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ABSTRACT

"Neo-Leninist" and elitist theories of business influence on and benefits from U.S. military action (1948-67) are investigated. Hypotheses posit significant increases of U.S. trade, acquisition of "strategic" raw materials, overseas investment, defense industry profits and stock exchange performance during and after military interventions abroad. There was no overall correlation between intervention and overseas business benefits, although in certain cases access to African raw materials increased as did trade with Asia and the Middle East and capital flows to Asia. Scope and duration of intervention made little difference in these findings. While industries' profitability peaked during and after the Vietnam war, profit margins did not generally depend on military action, although clusters of interventions coincided with improved defense stock performance.

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INTRODUCTION

The national debate in the United States over Vietnam spurred considerable academic research into the influence of U.S. business on government policy in general and foreign policy in particular. Some researchers have asserted that the military sector is the most profitable and influential part of the American capitalist system, and that the machinations of defense industrialists have militarized the American society, polity, and economy. Militarization may lead to U.S. military action and other forms of intervention abroad as well. However, studies showing exorbitant profits of defense contractors, generally increasing defense costs, and the government influence of corporate representatives do not necessarily show that Washington's foreign policies are controlled by or designed to benefit business interests. It is necessary to look for evidence of such foreign policy control and benefits. In particular, this study will focus on the possible benefits accruing to U.S. business from U.S. foreign military interventions.

Two related but somewhat distinct approaches to the business-foreign policy linkage have emerged in the literature: the "neo-Leninist", and the elitist. These are certainly not contradictory approaches, but they emphasize different sources of foreign military policy. "Neo-Leninists" argue that capitalists' needs for overseas markets, profits, and workers strongly condition government foreign policy decisions, particularly concerning the use of governmental force to secure these needs. (See references in Russett and Hanson, 1975, Ch. 2; as well as Kolko, 1969; Magdoff, 1969; and Kramer and Bauer, 1972.) Economic exploitation of the "Third World" is seen as the root of U.S. interventionism. Elite theorists, on

the other hand, would attribute U.S. military activity in part to the size and influence of the military industrial establishment seeking to protect interests inside the U.S. Some elite theorists dwell on "military-industrial complexes," while others speak of "power elites." The military-industrial complex notion normally entails a web of economic benefits from and societal dependence on military spending and a militarization of society. Power elite theorists emphasize the influence of a closed and relatively small socio-economic elite shuffling between points of power in government and business. (See Williams and Tarr, 1974: 192-95; Rosen, 1973; Russett, 1970; Mills, 1956; Barnet, 1973; and Melman, 1970.)

Whatever the particular emphasis, the elite approaches reflect a general belief in the close relations of business, military, and government elites, as well as a belief in the strong influence of the former two on the latter elite and the strong dependence of the U.S. economy on military spending. Employment, profit levels, and investment in enterprises inside the U.S. depend on the large chunk of money dispensed each year by the Pentagon. Theorists then speculate that the weapons produced are likely to be used in foreign combat, if for no other reason than to legitimize future military production. Thus the impetus for interventionism comes from the influence of specific domestic elites, and resulting militarization of society and public spending, rather than from capitalism's exploitation abroad.

While both "neo-Leninists" and elite theorists imply that business interests will both encourage and benefit from military action abroad, there are good arguments to the contrary. Economic and bureaucratic benefits of military spending can accumulate whether or not the resultant weapons and forces are used. Also, Lenin's theory of imperialistic wars

notwithstanding, foreign investments can be jeopardized as well as secured by military combat and its dislocations. Thus, there are reasons to doubt as well as suspect a correlation of U.S. interventions and benefits for U.S. business.

In testing predictions and descriptions of U.S. militarism, we would expect: (1) concrete economic benefits for U.S. business abroad during and after U.S. interventions if the neo-Leninists are correct; and (2) concrete benefits for U.S. defense industries at home if elite theorists are correct. More specifically, average U.S. business involvement in countries undergoing intervention should be greater than in similar countries not undergoing intervention, and average involvement should be greater after intervention than before. The same would be true of business benefits inside the U.S. If no correlation is found between interventions and business benefits, neo-Leninist or elite theories would not be disproved, but there would be grounds to question the direct influence of economic interests on specific strategic decisions in Washington. Conceivably capitalists and industrialists might pressure for foreign policies from which they do not benefit, but they would hardly be expected to do so for long.

Obviously, when the government of a large and commercially active country such as the U.S. pursues foreign policy "national interests," economic interests are bound to be among those pursued. Thus there is likely to be a least an indirect linkage between foreign policy and business interests. Further, it is difficult to solve the "chicken and egg" problem concerning business-government relations and determine whether business manipulates foreign policy, or merely coincidentally benefits from governmental elites' decisions, or both. As Bernard Morris notes,

". . .it is not capitalism per se that drives the United States into aggressive actions, it is rather that aggressive action stems from American power, which does happen to have a capitalist base." (1973:37)

Rather than searching for first causes of interventionist U.S. military policy, at this point it seems best to detail the effects of such policy on U.S. business activity both at home and abroad. In this way it will be possible to determine whether and under what circumstances business benefits from government's foreign interventions.

PRIOR STUDIES

There have been relatively few attempts to relate business activity--as opposed to business opinion--to foreign intervention. There is some evidence that significant U.S. economic interests were present in certain countries which experienced U.S. military interventions after 1945, especially in Latin America and Africa; however, political and strategic military objectives seemed to predominate in the majority of interventions. (See Pearson, 1976 and 1974; and Petersen, 1976.)

Elitist theory predictions have been examined in some detail by Lieberson (1971) and Stevenson (1973; see also, Russett, 1970, Ch. 1; and Melman, 1970), with somewhat conflicting findings. A number of researchers have shown that, ". . .defense industries were unusually profitable in the late 1950's but after 1961 the pattern was reversed." However, Stevenson (1973: 249-252) concludes that these industries remained at least as profitable as other industries in the 1960's, and in most cases more profitable. However, Stevenson does not calculate the variation in such profitability which might be associated with U.S. military action abroad.

Utilizing content analysis and elite interviews, Russett and Hanson tested competing hypotheses about whether business leaders favor foreign military action. Generally they found that business elites strongly favored all forms of intervention, though not as strongly as military elites (Russett and Hanson, 1975, Ch. 2 and 6, and p. 188). Also, there was no evidence that business leaders were "more likely to advocate military intervention than . . .members of the public at large," although executives surveyed were more hawkish than other civilian elites (p. 197; Ch. 3). Executives from corporations "with substantial foreign sales or investments" or expectations of such activites were more favorable toward U.S. government action to protect U.S. business interests abroad than other executives, and favored promotion of Third World governments receptive to foreign investment and free enterprise. However, defense industry executives were not especially hawkish on foreign policy issues, although they were more favorable toward "military preparedness" than other business leaders (pp. 247-48).

While answering some questions about relations of business and government elites, Russett and Hanson do not consider business <u>activity</u> as distinct from opinion--except in Dow-Jones totals. Odell (1974: 148-49) associates various forms of business activity abroad with U.S. foreign military assistance, and finds moderate to strong correlations between assistance to and raw materials extracted from countries, and between assistance and foreign investment and trade. Regarding direct military intervention (measured through the somewhat inaccurate <u>World Handbook II</u> intervention data set), Odell finds little or no relation to U.S. economic interests (152-53). Among the least politically stable poor countries, trade with U.S. does correlate with intervention likelihood, but

instability seems a stronger factor than economic interest (p. 153). A generally weak to moderate relation is found between U.S. regional economic interests and intervention, lending slight support to the corollary of neo-Leninist theory that even though U.S. business activity in a single country is negligible, intervention may be designed to assure continued activity in the larger region.

Rosen (1974) finds some support for "neo-Leninist" or economic interest theories of U.S. foreign policy, showing that American foreign assistance programs were contingent, in four of five cases surveyed, on the recipient regime's friendliness to U.S. business interests. Of course, three of the five cases were in Latin America, where U.S. business seems especially influential, and Rosen did not select cases at random. Nor was there any examination of the effect of direct or covert U.S. intervention or other possible contaminating variables.

While Rosen dealt with business-government foreign policy linkages across time within certain foreign states, there is little information in current research on the patterns whereby business activity either increases or decreases with intervention. Regardless of the complicated initial motivations in Washington, it is necessary to know whether the effect of intervention is to increase U.S. business involvement in affected countries or the volume of defense-related business at home.

DATA ANALYSIS AND DESIGN

Increases or decreases in U.S. business activity will be related to U.S. military intervention by comparing business activity before and after foreign incidents or crises that could have or did result in intervention. For example, if, in a given year during the period for which intervention

data have been collected, i.e., 1948-67, three crises resulted in U.S. intervention and five did not, the average increase (or decrease) of business activity from two years before to two years after the three crises entailing intervention will be compared to the average increase (or decrease) for the five U.S. abstentions. In this way we can determine whether intervention or abstention led to greater business activity.

Military intervention is defined as the dispatch of U.S. troops to a foreign state, or action by troops already stationed abroad, in the context of some political controversy involving that state. Maneuvers, shows of force, and covert or accidental involvement are excluded from this study if they did not entail military encroachment across borders or combat related to the controversy. An annotated list of 26 such interventions, as well as a list of non-interventions, is provided in the appendix. Intervention data were collected from The New York Times and regional chronologies and news sources, as well as from books and scholarly studies of foreign conflicts. Cases of "nonintervention" were derived from Cady and Prince's (1974) data on U.S., USSR, and PRC involvement in international conflicts. These were cases of foreign disputes which presumably could have engaged U.S. interest and intervention but did not. A country the size of the U.S. is never totally uninvolved in such disputes, but "noninterventions" mean that there was no evident commitment of military personnel or equipment, overt or covert, in the context of the dispute.[1]

Business activity indicators include both measures of foreign business operations of U.S. firms and domestic profitability and stock market performance of defense vs. non-defense oriented firms or divisions of firms. Overseas business activity includes: (1) acquisition of natural resources

designated "strategic materials" by the U.S. executive branch; (2) imports from and exports to foreign states; and (3) private direct investment in or net capital flows to foreign states. Sources of business activity data are specified in the appendix.[2] All overseas business indicators are converted to percentages of GNP or of total economic activity to eliminate effects of inflation on dollar values.

It is not enough to relate general business activity to intervention since certain types of businesses may benefit more than others from military activity. Naturally, defense industries might be expected to benefit, along with industries dependent on certain strategic natural resources available overseas and important to the Pentagon. To tap the special interest of certain defense oriented or specialized industries we have: (1) included data on domestic profitability and stock performance of such industries; (2) calculated the amount of militarily strategic (defined by Pentagon) natural resources used in defense production and imported from foreign countries which may or may not have experienced U.S. interventions.[3]

Analyses will be run for cases of intervention and nonintervention occurring in the same year. Business activity will be measured for the two years prior to and the two years following such cases. It is assumed that across such a five year period, at least the initial effects of the intervention on business activity will be evident. Obviously the effects may come later than two years after intervention, but confounding factors influencing business activity would also multiply during such longer time periods. Even in the two year span we can only infer that interventions _might_ be related to business gains or losses, since many extraneous factors influence business performance. But the changing effects of the extraneous factors are minimized, while the probability of finding at least some

traces of business-intervention symbiosis is maximized by selecting this time-frame.

Findings--Neo-Leninist Theory. In considering whether the neo-Leninist theories are supported by the data we will be in effect seeking the answers to two questions: (1) to what extent do existing economic interests abroad predict whether or not the U.S. will intervene militarily if a conflict arises; and (2) to what extent does intervention increase U.S. business with and economic penetration of the target country, compared to penetration of countries not experiencing U.S. intervention.

Averaging across the 26 cases of U.S. military intervention and the 97 cases of abstention, and allowing for missing data on some indicators (Table 1), the U.S. seemed somewhat more likely to intervene in states with

(Table 1 about here)

significant trade ties to American business than in less important economic markets. Ignoring region for the moment, states undergoing U.S. interventions averaged 4.0% more imports from the U.S. as a percentage of their total imports and 3.3% more exports to the U.S. as a percentage of their total exports two years prior to intervention than states not experiencing intervention. Thus, the U.S. tended to intervene in states already comparatively dependent on U.S. trade. However, the same tendencies are not present for indicators of strategic material supply and of U.S. dependence on trade with foreign states. Thus, neo-Leninist predictions are only partly supported with evidence of prior business interest in intervention targets.

However, neo-Leninists would probably also predict greater increases of U.S. business involvement in targets than in non-targets of intervention. Many analysts have noted that while the U.S. may not have had great

TABLE 1. AVERAGE PERCENTAGE OF U.S. BUSINESS ACTIVITY IN STATES UNDERGOING CONFLICT TWO YEARS PRIOR TO AND TWO YEARS AFTER U.S. INTERVENTION OR NON-INTERVENTION

	Non-Intervention				Intervention			
	Avg. 2 years before		Avg. 2 years After		Avg. 2 years before		Avg. 2 years After	
	N	%	%	N	N	%	%	N
Strategic Materials								
All regions	96	11.6	11.4	96	25	7.4	11.8	25
Latin America	18	24.8	26.2	18	3	9.1	10.1	3
Africa	29	1.8	1.9	29	4	21.3	29.4	4
Middle East	19	4.2	4.1	19	2	0.0	0.0	2
Asia	25	19.9	18.6	25	15	4.8	9.8	15
Europe	5	7.6	5.2	5	1	0.0	0.0	1
Imports from U.S. as % of Imports from World								
All regions	59	21.7	20.5	59	17	25.7	23.0	17
Latin America	13	42.3	40.1	13	2	62.6	41.6	2
Africa	14	10.1	9.3	14	5	19.3	13.7	5
Middle East	13	19.4	17.7	13	2	11.6	15.7	2
Asia	15	18.1	17.9	15	8	23.9	26.0	8
Europe	4	15.8	14.6	4	0	--	--	0
Exports to U.S. as % of Exports to World								
All regions	59	15.0	16.6	59	18	18.3	19.6	18
Latin America	13	28.4	29.0	13	2	72.9	69.3	2
Africa	13	11.0	16.5	13	5	10.2	8.9	5
Middle East	13	9.2	10.0	13	2	4.5	3.4	2
Asia	16	13.3	13.9	16	9	13.8	18.1	9
Europe	4	10.2	9.0	4	0	--	--	0
Imports from U.S. as % of Total U.S. Exports								
All regions	77	0.82	0.80	77	24	0.78	0.56	24
Latin America	18	1.32	1.14	18	2	1.56	0.70	2
Africa	17	0.15	0.15	17	5	0.20	0.12	5
Middle East	16	0.36	0.29	16	2	0.12	0.16	2
Asia	21	0.89	0.97	21	14	1.01	0.79	14
Europe	5	2.51	2.64	5	1	0.00	0.00	1
Exports to U.S. as % of Total U.S Imports								
All regions	75	0.86	0.85	75	24	0.56	0.36	24
Latin America	18	1.80	1.72	18	2	2.20	1.47	2
Africa	15	0.16	0.23	15	5	0.16	0.11	5
Middle East	15	0.15	0.14	15	2	0.02	0.01	2
Asia	22	1.11	1.07	22	14	0.50	0.36	14
Europe	5	0.60	0.80	5	1	0.00	0.00	1

business interest in Vietnam prior to military involvement there, the stakes for U.S. oil companies and other firms had mushroomed by war's end. There is only limited support for this view when all interventions are considered. Interventions seem to have considerably increased the supply of strategic materials to the U.S., but hardly affected foreign states' trade with the U.S.

While there is an overall tendency for Washington to intervene in countries with significant American trade ties, there are important regional differences. In Latin America, and, to a lesser extent, Africa and Asia it appears that the U.S. is likely to intervene in conflicts involving important trade partners. This does not seem to be the case in the Middle East, where U.S. interventions were in oil-poor states, although perhaps designed to protect U.S. interests in oil-rich states. Access to strategic African raw materials (such as cobalt and manganese) may have been an important consideration for U.S. interventions in Gabon and Congo-Kinshasa, although competition with the USSR may have been a factor as well.

Interventions seemed to increase U.S. access to strategic materials and trade in Asia across the five-year time periods, and further increased supplies of African strategic materials and exports to the Middle East. However, these are not very consistent indications of economic benefits when we consider increased strategic materials from and trade with Latin American, as well as increased imports from African states <u>not</u> undergoing U.S. intervention. Generally, interventions seemed to have little effect on trade with Latin America, although there was a large increase of U.S. imports from the Dominican Republic after 1965. Thus, perhaps with the exception of Southeast Asia, it is not much help to know whether American troops have intervened in a country if one is trying to predict whether

economic ties to the U.S. will increase after conflicts.

Correlational analysis (product-moment) was conducted to assess the impact of certain contextual variables -- region, size and duration of U.S. troop commitment -- as well as the act of intervention itself (a dichotomous variable) on business indicators. Certain working hypotheses apply to this analysis; (1) in regions subject to rather continuous U.S. economic presence, such as Latin America, there might be greater increases of business activity after interventions than in other regions (see Petersen, 1976); and (2) the longer the duration and greater the extent of intervention, the more probable the subsequent dependence of target on U.S. goods and services.

There was little or no correlation between intervention and U.S. business involvements during and after foreign crises. The best predictor of the level of U.S. business involvement after crisis was the level of involvement two years before the crisis. Between 75 and 90 percent of the variance in indicators of U.S. trade and acquisition of strategic materials after crises was accounted for by pre-crises totals on these same indicators.[4] The impact of U.S. military intervention on subsequent business ranged between zero and four percent of variance explained, and this was true for each region in the world. Hence there is no support for the first hypothesis.

Likewise, there seems little consistent tendency for large scale (high combat troop commitment) or prolonged interventions to produce increased overseas business involvement (hypothesis 2). There were few cases with data for intervention scope and duration, and hence statistically reliable correlational analysis was precluded. Increased access to strategic raw materials followed interventions with no U.S. combat

(eg., providing logistical support for other states' troops) or, in one case, involvement of less than 250 U.S. troops. The only benefits derived from large scale (1000 troops or more) intervention were slight increases in exports to the targets (averaging about one percentage point). Interventions of long duration (more than six months) produced appreciable (nine percentage points) average increases in U.S. imports from the targets as a percent of targets' world exports, and slight increases in targets' imports as a percent of U.S. world exports. The only benefits of increased strategic materials followed interventions of relatively short duration (an increase of 20 percentage points for medium term interventions of one week to six months). All other indicators declined after intervention regardless of scope or duration. Thus, assertions that large scale interventions, such as Vietnam, lead to great business dividends are called into question.

Neo-Leninists assert that U.S. capitalists rely on direct investment abroad to maintain and increase exploitation of the Third World. However, as with most of the trade indicators, the relations of foreign investment and intervention also seem weak (Table 2a), although U.S. investment data

(Table 2 about here)

are quite sketchy for the Third World, and subject to what the Commerce Department calls "significant statistical error" due to incomplete samples. Generally, measuring the difference between investment two years before and two years after intervention and abstention, there were several intervention years, especially in the 1960's, after which average investment growth was greater for abstentions than for interventions. U.S. investments in Cuba increased sharply after the intervention there in 1958, but dropped sharply after the Castro revolution developed; indeed, frequent

TABLE 2. AVERAGE CHANGES IN INVESTMENT AND CAPITAL FLOW WITH "FRIENDLY"[1] U.S. MILITARY INTERVENTION OR WITH ABSTENTION

Table 2a-- U.S. Private Direct Foreign Investments (Millions of Dollars Increase or Decrease)

Year	48[2]	50	51[3]	55	58[4]	61	62[5]	64[6]	65
Non-Interventions	42.1 N=9	--	45.8 N=6	34.6 N=7	47.8 N=6	28 N=3	89.1 N=9	61.7 N=6	32 N=4
Interventions	76 N=1	--	40 N=1	--	53.5 N=2	--	26.5 N=2	--	24 N=1

Table 2b-- U.S. Private Capital Flows (Absolute Differences in Millions of Dollars, Regardless of Whether Increase or Decrease, Between 1950 and 1957 or Between 1957 and 1966)[7]

Year	48	50	51	55	58	61	62	64	65	67
Non-Interventions	--	161.2 N=5	8.7 N=9	2.8 N=9	-130.8 N=6	1 N=3	-100.9 N=8	-.4 N=10	5.7 N=7	--
Interventions	--	.5 N=2	18 N=1	1 N=1	-38 N=2	1 N=1	3.5 N=2	-.5 N=4	-13 N=1	-1 N=1

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[1] "Friendly" interventions were those in which the U.S. either intervened to support the target government or to oppose rebels. Only such "friendly" interventions are analyzed here.

[2] Difference between 1943 and 1950

[3] Difference between 1950 and 1953

[4] Difference between 1957 and 1959

[5] Difference between 1960 and 1963

[6] Difference between 1963 and 1966

[7] Negative numbers indicate a decline in average capital flow <u>magnitude</u>, regardless of whether through outflow or inflow of funds.

U.S. interventions of various types in Cuba over the years could have led to Castro's reaction and the ultimate blow to U.S. business activity in Cuba. There was no corresponding quick increase of investment in Taiwan after the Quemoy-Matsu crisis (indicating that U.S. business leaders had not yet flocked to the cheap labor pool), and data on investment in Jordan and Lebanon were not available, so the investment picture after 1958 interventions remains cloudy.

Data on investment capital flows--the difference between capital sent abroad by U.S. firms to their foreign affiliates and capital returned to the U.S. by those affiliates--are more plentiful than those on direct investments, but represent an interpretative problem (see appendix for data sources). The difference between capital inflow and outflow, and changes in such difference over time do not reflect increased or decreased absolute investment. Thus, capital flow data are used here only to illustrate orders of investment magnitude.[5]

Business volume, as reflected by capital flows (Table 2b), seldom increased much after interventions, except perhaps for 1951 and 1962. Flows to and from the Philippines increased sharply after the intervention there in 1951 (from $6 million in 1950 to $24 in 1957), and after the Thai and Indian interventions of 1962 flows to those countries also increased somewhat. Direct U.S. investment in the Phillipines also increased by $143 million between 1950 and 57, and in India by $39 million. Thus, there is scattered evidence of a correlation between intervention and business investments in Asia, but overall there is not much difference between the effects of intervention and abstention.

Findings--Elitist Theory. Testing the predictions derived from elite theorists--that economic benefits from defense operations accrue to U.S.

domestic industries--let us first examine the profit performance of defense contractors and other U.S. industries during both interventions and non-intervention periods. Later, we can move to examination of stock market performance as well.

As noted above, Stevenson (1973) concluded that defense contractors were comparatively profitable in both the late 1950's and 60's. Profitability data reported by Stigler and Friedland (1971) and based on Pentagon reports, show a slow general decline in the average rate of return on capital invested by defense business sectors of top defense contractors as compared to commercial business sectors of these same companies and to the FTC-SEC "universe" of 3500 companies. However, analysts have noted that military contractors tend to systematically underreport their military business profit levels (see Hunt and Sherman, 1975:471); and Stevenson, 1973:249).

If we examine profit levels in relation to years of U.S. intervention and non-intervention, using Stigler and Friedland's data (Table 3), there

(Table 3 about here)

are slight increases of defense business profitability in the early years of the major Vietnam intervention (1965-66), but these are dwarfed by the general business profit upswing from 1964-66. Defense profitability was as high in 1960-62 as during the peak Vietnam years. Furthermore, while companies doing a high percentage of defense work had higher profits in the 1950's than other companies, no such distinction existed in the 60's. On the other hand, considering data on defense contractor profitability collected by Stevenson (1973:252) which do not distinguish between defense and commercial operations of the same firms, average profits in the 1960's reach a clear peak in Vietnam years, 1965 and 1966. However,

TABLE 3. AVERAGE RATES OF RETURN ON INVESTMENT FOR DEFENSE AND OTHER INDUSTRIES DURING AND AFTER PERIODS OF MILITARY INTERVENTION

Year	Number of U.S. Interventions Begun	Largest Defense Contractors (1)		Top 50% of Military Contractors (2)	FTC-SEC 3500 Companies (1)	Fortune 500 Companies (2)
		Defense Business	Commercial Business			
1956-7	0	--	--	--	--	--
1958	4	10.1%	7.0%	--	7.1%	--
1959	0	9.5%	6.8%	--	9.3%	--
1960	0	8.7%	4.8%	--	7.8%	--
1961	2	7.5%	4.7%	10.2%	7.4%	8.3%
1962	2	7.4%	9.0%	13.4%	9.3%	8.9%
1963	0	6.5%	8.7%	12.8%	9.8%	9.1%
1964	7	6.3%	10.9%	13.5%	10.8%	10.5%
1965	2	7.6%	11.6%	14.7%	12.6%	11.8%
1966	0	7.0%	10.8%	14.9%	12.4%	12.7%
1967	1	7.3%	7.4%	13.4%	10.1%	11.3%
1968	--	6.8%	8.3%	13.0%	10.2%	11.7%

(1) Data derived from Stigler and Friedland (1971:692-93) with permission.
(2) Data derived from Stevenson (1973:252) with permission.

profits of the top 500 U.S. corporations designated by Fortune Magazine also peaked in those years; thus the economy as a whole had expanded, and the increase in military contractors' profitability, which began in 1962, seemed mainly due to commercial as opposed to defense work. Certain defense-dependent companies evidently profited disproportionately from the Vietnam war, however; the average profit increase for the seven big aircraft contractors was twice as large as that of the Fortune 500. Also the General Accounting Office has reported that large military contractors had significantly higher average military than non-military profits. (Hunt and Sherman, 1975:471) These firms' underreporting of profits means that both the Stevenson and Stigler-Friedland data do not fully reflect defense profits, but no better data are available to the public. While Stevenson (1973:252-57) concludes that the U.S. economy greatly depends on defense spending, we should note that it is not clear that defense contractors greatly depend on military interventions.

Turning to analysis of defense and non-defense industries' New York Stock Exchange performance (Table 4), some of the clusters of interventions

(Table 4 about here)

seem to coincide with the largest gains for defense stocks. Six interventions occurred in the 1949-52 period, four occurred in the 1958-59 period, and nine came between late 1963 and 1965. These were periods of greatly improved defense stock performance, as well as some of the greatest comparative gains of defense over non-defense stocks. Thus, it evidently takes more than one small scale, or perhaps even one large scale intervention to kick the defense economy into high gear. It may take simultaneous and/or prolonged interventions in more than one country or more than one region before capital investment patterns significantly change.

TABLE 4. INCREASES OR DECREASES IN STOCK PERFORMANCE INDEX WITH U.S. MILITARY INTERVENTIONS.

Number of U.S. Interventions Per Year	Change in Average Stock Performance from Same to Following Fiscal Year. All NYSE Stocks	Largest Defense Contractors, 1950-57	Largest Defense Contractors, 1959	Largest Defense Contractors, 1969
0	.423(N=10)	.763(N=8)	.261(N=4)	.367(N=4)
1-2	.299(N=7)	.510(N=3)	.300(N=4)	.457(N=4)
4-7	.755(N=3)	1.968(N=2)	.310(N=2)	.446(N=2)

Source: Derived from Stigler and Friedland (1971).

Turning to analysis of defense and non-defense industries' New York Stock Exchange performance, changes in Stigler & Friedland's (1973:693) stock indices (first with June, 1948 set equal to 1000, and then, for defense industries growing in the 1960's, with June, 1958 set equal to 1000) were calculated for the year following each year in the analysis. Then years were categorized as to whether zero, one or two, or four to seven U.S. interventions took place, and the average growth of defense and non-defense stocks was calculated (Table 4).[6] Regardless of whether all NYSE stocks are considered, or merely top defense contractors, there is a general tendency for increased performance after years with several U.S. interventions, but it is impossible to draw statistically valid conclusions from so few cases. Notice, though, that the tendency for growth with multiple interventions seems greater for the prime defense contractors of the 1950's than for those of the 1960's. Indeed all NYSE stocks grew faster after years of four to seven interventions than did the top defense stocks of 1959 and 1969. Defense stocks increased most during the periods: 1958-59 (four interventions); 1960-61 (no interventions in 1960, one in early 1961); 1954-55 (one intervention in early 1955); 1965-66 (two major interventions); and 1953-54 (no interventions). Thus, while simultaneous or prolonged interventions in more than one country or region may have led to several spurts of defense stock investment, such spurts sometimes came without intervention and followed periods of international crisis (such as the lingering effects of Korean and Indochinese disputes). Of course no period since World War II has been totally free of crisis, and the largest <u>decreases</u> in defense stocks (1959-60, 1961-62, 1957-58) saw U.S. crisis involvements short of outright intervention in Berlin, the Bay of Pigs, and Syrian disputes.

Three sets of factors may influence defense stock performance: (1) intense foreign crisis and repeated or prolonged interventions; (2) the force postures and doctrines adopted and paid for by the Pentagon; (3) domestic economic factors influencing tradeoffs between civilian and defense capital investment. There is some evidence in this study of the importance of factors one and two; future economic analysis must also be focused on factor three.

CONCLUSION

There is scattered evidence for both the neo-Leninist and elitist approaches--evidence of increased business activity in some countries undergoing military intervention, and of Dow-Jones increases for U.S. defense industries during and following periods in which several interventions have occurred. U.S. businesses do not always shy away from combat theaters, but generally do better during and after military interventions not involving U.S. combat. However, there is no general trend indicating business dependence on foreign interventions; rather both business and the armed forces may depend on military spending and force doctrines.

In Taiwan, India, Gabon, Laos, the Dominican Republic, and the Philippines various types of business involvement increased after intervention. However, in none of these countries were there simultaneous increases of trade, investment, and strategic material supply. Despite post-intervention business gains in Asia and Africa, there was no statistical correlation between intervention and business indicators for any region.

These findings fit Melvin Gurtov's characterization of U.S. interventionary policy as "imperial" rather than "imperialistic":

> "....because the latter would mean that American interventions have been motivated mainly by the need for territory, bases, new markets, lines of communication, or corporate profits. Instead, the motivation has generally been to preserve or expand <u>dependency relationships</u> with Third World societies by insuring access to, and exerting predominant influence over, their policies, economies, and military affairs." (Gurtov, 1974:202)

It appears that U.S. interventions could have had the effect of perserving dependency relations, since intervention targets were more dependent on U.S. trade than non-targets both prior to and after interventions. Interventions also brought <u>increased</u> dependency according to certain trade indicators. However, generally the growth of trade was in exports to, rather than imports from the U.S., and U.S. traders often increased dependency more on foreign goods and markets than foreign states increased dependency on U.S. goods.

While prolonged interventions did not generally lead to greater overseas U.S. business involvement, they, along with clusters of interventions, seemed to lead to greater defense industry profits and stock performance. Elite theorists would probably expect such a finding, although they might be surprised to learn that low combat, small scale interventions (e.g. the Congo), and single cases of intervention did not greatly increase the volume and profitability of defense-related business. There is ample evidence in the daily press and Congressional hearings of business influence on U.S. defense policy, including the machinations of under-secretaries of Defense with strong defense business connections trying to hike arms

sales to countries like Iran. Arms sales, however, seem in general more profitable than the less direct benefits of military intervention.

Odell found little correlation between U.S. overseas business activity and subsequent intervention, and this study has reflected generally little correlation between intervention and subsequent business activity. Associations are strongest when we consider increases or decreases in overseas trade after interventions, and also the effect of prolonged military and political intervention abroad on trade and profits. However, there is no invariant tendency for the fortunes of business to depend on the dispatch of Marines.

FOOTNOTES

1. While the U.S. was the dominant world military power in the post-World War II era, it is probably untenable to assume that each world crisis represented equally probable sites for U.S. intervention. Therefore, to distinguish among crises as to ease or opportunity of U.S. intervention, crises within each region will be analyzed separately from other regions on the assumption that if the U.S. intervenes in one crisis in a region it could have intervened in any other crisis in that region during the same period. Obviously, the occurrence of one intervention in a year may decrease the likelihood of another, but we have tried to lessen this bias by choosing the first incident of nonintervention in a given year if there were several incidents in the same country. However, we cannot assume that all cases of intervention and non-intervention in the study are totally independent for statistical purposes. Nevertheless, measures of association will be reported in order to help identify the most important findings.

2. Note that certain cases must be excluded from analysis because of gaps in the overseas investment data due to the law restricting the U.S. Commerce Department's disclosure of business operations.

3. We calculated the percentage of new supply of these commodities (i.e., the sum of U.S. production and imports) comprised of imports and the percentage of total U.S. imports comprising exports from specific foreign countries. In this way the two major strategic commodities provided to the U.S. during periods of intervention and non-intervention by each country in the study were determined, and changes in the supply of these were recorded across the two years before and after interventions and non-interventions.

4. The only trade variable not well explained by trade two years before crisis was U.S. exports as a percentage of U.S. world exports. How-

ever, intervention did not even account for one percent of the variance in such exports.

5. For example, in 1957 U.S. private capital outflow to Venezuela was $826 million, and in 1966 the inflow from U.S. Venezuelan affiliates was $47 million. Disregarding the outflow vs. inflow distinction, the decline of U.S. business volume in Venezuela between 1957 and 1966 is <u>estimated</u> at $779 million (i.e., 826-47). The actual decline of total direct petroleum and manufacturing investment in Venezuela, data which happen to be available through the Commerce Department, was $490 million. So the capital calculations at least seem to reflect the trend of general business volume. Capital flow data were available only for 1950, 1957, and 1966, so all interventions and noninterventions in 1950, 51, and 55 were fitted between 1950 and 1957, and those for 1958 and later were related to capital flow scores for 1957 and 1966.

6. It seems reasonable to assume that interventions would affect stock performance over the next fiscal year, since stock analysts indicate that investors tend to react quickly to news. Also, the data do not distinguish between stock investments attracted by defense vs. commercial sectors of top defense contractors.

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APPENDIX 1-A

List of Interventions:

1. Colombia--April 11, 1948. USAF planes were dispatched to Colombia during rioting to evacuate various U.S. nationals.[1]
2. South Korea--June 27, 1950. Korean War.
3. North Korea--June, 1950. Korean War.
4. Republic of China (Taiwan)--June, 1950. During the Korean crisis, USAF planes and USN ships patrolled the Formosa Strait and Formosan waters.
5. China (PRC)--August 27, 1950. In October, a U.S. representative admitted that U.S. bombers had fired on a PRC airfield by mistake in August.
6. USSR--October 8, 1950. A U.S. spokesman said the strafing of the Soviet airfield south of Vladivostok by U.S. fighters was a mistake and expressed regret.
7. Philippines--October 25, 1951. U.S. Marines left their base to help Philippine troops search for "Huk" marauders.
8. Republic of China (Taiwan)--January, 1955. During the Tachens crisis, U.S. ships and planes patrolled the area and USN ships helped evacuate Nationalist Chinese from the Tachens.
9. Lebanon--July 15, 1958. Lebanese Civil War.
10. Jordan--July 17, 1958. USAF planes overflew Jordan to provide aircover for the landing of U.K. paratroopers and later airlifted oil to Jordan.
11. Cuba--July 28, 1958. U.S. Marines left the Guantanamo base to guard the water pipeline but returned after Castro protested.

1. "Evacuations" have been included because several large-scale U.S. intervention began with the excuse of "evacuation".

12. Republic of China (Taiwan)--September 4, 1958. During the Quemoy-Matsu crisis, U.S. ships and planes patrolled the area and escorted Nationalist Chinese convoys.

13. Laos--March, 1961. The U.S. began flying reconnaissance missions over Laos and soon began airlifting arms and other supplies to the Laotian Government.

14. South Vietnam--December 11, 1961. Two U.S. helicopter companies arrived in South Vietnam and began helping South Vietnamese forces in the field.

15. Thailand--May 17, 1962. After SEATO maneuvers, 1000 U.S. troops were ordered to remain in Thailand because of a Pathet Lao and Viet Minh offensive in the northeastern border area.

16. India--November, 1962. During the Sino-Indian border conflict, the U.S. sent some military transport planes and crews to ferry supplies and troops to border areas.

17. Zanzibar--January 13, 1964. After a coup, U.S. troops were dispatched to help evacuate U.S. nationals to a waiting USN destroyer.

18. Cambodia--March 19, 1964. U.S. military forces began helping South Vietnamese forces in attacks on Cambodian border villages.

19. Gabon--April, 1964. During a tense election in Gabon, a USAF plane landed (without Gabonese approval) in case it was necessary to evacuate embassy personnel.

20. Laos--May, 1964. U.S. planes began bombing the Ho Chi Minh Trail in Laos.

21. North Vietnam--August 4, 1964. U.S. bombing began in response to the Gulf of Tonkin incident.

22. Congo (Kinshasa)--August 13, 1964. USAF transport planes were sent to aid the Congolese Government and U.S. military personnel were sent to maintain and guard the planes and to fly and guard helicopters used in rescue and support missions.

23. Congo (Kinshasa)--November 23, 1964. USAF transport planes and crews landed Belgian paratroopers to evacuate hostages held by Congolese rebels.

24. S. Vietnam--March 7, 1965. U.S. troops undertook the bulk of fighting in South Vietnam.

25. Dominican Republic--April 28, 1965. Marine intervention.

26. Congo (Kinshasa)--July 10, 1967. During Congolese revolt, the U.S. sent military transport planes and crews to provide long-range logistical support.

APPENDIX 1-B

List of Non-interventions:[1]

1. Yemen 1948
2. Hyderabad 1948
3. India 1948
4. France 1948
5. Indonesia 1948
6. Malaya 1948
7. Pakistan 1948
8. Brazil 1948
9. Costa Rica 1948
10. El Salvador 1948
11. Ghana 1948
12. Somalia 1948
13. Ivory Coast 1950
14. India 1950
15. Pakistan 1950
16. Indonesia 1950
17. Nepal 1950
18. Tibet 1950
19. Bolivia 1950
20. Venezuela 1950
21. Egypt 1951
22. Iran 1951
23. Israel 1951
24. Syria 1951
25. Morocco 1951
26. France 1951
27. Thailand 1951
28. Ecuador 1951
29. Panama 1951
30. Peru 1951
31. Israel 1955
32. Egypt 1955
33. Muscat-Oman 1955
34. Tunisia 1955
35. Yemen 1955
36. India 1955
37. Portugal 1955
38. Indonesia 1955
39. Sudan 1955
40. Argentina 1955
41. Panama 1955
42. Cameroon 1955
43. Sierra Leone 1955
44. Iraq 1958
45. Morocco 1958
46. Ceylon 1958
47. India 1958
48. Pakistan 1958
49. Argentina 1958
50. Venezuela 1958
51. Iraq 1961
52. Lebanon 1961
53. Portugal 1961
54. Nepal 1961
55. Ecuador 1961
56. Ethiopia 1961
57. Turkey 1962
58. South Arabian Sultanates 1962
59. Algeria 1962
60. Israel 1962
61. Syria 1962
62. Yemen 1962
63. Malaya 1962
64. Argentina 1962
65. Peru 1962
66. Venezuela 1962
67. Brunei 1962
68. Ghana 1962
69. Zambia 1962
70. Malawi 1962
71. Senegal 1962
72. South Africa 1962
73. Israel 1964
74. Syria 1964
75. Ethiopia 1964

76. Sudan 1964
77. Pakistan 1964
78. Malaya 1964
79. Argentina 1964
80. Bolivia 1964
81. Somalia 1964
82. Kenya 1964
83. Portugal 1964
84. Niger 1964
85. Tanganyika 1964
86. Uganda 1964
87. Zambia 1964
88. Algeria 1965
89. Ethiopia 1965
90. India
91. Pakistan 1965
92. Indonesia 1965
93. Central African Republic 1965
94. Chad 1965
95. Dahomey 1965
96. Malawi 1965
97. Rhodesia 1965

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1. Data on non-interventions were originally collected by Richard Cady and William Prince (Cady and Prince, 1974) who identified 323 post-World War II conflicts, and coded the level of U.S., U.S.S.R., and P.R.C. involvement in the conflicts on a scale from zero ("uninvolved") to seven ("combat operations or large scale employment of combatant force in conflict situations"). To utilize these data, a subset composed of conflicts in which the U.S. had remained "uninvolved" was assembled and these conflicts were then assigned to the country or countries which had been involved in the dispute. For example, conflict #320 ("Ethiopia-Somalian Border Dispute") was assigned to both Ethiopia and Somalia, and thus became two country-conflicts. After dropping several cases from the study because they did not occur during the time period covered by this study, and dropping all but the first incident of non-intervention in a given country in a given year, the non-intervention data set was composed of 97 country-conflicts.

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