	37.3	57.9	367	203.0	226

Source: Exports—U.S. Bureau of the Census, *Statistical Abstract of the United States: 1965*, pp. 877, 773. 1964 Sales of Domestic firms—U.S. Bureau of the Census, *Annual Survey of Manufactures, 1964*. Sales of foreign-based U.S. firms—the data for 1950 and 1955 are estimates based on the average relation between sales and investment abroad. (This is the procedure used by the National Industrial Conference Board.) Data for 1960 and 1964—*Survey of Current Business*, September, 1962, p. 23, November 1965, p. 18.

Note: The data in columns (4) and (5) are not strictly comparable (see footnote 12.) However, the non-comparability does not destroy the validity of comparing the differences in the rates of growth of the two series.

Equally significant is the comparison of expenditures for plant and equipment in foreign-based and in domestic manufacturing firms (Chart II and Table II). As in the preceding chart, the narrowing of the distance between the two lines is a clear portrayal of the increasing relative importance of business activity abroad. Expenditures for plant and equipment for United States subsidiaries abroad were a little over 8 percent of such expenditures of domestic firms in 1957. Last year this had risen to 17 percent.

CHART II

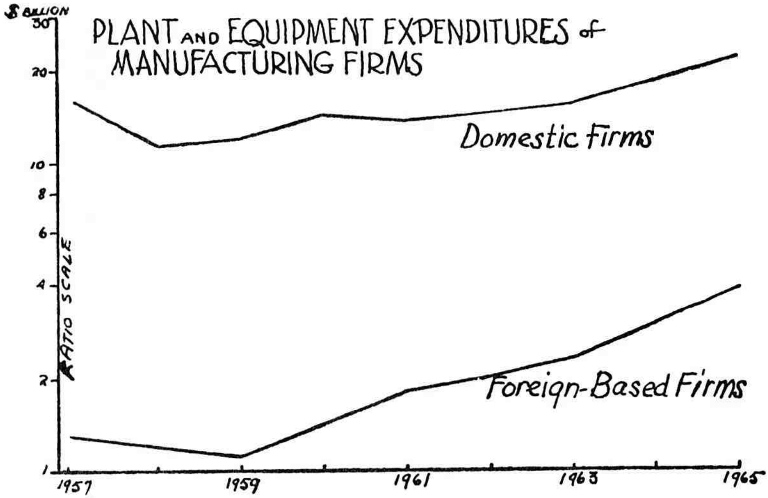


TABLE II

PLANT AND EQUIPMENT EXPENDITURES BY U.S. DOMESTIC AND FOREIGN-BASED MANUFACTURING FIRMS

	Domestic Firms		*Foreign-Based Firms*		*Foreign as*
Year	*Billion $*	*1957=100*	*Billion $*	*1957=100*	*% of Domestic*
1957	$16.0	100	$1.3	100	8.1
1958	11.4	71	1.2	92	10.5
1959	12.1	76	1.1	85	9.1
1960	14.5	91	1.4	108	9.7
1961	13.7	86	1.8	139	13.1
1962	14.7	92	2.0	154	13.6
1963	15.7	98	2.3	177	14.7
1964	18.6	116	3.0	231	16.1
1965	22.5	141	3.9	300	17.3

Source: Foreign-based firms—*Survey of Current Business,* September 1965, p. 28; September 1966, p. 30. Domestic firms—*Economic Report of the President,* Washington, D.C., 1966, p. 251.

It is not surprising to find, as shown in Chart III and Table III (pp. 12, 13), that profits from operations abroad are also becoming an ever more important component of business profits. In 1950, earnings on foreign investment represented about 10 percent of all after-tax profits of domestic nonfinancial corporations. By 1964, foreign sources of earnings accounted for about 22 percent of domestic nonfinancial corporate profits. In evaluating the significance of this we should also take into account (a) the understatement of foreign earnings because the latter do not include all the service payments transferred by foreign subsidiaries to home corporations, and (b) the financial advantages achieved in allocating costs between the home firms and foreign subsidiaries so as to minimize taxes. Moreover, we are comparing foreign earnings with earnings of all nonfinancial corporations—those that are purely domestic and those that operate abroad as well as in the United States. If we compared foreign earnings with total earnings of only those industries that operate abroad, the share of foreign earnings would of course be much larger than one fourth.

TABLE III

EARNINGS ON FOREIGN INVESTMENT AND DOMESTIC CORPORATE PROFITS

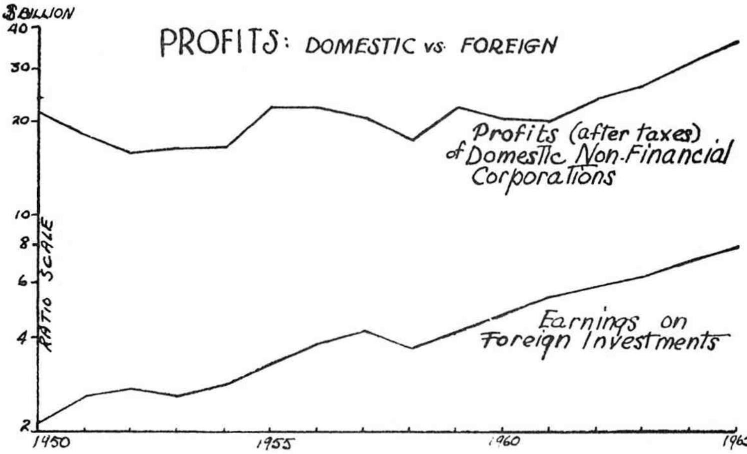
	Earnings on Foreign Investment	*Profits (After Taxes) of Domestic Nonfinancial Corporations*
	(Billions of Dollars)	
1950	2.1	21.7
1951	2.6	18.1
1952	2.7	16.0
1953	2.6	16.4
1954	2.8	16.3
1955	3.3	22.2
1956	3.8	22.1
1957	4.2	20.9
1958	3.7	17.5
1959	4.1	22.5
1960	4.7	20.6
1961	5.4	20.5
1962	5.9	23.9
1963	6.3	26.2
1964	7.1	31.3
1965	7.8	36.1

Source: Earnings on foreign investments—U.S. Department of Commerce, *Balance of Payments Statistical Supplement Revised Edition,* Washington, 1963; *Survey of Current Business,* August 1962, August 1963, August 1964, September 1965, June 1966, September 1966. Profits of nonfinancial domestic corporations—*Survey of Current Business,* September 1965, July 1966.

Note: Earnings include (a) earnings on direct investments abroad, (b) fees and royalties on direct investment transferred to parent companies in the U.S., and (c) income from "other" investments (other than direct) transferred to U.S. owners of these assets.

The significance of the last three tables is their representation of the rapid growth of the foreign sector. During the period when the economy as a whole was experiencing a slowing down in the rate of growth, foreign markets were an important source of expansion. For example, in manufacturing industries during the past ten years domestic sales increased by 50 percent, while foreign sales by United States-owned factories increased over 110 percent.

CHART III



Thus, as far as the commodity-producing industries are concerned, foreign markets have become a major sphere of economic interest and have proven to be increasingly important to United States business as an offset to the stagnating tendencies of the inner markets.

This is quite obvious to American businessmen. The treasurer of General Electric Company put it this way in discussing "the need that American business has to keep expanding its foreign operations":

> In this respect, I think business has reached a point in the road from which there is no turning back. American industry's marvelous technology and abundant capital resources have enabled us to produce the most remarkable run of peacetime prosperity in the nation's history. To keep this going, we have for several years sought additional outlets for these sources in foreign markets. For many companies, including General Electric, these offshore markets offer the most promising opportunities for expansion that we can see.[13]

It is also quite obvious that if foreign markets are so important to the commodity-producing industries, they are also of prime importance to the other interest groups, those whose profits and prosperity are dependent upon the welfare of the commodity-producers as well as those who benefit from servicing trade and investment in foreign markets: investment and commercial bankers, stock market speculators, transportation, insurance, etc.

Military Spending and Exports

For a full measure of economic involvement in foreign markets, the impact of military spending—the "defense" program—must also be reckoned with. The growth of our inner and outer markets has, since the founding of the Republic, been associated with the use (actual or threatened) of military force in peace as well as war. Professor William T. R. Fox states the case quite mildly: "The United States Army in peacetime was through most of the nineteenth century, extensively used to aid in the winning of the West, and especially in the suppression of Indian opposition to the opening up of new lands for settlement. Our Navy and Marine Corps, beginning with their exploits against the Barbary pirates were also engaged in making it safe for Americans to live and invest in remote places."[14]

While military activity is today presumably subordinated to national security needs, the "one-ness" of the national security and business interests persists: the size of the "free" world and the degree of its "security" define the geographic boundaries where capital is relatively free to invest and trade. The widespread military bases, the far-flung military activities, and the accompanying complex of expenditures at home and abroad serve many purposes of special interest to the business community: (1) protecting present and potential sources of raw materials; (2) safeguarding foreign markets and foreign investments; (3) conserving commercial sea and air routes; (4) preserving spheres of influence where United States business gets a competitive edge for investment and trade; (5) creating new foreign customers and investment opportunities via foreign military and economic aid; and, more generally, (6) maintaining the structure of world capitalist markets not only directly for the United States but also for its junior partners among the industrialized nations, countries in which United States business is becoming ever more closely enmeshed. But even all of this does not exhaust the "one-ness" of business interest and military activity, for we need to take into account the stake business has in the size and nature of military expenditures as a well-spring of new orders and profits.

As with exports, the significance of military spending for business and the economy as a whole is usually greatly underestimated. One often hears that defense expenditures amount to less than 10 percent of the Gross National Product and that with a proper political environment comparable government spending for peaceful uses could accomplish as much for the economy. A crucial weakness of this approach is its uncritical acceptance of Gross National Product as a thing-in-itself. Because GNP is a useful statistical tool and one which has become entrenched in our ways of thought, we tend to ignore the underlying strategic relationships that determine the direction and degree of movement of the economic aggregates. Instead of examining the requirements of the industrial structure and the dynamic elements of economic behavior, we tend to view the economy as blocks of billions of dollars that may be shifted at will from one column to another of the several categories used by statisticians to construct the measurement of GNP.

To appreciate fully the critical influence of foreign markets and military expenditures on the domestic economy, recognition must be given to their exceptionally large impact on the capital goods industries. But first a comment on the capital goods industries and the business cycle. There are diverse explanations of business cycles, but there can be no disputing the fact that the mechanics of the business cycle—the transmission mechanism, if you wish—is to be found in the ups and downs of the investment goods industries. There are cycles which are primarily related to the ebb and flow of inventories, but these are usually short-lived as long as the demand for investment goods does not collapse.

During a cyclical decline, the demand for consumer goods can be sustained for a period by several expedients such as unemployment relief, other welfare payments, and depletion of consumer savings. However, except for the most essential replacement needs, expenditures on investment goods theoretically can go down to zero. Businessmen naturally will not invest unless they expect to make a profit. The result of the diverse behavior of producer goods and consumer goods was classically demonstrated in the depression of the 1930's. During this probably worst depression in our history, purchases of consumer goods declined only 19 percent (between 1929 and 1933). Compare this with the behavior of the two major types of investment goods during the same period: expenditures for residential construction fell by 80 percent and nonresidential fixed investment dropped 71 percent.

With this as background, let us now focus on the post-Second World War relationship between (a) exports and military demand, and (b) a major category of investment, nonresidential fixed investment goods. Table IV lists the industries producing nonresidential investment goods. It should be noted that a number of these industries also contribute to consumer goods (e.g., steel and machinery for autos) and to residential construction. This table presents the percentages of total demand (direct and indirect) created by exports and purchases of the federal government, which are almost entirely for military needs. These data are for the year 1958, the latest year for which there exists a complete input-output analysis for the United States economy.

As will be noted from Table IV, in only one industry—farm machinery and equipment—did the combined export and military demand come to less than 20 percent of total demand. At the opposite extreme are the military industries par excellence—ordnance and aircraft. For all the other industries, the range of support given in 1958 by exports and military demand is from 20 to 50 percent.

While the available statistical data refer to only one year, the postwar patterns of exports and military expenditures suggest that this tabulation is a fair representation of the situation since the Korean War, and surely a gross underestimate during the Vietnam War. More information and study are required for a more thorough analysis. Meanwhile, the available

TABLE IV

PERCENT OF TOTAL OUTPUT ATTRIBUTABLE TO EXPORTS AND FEDERAL PURCHASES, 1958

	Percent of Output		
Industry	*Going into Exports*	*Purchased by Federal Government*	*Total of Exports and Federal Purchases*
Iron and ferroalloy ores mining	13.5%	12.8%	26.3%
Nonferrous metal ores mining	9.1	35.6	44.7
Coal mining	19.1	6.3	25.4
Ordnance and accessories	1.7	86.7	88.4
Primary iron and steel manufacturing	10.1	12.5	22.6
Primary nonferrous metal manufacturing	10.1	22.3	32.4
Stamping, screw machine products	7.1	18.2	25.3
Other fabricated metal products	8.6	11.9	20.5
Engines and turbines	14.8	19.7	34.5
Farm machinery and equipment	10.0	2.9	12.9
Construction, mining and oil field machinery	26.9	6.1	33.0
Materials handling machinery and equipment	9.4	17.2	26.6
Metalworking machinery and equipment	14.0	20.6	34.6
Special industry machinery and equipment	17.5	4.3	21.8
General industrial machinery and equipment	13.4	15.3	28.7
Machine shop products	7.0	39.0	46.0
Electric industrial equipment and apparatus	9.8	17.0	26.8
Electric lighting and wiring equipment	5.5	14.5	20.0
Radio, TV and communication equipment	4.8	40.7	45.5
Electronic components and accessories	7.6	38.9	46.5
Misc. electrical machinery, equipment and supplies	8.9	15.1	24.0
Aircraft and parts	6.1	86.7	92.8
Other transportation equipment (not autos)	10.1	20.9	31.0
Scientific and controlling instruments	7.3	30.2	37.5

Source: "The Interindustry Structure of the United States," *Survey of Current Business*, November 1964, p. 14.

data warrant, in my opinion, these observations:

(1) Exports and military spending exert a distinctive influence on the economy because they fortify a strategic center of the existing industrial structure. This is especially noteworthy because business investment is not, as is too often conceived, a freely flowing stream. There is a definite interdependence between (a) the existing schedule of wage rates, prices, and profits, (b) the evolved structure of industry (the types of interrelated industries, each built to be profitable at the scale of obtainable domestic and foreign markets), and (c) the direction of profitable new investments. To put it in simpler terms, there are sound business reasons why investments flow in the direction they do and not in such ways as to meet the potential needs of this country—for example, to eliminate poverty, to provide the industry which would create equal opportunity to Negroes, to develop the underdeveloped regions of the United States, or create adequate housing. More important, business cannot invest to accomplish these ends and at the same time meet its necessary standards of profit, growth, and security for invested capital. Exports of capital goods and military demand flowing to the capital-goods producers, on the other hand, are uniquely advantageous in that they strengthen and make more profitable the established investment structure; they also contribute to an expansion of the industries that are most harmonious with and most profitable for the existing composition of capital.

(2) The support given by foreign economic involvement—both military and civilian commodities—makes a singular contribution by acting as a bulwark against the slippage of minor recessions into major depressions. It has accomplished this by shoring up one of the strategic balance wheels of the economy, the production of investment-type equipment—by supplying, as we have seen, from 20 to 50 percent of the market for these goods.

(3) We need also to take into account that it is *monopolistic* industry which dominates the volume and flow of investment and that such monopolistic businesses characteristically gear their investment policies to the "sure thing," where good

profits and safety of investment are reliably assured. Here the tie-in of government action and foreign policy is of paramount interest. The military-goods market usually has the decided advantage of supplying long-term contracts, often accompanied by enough guarantees to reduce and even eliminate any risk in building additional plant equipment, plant and equipment which may also be used for civilian purposes. In addition, military contracts pay for related research and development expenses, again removing risky aspects of normal investment programs. As for the foreign countries, the United States military presence, its foreign policy, and its national security commitments provide a valuable protective apparatus for the investments made in foreign markets. These foreign investments together with the demand created by governmental foreign aid, contribute importantly to the demand for the exports of the capital-goods and other manufacturing industries. The confidence in the consistency of government foreign policy and its complementary military policy can, and surely must, act as a valuable frame of reference for the domestic as well as foreign investment practices of monopolistic business.

(4) The extra 20 to 50 percent of business provided by exports plus military demand (as shown for the key industries in Table IV) provides a much greater percentage of the total profits of these firms. The typical economics of a manufacturing business requires that a firm reaches a certain level of productive activity before it can make a profit. Gross overhead costs—depreciation of machinery, use of plant, costs of administration—remain fairly constant at a given level of capacity. Until production reaches a point where at the market price of the final product enough income is produced to meet the overhead and direct costs, a business operates at a loss. Once this "break-even" point is reached, the profitability of the business surges forward until it hits against the limits of productive capacity. Of course the curve of profitability differs from industry to industry and from firm to firm. But the existence of a break-even point, and the upward swing of profits after the break-even point has been passed is a common characteristic of manufacturing industries. What this means is that for many of the

firms in the capital goods industries, the overlay of 20 to 50 percent of demand from military purchases and exports probably accounts for the major share of the profits, and in not a few firms perhaps as much as 80 to 100 percent of their profits.

Monopoly and Foreign Investments

One of the reasons frequently given for believing that economic imperialism is an unimportant influence in foreign and military policy is that only a small segment of American business is vitally concerned with foreign or military economic activities. This might be a meaningful observation if economic resources were widely distributed and the majority of domestic-minded business firms could conceivably be mobilized against policies fostered by the small minority of foreign-oriented businesses. But the realities of economic concentration suggest quite the opposite. In manufacturing industries, 5 corporations own over 15 percent of total net capital assets (as of 1962). The 100 largest corporations own 55 percent of total net capital assets.[15] This means that a small number of firms—with their own strength and that of their allies in finance and mass communication media—can wield an overwhelming amount of economic and political power, especially if there is a community of interest within this relatively small group.

And it is precisely among the giant corporations that we find the main centers of foreign and military economic operations. Just a cursory examination of the 50 largest industrial concerns shows the following types of firms heavily involved in international economic operations and the supply of military goods: 12 in oil, 5 in aviation, 3 in chemicals, 3 in steel, 3 in autos, 8 in electrical equipment and electronics, and 3 in rubber. These 37 companies account for over 90 percent of the assets of the top 50 industrial firms.

The community of interest among the industrial giants in foreign and military operations stems from relations that are not always obvious in terms of the customary statistical categories. First, there is the interrelationship among the firms via the financial centers of power. Second, there are the direct economic ties of business. While only five firms get one fourth of the volume of military contracts and 25 firms account for more than half of such contracts, a large part of this business is distributed to other businesses that supply these chief contractors.[16] Thus, as we saw in Table IV, the primary nonferrous metal manufacturers who receive very few direct military contracts nevertheless get over 22 percent of their business from military demand. And, third, because of the rich growth potential and other advantages of the military and foreign-oriented businesses, the postwar merger movement among industrial giants has intermingled the typically domestic with the typically outer-market directed business organizations. The most unlikely-seeming business organizations are today planted with both feet in foreign and military business. We see, for example, traditional producers of grain mill products and of plumbing and heating equipment acquiring plants that make scientific instruments; meat packing firms buying up companies in the general industrial machinery field, and many other cross-industry mergers.

The concentration of economic power, so much part of the domestic scene, shows up in even stronger fashion in the field of foreign investment. The basic available data on this are taken from the 1957 Census of foreign investments. (See Table V.) These data refer only to direct investments and do not include portfolio investments or such economic ties as are

TABLE V

U.S. DIRECT FOREIGN INVESTMENT
BY SIZE OF INVESTMENT (1957)

Value of Direct Investment by Size Classes	*Number of Firms*	*Percent of Total U.S. Investment*
$100 million and over	45	57
$ 50-100 million	51	14
$ 25- 50 million	67	9
$ 10- 25 million	126	8
$ 5- 10 million	166	5
Total	455	93

Source: *United States Business Investments in Foreign Countries,* U.S. Dept. of Commerce, 1960, p. 144.

created by the licensing of patents, processes, and trademarks. We note from this table that only 45 firms account for almost three fifths of all direct foreign investment. Eighty percent of all such investment is held by 163 firms. The evidence is still more striking when we examine the concentration of investment by industry:

Industry	*No. of Firms*	*Percent of Total Assets Held*
Mining	20	95
Oil	24	93
Manufacturing	143	81
Public Utilities	12	89
Trade	18	83
Finance and Insurance	23	76
Agriculture	6	83

These data are shown from the viewpoint of total United States foreign investment. If we examined the situation from the angle of the recipient countries, we would find an even higher degree of concentration of United States business activities. But from either perspective, the concentration of foreign investment is but an extension of domestic monopolistic trends. The latter provide the opportunity to accumulate the wealth needed for extensive foreign investment as well as the impetus for such investment.

The question of control is central to an understanding of the strategic factors that determine the pattern of foreign investment. In its starkest form, this control is most obvious in the economic relations with the underdeveloped countries—in the role of these countries as suppliers of raw materials for mass-production industries and as a source of what can properly be termed financial tribute.

Let us look first at the distribution of foreign investment as shown in Table VI. We see here two distinct patterns. In Latin America, Asia, and Africa, the majority of the investment is in the extractive industries. Although Canada is an important source of minerals and oil, only 35 percent of United States investment is in these extractive industries, with 45 percent going into manufactures. The investment in extractive industries

TABLE VI

PERCENT DISTRIBUTION OF DIRECT FOREIGN INVESTMENT
BY AREA AND INDUSTRY, 1964

Industry	*All Areas*	*Canada*	*Europe*	*Latin America*	*Africa*	*Asia*	*Oceania*
Mining	8.0%	12.1%	0.4%	12.6%	21.9%	1.1%	6.3%
Petroleum	32.4	23.4	25.6	35.9	51.0	65.8	28.1
Manufacturing	38.0	44.8	54.3	24.3	13.8	17.5	54.1
Public Utilities	4.6	3.3	0.4	5.8	0.1	1.8	0.1
Trade	8.4	5.8	12.2	10.7	5.7	7.8	5.5
Other	8.6	10.6	7.1	10.7	7.5	6.0	5.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Calculated from data in *Survey of Current Business,* September 1965, p. 24.

in Europe is minimal: the data on petroleum represent refineries and distribution, not oil wells.

The economic control, and hence the political control when dealing with foreign sources of raw material supplies, is of paramount importance to the monopoly-organized mass production industries in the home country. In industries such as steel, aluminum, and oil, the ability to control the source of raw material is essential to the control over the markets and prices of the final products, and serves as an effective safety factor in protecting the large investment in the manufacture and distribution of the final product. The resulting frustration of competition takes on two forms. First, when price and distribution of the raw material are controlled, the competitor's freedom of action is restricted; he cannot live very long without a dependable source of raw materials at a practical cost. Second, by gobbling up as much of the world's resources of this material as is feasible, a power group can forestall a weaker competitor from becoming more independent as well as discourage possible new competition. How convenient that a limited number of United States oil companies control two thirds of the "free world's" oil![17]

At this level of monopoly, the involvement of business interests with United States foreign policy becomes ever more close. The assurance of control over raw materials in most areas involves not just another business matter but is high on the agenda of maintaining industrial and financial power. And the wielders of this power, if they are to remain in the saddle, must use every effort to make sure that these sources of supply are always available on the most favorable terms: these foreign supplies are not merely an avenue to great profits but are the insurance policy on the monopolistic position at home.

The pressure to obtain external sources of raw materials has taken on a new dimension during the past two decades, and promises to become increasingly severe. Even though United States business has always had to rely on foreign sources for a number of important metals (e.g., bauxite, chrome, nickel, manganese, tungsten, tin), it has nevertheless been self-reliant and an exporter of a wide range of raw materials until quite recently. This generalization has been a mainstay of those who argued that U.S. capitalism had no need to be imperialistic. But even this argument, weak as it may have been in the past, can no longer be relied on. The developing pressure on natural resources, especially evident since the 1940's, stirred President Truman to establish a Materials Policy Commission to define the magnitude of the problem. The ensuing commission report, *Resources for Freedom* (Washington, D.C., 1952), graphically summarized the dramatic change in the following comparison for all raw materials other than food and gold: at the turn of the century, the U.S. produced on the whole some 15 percent more of these raw materials than was domestically consumed; this surplus had by 1950 turned into a deficit, with U.S. industry consuming 10 percent more than domestic production; extending the trends to 1975 showed that by then the overall deficit of raw materials for industry will be about 20 percent.

Perhaps the awareness of this development was a contributing factor to President Eisenhower's alerting the nation to the unity of political and economic interests in his first inaugural address (January 20, 1953): "We know . . . that we are linked to all free peoples not merely by a noble idea but by a simple need. No free people can for long cling to any privilege or enjoy any safety in economic solitude. For all our own material might, even we need markets in the world for the surpluses of our farms and our factories. Equally, we need for these same farms and factories vital materials and products of distant lands. This basic law of interdependence, so manifest in the commerce of peace, applies with thousand-fold intensity in the event of war."

As is so often the case, economic interests harmonize comfortably with political and security goals, since so many of the basic raw materials are considered essential to effective war preparedness. Quite understandably the government makes its contribution to the security of the nation as well as to the security of business via diplomatic maneuvers, maintenance of convenient military bases in various parts of the world, military aid to help maintain stable governments, and last but not least a foreign aid program which is a fine blend of declared humanitarian aims about industrialization and a realistic appreciation that such progress should not interfere with the ability of supplying countries to maintain a proper flow of raw materials. To do a real job of assuring an adequate supply of raw materials in the light of possible exhaustion of already exploited deposits, and in view of possible needs for missiles and space programs, the government can make its greatest contribution by keeping as much of the world as possible "free" and safe for mineral development. Clarence B. Randall, president of Inland Steel Co. and adviser on foreign aid in Washington, comments on the fortunate availability of uranium deposits in the Belgian Congo as the atom bomb was developed: "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 a rare raw material which in the fullness of time our industry or our defense program may most urgently need?"[18]

The integration of less developed capitalisms into the world market as reliable and continuous suppliers of their natural resources results, with rare exceptions, in a continuous dependency on the centers of monopoly control that is sanctified and cemented by the market structure which evolves from this very dependency. Integration into world capitalist markets has almost uniform effects on the supplying countries: (1) they depart from, or never enter, the paths of development that require independence and self-reliance; (2) they lose their economic self-sufficiency and become dependent on exports for their economic viability; (3) their industrial structure becomes adapted to the needs of supplying specialized exports at prices acceptable to the buyers, reducing thereby such flexibility of productive resources as is needed for a diversified and growing economic productivity. The familiar symptom of this process is still seen in Latin America where, despite industrialization efforts and the stimulus of two world wars, well over 90 percent of most countries' total exports consists of the export of agricultural and mineral products.[19] The extreme dependence on exports, and on a severely restricted number of export products at that, keeps such economies off balance in their international economic relations and creates frequent need for borrowing.

Debt engenders increasing debt, for the servicing of the debt adds additional balance of payments difficulties. And in all such relations of borrowing and lending, the channels of international finance are in the hands of the foreign investors, their business associates, and their government agencies.

The chains of dependence may be manipulated by the political, financial, and military arms of the centers of empire, with the help of the Marines, military bases, bribery, CIA operations, financial maneuvers, and the like. But the material basis of this dependence is an industrial and financial structure which through the so-called normal operations of the marketplace reproduces the conditions of economic dependence.

A critical element of the market patterns which helps perpetuate the underdeveloped countries as dependable suppliers of raw materials is the financial tribute to the foreign owners who extract not only natural resources but handsome profits as well. The following comparison for the years 1950-1965 is a clear illustration of the process and refers to only one kind of financial drain, the income from direct investments which is transferred to the United States:[20]

	(*Billions of Dollars*)			
	Europe	*Canada*	*Latin America*	*All other Areas*
Flow of direct investments from U.S.	$8.1	$6.8	$3.8	$5.2
Income on this capital transferred to U.S.	5.5	5.9	11.3	14.3
Net	+$2.6	+$ .9	-$ 7.5	-$ 9.1

In the underdeveloped regions almost three times as much money was taken out as was put in. And note well that besides drawing out almost three times as much as they put in, investors were able to increase the value of the assets owned in these regions manifold: in Latin America, direct investments owned by United States business during this period increased from $4.5 to $10.3 billion; in Asia and Africa, from $1.3 to $4.7 billion.

The contrasting pattern in the flow of funds to and from Europe indicates a post-Second World War trend. The rapid growth of investment in Europe was in the manufacturing and oil refining fields. The developments in foreign investment in manufacturing are closely related to the normal business drive to (a) control markets and (b) minimize costs of production. The methods used will vary according to the industry and the conditions in each country. The main factors involved in relying on capital investment instead of relying on export trade are:

(1) If the profit rate obtainable by manufacturing abroad is greater than by increasing domestic production.

(2) If it facilitates getting a larger and more secure share of a given foreign market.

(3) If it enables taking advantage of the channels of export trade of the country in which investment is made. Thus, United States business firms in England account for 10 percent of Britain's exports.[21]

(4) If it is possible to pre-empt a field of industry based on new technological developments, usually protected by exercise of patent rights. But the most dramatic development of our times is the spread of United States industry into the computer, atomic energy, and space technology activities of industrialized countries. The rapid spread of these fields is motivated, to be sure, by immediate profit opportunities. But it most likely also has the aim of helping to maintain, and get full advantage of, the technical edge United States business now has as a result of the vast investment made by the United States government in research and development. The dominant position in this technology may be decisive in achieving wider control of the rest of the economy, when and if the new technology becomes the key to the productive forces of a society.

Such investment as is made by United States capital in manufacturing in underdeveloped countries occurs primarily in Latin America, where the percentage of total United States investment in the field of manufacturing is 24 percent. This investment is mainly in light manufacturing industry, including the processing of native food materials. Manufacturing operations in the durable goods field, such as autos, takes the form of assembly plants. This guarantees the export market of components and parts. It also contributes to stabilizing the market for these United States products. It is much easier for a country faced with severe balance of payments difficulties to prohibit imports of a luxury product than to eliminate the import of raw materials and assembly parts which will create unemployment and shut down local industry.

The postwar foreign economic expansion of United States manufacturing firms has resulted in the transformation of many of the giants of United States business into a new form of multinational organizations. The typical international business firm is no longer limited to the giant oil company. It is as likely to be a General Motors or a General Electric—with 15 to 20 percent of its operations involved in foreign business, and exercising all efforts to increase this share. It is the professed goal of these international firms to obtain the lowest unit production costs on a world-wide basis. It is also their aim, though not necessarily openly stated, to come out on top in the merger movement in the European Common Market and to control as large a share of the world market as they do of the United States market. To the directors of such organizations the "oneness" of economic and national interests is quite apparent. The president of General Electric put it succinctly: "I suggest we will perceive: that overriding both the common purposes and cross-purposes of business and government, there is a broader pattern—a 'consensus' if you will, where public and private interest come together, cooperate, interact and become the national interest."[22]

Needless to stress, the term "private interest" refers to private enterprise. Another officer of this corporation grapples with the identity of the private and national interest: "Thus, our search for profits places us squarely in line with the national policy of stepping up international trade as a means of strengthening the free world in the Cold War confrontation with Communism."[23]

Just as the fight against Communism helps the search for profits, so the search for profits helps the fight against Communism. What more perfect harmony of interests could be imagined?

NOTES

1. American Board of Commissioners for Foreign Missions, *32nd Annual Report* (1841), as quoted in Richard W. Van Alstyne, *The Rising American Empire,* Chicago, Quadrangle Books, 1965, p. 171. The latter, originally published in 1960 by Oxford University Press, New York, is highly recommended for a better understanding of the continuity of United States foreign policy. See also Charles A. Beard, *The Idea of National Interest,* reissued in 1966 by Quadrangle Paperbacks with new material; and Lloyd C. Gardner, *Economic Aspects of New Deal Diplomacy,* Madison, University of Wisconsin Press, 1964.

2. *Niles' National Register,* January 22, 1842, pp. 327-8.

3. Foreword to Samuel Lubell, *The Revolution in World Trade and American Economic Policy,* New York, Harper and Brothers, 1955, p. XL.

4. *International Security—The Military Aspect,* Report of Panel II of the Special Studies Project of Rockefeller Brothers Fund, Garden City, N.Y., Doubleday & Co., 1958, p. 24.

5. The full title reads, *The United States Navy as an Industrial Asset—What the Navy has done for Industry and Commerce,* written by the Office of Naval Intelligence, U.S. Navy, in October, 1922 and published in 1923 by the U.S. Government Printing Office, Washington, D.C. The following excerpt is typical: "In the Asiatic area a force of gunboats is kept on constant patrol in the Yangtse River. These boats are able to patrol from the mouth of the river up nearly 2,000 miles into the very heart of China. American businessmen have freely stated that should the United States withdraw this patrol they would have to leave at the same time. Our Navy not only protects our own citizens and their property, but is constantly protecting humanity in general and frequently actually engages the bands of bandits who infest this region." (p. 4)

6. Eugene R. Black, *The Domestic Dividends of Foreign Aid* in *Columbia Journal of World Business,* Vol. 1, Fall 1965, p. 23.

7. Address by Assistant Commerce Secretary Andrew F. Brimmer at a meeting of the Tax Foundation, Inc., as reported in the *New York Times,* December 5, 1965.

8. Richard D. Robinson, *International Business Policy,* New York, Holt Rinehart and Winston, 1966, p. 220.

9. *Economic Considerations in Foreign Relations—An Interview with Alfred Wentworth* in *Political,* Vol. I, No. 1, July 1965, pp. 45-6.

10. *The Conference Board Record,* Vol. III, No. 5, May 1966, p. 28. See also Judd Polk, Irene W. Meister and Lawrence A. Veit, *U.S. Production Abroad and the Balance of Payments: A Survey of Corporate Investment Experience,* New York, National Industrial Conference Board, 1966.

11. This total consists of (a) cash receipts from farm marketing plus consumption of farm products in the farm household, (b) value added in manufacturing industries, (c) value of minerals production, and (d) freight receipts.

12. The Department of Commerce estimates that $6.3 billion of exports was shipped to foreign affiliates of United States companies in 1964.

Other sources of non-comparability arise from (a) the estimated $168 billion includes sales of trade organizations, public utilities, and other noncommodity producers, and (b) the data on sales of domestic manufactures are on a value-added basis while the sales of foreign affiliates are on a value-of-shipments basis. Conservative estimates of adjustments to obtain comparability reduce the $168 billion to $110 billion.

13. John D. Lockton, "Walking the International Tightrope," address at National Industrial Conference Board, May 21, 1965, published by General Electric Co., Schenectady, N. Y., 1965, pp. 4-5.

14. William T. R. Fox, "Military Representation Abroad," in *The Representation of the United States Abroad,* a report of The American Assembly, Graduate School of Business, Columbia University, New York, 1956, pp. 124-125.

15. *Hearings, Subcommittee on Antitrust and Monopoly of the Committee on the Judiciary,* U.S. Senate, 88th Congress, 2nd Session, Part I, Washington, D.C., 1964, p. 115.

16. *Background Material on Economic Aspects of Military Procurement and Supply: 1964,* Joint Economic Committee of Congress, Washington, D.C., 1964, p. 11.

17. A. George Gols, "Postwar U.S. Foreign Petroleum Investment, in Raymond F. Mikesell, ed., *U.S. Private and Government Investment Abroad,* University of Oregon Books, Eugene, Oregon, 1962, p. 417.

18. Clarence B. Randall, *The Communist Challenge to American Business,* Little Brown & Co., Boston, 1959, p. 36.

19. Joseph Grunwald, "Resource Aspects of Latin American Development," in Marion Clawson, ed., *National Resources and International Development,* Johns Hopkins Press, Baltimore, 1964, p. 315.

20. These are summations of data presented for 1950 to 1960 in U.S. Department of Commerce, *Balance of Payments Statistical Supplement Revised Edition,* Washington, D.C., 1963. The data for 1961 to 1965 appear in the review articles on foreign investment in various issues of the *Survey of Current Business* from 1962 to 1966. The first line in the text table represents net capital outflows of direct investment from the United States. The second line is the sum of dividends, interest, and branch profits, after foreign taxes, produced by direct investments abroad. It does not include the earnings of corporate subsidiaries (as distinguished from branches) which are retained abroad.

21. John H. Dunning, *American Investment in British Manufacturing Industry,* London, 1958.

22. Speech by Fred J. Borch, President of General Electric Company, "Our Common Cause in World Competition," before The Economic Club of New York, November 9, 1964, printed by General Electric Co., Schenectady, N. Y.

23. Speech by John D. Lockton, Treasurer of General Electric Company, The Creative Power of Profits," at Macalester College, St. Paul, Minn., April 22, 1964, printed by General Electric Co., Schenectady, N. Y.

This essay was originally published in the November 1966 issue of Monthly Review. It has now been incorporated as part of a more thorough study of the subject and published in The Age of Imperialism, by Harry Magdoff. We urge you to continue your study by reading the book; in addition to this essay, the book includes essays published in later issues of Monthly Review and a new chapter available only in the book, which has been issued in paperback at $1.95.
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