INTRODUCTION

To what extent does business wield excessive power in shaping public policy in the United States? The question, usually posed by students of American politics, was central to debates during the Vietnam War as to the motivations behind containment strategies in the Third World. Realist critics, on the one hand, pointed to an autonomous state driven by anticommunist ideology and (often) misperceived conceptions of national security. Radicals, on the other hand, stressed corporate interests and the need to preserve a status quo congenial to an expanding American capitalism. The debate was often a "dialogue of the deaf" as realists dismissed economic interpretations as conspiracy theories while radicals saw security and ideological rationales as little more than legitimations of economic imperialism.¹

The late 1970s saw a degree of convergence between scholars from both traditions as they enriched their models to incorporate the other's core insights. One work of particular importance was Stephen Krasner's, Defending the National Interest. While making a realist defense of the autonomy of foreign policy from corporate pressures, Krasner also accounted for economic motivations by noting that American public officials saw the overseas expansion of business as a prop of national power. To demonstrate the corporations were instruments of state policy (rather than the reverse), he argues that where

public and private interests diverged, the tendency was for the "larger interests of foreign policy to prevail."²

An alternative formulation can be provided by extending Lindblom's theory of the "privileged position of business" from the domestic to the foreign policy sphere.³ As in domestic politics, private economic decisions about investing capital overseas can have a significant impact on foreign policy goals, such as security of supply of critical raw materials or private capital to supplement development initiatives. As a result, state policies are often shaped and constrained by the need to induce this "performance." While this formulation is not entirely inconsistent with Krasner's model, it does raise an important question regarding state autonomy: If the state defines business as an instrument of its foreign policy, is it compelled to subordinate other interests to creating and maintaining an environment in which foreign investors could play their designated role?

Part I of this paper presents Lindblom's model as an alternative to both realist and radical approaches to the study of business influence and state autonomy in the foreign policy sphere. Part II applies that model to explain two case studies: (1) the role of the international oil companies in the U.S. decision to use the CIA to overthrow the Mossadegh regime in Iran in 1953; and (2) the role of overseas investors in the U.S. retreat from the initial reformist aims of the Alliance for Progress in the early 1960s.

These cases have been selected as illustrations of how Lindblom's model can fill in voids left by realist and radical analyses. In both, considerable state-centered scholarship has effectively refuted attempts to attribute these outcomes to direct corporate pressures or economic imperialism. Yet the cases also reveal the indirect structural shaping mechanisms outlined by Lindblom. In each, the state initially assigned greater priority to diplomatic aims which diverged from corporate preferences. Public actors, however, ultimately

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redefined their priorities in the direction of corporate preferences because of the perceived symbiotic relationship between corporate performance and larger diplomatic aims. These cases are not designed as critical case studies to demonstrate the generalizability of this explanation to other cases. In fact, the conclusion will argue that the ability of foreign investors to wield structural power as such is context specific and that the relationship between overseas business confidence and national interests may be cognitive as much as it is structural.

PART I: BUSINESS AND AMERICAN FOREIGN POLICY: ALTERNATIVE MODELS

The traditional realist model ignores or downplays the role of corporate interests or economic factors in foreign policy behavior because of its view of the state and the pressures placed on the state by the international system. The state is assumed to be a coherent and autonomous actor, unanswerable to supranational authority and relatively insulated from societal pressures. In an anarchic world, it is induced to pursue a national interest, whose main component is the maintenance and enhancement of its power relative to others to cope primarily with military threats to its physical security. In dealing with these threats, realists have consigned international economics to the arena of "low" politics - secondary to the more pressing concern with military security. In his classic textbook, Politics Among Nations, Hans Morgenthau noted that the political realist "tends to think of interest defined as power as the economist thinks of interest defined as wealth." Economic assets were considered a subordinate ingredient of national power and economic interests a subordinate feature of the national interest.

The realist critique of American diplomacy also asserted the primacy of the political. With its core interest of physical security relatively well assured, the U.S. was less constrained to focus on immediate threats to its security. As a result, American diplomacy

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4See Krasner, Defending the National Interest, pp. 36-42.
substituted an ideological approach for a prudent strategy of realpolitik.\textsuperscript{6} This approach led to either (1) an excessive faith in legalistic schemes as a substitute for power politics, or (2) the corruption of diplomacy into a moral crusade undisciplined by calculations of cost, benefit, or probability for success. Hence, many realist critics attributed interventions, such as Vietnam, not to economic imperialism, but to misplaced idealism and faulty historical analogies which confused local instability and revolution with direct aggression and the power of the Soviet Union. The fact that the U.S. chose Vietnam, an area of minuscule economic interest, as its most serious test case most clearly rebutted an economic interpretation. As Ronald Steel noted, Pax Americana made "enormous drains on our resources and energy."\textsuperscript{7} Or, as another critic observed, "ours has not been a colonialism of acquisition and exploitation, but an imperialism of overbearing and destructive benevolence."\textsuperscript{8}

In contrast, Marxist and other radical critics attributed American foreign policy to the imperatives of advanced capitalism. Central to this argument is the thesis that capitalism cannot sustain itself within the confines of the nation-state. To avert a tendency toward crisis, American business sought a higher rate of return through overseas markets, outlets for capital, and cheap raw materials. These needs are met through imposing what Magdoff called the Global Open Door - that is, a world order in which "American business could trade, operate, and profit without restriction."\textsuperscript{9} Thus conceived, Cold War interventionism was a means to protect private capital accumulation from Third World attempts to close the "open door" through socialism or economic nationalism.

Traditional realists dismissed these arguments. With their bias against economics as low politics, they devalued commercial interests as clearly subordinate to political ones. And, with their view of the state as a unitary actor, radical analyses were dismissed as conspiracy theories which "fail the test of historical experience."¹⁰

Since the early 1970s, however, a number of state-centric students of international political economy have sought to incorporate issues of economic interest and power into a realist framework.¹¹ In their analyses, economic considerations were not peripheral to American statecraft; support for a liberal economic order was a central part of postwar planners' conception of national interest. The overseas expansion of American business was encouraged as an integral part of this order and as a contributor to concrete national interests. It provided earnings to finance America's global presence, inexpensive raw materials to fuel domestic prosperity, military preparedness and the economic recovery of Western Europe and Japan, and export revenues for economic development in the Third World. Hence, Robert Gilpin characterized the MNC as a "cornerstone of American hegemony."¹² Both state and firm consequently shared a convergent interest in creating and maintaining an environment in which investors could safely expand their overseas activities.

While these scholars elevated economic factors to a higher position on the diplomatic agenda, they still shared with traditional realism a belief in the primacy of the political. In Defending the National Interest, Krasner posits that state policies can not be understood as extensions of private or class interests. Rather, the state autonomously formulates the collective goals which comprise the national interest, and these goals have been defined primarily in terms of the security and ideological aims of the Cold War.

¹⁰Morgenthau, Politics Among Nations, pp. 50-54.
¹²Gilpin, U.S. Power, p. 140.
Corporate interests were promoted not for the particular interests of the firm or the survival of capitalism, but for their presumed contribution to larger public goals. Where the state, according to the radicals, was an instrument of class interest, the corporation, to these economic realists, was an instrument of state policy.\textsuperscript{13}

To demonstrate this point, both Krasner and Gilpin note that when conflicts emerged between the state's diplomatic goals and corporate or other economic interests, "the tendency has been for the larger interests of foreign policy to prevail." For example, Gilpin cites U.S. policy toward Japan in encouraging the latter's exports into the U.S. while condoning Japan's almost total exclusion of American firms and investors from the Japanese market.\textsuperscript{14} Others cited the Vietnam War, focusing on the minor economic stakes involved and the increasing corporate opposition to the war, particularly after 1968, because of its effect on the U.S. economy.\textsuperscript{15} With respect to anti-expropriation policy, Krasner's study found that the U.S. used covert intervention only when the state perceived (or more often misperceived) the seizure as part of a radical or communist takeover, thereby supporting what the state autonomously (and often erroneously) defined as the national interest.\textsuperscript{16} In other cases, ranging from the Mexican oil expropriations in the late 1930s to the OPEC challenges in the early 1970s, the need to strengthen ties with host countries impelled the state to take a more conciliatory position than the threatened firms would have preferred.\textsuperscript{17}

Yet this defense of state autonomy raises an important unanswered question. If the state defines the overseas expansion of American business as an instrument of its foreign

\textsuperscript{14}Gilpin, \textit{U.S. Power}, p. 145.
\textsuperscript{15}Ibid., pp. 144-145; Krasner, \textit{Defending the National Interest}, pp. 320-326; Also see Bruce Russett and Elizabeth Hanson, \textit{Interest and Ideology: The Foreign Policy Beliefs of American Businessmen} (San Francisco: W.H. Freeman, 1975).
\textsuperscript{16}Krasner, \textit{Defending the National Interest}, ch. 8.
\textsuperscript{17}Ibid., pp. 178-188, 229-235, 245-271.
policy, to what extent does that relationship constrain it from asserting priorities at variance with corporate preferences?

Charles Lindblom, in *Politics and Markets*, focuses on precisely this question in asserting that business constrains (or, in his words, "imprisons") the autonomy of the state in public policy. In his theory of the "privileged position of business," Lindblom notes that corporations influence public policy less through mobilizing resources as pressure groups and more through the structural relationship between corporate performance and public goals. In market systems, he contends, businessmen are not simply interest groups, but "functionaries performing functions that government officials regard as indispensable."18 Discretionary corporate decisions have serious public consequences for goals such as national income, wages, inflation, and unemployment. Broad areas of policymaking are thereby removed from public control and depend upon corporate "performance." The state is, therefore, not wholly autonomous. Its success in achieving public goals is symbiotically tied to business confidence and it must frequently defer to corporate preferences to induce "performance." Given this structural relationship, certain corporate interests are so strategically placed that the state will be reluctant to pursue other interests and values at their expense.

When Lindblom's model is transferred from the domestic to the foreign policy sphere, three hypotheses emerge. First, discretionary corporate decisions about investing or withdrawing capital can have serious international ramifications and redefine the environment and the issues of salience for American policy makers. The vast majority of international economic transactions are conducted not by states or even national firms, but by multinational corporations (MNCs) and private commercial banks whose activities are beyond the direct jurisdictional control of the U.S. government.19 These actors make investment decisions on the basis of market criteria, which may or may not reinforce

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diplomatic aims. For example, the Carter administration's aid cutoff to human rights violators in the Southern Cone dictatorships in Latin America was more than offset by the private credits extended by bankers who appreciated those countries' "good investment climate." Conversely, when Carter sought to increase aid to stabilize the "moderate" Salvadoran junta in October 1979, these sums were more than offset by capital flight on the part of investors responding to political uncertainty. In effect, ostensibly private economic decisions become tantamount to foreign aid appropriations or economic sanctions without political accountability or oversight.

Second, the state is predisposed to pursue certain options which enable foreign investors to confidently proffer their capital abroad. Such policies are necessary because American policy makers viewed the overseas expansion of American capital as essential for important foreign policy goals - i.e., security of supply, by assuring low cost access to critical raw materials, and development diplomacy, by providing private capital to supplement public aid initiatives, such as the Alliance for Progress or the Caribbean Basin Initiative (CBI).

Yet the achievement of these aims depends upon autonomous decisions on the part of foreign investors - decisions which the state cannot command. To induce this performance, the state must indulge firms with both benefits and protection. The U.S. offers benefits to oil companies in terms of foreign tax credits to expedite the development of overseas energy resources. And, to encourage economic growth in Central America and the Caribbean, the CBI offers American investors the benefits of tax breaks and duty-free access to the American market. The state has also offered protection

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against political risk in the Third World - either through the use of diplomatic and economic pressures against nationalizations or through insurance programs, such as the Overseas Private Investment Corporation - so firms could more confidently venture their capital.25 These benefits and protections were less the result of direct corporate pressures than of public desires to maximize private activity which was linked to the achievement of important national aims.

Third, certain options may be precluded from consideration because they threaten or are insufficiently indulgent of business confidence. Lindblom's one foreign policy example of this is his citation of a 1969 quote by David Rockefeller that human rights policy has to be subordinated to the need for foreign markets.26 Echoing a similar theme, a 1977 Senate report noted the potential conflict between the promotion of human rights and the interests of American banks in the solvency of sovereign debtors:27

The Carter administration may therefore have to choose between pressing its international human rights effort, and supporting creditor demands for drastic economic austerity programs that can only be achieved at the expense of civil liberties in the countries that undertake them.

Another example is the 1952 National Security Council decision to decriminalize an anti-trust suit against the international oil companies. Since the companies were characterized as instruments of foreign policy in providing a strategic commodity, a State Department report concluded that "we cannot afford to leave unchallenged the assertions that these companies are engaged in a criminal conspiracy for the purposes of exploitation."28 The democratic


27 U.S. Senate, Committee on Foreign Relations, International Debt, the Banks, and U.S. Foreign Policy, 95th Congress, 1st Session, Report, August 1977, p. 7.

28 Cited in Anthony Sampson, The Seven Sisters: The Great Oil Companies and the World They Shaped (New York: Bantam, 1975), p. 148. AS will be shown below, the decision was also designed to get the majors to move Iranian crude in order to economically support the Shah after the 1953 coup. Robert Keohane captures the oil companies' structural power when he notes that "firms would act as instruments of government policy, but they would not do so for free." See After Hegemony (Princeton: Princeton University Press, 1984), p. 169.
principles of anti-trust were subordinated to legitimizing the overseas position of the U.S. oil companies. As Lindblom notes, consideration of policy options is "curbed and shaped by the concern of government officials for its possible adverse effects on business."\textsuperscript{29}

None of this is necessarily inconsistent with Krasner's model. Within his framework, to say that the state is autonomous means that it can independently formulate national goals, not that "the outcomes of policy will be identical with those goals."\textsuperscript{30} Krasner notes that the implementation of goals may be difficult given the structure of the American political system: the state may possess the negative power to resist corporate entreaties, but it lacks the positive power to command their decisions. Therefore, when public officials "required the cooperation of private companies, they were frustrated or forced to compromise with their aims."\textsuperscript{31} In depicting this process, Krasner establishes a residual category which incorporates Lindblom's model into a statist framework.

To present Lindblom's thesis as a challenge to Krasner's defense of state autonomy, one would have to demonstrate that the foreign investor's need for "privilege" constitutes a constraint not only on the ability of the state to implement its preferences, but also on its ability to establish priorities. That is, the state may be able to define national interests, but its dependence upon private decisions to venture capital abroad makes certain interests and values difficult to advance because they either remove corporate "privilege" and pose costs and risks to an important base on national power. In other words, using corporations as instruments of diplomacy becomes a kind of Faustian bargain which limits the state's freedom of action to pursue objectives at variance with corporate preferences.

\textsuperscript{29}Lindblom, \textit{Politics and Markets}, p. 178.
\textsuperscript{30}Stephen D. Krasner, "A Statist Interpretation of U.S. Oil Policy toward the Middle East," \textit{Political Science Quarterly} (Spring 1979), 94.
\textsuperscript{31}Krasner, \textit{Defending the National Interest}, p. 19.
II. CASE STUDIES

A. The Iran Crisis (1951-53)

The Iranian oil crisis began in May, 1951, when Prime Minister Mohammed Mossadegh nationalized the Anglo-Iranian Oil Company (AIOC), an affiliate of British Petroleum (BP). BP, with the complicity of Great Britain and the other major oil companies, imposed a boycott on Iranian crude virtually cutting Iran off from export earnings from oil. In contrast, the initial response of the U.S. government was conciliatory as it tried to mediate a compromise settlement between the parties. Over time, however, Washington became increasingly hostile toward an Iranian regime it alleged to be on "a downhill course toward a communist-supported dictatorship."32 In August, 1953, Mossadegh was overthrown by a CIA-supported coup which returned the Shah to power. In the aftermath, Iran retained nominal ownership over the AIOC concession while management and marketing were controlled by a consortium in which American major and independent oil companies obtained a 40% interest.

The CIA intervention against Mossadegh has been cited by a number of radical scholars as a textbook example of the American attempt to impose a global "open door" for its multinationals on the Third World. Its initial moderation "egged the Iranians on" to nationalize, thereby dislodging the British oil monopoly in Iran and setting the stage for the entry of the American companies. Once that aim was achieved, the United States sought to destabilize and overthrow Mossadegh to send a message to other producer nations that nationalization is futile and costly. The aim was not to remove the threat of communism or Soviet influence from Iran; rather, it was to remove the two main barriers to the expansion

of American economic interests - European imperial privileges and Third World economic nationalism. In that, it was a striking success.33

Krasner, and other state-centered analyses, challenge this view, asserting that American intervention can be better explained by containment rather than economic motives.34 The argument rests on two points. First, including American companies in the consortium was more important to public actors than it was to private ones. Getting into Iran was not that important for the American oil companies given the surplus capacity they possessed at the time.35 In contrast, it was of major importance to foreign policy officials who recognized that the intensity of anti-British sentiment in Iran precluded the return of an exclusively British-owned operation. Widening the consortium was seen as necessary to legitimize the concession. It would also give Iran access to the American oil companies' market outlets to increase Iran's export earnings and stabilize the Shah's regime.36 To demonstrate that private interests were not the dominant consideration, Krasner notes that the decision to expand the consortium was not made until October 1952 - almost 16 months after the nationalization! And, to persuade the American companies to play this role, the state had to offer them the inducement of decriminalizing an antitrust suit against the petroleum cartel. In effect, the state was enlisting the oil companies for Cold War purposes.37


35Krasner, Defending the National Interest, p. 124; There is some debate as to the degree to which the American majors were averse to getting into Iran. Robert Engler has noted that the American companies had long wanted to crack the British monopoly. See The Politics of Oil: Private Power and Democratic Directions (Chicago: University of Chicago Press, 1961), p. 203; Others have suggested that operating in Iran would have forced the majors to reduce production elsewhere and create political tensions with other host countries. See Mira Wilkins, The Maturing of the Multinational Enterprise (Cambridge: Harvard University Press, 1974), p. 322 and Gasiorowski, "The 1953 Coup D'Etat," p. 275.

36Krasner, Defending the National Interest, p. 119.

37Ibid., pp. 123-127.
Second, Krasner notes that the timing of U.S. foreign policy shifts - from moderation after the takeover to outright hostility in 1953 - demonstrates that the central concern was the effect of the crisis on the prospects for containing Soviet influence in Iran. Initially, U.S. officials saw containment aims best served by not undermining Mossadegh and seeking a negotiated end to the oil dispute. Consequently, the immediate U.S. reaction was not "unambiguously negative," despite the precedent of nationalization and the preference of the American companies for a hard-line. Its experience with the Mexican oil nationalizations in the late 1930s indicated the difficulty of using economic coercion in investment disputes; some compromise with principle was necessary to avert the dangers of a communist takeover from domestic instability or Iran's realignment with the Soviet Union. To avert these outcomes, the Truman administration actually increased Point Four aid to Iran from $1.4 million in 1951 to $23.5 million in 1952, shoring up foreign exchange reserves depleted by the oil boycott.

In line with this reasoning, American officials feared that Britain's attempt to coercively reverse the nationalization would contribute to economic collapse and the "loss" of Iran. Hence, they opposed Britain's refusal to recognize Iran's right to nationalize AIOC. In fact, they blamed the crisis on Britain's and AIOC's inflexible bargaining position on fifty-fifty profit-sharing, a concession that American oil companies had made in Venezuela (1948) and Saudi Arabia (1950) to legitimize their holdings, thereby averting nationalization. Therefore, while exhorting Iran to pay compensation, they also advised Britain to compromise and accept nationalization, a contractual relationship in its aftermath, and something less than full compensation. What followed were several American-sponsored attempts to broker a compromise settlement on the basis of this formula. Had

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38 Ibid., p. 127.
they succeeded, the crisis would have defused while both the British monopoly and the precedent of nationalization would have remained unchallenged.\textsuperscript{41} Unless these efforts are read as an elaborate ruse, they indicate that fears about the diplomatic costs and risks of confrontation took precedence over cracking the British "door" in Iran or punishing the precedent of nationalization.

Krasner notes that the U.S. abandoned its moderation and endorsed covert intervention only in 1953 when American leaders were convinced that "no compromise [with Mossadegh] was possible and that communist influence in Iran could dramatically increase" either as Mossadegh increased his ties with the Soviet Union or as the Tudeh (Communist) Party exploited the instability to assume power. Given the initial moderation and the timing of the decision to intervene, Krasner concludes that "U.S. leaders were moved not by economic considerations associated with security of supply or the interests of private corporations, but rather by their unease about the domestic political structure of the Iranian government."\textsuperscript{42}

Krasner makes a strong case against the argument that state policies were direct extensions of oil company preferences or "open door" imperialism. But while U.S. policy was not the direct result of corporate interests, the choices with which it was confronted were indirectly influenced by corporate strategies - specifically, by (1) the perceived connection between oil company "performance" and national economic security and (2) the severe diplomatic consequences of private actions (i.e., the oil boycott).

While Krasner correctly recognizes that neither the immediate availability of oil nor the interests of the oil companies were core issues, this does not imply that such considerations were irrelevant. Central decision makers equated national economic security with the preservation of the concession system in which Western firms owned overseas resource stakes (particularly oil in the Middle East) and had complete discretion over their

\textsuperscript{41}Krasner, "A Statist Model," p. 88.
\textsuperscript{42}Krasner, \textit{Defending the National Interest}, p. 127.
disposition. Such a system guaranteed stable access to critical raw materials and gave American firms the security they needed to "perform" - i.e., venture capital abroad to develop the lowest cost sources of supply. Just prior to the AIOC nationalization, the U.S. had encouraged Aramco to accommodate Saudi demands for fifty-fifty profit-sharing, legitimizing American ownership of the concession by increasing host country revenues from it. Iran's action, however, set a precedent that went beyond the Saudi formula. A State Department study labeled it a "test case indicating to what extent a local government can repudiate a contract without risking forceful intervention on the part of the concessionaire's government." Another official testified that if it succeeded, it would "weaken all concession rights in the Near East. There is a precedent that could ultimately be followed." While the threat to energy availability was not imminent, Iran's action was feared as a harbinger of future assaults on a system which was conceptually linked to long-term national economic security.

Statements alone, however, do not demonstrate the primacy of economic aims. The commitment to economic objectives can only be measured by the other interests the state would sacrifice for their attainment. And, Krasner effectively demonstrates that these concerns about the precedent of nationalization were not so compelling as to override containment objectives.

Yet neither were they so subordinate as not to compete with political goals. To minimize the externalities of the Iranian action, the State Department insisted on compensation and a minimum requirement of British operational control. It objected to


Iranian proposals which would have excluded AIOC or paid compensation out of future profits. A State Department study stressed the importance of opposing any settlement that had the "effect of injuring seriously the fabric of the world oil industry, which is so vital to the Free World."46

In the absence of such a settlement, the U.S. did nothing to undercut the oil company boycott. While it increased aid to soften the boycott's impact on local instability, it also supported industry strategy by dissuading independent oil companies from buying Iranian crude.47 Also, loans to the Iranian state oil company were refused on the ground that this would condone statism and encourage an improper relationship between business and government.48 The U.S. would provide enough aid to temporarily stave off collapse, but as Acheson argued, not enough to "unduly relieve the pressure on the Iranian Government to reach a settlement."49 These statements and actions demonstrate that U.S. public officials were concerned about the possible domino effect that the Iranian nationalization might have on oil concessions elsewhere. Until Iran compromised and reached a settlement which minimized the danger to other concessions, there would be no economic normalization - even if this worked at cross-purposes with maintaining the economic and political stability of Iran.

In effect, initial American policies were ambivalent - an attempt to straddle containment objectives with the deterrence of nationalization. They were designed as a holding operation while the parties negotiated a compromise. But while state policies were tentative and ambivalent, corporate strategies were not. To AIOC, nationalization was not to be accommodated. Rather, it was to be punished by an industry-wide boycott which would either coerce restitution or topple Mossadegh in favor of a more congenial regime. These outcomes would protect long-term corporate interests by sending a message to other

46 cited in Painter, Oil and the American Century, p. 182.
47 Turner, Oil Companies in the International System, p. 93; Bill The Eagle and the Lion, p. 78.
48 McGhee testimony (fn. 45), p. 95.
49 cited in Painter, Oil and the American Century, p. 184.
potential nationalizers. The American oil companies shared this preference, even informing the State Department that the loss of Iran to the West was less dangerous than the demonstration effect nationalization would have on other Middle Eastern producers.\textsuperscript{50} Hence, they closed ranks with AIOC to overturn "a precedent which might redound upon [them]."\textsuperscript{51}

Given the concentration of corporate resources in a small number of vertically-integrated global firms, ostensibly neutral public policies supported corporate strategies by default. The industry's strategy of starving Mossadegh into submission contributed to serious social instability and altered the environment facing American decision makers. Whereas earlier government studies forecasted that Mossadegh was clearly in control, NSC 136/1 (November 1952) was the first study to indicate that present trends were unfavorable to the maintenance of control by a noncommunist regime for an extended period of time. It concluded that in the absence of resumed oil exports, which required the resolution of the AIOC dispute, American aid would be insufficient to prevent the disintegration of Iran's staggering economy.\textsuperscript{52} In response to the crisis, in 1953, Mossadegh declared a state of emergency and forged closer ties with the Soviet Union and the Tudeh Party. CIA studies concluded that conditions were creating a "maturing revolutionary situation."\textsuperscript{53} Private actions contributed significantly to these outcomes and altered the perceived choices facing public decision makers - intervention or a steadily deteriorating situation which increased the likelihood of Soviet penetration of Iran.

\textsuperscript{50}Ibid., p. 181.
While the decision to intervene was prompted by Cold War considerations autonomously defined by the state, it was indirectly influenced by corporate strategies. Initially, the U.S. government distanced itself from oil company preferences to support containment objectives. It tried to defuse the crisis by urging Britain and AIOC to adapt to Iranian state control and increasing aid to keep Iran afloat. But since overseas oil operations were defined as agents of national power, it could not appear to condone the precedent of an uncompensated nationalization, an outcome which might produce a chain reaction that would undermine the ability of the oil industry to play its designated role. Consequently, it made no effort to assist Iran's oil industry and supported the private boycott even though these policies weakened the stability of a noncommunist nationalist regime.

This strategy bound itself to the willingness of AIOC and its American "sisters," to compromise, something they were unwilling to do.\textsuperscript{54} Since the state could neither dictate corporate negotiating positions nor modify the strategy of starving Iran into submission, it faced an increasingly unstable economic and political situation in Iran. The environment which the state confronted had been redefined by the more expansive aims of the international oil industry. As a result, corporate actors induced the state to redefine its containment strategy in Iran so that it coincided with the oil industry's preference to punish and deter Third World challenges to the petroleum concessions.

\textsuperscript{54}This is not to argue that Iran would have accepted such a compromise. Even scholars sympathetic to Mossadegh, such as Richard Cottam, saw his strategy vis-a-vis AIOC as based on political rather than economic considerations - i.e., to "make sure that the Iranian oil industry could never be used as a weapon to maintain political control in the hands of the British-backed oligarchy." See Nationalism in Iran (Pittsburgh: University of Pittsburgh Press, 1978), p. 272.
B. The Alliance for Progress (1961-64)

In the early 1960s, the Kennedy administration, drawing upon its interpretation of the causes of Cuban revolution, announced an Alliance for Progress, which prescribed economic growth, social reform, and political democracy, as the soundest antidotes to instability and revolution in Latin America. The traditional strategy of insisting on a "good investment climate" and admonishing against expropriation was downgraded. Policies aimed solely at protecting investors in an era of social ferment, it was reasoned, would only produce the kind of revolutionary situation that led to the Cuban revolution. A more flexible strategy of accommodation and reform would better serve containment objectives and legitimize the long-term security of overseas investors.

The record of American diplomacy during the Alliance years, however, belied its articulated goals, especially when the prerogatives of American investors collided with the aims of social reform and political democracy. In Brazil, Argentina, and Peru, informal economic pressures applied on behalf of "aggrieved" companies undermined the economic base and political standing of democratic reformist regimes and indirectly contributed to their replacement by military dictatorships. One critical study concluded that "during the Alliance, United States business interests, and in several cases the interests of a single corporation, have taken precedence over the United States national interest in Latin America."55

To radical critics, this was no surprise. The presumed incongruence between the Alliance's articulated aims and its subsequent implementation was more apparent than real. James Petras contended that there was no significant distinction between national and corporate interests because the core aim of the Alliance was not to promote democracy, but

"to further the interests of U.S. investors."56 Another radical critic argued that the subordination of political participation and social reform to maintaining a good investment climate can only be understood in the context of the Alliance's own priorities, which were "heading off social revolution in Latin America... [and] preserving the basic property structure (albeit with the minimum but necessary modifications to survive)."57 The implementation was not a function of short-sightedness or misperception, but was consistent with previous policies which treated Latin America as an economic sphere of influence.

These arguments, however, have difficulty explaining the Alliance's initial reformist thrust - not only in its public articulation, but in its early implementation. Development diplomacy under the Alliance represented a retreat from Eisenhower's economic orthodoxy which had focused on balanced budgets, deflationary monetary policies, and a good investment climate as the only path to economic development - a policy derided by one Kennedy advisor as based on a "theory of economic development as an act of immaculate private conception."58 Under the Alliance, the maintenance of a good investment climate was no longer the sole criterion for development diplomacy. Aid was initially used not to insist on economic orthodoxy and the treatment of American business, but to support constitutional government and social reform. Changing inequitable social structures through land reform was encouraged even if this conflicted with some of the property rights of American investors.59

59 Secretary of State Rusk acknowledged this conflict between investment protection and land reform in his testimony against the Hickenlooper Amendment: "Land reform may well require the expropriation of existing estates, some of which are owned by United States nationals. . . . The danger is that some Latin American governments might avoid this type of reform, even though they intend to provide fair compensation, through fear that the United States would unilaterally determine the compensation to be
In line with this change in priorities, the U.S. initially eschewed coercive strategies in dealing with investment disputes. For example, in 1962, when a Brazilian state government nationalized a local affiliate of ITT, the Kennedy administration resisted calls from the business community and Congress to cut off aid. Instead, it facilitated a compromise settlement whereby Brazil paid book value compensation, spread out over 25 years with 75% reinvested within Brazil. When domestic politics forced President Goulart to postpone the offer, the Kennedy administration sought accommodation, acknowledging the constraints under which Goulart was operating and releasing a $338 million aid package to ease those constraints.\textsuperscript{60} At the time, stabilizing the largest democracy in Latin America took precedence over defending the prerogatives of American investors. Consistent with this priority, the administration opposed Congressional attempts to legislate mandatory aid sanctions in cases of expropriation.\textsuperscript{61}

Given the initial reformist thrust of the Kennedy administration, how can a state-centered approach explain the return to economic orthodoxy? Scholars who (implicitly or explicitly) employ this approach point to changes in decision makers and their perceptions or changes in the institutional structures of state - i.e., the advent of the Johnson administration, half-hearted implementation, or perceived conflicts between reformist governments and anticommunist aims.\textsuperscript{62} The one case Krasner examines which conforms to this pattern is the deferral of new aid authorizations to pressure the Belaunde government in Peru to negotiate a favorable settlement with International Petroleum Company (IPC), a Canadian affiliate of Standard Oil of New Jersey. The aid cutoff hurt Belaunde politically and economically and indirectly contributed to the 1968 military coup. While Krasner

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\footnotesize inadequate or the procedures unfair and, hence, cut off all aid.” U.S. Senate, Committee on Foreign Relations, Foreign Assistance Act of 1962, 87th Congress, 2d Session, Hearings, p. 558.
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\footnotesize 60Philips Parker, Brazil and the Quiet Intervention, 1964 (Austin: University of Texas Press, 1979), p. 16.
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\footnotesize 61Rusk testimony (fn. 59), pp. 27-31, 557-558.
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concedes that such an outcome may be interpreted as a function of corporate pressure, he attributes it more to misperception. Central decision makers "failed to understand that their desire for social reform in Latin America was incompatible with preserving the position of foreign corporations." As a result, they did not fully understand the role IPC played in Peruvian politics and that compliance with American pressures would have been politically suicidal for Belaunde.63

An alternative state-centered analysis of this policy change is provided by Abraham Lowenthal's use of a bureaucratic politics approach. The central bureaucratic cleavage over implementation of the Alliance arose between "Kennedy men" who were committed to the reformist agenda and the careerists at State, who clung to the traditional aims of anticommunism and investment protection. Given the high level of attention Kennedy gave the Alliance at its inception, the bureaucratic process was weighted toward the former. In fact, the careerists and corporate officials were excluded from the decision making process. But, "as the President's own concern for Latin American issues diminished, so did the influence of his personal appointees relative to that of the established bureaucrats."64 Predictably, Alliance policy became less hostile to military dictatorships and more receptive to corporate pressures.

The analysis that follows accepts much of Lowenthal's analysis, but points to shaping mechanisms other than presidential inattention that explain why the bureaucratic battle was ultimately won by the careerists. In particular, it points to the influence of business, both in its ability to mobilize resources as a traditional interest group and in the perceived structural relationship between corporate "performance" - defined as continued private capital flow to Latin America - and the success of development diplomacy.

The Kennedy administration's ability to implement its new approach to Inter-American relations depended upon the cooperation of domestic actors. First, it needed

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63 Krasner, Defending the National Interest, p. 244.
64 Lowenthal, "Liberal, Radical, and Bureaucratic Approaches," p. 231
substantial appropriations of aid from Congress. Second, it needed increased capital flows from the American business community to complement public assistance. For 1962, the State Department set a target for a private capital inflow of $300 million. The administration's emphasis on social reform was not initially seen as incompatible with maintaining a hospitable climate for this corporate "performance." Latin American social and economic progress would provide political stability which would enhance business confidence in the long-run. In the short-run, the administration assumed that business would adapt to local political pressures.

Yet, the business community and its allies in Congress drew different lessons from the Cuban revolution. From their perspective, Castro threatened to infect the hemisphere less with revolution against unequal social structures and more with his example of taking over American businesses. Investors were alarmed at the increasing trend toward state ownership and regulation. The need was for greater, not diminished vigilance against unwarranted interference with private property, a concern not only downplayed, but abetted by the Alliance's initial priorities. Administration support for social reform was criticized for condoning statism and displaying "no conviction in the productive superiority of private enterprise." The Alliance's promotion of political democracy was seen as an invitation to populists and leftists whose radical economic plans would contribute to inflation and capital flight. The Kennedy administration's policies toward Brazil reinforced these trends by convincing economic nationalists that they could "use our aid to force American firms out of Latin America."

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The Kennedy administration ultimately took a tougher stand against Latin American economic nationalism, which threatened not only the private interests of American investors, but the cooperation of domestic actors with development diplomacy. First, it catalyzed a concerted corporate effort to lobby Congress for tough anti-expropriation legislation. In response to what it saw as executive branch equivocation, Congress passed the Hickenlooper Amendment to the Foreign Assistance Act of 1962 mandating a suspension of aid to any state which seizes American property and fails to take "appropriate steps" toward the payment of full compensation. While the executive branch generally got around the Hickenlooper Amendment (since the President determined what constituted "appropriate steps"), Congress registered its greatest impact from signaling. Frustrated by executive inattention to its priorities, it introduced legislation further restricting the scope and flexibility of the aid program to induce the administration to become more solicitous of congressional priorities.\(^\text{69}\)

Second, expropriations inhibited the flow of private capital to Latin America, placing a larger burden on the foreign assistance program. A net capital inflow of $214 million in 1961 was transformed into a net capital outflow of $32 million in 1962.\(^\text{70}\) The U.S. could not be indifferent to such an outcome given the perceived linkage between this performance and development diplomacy. To reverse this capital outflow, the United States had to assuage corporate fears about economic nationalism in Latin America. Consequently, it had to offer them protection in the form of tougher anti-expropriation policies.

Given the threat these outcomes posed to the administration's definition of hemispheric security, anti-expropriation policy was elevated on the Alliance agenda. Policymakers did try to minimize the diplomatic costs of such efforts through using informal rather than public pressures. Formal sanctions were invoked only once during


\(^{70}\)Department of State Bulletin, December 10, 1962, p. 899.
this period - against Ceylon, a country whose minor strategic and economic importance ideally suited it to pay the costs of a symbolic demonstration of resolve. In most other cases, nonverbal pressures were threatened or employed routinely to defend the prerogatives of American investors and prevent precedents which might undermine business confidence. As AID Director David Bell summarized it: "We seek the same objectives Hickenlooper does [but]. . . . [w]orking quietly but forcefully behind the scenes is a far better way of bringing about the results we are after."

But these results worked at cross-purposes with the Alliance's reformist agenda. When the U.S. cut aid to Goulart for his deferral of compensation to an American utility company, it undermined constitutional government in Brazil and contributed to the 1964 military takeover. Similar outcomes occurred in Argentina and Peru as pressures exerted on behalf of American oil companies weakened the economic base and political standing of democratic reformist regimes. The scope for social reform was also blunted by these new priorities. For example, in 1962, the State Department warned Honduras of the implications of the Hickenlooper Amendment if it redistributed United Fruit's uncultivated lands and paid for them with long-term bonds. One State Department official subsequently cited the necessity of monitoring each nation's land reform program because "unwarranted expropriations . . . under the guise of 'land reform' can change drastically the climate for private capital and thereby still further reduce the resources upon which a country can draw."

72 Cited in Lipson, Standing Guard, p. 213.
75 Memorandum, Edwin M. Martin to President Kennedy, U.S. Department of State, undated, 1962 (Declassified Documents Index R/502C), p. 4; For more on this case, see Lipson, Standing Guard, pp. 210-211, and Walter LaFeber, Inevitable Revolutions, p. 178.
This retooling of priorities was brought to its logical conclusion with the Mann Doctrine in March, 1964, which called for a greater emphasis on protecting American investments and a more neutral stance vis-a-vis social reform and political democracy.\textsuperscript{76} The U.S., would, consequently, get tougher with Latin American states which did not pursue congenial foreign investment policies regardless of the impact on civilian government and social reform. In fact, as development was defined almost exclusively in terms of economic growth through private capital, many democratic regimes were viewed negatively for pursuing populist policies which scared off foreign investors. Their replacement by the military was no longer seen as a lid on a boiling pot; rather military regimes were viewed more favorably for their contribution to a sound investment climate.\textsuperscript{77} In sum, state priorities came full circle to an acceptance of corporate definitions of interest with regard to the threat that Castroism and economic nationalism posed to hemispheric interests.

The mechanism underlying this policy change most closely conforms to Lindblom's model. In pursuing development diplomacy in Latin America, the state possessed the negative power to resist the entreaties of overseas investors, but lacked the positive power to command them to invest. The initial design of the Alliance was insufficiently "indulgent" of corporate anxieties about economic nationalism. Since the expansion of investment in Latin America was defined as an integral part of the Alliance, and since this outcome depended upon the autonomous behavior of private economic actors, the state could only induce performance by indulging corporate concerns about economic nationalism. The end result was that initial Alliance priorities were reversed and more closely resembled the preferences of overseas investors.

\textsuperscript{76} Levinson and de Onis, \textit{The Alliance That Lost Its Way}, p. 88.  
CONCLUSION

"It is folly in one nation to look for disinterested favors from another... it must pay with a portion of its independence for whatever it must accept under that character."

George Washington, "Farewell Address."

Consistent with the traditional realist paradigm, President Washington's admonition that "entangling alliances" may limit a state's freedom of action, referred only to compacts with other states, not with domestic actors such as corporations. Since states are sovereign, there is no higher authority to control their decisions. For a state to gain the cooperation of another sovereign, it would have to offer inducements or accept some limitations on its freedom of action. And, if a state defines a sovereign ally to be a vital interest, it might bind itself to decisions and actions which are beyond its control. Corporations, within this framework, are not assumed to be sovereign. Rather, as citizens of particular states, they are subject to supreme authority of their sovereigns. Hence, American public officials have characterized American corporations as "instruments of our foreign policy."78

In market systems, however, corporations possess an important attribute of sovereignty - freedom of action in the allocation of resources. Decisions to invest or alienate capital can not commanded by governments and are determined by independent private decision making. The consequences of these private decisions can have more impact on the foreign policy environment than the actions of states. Hence, corporations can not simply be conscripted as diplomatic tools. Like sovereign allies, private investors must be bargained with in order to perform as allies. And, as with states, this may entail commitments which limit a state's freedom of action.

In neither of the two cases examined above, can state policy be seen as directly responsive to corporate demands; rather, containment aims were the dominant

78 Lipson, Standing Guard, p. 113.
consideration. Business nonetheless influenced the range of choice open to foreign policy officials both through its independent actions and its "alliance" with American diplomacy. In Iran, the oil industry boycott destabilized Mossadeghi's regime and redefined the perceived choices facing public decision makers. Moreover, given the importance of oil for national economic security, certain options (such as aiding Iran's state oil company) were excluded from consideration to avoid the appearance of condoning the precedent of nationalization. Under the Alliance, a greater emphasis on investment protection was ultimately adopted because decision makers feared that increased economic nationalism would lead to capital flight from Latin America and undermine an important base of development diplomacy. In each case, the scope of options was narrowed by the perceived need to prevent outcomes which might undermine investor confidence - even though such options may have been more supportive of self-determination in Iran and constitutional government and social reform in Latin America.

The sacrifice of political aims to corporate "privilege," however, is not the necessary result of the dependence of the state on overseas investment decisions. Two caveats are necessary. First, the ability of business to use its structural power to induce the state to defend its prerogatives is context-specific. The ability of the major oil companies to redefine the foreign policy environment by destabilizing Iran depended upon a concentration of private economic resources in a small number of firms. As that concentration dissipated with the emergence of new entrants in the 1960s, the companies could no longer replicate that success elsewhere.79 In Latin America in the early 1970s, the growth of economic nationalism and the decline in American economic hegemony decreased the effectiveness and increased the diplomatic costs of coercive investment protection. As a result, public officials became increasingly reluctant to offer foreign investors the "protections" they had granted them in the 1960s.80

79Krasner, Defending the National Interest, pp. 243-245.
Second, the relationship between business confidence and national interests may have been more cognitive than it was structural. American foreign economic policy in the postwar years was predicated on a liberal economic belief structure which equated the defense of corporate prerogatives with the achievement of public objectives, such as security of supply and development diplomacy. But this produced perceived verities which were belied by subsequent events. During the Iranian crisis, public decision makers equated security of supply with corporate ownership. But the experience of the early 1970s made it clear that this aim was threatened less by nationalization than by market scarcities. In fact, oil companies successfully adapted to nationalization and accepted a change in their role from owner to service contractor buying back crude oil for their downstream operations.\textsuperscript{81} In Latin America, widespread expropriation of extractive and utility companies in the late 1960s/early 1970s did not lead to a total loss of business confidence and massive capital flight. Direct investment has continued in manufacturing while extractive firms have adapted to an activist state.\textsuperscript{82}

It is clear from subsequent events that Third World political intrusions did not lead to the drastic loss of confidence that public officials feared; investors needed less "protection" from economic nationalism than presumed in order to augment resource and development diplomacy. Lindblom himself notes that businessmen "have commonly demanded of government more indulgences than are necessary to motivate the required performance."\textsuperscript{83} Yet the pervasiveness of the liberal economic paradigm in official thinking may predispose decision makers to be overly indulgent of corporate preferences. The question of whether business enjoys a privileged position in politics in market systems may, therefore, be less important than the question of whether it enjoys a privileged position in the minds of American decision makers.


\textsuperscript{82}Lindblom, \textit{Politics and Markets}, p. 177.