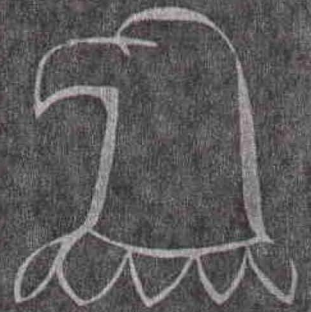


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DEPARTMENT OF STATE



CASE STUDY

POLITICAL INSTITUTIONS AND
THE COURSE OF INTERNATIONAL TRADES

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 BY THE AUTHORITY

Kenneth Keith Krogh
Department of Agriculture

CLASSIFIED TO
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FOURTEENTH SESSION
SENIOR SEMINAR IN FOREIGN POLICY
Washington, D. C.

1971 - 1972

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THE SENIOR SEMINAR IN FOREIGN POLICY

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POLITICAL INSTITUTIONS AND
THE COURSE OF INTERNATIONAL TRADE

A Case Study

by

Kenneth Keith Krogh
Department of Agriculture

May 1972

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SUMMARY

Traditional political institutions--namely the nation-state--now attempting to regulate the course of international trade are losing their controlling influence over important transnational flows of people, material, money and ideas and will likely continue to do so short of radical changes in the political institutions themselves. Meanwhile other transnational entities--corporations, professional organizations, trade associations, and quasi-governments--are gaining in the ability to allocate resources, privileges and penalties across national boundaries with profound implications for the future of world politics.

Short-run attempts to strengthen the position of political institutions versus the transnational groups are reflected in power shifts now underway within existing political institutions. Foreign ministries in governments throughout the world are losing their traditional monopoly over the regulation of external affairs to technical ministries which increasingly are becoming the foreign ministries of their respective sectors. Such a shift, however, is seen to represent more of a furthering of the process of transnationalization than a move to check and control that process. Economists thus are currently in the ascendancy relative to political officers, but not irrevocably so. Economic science in the long run is seen to be inadequate to the problems arising from the continuing process of transnationalization. It is to our political scientists that we likely must look for the ultimate solution.

No significant long-range attempts to strengthen the position of political institutions versus the inroads of transnationalization were noted. Nor was much in the way of significant new revolutionary thinking encountered except for a new theoretical approach to government called "self-management" which is briefly described.

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"The international corporations have evidently declared ideological war on the "antiquated" nation state. . . The charge that materialism, modernization and internationalism is the new liberal creed of corporate capitalism is a valid one. The implication is clear: the nation state, as a political unit of democratic decision-making must, in the interest of "progress," yield control to the new mercantile mini-powers. -- Kari Levitt, "The Hinterland Economy," Canadian Forum, July-August 1970 (Vol. 50, Nos. 594-95), p. 163.

"While the structure of the multinational corporation is a modern concept, designed to meet the requirements of a modern age, the nation state is a very old-fashioned idea and badly adapted to serve the needs of our present complex world." -- George W. Ball, "The Promise of the Multinational Corporation," Fortune, June 1, 1967 (Vol. 75, No. 6), p. 80.

"Now we are regrouping. We are going to live in a post-national or trans-national era in which nations will still exist but they will no longer be the sole actors, or even the protagonists, on the scene of world history, because other interests and other forms of organization--economic and cultural--are taking their place alongside and across the nation-state. We will live in a horizontal order, where men again participate in the decisions affecting them; we will live in an open order, with everybody being part of a number of overlapping subsystems organizing his work, leisure, economic life, cultural and spiritual life, and moving freely within these subsystems; and we will live in an order based no longer on property, nor on power, nor on sovereignty, for all these concepts are eroding before our eyes." -- Elisabeth Mann Borgese, "The Promise of Self-Management," The Center Magazine, May/June 1972, (Vol. 5, No. 2), p. 54.

I. Introduction: Getting a Finger on Political Developments

This paper represents an attempt to gain a few insights into the future role of political institutions in coping with problems relating to international trade. The study was undertaken following a year of uncertainty and crisis in a number of international monetary and trade fields. It was a year punctuated by precipitous policy shifts on the part of a number of nation-states, of which the United States itself was the most conspicuous actor. New developments would seem to be afoot in such a period of turmoil, and it was my aim to get a finger on some of those developments with political implications.

My limited reading indicates that more than monetary and trade policies, as such, are at stake. Developments seem to suggest that

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the role of the nation-state itself now is in question. A process of role diminution appears to be underway that is not likely to be reversed short of radical transformations in many of our major political institutions. What follows is a summation of a number of the more pertinent and provocative views gleaned from my study.

II. The Diminution of the Nation-State

It is a tradition of students and practitioners of international politics to concentrate their attention on relationships between nation-states. Here, it is felt, is the basic unit of international action. The nation-state is distinguished by the fact that it (a) exercises a high degree of autonomy, (b) controls significant resources, (c) carries on relations across state boundaries, and (d) may choose to use force, violence and threats thereof in its struggle for national advantage. Most political scientists and many diplomats appear to focus on such traditional governments as the prime "actors" on the international stage. And in so doing, they hold a state-centric view of world affairs.

The classic paradigm of interstate politics as viewed by those holding a state-centric view is depicted in Figure A below. It represents traditional governments (G^1 and G^2) carrying on certain direct relationships while other relationships are carried on less directly as multilateral transactions through an intergovernmental organization (IGO). Each of the governments is influenced by its respective society (S^1 and S^2) and all other transnational interactions are largely ignored or discounted.

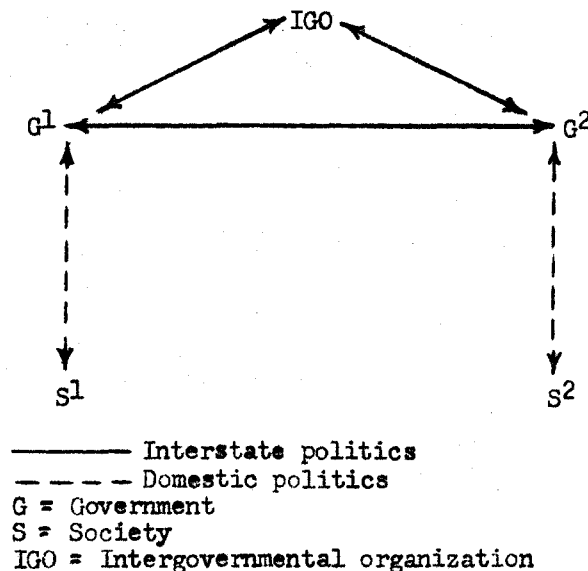


Figure A. A state-centric interaction pattern.

But such a paradigm is outdated according to the arguments of Joseph S. Nye, Jr., and Robert O. Keohane in their new book "Transnational Relations and World Politics."¹ It is outdated because nation-states are no longer the only significant actors on the world scene. Indeed, as Nye and Keohane point out, traditional governments are losing their controlling influence over important transnational flows of people, material, money, and ideas, while other transnational entities--corporations, professional organizations, trade associations, and quasi-governments--are gaining in the ability to allocate resources, privileges and penalties across national borders. Such transnational organizations, they point out, may not have armies and may not be able to make credible threats of force. But they do exercise a degree of autonomy; they do control significant resources; and they do carry on relations across state boundaries.

The most significant of these private actors are the multinational corporations of which at least 85 possess, individually, more assets than some 57 member states of the United Nations totaled together. Nor are these assets subject to the loyalties of any one country. The corporations can move large amounts of resources across international boundaries to fulfill objectives that may be at variance with those of any given host country. In the monetary field alone, the resources in the hands of some 20 transnational banking organizations can, at least in the short run, render nugatory the efforts of national monetary authorities even in very powerful countries. Such transnational commercial organizations, therefore, cannot be discounted as of little moment. Increasingly, they are becoming giant actors on the international scene. They have their own direct representations to governments and intergovernmental organizations as well as representations to their own subsidiaries abroad as depicted in Figure B below. This diagram expands the state-centric view so as to include the actions of transnational organizations, thus presenting a more realistic total view of transnational interactions and interstate politics.

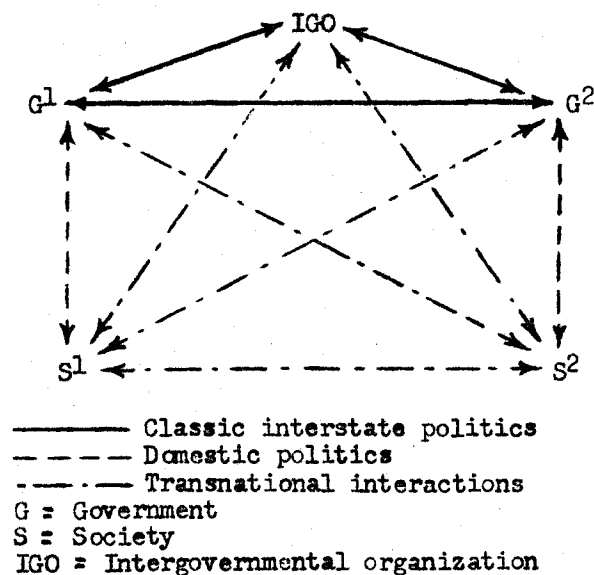


Figure B. Transnational interactions and interstate politics:



What is happening is that as Cold War policies and the management of military alliances are eclipsed by economic issues, the everyday stuff of world politics is found to reside increasingly in the negotiations among these relatively autonomous transnational oligarchies and in the negotiations of those oligarchies with particular agencies of national governments. International relations among the non-communist industrial nations are thus increasingly becoming little more than ratifications of agreements, conflicts, truces, and conspiracies among the powerful, and largely private, transnational oligarchies.

The primary tools of these transnational groups are the standard operating equipment of the advanced firm--high-speed communications and transportation services--which allow for rapid transcontinental mobility of physical resources and products and practically instantaneous transfers of capital. The extent to which powerful transnational enterprises can go in manipulating events in host countries is now being investigated by the Senate Foreign Relations Committee in the wake of exposures as to the alleged political activities of ITT in Chile. Suffice to say, such transnational organizations are often in a position to play one government against another as they like and also to play the labor groups of a given country against those of another as well.

The startling trend which must thus be acknowledged is one in which decision-making affecting the vital interests of societies throughout the world increasingly is taking place in oligarchic commercial channels which are becoming farther and farther removed from effective social or parliamentary control. This realization is a bitter pill to those who have assumed that a more just world order will gradually evolve from an expansion of current trends of socioeconomic intercourse. Authors Nye and Keohane themselves, apparently, were among those who had hoped that the growing ease of long-distance travel and communication might be forging a true global community. Now they are reluctantly resigned to a prospect of increasing socioeconomic conflict on a worldwide basis.

Most acutely affected are the developing countries which are on the short end of a lopsided arrangement. Developing countries must deal with the larger transnational organizations for investment capital much as if such organizations were foreign governments. And, in fact, the larger transnational groups do develop their own "foreign departments" to deal with governments of countries in which they have subsidiaries. But the power balance is an uneven one. The parent firm of a transnational group--usually headquartered in an industrially developed country--is usually very mobile and flexible in its choices of options and the disposition of its resources so that it is in position to drive hard bargains with governments and subsidiaries located in developing countries. Where large disparities of income exist, therefore, the transnationally mobile tend to be rewarded at the expense of the nationally immobile. Peter B. Evans has commented trenchantly on such relationships in an article entitled "National Autonomy and Economic Development: Critical Perspectives on Multinational Corporations in Poor Countries."² He notes that the transnational relationship often looks like a post colonial form of private economic imperialism. As he puts it: "With the growing predominance of the multinational corporation, increasing numbers of a poor country's economic actors become responsible to superiors and

stockholders who are citizens of other countries. If a similar chain of command existed in public organizations, the poor country would be deemed a colony." Even Canada, a relatively affluent country, suffers this kind of neocolonialism. The Canadian and U.S. Governments enjoy cordial relationships as do their respective societies. But Canadian resentment at the hands of the oligarchic overlords of U.S.-based transnational organizations--largely immune to control by governmental representatives of either society--is growing increasingly acute.

One of the most alarming aspects of such relationships, however, lies in the fact that the net effect of transnational economic activities appears to be a widening rather than a narrowing of the income gap between the developing and developed nations. No matter how helpful a subsidiary of a transnational group may be in assisting the development of a poor country, its helpfulness to the parent group--located in a major industrialized nation--is usually even greater. Profits are not necessarily reinvested in the country of origin. In transnational operations, profits from poor countries can be used to offset losses of risky ventures in rich countries. In this connection it is significant that about three-fourths of the world's multinational enterprises and 29 of 32 foundations with assets over \$100 million have their origins in the United States.

But even the governments of rich nations are having their problems with the transnational organizations. And here again the problem is one of control over the flow of money, materials, people and ideas vitally affecting the home community. If governments--especially democratic governments--are to be responsible for the economic well-being of their society, they must have a modicum of control over vital economic factors. But with the growth of the transnational operations, such controls become more and more of a leaky sieve. Social-minded constituencies in many countries have invested decades of effort into building strong central governments subject to control by a popularly elected legislature as the best means of redistributing wealth and power. Now, however, they must face up to the fact that the ability of capital to use the advances in communication and transportation to by-pass national regulation is substantially neutralizing their domestic gains.

Labor unions are especially troubled over the ability with which mobile multinational corporations can undermine the countervailing wage-bargaining power which has been built up over the years. Unions are now worried that corporations will shift production from home-based (rich country) factories to foreign (poor country) factories where labor is cheaper. Some far-sighted union leaders therefore have started to work toward the goal of collective bargaining on a transnational basis. But progress in this direction will be long in the making, and the prospect for the next decade or so is for a continuing shift of bargaining power to the management of the transnational corporations.

What, then, happens to the public interest as segments of the corporate economy engage in their maneuvers and confrontations on the global stage?

Who is to ensure that the transnational conflicts between industry and industry and between management and labor will be conducted in a way that protects the rights of ordinary citizens?

And who is to subject price-fixing agreements and other combinations in restraint of trade to the kind of controls which now prevail in some of the advanced democracies?

Short of a radical transformation of the nature of present-day political institutions, it would appear that the most likely and most threatening result of growing transnational links will be a further diminution of the role of the nation-state and a further growth of technocratic rule removed from democratic, parliamentary control.

The situation has been aptly summed up by Karl Kaiser, a West German political scientist, in an article entitled "Transnational Relations as a Threat to the Democratic Process." He states: "Transnational relations and other multinational processes seriously threaten democratic control of foreign policy, particularly in advanced industrial societies. The intermeshing of decision-making across national frontiers and the growing multinationalization of formerly domestic issues are inherently incompatible with the traditional framework of democratic control. The threat is all the more serious because it is sustained not by enemies of democracies but unknowingly by people who consider themselves to be acting within Western democratic traditions and because it results in part from the very forces of internationalism, interdependence, and economic advancement that have come to be regarded as indispensable. The consequences of these developments and the ongoing erosion of control over military and foreign policy, dramatically demonstrated by the debate on the Vietnam War, amount to a fundamental challenge to the democratic structure of Western societies. . . . This inherently expansive process could, in the name of progress, efficiency, and interdependence, ultimately undermine our Western systems of democracy unless we develop new forms of democratic control."

III. Short-Range Changes in Political Institutions

Very little in the way of fundamental changes in our political institutions has occurred to date in response to the challenge of the transnational organizations. At most, a shift in positions of power has occurred between various ministries or departments within the governments of existing nation-states, but such shifts would appear, on balance, to do more to facilitate the process of transnationalization than to check or control it.

Karl Kaiser points out that with the growing relevance of transnational relations, foreign ministries everywhere are losing their traditional monopoly over the regulation of the external affairs of their countries. He notes that in his own country of West Germany the technical ministries in several fields, notably atomic industry, agriculture and science, have become the foreign ministries of their respective sectors. In the U.S., a similar shift is occurring with the gradual diminution of the State Department's power in foreign economic matters in favor of more active roles on the part of the Treasury, Commerce, and Agriculture Departments.

There would appear to be some disposition on the part of the technical agencies themselves to think that "economic-oriented" agencies working closely with the transnational organizations in their respective sectors enables national governments to act more knowledgeably and with greater dispatch in dealing with external affairs. This may be true, but the shift of power to the technical agencies also represents a furthering of the development of horizontal relationships between governments and transnational groups (and between governments and governments) which is itself a part of the transnationalization process. As the executive function of dealing with external affairs becomes differentiated among the technical agencies, the more difficult it becomes for the legislative or parliamentary function of government to monitor and control the executive handling of external affairs. And the more difficult it becomes for the executive itself to maintain a consistent, coherent vertical control over its own handling of external affairs.

Also, as the handling of foreign affairs becomes the province of the technical agencies, the more does the handling of such affairs tend to become a process of mere ratification of agreements, conflicts and truces already worked out among the transnational oligarchies themselves. It would appear that the shift of power to the technical agencies has come about in part because the transnational agencies have wanted this to happen. The shift in power among government agencies thus represents in part the ability of the transnational groups to develop more sympathetic servicing at the hands of existing governments and in this sense, too, the inner shift in governmental power represents a furthering of the process of transnationalization, rather than a move to check and control that process.

As a case in point, Edward Miles has described the complicated network of intergovernmental agreements and organizations concerned with fishing and ocean commerce in an article, "Transnationalism in Space: Inner and Outer."⁴ This example of transnationalism, he points out, does not provide much hope for those who would rely on strengthening the standard instruments of diplomacy to serve the public interest. The Intergovernmental Maritime Consultative Organization--highly touted as an outstanding example of international cooperation to regulate commerce on the seas--is seen to be little more than a legitimate cover for "gentlemen's agreements" among the dominant shipping cartels and liner conferences to restrict competition.

But there is yet another reason to doubt that the shift in power to the technical agencies will prove to be a boon to the cause of maintaining a form of public or social control over the process of transnationalization. This has to do with the drama being played out between the so-called "political scientists" on the one hand and the so-called "economic scientists" on the other.

Generally speaking, the foreign ministries of most nation-states are staffed with politically-oriented officers, whereas the technical agencies tend to be staffed with economic-oriented officers. And the foreign ministries are losing ground to the technical agencies, in part, because they do not have a "political science" to draw upon in the way that the technical agencies have an "economic science" to draw upon.

Political scientists are quite open in acknowledging that they really have no reliable science, as such, in hand. A "political scientist" is thus a person dedicated to the effort of actually developing a "social science" where none now exists. In his more candid moments he may express a degree of envy at the progress made by economists in making a science of their field of inquiry. If pressed, he might concede that he would be satisfied if he could raise the estate of "political science" to the level of scientific respect already gained by "economic science."

The technical agencies, staffed with economists, thus enter the battle for power over the handling of external affairs with the advantage of having--or at least thinking they have--a true science at their disposal. They tend to be a bit condescending toward their politically-oriented governmental colleagues as not being quite "with it" in today's increasingly economic-oriented world. And they brandish their science as evidence that they are, after all, perhaps best qualified to deal with the growing complexities of modern external affairs.

But this may be just another way of saying that economists are out part and parcel of the modern wave of transnationalization. And to acknowledge that they are "of" the movement is not to prove that they are likely to be able to check and control the movement in the interests of social justice. Indeed, indications to date are that the opposite may be true. Economic science, whatever its merits, appears to be the engine of the transnationalization process, not its monitor. And whatever prospects society may have for checking the excesses and inequities of rampant transnationalization may therefore yet reside in the hands of politically-oriented officers who, bereft of a science, nevertheless are trained to think in a social context and may thus come naturally to a more balanced prospective from which to render judgment.

But more can be said of the unfolding drama between the "political scientists" and the "economic scientists." The play is not yet over. The economists are celebrating success in a fashion that may be premature. What is often termed the "new economics" has been advertised with great fanfare in every developed country. Americans, Englishmen, Germans, Frenchmen, and Japanese have been told that the economists have finally learned how to manage the economy. As proof of this assertion they point to the period since World War II which has represented a period of fairly consistent economic growth without a devastating world-wide recession. But as Peter Drucker points out in his book, "The Age of Discontinuity," there is only one thing wrong with this wonderful news: No two of the bottles labeled "new economics" have the same contents. "The practices in each major country," he states, "may be similar, but the theories underlying them are quite different and indeed incompatible. What is touted as panacea in one country is considered deadly poison next door." And, indeed, the embarrassing debacle of U.S. economic planning in recent years has in itself been enough to strip the veil from the pretensions of our modern economists: In point of fact, we do not have an effective economic science either.

Various suggestions have been made as to the problems still confronting our economic scientists. Kenneth Boulding, himself a noted economist, suggests that the economists are deficient in that they lose themselves in a jungle of abstractions which do not relate

effectively to people and societies. In his book, "The Image," he states as follows:

"With deft analytical fingers the economist abstracts from the untidy complexities of life a neat world of commodities. It is the behavior of commodities not the behavior of men which is the prime focus of interest in economic studies. The economist's world is a world of prices, quantities, interest rates, production, consumption, income, etc. He studies 'the behavior of prices' (the phrase is actually used by economists) much as the astronomer studies the behavior of planets. . . . He is aware, of course, at the back of his mind, that prices, outputs, etc., are in fact the result of human decisions. He likes to reduce these decisions, however, to a form as abstract and manageable as possible."⁶

In an age of great social unrest and upheaval, it is therefore little wonder that a science based upon nonhuman abstractions is inadequate to the tests of current changing human needs. But in addition to the factor of abstraction, Drucker points out that modern economic science does not possess a viable theory of growth, innovation and technical development--factors which, again, are offshoots of the human component in modern world affairs. He states:

"Economic growth is hardly known to economic theory, least of all to the new economics. If growth is admitted at all, it is treated as a disturbance outside the system. Prevailing economic theory is based on the assumption that an economy oscillates around the same perfect balance --a balance in which there is neither inflation nor deflation, neither unemployment nor labor shortage, neither idle capital nor boom. The assumption is an economy that is briskly standing still. Qualitative structural change, such as growth and its dynamics, are as much beyond the ken of economics today as motion was beyond the capacity of mathematics before the differential calculus."⁷

All of which is to further suggest that the science of economics, in itself, is not likely to help us cope with the fundamental and rapid changes now occurring throughout the world as a result of rampant transnationalization. Although the economists will brandish a formidable jargon and busy themselves with important studies of all kinds, it is not likely that they will make meaningful headway in countering the excesses and inequities of transnationalization which can be expected to develop.

What we are left with, therefore, is the sober realization that we are perhaps expecting too much of the economists. We are, in effect, expecting them to make up for the deficiencies of our political scientists. Economics is not a more viable science because it does not have a viable political science on which to build. It is our political scientists to whom we should look for a realistic theory of social change, growth and development. Given such a theory, our economists might then go into their abstraction act with more creditable results.

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Our politically-oriented technicians should thus take heart. We can't really do without them. But we need more from them. We need most urgently the new insights by which our political thinking and our political institutions can be so modified or revolutionized as to cope effectively with the fundamental changes now being wrought in our world society by the continuing process of commercial transnationalization.

IV. Long-Range Changes in Political Institutions

We live in one of the most revolutionary periods of human history but it is a period of curiously little revolutionary thinking in terms of the development of new concepts and systems of social thought. By and large the furor of present-day social debate is carried on in terms of reference carried over from the nineteenth century. Marxism continues to lie at the heart of the debate over ideological renewal and the sanctity of the nation-state continues to lie at the heart of the debate over organizational renewal. As a consequence no fundamental, long-range changes in our political institutions have been noted except for the inadvertent diminution of the nation-state at the hands of transnationalization as discussed above. Nor has much in the way of significant new revolutionary thought been encountered in the limited reading open to me in the pursuit of this study.

One interesting exception to the dearth of new thinking, however, appears in the current issue of The Center Magazine for May/June 1972. In an article entitled, "The Promise of Self Management,"⁸ Elisabeth Mann Borgese discusses a theoretical new approach to government which appears to anticipate a broad, world-wide development of horizontal transnational relationships and which proposes steps to restructure political institutions accordingly. Her article represents a report on a meeting of political thinkers from Chile, Germany, Israel, Malta, Norway, the United Kingdom, the United States and Yugoslavia. They had met to discuss a new psychological approach to government called "self-management" which apparently would transcend not only Marx and the nation-state but also the institution of private property.

The approach of self-management, she indicates, is an approach which maximizes the opportunity for individual self responsibility. Self-management, she states, therefore politicizes the economic enterprise by transforming it into a community which is not bent on profit-making exclusively but on articulating the social and political as well as the economic decision-making processes of its members, workers and managers alike. Under this approach every enterprise is run by an elected workers council and an elected executive committee so that the micro-community of the enterprise and the macro-community of what used to be the state thus look very much alike. Both are multidimensional or polyvalent (that is, embracing all dimensions of human activity), and both are organized from the bottom up, not from the top down. Both are interacting, and it is through this interaction and by participating in decision-making at the governmental level that the self-managing community really creates and asserts its autonomy.

"For a few hundred years," she states, "we have been living in an era of nation-states. We have been living in

a hierarchical, vertical order; in a closed order, based on property, power, and sovereignty; in an order dominated by Western, Judeo-Grecian-Roman values.

"Now we are regrouping. We are going to live in a post-national or trans-national era in which nations will still exist but they will no longer be the sole actors, or even the protagonists, on the scene of world history, because other interests and other forms of organization--economic and cultural--are taking their place alongside and across the nation-state. We will live in a horizontal order, where men again participate in the decisions affecting them; we will live in an open order, with everybody being part of a number of overlapping subsystems organizing his work, leisure, economic life, cultural and spiritual life, and moving freely within these subsystems; and we will live in an order based no longer on property, nor on power, nor on sovereignty, for all these concepts are eroding under our eyes.

"Finally, we will live in an order no longer dominated by Judeo-Grecian-Roman values. The new lifestyle will be infused with an admixture of Oriental values--symbolized by the great drama of the Chinese entry into the world organizations.

"Owing to the working of (a) centrifugal force, there is today a remarkable tendency within nation-states to break up. This is a worldwide trend, affecting developed as well as developing nations, East, West, South, and North. I have only to mention Northern Ireland or Croatia, or Katanga or Nigeria, or East Bengal or Quebec, and it becomes clear what is meant. The black power movement in the United States should be viewed in the same context--as should, for that matter, student power, or even woman power.

"What is remarkable is that the forces of law and order, sophisticated and formidable or even hypertrophized though they may be, are increasingly less capable of coping with these internal-disintegrative movements, just as, externally, they are impotent in the face of even weak and undeveloped antagonists, as in Vietnam.

"Each of these movements has of course its own physiognomy, its own roots in its own history, and its own goals. What they have in common, however, is an urge toward self-determination, self-management, participation in decision-making on a scale that is comprehensible in human terms.

"Self-managing and self-governing communities, whether of a cultural, national, racial, economic, or other character, will be much more important as the infrastructure of world order than they have been in the era of the centralized nation-state."

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