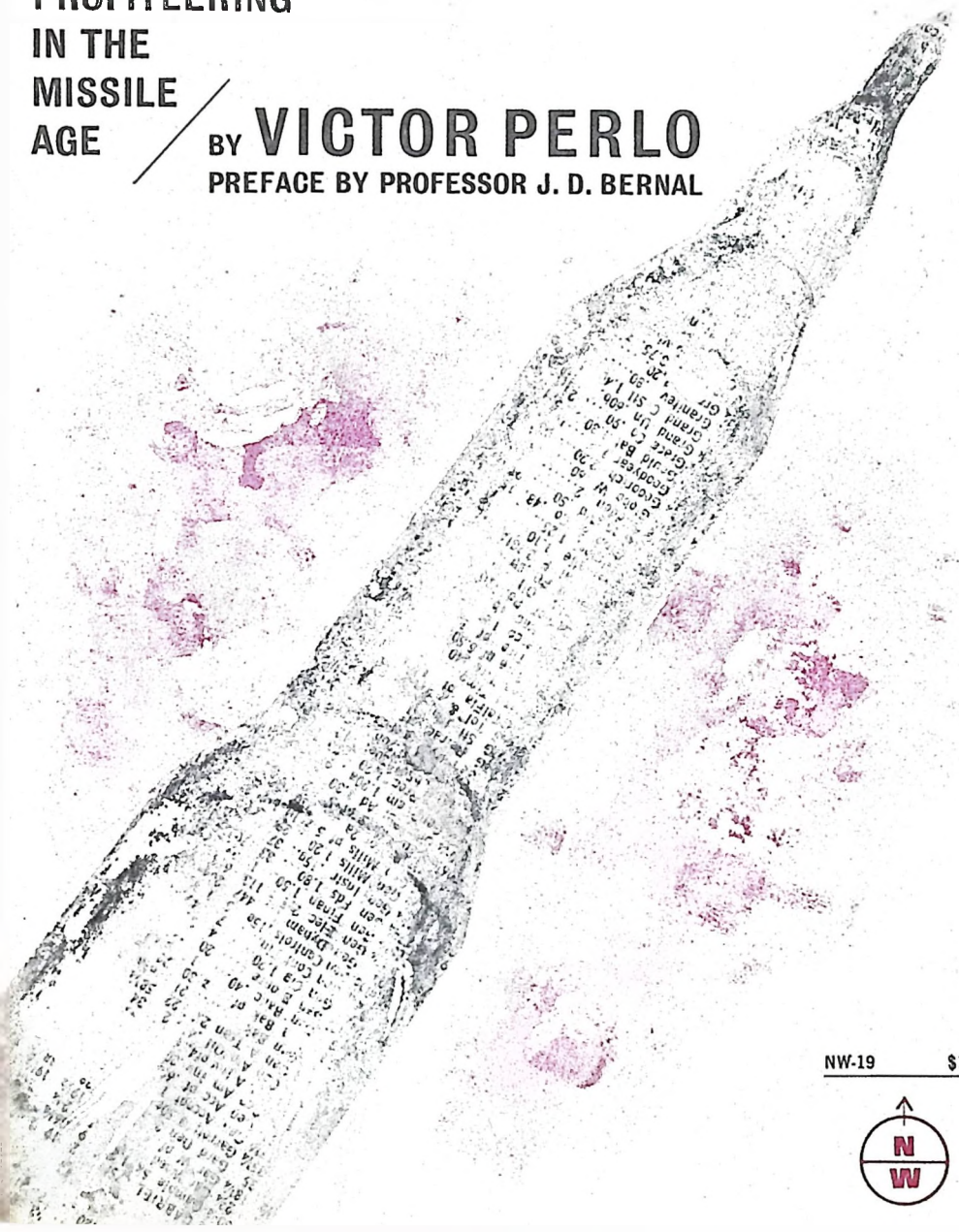
Militarism & Industry

ARMS PROFITEERING IN THE MISSILE AGE

BY VICTOR PERLO

PREFACE BY PROFESSOR J. D. BERNAL



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Munitions versus Peace

A Preface by
PROFESSOR J. D. BERNAL

MR. PERLO HAS once more put us in his debt in his book on militarism and industry. It is in fact just what is needed to make us understand why, despite the enormous popular alarm about nuclear war and the rising popular pressure in favor of disarmament, very little or no progress is in fact recorded.

We often speak about the major factor that prevents effective disarmament as being the profits that underlie the making of munitions. We note with increasing concern the greater and greater proportion of the national income of many countries, and most of all the United States, that is going to war preparation. Those who have a vested interest in these munitions furnish the core of the fixed opposition to any form of disarmament. And they make no secret of it. Mr. Perlo has no difficulty in finding many quotations from big business sources, ranging from the Rockefellers downwards, showing opposition to any relaxation of military preparedness.

But what we have lacked up to now is a clear analysis of exactly how the influence of vested interests actually works. We have not been shown what are the profits in armaments and who are making them. We have not known why all the advantages claimed for disarmament—including very well-intentioned reports such as that of the United Nations, "The Economic and Social Consequences of Disarmament"—fail to convince big business in the United States that it would be better to range itself against the arms race.

In fact, as Mr. Perlo shows, the relations of profits to armaments are by no means simple. First of all they affect the different firms and corporations to a different extent; some have greater and some lesser proportional interests in armaments. Further, it is not just armaments themselves but ancillary aspects of the policy of the cold war, particularly in relation to foreign investments, with special emphasis on oil, that fits in with the current clamor for ever increased armaments. The questions of the value of the dollar, of balance of payment, of foreign exchange, are also involved.

Anyone reading Mr. Perlo's lucid pages will understand far more about these things and will correspondingly be far better armed to deal with the interested or merely stupid arguments that are used to bolster up the case for the arms race. Particularly, he shows by detailed analysis how the workers in the United States, of whom no less than six million are occupied almost exclusively in arms production, are in fact losing rather than gaining on the exchange. What they get in wages is more than taken away in higher prices and in taxes.

More and more people are feeling uneasy at a mode of existence which depends on preparing for death. In the past it could conveniently be thought of as the deaths of other people in foreign lands—not very ethical but, also, not too uncomfortable. Now it means the deaths of all, because, despite Governor Rockefeller's plans for shelters, fewer and fewer people seriously believe that a nuclear world war could be fought without appalling casualties running over a hundred million for the American people.

Mr. Perlo investigates all the ramifications of interests that lead people to become, as it were, accomplices to their own destruction, but at the same time he shows the way in which they can, by seeing more clearly, refuse this cooperation and build up in the United States a rational and weighty opposition to an economy directed so exclusively towards death.

Fortunately, so far, the great battles of the modern world are not actually being fought with nuclear weapons. Nuclear weapons are there, stocked, armed, ready to go off—but they have not gone off yet. The battle at the moment is being fought in the minds of men and, despite the enormous effort and expense that has been poured

into the industry of deception through all the mass media, the weight of the old adage "You can't fool all of the people all of the time" is being increasingly felt. The thinking American and the thinking European or citizen of the world will value the kind of information that Mr. Perlo has with unexcelled industry and intelligence brought together in this book. It is not necessarily easy, it is certainly not pleasant, reading. We used to hear about the "merchants of death" but the modern "merchants of death" are operating on an enormously greater scale. They have been in business so long that their origins and purposes have been conveniently so taken for granted as to make their operations hardly noticed.

There are, however, many signs now that the American people are becoming aware of the path along which they are being led, and are showing greater and greater resistance to following it. This resistance is the most helpful thing in the world today because once we could assure the general acceptance of the commonsense conclusion that armaments can only lead to suicide, there is some hope for disarmament. These views have been endorsed by all impartial studies of the matter, particularly those made under the auspices of the United Nations and by the great number of international conferences—Pugwash conferences, Round Table conferences, Peace conferences—where the forces behind the cold war and the arms race are being more clearly exposed. At the same time the way out through acceptable disarmament plans is becoming apparent and is reaching to wider circles.

This book is written by an American for Americans but it does bring out the fact that the United States is not alone in this field, that with it, often in close collaboration, are the rising munitions industries of European powers, of Germany and France in particular, and that of the older but still fabulously expensive munitions industry of Britain. When we put together all of this, we have a picture in which the people can see their interests against the interests of the munitions makers. They can see further, and this is a point made by Mr. Perlo particularly clearly, that these financial interests are largely fictitious, that, in fact, the profits even of big corporations need not be so seriously reduced in a period of disarmament. Other factors, the mere preservation of life, as much for

the owners of the corporations as for their employees, should weigh more in the balance and divert the interest for war preparation into an interest for disarmament and peace.

I hope Mr. Perlo's book will be widely distributed and carefully read. I am sure that it will influence thousands of people throughout the world in the direction of disarmament and peace.

September 1962.

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Introduction

FOR GENERATIONS many thinking people have considered the problem of war and how to end it. The problem has acquired a new urgency with the development of super-destructive weapons. Some of the best scientific minds of the world's leading countries are studying the problem in its political and technical aspects.

The economic ramifications call for corresponding efforts. Since the Korean War, the problem has acquired a wholly new economic significance for modern times. A highly militarized economy has become part of the peacetime scene, and leading forces in society anticipate that this will be permanent. Earlier militarized economies, as for example the Kaiser's Germany, involved only a trifling percentage of the national economy in peacetime, or involved a significant share only during a brief period of immediate preparation for war.

The existence of a highly militarized economy has had a major effect on the life of the people. Of particular interest in this volume, it has had a major effect on the fortunes of *all* business organizations and their owners. If militarism is ended through disarmament there will be important changes in the economic climate, again affecting all individuals and business organizations.

We live in a society where the owners of big business organizations, more than any other social group, wield the effective instruments of political power, occupy key executive positions in government, and influence policies issued and acted on in the name of the

entire nation. To understand the motivation of this important group, one must examine the effect on business of a militarized economy, and the likely effect of a future disarmed economy.

This book, then, is a study of munitions profits in the age of rockets and H-bombs. It exposes the amazing extent of these proceeds, and of the related takings from foreign investments. It examines the uneven distribution of the yield among leading corporations and industries, and compares the profits with the business taxes paid on behalf of the military effort. It then examines the economic effect on different companies and industries that might be expected with disarmament. It correlates policy positions of certain key financial and industrial groups with their present profit situations and their prospective situations in an alternative disarmed world.

This volume documents the thesis that groups reaping profits from armaments and war, rather than an external enemy, bear much of the responsibility for the tense and dangerous situation all humanity faces.

Let no reader dismiss this charge as trite and melodramatic. Let him examine the evidence presented herein, and judge for himself. After all, his life is at stake also.

Much has been written on the economics of militarism and disarmament, but serious research is just beginning. The main trend among academic and institutional economists until recently has been to try to work out economic techniques to improve the efficiency of militarism, and to substantiate an expanded role for it in the total economy. To vary a one-time Defense Secretary's slogan, they strive for ways of getting *much* bigger bangs for *more* bucks.

The most ambitious academic work in the field since the Korean War was *The Economics of Defense in the Nuclear Age,* by Charles J. Hitch and Roland N. McKean. Characteristically, it was financed by the RAND Corporation, a private-government body mainly conducting cold-war intelligence research for the Air Force. The authors write in the preface that without "the stimulus of the RAND environment, we could not have done the study."[1]

The authors, in conformity with their sponsors' drive and their own apparent preference, concentrate on propaganda for more military spending and elucidation of the alleged economic benefits of

militarism. They reflect the militarists' cold-blooded approach to thermonuclear warfare, and suggest the possible desirability of preventive war. They use the latest twist of "arms control" as a verbal substitute to evade direct statement of unconditional opposition to disarmament. In this entire volume of over 400 pages, only five and one-half are devoted to disarmament. Even this brief section is qualified by the authors' caution that they "are thinking primarily of weapon control measures that would reduce the likelihood, or the severity, of all-out war. In this context the word 'disarmament' is something of a misnomer. . . . Thus, paradoxically, disarmament has come to mean agreements and measures that often imply the expenditures of *additional* sums on defense or the purchase of extra conventional armaments. (In this nuclear age, disarmament sometimes means armament.)"[2]

The volume is an economic analogue to the "political science" of Henry A. Kissinger and the "natural science" of Edward Teller. These men use their scientific background for extreme advocacy of aggressive militarism, not for providing a real understanding of the questions they purport to discuss.

The world condemned the "scientists" who justified Hitler's mass extermination campaign. The thermonuclear advocates eschew the raving racism of Hitlerism. Nevertheless, with icy detachment, they contemplate opening a genocidal holocaust against the entire human race.

Mr. Hitch is now Assistant Secretary of Defense (comptroller) and reportedly a leading adviser on military finance. The approach of his book so far realized in the Kennedy Administration's practice, tends to remove those limited restraints on Service Chief budget drafts exercised by civilian authorities in the previous administration.

An economist's attempt at popularization of the militarist philosophy is Oskar Morgenstern's *The Question of National Defense*. This book, which is more political than economic, calls for militarization in every conceivable direction, and for a brink-of-war foreign policy. The Princeton Professor describes, but cites no evidence to support, hair-raising economic consequences which allegedly will follow from any international settlements, which he depicts as "surrender" to communism: "What does it mean to give in? We can lose the posi-

tion in question, say Berlin, and yet survive. We can then lose West Germany, or the Middle East, and then Italy, and still the United States can go on, much reduced in position, influence, respect. We may have to pay higher prices for some raw materials, we may lose our overseas investments, our exports may shrink."

Besides which, according to him, there would be less expansion, and unemployment would rise. These harmful economic effects are *not* of disarmament, even, but merely of a loss of overseas power positions. But the economic setbacks, the author continues, would result in more internal political pressure "to come to terms with" the Communists internationally. It is only at this second stage of retreat that the terms would include disarmament, which Morgenstern presents in such a way as to imply its unilateral imposition on the United States, including "unquestionably an immediate impounding of its nuclear material."[3]

After disarmament "the downfall would be rapid." And this downfall is envisaged as a purgatory for the by-now well scared reader: "The government would go over into the hands of Communist trustees; the well-trained, obedient underdog would take over. The inhabitants of our slums would move into the penthouses and those living there now would wind up in labor camps in Alaska and northern Canada. Motorcars would be produced, not for the United States but for Asia. Perhaps 100,000,000 or 200,000,000 Chinese would be moved to this country, taking over the homes we inhabit now."[4]

Many will feel that "the price has to be paid to avoid this dismal destruction no matter what the price." Morgenstern himself says he finds all-out war also unacceptable, but scarcely avoidable, and he ends up with the prediction that the probability of thermonuclear war is greater than 50%. His only hope is the development of a still worse set of weapons, which by creating the "absolute technical certainty of immediate self-destruction," would render war "technologically impossible." This approach, of course, inspires still more frenzied armament races in order to create the absolute peace-bringing weapon.[5]

Even more than Hitch, Morgenstern is the spiritual brother of Kissinger. And there is a remarkable similarity in their origin. Kissinger was born in Germany; Morgenstern in Austria. Kissinger's

views were used by and promoted by the Rockefeller Brothers; Morgenstern first came here, for three years during the 1920's, as a Rockefeller scholar.

Teller, the most aggressive scientist of the pro-militarist team, was a native Hungarian, resident in Germany before and during the first Hitler years. In addition, the von Braun-Debus team of former workers for Hitler have led in United States rocket engineering.

This is not to suggest any necessary connection with the present West German regime, although von Braun's brother is Chief of Protocol in the Bonn Foreign Office. But it must be observed that people maturing in the environment of pre-war fascism—including individuals not acceptable personally to the fascists—have emerged as the main team of proponents of nuclear militarism, a monstrous ideology derived from fascism. Connections of this type take on added importance with the revival of West German militarism as a renewed world menace.

In recent years there has been a shift in emphasis to the study of the economics of disarmament. Some work in that direction was published by Gerhard Colm for the National Planning Association in 1960. Centers for the study of disarmament economics were established at Harvard and Columbia, and work was sponsored by private foundations and by the newly established U.S. Arms Control and Disarmament Agency.

Carl Marzani and the present author studied the economics of militarism and disarmament in *Dollars and Sense of Disarmament* (1960). The Columbia engineering professor Stuart Melman's popular book, the *Peace Race,* a valuable economic-programmatic study, followed in 1961. In the same year Wassily Leontief and Marvin Hoffenberg published in the *Scientific American* the results of the Harvard group's technical calculations of the economic effects of disarmament. Following Leontief's "input-output" method, they showed that disarmament, even without special planning, would have a favorable effect on the total level of business activity and civilian employment. However, without special measures, the rise in employment would fall short of the number released from the armed forces.[6]

The following year works with official sponsorship appeared.

Emile Benoit's pamphlet *Economic Impacts of Disarmament,* including material from a larger study, was published by the U.S. Arms Control and Disarmament Agency. Especially significant was the issuance of the United Nations report *Economic and Social Consequences of Disarmament.* It was prepared by leading economists of the United States, the Soviet Union, the United Kingdom, France, Poland, Venezuela, Sudan, India, and Pakistan. It provides an internationally agreed answer to the Hitches and Morgensterns, as well as to the more timid advocates of disarmament who exaggerate the dangers of harmful economic side-effects.

Just as the United States and the Soviet Union have formally agreed to the broad goal of general and complete disarmament, so in this report their economists have agreed on its overwhelmingly beneficial effects for mankind economically and socially, and on elements of a policy approach designed to maximize these benefits.

Profound discussions of the economics of militarism by American Marxists are contained in Hyman Lumer's *War Economy and Crisis* (1954) and Paul Baran's *Political Economy of Growth* (1956). These works deal mainly with the economic effects of militarism on society as a whole, and on the working class.

For a full understanding, an additional theme must be explored, the specific role of arms profiteering as a factor making for war and blocking disarmament; and the varying alternative profit prospects accessible to corporations under conditions of peace and disarmament.

Some of the works mentioned above stress the influence exerted by armament profiteers on foreign policy in general and against disarmament in particular. Former President Eisenhower dramatized the dangerous greed of this group in press conferences during 1960 and in his final Presidential address, in which he warned of the "military-industrial complex." The United Nations report, cataloguing the social advantages of disarmament, said: "A decrease in tensions and in the influence of groups interested in armaments would bring about a profound change in the form and content of international relations."[7] There is growing awareness in this country that munitions makers are an extremely powerful and sinister influence in the present-day world.

However, that influence is by no means destroyed by the mere fact that it is now beginning to be recognized. Despite official and international agencies and commissions working on the economics of disarmament, the main emphasis in business circles remains on the economics of militarism and war. Officials and bankers hold conferences on ways and means of preserving property records and restoring private banking activity in the wake of a thermonuclear war. *Business Week* in 1962 elaborated such an approach for industry in a special report *Nuclear Attack and Industrial Survival.* Men too enamored of present profits linked to militarism cling to the illusion that they can preserve their lives and institutional arrangements in a nuclear holocaust.

The "military-industrial complex" provides the spiritual base, and at least part of the personnel and financial means, for the ultra-Right in American politics. Still increasing the scope of its activities, including old and new organizations, this grouping is a sinister source of local attacks against democratic rights and direct propaganda for a new world war.

But neither McGraw-Hill nor the advertisers of "Adirondack Mountain Vaults," neither the John Birch Society nor the American Legion, reflects a unanimous business view. Correspondingly, the specific interests of businessmen in relation to militarism and disarmament are far from uniform.

With this in mind, we attempt in this volume to deal more systematically than has been done heretofore with relevant aspects of the economics of militarism and disarmament. In particular we strive to unravel the complex, uneven impact of militarism and disarmament on business interests. In so doing we have found it necessary to explore such related questions as foreign investments and taxation; and to concretize the situation not only for broad groups of industries but for the individual leading industrial corporations.

One prominent tendency, among serious students with an appreciation of the role of social forces, has been to view big business as an undifferentiated entity, without significant inner differences; or without differences that can be identified and evaluated.

This writer has always considered this wrong, and found power-

ful evidence supporting a different approach, which applies in particular to the subject under discussion. While business interests profit enormously from militarism, not all do; while powerful business interests oppose disarmament, not all do. These differences are real and significant. They lead to conflicts over policy of major consequence for the future of our country. It is particularly desirable to find out which segments of big business benefit most from militarism and which, on the contrary, could anticipate real gains from disarmament.

Not that these differences will prove decisive. Our political history suggests that neither big business as a whole nor any major segment of it has ever crusaded for a cause which places human welfare ahead of private property—and today disarmament is the outstanding world issue, aside from that of fundamental social organization, involved in this clash of values.

Disarmament must be achieved if our civilization is to be preserved. But it will be achieved only through a major political struggle carried on by millions of Americans in all walks of life. Support for that struggle, or even lack of opposition to it, on the part of significant sections of big business can be important for its successful outcome.

Today corporate interests profiting from armaments are a major factor in promoting the arms race and aggravating the war danger. We shall show here that other business interests could actually improve their profit situation in a different environment, and that their owners might well defend their physical existence and promote their economic survival simultaneously through opposition to the armament magnates.

Yet this work is directed mainly to that vast majority not in the upper circles of high finance. It aims to expose to this majority the extent of militarist profiteering by the most "respectable" captains of American industry, and the facts of how these men campaign for an adventurous foreign policy. It is hoped they will be stimulated and helped thereby to act as citizens and human beings in organizing and participating in the struggle for peace and disarmament.

CHAPTER II

Armament Profits

Is THE MANUFACTURE of munitions a source of superprofits, as some allege, or is it a contribution to the national defense, on the part of self-sacrificing large corporations, as their spokesmen profess?

Ernest F. Leathem writes in the *Harvard Business Review:* "It is a demonstrable and well-known fact that the profit return on government contracts, is well below the average profit return on other business under normal circumstances, whether looked at as a percentage of sales or as a return on investment."[1]

Mr. Leathem is assistant to the president of the Raytheon Corp., a major munitions contractor. Mr. Ralph J. Cordiner, chairman of the General Electric Corp., third largest munitions contractor, frequently speaks out in similar vein. As reported in the press, he "has made no secret about his lack of enthusiasm for defense contracts because of the small profit involved. He has said that the company accepted contracts almost solely because it had a responsibility to the country's defense and because of the concern's vast reservoir of technical and scientific knowledge."[2]

Mass circulation journals assiduously disseminate the myth of low-profit military business. *Look* in 1955 published the results of interviews which, in its opinion, showed the "public's mistaken ideas." To the statement, "Big companies usually make more profit on defense orders than on regular business," 66% replied "True" and only 21% "False." *Look* retorted to those interviewed:

"FACT: Precise statistics are unavailable, but financial statements of large firms certify that defense work is low-profit business."[3]

Gardner Cowles, publisher of *Look*, personally signed the article which found that on most questions the American people take a negative attitude to big business and monopoly, an attitude which Mr. Cowles attempted to correct with "facts" such as that cited. Indeed, it is a credit to Americans that as late as 1955, despite such a long period of big business monopoly of communications, they still rejected these spurious "facts."

If these statements were true, it would have a profound effect on business attitudes toward disarmament. American business firms are well known for their unwillingness to fall below a given profit rate in their operations. With all its claims of patriotic motivation, General Electric has publicly acknowledged that it turns down specific military contracts on which it considers the likely profits inadequate.

The most striking example of this was in the months before Pearl Harbor, the months of the "sit-down strike" of big business, when the leading corporations refused to make munitions until granted terms that would produce extraordinary profits. During the same period, it will be remembered, major business interests supported the "anti-war" position of the America First Committee. Of course, political considerations were vital here—pro-Hitlerite politics—but this did fit in with the views of corporate owners concerning their profit interests.

Today, the cases of refusal to take military business are rare indeed—and one doubts whether they are very important for General Electric either. Indeed more than a thousand former military officers and civilian officials connected with procurement, hordes of professional public relations men, salesmen, entertainers, call girls and journalists, are on the payrolls of the large American corporations, conducting the biggest lobbying activity in all history in Washington to obtain more military business for their employers.

True, these promoters and salesmen are attempting to get business for their companies in particular, rather than munitions business in general. But evidently, the overall impact of their pres-

sures are on behalf of more armaments *generally* and are certainly against disarmament. One must assume that the corporate lobbyists are among those who urge larger military budgets—especially since the budgets are decided item by item, and a horde of lobbyists appear on behalf of each major item. One must assume that some of them twist arms of politicians interested in corporate contributions and drop hints that support for disarmament would not be the best way to advance one's political career.

President Eisenhower commented on the munitions lobby in a press conference, and discussed the question at length in his farewell address:

"Now this conjunction of an immense military establishment and a large arms industry is new in the American experience. The total influence—economic, political, even spiritual—is felt in every city, every state house, every office of the Federal Government. In the councils of Government, we must guard against the acquisition of unwarranted influence, whether sought or unsought, by the military-industrial complex. The potential for the disastrous rise of misplaced power exists and will persist."[4]

A year later, President Kennedy was reminded of this statement by a reporter, who asked whether he felt concern over "the influence of the military-industrial alliance in the defense spending program." Kennedy replied: "I think President Eisenhower commented on a matter which deserves continuing attention by the President and also by the Secretary of Defense. It gets to be a great vested interest in expenditures because of the employment that is involved, and all the rest. That is one of the struggles which he had and which we have, and I think his warning or his words were well taken."[5]

If Mr. Kennedy was more reticent on the matter than his predecessor, this may be attributed to discomfort over his own role, which was markedly to increase this "vested interest" through raising the military and related budgets by $7 billion in two years. By "all the rest" Mr. Kennedy slurred over the main thing, the profits of the munitions makers. Moreover, both Presidents lacked clarity concerning the tendency of the military-industrial complex to push upwards total armament outlays, as well as a particular concern's

business. This point was stated more clearly by reporter Jack Raymond, commenting on munitions lobbying and on Eisenhower's remarks:

"These practices lead naturally to a basic question: How much effect do the military lobbies have on defense appropriations and weapons procurement, direct or indirect?

"The consensus here is that the influence is great. Defense contractors as well as service organizations get into the arguments on behalf of certain defense concepts—small war vs. big war capability, carriers vs. bombers and so on. In such presentations, little is left to the imagination when emphasis is placed on the economic consequences for a particular locality of the adoption of one weapons system or another."

Raymond also discussed the political impact of advertising by weapons manufacturers, singling out the company which "advertises that certain cities are 'sitting ducks' for destruction by submarine-borne enemy missiles. Its own product is designed to deal with such enemy missile efforts."[6]

These activities, it is our thesis, take place because munitions are a source of unusually high profits; and these profits are one of the most prominent factors influencing business attitudes towards militarism and disarmament, towards war and peace.

Thus it is necessary to demonstrate the unusual profitability of armament business. The propaganda of such men as Leathem and Cordiner is quite effective even in generally sophisticated circles, and many have a naive faith in the willingness or ability of the Renegotiation Board in Washington to chop munitions profits down to size.

AIRCRAFT PROFIT HEARINGS

A basic source on munitions profits is the 1956 Aircraft Production and Profits Hearings and Report of a House Armed Services subcommittee headed by Rep. F. Edward Hébert (Dem. La.) who has specialized for many years in exposés of this type.

The hearing showed typical before-tax profit on net worth of airplane companies of more than 50% per annum in the period 1952–55. By contrast, the committee noted, profit on net worth of all corpo-

rations was 5.4% in 1952 and 6.7% in 1955.* Boeing showed a profit of 68.3% in 1953; 54.6% in 1955. Lockheed returned 74.1% in 1953, 44.8% in 1955, and so on. The slightly lower figures in 1955 were due to the capitalization of profits in the meantime, and the temporary decline or stagnation of business following the ending of the Korean War.

Besides formal profits, insiders received large bonuses and executive salaries. As shown in the report, such payments ranged typically between one-third and one-tenth of the amounts paid out in dividends. But this is only a small portion of the hidden profits concealed in various cost items.

Consider the breakdown in costs under a North American Aviation Co. contract: NOA(s) 52-978i, for 389 FJ-3 airplanes. Of factory costs totalling $47.7 million, direct labor and engineering accounted for $22.4 million, or 46.8%. More than half consisted of "overhead," "administrative," and "other" costs—vast open-end expense categories for which no accounting was given. Committee members inquired about all the obvious possibilities, but could not elicit details covering even one-tenth of these vaguely classified "expenses." The presumption is great that a large portion are hidden profits.

In addition, there were admitted profits of $9 million, which, when added to factory costs, gives a value added by manufacture of $56.7 million. Direct labor costs of $14.4 million equalled 25% of the value added.[7] By contrast, in the transportation equipment industries generally in 1954, the ratio of wages of production workers to value added by manufacture was 43%.[8]

The implications of this difference are far-reaching. True, aircraft companies have unusual engineering costs. But they do not have normal selling and distribution costs, and owing to the use of government-owned plant, they have subnormal depreciation. These savings more than compensate for engineering expenses. Most, if not all, of the difference between the 25% and the 43% represents

* This contrast, in a sense, is exaggerated by the effect of the inclusion of many small corporations in the total figure. In relation to big business generally, the armament concerns have a higher rate of profit by a factor of 50–100%—as developed below—rather than by 1000% as suggested by the Committee's figures.

hidden profits, equivalent to another $10.2 million on the given contract. When added to the admitted profits, this gives a total of $19.2 million, or close to 20% of the selling price of the airplanes, $97 million. Furthermore, the $40 million of purchased materials included in that selling price consisted largely of subcontracts on which similar profits were made. Assuming the same ratio for subcontractors, it seems likely that total profits, at the prime and subcontract levels, came to as much as $28 million. This far exceeded direct labor costs, and represented a markup of 50% over actual costs.

Such a figure has a double significance to the taxpayer. If applicable to all procurement, it signifies that many billions of the total represent profits, and over half of these hidden profits, "excessive" by normal standards. The ordinary taxpayer has to pay an additional $4 billion per year to put this extra money into the munitions manufacturers pockets. Moreover, the hidden profit is not taxed; there is no partial repayment to the Federal Government.

From the directly opposite viewpoint of the munitions manufacturer, this state of affairs, of course, is doubly desirable.

The way this adds up is shown in the financial data submitted to the Hébert subcommittee by the North American Aviation Corp., for the years 1951–55. During the interval, sales multiplied more than four times, and profits did also, rising from $15 million in 1951 to $68 million in 1955. Despite the increase in the nominal investment owing to the capitalization of undistributed profits, the rate of return jumped from 29% in 1951 to 79% in 1955. While profits increased 4.5 times, the number of workers increased less than 2 times, and payrolls less than 2.5 times. Thus the value of product per worker, the profits reaped per worker, and per dollar of payroll increased quite rapidly during the period covered by the data. These startling profit rates were officially reported by the company. As we have seen from examination of a typical contract, actual profits may have been twice as large.

AIRCRAFT ENGINE PROFITS

The Hébert hearings also included data on profits of aircraft engine manufacturers. Such statistics are particularly interesting be-

cause they cover not only aircraft industry companies, but also the engine manufacturing activities of the giants of the automotive and electrical equipment industry.

General Electric and General Motors showed aircraft engine profits, related to sales, as high as regular producers like United Aircraft and Curtiss Wright. But in relation to net worth, their profit showing was more favorable. For the engine manufacturers, unlike the airframe manufacturers, traditionally owned most of their facilities instead of using government facilities. So United Aircraft showed a return of "only" 40% on net worth for the years 1952–56, as compared with a typical 60% for airframe manufacturers.

But General Electric, for example, while investing in jet engine research facilities, put hardly a cent into production facilities, using mainly government plant and machinery. Hence its rate of return on actually employed net worth—if it could be computed—would turn out to be higher than that of either the regular engine makers or the airframe companies.

As for the padding of costs, the North American figures given above represent a model of economy as compared with the wild pyramiding of hidden profits by the outside giants making engines. This is shown by the combined operation statistics, for five years, of the Allison Motors Division of General Motors, maker of jet engines.

Sales of $1,340 million included $757 million of materials, including subcontracts, and $583 million of value added by manufacture. Direct labor costs for the entire five years were only $25 million. "Indirect costs" were listed as $435 million, or 17 times the direct labor costs. How much of these fabulous outlays were hidden profits one can only imagine. In addition, admitted profits were $123 million, or five times the direct labor costs.

Only $6 million of depreciation was charged over the 5 years, suggesting plant and equipment investment of $12 million, at the 10% annual rate of depreciation and amortization normal for the industry. No figures were given on the amount of circulating capital employed. Normally, most or all of the circulating capital is supplied by the government in the form of "production progress payments."

On the fixed capital invested in engine production, which may, then, have been the entire amount invested, the Allison Division of

General Motors appears to have made a return of over 200% per year, without counting hidden profits! Details are shown in Appendix Table I.

General Electric, which supplied similar statistics for its motor division, gave some interesting details on the costing methods. Direct labor includes the cost to machine, process, assemble, test, inspect, pack and ship the engines. Despite this comprehensive coverage, it amounted to only $65 million on sales of $1,903 million. This was a little over 3%, somewhat higher relatively than General Motors, but still trifling in comparison with normal manufacturing activity.

General Electric also provided a significant hint about materials purchased by its motor division from its civilian departments. "Standard commercial items" were charged to military motors at the "selling price, including profit" of the General Electric producing division. What selling price? At what profit? No answers were given. This vagueness is scarcely accidental. It suggests that the items were priced high and included very high profits.

So untold amounts of extra munitions profits may be concealed in the accounts of the civilian segments of corporations combining military and civilian business. Cost padding by outside contractors, rebates and payoffs to prime contractors and their officials, provide other cavernous receptacles for hidden profits.

The ultimate layering of excessive profits adds up to a fantastic proportion of the actual cost of production of military items. The data suggest that the total of revealed and hidden profits, at the various stages, range between 100% and 300% of production costs as construed by normal standards.

Westinghouse Corp., in its aircraft engine cost figures submitted to Congress, actually claimed a "loss." But this is not to be taken seriously. The company was merely over-enthusiastic in magnifying costs. Westinghouse, in fact, has provided an admission that military business is more profitable than civilian for electrical equipment manufacturers.

According to a *Business Week* article, in 1957 Westinghouse "decided to go seriously into the defense business." True, this had

averaged 15% of "a fast-growing total volume" for five years, but that was not enough.

Why this decision? First, by plunging deeply into military business, it would take the only road to "keep pace with the best technology;" since only through government-financed military study and development contracts could a private company keep up with the field. "Also Westinghouse insists that, on the more fundamental profits-to-net-worth basis, defense business can yield rather attractive earnings. One proof of that is the Westinghouse record last year and this: earnings up, along with defense volume, even though total volume was off slightly."

Interestingly, the *Business Week* article flatly states that the first step to starting after the business was to hire "General Albert Boyd, who had just ended a thirty-year Air Force career. His last assignment was deputy commander of the Air Research and Development Command at Baltimore."

According to the article, E. V. Huggins, chairman of the corporation's executive committee, "credits Boyd with a tremendous impact on Westinghouse's defense turnaround."[9]

VINSON HEARINGS

During 1959 and 1960 a series of reports by the Comptroller General and the General Accounting Office led to further exposure of the full depth of munitions profiteering, including case after case of plain and simple cheating. One is struck by the contrast—an "ordinary citizen" caught defrauding a bank of a few hundred or thousand dollars by altering the value of a check, or in some other petty fraud, will go to prison for many years. Here we find that the largest corporations in America systematically engage in exactly parallel frauds, involving millions of dollars each, repeated many times. But even when these frauds are exposed, no official of these corporations is imprisoned, nor is such a course even suggested by those making the facts public, or by the members of Congress reviewing them.

The later revelations were brought together in hearings of a different House Armed Services subcommittee headed by Representa-

tive Vinson. In addition to exposing scandals, they shed important new light on profit rates of munitions makers other than aircraft companies.

A General Accounting Office report, included in the hearings, gave as an example of gross overcharging the supply of fire control radar systems and spare parts by General Electric, as a subcontractor on an American Bosch Arma Corp. Air Force prime contract. The amount of the subcontract was $19,528,300. The overcharge found by the GAO was $3,408,800, or 17.5% of the total. It resulted from "use of estimated costs in excess of costs known to GE or which GE could reasonably expect to incur in performance." General Electric cut the price by the specified amount, although it "did not agree with all the details of the General Accounting Office report."[10]

The reports of the Comptroller General to Congress, which covered only a small sample of contracts, showed that in almost every case there was substantial overcharging in relation to any reasonable criterion of costs, even according to the liberal profit formulas under which contracts were closed.

The gross character of these overcharges was brought out in later testimony by Thomas Coggeshall, Chairman of the Renegotiation Board. In one case that went to court, it turned out that the company calculated costs for its own reference at $460 million, but told the Air Force the cost was $540 million, and got away with a figure of $500 million after routine bargaining by the Air Force. This was nothing more nor less than a plain robbery of $40 million.

Coggeshall found, in handling renegotiation matters, that contractors deliberately kept up nominal costs of production until a firm price was fixed so that they could collect a very big profit once the contract was changed to that basis. He described his conversation with a certain procurement officer: "And finally, this . . . highest-ranking officer in charge of procurement of that particular service said, 'Mr. Coggeshall, are you so naive as to think that a contractor is going to put out his best efforts until the firm target is fixed, on reduction of costs?' I said, 'No, sir, I am not. . . . If I ever was,

I have become completely undeceived in two or three years experience in renegotiations' "[11]

Coggeshall submited an analysis of the profit rates on military business of 25 contractors whose total refunds under renegotiation were the highest in the eight-year period 1952–59. These contractors did $97 billion of government business during the period, of which $25.7 billion was in the selected years covered by the analysis (different years for different contractors).

The analysis showed profits before taxes averaging 10.4% of sales, with a range from 18.3% on fixed-price contracts to 8.8% on fixed-price-incentive contracts and 4.9% on cost-plus-a-fixed-fee contracts.

The Renegotiation Board is limited by law to requesting a refund on the basis of general data for the year, being forbidden to examine concretely cost details on individual contracts. Hence the amount of excess profit refunds claimed was small. For these contractors it amounted to $354.4 million, equal to 1.6% of the business on which the refunds were calculated, and 0.4% against the total business of these companies during the period.

The rate of profits on invested capital, according to the Renegotiation Board analysis, varied between the airplane and missile manufacturers, on the one hand, and the electrical and electronic, chemical companies, etc., on the other hand.

The former group used two-thirds government facilities, and were paid mainly under fixed-price-incentive contracts, which have the lower rate of return on sales. But their rate of profit on net worth allocable to military output in the years studied was 71.3%. The latter group, using mainly their own facilities, and the high profit margin fixed-price-contracts, realized "only" 42.6% of the total net worth allocated to armament production.[12]

The aircraft missile group did about one-third the business covered by the study. Their profit rate, while sensationally high, reveals nothing very new, since similar data were brought out previously by the Hébert subcommittee hearings on the airplane industry held in 1956. The latter figure, while lower, is more useful. It is the first breakout of the rate of profit on military production of such joint military-civilian companies as General Electric, Sperry Rand, Union

Carbide, International Business Machines—other than single-item studies like the aircraft engine data quoted above.

Since, as Coggeshall told the committee, the normal rate of profit on net worth, before taxes, of large corporations ranges between 20% and 30%, depending on the line of business, these figures show that the military business of the companies in question is far more profitable, rather than less profitable, than that of their civilian business. It is the most direct official confirmation of this point to date.

COMPARISON OF PROFITS—ARMAMENT MANUFACTURERS AND OTHER LARGE CORPORATIONS

Year after year corporations which lead in military business also lead in the rate of profit on invested capital. *Fortune* each year tabulates the profit rates of each of the 500 largest industrial corporations. We have compared the profit rates of the 15 largest prime military contractors, as reported by the Defense Department, with those of the 500 largest industrials as a whole, with the results shown in Table 1.*

TABLE 1. MEDIAN PROFIT RATES OF LARGEST ARMS CONTRACTORS AND INDUSTRIAL CORPORATIONS, 1957–1961

	1957	*1958*	*1959*	*1960*	*1961*
15 largest armament contractors	17.2	13.6	12.4	11.0	12.1
500 largest industrial corporations	11.4	9.1	10.3	9.1	8.3

SOURCE: *Fortune*, July, 1958–1962.

In each of the five years covered, the profit rates of the armament leaders averaged substantially higher than those of the large industrials as a group, and in three of the five years, about 50% higher.

* The fifteen, in the order of their military prime contracts, are: General Dynamics, Boeing, General Electric, North American Aviation, Lockheed Aircraft, Western Electric (A.T.&T.), United Aircraft, Douglas Aircraft, Martin Marietta, McDonnell Aircraft, Sperry Rand, International Business Machines, General Motors, Raytheon, and Radio Corporation of America. Hughes Aircraft, which ranked 10th, was omitted because no financial data are published, Radio Corporation of America, which originally ranked 16th, was included in its place.

Nor was this a reflection of the size advantage of the munitions makers. In each year the median profit rate for the 15 largest military contractors also exceeded substantially that for the 15 largest industrial corporations, ranked by amount of sales.

In 1959 and 1960 the profit advantage of the top munitions makers was less pronounced than in the first two years tabulated. But this reduction in the advantage was due to a temporary circumstance, having nothing to do with military business. The declines in profit rates applied to four of the 15 armament manufacturers which went into the manufacture of civilian jet aircraft. All of them wrote off huge development costs on these civilian products as losses during 1959 and 1960, and some in 1961.

This reduced the rate of profit for Boeing, and resulted in overall losses in one or more years of General Dynamics, Douglas, and Lockheed. The scale of losses on civilian jet transports was unprecedented in the history of American industry. By early 1960 almost $500 million had been written off.[13] By the end of 1961 General Dynamics alone had incurred total losses, and prospective future losses, of $500 million, and was in danger of bankruptcy.

The losses went far beyond anything which could logically be expected as development costs for a new product. Boeing, for example, based its famous 707 transport on the military KC-135 tankers, which it had good experience in making. The 707 soon became a big success, and is now a regular Boeing production item, with volume comparable to that on its main military production items. But still Boeing sustained losses not only during the development stage, but during a considerable period of actual serial production. The other companies had all made civilian transports before, and had all made jet bombers for the air force. Evidently the manufacturers applied to the production of commercial planes the same free-spending and free-bookkeeping methods through which the costs of military equipment are inflated by many billions yearly, resulting in excessive costs which *civilian* airlines could not be forced to pay.

This experience emphasizes what has already been stressed in this chapter: Hidden profits in military business are much, much greater than in ordinary civilian business, and probably considerably larger than the formally admitted volume of profits.

More generally, the *Fortune* figures are after taxes, and understate the real situation because of omission of hidden profits and a technical flaw in *Fortune's* calculation of profit rates. But the main point of the table is incontestable, that military specialization has meant a higher rate of profit, and to a greater degree than revealed by the bare statistics of the table.

Since 1955 there has been a redistribution of military business to the disadvantage of some old-line airplane and ordnance manufacturers, and to the advantage of electronic companies and those specializing in some other new fields of weaponry.

Unlike companies starting out with new civilian products, these outfits make profits, and big profits, right from the start with munitions of types that were never made before. Between 1956 and 1959 Raytheon, the Boston-owned military electronic manufacturer, moved into missiles and allied products in a big way, multiplied its sales almost three times, its after-tax profits ten times, and its net worth almost two times. Note that profits went up even more rapidly than sales. Wholly new companies, such as Thiokol and Aerojet General have enjoyed even more dramatic growth. Their experiences have been sufficiently uniform to permit the generalization that to obtain government munitions business is to obtain a guaranteed profit at an unusually high rate.

Congressional hearings in 1962 brought out comparative rates of return on capital devoted to military and civilian work by the same companies. These statistics covered a long period of time, and so could not be the result of temporary circumstances. During the decade 1951–60 Western Electric showed average annual before-tax profits of 28.3% on capital used for government business, as compared with 22.2% on capital used for other business.[14] Almost all Western Electric sales are to telephone subsidiaries of its parent the American Telephone & Telegraph Co. They are thereby sheltered sales, and presumably lead to a higher rate of profit than similar sales at arm's length. The fact that the profit rate on military business was considerably higher is thereby enhanced in significance.

During the same decade Boeing averaged 74.38% before taxes and 35.68% after taxes on its net investment concerned with military production. After tax profits on military and civilian business com-

bined averaged only 19.05% on the relevant net investment.[15] Profit on the civilian business alone, not given in the preliminary account, must have been very small.

SUBCONTRACTING AND PROFIT PYRAMIDING

Subcontracting is presented to the public as a means for distributing military production widely among small business firms. According to Defense Department reports, roughly one-half, by value, of all prime contracts are subcontracted, and a significant portion of these are re-subcontracted to "third tier" subcontractors.

To some extent, this does involve small firms in the munitions program, but mostly it is a form of division of the military business among large companies. According to Defense Department figures, in the four fiscal years 1957–60 only 37% of the subcontracts went to small business, as very liberally defined, generally going up to concerns with 1,000 employees, and sometimes higher.[16] Some subcontracting logically follows from existing patterns of industrial specialization, but often this could be assured just as well by the Defense Department issuing two prime contracts—as is normal in the case of airframes and aircraft engines.

Subcontracting, in reality, is carried out on an inordinate scale as a device for pyramiding profits. If a profit markup on cost of 10% is allowed, this 10% becomes 30% when pyramided through two tiers of subcontractors and a first tier prime contractor. Each shows profits equal to 10% of sales, but for all but the lowest tier of subcontractor the sales are fictitious, mere bookkeeping entries on which they are able to collect 10%. The actual profit is 30% of sales, but 20%, in this instance, is divided between two companies in the nature of a gangster-type payoff for controlling the business, rather than anything related to the production process.

The first clear-cut exposé of this procedure—to the writer's knowledge—was in the Congressional hearings of 1962 revealing part of the pyramiding of profits and costs in the procurement of Nike missiles. Western Electric, the principal manufacturing subsidiary of the American Telephone & Telegraph Co., is the prime contractor or "system manager." But, evidently by advance

agreement, it subcontracted 41.3% of the dollar value of the pri contracts to Douglas Aircraft Co., which thereby became a "seco tier" subcontractor. It might fittingly be called a "second-tier" s tem manager, since it in turn passed on four-fifths of the subc tracts to "third-tier" manufacturers, mostly far from diminuti in size.

Third-tier subcontractor for the trailers to carry the missiles w Fruehauf Trailer, largest truck-trailer manufacturer in the Unit States. To production costs of $46.9 million it added general a administrative costs of $2.4 million and profits of $4.5 million, bi ing Douglas for $53.8 million. Douglas did absolutely nothing wit these trailers, but added $3.7 million for its profit, billing Weste Electric for $57.5 million. Western Electric also did nothing wit these trailers, but added $2.2 million for completely non-existe general and administrative expenses and $3.3 million for prof This brought the total bill to the U.S. Government to $63 millio Of this, $16.1 million, or 34% of the reported production cost represented the profits and alleged general and administrative ex penses of the three participants. The nominal profits alone wer $11.5 million, or 25% of the reported production cost.

But what about these reported production costs? Could third-tie Fruehauf be expected to give an unpadded set of cost figure where the two tiers above it were raking in millions at no co whatsoever? Of course not. Fruehauf charged $10,300 apiece fo the main trailers. At a certain stage these trailers were "broke out" of the "system" and put up for direct purchase, under competi tive bidding, by the Army. A small manufacturer won the contrac at $5,000 per trailer, and made a profit on it. Evidently, half of th Fruehauf price was hidden profit also.

But Douglas Aircraft was not without resources. It persuaded th Pentagon to change specifications, and to give it a "development contract for 100 of the new trailers at $34,000 apiece, while cancellin over half of the original contract with the small manufacturer, wh thereupon closed his factory.

The hearing disclosed that on all of the $644 million of wor passing through its "second-tier," Douglas did shop work on onl $103 million worth, which includes $8.7 million for "general an

administrative" expenses. On the entire package Douglas charged $46 million of profit, which amounts to 44.3% on the work it actually did.[17] This kind of ratio is much more meaningful than the duplicated percentage of gross sales including work subcontracted out, which the aircraft manufacturers like to advertise.

From these latest hearings it appears that the apparent, reported, levels of profits suggested in earlier hearings and by the estimates of the Renegotiation Board, are considerably below the real state of affairs. Evidently, hidden profits from munitions production are huge in amount and not easy to uncover.

Western Electric did actual work of $276.9 million. To this, and to the four-times larger volume of work done by subcontractors, it added $82.4 million for general and administrative expenses and $112.5 million for profits. The combined addition of $194.9 million equalled 70.4% of the value of work done.[18] The general and administrative expenses have a special significance. In the context of the hearings, it is clear that not more than a tiny fraction of the $82.4 million represented actual costs of administering the program. Almost all of the total was a means for siphoning off hidden, tax-free profits. The profits are hidden, because they do not appear as such in any company reports. And they are tax-free, because, being listed as expenses, they are automatically not subject to taxation. Thus the $82 million of general and administrative expense may well have ultimately yielded Western Electric more than the $112 million of admitted profits, from which taxes had to be paid. We need not concern ourselves here with who got the $82 million and by what means of transfer. Some of the ways are well known and have been described in the author's discussion of "profits of control."[19]

CHAPTER III

Rationalizing and Hiding the Profits

J. L. Atwood, president of North American Aviation, told a Congressional Committee that "our operations are carried on under unusual conditions and involve certain business risks beyond those of a typical manufacturing company."[1]

What are the unusual business risks? According to Atwood, they include sale to a single large customer, instead of the preferable situation of a thousand smaller customers; a violently fluctuating demand, due to factors "neither predictable nor within control;" intense competition; rapid technological progress; a long design and manufacturing cycle; "system responsibility."

The unspoken implication is that high profits are a reward for these unfavorable circumstances. However, consideration shows that these "unusual" conditions are favorable rather than the reverse, and are unusually free of business risks.

Most large airplane companies were formed with very little private capital, and were multiplied by World War II profits into the present large combines. Pre-war investors received their money back hundreds of times, and even postwar investors many times. At most, the risk is of losing out on some future returns on a capitalized part of the profits.

The single large customer is also, in fact, the single largest source of capital, who supplied, as shown in the Hébert subcommittee's report, 72% of the fixed capital of the airplane companies.

The rapid technological progress, and the long design and produc-

tion cycle involve no risk because of the crucial fact that the companies are reimbursed even more handsomely for research and development work than for production work. Moreover, most of the decisive technological advances in weaponry were achieved not in corporations' establishments, but in laboratories and experimental-test centers of the government and of academic institutions.

The "system responsibility" pertains to the system manager described in Chapter II in relation to the Nike program. The "responsibility" is largely nominal. It is really a system *privilege,* which only giant corporations having great power in Washington can obtain. The privilege is to distribute work among a whole series of contractors, and to obtain a tithe on the produce of each. Perhaps someday this will be investigated further for possible side arrangements whereby systems managers are rewarded or bribed by the second and third tier subcontractors for throwing the business their way!

Talk of unusual risks in munitions production is particularly misleading, since even the usual risks are lacking. For example, the airplane maker has been likened to a construction contractor, who risks violent ups and downs of profit and loss. But rarely can the private contractor, on a non-military job, obtain terms guaranteeing such certain and large profits as those of the munitions manufacturers. Usually the civilian contractor risks losing money if costs go enough above his estimates. This hardly ever happens to the munitions contractor, whose payment is almost always on some form of cost-plus-profit basis.

There is intense competition, but it is mainly within the select circle of big business and high finance, and it is of a peculiar character. It centers on that new kind of salesmanship, the sale of munitions to the U.S. Government through the use of retired generals and admirals as Pentagon contacts, lavish catering to the appetites of procurement officers, and personal intervention of large investors with political contacts resulting from their campaign contributions and voice in the selection of key executive personnel.

This competition, then, is the very peak of corruption and decay. *But it doesn't cost the competitors anything, only the general public.* In the Alice-in-Wonderland bookkeeping system of the munitions industries, the entire cost of trying to get business is added to the

actual cost of fulfilling those contracts which are obtained. It thereby adds to the base which is marked up by a certain percentage in figuring the profit to add. Thus the more lavishly a company bribes and entertains, the higher its profits.*

True, the weaker, or more poorly connected, munitions maker may lose part or even all of his share of the profits, but even so he doesn't face the danger of bankruptcy as with a civilian business. The Government pays up any closing expenses, if the manufacturer runs completely out of work. Since he will have taken out many times his original investment, anything obtained from liquidation of the plant and equipment is just so much extra revenue.

The real risk faced by the munitions industry is disarmament, or a major reduction in the scale of military procurement, and this is what the munitions makers seek to avert at all costs.

The fact that there is no risk, and that the Government supplies all of the market, most of the capital and design specifications, leads to another important conclusion.

Airplanes, missiles, and other weapons could be produced just as effectively and much more cheaply in Government-owned plants. Moreover, traditionally Government arsenals and Navy Yards were the major source of U.S. Government munitions procurement. The overwhelming substitution of private corporate plants has been coincident with the manifold expansion of weapons output, and has been made owing to the power of those who have profited so much from the shift.

Unfortunately, most Congressmen who seek political capital from exposing munitions procurement scandals, refuse to draw the logical conclusions therefrom. Thus the Hébert subcommittee, after examining the mountains of statistics showing such super-normal profits in aircraft production, reached a conclusion wholly opposite to the facts it disclosed. It said "there has been no showing that, on the average, the profits allowed are excessive."[2] And it proceeded to recommend making the rules more favorable to the companies so

* While this book was at the printers, the majority of Senators registered their desire for a larger share by passing a tax bill provision making lobbying outlays a deductible business expense.

that they could make long-range investments "with a degree of assurance"—that is, so that they could make still more profits.

Facing the contradiction of big business appropriation of public accomplishments for munitions profiteering, the Hébert subcommittee said we must not "bemoan" the heavy investment in government plants used for private profit: "It served a purpose . . . a condition which does not lend itself to the usual rules of business investments, as to rate of return and of utilization. As we have pointed out, the production of military airframes is, in essence, a Government enterprise."

Why should an enterprise which "in essence" is governmental, be turned over to private industry, and on extra favorable terms because of its unusually favorable conditions of operation? Of course, there is no logical answer to this question. But the Hébert subcommittee has an illogical one to fall back on: "This industry is a weapon of defense . . . It is part of the price we pay for security, while not upsetting the economic system to which we are committed."[3]

Note that this statement accepts capitalism as a national commitment, although no such commitment is contained in our Constitution, nor in most public presentations of national objectives. In any case, the argument is not valid. Government production of munitions in arsenals never "upset" capitalism, any more than did government operation of post offices and schools.

The real fact is that private capitalists insist on operating munitions enterprises precisely because the rate of profit is unusually high, in distinction to schools and post offices which do not offer prospects of such exceptional profit rates. Controlling the government, capitalists have been able to arrange for private operation of munitions factories, and to get all sorts of specially favorable conditions, justifying these when they must with spurious arguments about "unusual" conditions and "risks."

SUPPLEMENTARY PROFITS—PATENTS AND KNOW-HOW

Munitions makers and their associates have much more to gain than the immediate profits of munitions contracts.

Very important supplementary benefits, which accrue to the con-

tractors themselves, are learning new product uses and processes, obtaining patents, and benefiting from a huge government-financed research set-up. General Electric, for example, boasts that 65% of its 22,000 engineers and scientists are engaged in defense work. It received $397 million of research and development contracts in fiscal year 1960 from the Department of Defense, in addition to Atomic Energy Commission contracts. This large sum contains an unusual proportion of profits. In addition, the work of the 14,300 scientists and engineers financed by these contracts brings out new developments which will be profitable in civilian markets.

Senator Russell B. Long forcefully attacked the practice of granting to private corporations patents developed through government-financed research. Referring to General Electric, he dismissed as a "bluff," its claim that it would refuse to do space work without private patents. "If their hand is called, they would be as anxious to do this research as anyone else because they do it on a cost-plus basis anyway." He noted that General Electric might well use the private patents for socially harmful practices, as in shortening the life of electric bulbs.

Not only are private patents granted, but a standard Defense Department provision forbids the government the use of any discovery for a non-military purpose. Referring to a contract granted a corporation to try to work out means of controlling weather Sen. Long pointed out that if success is achieved, the government will be able to use the method to prevent rain from falling on a military barracks, but not to keep the general public dry! He claimed a fundamental question required answering:

"When this Government pays to develop all these things that could benefit humanity, are we going to let someone hold a complete monopoly?"[4]

Admiral Hyman G. Rickover made similar charges, claiming that the Pentagon gives private corporations, through these patents, "a seventeen-year monopoly against 183,000,000 Americans out of whose pockets come all public funds dispensed by the Defense Department."[5]

The importance of this factor may be illustrated by the experience of Raytheon Corp., most militarized of the major electronic com-

panies. In 1960, 84% of its business, measured by end use, was for the U.S. Government. Its tripling of sales between 1955 and 1960 reflected not only the growing role of electronics in defense procurement, but also the special success of Raytheon in obtaining for its own uses the know-how obtained in the course of scientific and technical development paid for by the Federal Government.

The reward for that know-how has not been limited to a multiplication of government business. Almost as important has been the ability to derive profits from the patent rights and know-how which was acquired. In addition to royalties collected from domestic firms, very lucrative deals were made with foreign companies, providing cash royalties and major stock-ownership for Raytheon. Important acquisitions in Italy, England, and Switzerland were connected with such know-how acquired in the course of Pentagon business.

Raytheon is the prime contractor for the Hawk Missile. A special European corporation (SETEL), representing capitalists of various countries, was established to coordinate production of the Hawk Missile in NATO countries. However, the U.S. Government, which negotiated the NATO arrangements for production of Hawk missiles in Europe, was not able to transfer to European manufacturers the rights and know-how to make them. The Europeans had to negotiate with Raytheon, and pay through the nose for the privilege.

In 1960 alone, SETEL paid Raytheon $6,720,000 for patent and proprietary rights, of which $5,040,000 was left to the corporation after taxes. This accounted for 44% of the corporation's total after-tax profits for the year. Additional payments are to be made to Raytheon through 1963.[6]

It is difficult to overestimate the profitability of know-how and patents obtained through government-financed research and development. Industrial expansion in the current epoch of the scientific-technical revolution is characteristically the investment in production of new products or the use of new processes with multiplied efficiency. At least half of all industrial production today falls into one or the other of these categories, and this is the most profitable segment of production. It is likely that one-half again of these new products and processes can be attributed to government-financed research.

Thus a very significant share of corporate profits on civilian business today, and the major share of the postwar increase in corporate profits, can properly be attributed to new products and processes financed by government funds through defense contracts (or, what amounts to the same, through the sale to private companies of government-owned plants for the production of synthetic rubber and other new products.)

Two examples will show how the "inside track" on government military business makes possible a monopoly position in civilian business, to the extent of control of entire new industries.

1. In the recent competition among aircraft manufacturers for the leading position in the jet aircraft market, Boeing won out with its 707. This is directly attributable to the fact that Boeing had recently held the contract for mass production of jet transports for the Air Force, and was able merely to adapt the already perfected model for civilian transport use.

Douglas, which prior to and shortly after World War II was the leader in propeller-driven civilian transports, did not have major jet bomber or military transport contracts and lost out badly in the civilian transport field.

2. The high-speed electronic computer was an outgrowth of ballistic control requirements of World War II military aircraft and anti-aircraft installations, primarily. The company which obtained the largest share of that military business, International Business Machines, emerged as the leading factor in civilian computers when they became marketable a decade later. This today is one of the decisive factors in the spectacular growth of IBM.

Advocates of armaments, such as Frank Pace Jr., turn this relationship upside down. The fact that so much of our civilian scientific advance has been derived from military research, he argues, proves the socially desirable character of munitions production. Actually, of course, it proves only a weakness in a society which has been unable to mobilize massive scientific resources except for military purposes. It proves that methods must be found to mobilize much larger resources, which could become available if the country were spared the burden of military outlays, for purely civilian scientific research and development; and that such action would lead to much more

rapid growth and improvement in products and methods than that now realized through the imperfect, distorted carry-over to civilian life of the left-overs from the military table.

SUPPLEMENTARY PROFITS—STOCK MARKET

Besides profits from long-term investment, there are the tremendous profits which can be made on the stock market by one with capital and knowledge of munitions developments. One who invested $7,200 in three leading aircraft stocks in 1946 would have had, by mid-1959, an investment worth $56,000, and would be collecting $1,713 per year in dividends.[7]

The most successful publicized operators in munitions stocks have been the Rockefeller Brothers, with their promotions of McDonnell Aircraft, Thickol Corp., Itek Corp., and many others. With investments in the tens and hundreds of thousands, aided by their government contacts they have repeatedly profited to the extent of millions and tens of millions. Their technique is repeated over and over: they put a small amount in a company; get it munitions business; have its stock sold to the public at ten to a hundred times the original cost; sell what they want, subject to only a 25% capital gains tax, and keep enough stock to retain control, if they wish.

John Hay Whitney and his associates, and a group of Boston financiers, have carried out similar operations. In total this is not a small business. The wealthy men of America have increasingly turned to ways of realizing profits in the form of capital gains which reach into the range of five to ten billions each year. Since the start of the Eisenhower bull market, the stock market has been the largest single source of capital gains; and munitions stocks have again and again emerged as the most dramatic vehicle of stock market speculation.

This kind of profit has a special significance because it involves numerous smaller business men who otherwise would have nothing to do with the munitions business. Many of these may have, or feel they have, a big interest in supporting higher military budgets while they are speculating in the Pentagon-oriented "growth" stocks.

PROFITS FROM AEC CONTRACTS

The most difficult munitions profits to pin down are those made on the production of nuclear weapons. During World War II, the first atomic bombs were made in secret installations owned and operated by the government, mainly at Oak Ridge, Tenn., and Los Alamos, New Mexico. In 1946, after passage of the Atomic Energy Act, these plants, and others, were turned over to private contractors to operate.

By now the work of the AEC is done in scores of locations by private contractors, using government plant and equipment valued at $7.5 billion, and receiving compensation of over $2.5 billion yearly. The four big contractors, handling more than half the work, are Union Carbide, General Electric, du Pont, and the Sandia Corp., an American Telephone and Telegraph subsidiary.

When entering the program, three of these ostentatiously announced that they would do the work for a fee of one dollar per year. In the view of these corporations, good public relations made it unwise to give ground for charges of profiteering out of the manufacture of these terrible weapons. Union Carbide and the lesser contractors had no such compunctions. But the other three have helped spread the public picture of a profitless section of the munitions industry. The secrecy surrounding the industry, which permits the Atomic Energy Commission and the contractors to avoid publicizing any relevant accounts, helps to spread this impression. That the contrary is the case was first indicated in an analysis by James S. Allen in 1952.[8]

A more detailed presentation was made by Richard A. Tybout of the University of Michigan in 1956. By then some facts had filtered out in various Congressional hearings, and Tybout was able to squeeze out a few more in interviews with reulctant officials of two of the leading contracting corporations. Of the total business contracted, 81% was on the cost-plus-fixed-fee basis, with the percentage still higher in operations, as distinct from construction. This proportion includes those receiving the nominal $1-per-year fee.[9]

According to Tybout's estimate, the fixed fee generally ranged between 2% and 6% of the volume of work done. In examples he gave, Union Carbide was near the lower end; Monsanto Chemical

near the upper end. Tybout contrasts this with a 10% maximum permitted in Defense Department contracts. But we now know from the testimony of Renegotiation Chief Coggeshall that the average percent allowed on fixed-fee contracts, primarily to airplane companies, was 4.9% of sales, and that fabulous profits were reaped with this margin.[10]

The Union Carbide contract provided for expansion of the fee along with the scale of operations at Oak Ridge and Paducah. Statistics given by Tybout indicated a fee increase from $1,958,000 in 1951 to an average of $3 million per year in the two succeeding years. Besides the formal fees, the contractors receive substantial payments under such captions as "home office expense" and "general overhead," which have no direct connection with the AEC operations. Since General Electric, for example, puts the salary of all its officials involved in this work on the direct cost sheets, its "home office" allowance is merely a way of taking profit which it did not want to admit publicly. After prolonged jockeying between the Atomic Energy Commission and General Electric, the amount of this home-office allowance was finally settled in 1953 at $1,164,000 yearly, not subject to audit.[11]

The big take, however, lies not in formal fees or allowances, but in manipulation of expense accounts. Apparently the atomic energy industry is even more wide-open than the airplane industry in this respect, thanks to the aura of secrecy which surrounds it, and the philosophy of the AEC's first Chairman, David Lilienthal: "The AEC had adopted an open-minded attitude towards cost-plus-fixed-fee administration. In the absence of the usual financial incentives and uncertainties . . . an early attempt was made to focus contractors' attention upon the intangible and nonfinancial compensations of efficient performance."

Expecting the contractors to behave like Boy Scouts instead of businessmen, Lilienthal decided to "develop a new kind of set-up" for public-private affairs, without the customary detailed government supervision. As Tybout puts it: "The extent of the innovation can hardly be overstated." While there is a check-up on investment activities, the contractors have in effect almost a free hand in ordinary operations, procurement of supplies, etc.

The "Hanford overrun" is an example of the abuse of that freedom. General Electric obtained the contract for a certain job with an estimated price of $6.3 million in 1947, but by 1949 had run its current bill up to $16.5 million and its ultimate cost estimate up to $25 million. The upward revisions, and the work itself, were carried out without design drawings and data. This case is unusual only because it came to light. Tybout concluded from it that Lilienthal's "intangible satisfactions" are no substitute for supervision or financial control."[12] He further pointed out that successful cost padding yields cumulative profits as it establishes a basis for still higher estimated costs and percentage fees on subsequent contracts.

The full story of how these "overruns" ultimately find their way into the pockets of corporation officials and owners has not been told. One method is by the purchase, at inflated prices, of a substantial proportion of the required materials and components from other branches of the contracting company, or from related companies, or on terms providing secret kickbacks. According to Allen, General Electric supplied the Hanford works, which it operated under contract, with half the standard electrical equipment and practically all the specialized electronic equipment used there.[13] Opportunities for this type of padding are richer in AEC work than in Defense Department work, since outside subcontracting for the AEC amounted to only 2% on plant operations and 13% on research and development work.

Special profit-equivalent fees are paid in the research and development area. Besides awards for specified projects, the contractors are given multi-million dollar allowances to be used for developmental projects "of their own choosing," subject to no apparent governmental control. Union Carbide, at Oak Ridge, obtained around $4 million yearly in this way. General Electric, at Hanford, obtained an amount equal to 3%–5% of its operating expenses. The payment was estimated by Tybout at $1.5–$2 million per year, but is now probably closer to $5 million on the basis of the recent scale of operations. Over and above this, General Electric received another $5 million yearly for specifically approved research and development expenses at Hanford.[14]

From the admittedly incomplete information, one may reasonably

conclude that the total of open and hidden profit per dollar of sales on AEC work is not far below that on Defense Department work. Considering that some companies operate without formal fee, depending wholly on hidden profits, the average percentage return on sales *may* be a little lower for AEC work. But the percentage return on capital for this work is unlimited, since the companies invest none whatsoever.

The free gift of know-how and patents may be the largest single lure of AEC work. Nowhere else is there such an enormous potential for industrial development. And here, thanks to super-secrecy, knowledge is the complete monopoly of government contractors. Speaking of Dow Chemical's and Monsanto's early efforts in civilian nuclear power, Tybout notes that only by being deeply involved in AEC work could these companies even think about the problems of civilian power development, not to speak of obtaining a participation in it.

PROFITS FROM OUTER SPACE

Small-time swindlers have made tiny killings from "selling" plots on Venus to the gullible. The big-time corporate operators have made a huge business out of the national space exploration program. While a significant part is included within the regular Pentagon and AEC budgets, more than half is in the budget of the "civilian" National Aeronautics and Space Agency. Starting with a 1959 fiscal year appropriation of $176 million, the amount jumped to $3.7 billion for fiscal 1963, and is expected to "level off" at $5 billion a year or two later.

Despite jealousies between the Air Force and NASA, their activities are essentially part of the same program, oriented primarily to military purposes. This is recognized in the Kennedy Administration's including NASA activities in the major budget grouping with national security and international affairs expenditures, and in the publicly stated approach of top Government officials.

According to a Washington dispatch, the Kennedy Administration is attempting to overcome disunity between the military and civilian agencies by philosophical and organizational measures:

"From Vice President Johnson, the chairman of the National Space Council, on down, Administration officials have been emphasizing that the military and civilian space programs are inseparable and both parts of a national space program." Also, technical liaison officers are being exchanged by the leading agencies to effect a "more closely coordinated military-civilian space effort."[15]

NASA contracts go to the same corporations which get the Pentagon awards, and are not differentiated in most company reports, which group defense and space business in a single category. At this stage, the NASA business may be even more profitable, because it includes a larger proportion of research and development work, and because the Congressional and Administrative inspection and control machinery existing for Defense Department contracts, weak as it is, has not yet been extended to NASA contracts.

TOTAL PROFITS FROM MILITARY BUSINESS

What are the total direct profits from military business—aside from supplementary profits from patent rights, stock market speculation, and other sources? Since there is no reliable figure of the total amount of corporate capital invested in munitions production, a closer, but still rough, estimate of the total dollar amount of munitions profits can be made from the ratio of profit to sales. The estimate will be made on an after-tax basis.

The Renegotiation Board found that the 25 largest corporations in its dealings reported an average of 10.4% profit on sales before taxes. Allowing for 52% corporate income tax, this is equivalent to 5% after taxes. Defense Department data suggest that on the average, subcontracting and sub-subcontracting involve 60% as much as the prime business. Assuming the same profit percentage, this would raise the total amount of profit, at various layers, to 8% of final sales after taxes.

This percentage, then, will be regarded as the minimum, reported basis, of after-tax profits. To arrive at a more reasonable figure, it is necessary to allow for excessive costs, and all other forms of hidden profits. A recent report of a Joint Economic Committee subcommittee concluded that "A reasonable estimate of possible economy in a

properly organized Department of Defense logistics system is 10 percent in procurement."[16] Senator Symington recently estimated that "streamlining" procurement would save $8 billion, or upwards of 25%. Such estimates, presented as calculations of "waste and inefficiency," really refer to hidden profits.

From these official estimates, and from details available in hearings, it is estimated here conservatively that unreported, hidden profits amount to 10% of the value of military procurement. No taxes are paid on the hidden profits. So the entire 10% must be added to the 8% of reported profits after tax to get the effective after-tax total of both open and hidden profits—18% of sales.

On some $30 billion of equipment, supplies and services purchased by the Armed Forces and the Atomic Energy Commission (Table 3) this means a profit of $5.4 billion, as compared with around $2.4 billion on a reported basis. Is this $5.4 billion a rhetorical exaggeration? If all munitions procurement was conducted on the profit basis conceded by Douglas Aircraft on all of its Nike subcontracts, the profits on $30 billion of procurement would be $13.3 billion before taxes and $6.4 billion after taxes, at the 52% corporate tax rate.

It may well be that the Nike situation involves more profiteering than the average. On the other hand, neither the Douglas Nike figures, nor corporation reports in general, reveal the distribution to members of the inside corporate control group, and to their close associates and relatives, of profit-type income in forms which appear as expenses on the company books. This type of concealed profit is unusually large in munitions, and a large part of the waste brought out by Congressional investigators is really concealed profit of this general variety. Such profits have the special allure to the recipients that they need not be shared either with the small stockholder nor with the tax collector.

A test of reasonableness of the estimated range of munitions profits is provided by the analysis in Chapter V of the military profits of 55 giant corporations. From this sample, it is possible to estimate the total military profits of the 500 largest industrial corporations, within a moderate range of probable error (see Appendix IV). That figure, for 1959, is $2,012 million after taxes. Allowing for munitions profits of smaller industrial corporations, of large industrial contractors for

which financial reports are not published, as well as profits of utilities, transport companies, and other non-industrial contractors, this suggests a grand total of well over $3 billion. And the $3 billion is *without* most of the profits hidden away in expense accounts or by other devices.

Thus it verifies the reasonableness of the $2.4–$5.4 billion range, and suggests that the actual situation is around the top of that range. However the precise figure is not essential for the argument. The ultimate conclusions of this volume can be supported even by those readers who prefer a lower estimate, or even the low end of the range cited.

CHAPTER IV

Foreign Investment Profits

FOREIGN INVESTMENT PROFITS as much as munitions profits account for the fervent support of militarism by many business circles. This is because of the dependence of foreign investments on military power, and because of the huge volume of foreign investment profits.

DEPENDENCE OF FOREIGN INVESTMENTS ON MILITARY POWER

The dependence of foreign investments on military power is most clear-cut in cases where formal colonies are held. The French, British, Japanese, Germans, Americans, and Belgians almost always maintained a virtual monopoly of investments in countries under their direct colonial rule. However, in the past it has been scarcely less definite where naval bases and fleet patrols established spheres of power influence, which the dominant country showed its readiness to exercise when necessary—like the United States in the Caribbean. Now one must add the numerous and varied permanently occupied military bases, and the distant application of strategic airpower and missile power that can be brought to bear on other countries.

Historically, one can trace almost precisely the correlation of military victory with growth in foreign investment holdings, and military defeat with their annihilation. German foreign investments, for example, were wiped out with the defeats in each of the two world wars, and Japan's by its defeat in World War II. American, French, and British foreign investments all grew following World War I, but

the decisive gain was by the United States. Both the British and the French temporarily lost some ground during World War II, corresponding to early military reverses, while the United States, which emerged from the conflict the strongest power of the Western world, has multiplied its foreign investments fourfold since the end of World War II.

Historically, U.S. foreign investments expanded in three great waves, following U.S. victories in the Spanish-American War, World War I, and World War II, respectively. Through World War II, U.S. military power became overwhelming relative to that of other Western powers. The Government multiplied its military outlays and armed forces in comparison with earlier periods. The concurrent wave of investment included all sections of the capitalist world, and moved most rapidly into the Eastern Hemisphere, where the U.S. position had been weakest.

Large U.S. private investments followed immediately after the establishment of decisive U.S. military influence in Iran in 1953–54, and significant U.S. investments came into Taiwan, placed under control of the U.S. fleet in 1950. But such investments need not follow the flag quickly. Often there is first the creation, based on U.S. military power, of a network of political and economic relationships which constitute a "favorable climate" for private American investors. For example, in Western Europe following World War II, there was the following sequence of events:

1. U.S. military forces remained deployed in Western Europe after the war.

2. During 1945–47 American (and British) pressure, based on military and economic power, established capitalist and anti-Communist governments in all of the countries defeated by or liberated by American and British troops.

3. The U.S. granted financial aid to these governments, accompanied by special agreements providing favorable conditions for American investments.

4. The NATO Pact was signed, providing a relatively permanent foundation for the expansion of the American military base network in western Europe, and for U.S. leadership in "integrated" armed

forces of member countries. Coincidentally, U.S. military levels were multiplied threefold during the Korean War.

It was only after the fourth step, after 1950, that the really rapid postwar rise of U.S. investments in Europe took place.

Spokesmen for corporations with large foreign investments, notably oil companies, often show their acute consciousness of the relationship between their foreign profits and the extension of U.S. military power.[1]

Similarly, the foreign "diplomatic activities" of U.S. corporations, described by A. A. Berle, parallel the political activities of the State Department in seeking to establish regimes favorable to American business interests. For example, Berle says: "Some companies with large and widespread overseas interests frequently maintain their own edition of a tiny State Department . . . they have their own resident or traveling diplomats. Emphasis is given to cultivating personal relations with the proper officials in government both in America and abroad."[2] Enclaves for U.S. employees of American corporations—imitations of high-class suburbia, set aside from the native communities—would be just as unthinkable without the backing of U.S. military power as the similar communities established for the armed forces and their families occupying U.S. foreign bases.

ARE FOREIGN INVESTMENTS WORTH THE EFFORT?

Before World War II the theory was developed by pacifist-liberals and Social-Democrats that imperialism was not "worth while," and that accordingly the exploiting powers should stop fighting one another for "exclusive" colonial rights.

Grover Clark, in a standard work prepared for the Carnegie Endowment for International Peace in 1936, endeavored to quantify this theory by balancing his estimates of the profits of imperialism against the military cost of subjecting and keeping the colonies.

He found that imperialism "paid" for three centuries up to 1800, and "broke even" for the next eighty years. But, since 1880—that is, in the modern epoch of imperialism: "Cash costs to the countries which have used force to get or keep control of colonies unquestion-

ably have been very substantially more than any possible cash profits derived from the trade with the territories controlled."

Also: "A part of the general naval and military defense expenses must be charged against the colonies, since not one of these nations would feel required to maintain such expensive armed forces if it did not have the overseas territories."[3]

Clark's effort was crudely at fault in many ways. He considered profits only from colonies, not from non-colonial spheres of influence, virtually "absolving" the United States of imperialism. He left out the most important form of profits, on foreign investments, and considered only profits from trade with the colonies. These, in turn, were estimated at the absurdly low rate of interest on money capital. Finally, Clark did not consider the lack of identity between those who pay the costs and those who get the profits, nor the factor of armament profits as an additional incentive to colonial conquest.

In short, Clark's attempt was primitive and socially blind. But besides showing naiveté, his proposals slyly favored the indirect imperialism of the United States: "The present colonial situation is satisfactory to no one. But there is a way out. It would be no real solution for all the powers which have colonies simply to withdraw their control." This would lead to "chaos," especially in Africa and the Pacific. No, keep them as colonies, but adopt a policy going beyond the "Open Door," and give "free trade" equality to all Western powers in the colonies. Grant the League of Nations the "right to insist" that this policy be maintained under the Mandate system. Then, with no favoritism in the colonies, no country would have to maintain large armed forces nor would be tempted to fight another for control.[4]

Undoubtedly many people took this at face value. But certainly readers in responsible positions, as in the Chancelleries of Europe, recognized Clark's proposal as a version of the traditional U.S. policy of striving to break into colonies of European powers and Japan by means of the "Open Door" and "free trade." Simultaneously, it attempted, in the U.S. tradition, to avoid the stigma of the oppressor by replacing outright colonialism with a neo-colonial system of outside control.

To read some publications today—for example, *Fortune*—and to

hear some of our officials, one might think that leading forces in the United States are trying to carry out Mr. Clark's formula to contain the break-up of the old colonial system in Africa and to turn it to their advantage. In the Congo United Nations troops dominate—instead of Clark's projected League of Nations control—and Western nationals generalling these troops have sought to install and maintain in the Congo regimes favorable to the retention and expansion of Belgian, U.S., and other Western neo-colonialisms. Foreign investors dominate the African country's minerals and extract profits without hindrance. White settlers and business representatives are the economic and social rulers of Leopoldville, the capital, with the Congolese people in the role of their humble servants and laborers.

The struggle of the colonial people of the Congo for political independence has been assuaged. The former rulers were obliged to permit the Africans to take over the trappings and institutions of governmental power, and in the long run this will certainly make it easier for the people to go the rest of the way and achieve all-around economic, political, and military independence. But for the present the Western owners retain their decisive economic positions, and behind the scenes, with the aid of the United Nations apparatus, manipulate the levers of political and military power as well.

This is an example of the operation of neo-colonialism, a term which has come into wide usage recently.

ECONOMIC IMPACT OF MILITARISM AND FOREIGN INVESTMENTS

Today it is widely recognized that both military expenditures and foreign investments are significant economic factors and major sources of corporate profit. But the idea is often expressed that the military effort, originally designed in part to protect and foster foreign investments, has grown so large as to overshadow neo-colonialism economically.

However, investigation refutes this idea. Both militarism and foreign investments have a great economic impact, differing in detail, but of similar orders of magnitude.

One critical point is the influence of military and foreign economic activities on investment. Some writers compare total military spend-

ing with the fresh flow of capital funds into foreign investment, the former being roughly ten times larger. But such comparisons are invalid.

Military spending is a current outlay, not an investment. Nor can it be regarded as investment in the special Keynesian sense of providing an outlet for savings. Some portion of it is, but more than half is drawn through taxation from funds that would otherwise be spent on consumption. A reasonable comparison is between the actual investment of funds in foreign enterprises, and in enterprises producing munitions.

Oil companies have traditionally invested heavily abroad, and in 1960 Standard of New Jersey, the largest, planned to carry out 55% of its capital outlays in foreign countries.[5] The *New York Times* under the headline "*U.S. Auto Makers Go International*" stressed the rise in the foreign share of leading company investments.[6] *Business Week* reported that "U.S. business is developing a split personality when it comes to capital spending. . . . At home capital spending will stop growing during the remainder of the year. Abroad, U.S. companies plan to continue into 1961 the lusty expansion of direct investment that has been in progress for some time."

Among major industries, chemicals (aside from pharmaceuticals) had been backward in developing foreign investments. But that also has changed dramatically. On this industry, *Business Week* continues: "Historically, the industry has alyays fought for protective tariffs. But . . . it has found itself switched from the defensive to the offensive. Although it will still fight for protection, it has to take into account possible effects on its own invasion of foreign markets. As a measure of the scope of that trend to overseas business, one of the industry's top six companies figures that this year 70% of its expansion money has gone abroad.[7] That example is extreme, but even du Pont, which traditionally eschewed foreign investments, has moved abroad on a number of fronts.

The changed attitude towards tariffs associated with emphasis on foreign investments became dominant in American industrial circles in conjunction with the development of the European Common Market. President Kennedy proposed, the U.S. Chamber of Commerce approved, and Congress appeared likely to endorse

a bill permitting the complete scrapping of tariffs on commodities dominated by the West European and United States companies. American manufacturers had become more interested in their ability to sell in the United States products they make abroad, than in preventing European rivals from doing the same. Simultaneously, by opening U.S. markets to European manufacturers, they hoped to bargain for continued freedom of action for their investments in Western Europe.

By 1961 foreign plant and equipment expenditures of all manufacturing and mining companies was projected at 21.2% of their total fixed capital outlays; while foreign plant and equipment expenditures of all U.S. companies exceeded $4.5 billion.[8]

What about investments generated by military contracts? Over half of all major military equipment contracts are placed with the electrical and transportation (other than automobiles) groups of industries. Assuming that 75% of total plant and equipment expenditures by these groups, and 50% of that by ordnance, instruments, and miscellaneous durable goods industries with interest in munitions, derived from military demand, the fixed capital investment generated thereby came to $1.54 billion in 1961.[9] Some investments in chemicals, special fuels, mining and processing of special metals, also were military-inspired. Even with allowance for Federal investments related to military output, the total would fall short of private plant and equipment outlays abroad. However, in research and development expenditures, which are of a quasi-investment character, the military accounts for several billion, while comparatively little is related to foreign investments.

On the whole then we may say that both foreign investments and military outlays account for major volumes of fixed capital outlays, the former somewhat more than the latter. The two sources combined account for over one-third of all industrial fixed capital outlays.

Gross business activity based directly on foreign investments has also exceeded that based directly on military spending. Of the $46.9 billion of national defense expenditures in 1960, $1.2 billion was for interest, $15.4 billion for civilian and military salaries, and $30.2 billion for the purchase of goods and commercial services,

including construction.[10] This latter sum represents the business directly generated by the arms budget.

The amount of business carried out by foreign enterprises of U.S. corporations in 1957 exceeded $40 billion, including $18.3 billion as the production of manufacturing establishments, $11 billion of petroleum corporations, $2 billion output of U.S.-owned mines, and the remainder representing business done by foreign branches of U.S. agricultural, utility, shipping, trading, and financial companies.[11] The corresponding figure for manufacturing companies in 1960 was $23.6 billion, and fragmentary data for the other categories suggest a grand total of around $49 billion.[12]

The big increase in the military budget in recent years has raised the $30 billion cited for 1960 to a scheduled $35 billion in fiscal 1963. Foreign output by U.S. corporations has also increased substantially. Thus direct business generated by foreign investments somewhat exceeds that generated by the military budget, and the two combined by now are approaching $100 billion yearly.

Indirectly generated business is also quite important, especially in relation to the military budget. The wages received by members of the armed forces, civilian employees of the defense agencies, and workers in munitions factories—reaching into the tens of billions of dollars—for the most part are spent for goods and services. They thereby enter into the stream of business activity. According to crude Keynesian analysis, this is the most essential economic effect of military spending, multiplying the original impact in profits and employment. However, this view is only justified, and then in part, during periods of rapid inflationary military buildup. Under conditions prevailing through most of the cold war, with taxes currently collected to cover all or almost all of the military budget, it is doubtful whether there is any net increase in the amount of civilian business on a national scale.

The purchases of the entire population are reduced via tax charges, providing funds utilized by ten percent of the population for all of their purchases. The national volume of business is more or less unchanged. But in areas of military bases and major munitions factories there is a very pronounced stimulation of business—much more noticeable than the dampening of business activity in-

flicted on most areas by the drain of taxes to finance military production and bases elsewhere.

Other business flows from the disposal of surplus property by the military agencies. This has been rising rapidly, from property having an original value of $6 billion in fiscal year 1958 to $10 billion in fiscal year 1960. Of this latter sum, $3 billion was classified as usable property, for which the government realized $140 million, or less than 5% of the original cost.[13]

Often tremendous killings are made by the operators who get possession of the surplus goods at such low prices. Many items are sold to the public at surplus outlet stores, to manufacturers for use as good machine tools, and, in the case of certain materials and components, resold to munitions manufacturers, at 100% of standard price, for use on different contracts. In each case, the potential markup can be a thousand percent or more of the amount paid to the Government.

Most of the supplementary business deriving from the military accrues to companies and individuals distinct from the munitions contractors and subcontractors. For the most part, they fall into the category of "small business," broadening the basis of potential political support for a large military budget.

Unquestionably a large volume of business flows to the banks and other financial institutions by virtue of the military budget. This includes loans to munitions manufacturers, stock flotations for the numerous companies coming into existence or expanding on account of military business, and the massive operations in the Federal debt, amounting to tens of billions yearly for refunding alone.

Banks and insurance companies also derive considerable business from foreign investments. But otherwise, the secondary business derived from capital exports is different in character from the military type.

Foreign investments provide American large-scale business with access to cheap raw materials. Corporations owning foreign minerals and agricultural products can supply their refineries and processing factories with materials at much lower prices than those charged on the "open market." Some of this advantage spills over to processing

companies with little or no direct foreign holdings, through downward effect on the price of the domestic raw material. In the case of coffee, the most important single commodity import, very small foreign investments suffice to create a dominant trading position in the producing countries. In 1957 $3.6 billion, or one-fourth of total American imports, were from U.S.-owned enterprises abroad.[14] Considering that these were valued at the artificially low prices assigned, it is clear that a very considerable volume of business was involved, as well as a major sum of extra, hidden profits.

Another important supplementary benefit is the opening of foreign markets for United States exports. U.S. companies operating abroad favor American suppliers, especially of machinery, besides getting what they can from their own domestic factories. Incomplete figures show U.S. exports to foreign establishments of U.S. corporations at $2.6 billion in 1957.[15] State capital investments, through the Export-Import Bank, Development Loan Fund, etc., like foreign aid grants, are in the main specifically tied to purchases in the United States.

Dollars distributed in countries with large U.S. investments, and positions in the local economy obtained by U.S. interests, tend to open up consumers goods and general industrial markets there to American firms. Examples are the virtual monopolies which U.S. suppliers held in most Latin American countries until recently, like corresponding British and French monopolies in African and Asian colonies. Such advantages mainly accrue to the limited circles of large corporations engaging in foreign investments, although the distribution among them of the supplementary business is quite different from that of the direct investments.

COMPARISONS AND TRENDS

The importance of foreign and military business is also seen by comparing them with related activities. Thus we may compare the commodities produced in foreign establishments of U.S. companies with the commodities exported. In 1960 exports of commodities from the United States equalled $20 billion (excluding military ship-

ments). The goods produced by foreign establishments of U.S. companies, as we have seen, were more than double this amount.*

This decisive predominance of foreign investments over foreign trade is comparatively new for the United States. As recently as 1947, while exact statistics are not available, it is certain that exports of goods exceeded goods produced abroad by U.S. companies.

Lenin, in defining the central characteristics of imperialism as a special stage of capitalism, listed: "the export of capital, which has become extremely important, as distinguished from the export of commodities."[16] For the United States, in the present period, that characteristic can be amplified to say that for large corporations the export of capital has not only become extremely important, but decisively *more* important than the export of commodities.

The military effort, similarly, may be compared with other government activities. Of the $92.5 billion total Federal budgeted expenditures for the fiscal year 1963, $52.7 billion are for national defense, as narrowly defined, and $58.1 billion for the broader definition of "national security" which includes international affairs and space activities. The first figure is 57%, and the second 63% of the total budget.[17]

However, most of the civilian section of the budget represents financial transfers, such as interest, subsidies, and benefit payments, rather than actual governmental activity. The financial measure of this is contained in the category of Federal purchases of goods and services. Of $57.3 billion of such purchases in 1961, $49.2 billion, or 86%, was in the national defense category; if figures were compiled for the broader national security definition, the proportion would probably exceed 90%.

In relation to total expenditures for goods and services by all governments, including state and local—$108.7 billion in 1961—the military accounted for 45% of the total.[18]

This relationship, with minor variations, has prevailed for a full decade. One may say with full justification that in the United

* Not all of the $49 billion estimated as the value of business done by overseas establishments can be compared with exports of goods, since some of the total might more precisely be reckoned as services. But well over $40 billion is directly comparable with the $20 billion of exports.

States: *Military activities of the Government have become predominant, in comparison with civilian.*

This characteristic is often included within the concept "garrison state" used to describe the trend of development in the United States. Dependence on foreign investments has often been regarded, with justification, as a sign of parasitism. Considering the parallel and correlated growth of this phenomenon with that of militarism, it is scarcely stretching the point to say that the *tendency of development is towards a parasitic, garrison society.*

The following statistics suggest, in the broadest sense, the increasing significance of these factors. Between 1950 and 1961 the dollar value of the gross national product increased 83%, of private consumption 74%, of private domestic investment 39%, of non-military spending by all governments 141%, of non-military merchandise exports 82%. Meanwhile military spending increased 244% and the value of U.S. corporate investments abroad 203%.[19] All of these percentage increases are exaggerated because of the rise in prices which took place during the eleven years. And some of them are affected by temporary factors—for example, exports were unusually low in 1950, so the increase in comparison with the early postwar years in general has been much less.

But the general point of a major, and continuing rise in the weight of the military and of foreign investments in the economic life of the country is wholly valid.

Yet a word of caution is in order. It would be an exaggeration to say that the United States already is in an absolute sense a parasitic society, or a garrison state. Moreover, full realization of the former tendency is not possible, and of the latter, perhaps, unlikely. But the tendency in that direction is associated with and reinforces those drives in the American "Power Elite"—drives expressed most blatantly but not exclusively by the political ultra-Right—which threaten catastrophic consequences for everybody.

FOREIGN INVESTMENTS AND MUNITIONS AS PROFIT SOURCES

Since the Korean War foreign investments have been the big growth factor in corporate profits. Total after-tax profits, as offi-

cially reported, have remained unchanged over the past decade, $22,763 million in 1950 and $22,684 million in 1960. Meanwhile profits on direct foreign investments doubled, rising from $1,769 million in 1950 to $3,546 million in 1960* as a share of profits from all sources, they increased from 7.8% in 1950 to 15.6% in 1960.[20] Thus, net profits on all domestic activities seemingly declined during the decade. Actually, this is not the case, because hidden profits not included in the official statistics increased rapidly, more than enough to offset the apparent decline. Also, 1950 corporation profits were especially high for that period. But with all due allowance, the role of foreign investments as *the* outstanding profit growth area is clear enough.

Profits from munitions production roughly tripled during the Korean War years, and then remained on an approximate plateau over the interval 1953–1960. A new rise in munitions profits was underway in 1961–62. For the entire historical period of the past 25 years, the two sources, munitions and foreign investments, have been of approximately equal weight in increasing the profits of American big business and the wealth of its owners.

As with munitions profits, the statistics understate the role of foreign investment profits, because an exceptional proportion of hidden profits are omitted from the figures reported by corporations to the U.S. Government. Some types of extra profits on foreign investments, conceded by the Commerce Department in its reports, are:

1. Charging exploration and development expenditures to current account instead of capital investment—for oil and mining companies, $412 million in 1957.
2. Oil and mining depletion charges—$100 million in 1957.
3. Royalty and home office management fees—$241 million in 1957.
4. Profits from "associated enterprises"—$23 million in 1957.
5. Charging home companies for materials at cost, thus not allocating any profits to the overseas enterprise—no figure estimated.

* Officially, the totals are after payment of U.S. corporate income tax, and the foreign profits are before payment of such taxes. But, owing to various provisions of U.S. tax laws favoring foreign investments, and the deduction of income taxes paid abroad, virtually no U.S. income taxes are paid by U.S. corporations on their foreign investment income.

6. Charging of losses for maintenance of overseas purchasing and service agencies, which actually should be charged against domestic operations—no figure estimated.

The items for which estimates are given total $776 million for 1957, with the certainty that most of them have increased since. However, the other items mentioned are also quite large, and there are important other forms of profits not discussed in recent Commerce Department reports. Examples of these are:

1. Royalty and patent fees collected from foreign corporations, as distinguished from foreign subsidiaries; various banking and insurance charges; film rentals; fees of contracting and engineering firms; and similar items lumped together under the category "miscellaneous private services." While some of these are services, strictly speaking, a substantial proportion consists of profit-type receipts, which are in reality associated with and in lieu of standard profits on foreign investments. The total of these receipts has been rising rapidly, in the last three years alone moving from $1,168 million in 1957 to $1,413 million in 1960.[21]

2. Excessive depreciation charges, similar to those which are used increasingly in domestic operations in order to reduce tax liability. Depreciation charges on direct foreign investments (omitting depletion) increased from around $1.5 billion in 1957 to $2.1 billion in 1960, a rise of 40% in only three years.

Hidden profits are especially large in the oil industry. The investment firm of Burnham and Co., well known for its research department, prepared a special analysis showing the 1955 "production profit" of five large U.S. companies from Middle East oil at $472 million, and "total profit," including refining and transportation of that oil, at $866 million. Since parts of the refining and transportation take place in the Middle East, the total profits attributable to Middle Eastern operations were somewhere between these two figures.[22] These calculations were on a basis similar to the "cash flow" used by oil company investors in figuring profits "realistically" for purposes of investment and/or speculation.

For the same year, the Commerce Department reported profits of all U.S. oil companies in a catchall area consisting mainly of the

Middle East at $363 million.[23] Thus, actual profits may have been more than double the official figures.

Most forms of profit concealment are reflected in company books as fictitious costs, and as fictitious deductions from net worth, that is, from the real value of the foreign investments. The Commerce Department found in 1956: "A review of the limited number of enterprises for which both a market and a book value can be established indicates that the market value of direct investments could well be more than double their book value."[24]

Fortune observed that "this announcement" of the Commerce Department "opens up some tremendous vistas." "For the real value of direct corporate investment overseas may well be on the order not of $19 billion but of $50 billion or more." Basing itself on other Commerce Department comments and data, *Fortune* estimates that the real increase in direct foreign investments during 1955 might have been $3–$5 billion, instead of the $1.6 billion reported.[25] Taking the midpoint of the wide range suggested by *Fortune* would bring the real figure of 1955 profits from direct foreign investments to $5,250 million, instead of the $2,846 million reported at the time. Finally in 1955, when the official figures reported by the oil companies to the Commerce Department showed their foreign investments to be worth $5.8 billion, the oil companies' principal bank, Chase Manhattan, estimated the "intrinsic," or "going concern" value of their foreign holdings at $16 billion or more—the difference essentially representing accumulated "unofficial" profits.[26]

Considering the above discussion as a whole, it would not be surprising if actual profits on corporate foreign investments are as much as double those reported. In view of the roughly estimated character of the adjustment, for purposes of comparison, 75% of the reported profit is added to represent a modest estimate of hidden profits. Applied to the reported data for 1960, this brings estimated profits from foreign investments up to $6.2 billion.*

* This figure is smaller than the $7.5 billion of super-profits of U.S. imperialism from foreign countries, estimated by the author for the year 1948 in the book *American Imperialism*. Yet such profits have increased substantially since 1948. The explanation is that the $7.5 billion figure includes profits of private portfolio investors, U.S. Government interest income, and profits of U.S. imperialism as a whole derived from sales above value, purchases below value, and exercise at that

As seen in Chapter III there are even larger hidden profits in military business. In comparing foreign and military profits with total corporate profits, allowance must be made for hidden profits derived from ordinary domestic business. Oil company profits from domestic activities are understated in much the same way as from foreign operations; there are also excessive depreciation charges domestically, and other means of secreting profits. However, the understatement is relatively less than on foreign profits. One difference is particularly important. The maximum under-reporting of profits is by oil companies. But while they account for about one-half of all foreign corporate profits, they account for less than one-tenth of total reported corporate profits. And some important elements of under-reporting of foreign profits are not duplicated in domestic operations. Indeed, some forms, such as the selling of commodities to home branches at or below cost, serve to increase the apparent domestic profit at the expense of the foreign profit. For purposes of comparison, it is assumed that a proper allowance for under-reporting of profits on domestic civilian operations requires an addition of 25%.

Table 2 presents round estimates of the share of foreign investments, military business, and domestic civilian business in 1960 corporate profits, both as officially reported and with due allowance for under-reporting of profits.

The foreign investment profit estimates may be checked for consistency against the results for the sample of 55 industrial giants, as was done for the military profit estimates. Data for these 55, suitably "blown up," suggest after-tax profits from foreign investments of $3,028 million in 1959 for the 500 largest industrial cor-

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time of a virtual monopoly on international transportation facilities. These categories, excluded from the 1960 figure, accounted for two-thirds of the 1948 estimate. On a comparable basis, an increase of considerably more than 100% would be shown over the twelve-year interval.

Some of these excluded categories were discussed above in connection with indirect benefits derived by business interests from foreign investments. They are all present today, most of them more so than in 1948. The reader is reminded thereby that even the high estimate of $6.2 billion of corporate profits from direct foreign investments is far from a complete measure of the total increment derived by U.S. imperialism from its overseas power position.

TABLE 2. CORPORATE PROFITS AFTER TAX, BY SOURCE, 1960
(*dollar figures in millions*)

Source	AS REPORTED		ESTIMATED TOTAL	
	dollars	*pct.*	*dollars*	*pct.*
Foreign investments	3,546	15.6	6,206	19.1
Military contracts	2,416	10.7	5,436	16.7
Domestic civilian business	16,722	73.7	20,902	64.2
Grand Total	22,684	100.0	32,544	100.0

Grand total, as reported, from *Survey of Current Business,* July 1961. All other figures as shown in text or computed.

porations. These are on a reported basis. Allowance for smaller industrial companies, and the important non-industrial foreign investing corporations, as well as for the rise in such profits in 1960 over 1959, would certainly account for more than the difference between the $3,028 million and the $3,546 million shown as the low estimate of foreign investment profits in Table 2.

Even on the officially reported basis, foreign and military business combined accounted for $6 billion of corporate profits, or over one-fourth of the total. With due allowance for under-reporting, the combined yield rises to $11.6 billion, or 36% of total corporate profits. Considering the shortcomings in the data, these estimates should be regarded as indicators of magnitude, rather than precision figures.

With that caution, one can say with reasonable assurance that total profits from foreign investments and military business combined came to around $10 billion yearly, liberally evaluated, and amounted to about one-third of total corporate profits, similarly appraised. To this total, foreign investments have contributed somewhat more than military business in recent years.

The importance of foreign investments and military business is especially marked for industrial corporations, which obtain about 85% of the military contracts and 80% of foreign investment profits, as compared with 50% of domestic civilian profits. As reported, industrial corporations obtain 23% of their profits from foreign investments, and 39% from this source and military contracts combined. On the roughly estimated full basis, foreign investments account for

26%, and with armaments 50% of the profits of industrial corporations.

The importance of these sources is still more marked for the very largest corporations. In 1960, the 20 industrial corporations with the largest profit obtained 33.7% of the profit of all industrial corporations.[27] The 20 largest military contractors obtained 49% of all prime contracts.[28] In 1957 the 20 industrial corporations receiving the most profits from foreign investments obtained 69.3% of the profits of all industrial corporations from this source.[29]

Thus concentration of military business is much greater than civilian, and concentration of foreign business is the greatest of all. The total number of corporations with any foreign investments was only 2,800 in 1957. While this number has been rising rather rapidly, it is still tiny in comparison with the tens of thousands of companies engaged in military business as prime or subcontractors and the hundreds of thousands of corporations engaged in domestic civilian business.

As will be demonstrated in Chapter V, military contracts and foreign investments yielded 40%–50% of the total profits, on a conservative reckoning, of the largest industrial corporations in recent years, with the contribution of foreign investments considerably larger. *Among the 25 very largest industrials, foreign investment profits were 2.5–3 times larger than munitions profits.*

If the rising trends in military and foreign investment profits continue, in the very near future military and foreign business combined will definitely provide over 50% of the total profits of the industrial giants. In fact, that point may have been passed already in 1962.

This state of affairs provides to owners of corporations able to obtain major munitions contracts or to establish large foreign investments, or both, enormous material incentive for aggressive foreign policies, and for opposition to disarmament.

CHAPTER V

Military and Foreign Profits of Giant Corporations

DETAILS OF THE MILITARY and foreign investment profits of the 25 largest industrial corporations are presented to provide a fuller understanding of the varied impact of the modern garrison state on American big business. Similar data concerning the profits of 30 corporations, representative of the top 500—aside from the first 25—are shown. The size ranking, according to sales, is that set up by *Fortune* in its annual tabulation. Rankings according to capital invested would be equally valid.

For each of these corporations, military and foreign investment profits are estimated and compared with total 1959 profits, generally without adjustment for unreported profits.

The stockholders' growing awareness of the special significance of these activities has led more and more corporations to present the breakdown of the data, in whole or in part. In recent years the majority of large corporations have begun to isolate foreign profits, or to give data concerning foreign sales, employment, or assets from which profits can be estimated. Among the 25 largest industrial corporations, only the two steel companies failed to give clues to foreign profits in their annual reports.*

* The statistics sometimes lump in income from exports, which are a different matter. However, the distinction is less clear than formerly. Most large U.S. corporations now have a network of foreign installations, and their export and overseas production activities are closely interconnected. There is little distortion from this factor in the estimates given here.

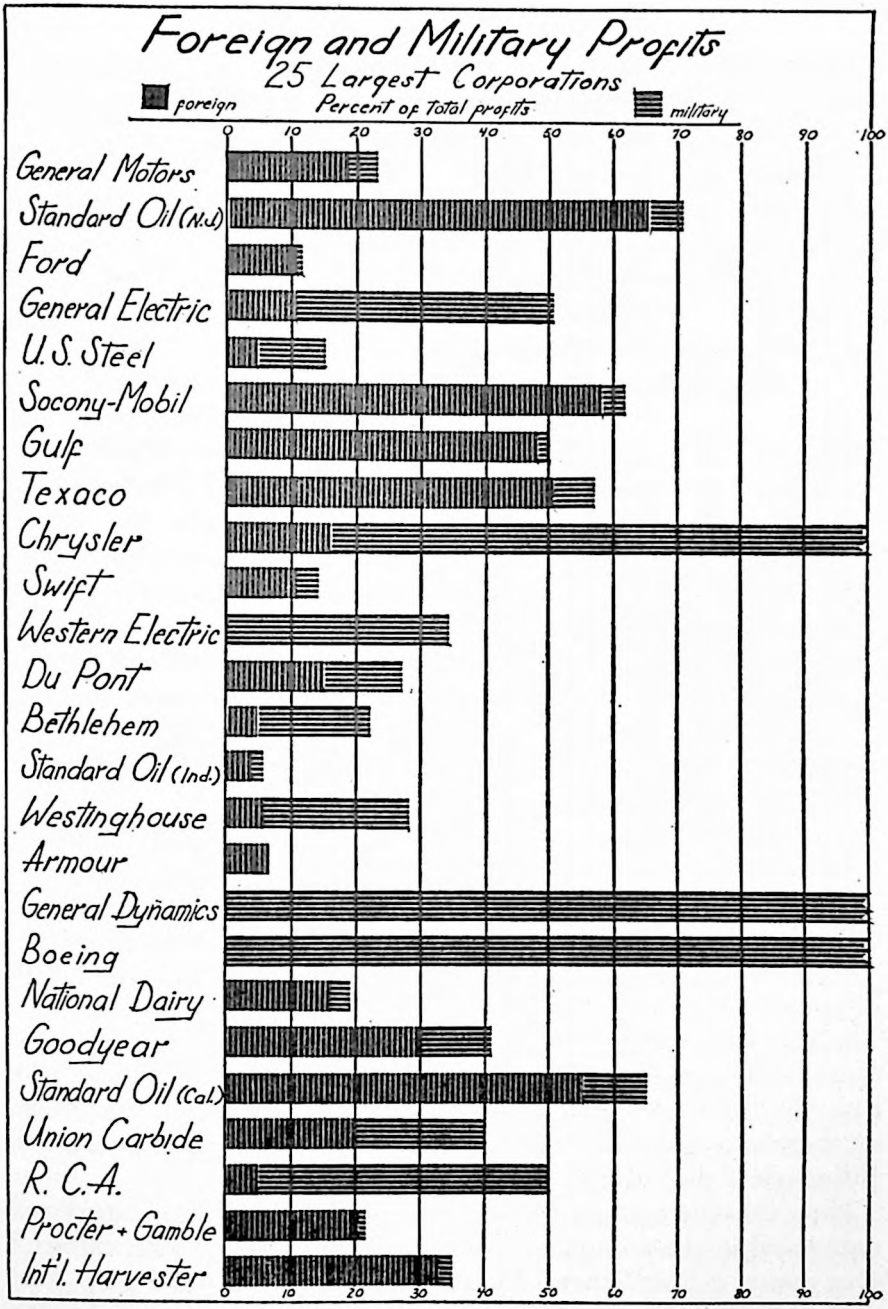
Direct statistics on military business are less generally available. Some corporate giants specify the volume of military sales, but none normally segregate military profits. Moreover, the sales figures usually relate to "defense products," omitting sales of standard components or basic materials to military contractors, and sales of standard civilian products to the military services. However, the company reports are supplemented by the Defense Department listing of the largest prime contractors, which generally show amounts equalling half or more of the total military business of large corporations. Special breakdowns prepared for financial journals or Congressional Committees are available in some cases. Consumers goods corporations, with little armament business, were assumed to sell to the military in the same proportion as the entire industries to which they belong—probably a conservative assumption in view of the tendency of the largest companies to get the inside track on military sales.

Statistics of the foreign, military, and domestic civilian profits of the 25 giants are shown in Appendix Table II. The percentages of foreign and military profit in each company's total are shown in the Chart on page 73. The 25 as a group reported $4,878 million in profits, of which an estimated $1,411 million came from foreign investments, $559 million from military business, and the remaining $2,908 million from domestic civilian business. Foreign investments accounted for 28.9% of the total profits of the group, military business for 11.5% and the two sources combined for 40.4%.

Approximately three out of every five dollars of profits came from ordinary civilian business, two out of every five from foreign investments and armaments. And, as already noted, for these 25 companies as a group, foreign investment profits were 2.5 times as large as military profits.

These estimates somewhat underestimate the role of foreign and military business, and especially of military business, because of the particular tendency to under-report such profits, as discussed in earlier chapters. The table is based always on company reports for total profits, and the distribution is usually as given, or in direct proportion to sales.

Thus the results are consistent with the view that military and


Foreign and Military Profits
25 Largest Corporations
foreign
Percent of total profits
military
0
10
20
30
40
50
60
70
80
90
100
General Motors
Standard Oil (N.J.)
Ford
General Electric
U.S. Steel
Socony-Mobil
Gulf
Texaco
Chrysler
Swift
Western Electric
Du Pont
Bethlehem
Standard Oil (Ind.)
Westinghouse
Armour
General Dynamics
Boeing
National Dairy
Goodyear
Standard Oil (Cal.)
Union Carbide
R. C. A.
Procter + Gamble
Int'l. Harvester

Ellen Perlo

foreign profits exceed 40% of the total for large industrials, and may have reached 50% of the total by 1962. By 1959 foreign investments alone accounted for close to 30% of the profits of the very largest corporations, according to an incomplete accounting, and that ratio has probably been exceeded by 1962. Thus an upward revision is required, as a result of developments of the past six years, in the estimate contained in *The Empire of High Finance,* that: "Considering giant corporations as a whole, something like one-fourth of their profits come from foreign investments."[1]

The chart shows a very wide variety among the companies. For example, as between foreign and military business, despite the predominance of foreign profits in the total, foreign investment profits are more important than military in only 15 of the 25 cases, while military profits are more important in nine. They are about equal in one case. Considering military and foreign profits combined, three companies had all of their profits from these sources, actually losing money in 1959 on domestic civilian business. Seven others obtained 50% or more of their profits from the armed forces and foreign investments. Five companies received comparatively little profits from these sources—between 6% and 14%. Only three companies received no profits at all from foreign investments, and only one insufficient military business to show on the chart.

In dollars, five corporations made over $100 million in foreign investment profits, one of them, Standard Oil (N.J.), making over $400 million. Only one corporation, General Electric, made over $100 million in military business.

General Electric's estimated profits from military business were 2.5 times as large as those of the next largest munitions profit-maker. The extent of the General Electric lead may be exaggerated, because hidden profits—not reflected in the table—are probably relatively higher for General Dynamics and Boeing, which concentrate on those strictly military items for which hidden profits are largest. But much of the General Electric lead is real.

How can one account for this, when General Electric has placed only third in the amount of Defense Department prime contracts? One reason is that General Electric receives a substantial proportion of its military business as subcontracts, which are not included in the

Defense Department listings. Besides this, General Electric does much of its business in the sale of standard electronic components and equipment to defense contractors, not as subcontracts in the ordinary sense, but as ordinary sales to industrial customers. Also General Electric is one of the big three Atomic Energy contractors, unlike the other prominent Defense Department contractors.

The corporation itself, in mid-1960, wrote, "Our volume of defense business is currently the second largest of any company in the United States."[2] This acknowledgment probably covers subcontracts, but is likely to exclude sales of standard components and equipment, and may exclude AEC business.

What share of General Electric's 1959 sales went for military use? Its annual report shows "defense sales by defense products departments" accounting for 25%. Another 27% was in industrial components and materials, such as electronic parts, computers, specialty alloys, and electric motors. A rough calculation, applying the national percentage consumption for military end-use of each of these types of products to General Electric's output, indicates that almost two-fifths of these industrial products, or another 10% of the company's total sales, go to munitions contractors or sub-contractors. Since 5% of the company's payroll is reimbursed by the AEC, another 5% of total business is attributed to this agency. The total, then, comes to 40%, equivalent to $1,740 million, considerably larger than the 1959 military sales of any other company.

Furthermore, General Electric has a higher percentage of profits to sales on its military business than the airplane companies. Using more of its own equipment, and applying heavy industry pricing practices, it enjoys a wider markup over costs on military sales than do airplane and missile makers, which operate according to contractor traditions and mainly with government-supplied fixed capital. According to Renegotiation Board statistics, aircraft and missile makers used mainly fixed-price incentive contracts, providing before-tax profits of 8.8% of sales. But other leading contractors, including General Electric, used almost exclusively fixed-price and price-redetermination contracts, on which profits-to-sales ratios averaged 13.1%.[3]

General Electric's actual leadership in armament profiteering is

particularly significant in two respects. The corporation is the national leader in tricky propaganda designed to stress its "patriotism," "disinterestedness" and "low profit margins" in military business. Also its record emphasizes the trend towards displacement of the airplane companies by electronic manufacturers as the leading factors in the armaments business.

Consider further the Table and Chart for individual companies and groups of companies.

Oil companies. Standard Oil (N.J.) with $445 million of combined foreign and military profits, realized twice as much as any other corporation—and three times as much as General Electric—from these two related sources. The Big Five international oil companies, all among the 25 largest industrials, show from 50% to 71% of total profits from military and foreign sources, nine-tenths of it from the latter. These five companies account for 69% of the total foreign investment profits of the 25, as compared with 16% of the military profits, and 22% of the domestic civilian profits of the 25 largest.

The inclusion of all five of these international giants among the top 25 is not wholly due to the enormous size of the oil business in general. Foreign profits in particular have been vital for the growth of these companies in recent decades, bringing so many units in a single industry to the top rank. Only one oil company limited to domestic operations ranked among the top 25, Standard of Indiana, and its owners have taken drastic steps to alter that situation. Since 1957 the company has plunged hundreds of millions into the purchase and exploration of foreign concessions. Big discoveries in 1961 raised its foreign output to 16% of its crude, with far higher proportions in the offing.

Military profits of the major oil companies are small only in comparison with their foreign investment profits. Standard Oil (N.J.) received 1959 military profits nearly as large as those of du Pont, and Standard Oil (Cal.), more than those of U.S. Steel. These figures may not allow sufficiently for the substantial sale of petroleum to munitions manufacturers and their power and transport suppliers. The bars on the Chart, linked to reported Defense Department contracts, attribute under 5% of oil company profits,

in the average, to the military. But the Harvard Economics Research Project[4] estimates that 10% of petroleum products were consumed, directly or indirectly, for military purposes.*

Automobile companies. Once General Motors was well-known as the leading munitions contractor. But since the end of the Korean War, with the downgrading of ground army fighting, its military role has shrunk sharply. In 1959, for example, it ranked only 21st in military prime contracts. True, its profits from these contracts were comparatively high, for reasons similar to those discussed in connection with General Electric, so that General Motors' $35 million of profits from military business was not so far behind those of specialist munitions makers like General Dynamics and Boeing. But relatively, this was only 4% of General Motors' total profits. Its foreign investments, on the other hand, have risen rapidly in importance, and General Motors was the only company outside the oil industry to make over $100 million in 1959 foreign investment profits—the amount was $166 million. With $201 million profits from military and foreign investments combined, 23% of General Motors' profits came from these sources.

Yet, the economics of militarism has a different balance for General Motors than for Standard Oil. The petroleum giant, paying very low federal taxes, *nets* most of its huge profits from Washington's foreign policy. But General Motors, on its profitable civilian business, pays income taxes three times as large as the profits it makes from foreign and military business. Most of its taxes go to finance other companies' military and foreign investment profits.

This contrast will be examined further in later chapters. For the present, it is noted to illustrate the existence of major inter-corporate differences in the economics of the cold war, differences which help explain conflicts and hesitations in budgetary and foreign policy.

Ford, the Number Two auto manufacturer, obtained only 12% of its profits from military and foreign investments in 1959, hardly any of it from military business. However, this understates the po-

* However, the foreign profits include a substantial amount of profits realized on sales to the military. The writer believes, therefore, that the Chart adequately represents combined military and foreign profits of the oil companies, although a more precise description would shade parts of the bars for both sources.

tential situation, and possibly even the 1959 situation. While attributing only 11% of its profits to foreign operations, Ford turned out 27% of its vehicles outside the United States. This was due partly to bookkeeping methods which held down foreign profits reported. In 1960 and 1961 foreign profits jumped sharply, reaching 17% of the total reported. Further increases appear inevitable, as Ford expands its foreign holdings and production.

Also, Ford has taken a significant step to raise sharply its military business by buying the Philco Corp., with its $100 million in annual Defense Department prime contracts and a potential for much more, with the financial and political power of Ford behind it.

Chrysler, in a shaky position within the industry for a number of years, has been thrown extra business by the Defense Department, perhaps with the understanding of General Motors, in order to help it keep afloat. In addition, Chrysler has been aggressively promoting its foreign business since it purchased a major share in Simca Corp. from Ford.

Considering the big three as a group, foreign and military business have accounted for around one-fourth of their profits in recent years.

Electrical equipment companies. There are four electrical equipment companies among the 25 largest corporations, including the previously mentioned General Electric. Westinghouse, the Number Two electrical equipment company, obtained 28% of its profits from foreign and military business, as compared with 51% for General Electric. However, Westinghouse is now aggressively promoting foreign investments and, as noted in Chapter II, has been striving to raise its military business for the past five years.

Western Electric, the manufacturing subsidiary of the Bell telephone system, is far ahead of Westinghouse in military business, in amount as well as in relation to total business. An estimated one-third of Western Electric profits were received from military business in 1959. American Telephone and Telegraph makes additional profits from its telephone and other services for the Defense Department, military contractors, etc. Radio Corporation of America, like General Electric, obtained half of its profits from military and foreign business in 1959, thanks to its successful concentration on obtaining more military work. RCA's traditional

broadcasting and consumer-products lines have dwindled in relative importance and no longer provide the growth aspects of the corporation's business. Both military and foreign investment profits of RCA increased substantially in 1960, in comparison with the 1959 figures shown in the Chart.

Chemical companies. Du Pont and Union Carbide are among the 25 largest industrial corporations. Of the former's profits, an estimated 27% are from military and foreign business, of the latter's 40%. Union Carbide has pushed both military business and foreign investments more successfully than du Pont and thus has gained ground within the chemical industry. However, du Pont has embarked on a program of rapid foreign expansion, and may avert further loss of position.

Unlike the industries previously considered, these chemical companies show a rather even distribution between foreign and military profits. Traditionally ammunition makers, they are now especially involved in manufacturing materials for nuclear weapons and are thereby vulnerable to proposals to stop production of such materials. The United States Government has included such stoppage in the first stage of its very contingent disarmament proposals. Recently chemical companies have been promoting foreign investments with new vigor, and if this trend continues, their foreign business will soon decisively outweigh their military operations.

Airplane companies. The two airplane companies on the list, General Dynamics and Boeing, while making their usual ample profits from military business, lost money on civilian work during 1959.

Nor have they yet obtained the stability of the other corporate giants through military business. They are among the first 25 solely by virtue of classification according to volume of sales. Neither of these two, nor any other airplane company, has yet reached or approached a rank among the top 25 in profits or invested capital. Part of this failure may be statistical, but part of it suggests a real limit to the profit potential of the professional munitions manufacturer in the existing cold-war setup.

Steel companies. U.S. Steel received "only" 15% of its total profits from foreign and military business; Bethlehem Steel 22%—the dif-

ference being due mainly to Bethlehem's warship construction. The estimates for these companies are very rough. Only 5% of total profits have been allotted to foreign investments, although U.S. Steel, for example, obtains 30% of its ore on very profitable terms from Venezuela, and Bethlehem, besides comparable foreign iron ore investments, holds valuable manganese and other mineral properties. With the relative exhaustion of first class U.S. ore, colonial-type investments in Venezuela, Chile, Canada, and elsewhere have become critical for high-profit operations of these steel giants, but this factor is not segregated in the published company accounts.

However, the steel giants have lost their once central position in munitions production, just as the auto companies have, due to the change in military technology which has taken place. With the cold war economy, the steel companies have lost substantially in relative position among American corporations, and this trend may be accentuated, as steel appears unable to break the production downtrend prevailing since the 1955 peak.

Miscellaneous basic companies. Goodyear, the largest tire company, derives 41% of its total profit from foreign and military business, mainly from its far-flung tire factories. International Harvester(farm equipment) also depends heavily on foreign investments, with one-third of its profits from this source, plus a small residue from a once-important military business.

Food and soap companies. Swift, Armour, National Dairy, and Procter & Gamble all show comparatively low proportions of military and foreign profits. The percentages range from a low of 7% for Armour, whose South American properties have been taken over or restricted in profitability, to 22% for Procter & Gamble, with important foreign investments. Considering the tax burden, light industry has a definite negative balance in a militarized economy, which is emphasized by the fact that during the past two decades of war and cold war, the position of light and food industries within the general structure of American corporate enterprise has distinctly deteriorated. By now, the food companies only rate among the super-giants thanks to their rapid turnover, which puts them high in a sales ranking. But none of them are among the top 25 in invested capital, although Procter & Gamble is in profits.

International Business Machines. Special mention should be made of one company not formally among the top 25 in 1959 sales, International Business Machines (IBM). Its omission was a statistical accident resulting from the method of ranking according to sales. IBM prefers renting machines to selling them, artificially reducing sales figures in comparison with other companies. By any realistic criterion, it belongs well up among the super-giants, and is the fastest growing among them. By 1961, it had moved up to 22nd in sales. It was 13th in profits in 1959, 10th in 1961. While formally classified as a maker of non-electrical equipment, IBM is the world leader in development and production of computers and allied products. It is in the very forefront of technical advance, and is more akin to the electronic industries—whose products it uses intensively and to some extent makes—than to the ordinary machinery industries.

Of IBM's total profits of $175 million in 1959,* $40 million were from foreign investments and about $45 million from military business. By 1961 IBM profits from these two sources were around $120 million. World War II technical requirements gave IBM its opportunity to seize a position of enormous power in the United States. It now has a vast stake in foreign investments and in the continuation of the military program, yet with the progress of the technical-scientific revolution, automation and instrumentation, its civilian markets are also growing swiftly and would do so even more swiftly in a situation of disarmament.

THE SAMPLE OF 30 COMPANIES

Appendix Table III presents data, similar to those of Appendix II, for a representative sample of 30 smaller companies, among the 500 largest. Every 16th company was taken in the *Fortune* listing, with two accidental breaks in the sequence.

For these 30 companies, total after-tax profits came to $401 million, of which $91 million, or 22.7%, was from foreign investments and $82 million, or 20.4%, from military business. Altogether these two sources accounted for $173 million, or 43.1% of the total profits.

* Including that part of the profits of IBM World Trade Corp. which is not consolidated in the corporation's returns.

While the combined percentage is a little more than that shown for the 25 largest corporations, the difference is within the range of sampling and estimating error.

But whereas among the 25 super-giants, foreign investments provided 2.5 times as much profits as munitions, there was only a small excess of foreign investment profits over military profits among the sample of 30 second-rank corporations. Statistical accident may play a part, but not a decisive one, in accounting for this difference. The main thing concerns the limitations on growth which appear to have affected the modern munitions companies—limitations discussed above in connection with the airplane manufacturers. While a number of these corporations have risen to high rank, comparatively few have risen to top rank. There are only two aircraft companies among the 25 largest industrials, but there are five among the next 25 largest, measured by sales. Also, foreign investments are more concentrated than military business, as noted in Chapter IV. These factors account for there being relatively more foreign investment profits among the very largest corporations than among those not quite so large, with a reversal of that situation prevailing for military profits.

It is believed that the sample of 30 is reasonably representative of the situation among the 475 industrials just below the 25 super-giants. Accordingly, the total profits of the 475, as given, were distributed between foreign, military, and other in the same proportions as applied to the 30 studied. To these totals were added those for the 25 super-giants, and grand totals for the 500 largest industrials obtained (see Appendix IV).

Altogether the 500 reported after-tax profits in 1959 of $12 billion. Of this slightly more than $3 billion, or 25%, was from foreign investment. Slightly more than $2 billion, or 17%, was from military business. As noted in Chapters III and IV, these results are consistent with our estimates of the range of total profits of all corporations from these sources.

Appendix Tables II and III also show that foreign and military business accounted for over one-third of the profits of the majority of companies studied. However, the variation among companies is great. There are quite a few large and very large corporations repre-

sented in these tables which make little out of the cold war, and lose on balance when allowance is made for the taxes they contribute to it.

The rising trends of foreign investment and military business have most important political and social consequences. But one must not overlook the significance of the major reshuffling of business, especially military, between companies and industries. Prominent in today's business world are newcomers which have expanded sensationally through military contracts. Companies which have not kept up with the crowd, either in military or foreign business, have tended to drift backwards in relative status, and sometimes in absolute profits as well. These shifts also have far-reaching effects on the livelihood of millions of people and on the attitudes of influential groups.

CHAPTER VI

Industrial Pattern of Military Business

HERE WE GO beyond the situation of individual giant corporations, and examine the importance of armaments for entire industries. Over one-third of all military outlays go into compensation of the armed forces and civilian service employees. The remainder goes directly to business firms for goods and services, with durables absorbing the bulk of such outlays. Table 3 shows the distribution of military spending, according to broad categories, in fiscal year 1959 and as officially estimated for fiscal year 1963.

TABLE 3. OBJECTS OF NATIONAL DEFENSE AND SPACE SPENDING, FISCAL YEARS 1959 AND 1963
(*billions of dollars*)

Objects	*1959 (actual)*	*1963 (estimated)*
Durable goods	$20.7	$25.5
Construction	2.2	2.0
Non-durables and services	6.7	7.3
Payroll	17.0	20.3
Total	$46.6	55.1

SOURCE: Compiled from *Budget of the U.S.*, 1961 and 1963, and *Budget Appendix*, 1963.

NOTE: Covers the military functions of the Department of Defense and the Atomic Energy Commission, and other minor categories officially designated as pertaining to national defense; and the expenditures of the National Aeronautics and Space Administration. Payrolls include personnel benefits of civilian employees.

The durable goods industries obtained over $20 billion of business from the military and related agencies in fiscal 1959, and are expected to obtain over $25 billion in fiscal 1963. The great bulk of this goes to the metal producing and metal working industries. These metal industries accounted for 54% of all compensation paid to manufacturing employees in 1959 and 1960. As manufacturing is the fulcrum around which all economic activity revolves, so the metal industries are the core of manufacturing. Also, they are the most unstable major element in the economy, and hence most influential in determining its fluctuations.

How important are munitions and foreign investments in the overall activity of the metal working industries? Table 4 shows the distribution of final markets for the products of these industries in 1959:

TABLE 4. ANALYSIS OF MARKETS, METAL WORKING INDUSTRIES, 1959

Market	*Sales, wholesale value (billions of dollars)*	*Percent of Total*
Producers equipment	$25.9	30.7%
Consumers goods	23.3	27.6
Military equipment	20.8	24.7
Foreign	11.9	14.1
Civilian government	2.4	2.9
Grand total	$84.3	100.0%

SOURCE: See Appendix IV.

The civilian markets for producers equipment (or investment goods) and consumers goods were still, in 1959, the largest—the former providing 31%, the latter 28% of the total. But the military were not far behind, providing 25% of the total market. Foreign markets provided another 14%, five-sixths of that consisting of the sales of foreign investment establishments of the metal working companies. The remaining small amount consisted of sales to civilan government agencies and institutions.

Between them, the two markets we have been examining, military and foreign, accounted for about two-fifths of the total. The military market itself was not much smaller than either of the two standard civilian markets. Investment and consumers durable goods spending

have tended to stagnate in recent years. Neither approaches the 23% rise since 1959 shown in munitions and space procurement in Table 3. Allowing for this, one can say that today the three major domestic markets for metal working products are roughly equal in importance.

The foreign market, supplied mainly from foreign plants owned by U.S. metal-working firms, is about half as large as any of the three big domestic markets. It is increasing most rapidly of all, with a growth of one-third in the 1957–60 interval. If recent trends continue, by 1970 the foreign market could be as important as any of the internal markets, and there may be four roughly equal major outlets for metal products.

The huge military market has important and complex effects on all phases of the national economy. The Department of Commerce emphasized this in a book on the national income:

> The relative rise in public purchases as compared with the pre-war period has been substantial, and has in the main reflected the requirements of national defense. . . . Changes in the defense program have been the main source also of the postwar fluctuations in government spending.
>
> Dollarwise, and also in percentage terms, fluctuations have been particularly pronounced in the procurement of military equipment, currently the largest single item in a broad object breakdown of defense outlays. Moreover, the composition of equipment procurement has been subject to continuing change, as rapid progress in military technology has led to a high rate of obsolescence in general, and more particularly to a shift from conventional items to nuclear and other modern weapons.
>
> Inasmuch as the production of military goods is concentrated largely in durable goods manufacturing, the impact of changes in the defense program on the national economy cannot be inferred from comparisons of the broad defense and national output totals alone. As the subsequent analysis of postwar business fluctuations will show, the specific industrial incidence of defense purchases is an essential link in the chain of causal events explaining the dynamics of postwar business conditions.[1]

MILITARY BUSINESS OF PARTICULAR METAL PROCESSING INDUSTRIES

Military business is very unevenly distributed among particular metal working industries. For some industries, it is insignificant,

for others, it is the major factor. Table 5 presents estimates of the military business of separate groups of metal working industries, expressed in terms of weights in the Federal Reserve Board index of industrial production.

TABLE 5. INDUSTRIAL WEIGHT OF METAL PROCESSING INDUSTRIES TOTAL AND ALLOTTED TO DEFENSE, 1957

Industrial group	*Total Federal Reserve Board Weight*	*Allotted to Defense*
Aircraft and parts	4.61	3.61
Electrical machinery	6.39	2.40
Ordnance	1.25	1.00
Nonelectrical machinery	8.92	.89
Shipbuilding	.90	.63
Instruments	1.66	.55
Structural metal parts	2.91	.29
Automobiles and railroad equipment	5.08	.25
Stampings, tools, etc.	1.90	.19
Miscellaneous metal fabrications	0.61	.03
Totals	34.40	9.84

SOURCE: Total weights from Board of Governors of the Federal Reserve System, *Industrial Production 1959 Revision,* Washington, 1960, pp. S-5–S-10. Allotments to defense, author's estimates, based on various sources.

For metal processing as a whole, this table shows military output accounting for 9.84 out of 34.40 weight points, or 28.5% of the total. This is consistent with the smaller percentage shown in Table 4, because production of foreign factories is included in the total against which the percentage is calculated there.*

Five industries, having one-third or more of their total business with the military, account for six-sevenths of the durable goods armaments business. They are aircraft, electrical machinery, ordnance, shipbuilding, and instruments.

Aircraft. The aircraft industry remains the largest, but its relative

*The Federal Reserve Board allots only 3.46 weight points to "defense equipment," but that is concededly a fragmentary classification, partly excluding some wholly military industries, and excluding the military portion of mixed businesses, such as electronics. The U.S. Arms Control and Disarmament Agency published Harvard-compiled figures for 1958, which, when applied to the FRB weights, yield a total of about 9 points in the metal working industries allotted to the military, or slightly less than the Table 5 total.[2]

position has been declining. Thanks to the success of the aircraft manufacturers in obtaining missile contracts, they have been able, as a group, to maintain most of their peak dollar volume of business, although employment in the industry has been declining and some companies have been forced out altogether.

If close to 80% of the airplane companies' business is military, *over* 100% of the profits come from the Defense Department, because of losses on civilian business, discussed in Chapter II. This experience must confirm the manufacturers in their concentration on the military as a source of profits. Some years ago there was considerable talk of removing that dependence by promoting civilian business. But now that talk is muted. If U.S. airplane companies, enjoying 85% of the jet transport business of the entire capitalist world, can not make money out of it—by their standards—their prospects in a disarmed world are dim indeed.

Electronics. Table 5 shows military production of the electrical machinery industries equal to two-thirds that of the aircraft industry in 1957. The electrical industries are really two, intermingled in government statistics and in the operations of most major companies. These are traditional electrical equipment and electronics. Almost all of the military business is in the new electronics industry, significant militarily from its inception, and largely developed in its advanced forms through military requirements.

Military use of electronics has expanded phenomenally since the Korean War. The two-thirds relationship shown in the table is already somewhat out of date, and electronics is right on the heels of aircraft in military production. For several years over 50% of all electronics products have gone directly to the military, and, allowing for indirect use, around two-thirds. So its dependence on military orders is very great indeed. Characteristic is the appearance of the term "missile-electronic" industry, reflecting the character of the new type of strictly military producer, not fitting into any of the standard Census categories, but embracing factories now spread over a number of Census-defined industries. Moreover, as airplane manufacturers attempt to spread out into missiles, often adding electronic departments, the boundaries between these two industries are becoming less distinct.

Direct military sales of electronic products multiplied ten times in as many years—from $500 million in 1950 to $5 billlion in 1960; from 19% of total business in the former year to 51% in the latter. The industry has its eye on $12 billion of direct military business in 1970! (Of which more later in Chapter XI.) Meanwhile, consumer products, which had been the backbone of the industry, increased only two-fifths in dollar value of sales during the decade, from $1.5 billion to $2.1 billion—which means very little increase in physical volume, considering the price rise which took place. In radio and phonographic equipment especially, foreign products have been displacing domestic in the consumer market, while domestic output is concentrated more and more on defense.

Besides military and consumer products, electronic manufacturers sell replacement parts, tubes and semi-conductors, and a variety of industrial products. These categories accounted for $2.65 billion in 1960, or more than the sales of consumer products.[3] Ultimately, these items are divided between consumer use, general industrial use, and military use. Doubtless at least half of them are ultimately included in military end products, raising the direct and indirect total of the military market to 65% for the electronics industry.

Only a small portion (perhaps 5%) of traditional electrical equipment—generators, transformers, electrical household appliances, etc. —goes for military use; although during the mid-1950's, when a substantial fraction of the electric power installation was for nuclear weapons production, the situation was different. A little more than half of the combined wholesale value of the industries consists of electronics.

Combining the two branches, about 35%–40% of the total product is destined for military use. This percentage is consistent with the figures shown for major old-line companies in Appendix Table II. A number of smaller companies have much higher percentages of military business, as in the case of Raytheon and General Precision Equipment, and like the airplane companies, have become almost wholly dependent on the Pentagon.

As previously shown, General Electric is already by far the largest recipient of profits from military business, and IBM and Western Electric are on a par with the giant aircraft manufacturers in military

profits. Already electronics is the decisive "growth" industry linked to munitions, and within a few years it will surpass aircraft as the leading munitions industry, when considered jointly with the new missile-electronics industry.

Other Metal Processing Industries. Ordnance manufacture today is carried out largely in special factories purchased or erected by machinery manufacturers, or by corporations of the new composite type of the modern would-be empire builders. The products are less clearly defined than formerly and include many components of missiles as well as traditional guns and other weapons.

Shipbuilding remains a major largely military industry, although its relative importance in military procurement has declined in comparison with World War II. The important shift has been from surface vessels to submarines, with General Dynamics the main beneficiary through its Electric Boat Division. Instruments, like electronics, have become increasingly important in military procurement.

Machinery manufacturers participate unevenly in military business —through the manufacture of components for missiles; through making machines for installation in government-owned or contractor-owned munitions plants; and through making machines for the production of items whose end use is largely military. Presumably the manufacturer of mining equipment knows that his sale of equipment for a uranium mine is essentially military in origin just as surely as if he had received the order from the Department of Defense. Direct and indirect military business of the machinery companies may amount to 10%–15% of their total volume today. Their military participation was larger five years ago.

The automobile corporations, of all main heavy industries, have most decisively been pushed to the periphery of the military business. Overstocked, and with its ground army dwindling in importance, the Defense Department buys very few cars, trucks, jeeps, and tanks, even for replacement. What is left, mainly, is bits and pieces that various auto companies have retained from their wartime connection with the airplane industry, such as General Motors Allison Engine Division.

The Kennedy Administration has undertaken to broaden preparation for conventional war, and some additional contracts have flown

to automobile manufacturers as a result. However, it is unlikely that this will prove a major or lasting shift in the pattern of procurement, sufficient to make munitions again of key importance to the automotive industry.

The shares of various metal processing industries in foreign investments differ radically from their shares in munitions business. Sales of foreign factories of the main groups of U.S. metal processing industries in 1960 were $6.2 billion for transportation equipment, $2.5 billion for machinery, except electrical, and $2.3 billion for electrical machinery.[4] The transportation equipment companies, in this case the automobile manufacturers, dominate the overseas metal-working market. Thus the relatively low participation of automobile manufacturers in military contracts is partly counterbalanced, as we have seen in the company analysis, by their very large foreign business.

The stake of machinery companies, while also significant, varies very much from company to company. Taking non-electrical machinery as a whole, foreign business somewhat exceeds military business. The military business of the electrical machinery companies, on the other hand, exceeds by two or three times their foreign investments.

Primary Metal Processing Industries. The ultimate outlets for products of metal mining and primary metal manufacturing are roughly proportional to the markets for metal processing industries. Thus, since 25%–30% of the latter goes to the military, a similar proportion of basic metal output might be assumed to have the same final destination. However, a number of special factors adjust this conclusion, mostly downwards.

Much metal is used in construction, where the proportion of military end-use is less than in metal manufacturing. Military stockpiling, which worked in the opposite direction, has dwindled into insignificance.

Most important has been the recent reduction in weight per dollar in the missiles, supersonic aircraft, and other new weapons. As former President Eisenhower stated, these weapons are often worth their weight in gold (or at least that is what the government pays for them). The lower weight of materials is partly compensated by

the higher value per pound of the materials consumed. In addition to the very expensive new metals of exceptional hardness, heat resistance, and other qualities, high alloy versions of standard metals are favored. Thus, a large proportion of steel going into munitions is stainless steel, priced at eight to ten times carbon steel, and steel forgings, priced at five to ten times ordinary rolled steel.

Probably the processing of materials is more extensive, and goes through more stages, in military than in civilian work. Also, as shown in Chapter I, the markups in value at the stage of weapons fabrication consist largely of intangible items (engineering, administration, etc.). Thus on balance the lesser weight of metal used has more effect than the higher price per unit weight.

From the above considerations, it appears that the military market may ultimately absorb 15%–20% by value, of metals production, instead of the 25%–30% of the value of products of the metal processing industries. The 15%–20% proportion is certainly much lower than was the case a decade ago for a corresponding degree of munitions activity.

The most significant loss in military position has been suffered by steel, the big volume metal. Only a few percentage points of total steel tonnage, by volume, now go into military use. But half or more of the very valuable steel forgings and stainless steel go for military purposes. In recent years there has been an upsurge in military use of stainless steel, in connection with missile production. By value, something like 10% of steel output may go for military uses, not counting indirect use.

There has been a sharp decline in the relative military use of aluminum, and perhaps some drop in the absolute amount.

The Kaiser Company, one of the big three producers, estimates that direct defense purchases of aluminum fell from 287,000 tons in 1955 to 225,000 tons in 1959, the latter equalling 9% of total sales. Out of the other uses, such as by the airplane, electronics, and building industries, probably an equal amount is ultimately found in military end-products. So between 15% and 20% of aluminum tonnage is destined for military buyers. Allowing for the fact that military contracts are much more valuable, this suggests that up to 30% of

the sales and profits of aluminum manufacturers are from military markets.

The largest manufacturing consumer of copper is the electrical equipment industry, 35%–40% of the products of which go for military purposes. A large part also goes to electric utilities and telephone companies. There the proportion destined for military service is probably under 10%. Altogether one may say that the share of copper, by value, going to military uses is somewhat less than that of aluminum. Large AEC usage of lead partly offsets the sharp decline in traditional military use of that metal. Considering the non-ferrous grouping of copper, lead, and zinc as a whole, military end-use may come to 15%–20% of the total value.

The new metals are the ones that are being used predominantly for military purposes. Or perhaps it would be more accurate to say that military needs have brought to the market a whole series of new metals, formerly used only for experimental purposes.

Magnesium, the very light relative of aluminum, has had a checkered career because of sharp fluctuations in military demand. Magnesium production has become so important that its weight in the Federal Reserve industrial production index now exceeds that of lead. It is dominated by the Dow Chemical Co. Perhaps 75% of its market today is with the military. However, while "at present, defense work is looked upon as the bread and butter of the industry." Dow Chemical "is looking for new markets, with automotive the big hope."[5]

Nickel markets have grown for both civilian and military end-use, with particular emphasis on use in missiles. Of all nickel, 45% is consumed in stainless steel, which for many purposes contains 8%–14% of nickel. Altogether perhaps one-half of the nickel goes ultimately into military use.

A whole series of metals have found essentially military markets for nuclear weapons, missiles, supersonic aircraft, space vehicles, electronics, or some combination thereof. These include lithium, the very light test metal, for nuclear use; silicon-selenium, for diodes, rectifiers and transistors; tantalum for capacitors; beryllium for high-temperature resistant structural members; columbium for missiles and nuclear use; pure manganese and various special ferro-alloys for

stainless and high-alloy steels; chromium, cobalt, and thorium for missiles and AEC use. A number of smaller companies, and some large ones, have become prominent in these new military metals, including Foote Minerals, du Pont, Merck & Co., W. R. Grace & Co., Fansteel Metallurgical, Beryllium Corp., Brush Beryllium, Union Carbide, Vanadium Corp., American Potash & Chemical, Mallinkrodt Chemical, and Vitro Corp.

The biggest military metal boom was in uranium. In Canada today uranium surpasses all other metals in value of output. The U.S. Atomic Energy Commission has been the main buyer on capitalist world markets.

In the 1959 fiscal year the AEC spent $700 million for procurement of raw materials, mainly uranium.[6] This compares with the total value of output of all metallic minerals in the United States of $1,550 million in 1959.[7] Perhaps half of all the uranium is procured abroad. Investments in uranium mining have run into the billions, and the business has been extremely profitable for operating companies, and even more so for stock promoters. The domestic uranium industry is dominated by large corporations owning the processing mills—Anaconda, Union Carbide, Phillips Petroleum, Kerr-McGee, and some smaller "independents."

The Canadian industry is dominated by international capital aggregates, especially those of the British Rothschild group, Rio Tinto. U.S. output is all under contract to the AEC at the highly profitable price of $8 per pound through 1962, and thereafter at a slightly lower price for the indefinite future. The Canadian industry is only contracted through 1962, and will face a crisis thereafter unless European military and/or civilian use rises sufficiently to provide a fresh market. Purchases by the AEC today are far outrunning actual weapons needs. It is one of many cases of overcapacity in munitions industries.

Another example is titanium, which enjoyed a great boom a few years back until it was discovered that it weakened excessively at high temperatures in missiles and supersonic aircraft, whereupon the bottom dropped out of the market.

The above discussion shows in general, a very wide band of industrial corporations which have involved themselves in new metals

with military applications. In varying degrees, owners of these corporations have provided themselves with additional motives for hoping for the retention of substantial military procurement.

But let us consider the total position of the major primary metal producing companies, based on steel, aluminum and copper. The more enterprising (or with the inside track to military contracts) have spread out to a moderate degree in new military metals. But overall military uses are not decisive for them today. These uses are tending to shrink rather than grow, and the major metals manufacturers must look elsewhere for future expansion. In practice, they are looking abroad for that expansion. This tends to counteract any mellowing of metal industry owners' attitudes towards disarmament resulting from the decline of their munitions prospects.

The foreign investments of non-ferrous metals companies are already extremely important. At the end of 1960 foreign investments in mining and smelting exceeded $3 billion, and those of primary metal and fabricated metal manufacturing amounted to another $1.25 billion. The combined total approximates the value of foreign investments of all advanced metal processing industries. The profits from foreign metal mining enterprises increased 50% between 1957 and 1960, reaching a record $519 million in 1960, of which the share of U.S. companies was $394 million.* This considerably exceeded the corporate profits from metal mining within the United States.

Sizable additional profits are derived from primary metal and metal fabricating plants abroad.

The largest foreign profits are made by aluminum companies. The Big Three aluminum companies made $60 million in profits out of bauxite holdings in British Guiana, Surinam, and Jamaica in 1960, representing an admitted 34% on investment. The majority shareholdings in the giant Aluminium Ltd., are held in the United States. Besides Canadian properties, it has important aluminum plants in a number of countries of Europe and Asia. The U.S.-domiciled corporations are also rapidly expanding their foreign primary metal and fabricating facilities.

The copper, lead and zinc companies are not far behind in foreign

* Important foreign mining holdings are joint investments with major European interests.

profits. Revenues of U.S. mining and smelting companies in Chile and Peru, mainly in copper, came to $92 million, with large additional sums coming from Southern Rhodesia, Mexico, and other countries.[8] American Metals Climax, now largest of these companies owing to a recent merger, is a decisive factor, along with British partners, in the politically critical Rhodesian mining areas. Its principal domestic metal, molybdenum, is heavily involved in military use. The others operate mainly in Latin America. Anaconda obtained, in 1960, $36.7 million out of $46.2 million total profit from subsidiaries in Latin America, besides foreign profits received from other sources. As shown in Appendix Table III, about 45% of American Smelting and Refining Co.'s profits are from foreign investments.

The International Nickel Co., still the overwhelming giant of that important industry, is majority-owned in the United States. Most of its properties are in Canada, with important fabricating facilities in England.

Military business and foreign investments combined account for more than half of the profits of the large non-ferrous metals companies, creating a situation much like that of the international giants of oil.

The iron and steel companies, as previously noted, have substantially expanded their foreign investments in iron ore, which reached $573 million in 1957, and have certainly increased since.[9] These account for around 5% of the total capital investment in the iron and steel industry, and presumably at least that share of the profits, although the statistics are not segregated. Currently, a number of steel companies are starting foreign manufacturing enterprises, but that has not played a significant role in the past.

Military purchases of $5–$6 billion yearly do not provide a crucial market for non-durable goods as a whole. Purchases of food and beverages in 1959 amounted to $2,032 million, 4.6% of food manufacturers' total sales. Purchases of fuel, primarily petroleum, came to $1,251 million, 4.5% of oil refiners' sales.[10] Some additional oil is used as fuel by munitions producers.

Chemical companies are no longer significantly involved in traditional munitions, as in the days when du Pont became tops in

chemistry through World War I powder business. But chemical companies have been getting back into the military picture through a number of specialties, notably nuclear weapons, and the complicated metallurgy of new and rare metals used for modern munitions. The degree of participation varies considerably, from such companies as Union Carbide, which do at least 20% of their business in military goods, including nuclear, to Allied Chemical, which has been almost wholly excluded from modern munitions. And the difference shows up in a faster growth rate for those companies most successful in breaking into the new and growing munitions fields.

On the whole, however, one must regard chemicals as essentially a civilian industry today. It is significant that the decisive portions of chemical industry investment for the future are in the foreign field, rather than the military.

While military production cannot be considered crucial for the main lines of non-durable goods, the same cannot be said of the foreign output.

To begin with, overseas oil investments are in a class by themselves. While they have grown less rapidly than some other lines of foreign investment in recent years, they still accounted, officially, for one-third of all direct foreign investments at the end of 1960, and one-half of all the income from foreign investments in that year. The decisive importance of foreign investments for the giants of the industry has been brought out in Chapter V. Most smaller companies are largely or wholly domestic in their operations.

A number of other non-durable goods industries have become significant in foreign investments. Allocating geographically the scheduled plant and equipment expenditures of different industries for 1961, the Commerce Department found the paper industry placing 10% abroad, the chemical industry 15%, rubber products 24%, and food products 13%. New foreign investments of chemical companies are now second in size only to those of automobile companies among manufacturing enterprises. Traditionally, drug companies have been the main foreign investors of the chemical group. But now they are joined increasingly by manfacturers of basic chemicals, synthetics, plastics, petrochemicals, etc., often in joint companies with foreign concerns.

The combination of foreign and military business for some of the large non-durable goods corporations exceeds one-third of the total, but a weight of one-fourth or one-fifth is more typical. The non-durable goods companies as a group still depend mainly on the domestic civilian market, although this may change within another decade if their drive for overseas expansion continues with outstanding success. And there are already important exceptions.

UTILITIES AND TRANSPORTATION

In 1957 about 25% of all industrial consumption of electricity was by the Atomic Energy Commission, for nuclear weapons production. Another 15% was absorbed by the aluminum industry, a sizeable chunk for military end-uses. Since 1957 there have been a tapering off in AEC energy consumption, but other military uses have risen. Altogether, conservatively, one-third of industrial power consumption is for military use. Since industrial use is a little over half the total (taking account of power generated by industrial corporations for their own use), this means that the military provide ultimate markets for about one-sixth of all electric power, through use in munitions production. This is besides the direct purchase of power by military bases, and the use of power by members of the armed forces.

However, the financial stake of private power companies in munitions is somewhat less than suggested by these figures. Industrial power, generally, is much cheaper than residential power, and much of the power used by the AEC is supplied at specially low rates by the TVA, Bonneville Dam, etc. During the big buildup in AEC usage of power in the period 1954–56, big new power plants were built in the East Central area by private companies, under long-term AEC contract.

During this period perhaps half of all electric power expansion was based on the growing H-bomb market. Such huge investments are valuable to the power companies in raising the rate base for negotiation with power commissions, providing maneuverability for entry into new markets, adding to the financial power of the owning and connected interests.

Direct utility and rent outlays of the armed forces (excluding the AEC) increased from $505 million in 1959 to $660 million in 1961 and a scheduled $819 million in 1963 (fiscal years), rising thereby 60% in four years.[11] The most rapid increases are going to the telephone and telegraph companies for operation of the SAGE and other warning line and command control communications systems.

The moribund Western Union Co. has obtained a new lease on life through large military contracts for private wire services, and by purchasing interests in electronic companies. There is also a large increase in the category of rents and utility services, much of it going to the IBM company for rentals on computers installed in these warning systems.

Military transportation outlays have been very large, amounting to $1,272 million in fiscal year 1959.[12] The largest section of the transport total was for air transport, coming to $436 million. That amounted to 17% of the operating revenues of scheduled air carriers. However, a considerable part of the traffic did not go on privately owned planes, but on the aircraft of the Air Force's Military Air Transport Service. Transport company pressure for the elimination of the MATS won passage of legislation compelling minimum expenditures for commercial transport. The huge ocean transport bill of $414 million all went through the Navy's Military Sea Transportation Service, but much of it on vessels owned privately. Here also, corporate pressure is forcing a reduction in use of naval vessels and a gradual rise in contracting to private carriers.

Military spending for highway transport of $240 million amounted to 6% of the total business of the U.S. intercity trucking industry. But the bulk of this was concentrated in one branch of the industry, moving the household goods of military personnel ($130 million). The authors of a Congressional report comment that this

> is of the utmost importance to the thousands of household goods carriers in the United States. The allocation of this volume of business among the many van lines, large and small, is a matter of life and death.
>
> (Recently) the Department of Defense decided to amend its policy of awarding the household goods movement business to all carriers on a rotation basis and instead to award the business to four large van lines and their affiliates.

The announced plan to change the policy caused a major storm and carriers from all over the United States complained. . . . the new policy was deferred.[13]

So in this one relatively minor case the typical Pentagon procedure of collaborating with a monopoly came a cropper.

The railroad bill of $177 million is less than 2% of Class I railroad revenues.

CONSTRUCTION

The amount of military construction has declined somewhat in recent years, as shown in Table 3. In 1959, before this drop took place, military contracts accounted for only 4% of construction work put in place. However, in relation to large scale construction engineering, military work accounted for 10%.

Analysis of the company records indicates that this is a typical proportion of military business, for such companies as Morrison-Knudsen, the giant of the industry, Brown & Root, Raymond International, Walsh Construction, Paul Hardeman, Johnson, Drake & Piper.

Other large companies appear to do a smaller amount, proportionately, or even to avoid major military contracts. These include Kaiser Engineers, Perini Construction, and Turner Construction. Some large companies, however, specialize in military business. In 1959 the J. A. Jones Construction Co. did at least 20% of its business in military work, and Peter Kiewit Sons Co., of Omaha, close to half of its business in that field.[14]

Military construction, even more than civilian public construction projects, have been shown to be a fabulous opening for profiteering. The Morroccan Air Base scandal was most notorious a decade ago. Missile base construction scandals followed. One contract was let out to the Malan Construction Corp. of New York, a "job broker." It farmed out 90% of the work to 46 subcontractors. Finally the Air Force had to call in George A. Fuller & Co. to "untangle the job."[15]

In addition to direct military construction, the construction firms have "an important stake in the fortunes of the $4 billion foreign aid

bill."[16] Substantial amounts go for construction of roads, power plants, etc., by U.S. contractors.

SUMMARY

The military budget has a significant impact through a wide range of U.S. industries. However, in most industries today it is not of decisive importance by itself. Those industries which are vitally tied in with munitions are aircraft, missiles and shipbuilding, electronics and its related industries, ordnance, instruments, and some of the new and special metals.

When account is taken of foreign investments together with military business, the list must be expanded by addition of the very important petroleum, automobile, and non-ferrous metals industries; and of major individual companies in chemicals, rubber products, and other non-durable goods industries having a major stake in foreign investments and munitions.

This expanded list certainly embraces a major portion of American industry, and indicates that the material basis for big business support for a militarized, foreign expansionist economy is quite substantial.

CHAPTER VII

Geographical Distribution of Military Business

A GIANT CORPORATION, making aluminum, is little involved in the geographical location of aircraft production. The aluminum will be bought whether the plane is made in Long Island or California; and it can supply the metal from a conveniently located plant or warehouse in either case. The same applies to most basic industry corporations involved in military production. Aircraft companies, by and large, will determine the location of the military business they succeed in booking.

Essentially, the location of military production is determined by the convenience of the contracting corporations, as modified for some products by strategic considerations of the Pentagon.

In practice, the distribution of military business geographically is very uneven. So is the distribution of military bases within the country. This is a matter of major importance to local and regional business interests, from the proprietor of a bar near a military base to a bank drawing revenues from a half million munitions workers in Southern California.

Usually, these local and regional interests are not as powerful or influential as the owners of giant corporations and Wall Street centers of financial-industrial empires. But they are not without significance, and some of them coincide with important regional financial-industrial groupings.

Local business interests, sometimes buttressed by local trade union officials, are often valuable allies of munitions companies trying to obtain or retain contracts for their factories. They are prominent in those highly publicized protests which seem to make it virtually impossible to close down a military base in the United States, no matter how useless it may be tactically.

While the specific efforts of local and regional interests are usually directed towards preserving or increasing a given type or given item of military production or activity, the overall effect of such local efforts is for militarism, and against disarmament. There does appear a tendency, although not too clearly marked, for militaristic attitudes to be more prominent in localities of major military activity, while disarmament is more apt to be favored or tolerated by businessmen in places where no military funds flow.

The local impact of military spending in the United States is extremely uneven. Among the 3,106 counties, there may be 300 to 400 where local business is stimulated to a major extent by the presence of military installations or munitions factories. In most of the remainder local businessmen are net losers from militarism. Taxes taken out of the community to pay for munitions sharply reduce the population's purchasing power, and people drawn away for military service or munitions labor reduce the number of consumers. Indirect benefits of military activity elsewhere provide little offsetting gains.

This question cannot be studied exhaustively here. But background for such study is provided by a more complete state-by-state analysis of the distribution of military business than has previously appeared.

In 1959 there were six and one-half million Americans, military and civilian, employed by the military agencies of the government, by munitions contractors and other suppliers of the armed forces, their subcontractors and suppliers. This number was 9% of the national labor force of 72 million, but—in what may be a more relevant comparison—12% of the 54 million non-farm employees.

Close to a million of these, including 856,000 members of the armed forces, were stationed abroad. Employment within the country, and in categories for which reasonable estimates could be made, totalled 5,314,000, or 10% of all non-agricultural employees. As can be seen from the above discussion, the economic weight of the mili-

tary in terms of employment could be expressed as a higher or a lower figure, depending on the definition used. Here 10% is regarded as a roughly valid measure. The components of the 5,314,000 are shown in Table 6.

TABLE 6. MILITARY-BASED EMPLOYMENT IN THE UNITED STATES, 1959

Category	*Number of Employees (thousands)*
Workers in establishments producing for the Department of Defense (including producers of materials for incorporation in munitions)	2,656
Workers in establishments producing for the Atomic Energy Commission	122
Civilian employees of the Department of Defense	973
Military personnel	1,563
Total military-based employment	5,314
Total non-agricultural employees	53,878

SOURCES: See notes to Appendix VI.

NOTE: The first two categories include construction workers.

Half of these, or 2,656,000 were munitions workers, including those engaged in making standard materials and components for use by defense contractors as well as the direct makers of products for the Department of Defense. Another 122,000 were employed in establishments producing for the Atomic Energy Commission, overwhelmingly oriented to military uses of the atomic nucleus. The Department of Defense employed 973,000 civilians within the United States, and 1,563,000 military personnel were stationed in this country.

The first and largest number is estimated, by a method designed to attribute to military work the appropriate fraction of the time of workers producing materials, such as steel, some of which are sold to munitions contractors, and the remainder to civilian markets. Sources appear in the Appendix. The estimate of direct and indirect munitions workers is slightly larger than the corresponding estimate made for 1958 by Wassily Leontief and Marvin Hoffenberg,[1] but smaller than others which have appeared.

Omitted from the estimate are the pro-rated time of utility and other service workers, parts of whose output are bought by the military and its contractors; the similarity pro-rated time of suppliers of materials to AEC contractors; and government and private employment on secondary defense-oriented activities of the Federal Government. These exclusions may total several hundred thousand workers.

The geographical distribution of the 5,314,000 employees, related to total non-farm employment in each state, is shown in Appendix VI. The state figures are imperfect for several reasons. Locations are not given for a significant volume of military contracts, for security reasons. The state distribution of munitions employment is based on the location of prime contracts, but subcontracts are obviously distributed differently, despite a tendency to place them near the contractor's location. Also, the receiver of the prime contract does not necessarily do the work in his headquarters state. This problem is minimized, however, because the Defense Department apparently allocates many contracts according to the location of particular operating subsidiaries, rather than to parent company headquarters.

The percentages in Appendix VI show enormous variations in the state-by-state impact of the military budget. They range all the way from Wisconsin, with only 2.2% of its workers on military work, to Alaska, with 63.4%. One can go from Oregon, with only 2.4% of military employment, to adjacent Washington, with 21.9%.

There is a certain correlation between the locations of armed forces and munitions production workers. California leads all other states both in munitions employment and in numbers of servicemen. Texas is in third place in munitions employment, second in armed forces. Among states with fewer than a million non-agricultural employees, Washington leads both in munitions employment and in the number of servicemen. In the midwest, Kansas is the only state with significant military employment, and this applies to both the civilian and uniformed varieties.

Presumably, there is some logic to this in military tactics. There is also a certain cause and effect—construction contracts are let at military bases; sizeable contingents may be needed to guard particular installations, etc. In any case, the economic effect is significant. It

results in a situation where, in states of military concentration, there tends to be a community of interest between local-type business feeding on military bases and owners of regional or national type enterprises profiting from munitions contracts.

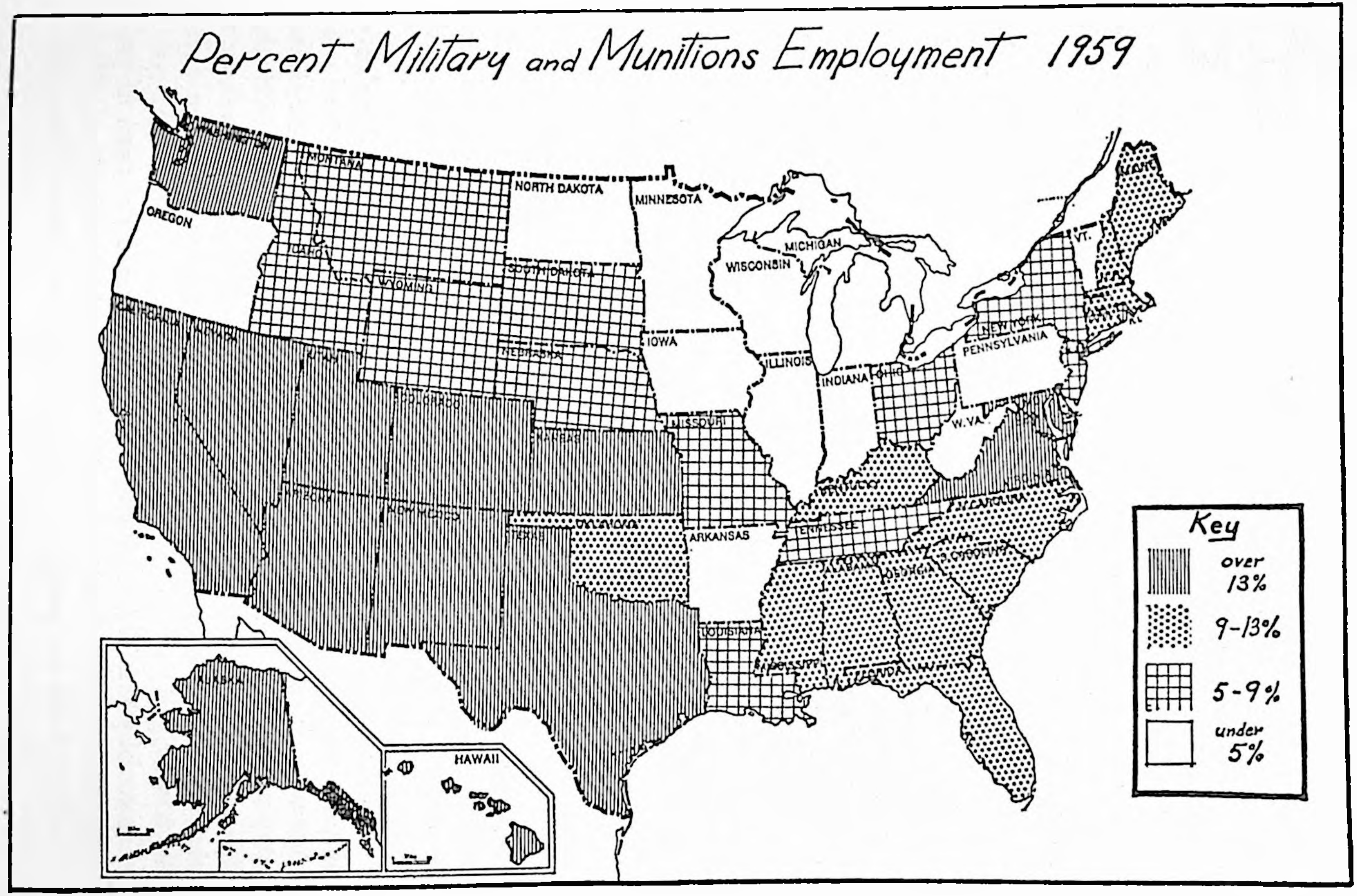
THE REGIONAL PATTERN

The map on the opposite page brings out a pronounced regional pattern of military employment. There is a solid block of states in the southwestern corner of the country, and on the Pacific—or in it, in the case of Hawaii—where military production and armed forces activity are most dense. Each of the states in this area, except for Oregon, is hatched to show over 13% of non-farm employment based on military activities.

Only two states in the eastern half of the country are in the over 13% military employment group, Virginia and Maryland. They are in a special situation, housing the headquarters civilian employees of the Defense Department and Atomic Energy Commission, and the garrisons protecting the nation's capital.

The next group of states, hatched to show military employment of 9% to 13%, consists mainly of most Southeastern and New England states. Various factors contributed to their substantial levels of military employment. New England had been an important munitions center even before World War I, and some of that activity has been maintained or transformed into production of modern successor-items. This was greatly reinforced after World War II, when influential New England capitalists campaigned to replace moribund textile, lumber, and paper industries with military electronics and other munitions enterprises.

Meanwhile other industries followed the runaway textile and paper shops to the low-wage segregated South. Especially after World War II, electrical equipment, chemical, and other companies opening up new plants favored the South. Since munitions figured prominently as a basis for new plant openings during the decade after World War II, a considerable number of aircraft, nuclear weapon, and other military-oriented factories appeared there. In recent years the organization of the country's main missile-rocket


Percent Military and Munitions Employment 1959
OREGON
NORTH DAKOTA
MINNESOTA
WISCONSIN
MICHIGAN
IOWA
ILLINOIS
INDIANA
NEW YORK
PENNSYLVANIA
VT.
W.VA.
ARKANSAS
HAWAII
Key
over 13%
9-13%
5-9%
under 5%

Ellen Perlo

firing range in Florida has led to the establishment of major enterprises in that state and close to it. Martin Marietta, for example, is expanding rapidly in Florida while reducing its Baltimore operation to secondary rank. The South also has the largest troop concentrations, stemming from the traditional use of the area for military training and garrisons. The latest emphasis on anti-guerrilla and jungle war preparation may further enhance the location of troops in the South.

The 5%–9% group includes New York, the largest state in the union, New Jersey, a block of Great Plains and Mountain states in the northwesterly part of the country, and scattered states elsewhere. New York, it should be noted, stands second only to California in the absolute number of people employed for military purposes. It appears below average relatively, only because of the very dense population of the state, and the large amount of central trade, financial, and service activity that goes on in New York City. But in relation to local interests in various parts of the state, the military employment in New York is very important indeed. Assuming that over 300,000 of the 368,000 estimated military-based employment in the state is outside New York City, then the military percentage of total employment outside the city is around 12%, instead of the 6% shown for the state as a whole.

In the Northwestern area, on the other hand, 5%–9% military employment signifies less than in industrialized sections. The 10,000 military-based employment in South Dakota is 7.1% of non-agricultural employment, but is much smaller in relation to the total economic life of this largely agricultural state.

Seven of the twelve unhatched states with less than 5% military employment, shown without hatching, are in a solid block of contiguous states including most of the central industrial area of the country—North Dakota, Minnesota, Iowa, Wisconsin, Illinois, Michigan, and Indiana. Then, separated by Ohio, which barely gets over the 5% mark, come Pennsylvania and West Virginia also without hatching.

Essentially this reflects the shift in the industrial pattern of procurement discussed in Chapter VI. As recently as the Korean War, the Midwestern states were major centers of war production, princi-

pally of ground army equipment and ammunition. The shift to modern air and sea-based means of warfare, and away from the products of the traditional heavy industries, has seriously curtailed the role of this area in military production.

Table 7 shows the regional shift in military procurement, as reported by the Pentagon.

TABLE 7. PERCENTAGE OF MILITARY PRIME CONTRACT AWARDS BY REGION, SELECTED PERIODS

Region	*World War II*	*Korean War*	*Fiscal 1961*
E. North Central	32.4	27.4	11.8
Middle Atlantic	23.6	25.1	19.9
W. North Central	5.6	6.8	5.8
South Central	8.8	6.4	8.2
New England	8.9	8.1	10.5
South Atlantic	7.2	7.6	10.6
Pacific	12.3	17.9	26.9
Mountain	1.2	0.7	5.7
Alaska & Hawaii	—	—	.6
Grand Totals	100.0	100.0	100.0

SOURCE: U.S. Department of Defense, *The Changing Patterns of Defense Procurement*, June 1962, Table II.

ECONOMIC EFFECTS OF REGIONAL DIFFERENCES

What effect do regional differences in military activity have on economic life as a whole? It is characteristic of the times that the most militarized quadrant of the country, the Far West and the Southwest, has also been the region of most rapid growth in population and general economic activity. On the other hand, 11 of the 12 states with less than 5% military employment failed to reach the national average in population growth during the 1950–60 decade. All 12 suffered reductions in their share of the national income.

But further analysis shows that these differences were the result of the *process* of military buildup. Once a certain level is attained, its mere retention is no guarantee of economic growth. In both Washington and California about one-fifth of non-agricultural employment is military-related. But the share of military contracts going to California increased sharply, while that going to Washington de-

creased somewhat, in the years following the end of the Korean War. Partly as a result, economic trends in Washington were comparatively unfavorable, in contrast to those in California. Between 1953 and 1960, per capita personal income (unadjusted for price increases) increased 24.3% in the United States, 26.6% in California, and only 17.6% in Washington.

Michigan and Illinois have about the same rather low percentage of military-based employment. But the decline in military business since 1953 was much more severe in Michigan. Per capita personal income increased only 8.8% in Michigan, as compared with 24.1% in Illinois.

But it would be unwise to exaggerate the impact of military business and its shifts. Other factors often carry more weight. Unfavorable trends in Michigan resulted more from geographical shifts in the automobile industry and the drop in total auto industry employment, than from the loss of armament business. New York, with 6% of its employment based on the military, and a declining share since 1953, enjoyed an increase of 29.9% in per capita income between 1953 and 1960, more than California's gain.[2]

Five states, with 28% of the national population, get 50% of the military prime contracts. Some of these states, but more particularly sections within the states, derive net economic stimulation from militarism. Almost all of the other 45 states are net losers economically from militarism. Most are paying out more in taxes to finance the arms program than they receive through payrolls and profits of munitions firms and pay of the armed forces.

Most concentrated of all is the research and development work. In fiscal 1961, 41.3% of it went to a single state, California, and 57% to a single program, missiles. As the Pentagon points out, research and development points the way to future procurement, and the result suggests that military business as a whole will become still more concentrated in the future.

The number of depressed areas and states grows from cycle to cycle, along with the national level of unemployment, and the number of business bankruptcies and home foreclosures. Attempts to relieve distress in a state or locality by lobbying for a favorable geographical redistribution of military business is essentially a gambler's

approach to the problem. Obviously only a few can win, and that at the expense of their neighbors. Actually, such lobbying, with the Executive as well as the Legislative branch of the Government, has been quite ineffective. With rare and minor exceptions, the Pentagon ignores local or state-wide economic interests in locating its activities and assigning military contracts.

Early in 1961 Michigan's Governor Swainson visited the White House and returned with the boast that he had received assurances of more military contracts to help the state out of its especially deep recession slump. Despite the assurances, Michigan's share of armament contracts was lower in 1961 than in 1960.

Meanwhile, the fluctuations in the location of military production and activity play havoc with local business and especially with labor. For every businessman who makes a killing out of mushrooming munitions output or base construction, a dozen may go bankrupt following the sudden curtailment of such activity, or in the course of prolonged local stagnation in areas remote from munitions production, but drained of purchasing power used to pay for it.

The situation for labor is somewhat worse. Munitions booms provide a means of subsistence for workers, but not, usually, a secure and comfortable life. Workers are drawn by the tens of thousands to places of major military buildup, most recently Cape Canaveral, for example. Jobs are available for some, but not housing or schools. Millions of American workers have existed for long periods in crowded trailer colonies, and paid exorbitant prices for essentials in order to maintain munitions jobs.

Usually the influx of labor exceeds the needs. After a period of intense hirings, employers find they have enough or too many, and gradually shed the excess. Suddenly there are more workers than jobs. Many must resort to lower paying service jobs, and unemployment makes its appearance. Then when activity is shifted to some other base or factory, thousands are left high and dry, with neither jobs, nor resources, nor roots in the community.

As we shall endeavor to show later, the arms program for many years has been, on balance, an economic drag, rather than a stimulus. Within that national average a few areas, with a small minority of the population, have been stimulated, and in some cases grievously

over-stimulated, by fresh concentrations of arms production or military bases or both. Most of the country, paying the piper for this, has lagged more than the average. By virtue of the radical industrial and geographical shifts incurred, the military program has increased the extent of regional and local instability, aggravated inequalities in development, and multiplied the number of depressed areas.

Too often, for too long, owners of giant munitions corporations and Pentagon militarists have been able to manipulate local forces by the lure of economic gains to assist them in the drive for a higher military budget and intensified cold war. It is time for an opposite force to press on Washington from all corners of the land. Economic self-interest, as well as political logic and considerations of survival, should lead local business interests, as well as labor, to exert their influence against militarism and in favor of disarmament.

CHAPTER VIII

Taxes, Militarism and Disarmament

MONEY PAID OUT by the Government for armaments and foreign aid must be raised through taxes, immediately or in the long run. If some people profit from these expenditures, it is at the expense of others. For many individuals, the money simply flows into one pocket and out the other. Here we examine the financial balance of the military and foreign affairs program for capital and labor, and for various segments of these major groups. Then we explore the new financial balance for these segments and groups which might accompany disarmament.

First let us examine the financial balance of militarism for capital.

FINANCIAL BALANCE FOR CAPITAL

Because of the steady shift of the tax burden since World War II, wage and salary workers now pay over half of all Federal budget revenues. In fiscal year 1960, out of $78 billion of net budget receipts (excluding trust funds), $43 billion consisted of taxes generally levied on wage and salary workers (income taxes withheld, excises of all kinds). Only $35 billion consisted of taxes generally levied on propertied individuals and corporations (individual income taxes not withheld, corporation income taxes, estate and gift taxes). That is, about 45% of the total was levied on propertied groups, 55% on the working section of the population. Of gross budget receipts (in-

cluding trust funds) of $97 billion, about $37.5 billion, or 39% were levied on propertied groups.[1]

Despite their success in shifting the tax burden to labor, payers of corporation and upper bracket individual income taxes still resent their remaining payments, and campaign strenuously for further cuts.

To the extent that the groups which profit from military business and foreign investments pay taxes on that account, their profits are offset. In fiscal year 1960, of budget expenditures of $77 billion, major national security and international affairs items accounted for $47 billion, or 61%. In relation to the gross cash outlays of the federal government, these military and foreign affairs items amounted to almost exactly 50%.[2] It is probably more accurate to calculate the effects on a budget basis since the bulk of the trust fund accounts, consisting of social security items, are somewhat insulated from normal political influence as to either revenues or outlays.

On the budget basis then, 61% of the $21.2 billion corporation income tax receipts (after refunds) in fiscal year 1960, could be attributed to military and foreign affairs functions. That makes approximately $13 billion. It exceeds the $11.6 billion presented in Table 2 as the high estimate of corporate profits derived from foreign investment and military business, including allowances for under-reporting. Of the other $13.8 billion of federal budget taxes paid by upper income individuals and business, $8.4 billion can be attributed to military and foreign affairs use. Partly offsetting this are the secondary gains of these individuals from the indirect effects of military and foreign investment business. Some of the types of secondary profits—some realized by corporations, and other by individuals—are dealt with in Chapters III and IV, but no attempt is made at a quantitative estimate.

Here attention is restricted to the $13.0 billion and $11.6 billion, respectively, of *corporate* taxes and profits estimated as related directly to military and foreign affairs expenditures.

How is it that this seemingly unfavorable balance does not lead to a powerful protest of business interests?

The large stockholder does not view outlays to forward the present military and foreign policy exclusively from the viewpoint of the

direct effect on his balance sheet. He may regard an excess of taxes over war profits as a small price to pay for the efforts of the Pentagon and the State Department to preserve "our way of life" from "alien ideologies." In the last analysis, however, these "moral" concepts refer to enormous financial benefits. The cold war atmosphere has facilitated a shift of internal political power from that of the New Deal period, which has paid big businessmen much more in profits from strictly domestic activities, than the *total* tax cost to them of military affairs.

Specifically, it has facilitated a shift of the tax burden, to the advantage of big business interests, which has saved the latter a substantial portion of the cost to them of military outlays. A division of federal budget receipts between taxes on labor and taxes borne by property shows that the latter declined from 54% in fiscal year 1939 to 50% in fiscal 1947 and 45% in fiscal 1960.[3] Applied to the total receipts of fiscal year 1960, the shift in sources since 1939 saved the propertied groups $7 billion, and the shift since 1947 saved them $4 billion. Comparing these figures with the total of taxes paid by corporations and upper income individuals in fiscal 1960, $22 billion, the shift in the tax burden since 1939 has saved them one-fourth of what a similar outlay would have cost with the 1939 distribution of revenue sources.

Nor are these savings wholly imaginary. In the absence of high military outlays, undoubtedly the Federal Government would have been required, by economic and political pressures, to have spent large amounts for non-military purposes, in a pattern more or less like that developed during the New Deal period.

Without the political environment of the cold war, it is doubtful whether big business interests could have obtained the legislation from Congress and the changes in administration by the Treasury which combined to bring about the marked shift in the tax burden.

Less measurable has been the impact in other areas of domestic policy. The cold war has stopped, and in some ways reversed, the reform trend of the New Deal period. It has led to a curtailment in the influence of labor in national affairs, and an increase in the grip of business on the Government and its freedom of action within the Goverment. It has been used to impose conformity to capitalist ide-

ology, on pain of severe economic sanctions and possible imprisonment. Doubtless these attributes of militarism have considerably increased the share of the national income going to the wealthy—a trend in that direction since 1949 is conceded even by those who claim a long-term tendency towards equalization.

The evaluation of these "benefits" by the wealthy will vary according to subjective factors. The question of taxes, however, remains definite and measurable. Even allowing for post-war savings in business taxes, the total paid by all corporations and propertied individuals on account of the military budget still exceeds the profits attributable to militarism and foreign investments.

But, as we have seen, the distribution of the profits of militarism is most uneven. They are highly concentrated among a comparative handful of large corporations, and a comparative handful of wealthy families holding the major blocks of shares in these corporations and able to derive various forms of hidden and indirect profits from their positions of control. Owners of a substantial proportion of the corporate giants definitely gain much more from militarism than its tax cost to them.

On the other hand, most small businesses, and even medium-sized enterprises, are in fields largely excluded from military and foreign investment profits—light industry, trade and service activity. The majority of the lesser propertied interests are paying more in taxes for militarism than they are getting out of it. The major exceptions to this generalization are the local businessmen in areas dominated by military bases or war plants, who often owe their very existence as capitalists to the opportunities arising from these militaristic activities.

FINANCIAL BALANCE FOR LABOR

The financial balance of militarism for labor appears at first sight to be favorable. Of the fiscal 1960 total federal taxes of $43 billion paid by workers, directly and indirectly, $26.2 billion was for military use, applying the same ratio of 61% of budget outlays for these purposes that we did for business taxes. But the 1959 wage and salary income resulting from military activities amounted to $32.7

billion, consisting of $15.7 billion in wages and salaries of munitions workers and workers of factories supplying munitions factories, $11.8 billion in pay of the armed forces, and $5.2 billion in pay to civilian employees of the Defense Department.

Thus, there was an excess of receipts over tax payments of $6.5 billion. However, even a superficial correction eliminates it, namely adjusting for the $7 billion shift in the tax burden onto labor during the existence of militarized economy. If similar government expenditures were made for New Deal type activities, the labor income derived therefrom would, in all likelihood, be considerably more than that derived from the military budget, while the tax cost would, probably, be considerably less. In addition, labor would derive real benefits from the services that would flow from many government civilian expenditures—for education, health, housing, and many other purposes. No social benefits flow from the military outlays.

A more fundamental balance involving workers requires placing their labor in the scale. Then on one balance is the $33 billion of wages and salaries paid out on account of the military program. On the other balance is the $26 billion of taxes paid by labor for military use, *plus the labor of 6.5 million workers.*

This really basic calculation shows 6.5 million workers supplying their labor for a net financial return of $6.5 billion, or something like $1,000 per worker per year. Of course no worker in the United States with any bargaining power would take work on these terms. But American labor collectively has done so, although unconsciously. The frequent calls for sacrifice on behalf of the defense effort made by business and government leaders are indeed heeded, although the makers of sacrificial offerings may not be aware of it. The sacrifice, in most fundamental economic terms, represents the free labor of over five million workers, since the compensation paid the 6.5 million, net of taxes paid by labor for military use, is less than the normal pay for 1.5 million workers.

Labor renders this sacrifice not out of naivete but because of the influence and power of major union leaders. For fifteen years they have acted as cold war propagandists politically, and have cultivated

among the membership the myth that military employment is a great and indispensable benefit.

As with business, the distribution of burdens and benefits among workers is very uneven. The workers in munitions factories, who often receive above average pay, are taxed no more, per dollar, than workers anywhere else. For many of them the military program appears to be a considerable boon, despite some obvious drawbacks usually associated with work in armament factories in the United States—crowded living conditions, security restrictions, anti-union pressures, special risk in time of war. The advantage appears most sharply in a negative sense—in the fear of losing the present job and finding no civilian substitute—should there be disarmament or an adverse shift in the pattern of procurement. But advantage it is, in the usual scale of reckoning in the United States. The same is true for a portion of the workers employed directly by the Defense Department—although not for many of the service workers, often Negroes, employed by the Defense Department as by private employers under discriminatory conditions and at very low pay. For members of the armed forces a similar arithmetic cannot be applied. The majority are draftees and men who volunteer to anticipate the draft, forced against their desire to sacrifice two years of their lives in return for what is in essence a glorified subsistence allowance—glorified in that it exceeds the historical norms for armies, and permits freer spending on time off—but still subsistence in that it is not part of the average serviceman's way of life, and merely postpones his establishment as a worker and family man with a home of his own. For the careeer officers and sergeants, needless to say, these considerations do not apply, and the militarized economy appears as a boon.

In total, then, to something like 3.5 million wage and salary workers—including munitions workers, most civilian Defense Department workers, and officers—the militarized economy provides net financial benefits according to the standards conventional in this society.

But for 50 million workers, over 90% of the total, the militarized economy is all cost and no source of income whatsoever. The $26 billion of taxes estimated as being paid by workers for military use

amounted to almost exactly 10% of the total wages and salaries paid in the country in 1959. It is scarcely an exaggeration to say that this represents a reduction of 10% from the living standards that American workers would otherwise enjoy.

BALANCE FOR GIANT CORPORATIONS

Besides the general differentiation between big and little business in the profits and losses from a militarized economy, there are significant particular differences between individual companies and groups of giant corporations.

How much military and foreign investment business is necessary for a given corporation to make a net profit out of it, over and above its particular tax cost on behalf of the military budget? The general large corporation income tax rate has been 52%. Since 61% of Federal budget revenues went for military and related purposes in 1959–60, the 52% may be distributed accordingly—31% for military and 21% for civilian purposes.

As a first approximation, therefore, if a company receives 31% of its profits from armaments and foreign investments, it is "breaking even"—paying "cold war" taxes exactly equal to its profits from that source. But the situation is much more complicated, and here these complications will be pursued part of the way, without attempting to present the final answer to a question which involves much more than arithmetic.

To determine how a corporation fares with the military program, one must ask about its comparative position under alternative governmental programs. In particular, what would be its situation if general and complete disarmament, that dream of hundreds of millions of people, were realized? To calculate this in the simplest way, assume on the expenditure side that of the $47 billion for military and international affairs in fiscal 1960, only $5 billion allocated to a constructive foreign aid program remained, with no allowance for added Federal spending for domestic purposes. Then Federal budget spending would be cut by $42 billion, or 54.5%. Assuming that all taxes would be reduced by the same proportion, the corporate tax rate would be cut from 52% to 24%, bringing corporations a tax

saving, on that year's reported profits, of $11.4 billion. While military production profits would vanish, foreign investment profits would not, especially if substantial foreign aid spending won certain concessions for U.S. firms.

Assume, for the sake of argument, that one-half of the foreign investment profits would be retained. Then, of the $11,642 million maximum estimate of corporate profits from military and foreign business, there would remain only $3,106 million. The loss in profits, about $8.5 billion, would still be several billion dollars less than the tax savings. If, on the other hand, the loss of *all* foreign investment profits is assumed, the combined losses would just about wipe out the tax savings.

Proceeding with this latter, extreme, assumption, how does the balance work out for an individual corporation with a given percentage of dependence on military and foreign business? Obviously, for a corporation *all* of whose profits come from these sources the losses will far outweigh the gains. Similarly, for a corporation, none of whose profits come from these sources, the gains will be undiminished. The more a corporation is involved in military and foreign activity, the greater the relative losses, and the less the relative gains. What is the "breakeven point," at which tax gains balance profit losses under the given assumptions? Calculations in Table 8 show that this breakeven point is 37%.

TABLE 8. BREAKEVEN POINT OF HYPOTHETICAL CORPORATION FROM EFFECTS OF DISARMAMENT

(*millions of dollars*)

Item	*Before Disarmament*	*After Disarmament*
Domestic civilian profits	63	63
Military and foreign profits	37	10
Total profits	100	63
Tax	52	15*
Profit after tax	48	48

* Calculated at 24% rate, as indicated in text.

A corporation now deriving 37% of its profits from military and foreign investment business would break even from the offsetting profit and tax effects. A corporation now getting more than 37% of its profits from these sources would lose more in profits than it

would save in taxes. A corporation now getting less than 37% of its profits from these sources would lose less in profits than it would save in taxes. It would be a net gainer from disarmament. A corporation wholly involved in domestic civilian business would raise its after-tax profits—in an example like that shown in Table 8, from $48 million to $76 million, or by 58%.

If the world exactly coincided with these assumptions, and they described the totality of factors, one might expect owners of corporations more heavily involved than 37% in foreign and military business to oppose disarmament; while those with a lesser involvement would less vigorously oppose disarmament or favor it. As will be shown in Chapters X and XI, there is a *tendency* toward such a differentiation. But the correlation is far from exact, because the real world is very much more complicated than this hypothetical example. There follows consideration of some of the variations from it.

CHANGING THE ASSUMPTIONS

The assumptions cited above could be changed in many ways. Here attention is limited to two elements of variation, perhaps the most important.

First, vary from the extreme assumption of the elimination of foreign investment profits. Consider a company with only foreign investment business, and no military business, in order to simplify the calculation. If half of the foreign investment profits will be retained, the breakeven point is raised to 74%, which is exactly twice the breakeven point under the original assumption. That is, any company now deriving less than 74% of its profits from foreign investments, and none from armaments, would realize a larger after-tax net income with disarmament than with the cold war economy. *Under such a favorable assumption, almost all corporations having substantial foreign investments, but little or no military business, would anticipate significant gains from disarmament.* Even if only one-fourth of existing foreign investment profits will be retained, the breakeven point would be raised to 49%. This assumption also works out favorably for most non-petroleum foreign investing companies without major military business.

Obviously, reasonable anticipations in this respect will vary with the character and location of the investments.

A company like General Motors, manufacturing automobiles in England, West Germany, Canada and Australia, might very well expect to retain all of its main foreign properties for a considerable period, although the terms of their operation might be worsened in some countries with the withdrawal of U.S. military power.

On the other hand, the international oil companies, with their largest and most crucial investments in crude oil in Asian, African, and Latin American countries, would certainly anticipate severe losses. Offsetting possible continued foreign investment profits, one must consider the danger of the confiscation and complete loss of foreign investments. While a paper capital loss is of less importance than a loss in continuing profits, it certainly cannot be ignored.

Next, we will take variations in the tax effect resulting from some corporations now paying less than 52%. This mainly applies to the oil companies. Currently the large international oil companies pay very little in United States income tax, owing to the special tax provisions which favor them. This also means that they will derive very little offsetting tax relief from disarmament. They do pay substantial taxes to foreign governments, despite which their foreign profits after taxes are relatively higher.

The international companies do not segregate their U.S. taxes. Standard Oil of Indiana, the largest, mainly domestic oil company, paid an income tax of only 13% on its reported profits before taxes in 1959. Humble Oil and Refining, the principal domestic subsidiary of Standard Oil (N.J.), reported only 9% income taxes on profits in 1957.

A pro-rata share in the tax cut which might be anticipated from disarmament would cut the effective tax rate on an oil company from 13% to 6%. Over half of this gain would be offset by the loss, to the typical large company, of perhaps 4% of its profits from the cutting off of military business. Assuming 50% retention of foreign investment profits, the corresponding "breakeven" point would be only 7%. That is, any oil company now getting more than 7% of its profits from foreign investments would expect to lose, on balance, from disarmament. For companies like the big five,

which realize half or more of their profits from foreign investments, the prospective losses might appear little short of catastrophic and the offsetting tax reductions trivial.

Finally, consideration must be given to a general reduction of the corporate tax rate while the militarized economy continues, a likely outcome at this time. In that event, the financial balance of militarism will be more favorable to big business generally, and disarmament would bring about a reduction of net profits for companies less dependent on militarism than is now the case.

OTHER FACTORS

Of course, businessmen will consider much more than this calculation in determining their attitude towards disarmament.

In the first place, such simple arithmetic must be modified by discounting the factor of time and uncertainty. The armament contractor has that business today. He may consider tax reduction on the scale suggested herein as a likely accompaniment of disarmament, but one that is subject to the uncertainty of all politically-influenced determinations. Furthermore, if past demobilization experience is any guide, the loss of business from disarmament will be more immediate than the tax saving, although in the cases of both World War II and the Korean War corporate tax savings came quite promptly. However, the time calculation might swing in the other direction for a company with heavy foreign investment interests. The reduction in taxes might be expected within a year or two, while the threat to foreign investment profits might not develop for a much longer period, if at all.

Again, one must consider the possibilities of alternative government programs, and their tax cost. For example, certainly a portion of the funds now being spent for military purposes will be spent for various types of public works and/or welfare projects. Significantly, even the U.S. Chamber of Commerce, which opposes such spending, assumes that of a $20 billion disarmament saving, $3 billion would go for increased civilian government spending, owing to the public pressure for it.

To the extent that such added spending is for roads, schools,

river control projects, loans for development of underdeveloped countries, etc.,* there will be a new balance to be struck:

1. On the one hand, the tax saving will be correspondingly less; and

2. On the other hand, corporations will profit from the civilian spending, to a degree varying with their products and the character of the spending.

For example, among the largest industrials, General Motors has actively lobbied for more federal highway expenditures, presumably with a view to increasing the country's capacity for cars. General Electric and Westinghouse might expect to profit from power development projects in underdeveloped areas, obtaining orders for generators, turbines, etc.

U.S. Steel might anticipate more orders for civilian structural steel on added government projects than it now gets for steel for military construction and other military work; but Bethlehem would hardly expect to get enough to compensate for the loss of military shipbuilding contracts.

Companies like International Harvester and National Dairy Products might benefit from special types of alternative programs, tailored to create markets for farm equipment, in the one case, and to provide for government purchase of packaged foods, in the other.

By and large, among the top 25 corporations, one doubts whether the prospect of large government civilian business in place of armaments is particularly alluring at this point.

However, the situation may be different for the large construction contracting companies, makers of construction equipment and building materials, none of whom are among the very largest corporations. Today military business is not decisive for most large contracting firms. But construction work would probably account for a large percentage of the added civilian moneys spent with the reduction in military outlays. Hence most firms connected with the construction industry should find the switch profitable.

* In our calculations, we allowed for $5 billion continued foreign aid in estimating taxes, but omitted resultant profits.

CORPORATE GIANTS AND THE BREAKEVEN POINT

How do the 25 super-giants of American industry stand in relation to the 37% "breakeven point" calculated in our basic model? As a group their combined profits from foreign and military sources just exceeded 40% of the total, on an officially reported basis, and could be regarded as somewhere between 40% and 50% of the total, allowing for unreported profits. A similar situation prevailed for the sample of lesser giants, also among the top 500.

Thus the economics of militarism, crudely calculated, is positive and profitable for big business as a whole. But what about the individual companies? Of the 25 largest, 13 reported profits from military and foreign investment business exceeding the calculated "breakeven" point of 37%, 12 reported profits below that figure. Of the 30 corporations among the lesser giants, 12 were above the 37% breakeven point, 18 below it.

Examining the 25 largest companies one by one, the position of the airplane companies, with 100% of their profits from military business, requires no comment. That of the giant international oil companies is almost as clear, with 50% to 71% of their profits coming from foreign investments, mainly in politically sensitive areas. When this is matched against the extremely small percentage of taxes they are required to pay toward the military effort, which boosts their investments, the net advantage is seen to be very great.

Heavily militarized General Electric and RCA are above the "breakeven point," but Westinghouse is somewhat below it. As a first approximation, the first two might lose ground from disarmament, the third gain; but for all three, the margin one way or another is not so decisive that more complex considerations, going beyond this arithmetic, might not change the balance.

Except for Union Carbide, just above the breakeven point, the steel and chemical companies on the top 25 list definitely fall below the breakeven point, and might actually do better in a demilitarized economy. The net disadvantages of militarism are rather evident for most of the consumers goods giants, whether it be autos or food. General Motors, for example, shows 23% of its profits from foreign

and military sources, including 19% from foreign investments and only 4% from munitions. Not only is the 23% well below the tax cost to the corporation of the military budget, but it could expect to retain a substantial portion, if not the bulk, of its foreign investment profits in the event of disarmament. Much the same argument applies to National Dairy Products Corp., with 19% of its profits from military and foreign sources, including 16% from the latter.

To generalize, the giants of industry are more or less evenly divided between those now receiving a net balance of profit over taxes from foreign and military business, and those losing out according to this arithmetic. How does this jibe with the observable fact that big business opinion varies between enthusiastic support for and tolerant acceptance of a huge armament program, with none of the strenuous opposition which big business usually demonstrates towards government programs which cost it money?

The main answer lies in the political advantages, described above, which big business has gained through militarization and the cold war. But under certain conditions, with alternative economic advantages accessible with disarmament and a relaxed international atmosphere, more owners of corporate giants, especially those less involved in military profiteering, might be more tolerant of disarmament and might even help bring it about.

Some of these alternative advantages are considered in the next chapter.

CHAPTER IX

Economic Problems of Militarism and Disarmament

THE RELATIONSHIP between taxes and the military budget is direct and measurable, even for the private individual or concern. The garrison state affects other problems in indirect ways that are less obvious, but may be comparable in ultimate impact to the tax question. This chapter is devoted to four of these problems, and to a correlative discussion of the economic opportunities of disarmament.

THE BALANCE OF PAYMENTS

The military umbrella covering the foreign investments of U.S. corporations has a national cost in addition to taxes, one which has become conspicuous only in the last five years. That is the drain on the United States balance of payments.

A portion of the military and foreign affairs budget must be expended outside the United States, appearing as an import of goods and services in the balance of payments. Within the bounds of given military-political objectives, such expenditures are subject to only limited variation. So long as extensive overseas activities are carried on, there must be extensive overseas expenditures.

In recent years, the balance of payments cost of U.S. overseas military bases and activities has exceeded $3 billion per annum.

One to two billion of foreign aid spending, not being returned to pay for U.S. goods and services, adds to the cost. There is also spending for the rapidly expanding diplomatic activities of the United States and for CIA operations, reputedly as much as $1 billion yearly. Additional funds flow out as government and private investments in international institutions, many of which operate within the U.S. foreign policy framework.

Altogether, then, the balance of payment cost of overseas government activities, military and otherwise, exceeds $5 billion annually, and may approach $7 billion.*

This sum must either be compensated by a favorable balance in ordinary goods, services, and capital transactions, or paid off in gold. The problem was screened for many years by special factors. In the period immediately after World War II, the position of the United States as a sole supplier of many items in a war-torn world resulted in a more than ample trade balance, one unprecedented in history for a period of so many years. But as the rest of the world recovered, the balance on ordinary trade and service returned to the normal, moderately favorable one which had been typical of the United States as the world's leading industrial power before World War II.

Another offset was the massive movement of short-term capital to the United States. Private funds sought a safe political and financial haven from many parts of a world in ferment, and central bank balances were built up in the vaults of the established financial leader of world capitalism. This too came to an end, and was in fact reversed, when the basic imbalance in U.S. accounts became apparent. The day of reckoning was held off, finally, by extraordinary exports in 1956–57 resulting from the Suez Canal closure and boom-created shortages in Western Europe.

Then there were no more screening factors, and the negative balance of payments became visible to the entire world. In 1958–60

* Often new long-term private investments abroad, exceeding two billion dollars yearly, are added to the non-trade deficit. However, in fact, income received on existing long-term foreign investments exceeds the fresh flow of funds, so there is no net drain on this account.

there was an average annual deficit of $4 billion, climaxed by a run on the dollar in the fall and winter of 1960–61.

While this was contained, it contributed substantially to a loss of gold during the three years of about $5.5 billion, and to the uncomfortable build-up of unstable foreign balances in the United States. The long-term imbalance of our foreign payments became evident, as did the danger of a forced devaluation of the currency.

When this problem first came to public and official attention, in the second half of 1959, it was not usually linked with foreign military and foreign policy spending. Instead, it was blamed on the failure to retain previous extremely favorable civilian trade and service balances. Those who pointed to the true cause did so timidly and largely privately, and were silenced by the more powerful voices who regarded foreign bases and foreign aid as sacrosanct and not subject to fundamental criticism.

But one year later, when the situation became too serious to be handled by wishful remedies, it finally was asserted publicly by the Treasury, and supported by the same bankers who said otherwise a year earlier, that the main problem was in the balance of payment cost of foreign military activities and foreign aid. Measures were undertaken to reduce such costs, measures of limited scope which helped to end the immediate speculative threat but did not promise an adequate basic correction.

It is at this point that a real difference in viewpoint became apparent within leading financial and industrial circles. On the one hand, there were those who would be willing to actually cut the *volume* of foreign military activities, if this proved necessary sufficiently to cut balance of payment costs. On the other hand, there were those who regarded the full maintenance of such activities as the very cornerstone of U.S. foreign policy, with balance of payments problems as subsidiary. Leading among the former was outgoing Treasury Secretary Anderson. Prominent among the latter were the military, and incoming Secretary of the Treasury Dillon.

As the crisis developed there appeared increasing support for Anderson from some leading Wall Street banks. This relates to the differential impact of the balance of payments situation.

Banking interests, above all, have an interest in the maintenance

of the value of the dollar. This applies to banks in general, since their assets are in dollars or dollar securities and would be reduced in real value with a devaluation. It applies particularly to the leading Wall Street international banks, a substantial portion of whose activities and power derive from their position as the financial institutions of the richest country in the world, located in its financial capital. Should the position of the dollar be undermined, their role would be threatened and at least partly bitten off by rival institutions in West Germany, Switzerland, and elsewhere.

On the other hand, owners of corporations with major foreign investments that might be threatened with a reduction in the power of U.S. foreign policy, represented by foreign bases and foreign aid, would tend to give priority to the retention at all costs of these instruments of power. They would strive to limit economies to what could be accomplished without curtailing the structure.

Finally, another element began to appear—the industrial corporations which would welcome, or not oppose, devaluation, to improve their competitive position on world and U.S. markets, and to lower real labor costs in the United States. Such, for example, was the case with Ford Motors, whose financial director as early as February 1960 urged devaluation as necessary to cut costs; and which conspicuously moved during the November 1960 crisis to spend $350 million buying out minority British holders of its subsidiary in England, undercutting many dollar-saving actions of the U.S. Government.

As with so many other factors, most major big business groupings have important interests on both sides of this question. The big Wall Street banks are connected with corporations having huge foreign investments and relying on U.S. foreign policy to promote them, and maintain profitable foreign branches which service U.S.-owned overseas industrial enterprises.

This duality of interest may account for the lack of clarity in the line-up of forces, and the tendency to pose the issue not in terms of a choice of alternatives, but in terms of a generally supported series of half measures—which seek to reduce foreign military and foreign aid balance payments costs without cutting the real content of these activities.

Resolution of the issue by the Kennedy Administration was clearly on the side of the Pentagon. Foreign military dispositions were significantly increased, as was military-economic aid to unpopular dependent regimes in underdeveloped countries. But much stronger measures were taken to obtain offsets to the financial cost of these activities. The West German Government agreed to buy more armaments from the United States, partly offsetting the foreign exchange cost of increasing the number of American troops in West Germany. Regulations were shifted to sharply restrict the use of foreign aid funds for the purchase of goods overseas, and the requirement for 50% use of American flag vessels on such shipments was tightened. These and other expedients apparently just about balanced the cost of Mr. Kennedy's increased foreign interventionism.

The balance of payments deficit was temporarily reduced in the first half of 1961 because the United States recession cut the import of goods. But with the recovery in the second half of the year the deficit immediately returned to an annual rate of over $3 billion. Almost another billion of gold was lost in 1961.

Another line of defense developed was the organization of joint action by the central banks of the major Western powers to support the weaker NATO currencies—recently the dollar and the pound —against speculative attacks. This arrangement, and proposals to increase the reserves and scale of activity of the International Monetary Fund, promise more time for adjustment to the United States.

But they are no substitute for a solution. Neither the United States nor any other country can permanently sustain a deficit of billions yearly in its international accounts. No amount of support from friendly governments will prevent an ultimate financial crisis, which would result in devaluation of the dollar, and a long-run weakening of the financial and economic role of the United States in world affairs.

Devaluation would have adverse consequences beyond lowering Wall Street's international prestige. It would also tend to raise living costs and reduce living standards for the majority of the population.

The cost of being world policeman—for the preservation of capitalism and U.S. foreign investments, for the containment and ultimate attack on socialism—is rising all the time, and has grown beyond the financial capacity of even such a wealthy country as the United States.

Disarmament, and the accompanying political settlements, would solve the U.S. balance of payments problem. It would also provide financial reserves which the United States could utilize to participate in constructive foreign aid, designed to carry out serious economic development in underdeveloped countries. Such intentions have been announced frequently, as under the Point Four and Alliance for Progress programs, but inevitably they have bogged down in hopeless conflict with the reactionary political and social forces which are the main props of the cold war policy both in the underdeveloped countries and at home. Disarmament could facilitate a change in the internal political balance which would permit the execution of aid programs more in accord with proclaimed progressive objectives. This would be beneficial to some sections of American business, and to American workers obtaining employment through this aid.

EAST-WEST TRADE

The elaborate network of American administrative and legislative restrictions, which have virtually eliminated U.S. trade with the socialist bloc, have been the longest-lasting major trade restrictions, at least since the prolonged British-French conflicts at the time of Napoleon; and certainly the most massive set of restrictions in all history.

This is also definitely related to disarmament, since any substantial degree of disarmament would almost certainly be accompanied by the substantial easing of these restrictions; while their retention, at least in part, seems likely so long as the present arms race between the United States and the Soviet Union continues.

Business attitudes were subject, throughout this period, to conflicting material pressures in relation to this issue. So long as other capitalist countries could be persuaded or pressured into joining in the restrictions, extra profits could be made by a variety of U.S.

interests—by U.S. processors able to push down the price of raw materials which came into surplus because of being kept from a potentially large socialist market; and by U.S. suppliers able to charge extra-high prices because of the insulation of capitalist markets from socialist competition. At all times added profits were made by military contractors whose business was promoted in an atmosphere chilled further by the absence of normal commercial relations with the supposed potential antagonist.

On the other hand, obviously important markets were being lost. The balance of interests was never too one-sided. Whenever the actual views of leading business officials appeared, it became clear that a substantial proportion of corporate America favored ending or modifying the trade restrictions; but this position was held sotto-voce, and not fought for. Those favoring the restrictions always maintained the upper hand in official Washington.

The embargo policy reached its peak of effectiveness during the Korean War period. Then the participation of other capitalist countries reached its maximum, while the loss of trade was felt least owing to the high level of other economic activity, pressing capacity in most lines, in the United States.

Since that time, however, its effectiveness has steadily diminished. By now, the only countries cooperating to any significant extent with the United States are a handful of completely controlled countries, of secondary importance economically. All major developed capitalist countries are trading with the socialist bloc on a rapidly rising scale, and with lessening qualitative restrictions. The same applies to more and more underdeveloped countries. U.S. business interests are in danger of finding themselves isolated in many world markets because of the policy. Perhaps the most striking example was the defiance of Washington by Canada, offering to supply Cuba with key machinery commodities denied by the United States.

At the same time, the trade with the socialist countries must appear more attractive to many business interests in the face of slack markets and rising idle capacity. This is also related to the balance of payments problem, since U.S. balance of payments deficits would certainly be eased by East-West trade, as earlier British

difficulties were eased by expanding sales to the USSR and China.

Having multiplied three times in eight years, East-West trade amounted to about $10 billion in 1961. The United States is the capitalist country which has the most advantageous position for trading with socialist countries, in terms of the scale and character of products it makes and the needs of these countries for carrying out their ambitious development programs.

There is no question that the United States can rapidly build up a trade in the billions of dollars with socialist countries, whenever the government decides to do so. Obviously this would bring substantial profits to manufacturing and shipping firms and employment to workers. Certainly adjustments would be required to allow for the offsetting imports, but these adjustments would be no more severe than those required whenever we increase our trade in any direction. In fact, they would be easier because the centralized control of foreign trade in the socialist countries permits them to agree on schedules of goods shipments which fit in best with the logical requirements of their trading partners.

The U.N. report on the economic and social consequences of disarmament, mentioned in Chapter I, stresses the opportunities for East-West trade. Despite the rise in this trade during the past decade, it "is still low in comparison with the share of these [the socialist] economies in world output and with the levels that could be achieved under favourable conditions in the future. The centrally planned economies are expanding rapidly and form a growing market, particularly for durable producers' goods and raw materials. At the same time, they are capable of serving as a source of supply to the rest of the world for certain primary products and manufactures."[1]

A lessening of international tensions, the authors believe, would help materially to remove the obstacles to the potential expansion. U.S. official sources spread the theory that even with the political obstacles removed, the United States would have little role in East-West trade, because of economic and administrative difficulties. For example, the reply of the U.S. Government to the United Nations on the economic and social consequences of disarmament said that even with disarmament little could be expected of East-West

trade because of the "autarchic economic policies of the Soviet bloc"![2] Since the socialist countries are conspicuously opposed to autarchy and do not practice it, this argument must be regarded as a subterfuge advanced by political opponents of East-West trade and the accompanying easing of international tensions.

Actually, American technique and equipment, traditionally, have been the favorites in the Soviet Union, and socialist spokesmen not too long ago made clear their readiness to grant the United States a high place in their trading plans. The trade of Western Europe with the socialist countries by 1961 exceeded $5 billion. The United States, with an industrial capacity still exceeding that of Western Europe, could build up at least as large a trade with the socialist world, if it were so minded.

East-West trade is one of the big advantages that would flow to the United States from disarmament without any Government outlays. It would therefore represent a net gain to the economy.

MILITARISM AND THE BUSINESS CYCLE

It is increasingly clear to economists and non-professionals alike that militarism does not cure the business cycle. Short cycles have occured at narrowing intervals during the cold war, nor is there any guaranty against major crises while it lasts. Historically, the great economic stimuli of major wars have ultimately been compensated by correspondingly prolonged and severe economic crises and depressions. The factors of stimulation in the cold war economy which had the most effect have lost much of their force; while the preconditions of a severe overproduction crisis are accumulating not only in the United States but throughout the capitalist world.

However, the propaganda that militarism offers protection against depression is widely disseminated by financial journalists and cold war economists. For example, Hitch and McKean, the economists mentioned in Chapter I, write:

> When government spends such an amount for national security (or for anything else), it tends to buoy up total spending. The existence of this demand makes a deficiency of total demand less probable. Moreover it facilitates the application of other antideflationary measures, like the in-

jection of additional money into the economy. . . . the defense effort is a component of total demand that will not melt away even if people decide to reduce their personal spending. . . . We do not have defense programs in order to avoid unemployment (or to have inflation). Nevertheless, given the existing situation, a large security budget is an antideflationary force. This is one of the indirect effects that should be recognized.[3]

Probably businessmen, and the general public, are more impressed with this kind of reasoning than with the as yet untested thesis that disarmament could bring great business benefits. The Eisenhower Administration twice utilized temporary accelerations of armament orders as a means of combatting recessions, indeed as its prime activity in this respect. It was successful in 1958; unsuccessful in 1960.

In 1961 the Kennedy Administration made armament spending its main balancer of the economy more conspicuously, and started what it suggested would be a course of regularly increasing the military budget. Undoubtedly its actions helped stimulate the economic recovery of 1961, but at the cost of a big budget deficit; increased international tension; disruption in the lives of hundreds of thousands of people called to the armed forces—in a word, through the most serious step towards a complete garrison state since the Korean War. Even so, there was every sign that the economic benefit was temporary and one-sided—there was very little relief in the scale of unemployment—and there was no guarantee that the next recession might not be speedier in occurrence and more severe in consequences than its predecessors.

In the background of many people's thinking, including both militarists and peace supporters, is the fear that disarmament would bring on a major depression. Sometimes strongly expressed, sometimes muted, it seriously conditions attitudes on this question. In fact, these fears are wholly groundless. Disarmament would bring opportunities rather than dangers.

LONG-TERM GROWTH

Since the end of the Korean War the industrial production index, and the real gross national product, as officially reported, have increased at an annual rate of about 2.5% per year. When adjusted

for population increases, the growth is only about 1% per year. Moreover, an entire series of basic industries are wholly stagnant or declining in long-term trend—coal, steel, automobiles, lumber, textiles, railroads, mining, household appliances. Others increase only in rough proportion to the population—gasoline and food products are examples. Growth in production has been concentrated in a comparatively few areas, notably in chemicals, electric power, and munitions.

The growth rate of the United States is slower than that of any other major country, except the United Kingdom. The United States is losing ground economically not only to the USSR and its allies—a matter of frequently expressed public concern—but also to most other capitalist countries. The losses are not only in comparative production but—what hurts most—in world markets. And the main gainers at the expense of the United States are West Germany and Japan, the principal rivals of the United States before World War II and now the principal allies in Europe and Asia respectively, but more formidable than ever in economic competition.

Most American business and political leaders agree on the desirability of increasing the economic growth rate. President Kennedy, for example, has set a goal of 4.5% per year, while New York's Governor Rockefeller calls for 5%–6% per year. Both regard increasing government expenditures, heavily weighted with rising military outlays, as a decisive factor in achieving accelerated growth.

However, the basis for that belief is flimsy indeed. True, most United States growth during the past thirty years occurred during wartime. But wartime and a peacetime garrison state are not the same. During World War II military outlays jumped from zero to 40% of the national income, providing an enormous stimulus and one which had lasting effects on the size and structure of the economy. However, a large part of the ultimate gain of the United States from World War II was *not* from the military spending as such but from the destruction inflicted on other countries, which left the United States with a virtual monopoly on world markets for many years to come.

The Korean War was the excuse for a tripling of military outlays and brought about another burst of economic growth, but one

that was shortlived and as limited in scope as the war itself. Even before the Korean War ended, its economic stimulus had clearly come to an end. And it brought about inflated prices, and overcapacity which has hampered future growth.

The subsequent economic stagnation has occurred in an environment of gradually increasing military spending. The accelerated increase long advocated by Mr. Rockefeller and others, and being put into practice by Mr. Kennedy, may for a period result in some production rise in excess of the actual increase in armaments outlays. But the stimulus cannot even be compared with the limited war stimulus of the Korean War period. And it is likely to aggravate the worsening of the U.S. position on world markets, and to that extent have a negative impact on economic growth.

The fact cannot be overlooked that those capitalist countries with smaller relative military expenditures have achieved a faster economic growth during the past decade. While other causes contribute to this result, the evidence is strong that restoration of a more substantial growth rate requires finding an alternative to the cold war economy, not its intensification.

Indeed, the positive benefits that could accrue with disarmament, discussed in the previous section, are of a character to stimulate the growth rate. Most works presenting economic programs for disarmament have emphasized this point, including the semi-official group of leading economists from the United States, the Soviet Union and other countries which met in Kiel, West Germany, in March 1961.[4] The fact of the matter is that the vast increase in provision of benefits and needs to the people, projected in connection with disarmament, must be the objective of economic growth, if it is to have lasting value. At the same time, the accomplishment of such advances, by significantly increasing the purchasing power of the civilian community, provides the basis for an all-around expansion in economic activity and industrial capacity.

OPPORTUNITIES OF DISARMAMENT

In late 1959, when international tensions temporarily eased, the U.S. Chamber of Commerce stressed its view of the positive eco-

nomic influence of disarmament. More and more business and labor leaders, and on occasion government officials, have expressed similar opinions.

The 1962 report of the United Nations on disarmament economics was a major milestone in spelling out the big advantages that might accrue to all countries with disarmament.

"Member countries are pledged under the United Nations Charter to maintain full employment."[5] The international group of experts proceeds on the assumption that member countries will live up to this commitment in organizing the economic side of disarmament. This reminder is especially required in the United States, where the Government has consistently failed to carry out this pledge, as well as the less explicit commitment in the Employment Act of 1946. Instead it has tried to make the public forget about full employment. The U.N. emphasis is a welcome reminder, and brings out the point that disarmament will create a more favorable environment in which American workers can press for positive government action to promote full employment.

The U.N. report urges that resources released by disarmament be used to raise standards of personal consumption, expanding or modernizing productive capacity, promoting housing construction and urban renewal, improving and expanding facilities for education, health, welfare, social security, cultural development, scientific research, etc.

In just the last set of items, the U.N. report stresses, the United States requires outlays of $330 *billion* over a five year period, more than double prospective outlays under cold war conditions. The U.N. report concludes correctly that provision of people's needs for schools, hospitals, and other social requirements "could absorb much or most of any resources released by disarmament."[6]

As for living standards, the Report states:

"In a disarmed world, a general improvement could be expected in the *level of living* and in the conditions of under-privileged and low income groups such as the old and retired people whose share in the social well-being is often meagre, even in the more developed countries."

As various recent works have emphasized, there remain many tens

of millions of desperately poverty-stricken people in the United States, as well as over half the population that are "underprivileged" in relation to standard budgetary requirements for the "American standard of living." The final elimination of poverty in America could be brought much closer very speedily given disarmament. In the same connection, the report notes that disarmament "might well permit a reduction in working hours, an improvement in conditions of work and a lengthening of paid vacations."[7]

This objective is again coming to the fore in the program of American labor, and its realization will certainly be enchanced if disarmament can be attained.

Finally, the U.N. report presents a stirring picture of the human possibilities that would be opened up by disarmament. Significantly for our thesis, this report stresses ending the baneful influence of the munitions manufacturers and other beneficiaries of the garrison state. It is well to have international recognition that peace requires more than good will, but a political struggle against its enemies, and an identification of these enemies. The relevant paragraph of the U.N. report should be read by all:

"If confidence is one of the necessary conditions for concluding a disarmament agreement, an increase of confidence would also be one of its happiest consequences. A decrease in tensions and in the influence of groups interested in armaments would bring about a profound change in the form and content of *international relations.* Political and economic conflict between nations, with its attendant risk of war, would more readily be replaced by constructive emulation. Scientific co-operation between nations would advance more rapidly and the peaceful utilization of science and technology would be accelerated. The arts, too, would greatly benefit from an extension of international exchanges. All the great civilizations in the past have gained from such cultural contacts and have exerted their influence beyond their own frontiers. Disarmament would remove the main barriers to the far greater exchanges that are now technically possible. Humanity would thus be able to carry out co-operatively the projects which lie beyond the resources of a single country or a group of countries."[8]

CHAPTER X

Wall Street Views on Militarism and Disarmament

THE FINANCIAL WORLD strongly supports a militarized economy. The New York Stock Exchange has worldwide notoriety for its habit of leaping forward on news of international crises and falling sharply on "peace scares." This reflects more than expectation of specially profitable armament contracts, although this cannot be ignored. It reflects the dominant political tone of Wall Street, as blindly reactionary and ignorant as a Hearst editorial.

The big American capitalist knows that the remarkable rise in his wealth and income during the past two decades is intimately connected with political gains his class has achieved with the aid of the garrison state, as discussed in Chapter VIII. On the other hand, he is increasingly fearful that a thermonuclear war might destroy him, his associates, and his wealth. Emphasis on the former consideration gives rise to recklessness and adventurism, and takes political shape in big financial support for the ultra-Right groupings and segments of the major parties. Emphasis on the latter leads a few more far-sighted capitalists to consciously oppose militarism.

Others respond to the conflicting considerations with vacillations in policy and action. Arthur H. Dean, chief U.S. delegate to the 1962 Disarmament talks, is the political and business heir of John Foster Dulles. But in January 1962 he told a wealthy New York audience that we must use "our most imaginative thinking" to find

a peaceful way out of differences with the USSR, as a means of avoiding mutual destruction, because it is a "stark, realistic fact" that a nuclear war between the two countries would destroy civilization."[1]

Considering the audience, one cannot dismiss this as sheer demagogy. Yet it did not prevent Dean from continuing to sabotage serious progress towards disarmament at Geneva, as he and his predecessor negotiators for the State Department had done for many years.

Thus business attitudes on foreign policy relate to a changing complex of factors. But the economic balance of militarism remains a significant part of this complex. This chapter deals with the foreign policy positions of key Wall Street groups, to the extent that the positions can be determined, and relates them to their particular profit interests. These groups exercise influence over a wide range of industries, and over enormous geographic areas in both hemispheres. Directly or indirectly, they exert a corresponding influence on the country's political life.

THE ROCKEFELLERS

The Rockefeller family is the most powerful, economically, in the world. Its personal fortune—including individual family members and family-established foundations—was valued by the author at $3.5 billion in 1956, while corporations controlled by the family or by allied Standard Oil families, had total assets exceeding $61 billion.[2]

The modern power of the Rockefellers is based, to an exceptional degree, on foreign investments. At least until comparatively recently, over three-fourths of the family industrial holdings consisted of oil company stocks, and the outstanding role of the Standard Oil giants in foreign investments has been brought out in earlier chapters. Most of these investments are in underdeveloped countries, arranged with the connivance of dictators and absolute monarchs. Standard Oil has a long history of support to reactionary regimes and of opposition to really progressive governments which might nationalize oil or severely restrict its profits.

Standard Oil's rise to leadership in Middle Eastern oil, following

the establishment of U.S. military bases in Saudi Arabia and then elsewhere in the Middle East under the Truman Doctrine, is a striking example of foreign investments following the U.S. flag. Oil investments are exceptionally dependent on the existence and deployment of U.S. military might, as discussed in Chapter IV.

While the oil companies' military business is limited, the Rockefellers have been most conspicuous among the wealthy families in investing personally and taking control over munitions corporations. Beginning with McDonnell Aircraft on the eve of World War II, the Rockefellers have moved into a dozen or more companies wholly or primarily in the military field—such as Reaction Motors, Marquardt Aircraft, Vertol Aircraft, Thiokol Chemical, Itek, Vitro Corp. In addition, through the family's Chase Manhattan Bank, the largest in Wall Street, they obtained a leading position in the established aircraft-missile firm, Martin Marietta. Some of these investments were less successful than others; some have been merged or sold outside of the family control. Others remain as family enterprises, besides new ones which may not have been publicized.

But the overall result has been spectacularly successful. With the powerful Rockefeller backing, McDonnell Aircraft and Thiokol have risen to the top ranks of munitions contractors, despite a very seamy performance record on the part of the former's aircraft. As a friendly family study put it, their representatives in these companies handle, among other tasks, "that all important matter of putting the company's best foot forward with the government"[3] That is, the Rockefellers—with fabulous access and connections everywhere in Washington; with the large Standard Oil procurement representation right in the Pentagon; with the best potential for offering all sorts of jobs to generals and politicians—have a big foot to put forward for obtaining munitions contracts.

While the investments are small in comparison with those involved in oil, the profits are huge, especially since the Rockefellers play these companies for capital gains. According to *Fortune,* in one five-year period, they multiplied their investment in non-oil companies three times. That was before the big breakthroughs with Thiokol and Itek Corp. The stock of the former went up six times, of the latter 100 times, in a year.

It is often argued that Standard Oil should especially oppose a World War because it has so much to lose in foreign properties in the event of war. Such defensive logic may seem reasonable to an academic observer. But it does not conform to the policy of Standard Oil which, incidentally, has suffered numerous expropriations by foreign governments in peacetime, and only one during a civil war. That policy is aggressive, not defensive, and was clearly expressed in 1946 by Leo D. Welch, then Treasurer of Standard Oil (N.J.): "American private enterprise, therefore, is confronted with this choice; it may strike out and save its position all over the world, or sit by and witness its own funeral." He then announced the enlistment of U.S. foreign policy in this cause, on the basis of what might be considered the classic formulation of the cold-war version of the role of the United States: "That responsibility is positive and vigorous leadership in the affairs of the world—political, social and economic—and it must be fulfilled in the broadest sense of the term. As the largest producer, the largest source of capital, and the biggest contributors to the global mechanism, we must set the pace and assume the responsibility of the majority stockholder in this corporation known as the world. . . . Nor is this for a given term of office. This is a permanent obligation."[4]

For arrogance, as an expression of a superman complex, this statement surpasses the most notorious imperialists of modern history. Was Mr. Welch expressing the private views of a reckless individual? Was he dismissed, demoted, or rebuked for the expression of views which might discredit the corporation which employed him? The evidence suggests otherwise. Mr. Welch is now Chairman of the Board of Standard Oil.

The Rockefeller family, and their business and political associates have consistently and vigorously acted and made propaganda on behalf of this policy approach. For many years the most active pro-cold war private organization in America was the Crusade for Freedom, which controls Radio Free Europe and Free Europe Press, and which works closely with CIA and the Pentagon. Its outstanding success was helping instigate the Hungarian revolt of 1956. At that time the Crusade for Freedom chairman was Eugene Holman, then also Chairman of Standard Oil (N.J.), which was also reputed

to be the organization's largest contributor. It was founded by a committee headed by Allen Dulles, Standard Oil attorney and later CIA head for many years.

In government, the role of the Dulles brothers—for many years close business associates of the Rockefeller interests—in promoting the cold war policies was second to none over most of the period from the end of World War II until John F. Dulles' death in 1959. Nelson Rockefeller personally served as cold war coordinator in the Eisenhower Administration for a time, and other Rockefeller associates occupied leading diplomatic and military positions promoting aggressive and militaristic policies (e.g., Strauss, Dean, McCloy, Clay). The last three named functioned in both the Kennedy and Eisenhower Administrations, with McCloy and Clay taking time out from Chase Manhattan Bank directorships to handle particular cold war assignments.

Opposition to disarmament is one phase of the policy. In 1955, Nelson Rockefeller, then a presidential "cold-war" advisor, played the decisive role personally in defeating attempts by Stassen and others to conduct serious, if limited, disarmament negotiations at the Geneva "summit" conference held that year. He worked closely in this effort with Admiral Radford, the representative of the Pentagon in its attempt to prevent any curtailment of military spending.[5]

Intensifying militarism is another theme. At the beginning of 1958 the Rockefeller Brothers issued a policy report on *International Security—The Military Aspect.* Nelson Rockefeller was the chairman of the "overall panel" for the series of reports of which this was the first issued. Laurance Rockefeller and a number of close Rockefeller associates were on the particular panel preparing this report, the drafting of which was entrusted to Henry A. Kissinger, director of the research project.

It listed various "insufficiencies" in our defense spending, and advocated a number of ways in which armament spending should be raised:

> The above deficiencies in our strategic positions can be removed only by substantially increased defense expenditures. These increases will run into billions of dollars and must rise substantially in each of the next few years.

. . . The best testimony . . . indicates . . . successive additions on the order of $3 billion each year for the next several fiscal years. This figure does not cover the necessary increases in mutual assistance programs and in civilian defense. Because we must maintain our present forces, particularly of manned planes, even while we go into production on new weapons, such as missiles, the cost of military programs will continue to rise with no leveling-off likely before 1965.[6]

A later Rockefeller Brothers report gave a range of estimated national security expenditures for 1967 of $60 to $70 billion, in comparison with $46 billion in 1957.[7] The 1967 figures, however, are given in 1957 dollars. Since costs of military items are continually rising, the corresponding dollar range would be higher still.

In 1959, as governor, Nelson Rockefeller launched a campaign for compulsory civil defense shelters in New York State, but was defeated, if only temporarily, because of the adverse public reaction. Later that year, in tentatively campaigning for the presidency, he advocated to a state AFL-CIO convention the sacrifice of certain labor objectives in favor of increased defense expenditures.

In June 1960 Rockefeller carried to its illogical conclusion the "control of armaments" approach which leading political circles have been attempting to circulate in place of disarmament. He said: "Even when the early phases of a disarmament program are achieved, it will require increased expenditures because of the initially high cost of developing adequate inspection facilities."[8]

The Chase Manhattan Bank, almost alone among the large banks, does not even formally worry about government economy and the deficit. During 1958 it approved of higher goverment spending as an anti-cyclical measure, and viewed with equanimity a prospective $10-billion federal deficit for the 1959 fiscal year. Rather than deplore the rising federal debt, it emphasized that since 1946 the federal debt had not increased so rapidly as either private debt or the gross national product, so had fallen relative to both of these categories. It stated its advocacy of a steady growth in total debt as favorable to economic growth and stability, and in the short run "to facilitate the increase in the money supply necessary to support a renewed advance in business activity." For periods of greater prosperity, it recommended restraint on growth in the government

debt to make room for more private financing.[9] This is in sharp contrast to the standard banking demand for cutting the government debt in time of prosperity.

It was Nelson Rockefeller, in a television interview, who first —to this writer's knowledge—advanced the thesis that higher government spending, with special emphasis in his talk on military spending, would automatically help balance the budget by leading to a still faster rise in tax revenues. This is an application of formal Keynesian econometrics which seems reasonable on paper but has been thoroughly disproved in practice. The "multiplier" effect of government spending is invariably less than calculated because tax loopholes thwart the theoretical high income elasticity of tax revenues, and huge deficits are caused by the lag in collections with a steeply accelerating budget.

While operating on the highest political level, and representing the very largest private financial-industrial interests, the Rockefeller political attitude is fundamentally extremely crude.

In a press interview in 1961, Nelson Rockefeller:

> emphasized that salvation of the free world lay squarely on its nuclear military might. . . . His view is that the bomb has been and is being discredited on moral grounds, although he contends it is just as immoral to kill ten human beings as it is to kill a hundred or a hundred thousand. . . . But principally, he is said to be unhappy because the Administration has not emphasized to the people that the bomb is not a monster, to be regarded with abhorrence and fear, but rather constitutes the free world's only hope against communist domination that otherwise might be inevitable.[10]

In its glorification of weapons of mass destruction, in its justification of genocide, this approach is startlingly reminiscent of the philosophy of Nazism as is its recklessness, its utter irresponsibility to humanity, its divorcement from reality, its unbounded hatred of basic social change. It is most important that the American people be sufficiently alert to prevent such men as Rockefeller from determining the future of mankind.

After taking office as President, John F. Kennedy expressed some viewpoints remarkably similar to Nelson Rockefeller's, and carried out certain policies recommended by Rockefeller. He proceeded to increase the military budget even more rapidly than the $3 billion

per year of the Rockefeller Brothers report. He inaugurated a campaign for a large civilian shelter program, despite unusually widespread public opposition. He adopted military doctrines concerning brushfire wars and limited wars, advocated by Rockefeller for use in underdeveloped areas. He brought into close association as chief military advisor General Maxwell Taylor, who was employed on his retirement as Chairman of the Rockefeller-controlled Lincoln Center for the Performing Arts.

Mr. Kennedy's 1963 budget called for $58.5 billion of spending for national security, international affairs, and space. He was coming uncomfortably close to Mr. Rockefeller's 1967 goal four years ahead of schedule.

THE HOUSE OF MORGAN

Most famous of the Wall Street banking interests is the House of Morgan. Less sharply identified in personnel than the Rockefellers, and less clearly in command of assorted corporate positions, it yet constitutes the center of a huge sphere of financial-industrial influence, with its key institutions the Morgan Guaranty Trust, the investment banking leader Morgan Stanley & Co., and some of the giant New York insurance companies. Industrially, it retains powerful and probably controlling connections with companies of no less stature than U.S. Steel and General Electric, and occupies a controlling, or at least influential advisory position of banker to leading companies in almost every major industry.

The total assets of corporations within the Morgan sphere of influence were $65 billion in 1955.[11] Among these are industrial corporations with major interests in munitions production, notably the leading arms profiteer, General Electric. Other Morgan-related companies among the leaders in munitions business are International Business Machines and American Telephone & Telegraph—where Rockefeller influence is at least as pronounced. The Morgans are the leading financial factor in the copper industry, which depends to a considerable extent on military end markets.

J. P. Morgan acted as official purchasing agent in the United States for England in the early years of World War I. He and his associates

did much to manipulate our entry into that war, and became its leading bankers. Morgan financial and industrial interests were also prominent in the management of United States economic affairs and procurement in World War II. Their relative position declined during the early years of the cold war, owing to the reduced importance of steel and other traditional heavy industry manufactures in the munitions product mix. But for a number of years now, their stake in militarism has been rising with the growing importance of electronic instrumentation and computers in procurement.

The foreign investments of the Morgans are second only to those of the Rockefellers in scope, although the margin is considerable. Morgan companies hold major mining interests in South America, Canada, and Africa, and huge manufacturing investments in Europe, Japan, and elsewhere. These investments, like those of the corporate giants generally, have increased rapidly during the past decade. However, much of that rise has been in the developed capitalist countries. While a politically sensitive area during the years immediately after World War II, when public demands for socialism could have prevailed without U.S. intervention, investments in Western Europe today are not so clearly vulnerable, should U.S. military forces be removed, as those in the underdeveloped countries.

During the first seven years after World War II, important Morgan participation in developing aggressive cold-war policies was expressed through politicians connected with this financial group, James F. Byrnes and Dean Acheson. For a period during the Eisenhower Administration, another politician who had been associated with the Morgans, Harold Stassen, appeared as an advocate of easing cold war tensions and agreeing on disarmament with the USSR. He was subjected to extreme adverse publicity, and ultimately forced out of the Eisenhower Administration, as a result.

It is still not certain whether the House of Morgan had evolved a policy of easing the cold war at that time or whether Stassen was attempting to build his own political stature through inner-Administration maneuvers, without regard to outside advice.

In any case, soon afterward the Morgan position became clearer. The public expressions of the House of Morgan, following its sub-

jection to public and official contumely during New Deal days, were rare, although closely attended by political and financial sophisticates. Since 1956 they have become more frequent, and definitely favorable to the cold war, with increasing emphasis on more military spending.

During these five years significant events occurred in the Morgan economic position, besides its gains in the munitions business. Its oil company, Continental Oil, began to obtain significant Eastern Hemisphere investments. The investment banking house of the Morgan group, Morgan Stanley & Co., has long acted as syndicate head for Standard Oil security flotations. Now this financial relationship was intensified with the election of M. J. Rathbone, Standard Oil (N.J.) president, as a director of the Morgan Guaranty Trust Company.

Traditionally, while the Rockefellers had important financial and industrial ties with German big business, the Morgans had their closest ties with the British and French and were more opposed to Germany in the two world wars.

However, following the establishment of the Common Market by the Treaty of Rome, industrial companies connected with the Morgan group rapidly increased their investments in West Germany. In 1961 The Morgan Guaranty Trust led a group of U.S. investors buying up a controlling interest in a major West German heavy industrial firm, Henschel Werke GmbH. Finally the bank itself announced plans to open a branch in West Germany, joining the Chase Manhattan Bank and the Bank of America, which were previously established there.

The significance of this newly emphasized connection, in a year of rapid resurgence of West German militarism and aggressiveness, is most significant as an indicator of the political tendency of the Morgan group.

A major public statement of this tendency was made at the end of 1956 by Henry Clay Alexander, Chairman of the Board of the Morgan bank. During the Suez crisis, he called for higher arms outlays, denounced both Nasser and the USSR, and demanded that our country threaten war for continued control over Middle Eastern oil. He went on: "We cannot abdicate to the United Nations. There should be an American doctrine for the Middle East,

as there is an American doctrine for Greece and Turkey, and as there is an American doctrine for Formosa, Quemoy and Matsu."[12]

Shortly thereafter, the Eisenhower doctrine for the Middle East was announced. The public readiness to ditch the United Nations in favor of unilateral intervention is reminiscent of the editorial position of the *Wall Street Journal,* which is rumored to be close to the Morgan interests.

Said Alexander in this speech:

> In the present state of the world, we had better be armed good and proper. It is expensive and inconvenient and inflationary—a complete economic waste, but a complete necessity when brigands are about. One other thing you can be sure of: for our defense and our safety, there is no limit to which the American people and their institutions can and will pay.
>
> [Concluding, Alexander said] . . . we must keep life and health in our American system, in our free enterprise system, and defend with all our peaceful might our currency and our vital economy, while we keep our military power at unrivaled strength and pay as we go. No time for play, and very little for politics![13]

One can detect here a more contradictory position than that of the Rockefellers. First, Alexander is less precise about whether to increase military spending, and how much, than Rockefeller. Indeed, he conditioned his position in this speech to an immediate emergency, the Suez crisis, a position which he might conceivably change under other circumstances. Second, Alexander combined the call for continued armaments with caution about "pay as we go," and the general bankers' call for sound currency and economy. Referring to the advanced state of the business cycle, he said: "We had better postpone some of our buying, building and borrowing. It is well to remember that, historically, a capital investment boom such as we are now having has been the culminating phase of the economic cycle. Yes, the time is here to spend less and save more."[14]

Late in 1959, following the Khrushchev visit, Thomas F. Lamont, vice chairman of the Morgan Guaranty Trust Co., advocated continuation of expensive armaments and the cold war until the socialist countries should become "committed" to "freedom" (i.e., to capitalism)—which means, in effect, indefinitely.

Carrol Shanks, then president of the Prudential Insurance Com-

pany, which is close to the Morgan interests, referred in 1958 to "responsible estimates" which "indicate that defense expenditures may have to be increased by $2 billion cumulatively per year during the next five years."[15] Shanks' military estimate apparently was merely a toned down version of the Rockefeller $3 billion per year. However, he did not go along with Rockefeller's fanciful proposals for doubling of effective outlays for public services in the next decade while sharply expanding defense spending—and all without higher taxes. He directly contradicted the "guns and butter" approach, advocating instead that the higher defense spending be financed by government economies in other areas and/or by higher tax levies—i.e., by sacrifices on the part of the consumer in one form or another.

Government officials connected with the Morgans became conspicuous cold war advocates. Thomas S. Gates Jr., final Secretary of Defense in the Eisenhower Administration, had been a partner in Drexel & Co., essentially the Philadelphia investment banking branch of the Morgan interests. His swan song speech, after the defeat of Nixon, was a jingoistic extravaganza describing the United States as "the greatest power on earth," which, he asserted, is "in the service of the world law and justice," he also claimed that U.S. armed forces are "the greatest the world has ever known." He boasted that the Soviet Union is "faced with the realization that for four years unarmed American reconnaissance planes have riddled their air defenses and made a proper mockery of their refusal to open their skies as willingly as we would open ours to them. The Soviet leadership damns us not for weakness but for strength."[16]

Like Welch, Gates was not downgraded by his financial associates for his recklessness, expressed in this and other statements. After the Eisenhower Administration ended, he was elected Chairman of the Executive Committee of the Morgan Guaranty Trust Co.

The recent vice president, Nixon, after his rivalry with Rockefeller developed, apparently accepted Morgan backers in a leading position in his presidential campaign in 1960. His position on the cold war was not too different from that of Alexander quoted above.

There are differences in the economic position of the Morgans and the Rockefellers in relation to militarism and the cold war.

The Rockefellers have much larger interests in sensitive foreign investments; the Morgans somewhat more in munitions. The combined profit from both sources is undoubtedly much higher for the Rockefellers than for the Morgan group. There is a still bigger difference in the tax situation. The Rockefellers' corporate profits come overwhelmingly through the oil companies, which, we have seen, are virtually exempt from paying taxes to help finance the cold war. The Morgans, on the other hand, are obviously hit by these taxes and would like to have them lowered, by putting them onto the shoulders of workers, if possible, but by exercising some restraint on government spending, if necessary.

However, at this juncture of history, the similarity between the Rockefeller and Morgan positions, and the unity of their efforts on behalf of an aggressive, militarized policy, is the outstanding feature of their relationship; and one which joins the greatest power centers of Wall Street as the central force behind the cold war and the threat of a third world war.

FIRST NATIONAL CITY BANK

The First National City Bank is just behind the Chase Manhattan as the second largest of the Wall Street banks in amount of deposits, and also handles many billions of trust accounts. Historically close to both the Morgan and Rockefeller interests, it has nonetheless emerged as an independent center of financial power with a number of industrial and utility corporations within its sphere of influence. However, in terms of assets, its empire totalled "only" $13 billion in 1955, one-fifth the size of the Rockefeller and Morgan empires. In many of its connections, it is in a subsidiary position to the powerful banks, or performs financial services for major industrial corporations without a corresponding exercise of control.

The First National City Bank and its associated industrial interests are heavily involved in foreign investments. It is the only United States bank with over a billion dollars in foreign deposits. Traditionally, it has been the leading bank operating in Latin America, acting as chief banker for the sugar and fruit industries.

The two largest industrial corporations within its sphere of influence, Anaconda and W. R. Grace & Co., extract major shares of their profits from Latin American countries.

It also has a large interest in International Telephone & Telegraph, based largely in Latin America. The National City Bank, as it was then known, was directly involved in some of the Marine interventions in Latin American countries during the early part of the century.

The bank is also deeply involved in munitions productions. It serves as banker for Boeing and United Aircraft, and International Telephone & Telegraph has also become a major military contractor.

But unlike the Rockefeller and Morgan groups, the top circles of the First National City Bank have been little involved in open participation in national politics or government; or in public advocacy of foreign and military policy. Instead, its influential Monthly Bulletin persistently campaigns, as in pre-cold war times, for economy in government, and it is one of the few big business organizations to publicly express a desire to restrain military spending.

How can this be explained, in view of the bank's connection with foreign investments and munitions production? One possible explanation is that the bank's connections with munitions companies may be technical-financial, without involving significant interlocking stock ownership. Historically, this bank was used by Ford as a more or less "neutral" banker, when Henry Ford wished to avoid too intimate connections with Wall Street. Boeing and United Aircraft may have established similar types of relations.

Certainly the bank's relations with Anaconda and with Latin American sugar and other investments do involve long-standing historical arrangements and interlocking interests. In this connection, however, it is possible that the bank proceeded from the theory of the comparative political stability of Latin America, which appeared superficially to be the situation until recently, and lacked an intense interest in Eastern Hemisphere countries, where the establishment and retention of the United States position was pressed by other Wall Street circles.

The events in Cuba, including nationalization of the bank's

branches there, and heavy losses through nationalization of properties of related firms, may lead to a change in this attitude, but there is not clear evidence of it yet. So far, the First National City Bank appears as the apostle of traditional fiscal conservatism, in the face of the now-influential big business willingness to spend for military purposes without limit; and of more or less traditional economic policies generally, without support for the sometimes panicky government efforts to stimulate the economy for reasons of competition with the socialist world.

While the motives behind this line are not wholly clear, it does exist. The bank in 1957 supported the "economies" which resulted in a brief and trifling interruption to the seemingly permanent uptrend in militarism. Then, as the recession began, the Soviet sputnik was used as an excuse for a fresh wave of military spending. The First National City Bank discussed this development with obvious regret:

> The last fair chance to restabilize the dollar at this juncture may have been lost with the impulse, given by Sputnik, to discard the constructive policy of tax cuts within a balanced budget and to set new peak levels of federal expenditure. Credit policy can be retightened. But it can hardly overcome the inflationary power of a federal budget out of control.
>
> [Because of political and economic developments, it complained:] the economy seems due for the stimulation of inflationary deficit financing in place of the sounder stimulation of tax relief which would energize productive effort and relieve rising price pressures.

It attacked "fantastic proposals . . . for spending money in the name of national defense," especially the proposal to spend $20 billion on underground bomb shelters (Nelson Rockefeller, *et al.*); "The need is imperative to keep a sense of balance and perspective." Hopefully, it played up Eisenhower's promise to economize in other military areas for "necessary" increases in missile development and related lines. It urged a scrutiny of foreign aid funds for waste, and approved of a General Accounting Office report characterizing U.S. military aid objectives as "unrealistic" and "financially unsound."[17]

In 1960, as the issue shifted from the domestic budget to the balance of foreign payments, the First National City Bank was prompt

in urging a cutting of foreign military outlays to help save the dollar:

> Another urgent need is to adapt our economic aid and military commitments, which grew out of the circumstances of the 1950's, to the new situation in the world economy and finance. Now that Western European nations are much stronger, they are increasingly able to contribute funds from common defense and for economic aid to the less-developed parts of the world.[18]

More generally, it related the gold crisis to its general economy in government line:

> we will need to exercise more discretion than at some times in the past in the use of economic stimulants. Specifically, we can no longer afford to carry cheap money to extremes or let go the reins on government spending . . . we need to find fiscal policies, such as tax reforms, which can check recessions and stimulate creative effort and growth without opening the floodgates to inflation.[19]

The head of the U.S. delegation to the abortive ten-nation conference on disarmament was Frederick M. Eaton, partner of Shearman & Sterling & Wright, law firm of the First National City Bank. Eaton personally is a director of City Bank Farmers Trust Co., the important trust affiliate of the First National City Bank, and of the Corning Glass Works, a major company in the First National City Bank sphere of influence. While Eaton did not distinguish himself in the delegation, his taking this and other disarmament jobs is likely to have reflected the moderate bent towards disarmament of this financial group.

That other Wall Street financial interests agreed with the First National City Bank is indicated by developments in the final years of the Eisenhower Administration.

After Humphrey's departure from Washington, he was replaced as Secretary of the Treasury by Robert B. Anderson, who became the administration's leading spokesman for "hard money" and less spending. In October 1959, following a conference with other cabinet members, he released a news report suggesting the need to cut down on spending for military bases abroad in order to prevent devaluation of the dollar. This was the first time during the entire cold war period that anybody in official Washington dared to suggest

any degree of retreat from the vast and provocative network of U.S. bases abroad. His proposal was beaten down at the time. In November 1960, Anderson went on the ill-fated mission to Bonn to obtain help for the dollar, now harder pressed than ever.

His conduct of the mission was subjected to intense criticism, to the point of abuse on the part of John Hay Whitney's *New York Herald Tribune*. What was really at issue was Anderson's threat to the Germans to withdraw American troops if West Germany would not pay the foreign exchange costs. It was this possibility of withdrawal that most American leading circles still objected to so strenuously.

Anderson originally came to Washington as a representative of Texas oil and cattle interests. However, after leaving the Secretaryship of the Navy in 1955, he spent two years in very high Wall Street circles. He was president of Ventures, Ltd., a holding company for mining operations in Canada, and a director of the Hanover Bank. Another most important post he held, linking his Texas and Wall Street connections, was chairman of the executive committee of Dresser Industries, leading producer of oil field equipment. This is the only company connected with oil which has publicly attempted, on several occasions, to achieve a break in the official embargo policy and to establish major trade relations with the socialist countries.

The view of this group has been given its clearest public expression by Dwight D. Eisenhower, both in some of his statements as President, and subsequently. The writer does not mean that Eisenhower directly represents these bankers, but that their views are most acceptable to him, of the varying views held by his big business associates and contacts.

Speaking at a Republican Party dinner in Washington in June 1962, Eisenhower, after stating his support for the cold-war policies of anti-Communism and military alliances, called for:

> a never-tiring quest for peaceful resolution of the great issues tormenting mankind, leading, we prayerfully hope, to universal disarmament at some future date.
>
> On the military side of our security efforts, . . . to work . . . for strength unencumbered by waste, and . . . not bloated by hysteria. Here I must record my personal belief that substantial amounts in our current defense

budgets reflect unjustified fears, plus a reluctance in some quarters to relinquish outmoded concepts.

Accordingly, I personally believe—with, I am sure, very little company in either party—that the defense budget should be substantially reduced.[20] (*My emphasis*—V.P.)

That Eisenhower had *some* support was evidenced by a burst of applause at this sentence. No major party politician, however, has subjected this approach to a clear nationwide test of public opinion throughout the cold war period. Should this occur, there is no doubt that the view would find many millions of supporters among the ranks of the voters in both political parties.

AMERICAN BANKERS ASSOCIATION

This organization presents what might be considered an average or amalgam of the shades of opinion on militarism and disarmament of the various Wall Street groups. It accepts huge military spending as a necessity, and exempts it from its calls for government economy, but also avoids calling for an increase in the arms budget. This is illustrated by its pamphlet on government spending distributed in 1960. The basic line of the pamphlet is to oppose excessive spending on the ground that the people pay through higher taxes or inflation.

It urges government debt-retirement in good times through economizing on non-defense spending, which it claims is the main cause of the increase in federal budget in recent years. The pamphlet is in the form of an interview, in which the depositor asks the banker: "aren't we spending much more for defense and foreign aid?"

[The banker answers] Yes. Modern armaments are expensive and become obsolete very fast. But we must spend whatever needs to be spent to safeguard our national security.

[The depositor persists] No question about that. But what about foreign aid? Haven't we been pouring billions into other countries all over the world?

[The banker] Not nearly as much as many people think. [He then describes some of the contents of foreign aid, and concludes] Actually, we should consider most of the out-of-pocket costs of foreign aid as part of the cost of our own defense program.

[The good-citizen depositor responds] Then we shouldn't scrimp on foreign aid any more than on military spending, should we?

[Banker] Definitely not. We can and should insist that Congress and the Administration scrutinize both foreign aid and defense spending to make sure that waste is kept to a minimum. But I would certainly agree that a meat-axe approach to either defense or foreign aid appropriations would be the height of folly.

[Depositor] So the cost of government will keep rising?

[Banker] It's going to be hard to keep government spending from rising some.

—whereupon he diverts attention to the civilian spending.[21]

Essentially, this is the bland language bankers are accustomed to use in addressing the masses they wish to soothe and keep aside from the actual determination of affairs. Obviously, the financial community will not stop the onward march of the militarists and arms profiteers towards the garrison state and war.

CHAPTER XI

Attitudes of Industrial and Regional Groups

HERE WE RELATE the material interests of manufacturers in key industries, and of regional financial-industrial groupings, to the positions they have taken on questions of militarism and disarmament. The reader will recall the caution of the previous chapter, namely, that other factors enter into this equation also, so that we do not claim to present a full picture.

AIRCRAFT-MISSILE MANUFACTURERS

The reader has seen how profitable munitions business really is. What role do its owners play in stimulating militarism and opposing disarmament? There have been numerous exposés of their lobbyists' campaigns for larger military budgets before Congress, and their conniving with Pentagon brass for larger slices of that budget.

The general picture was presented in Chapter II. Besides individual company executives, at least a dozen trade associations are devoted mainly to lobbying for the munitions industries as a whole, or major segments thereof. They usually, also, support an aggressive foreign policy and oppose disarmament. One armament contractor belongs to 15 trade organizations, mainly of this character. The most important today appears to be Aerospace Industries Association, to

which each of the half dozen leading airplane and missile manufacturers paid annual dues of $75,000[1]

Munitions manufacturers also operate through chosen members of Congress. W. Stuart Symington, Jr., Senator from Missouri and leading Democratic Party politician, has been a strident propagandist and maneuverer for higher armament budgets. During World War II he was president of Emerson Electric Manufacturing Co., which flourished on military business. His wealthy family—from upstate New York and Maryland antecedents—profits from munitions, and he is related by marriage to John Hay Whitney, investor in armament companies and a large Standard Oil stockholder. Symington has also been close to Floyd Odlum, former controlling stockholder in Consolidated Aircraft and later a factor in its successor, General Dynamics.

Senator Henry Jackson of Washington, headquarters state of Boeing, has been an even more uncompromising advocate of higher military spending and a belligerent foreign policy. While there is no public evidence linking him financially with the company, he is reputedly known as "The Gentleman from Boeing."[2]

Of course, it is always possible for a man to rise above narrow interests, and to favor disarmament because of national interests and a desire for survival. A partial example is provided by James J. Wadsworth. Wadsworth comes from an upstate New York family of outstandingly reactionary and politically active Republicans. An in-law of Symington's, there was considerable similarity in their careers. Wadsworth, after being a New York State assemblyman, and an aircraft company executive during World War II, became a government official concerned with military matters, and Deputy U.S. Representative to the U.N. during the Eisenhower Administration. There he did his full part in carrying out the Dulles line of opposing disarmament and striving to use the U.N. to aggravate rather than ease international tensions.

But in 1961, after his tenure at the U.N. ceased, he made significant statements in favor of easing tensions and for disarmament. However, this is an exceptional development. The much more frequent correlation is for those connected with munitions manufacture to advance militarism in political life.

Many governors and members of Congress are advocates of more munitions in response to local pressures. Virtually every Congressman becomes a mighty battler for his home-district military base whenever there is a Pentagon move to shut it down in accord with shifting military requirements. Thus the politicians faithfully project the parochial militarism of the small-town businessmen, Chamber of Commerce officials, and war factory union chiefs.

During the late 1950's a leading propagandist for militarism was Frank Pace, Jr., president of General Dynamics, the largest munitions contractor. Pace was an Arkansas lawyer from a wealthy family of that state, and as such was "naturally" entitled to high rank in the Truman Administration—reaching the post of Secretary of the Army in its final years. From that take-off spot he was a logical candidate for a munitions corporation, especially in view of his glad-handing gregarious disposition. He was taken on by General Dynamics, and became chief executive officer on the death of his predecessor. Soon afterwards, in September 1957, Pace stepped into the breach to try to stem the pressure against the ever-rising military budget on the part of bankers then conducting an "economy drive."

Pace lauded the armament business as "of continuous value to our survival. I refer to the civilian impact of military defense spending and its function as an economic growth stimulant in our society." Not only that, but also armament spending "results in the accession to our society of economic, scientific and cultural benefits of enduring and nonmilitary value," and contributes to the "conservation of human resources and their development." He "viewed with alarm" attempts to put a ceiling on arms spending.[3]

This "philosophy," as devoid of contact with reality as with morality, did not discredit its propounder. Instead, he was chosen as one of the two big capitalists to serve on President Eisenhower's Commission on National Goals. Its statement was in no way opposed to the interests of the munitions industries, but did not positively favor them enough to suit Pace, so he added his own supplement urging "the encouragement of revolutionary new ideas in weapon systems" and other circumlocutions for more free-handed issuance of military contracts.[4]

Pace was certainly successful in getting more arms business for

General Dynamics. Its sales jumped from $1.2 billion in 1956 to over $2 billion in 1961. It has far surpassed the former leader, Boeing, in volume of military contracts. It obtained vast new orders as a result of the Kennedy Administration's added emphasis on Polaris submarines, which it manufactures.

But all these "accomplishments" were undone by General Dynamics' attempts to apply munitions profiteering methods to civilian business. It succeeded in losing half a billion dollars in developing a jet transport, the worst fiasco of those described in Chapter VI. In the climactic year of 1961, General Dynamics reported an all-time record annual loss! While the U.S. government bore half the cost in tax refunds, the bankers insisted that Pace be fired as a business failure. While his fate was being decided, Pace let it be known that he would return to his "natural" milieu, government. May we be saved his ministrations in Washington!

Under him at General Dynamics was Thomas G. Lanphier Jr., a former aide to weapons-advocate Senator Symington of Missouri. As vice-president of Convair, he took the line that "we are . . . engaged in World War III," and accused Eisenhower of taking a "dangerous, dangerous gamble with the survival of our people" by not spending more for his company's Atlas missiles.[5]

The personal attack was a little too much. Shortly thereafter Lanphier resigned from the company, but without any criticism from its management. He said he resigned the $50,000-a-year job to be free to campaign for more armaments—he urged a $4–$5 billion immediate boost in the defense budget—and to help advance the presidential aspirations of Symington.[6]

Another advocate of more militarism is a banker with heavy munitions investments, Robert A. Lovett, partner in Brown Brothers, Harriman & Co. Lovett was among the selected group of witnesses who demanded more military spending in hearings held by Senator Harry Jackson in February 1960—of which hearings more below. Beginning with World War II, he was active in top Defense and State Department posts, ending as Secretary of State during the last two years of the Truman administration, during which he was an outstanding cold war advocate.

Lovett is one of the three eastern directors of North American

Aviation, a leading military aircraft manufacturer. Another is a du Pont, whose family originally controlled the company and retains a large and influential interest in it today. The third is Herbert Fales of International Nickel, who worked for du Pont when North American was split off from General Motors in 1928.

Testifying before an armed services subcommittee in 1956, North American President J. L. Atwood claimed that "the defense industry must exist as a stable part of our economy."[7] At those hearings, when the aircraft manufacturers were on the grill for profiteering, most of them refrained from glorifying their business.

Much of the propaganda of the aircraft and other munitions companies for more militarism is done through scientists and military men who are on their payroll, or who receive consultant's fees from them, or who anticipate employment by munitions makers.

Dr. Edward Teller, super-advocate of the H-bomb, has received up to $25,000 per year as consultant to General Dynamics. Former Chairman of the Joint Chiefs of Staff Admiral Radford, who also takes a militarist-aggressive line, receives fees totalling several times that amount from companies in the munitions business or hoping to get into it.

In December 1961, a scandal broke when it was revealed that General Donald L. Putt was serving as Chairman of the Scientific Advisory Board of the Air Force while employed by a subsidiary of United Aircraft, a major military contractor.

Usually the attack is directed against a particular case, or a particular form of "conflict of interest." But there is no Congressional or press attack against the whole system which creates a personal community of interest between the Pentagon, other government agencies, and the munitions manufacturers. To do away with this would require breaking up the garrison state, ending the international arms race, and nationalizing all weapons production.

ELECTRONIC-MISSILE COMPANY ATTITUDES

The role of General Electric, the largest of the electronic manufacturers and biggest recipient of munitions profits, is contradictory. It contributes liberally to Aerospace Industries, the trade association

lobbying organization which presses for more armaments spending. It maintains a sizeable, powerful, and active group of militarist-lobbyists of its own in Washington. There are evidences of close business relations with General Dynamics, source of some of the most brazen direct propaganda for more arms spending.

General Electric conducts a huge propaganda operation, an important part of which is its *Public and Employee Relations News,* which is distributed among General Electric executives. In its issue of December 31, 1957, General Electric featured its own version of the guns and butter formula under the headline "Better Defense or Better Living or Both!" Interpreting the first sputnik as "the new and very real danger presented by the Russian socialist dictator system," it asked:

"Do free United States citizens face privation and disaster if materials and labor are diverted from civilian to defense purposes in sufficient quantity to ward off or turn back the Russian socialist dictatorship?"[8] It finds that such privation is unnecessary, and that the people can remain "free" as well as enjoy even better living, if proper steps are taken to permit the possible large increase in military spending.

The "proper" steps consist of a drastic big business economic program—raising labor productivity at least 20% through eliminating "featherbedding," raising the workweek 10%–20%, and raising taxes on labor to absorb the extra income workers get for higher defense production. How working people would end up with "better living" is left rather vague, but the line is clear enough: Go ahead with the sharp increase in the military budget, as was then being advocated by the Rockefellers, by the Gaither Committee, and by the militarists —and this need not be painful or really costly.

In addition, General Electric has led the business campaign for more profits out of armament business. Chairman Ralph J. Cordiner was head of the committee pressing for changes in the form of military contract that would raise the effective profit rate, and at the start of 1959 the Defense Department made a conspicuous concession to this pressure.

In May 1959, Dr. George Heller, a General Electric vice-president, called for complete repeal of the Renegotiation and Vinson-Tram-

mell Acts, which are minor restraints on military profits but which the contractors desire to eliminate even so. He also called for a "greater profit incentive" for research and development work.[9] Of course, General Electric is not alone in such demands, but it does appear, rather consistently, to take the lead and set the tone and arguments.

On the other hand, General Electric has taken positions seeming to be consistent with an easing of cold war tensions and, under some conditions, of directly supporting disarmament. In 1949 International General Electric president William R. Herod, in a State Department conference, supported trade with China and recognition of China. In 1951 then chairman Philip D. Reed called for restraint in the Korean War munitions expansion—although actually he also supported maintaining military spending indefinitely at the Korean War peak level.[10]

In its internal propaganda, General Electric top officials have always stressed their preference for peaceful work and their hope for world peace. The most striking expression of that position was in December–January 1959–60. This followed the Khrushchev visit to the United States and coincided with a strong public sentiment for international agreement and disarmament. General Electric Chairman Ralph J. Cordiner denounced as "false reasoning" the idea that defense expenditures are a necessary support for prosperity. He said they drain away national resources that

> would otherwise be devoted to building up the nation's capital structure and improving the people's level of living . . . forty billion dollars is so much money to take from the taxpayers that every responsible person must perpetually feel under obligation to save some of it and reduce the tax burden. . . . Because the company is a major defense contractor, we are sometimes asked how we feel about present efforts to achieve some sort of controlled disarmament and relax international tensions . . . we at General Electric give these efforts our wholehearted support. We hope they succeed, so that the billions now being spent on these weapons . . . can instead be devoted to lifting still further the levels of living of the people.

Denying that disarmament would cause serious unemployment, he pointed to the correlation with income tax cuts, which he asserted would immediately improve the competitive position of United States manufacturers in domestic and overseas markets.

As for General Electric: the less the taxpayer spends for weapons, the more he has to spend on electrical appliances . . .

The major issue, in fact, before us in the presidential year of 1960 is international peace. We and the Russians have got to learn to live together, and more people are concerned today with peaceful coexistence than the politicians apparently either believe or realize.[11]

During most of 1958 and 1959 Roy W. Johnson, who had been executive vice president of General Electric, headed the Defense Department's Advanced Research Projects Agency. He used this job to press for the expansion and militarization of the Saturn superthrust rocket project. After leaving the job, in a lecture delivered in February 1960, Johnson said that his job had been "not to convince Congress, but the Administration that this was the program that we should expand our effort on. Apparently the President has been finally convinced."

He condemned civilian control of space programs as "poppycock." As for Saturn, "we should put the whole project into the hands of the military." His most difficult job in the Government was to try to convince the President and "the conservative scientists that our space program should be in the hands of the military and not under civilian control."

He said the "biggest mistake" made by the U.S. was "not to listen" to German scientists after World War II, a criticism made by a number of advocates of more military missiles who feel that Von Braun and Co. have not been given enough scope in America.

This was in a lecture to a scientific-technical audience sponsored by six corporations engaged in work on space vehicles.[12]

From the above data, one can see conflicting currents in the position of this giant of the electronic industries. On balance, General Electric has not been among the major public inciters to more militarism; over the years, the balance of its propaganda has perhaps been with the more pacific groupings of American big business—or perhaps one should say with the less belligerent groupings.

If General Electric's position is not so clear-cut, the same cannot be said of the electronic manufacurers generally. By and large this industry prominently pushes for more militarism, being the industry "on the make" in weapons business.

In February 1960, shortly after Cordiner took a pro-disarmament position, Senator Henry M. Jackson held hearings through a subcommittee of the Government Operations Committee, ostensibly on the policy-making machinery of the government. Actually, these hearings served as a forum where Jackson gathered anti-disarmament figures from business, cultural, and military circles to try to start a new military build-up.

The most prominent businessman witness was Thomas J. Watson, Jr., head of International Business Machines Corp. He described as "inadequate" the American effort to "meet the Soviet threat to its security"—as *The New York Times* reporter summarized his testimony. He charged: "We are in a crucial contest with the Soviet Union. Therefore, we must be willing to accept any sacrifices necessary to win."

He disagreed with "people who suggest that we must not push our economy to any point necessary to win in competition with the Soviet because we then might lose what has made our country great." The reference was to President Eisenhower, and other administration and financial circles who had warned against spending ourselves into bankruptcy or bringing about a garrison state. Bordering on hysteria, Watson said: "If we do not impose the strains necessary to win, it is obvious that at best we will live in a Soviet-dominated world and at the worst in a Soviet province."[13]

He also urged greater censorship of discussion in defense matters. The belligerent position of Watson is quite interesting. Only a few months earlier, he had quite peaceably shown Soviet Premier Khrushchev through his company's plant at San Jose, California.

Perhaps it is one thing to be courteous to a visitor, especially when your own researchers have mutually beneficial arrangements with his country. (IBM was well represented in the large American delegation attending the first world conference on cybernetics and automation in Moscow in 1960.) But it is another thing to tamper with the militarism that fundamentally provides the power behind the fabulous growth of your investments and profits.

The importance of IBM in modern military business was mentioned in Chapter V. It obtained more than three times as much armament business in the years 1957–59 as in the three years of the

Korean War, an unusual degree of growth. Its foreign business has also expanded furiously. By 1961 its branches in 87 overseas countries did more business than the entire company did in 1952, and at higher than domestic profit rates.

IBM does considerably more business in West Germany—$80 million in 1960—than in any other foreign country. It makes particular use of the Common Market, for zonal tariff-cutting among West European countries. And one must consider that a substantial proportion of its foreign business may be on behalf of NATO military operations of allied governments. As *Fortune* says of its business abroad, "usually government is itself the first and best customer. (IBM) World Trade (Corp.) doesn't have to explain itself or curry favor with government officials."[14]

Perhaps most aggressive of the electronic companies in promoting its role in defense business has been the Radio Corporation of America. It has raised its military business to 34% of direct sales, which, allowing for indirect military business and higher profit rates, can be conservatively estimated to account for 45% of company profits. Moreover, this has been the big growth factor in the company's operations in recent years.

Consistent with this trend, David Sarnoff, Chairman of RCA, has been extremely belligerent and pro cold war in his public pronouncements and activities. Recently he added to the board Lewis L. Strauss, who as Chairman of the Atomic Energy Commission was unusually aggressive in promoting the H-bomb and a generally militaristic approach to atomic energy.

An article in the *Journal of Commerce* in 1958 reflected the prevailing attitude in the industry. Under the headline "Electronic Firms Look for Big Defense Orders," Ben Weberman wrote:

> Officials of companies turning out electronic equipment view coming months with confidence based on the accepted idea that defense orders issued to prop the sagging economy will be directed in large measure to their doors. They feel that this is no more than just since most electronic producers are currently suffering from depressed operations caused by the loss of orders last year when government policy emphasized reduced military expenditures.[15]

The Secretary of the industry's trade association, David R. Hull, told a newspaper correspondent in 1959 that he looked for continued

gains in military electronics, even if defense spending leveled off, because of the shift from aircraft to missiles. Predicting an overall volume of $20 billion in 1970, he allotted $12 billion of that to the military, and $814 million to the military-dominated space program. "Accumulatively in the next ten years the industry will sell more than $100,000,000,000 worth of electronic products to the government," said Mr. Hull, expecting military sales to go on for many years, despite recent disarmament moves.[16]

Robert C. Sprague is an example of a medium-sized electronic manufacturer who has urged greater militarization. He served as co-chairman of the Gaither committee, which in 1957 urged an extreme intensification of armaments production and militarization in response to the Soviet sputnik. In February 1960, testifying before Senator Jackson's hearings, he claimed that the ratio of defense spending to national income must be raised, and criticized Eisenhower for having an inadequate appraisal of the "danger" facing America. He said: "We can see that the idea, that an increase in spending for survival will bankrupt us is, to put a plain word on it, silly."[17]

Sprague is head of a Massachusetts company, Sprague Electric, which employs 5,500 workers and specializes in military electronics. He is currently Chairman of the Federal Reserve Bank of Boston, and a director of the United-Carr Fastener Co., indicating close relations with the leading men of the Boston financial group. This group has turned heavily to military electronics since World War II, and has increased its financial ties with the Rockefeller interests. Sprague was nominated as Undersecretary of the Air Force in 1953, but he turned down the job when Senators insisted he sell his stock in Sprague Electric.

Another smaller electronics manufacturer was not required to sell his stock. Trevor Gardner, president of Hycon Manufacturing, a new California munitions-electronics corporation, was appointed Special Assistant to the Secretary of the Air Force for Research and Development in 1953. During his two-year tenure in the post he was part of the Pentagon-Congressional clique which pressured for intensified missile militarization. He resigned in a squabble over this issue in 1955, but not before Hycon Manufacturing had tripled its

volume of business. Gardner returned to the presidency and chairmanship of his nicely expanded corporation.

CHEMICAL INDUSTRY

As shown in Chapter VI, the chemical industry today is not decisively dependent on military business, although it is a significant participant. Most of the leading chemical companies have not been directly and openly involved in propaganda for more munitions spending.

This is particularly the case with the large chemical companies. Most of them do not have officials who are directly and clearly involved in propaganda for more munitions spending. A prominent exception has been William C. Foster. Foster, who has been a minor manufacturer, and then a Commerce Department undersecretary, and executive secretary of the Manufacturing Chemists Association, became a top executive of Olin Mathieson Chemical Co. at about the time of its merger. This company had a special interest in military affairs, being a recent merger of a chemical and an ordnance manufacturing company. At this time, also, the Rockefellers moved into the Olin Mathieson picture, temporarily bringing their missile-industry Reaction Motors into the pot (they later took it out again). Foster blossomed out as a leading cold war spokesman in big business circles, being prominent in the promotion of the secret Gaither Committee report which preceded, and apparently even outdid, the Rockefeller Brothers report on military policy. In 1961 Foster was appointed head of the Arms Control and Disarmament Agency by President Kennedy, a most unhappy choice for constructive work by that agency. While hired as a chemical executive, Foster should be regarded as a political-industrial representative of broader major financial interests more than as a direct representative of the chemical industry as such.

The du Ponts, classic example of munitions profiteers in the public mind, have not taken an active part publicly in promoting militarism. Of course, considering the du Ponts' notorious leadership in ultra-right grouping before World War II, one cannot exclude the

possibility of their secret involvement in the John Birch Society and the like today.

AUTOMOBILE INDUSTRY

The relative elimination of the auto companies from the munitions business was explained in Chapter V. General Motors officials appear to reflect that in their attitudes. Since 1953 they have publicly de-emphasized military business, and have expressed preference for Government spending for roads and other purposes which might increase the car market. The late Harlowe Curtice, then president of General Motors, said in January 1953:

> However, I don't mean to imply that our prosperity is dependent on a continuance of high defense expenditures. To the extent that such expenditures can safely be reduced, there should be a corresponding reduction in taxes. This will release funds for consumer spending and other purposes. Furthermore, state and local governments have plans ready for much-needed school and highway construction and can be expected to step up their building programs as soon as materials and manpower become available.[18]

At about the same time General Motors chairman Charles E. Wilson became Secretary of Defense in the new Eisenhower Administration. He soon became the butt of the belligerent Pentagon crowd and their journalist and munitions manufacturing friends. He refused to join in their panic fears of the USSR, and went along generally with Treasury Secretary Humphrey in favoring moderation, and sometimes even a reduction in military spending. In general, Wilson acted as a restraining influence within the administration, in relation to Dulles and similar forces.

The position he expressed, and which Curtice stated on more than one occasion, does logically accord with General Motors interests. There is a reasonable likelihood that this position was not inconsistent with that of the du Pont family, for obviously the du Ponts were in the best position for choosing leading General Motors personnel.

Top officials of each of the automotive big three have been among the comparatively few manufacturers publicly advocating develop-

ment of East-West trade, a concomitant of disarmament with considerable promise for the motor vehicle industry.

MIDWESTERN BUSINESS GROUPS

The Midwest is the traditional source of "isolationist" sentiment—a political trend which has dwindled in significance during the past fifteen years. Formerly, isolationism may have been associated with the separation of major Midwestern financial interests from direct involvement in relations with overseas countries, the conduct of trade through Wall Street intermediaries, etc.

However, today one can no longer speak of the Middle West as being "isolated" from the world. A study of leading firms centered in the Chicago area reveals that they are not behind in foreign trade and investments. However, as can be seen from the map in Chapter VII, they have fallen behind in their share of military business in recent years.

The publicly expressed reaction to this by leading Chicago businessmen is not, however, to advocate disarmament. Indeed, from this area one does not find the same intense discussion of the military budget that emanates from eastern centers. Perhaps the main approach is that of the Chicago Association of Commerce and Industry, which urges its members to band together to obtain a larger share of munitions contracts.

An article in the association's monthly, *Commerce,* states: "Illinois taxpayers in 1958 contributed more than three and a half billion dollars to defense and in turn received only a little more than $577 million in defense contracts. Thus for every dollar expended by Illinois taxpayers for defense, the state is receiving contracts of only 16.4 cents."[10]

This analysis shows a consciousness of the profit-tax relationships discussed in Chapter VIII, and certainly reflects a feeling that the balance is unfavorable for many Chicago businessmen. The solution urged by the article, however, is for Illinois concerns to engage in "team bidding for defense dollars"—a procedure with little promise.

The second major center of financial power in the Midwest is Cleveland, which has grown in importance and in some respects

rivals Chicago. Cleveland corporations, while more involved in military business than Chicago companies, are still not up to the standard of East or West coast companies in this respect. Another factor, however, is especially important in view of the showing that for big business as a whole foreign investments are as important as military business.

Among the Cleveland-controlled industrial corporations, overseas investments, outside of Canada, are much less developed than among those of any other of the eight leading financial groups in the country.

It may not be accidental, therefore, that former Defense Secretary George M. Humphrey was, even more than Charles E. Wilson, the leader of less belligerent circles within the Eisenhower Administration. Influential with Eisenhower, he obviously threw his weight time and again on the side of restraint, especially in military finance but also in foreign policy. Humphrey was the leader of the Hanna interests of Cleveland, which, with the Mather and Eaton interests, comprise an interlocking network of financial and industrial corporations having over $14 billion assets. The Hanna interests, in particular, are concentrated in steel, coal, and iron, with little foreign involvement other than Canadian iron ore. The Cleveland-owned companies with major military involvement, such as Thompson Products, orient more to the Mather interests.

The major steel company of the Hanna interests is National Steel. For many years after World War II the outstanding—and sometimes virtually the only—peace advocate in industrial circles was Ernest T. Weir, the late Chairman of National Steel. After his death Cyrus Eaton, head of another Cleveland grouplet, came to the fore. His interests are largely parallel with, and in some places interlock with, those of the Hannas.

PACIFIC COAST INTERESTS

The position of business interests in California, the largest center of munitions activity, is of special interest. Nixon was brought to prominence politically by southern California business interests, which have flourished on oil and munitions. Nixon was always a

determined cold war advocate, although his personal specialty was domestic McCarthyism. Nixon brought into the government, among others, Lockheed Aircraft director John Sparks Thomas who became Secretary of the Navy. However, most of the Los Angeles area capitalists who propelled him into politics and gave him his private slush funds were oil, real estate and cattle men rather than munitions specialists.

From northern California, former Senator William Knowland, banker and newspaper publisher, was a leading cold war advocate, and, in particular, supporter of Chiang Kai-shek.

While California has been a source of much cold war pressure, it has also been the source of some of the most developed peace pressure in American politics. California shipping interests have favored trade with China, as have Oregon lumber interests and the Kaiser heavy-industry interests. More important, of course, is the excellent development of popular peace sentiment in California spearheaded by the International Longshoremen's and Warehousemen's Union, and by such outstanding public figures as Linus Pauling and Holland Roberts.

The big mystery in this picture is the Bank of America, largest financial interest on the coast. The weight of evidence is that it has little connection with the major oil and munitions interests of the state. However, it has expanded enormously overseas since World War II, and is now one of the big three U.S. banks in the volume of overseas deposits. It concentrates on the Far East, Italy, and Germany and probably does more business in the Far East than any other U.S. bank. However, there are indications that it is connected, more than most U.S. banks, with locally owned industry and operates less than most as the typical local representative of Wall Street to whom U.S. investing industrial corporations go for banking services. It has also developed a significant volume of deposits in branches opened up at U.S. military bases.

There is no clear evidence of Bank of America's connection with either Nixon or Knowland—unless one can consider "evidence" the location of Nixon's law office in the Bank of America building of his home town when he was first in Congress. Certain indirect evidences hint at the Bank of America tending to favor a more peaceful policy,

but nothing definite. The latest press story concerns a possible attempt of the Bank of America to get a top position in the Kennedy cabinet. There is certainly a reasonable political basis for this, since the bank's founder, Giannini, was one of the few pro-Roosevelt bankers during the 1930s, and the present chairman, Jesse Tapp, regards himself as a Democrat. According to Drew Pearson, California politicians Governor Brown and Senator Clair Engle proposed that President-elect Kennedy appoint Tapp or George Killion of San Francisco, head of a steamship line, Secretary of the Treasury instead of an Eastern banker.

The basis for this vain attempt by the more liberal California interests, as reported by Pearson, is most interesting:

> The argument of Governor Brown and Senator Engle was not that these eastern bankers were not honest and able, but that representatives of companies whose property was seized by the Soviet or which have heavy investments in Germany, or who represent big business, may not have the fresh and unbiased outlook of a banker from the west. If they went wrong in backing Germany in the pre-Hitler era their judgment could be wrong again.[20]

And this is probably a valid argument, even though the Bank of America was the first United States bank to open a branch in postwar West Germany!

In addition to the Los Angeles group with its orientation to oil and munitions, a third California group of the older San Francisco bankers is heavily involved in Hawaiian investments, and apparently aspires to trans-Pacific expansionism. Former Senator Knowland was a prominent figure in this group which is also connected with the Morgan and other Wall Street interests.

It may be significant that Kennedy, while rejecting Brown's proposal for an anti-war Californian Secretary of the Treasury, did appoint the aggressive and militaristic Californian John A. McCone as Chief of the Central Intelligence Agency to replace Allen Dulles. McCone, originally from Los Angeles and a major political supporter of Nixon, has his main present properties in shipbuilding, shipping, and heavy construction companies based in San Francisco and connected with the older San Francisco financial interests. He also owns over a million dollars worth of Standard Oil stock.

The extremely rapid growth of munitions industries, not only in California but also throughout the Southwest, inevitably tends to strengthen the militaristic group among the leading capitalists of the area. It may not be accidental, therefore, that the public leader of the extreme right in American politics, Senator Goldwater, hails from Arizona.

CHAPTER XII

Conclusion

To START WITH, the author must enter a formal disclaimer of crude economic determinism, a distortion with which students of the economic aspects of world problems are always liable to be charged, deservedly or not. Political factors in the broadest sense, considerations of military and class power, and national and psychological factors play a vital part in all critical moments of world history generally, and in shaping the policies of top American business circles particularly. The author knows this, and endeavors in this work to take all factors into account, appraising their interaction with economic factors.

Economic aspects, however, do provide the steady, fundamental current of motivation defining the general drift of policy of social classes and groups. This study endeavors to chart that broad current, along with major cross-currents and eddies—the conflicts and contradictions which prevail in all social phenomena. It attempts to construct a theoretical framework for evaluating a vital new feature of the over-ripe capitalism of the present—permanent militarization of the economy. This framework is applied also to the possible elimination of militarism through internationally agreed disarmament. Simple economic models have been erected (Chapter VIII) and used to provide a crude standard of measurement for the particular problems. But the author must caution readers against using these blindly, without adjustment for the peculiarities of a given situ-

ation to which they might be applied. The emphasis has been on investigation, as closely as available information would permit, into the relevant actual phenomena in the United States today. That information is far from complete. Much is hidden. Much goes on beneath the surface. The author has had to make estimates of important quantities, providing broad ranges corresponding to the roughness of the data. He has drawn conclusions concerning the attitudes and the tenor of the activities of business groups on the basis of that small portion of big business activities which are made available to the public.

Naturally, there is risk in this method, as in all social science which endeavors to open up new areas to knowledge and study, instead of leaving all obscure and undecided. Errors are possible, and imprecisions likely. Yet, the reader should note, a number of the particular conclusions, and others derived by similar methods, have been previously published by the author and have not been challenged for accuracy.

This is an effort in the area of political economy, in the literal sense of that term. It concentrates on elaborating the impact of crucial policies on one social class, the capitalist class, and more particularly on the dominant, big business sections of the capitalist class.

It investigates the contradictory economic effects on big business of the prevailing policy of a militarized economy and of the alternative policy of disarmament. It appraises the "logical" attitudes of various sections of big business to disarmament, in so far as they result from these factors, and checks actual expressions of policies against those which might be expected.

There are many differences from the common academic approach. Perhaps most important is that here we never lose sight of the crude, simple, but basic point that big business is aiming for profits first, last and all the time—preferably visible and available profits, ready to grasp—and that each big businessman is aiming for his profits in particular rather than for the profits of all, the stability of the economy, or any other general aim. This approach is decisive in our weighting of elements in the analysis.

The conclusions follow:

1. Big business benefits from a militarized economy through mu-

nitions contracts and related military business. This business is especially sought after because it provides higher-than-average rates of profit, an unusually high proportion of secret, hence tax-free, profit, and security from ordinary business risks.

2. Big business benefits from a militarized economy through foreign investment and related overseas business. This business is especially sought after because it provides higher-than-average rates of profit and opportunities for expansion often lacking at home. Foreign investment positions are dependent on the military power of the country of the investors and the deployment of that power to secure the internal policies, production costs, and tax regimes essential for the realization of very high profits in the countries where the investments are made.

3. Military and foreign business today account for 25%–35% of the profits of all corporate enterprise. However, the percentage is much higher for industry than for the service area of the economy, and much higher for big business than for small. These sources have provided *all* of the increase in corporate profits over the past decade.

4. The profits from foreign business are significantly larger than those from military business directly. This factor, which is contrary to a common assumption, has a major importance. It means that the traditional function of great power armed forces as instruments of empire building remains valid for the United States today—although this is not their only function. While this means of imperialism has increased greatly as a source of profits, it has not outgrown its initial *ends,* the empire itself, in this respect. We speak, of course, of the present-day "neo-colonialist" empire, which economically is almost as effective a source of profits as the formal colonial empire in the days when that was politically possible.

5. A special study of the 25 largest U.S. industrial corporations shows military and foreign business accounting for over 40% of total profits, with foreign business accounting for 29% and military business for 12%. A further study of 30 not quite so large industrial companies shows military business and foreign investments again providing over 40% of profits, but with foreign business providing only slightly more than military. The marked divergence in the

relative shares of military and foreign business between the two samples reflects different industrial patterns, related to size, and especially the fact that foreign investments are even more concentrated than military contracts.

6. Summarizing, and allowing for unreported profits, it is concluded that for big business as a whole, foreign and military business provided 40%–50% of total profits in 1959–60, with foreign business accounting for half again as much as military business. In view of trends in both fields, it appears likely that these sources will definitely provide over half of big business profits in the near future, if that is not already the case in 1962.

7. There are enormous variations in the importance of military and foreign business among individual companies and among industries. The heavily militarized industries today are aircraft-missiles, electronics and related instrument and machinery industries, ordnance, and shipbuilding. The motor vehicle and most machinery industries are no longer heavily militarized, nor is the basic steel industry. Even aluminum and the traditional non-ferrous metals are no longer so decisively military-oriented as they were during the Korean War. However, when their present military business is considered along with their foreign investments, they are heavily dependent on the military-overseas combination. Important new military-based metals industries have arisen.

Oil is overwhelmingly oriented to foreign investments.

The chemical industries are comparatively little involved in traditional military chemicals, but leading chemical companies have obtained important participation in fissionable materials processing, missile propellants, special metals, and other new-type materials for modern munitions.

Light and food industries are generally little involved in munitions, as are most segments of the construction and related industries.

8. Small and local business interests are significantly affected by the geographical distribution of military business, including both munitions and armed forces activity. This has a pronounced regional pattern, with the greatest relative importance in the Far West and Southwest. The Southeast and New England are also above average

in militarization. The Middle West is an area of below average militarization.

9. Munitions and foreign investment profits are not unalloyed gains for big business. There are losses from forced participation in the payment of taxes toward the cost of the military establishment. Disarmament would entail a directly opposite set of pluses and minuses—losses from the elimination of military business, prospective loss of a substantial part of the profits from foreign investments, gains from the reduction of taxes. A significant secondary factor would be the prospective distribution of substitutive civilian spending by the Federal Government.

10. As a first approximation, on the basis of the 52% corporate tax rate, there is a "breakeven point" of 37% for military and foreign business. That is, a corporation obtaining 37% of its profits from these sources would gain as much from disarmament through lower taxes, assuming an even distribution of tax reductions, as its maximum loss in profits from disarmament.

Owners of corporations with decisively higher percentages of military and foreign business are likely to strongly favor continuation or extension of militarization. Those with decisively lower percentages are likely to favor, or at least be tolerant of, a degree of disarmament. Somewhat more than half of the giant and super-giant industrial corporations are above the breakeven point.

11. Other economic problems are intimately connected with militarism, and would be influenced by disarmament.

Militarism is largely responsible for the United States' balance of payments difficulties, and disarmament would alleviate, if not wholly resolve, them. Disarmament would also open up vast international trading possibilities, especially with the socialist countries. The impact of militarism and disarmament on the business cycle is controversial. A common business attitude is to applaud piously when a politician vigorously asserts our non-dependence on armaments, but to respond bullishly when an armaments build-up is in the offing. Probably most business circles regard militarism as providing a higher degree of cyclical security.

On the whole, it is demonstrable that militarism has been associ-

ated with the declining growth rate of the United States economy; and it is arguable that disarmament would open fresh possibilities for an expanded economic growth rate.

However, within the situation of relative national stagnation, the secret of growth for the individual corporation has been to increase its position in munitions and foreign investments. The attitude of the businessman is apt to be conditioned more by this fact than by considerations of general national progress.

12. Examination of the stated positions of different business interests show a correlation, but not a precise correspondence, between their attitudes and their economic motivations, calculated in so far as data permit according to the criteria developed in this volume.

13. Among the leading Wall Street groups, the Rockefeller interests have taken the sharpest and most consistent pro-militarist, anti-disarmament position. The weight of their investment positions in foreign oil and munitions provides a logical fundamental explanation for this. The Morgan interests take a similar position and appear to be increasingly aligned with the Rockefellers in foreign affairs. The First National City Bank appears to lean against the militarist current, and to be more tolerant of disarmament, with evidence that considerations of monetary stability carry a larger weight in this group's balance of interest.

14. Executives of the two largest munitions industries, aircraft and electronics, appear as overwhelming supporters and promoters of militarism, and as opponents of disarmament. General Electric is a most important partial exception. Despite the fact that its absolute profits from munitions exceed those of any other single corporation, its propaganda and activities have been contradictory, sometimes appearing to favor militarism at other times disarmament. Executives of the automotive industries, which have been largely eliminated from munitions work and can expect concrete secondary benefits from disarmament, lean mildly in that direction.

15. Among regional groups, certain of the Midwest and California interests show a more favorable attitude towards disarmament. The Midwestern attitude is logically related to the comparative lack of military business in the area, and to the absence of major over-

seas connections of some (but not all) of these circles. The California situation involves interests not connected with the major strongholds of militarization in the Far West, and having vital opportunities in trade with China. On the other hand, equally powerful Far Western groups are major supporters of militarism.

MILITARISM IN THE IMMEDIATE POLITICAL SITUATION

The author hopes that this study will be of more than academic interest; that it can serve as a tool in the appraisal of evolving political situations. In the present epoch, when, increasingly, the top personnel in government are selected directly from the leading centers of high finance, it is more than ever possible to identify the holders of national power with such circles.

In that respect the key appointments of the Kennedy Administration are most significant. The emphasis on Rockefeller influence, particularly through the persons of Rusk, McCloy, Gilpatric, Taylor, and, originally, Allen Dulles, are not favorable omens for the prospect of disarmament. Neither are the appointment of veteran proponents of militarism and aggressive foreign policies among big businessmen, like McCone and Foster. It is notable that the more pacific Democrats, relegated to secondary foreign affairs roles by Kennedy, also conform roughly to the results developed in this study. Stevenson has his main base with Chicago financial interests, and Williams with light industry, while Bowles has no clear-cut major industry connection.

These appointments, considered in the light of our analysis, must be regarded as sombre indicators for the cause of peace, which it would be naive to ignore or underestimate. Certainly developments during the first year of the Kennedy Administration were predominantly towards an increase of international tension, and especially towards an intensification of the armaments race.

The rapid increase in the military budget during the fiscal years 1961–63 suggests that by 1965 the total amount of munitions business may be 50% larger than in the years 1959–60. Continuation of recent trends will bring about a similar rise in foreign investment business.

Thus by the middle of the present decade, considerably more than

half of the profits of the giants of American industry will be derived from foreign investments and from war preparations. At the same time, the trend towards a reduction in the corporate tax burden, begun during the Eisenhower Administration, has been markedly speeded up during this Administration. Should the proposed investment tax credit or an equivalent cut in other forms, be enacted, the "breakeven point" calculated in Chapter VIII may be reduced to around 30%, and at least two-thirds of the super giants of industry will be above it in their military and foreign investment profits.

These trends suggest that the largest owners of big financial and industrial corporations may become more active, and more united, in the promotion of militarism and international tension.

Opposed to this, the movement for peace of the American people, based on the elementary biological desire to survive, is growing even more rapidly. It is to be hoped that this growth will continue and will be reinforced with an understanding of some of the truly sordid motivations behind the war danger. For such understanding will not only stimulate the growth of the peace movement; it will increase its stability and determination and make it less vulnerable to the propaganda of pro-war forces which falsely refer to the private interest of a small clique as the national interest, and which falsely claim that the cause of these individual profits is the cause of global "freedom."

It is also to be hoped that increasingly those business interests, in a *numerical* majority, which are not net gainers from militarism, as they obtain more of an understanding of the real economic forces involved, will lend their support to the cause of peace.

Concrete study of the economic interests of the most powerful groups in society provides a guide for the approximate measurements necessary for the evaluation of policy forces and trends. Such a guide is essential to raise the art of political appraisal from the level of the Ouija Board and the psychiatrists' couch and put it on a scientific foundation, to understand the inner causality of world affairs.

The author hopes that others will take his crude measuring instrument, build much more detail onto it, refine and perfect it in every way.

THE LONG VIEW

The following comments are most appropriate to the theme of this book:

"The story of the rise and development of the arms merchants reveals them as a growing menace to world peace. When they began centuries ago to adapt gunpowder for war, their products were primitive and crude; today their death machines represent the acme of scientific achievement. . . .

"Every modern war threatens to involve half the world, bring disaster to world economy, and blot out civilization. . . .

"The business of the arms industry is steadily increasing . . . and governments are everywhere drawing closer the ties which bind them in a virtual partnership with the merchants of death.

"Already the stage in national affairs has been reached where the largest item in national budgets is for past and future wars. Already war appears as the greatest and most important activity of government.

"(The) system of industrial mobilization is a long step toward placing war in the center of our economic life, or to put it another way, to make the arms industry the hub of our industrial machine. An alliance of governments with war industries threatens to make the arms makers supreme in economic life and after that in government. . . .

"But other counter-currents are active also. A growing demand is being voiced that the arms merchants must be rigidly controlled. Some call for complete government ownership and operation of the industry. . . .

"There remains but one real way out, disarmament. The various futile conferences on disarmament have not been in vain if they have opened the eyes of the peace forces to the real problem which confronts them. . . . Our civilization has permitted and even fostered war-making forces, such as nationalism and chauvinism, economic rivalry and competitive capitalism, imperialism and colonialism, political and territorial disputes, race hatred and pressure of population. The traditional way of establishing an equilibrium between these rival forces has been and is violence, armed warfare.

"Disarmament is thus a problem of our civilization. It will never be achieved unless these war-making forces are crushed or eliminated. The problem of disarmament is therefore the problem of building a new civilization. . . .

"Meanwhile those interested in creating a war-less world need not be idle and await the dawn of a new day. They can support every move made for the peaceful settlement of international disputes; they can help to reduce the exorbitant budgets of war and navy departments; they can work for regional limitation of armaments and back all treaties which tend to avoid competition in arms; they can oppose nationalism and chauvinism wherever they show themselves, in the press, in the schools, on the lecture platform; they can strive to bring order into the chaotic economic and political conditions of the world.

"Wars are manmade, and peace, when it comes will also be manmade. Surely the challenge of war and of the armament maker is one that no intelligent or civilized being can evade."

The above is from the once-well-known book, *Merchants of Death,* by Engelbrecht and Hanighen.[1] When it was written thirty years ago the United States military budget was less than one billion dollars, and the combined military budgets of all world powers were only $4.5 billion—about equal to the 1962 military budget of West Germany.

But more things have changed than the multiplication of weapons destructiveness by a factor of thousands, and of armament budgets by a factor of 50 to 100.

A new civilization committed to peace, and without armament merchants, has become immensely powerful. Colonialism is being shattered, and most of the newly independent countries are lining up as partisans of peace. The leading group in one of the two outstanding world powers, the USSR, has staked its political future on the thesis that with the existing and developing balance of world forces, disarmament may be realizable even while capitalism remains in existence.

The 100 members of the United Nations have unanimously voted for complete and general disarmament, and the United States Gov-

ernment and the Soviet Government have jointly signed the first statement on approaches to achieving that.

The struggles for and against disarmament are waged most tensely right here in the United States. The decision of disarmament or limitless arms race, of peace or nuclear holocaust, of a greatly advanced civilization or annihilation, is to an unusual degree the responsibility of the 6% of the world's population resident in the United States of America.

The battle lines are drawn—between the arms makers, foreign investors, and their financial institutions and multi-billionaire owners on the side of doom; and the tens of thousands of Americans who in various ways demonstrate their support for peace. When this number swells to hundreds of thousands and millions, and when the scope and determination of their actions mount in the same proportion, then, and only then, will the future be saved—the future which has a richer, nobler promise for mankind than ever before in history.

Appendices

Appendix I

MILITARY ENGINE ACCOUNTS, GENERAL MOTORS CORP. ALLISON DIVISION

1952–1956

(*millions of dollars*)

Sales			$1,340
Costs:			
Materials (including subcontracts)	757		
Direct labor	25		
Materials and direct labor, sub-total		782	
Engineering, research and development	212		
Administration	16		
Overhead	80		
Special tooling	37		
Preproduction and arrangement	35		
Depreciation	6		
Overtime, night shift, cost of living premiums direct and indirect labor	7		
Miscellaneous	40		
Indirect costs, sub-total		435	
TOTAL			1,217
Profits before taxes			123
Pct. of sales			9.17%
Profits after taxes			51
Pct. of sales			3.83%

SOURCE: House of Representatives, Committee on Armed Services, Replies to Questionaires on *Aircraft Engine Production Costs and Profits*, Washington, 1957.

Appendix II

PROFITS AFTER TAXES OF 25 LARGEST INDUSTRIAL CORPORATIONS TOTAL, FOREIGN, AND MILITARY, 1959

	Profits					
	Amount (million $)			*Percent of Company Total*		
Company	Total	Foreign	Military	Foreign	Military	Foreign & Military Combined
1. General Motors	$873	166	35	19%	4%	23%
2. Standard Oil (N.J.)	630	413	32	66	5	71
3. Ford Motors	454	49	5	11	1	12
4. General Electric	280	31	112	11	40	51
5. U.S. Steel Co.	255	13	26	5	10	15
6. Socony Mobil	164	95	7	58	4	62
7. Gulf Oil	290	138	6	48	2	50
8. Texaco	354	181	21	51	6	57
9. Chrysler (3)	5	5	26	16	84	100+
10. Swift	19	2	1	11	3	14
11. Western Electric	102	0	35	0	34	34
12. Du Pont	288	43	35	15	12	27
13. Bethlehem Steel	117	6	20	5	17	22
14. Standard Oil (Ind.)	140	6	3	4	2	6
15. Westinghouse	86	5	19	6	22	28
16. Armour	14	1	0	7	0	7
17. General Dynamics (3)	31	0	43	0	100+	100+
18. Boeing (2) (3)	12	0	41	0	100+	100+
19. National Dairy	49	8	1	16	3	19
20. Goodyear	76	23	8	30	11	41
21. Standard Oil (Cal.) (1)	259	143	26	55	10	65
22. Union Carbide (1)	182	36	36	20	20	40
23. R.C.A.	40	2	18	5	45	50
24. Procter & Gamble	82	17	1	21	1	22
25. International Harvester (1)	86	28	2	33	2	35
Totals	$4,878	$1,411	$559	28.9	11.5	40.4

Source: Compiled from annual reports of the corporations listed.

Notes: (1) Total and foreign profits include amounts shown in annual reports as unconsolidated equity in foreign profits.

(2) Shell Oil appears between General Dynamics and Boeing in the *Fortune* listing, but is omitted from this analysis because it is a subsidiary of a foreign-owned company.

(3) These companies lost money on domestic civilian production.

Appendix III

PROFITS AFTER TAXES OF 30 LARGE AND MEDIUM INDUSTRIAL CORPORATIONS, TOTAL, PERCENT FOREIGN MILITARY, 1959

Size Rank	Company	Profits *Amount* (*millions*)	Percent of Company Total Foreign	Military	Combined
42	Sperry Rand	$37	23%	67%	90% (4)
58	Dow Chemical	84 (1)	18	15	33
74	Colgate-Palmolive	25	64	0	64
90	Raytheon	13	0	85	85
100	McDonnell Aircraft	10	0	100	100
116	Am. Smelting & Refining	29 (2)	45	10	55
132	Coca-Cola	40 (3)	31	2	33
148	Avco	10	0	80	80 (5)
164	McGraw Edison	15	7	7	14
180	Celanese	29 (3)	28	7	35
196	Archer-Daniels-Midland	5	10	5	15
212	Gen. Precision Equip.	4	0	72	72
228	Republic Aviation	3	0	100	100
244	Admiral Corp.	4	25	25	50
260	General Cable	9	0	10	10
276	Pepsi-Cola	14	31	2	33
292	Electric Storage Battery	6	27	5	32
308	Bemis Brothers Bag	3	0	0	0
324	Interstate Bakeries	4	0	0	0
341	Beech-Nut Life Savers	8	8	0	8
356	Thomas Lipton Inc.	7	8	0	8
372	McGraw-Hill Pub. Co.	8	5	0	5
388	Island Creek Coal Co.	3	22	2	24
404	Amer. Agricultural Chem.	5	0	0	0
420	City Products Co.	4	0	0	0
436	St. Joseph Lead	6	50	5	55
452	Cosden Petroleum	5	0	4	4
468	Consolidated Cigar	4	40	0	40
484	E. W. Bliss Co.	1	40	5	45
500	Masonite Corp.	6	10	0	10
	Totals	$401	22.7%	20.4%	43.1%

Source: Compiled from annual reports of the listed corporations. Size rank, according to sales, from *Fortune*, July 1960.

Notes: (1) Includes undistributed profits of associated companies.
(2) Includes nonrecurring capital gains.
(3) Includes undistributed profits of foreign subsidiaries.
(4) Domestic civilian sales 30% of total but low profits indicated on these sales.
(5) Domestic civilian sales 43% of total but low profits indicated on these sales.

Appendix IV

CALCULATION OF FOREIGN INVESTMENT AND MILITARY PROFITS OF 500 LARGEST INDUSTRIAL CORPORATIONS

The 500 largest had total profits of $12 billion in 1960 (*Fortune*, July 1961). The 25 largest had profits of $4,878 million (Appendix Table II). Thus the remaining 475 of the 500 largest had $7,122 million of profits. The amounts of foreign and military profits of the 25 largest are given in Appendix II. It is assumed that the next 475 companies had the same percentages of foreign and military profits as the sample of 30 companies from among them tabulated in Appendix III.

The resulting calculation follows:

	Profits after Taxes (*millions*)				
Size Rank of Corporation	*Total*	*Foreign*	*Military*	Percent of Total *Foreign*	*Military*
1–25	$4,878	1,411	559	28.9	11.5
26–500	7,122	1,617	1,453	22.7	20.4
1–500	12,000	3,028	2,012	25.2	16.8

Appendix V

ANALYSIS OF MARKETS, METAL WORKING INDUSTRIES, 1959

To analyze the markets for durable goods industries it is necessary to consider sales of final products to ultimate users, omitting intermediate products. Also, sales must be considered at wholesale prices, not at retail, for comparability, and especially to avoid overemphasizing the importance of consumers goods. Finally, in evaluating the significance of the military, it is relevant to consider metal working industries, omitting light consumers goods classified as durable by the Commerce Department, such as furniture, china, and varied household goods; and miscellaneous items. Actually such items, when purchased by the military, are classified as operating supplies, not equipment. Thus it is necessary to analyze the distribution of output of the machinery, transportation equipment, and instrument groups, and part of the miscellaneous group of industries, which includes ordnance.

A distribution of durable goods final output by purchaser is estimated by the Commerce Department in its gross national product statistics. (*Surv. Curr. Bus.*, July 1961, Table 66.) The producers' durable equipment figure was taken as given. From the given total for consumers durable goods, $43.5 billion, the amounts shown for furniture, china, glassware, tableware and utensils, and half the amount shown for "other" durable housefurnishings was subtracted, leaving $34.9 billion. Assuming—conservatively—an average retail, transportation, and excise tax markup of 50%, this is equivalent to $23.3 billion at wholesale. The $20.8 billion for military equipment is the figure of military durable goods purchases for fiscal year 1959, shown in Table 3, adjusted to a calendar year basis. The figure for foreign markets consists of net exports of durable goods, $1.9 billion (shown in the aforementioned Commerce table), plus overseas production of U.S. machinery and transportation equipment companies. This is given for 1957 and 1960 in *Surv. Curr. Bus.* Sept. 1961, Table 8. The 1959 amount was estimated at $10 billion by

linear interpolation. Civilian government purchases, including institutional, are estimated from data contained in *Surv. Curr. Bus.* July 1961, Tables 66 and 27. The Commerce Department gives a figure of only $20 billion for all government durable goods purchases, which appears to be three billion dollars too low.

Appendix VI

GEOGRAPHICAL DISTRIBUTION OF MILITARY AND MUNITIONS EMPLOYMENT

Military and Munitions Employment, by States, 1959: (*thousands*)

Ala. 77, Ariz. 54, Ark. 17, Cal. 941, Col. 72, Conn. 111, Del. 17, D.C. 65, Fla. 134, Ga. 134, Ida. 11, Ill. 132, Ind. 62, Iowa 23, Kan. 92, Ky. 62, La. 46, Me. 28, Md. 148, Mass. 190, Mich. 110, Minn. 33, Miss. 38, Mo. 111, Mont. 10, Neb. 26, Nev. 14, N.H. 23, N.J. 172, N.M. 58, N.Y. 368, N.C. 119, N.D. 6, Ohio 180, Okla. 71, Ore. 12, Pa 162, R.I. 19, S.C. 75, S.D. 10, Tenn, 57, Tex. 367, Utah 40, Vt. 4, Va. 197, Wash. 197, W. Va. 11, Wisc. 26, Wyo. 8, Alaska 52, Hawaii 61, Undistributed 255, U.S. Total, 5,314.

Percent Military and Munitions of Total Non-agricultural Employees, by states, 1959:

Ala. 10.0, Ariz. 16.7, Ark. 4.6, Cal. 19.4, Col. 14.1, Conn. 12.5, Del. 10.9, D.C. 12.2, Fla. 10.2, Ga. 12.4, Ida. 6.9, Ill. 3.8, Ind., 4.5, Iowa, 3.4, Kan. 15.6, Ky. 9.2, La. 5.8, Me. 9.8, Md. 16.1, Mass. 10.0, Mich, 4.8, Minn. 3.6, Miss. 9.2, Mo. 8.3, Mont. 6.0, Neb. 6.9, Nev. 13.9, N.H. 11.6, N.J. 8.6, N.M. 22.8, N.Y. 6.0, N.C. 9.9, N.D. 4.7, Ohio 5.8, Okla. 11.9, Ore. 2.4, Pa. 4.5, R.I. 6.6, S.C. 12.6, S.D. 71, Tenn 6.4, Tex. 13.9, Utah 15.6, Vt. 3.7, Va., 18.3, Wash. 21.9, W.Va. 2.4, Wis. 2.2, Wyo. 8.6, Alaska, 63.4, Hawaii, 23.6, U.S. Total, 9.9.

Sources: Employment on Department of Defense contracts (U.S. total 2,656,000), computed at one employee for each $9,000 of prime contracts issued in fiscal year 1959; as shown in Dept. of Defense release Military Prime Contract Awards by State, June 1960. Includes all supply, construction, and research and development contracts. Includes 214,000 estimated employment undistributed by state.

Employment on Atomic Energy Commission contracts, (U.S. total 122,000) estimated for states from data contained in Annual Report of the Atomic Energy Commission for 1959, reports of contracting corporations, and miscellaneous publications of the Atomic Energy Commission. Includes production and construction. Includes 22,000 estimated employment undistributed by state.

Civilian employment by Department of Defense (U.S. total 973,000) and military personnel (U.S. Total 1,563,000) from U.S. Congress, Joint Economic Committee, *Background Material on Economic Aspects of Military Procurement and Supply,* Feb. 1960, Table 9, p. 24. Includes 29,000 servicemen undistributed by state. Excludes members of armed forces stationed overseas.

Non-agricultural employees (U.S. total 53,878,000). Civilian employees from U.S. Dept. of Labor *Employment and Earnings,* May 1960, for 48 states. Alaska and Hawaii estimated from Commerce Department and Labor Department data. Armed forces as above. 29,000 undistributed by state.

Reference Notes

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