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# Transnational Economic Processes

EDWARD L. MORSE

CHANGES in the structure of the global economy have resulted in a withering of governmental control of certain activities presumed to be de jure within the domain of governments. The international monetary crises of the 1960s have demonstrated the emergence of financial markets that seem to operate beyond the jurisdiction of even the most advanced industrialized states of the West and outside their individual or collective control. The flourishing of multinational corporations has affected the national science and economic growth policies of highly developed and less developed states alike by restricting the freedom of those governments to establish social priorities. Tariff reductions carefully and arduously negotiated on a multilateral basis through the General Agreement on Tariffs and Trade (GATT), through bilateral arrangements, or through emergent regional economic organizations have similarly increased the number of relatively nonmanipulable and unknown factors which must be accounted for in planning a wide spectrum of domestic and foreign economic policies—from regional development policy or anti-inflationary efforts on the domestic side to the international exchange rate of a state's currency.

Whether these factors have become so significant as to render obsolete the state-centric view of international political and economic relations is a question which can be answered only when the limits upon restrictions on governmental operations become more clearly defined. It is, however, now obvious that the state-centric view must at least be modified and supplemented by additional frames of reference so that the factors which have impaired the efficacy of state-level decisionmaking processes can be more coherently analyzed.

This essay is concerned with one set of factors salient in twentieth-century international relations which cannot satisfactorily be dealt with through traditional references to autonomous national states. These factors are predomi-

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nantly economic and are associated with changes in the global economy over the course of the past 100 years. In particular, this essay is concerned with describing those economic trends which have served to undermine the traditional state-centric view. In addition to this descriptive task, this essay is also concerned with explanations of the growth of transnational economic activities. In both instances the present endeavor inevitably covers issues of great controversy. On the one hand, proponents of the state-centric view have offered cogent reasons for maintaining, if modifying, the traditional perspective by treating phenomena such as multinational corporations, international economic organizations, and multinational economic treaty commitments as "envi-roning conditions" which have restricted but not invalidated the state-centric view. On the other hand, even among those who accept the evidence that these external factors ought to be isolated and analyzed apart from national governments, there is no consensus on a theory which would explain the development of these factors or indicate their relevance.

I have chosen to focus my attention on an empirical rather than a theoretical issue—namely, whether there exists in contemporary international economic relations an isolable set of factors which can be fruitfully thought of as transnational and, if so, what the significance of those factors is for the foreign and domestic policies of various states. In so doing I have evaded the task of formulating a theoretical explanation of the growth of transnational economic activities. Neither I nor others have yet been able to develop or test a theory which would be adequate to that task. When such a theory is developed, however, it will clarify what are currently the most arguable questions concerning international economic relations. Among these are the following questions: Is the level of international economic interdependence increasing or decreasing? Is such a change in economic interdependence universal or regional? Is the growth in transnational activities the consequence of permanent changes in international affairs in general or of the particular and transitory political configuration of forces which developed after World War II? Do transnational economic activities raise fundamental political questions about the ability of the modern nation-state to control them? Do the dynamics of transnational processes suggest a prognosis of stability or of instability in international affairs? Finally, what are the consequences of this prognosis for international peace?

### I. ECONOMIC ACTIVITIES AS TRANSNATIONAL PROCESSES

If transnational interactions are understood as "the movement of tangible or intangible items across state boundaries when at least one actor is not an agent of a government or an intergovernmental organization,"<sup>1</sup> it immediately becomes obvious why a transnational perspective on international affairs should

<sup>1</sup> Joseph S. Nye, Jr., and Robert O. Keohane, introductory essay to this volume, p. 332.

focus on economic activities. Virtually any “tangible” item involved in such processes is likely to have a significant economic dimension in that it can be treated as a commodity or service to which monetary value can be attached. Whether it is a question of goods, information, or money itself, its presence is likely also to entail certain costs for the governments or societies involved. This economic aspect of transnational activities is central for several additional reasons.

First, transnational processes seem to have arisen in the contemporary international system after the technological revolution induced persistent economic growth in the highly developed or modernized societies of Western Europe. The remarkable development of first the British and later other Western economies in the nineteenth century through the “extended application of science to problems of economic production” enabled these societies to mobilize resources on an unprecedented scale.<sup>2</sup> This mobilization of economic resources coupled with revolutionary innovations in the fields of transportation and communication enabled Western states to expand their power and influence, if not their rule, over the rest of the planet. The linking up of the various states of the world through this process of growth in transnational economic phenomena was accompanied by an unprecedented mobility of certain factors of production (population, capital) as well as of output.<sup>3</sup>

Second, these economic activities were transnational, as defined above, as a result of the kind of political regimes in which the industrialization process first occurred. These states were, by and large, liberal democracies. Very little of the initial growth in trade was a result of planned governmental activities. Rather, the responsibility for taking advantage of the economic potential of new technological innovations was usually in the hands of private industrialists and bankers whose main incentive was the profit motive. Given the nature of the regimes involved international economic activities were bound to have some transnational element, and these were generally private business enterprises.

Third, with the onset of sustained economic growth in what are now the most highly modernized societies economic values became a central substantive focus of political and other social activities. This was the case for several

<sup>2</sup> Simon Kuznets, *Modern Economic Growth: Rate, Structure, and Spread* (Studies in Comparative Economics, No. 7) (New Haven, Conn: Yale University Press, 1966), p. 9. A similar definition has been used to describe the revolution of modernization in human affairs; see C. E. Black, *The Dynamics of Modernization: A Study in Comparative History* (New York: Harper & Row, 1966), pp. 1–9.

<sup>3</sup> For example, overseas emigration from Europe was at a level of some 257,000 per year in 1846 and increased to a rate of 1.4 million per year at the outbreak of World War I. Thereafter the rate precipitously declined. Similarly, world trade increased at an accelerating rate through the first half of the nineteenth century, reaching a per decade rate of growth of 61.5 percent in the 1840s and declining to about 47 percent at the outbreak of the First World War. It, too, later declined drastically. With the rapid growth of world trade in the century before World War I the share of the foreign trade sector in the national product also generally increased in the industrializing societies. More complete data on the period between the 1830s and 1960 can be found in Kuznets, pp. 285–358.

reasons. First, economic values were central to the new secularism which accompanied the breakdown of the feudal system and which is one of the distinguishing characteristics of modern life. Second, with the growth of their domestic economies expectations of affluence became generalized in all societies. Through this "revolution of rising expectations" political goods grew to assume more and more the substantive characteristic of economic goods. Thus, the growth of the "welfare state" and of governmental policies for health care, minimum wages, and the like reinforced the secular evaluation of public policy.<sup>4</sup> Third, those transnational ideologies which developed as explanations of a world characterized by sustained economic growth focused on economic activities. For liberalism this focus appeared in a dichotomy of economic and political activities. The modern state was thought to be the upshot of a historical development which permitted economic activities to flourish internationally as political controls over the activities of individual citizens were dismantled. For Marxism-Leninism the withering of the state would result from economically determined processes which would enable "man" to overcome his alienation so as to develop freely his own individual capacities. In both cases the ideal was a transnational and universal humanitarianism based on the transcendence of the nation-state and the development of the potential of high levels of industrialization.

The central position of economic activities in transnational processes has been reinforced by the more recent revolution in nuclear technology and its impact on international affairs. As a result of the development of nuclear technology traditional foreign policy goals involving territorial accretion have become so politically and economically costly as to be virtually prohibitive. The well-known paradox of the inutility of force in the relations of those states which have been stalemated by the "balance of terror" has made it possible for international economic activities to increase tremendously in political significance.<sup>5</sup> As the use of traditional instruments of force has receded in importance, plays for power and position subsequently have appeared in the international monetary and commercial systems.<sup>6</sup>

<sup>4</sup> For an important and stimulating discussion of the relationship between political and economic aspects of modernization in terms of the growth of public as opposed to private goods see Karl de Schweinitz, Jr., "Growth, Development, and Political Modernization," *World Politics*, July 1970 (Vol. 22, No. 4), pp. 518-540. De Schweinitz views political growth as the process by which the output of public goods is increased. This political output is jointly consumed by all members of the polity—whether or not they wish to consume them: "Everyone must consume political goods. Although I can choose to consume cigarettes, automobiles, or transistor radios, I have no choice but to consume the armed forces of the United States, the space program of NASA, the judicial system, the FBI, the Federal Reserve Authority, or the National Labor Relations Board." (P. 525.)

<sup>5</sup> For an elaboration of this paradox see Pierre Hassner, "The Nation-State in the Nuclear Age," *Survey*, April 1968 (No. 67), pp. 3-27; and Hans J. Morgenthau, "The Four Paradoxes of Nuclear Strategy," *American Political Science Review*, March 1964 (Vol. 58, No. 1), pp. 23-35.

<sup>6</sup> For an elaboration of this argument see my article, "The Transformation of Foreign Policies: Modernization, Interdependence, and Externalization," *World Politics*, April 1970 (Vol. 22, No. 3), pp. 379-383; and Klaus Knorr, *On the Uses of Military Power in the Nuclear Age* (Princeton, N.J.: Princeton University Press, 1966), pp. 21-34.

International economic policies have increased in political importance for three different kinds of states for three different sets of reasons. First, in the case of the industrialized societies of the West the post-World War II attempt to create an "Atlantic Community," first through the Marshall Plan and later through the negotiation of tariff dismantling through GATT, involved an amalgamation of security and welfare objectives. On the one hand, the community was seen as an attempt to foster higher levels of interdependence among Western industrialized states so as to reinforce, through economic recovery and economic growth, their collective defense against Communist expansion. On the other hand, the accrual of the welfare benefits of higher levels of trade was also viewed as an end in itself.<sup>7</sup> Second, in East-West relations trade policies formulated in virtually all Western states during the 1960s were based on the notion that foreign economic policy could foster political liberalization in Eastern Europe.<sup>8</sup> Third, in the case of relatively nonmodernized societies economic policies have grown in importance as a result of the relative impotence of these societies when compared to relatively industrialized states. Without the capacity to sustain traditional foreign policies based on the use of force the leaders of these states have collectivized their demands for a greater share of the world's wealth by supporting efforts to redistribute that wealth through trade and aid agreements with the wealthier societies of both East and West.

As a result of these three reasons the same general conclusions can be reached: Economic change and economic policy have become central foci of international politics in the twentieth century. Any general theory which is to succeed in explaining the reasons why this focus has grown in importance must take into account the shift in the substance of international politics from a concentration on instruments of force to an emphasis on economic statecraft.<sup>9</sup>

## II. THE "MYTH OF NATIONAL INTERDEPENDENCE" REEXAMINED

If the politicization of economic activities accounts for their place in a discussion of transnationalism, it does not provide an explanation of the emer-

<sup>7</sup> The same combination of "security" and "welfare" goals could be found among the various incentives for European integration. On the one hand, European unification was viewed as a means of putting an end to the divisive nationalisms which had been seen as a root of warfare and upheaval in Europe in the century preceding World War II. On the other hand, it was seen as the means of creating a market sufficiently large to support modern industrial growth. For a discussion of these motives in terms of functional, federal, and confederal approaches to European unity see Altiero Spinelli, *The Eurocrats: Conflict and Crisis in the European Community*, trans. C. Grove Haines (Baltimore, Md: Johns Hopkins Press, 1966), pp. 3-25.

<sup>8</sup> For the most comprehensive review of political aspects of East-West trade see Samuel Pizar, *Co-existence and Commerce: Guidelines for Transactions between East and West* (New York: McGraw-Hill Book Co., 1970).

<sup>9</sup> The increased importance of economic relationships as a major concern of international politics is further explained by Susan Strange in "International Economics and International Relations: A Case of

gence and growth of what may be called transnational economic activities. As I suggested above, a discussion of transnational economic activities ought to be concerned with two issues: 1) the empirical question of whether transnational activities exist and 2) the theoretical question of what sort of theory is necessary to explain the emergence of transnational activities and the dynamics of their growth. It is the former issue to which the following discussion is largely directed. Problems arising from the theoretical issue are discussed in section IV.

Any discussion of the nature of transnational economic processes must relate the emergence of transnational economic relations to relatively recent changes in international relations and include the magnitude of the growth of international economic activities. Because a theory to explain this growth is lacking, even the empirical concern of describing trends is confronted with frequently contradictory evidence.<sup>10</sup> Some writers see these trends as supportive of the thesis that transnational economic activities have grown in volume as well as significance during the past century.<sup>11</sup> Others see the trends as reflective of a substantially decreased significance in the external sector for virtually all societies which followed the growth in this sector before World War I.<sup>12</sup> These contradictions apparently reflect our inability to perceive clearly the dynamics of change since we are in the midst of a process which is as yet incomplete. As a result trends have become clearly discernible, but, as one student of modern economic growth has argued, "the final shapes of these characteristics are presently hidden from us. This limitation, however, should affect primarily questions of degree rather than kind, of intensity rather than being. It will be most important to bear this limitation in mind in evaluating the specific empirical coefficients—their stability and variability over time and space."<sup>13</sup>

There are several possible ways to organize a discussion of transnational economic trends. One would involve the specification of the nongovernmental participants including corporations, financial organizations, and other group—Mutual Neglect," *International Affairs* (London), April 1970 (Vol. 46, No. 2), pp. 304–315; and my article, "The Politics of Interdependence," *International Organization*, Spring 1969 (Vol. 23, No. 2), pp. 311–326.

<sup>10</sup> Several of these contradictory interpretations are reviewed in my article in *International Organization*, Vol. 23, No. 2; and in Oran R. Young, "Interdependencies in World Politics," *International Journal*, Autumn 1969 (Vol. 24, No. 4), pp. 726–750.

<sup>11</sup> See Kuznets; and Richard N. Cooper, *The Economics of Interdependence: Economic Policy in the Atlantic Community* (Atlantic Policy Series) (New York: McGraw-Hill Book Co. [for the Council on Foreign Relations], 1968).

<sup>12</sup> The most extreme statement of this viewpoint is found in Kenneth N. Waltz, "The Myth of National Interdependence," in *The International Corporation: A Symposium*, ed. Charles P. Kindleberger (Cambridge, Mass: M.I.T. Press, 1970), pp. 205–223. See also Karl W. Deutsch and Alexander Eckstein, "National Industrialization and the Declining Share of the International Economic Sector, 1890–1959," *World Politics*, January 1961 (Vol. 13, No. 2), pp. 267–299; and Karl W. Deutsch, Chester I. Bliss, and Alexander Eckstein, "Population, Sovereignty, and the Share of Foreign Trade," *Economic Development and Cultural Change*, July 1962 (Vol. 10, No. 4), pp. 353–366.

<sup>13</sup> Kuznets, pp. 15–16.

ings which are highlighted in this volume. Alternatively, the pattern of interactions can be specified at a systemic level which would isolate a set of activities analytically separable from the nation-state focus. Although an ideal long-run goal, this would require the definition of a theoretical framework which is beyond the scope of this essay, and it would carry the discussion far from its focus of transnational economic activities. Instead, I have chosen to treat both the general trends in economic activities and the controversial debate over them through a discussion of developments in international economic interdependence.

Although it can lead such a discussion astray, a focus on international economic interdependence is central to a discussion of transnational economic processes. Transnational processes and international interdependence refer, in effect, to overlapping sets of phenomena. Interdependent behavior may be understood in terms of the outcome of specified actions of two or more parties (individuals, governments, corporations, etc.) when such actions are mutually contingent.<sup>14</sup> These parties, then, are interdependent with respect to specific issue areas and not to the whole spectrum of their activities. None of the actions involved is understood to be fixed. Nor need they be consciously perceived as mutually contingent or dependent, although such perception would be necessary if interdependence was to be manipulated by one or more of the parties involved. In this sense strategic interaction would be a subset of interdependence and would involve specified goal-oriented behavior on the part of at least two parties.

Interdependence as defined above need not involve transnational processes. For example, the security of two states may involve a set of interdependent relationships but also involve no nongovernmental actors and therefore not necessarily be transnational. Similarly, transnational activities could exist without affecting the level of interdependence among certain groups. I presume this to be frequently the case with such less-tangible phenomena as ideolo-

<sup>14</sup> There are other definitions which have been offered for "interdependence." Each has a different focus and therefore gives rise to different sets of questions. This one focuses on state actions and consequently lends itself to questions regarding the ability of a state's leadership to attain its objectives and its level of control over activities both within and beyond its borders. Interdependence has also been defined in systemic terms and in terms of the growth of political output or political goods.

In systemic terms, for example, interdependence has been defined "in terms of the extent to which events occurring in any given part or within any given component unit of a world system affect (either physically or perceptually) events taking place in each of the other parts or component units of the system." Young, *International Journal*, Vol. 24, No. 4, p. 726. This definition lends itself to the formulation of hypotheses about the systemic effects of increases (or decreases) in the levels of interdependence: "The higher the ratio of interdependencies among the component units of a world system to interdependencies within the component units, the greater the proportion of any given unit's resources that will be devoted to external affairs." *Ibid.*, p. 741.

In terms of political goods or "public goods" (those goods which, if consumed by any single member of a group, cannot feasibly be withheld from other members of the group) interdependence would be defined as a function of the scope and number of political goods produced in a group. See, for example, Norman Frohlich and Joe Oppenheimer, "Entrepreneurial Politics and Foreign Policy," *World Politics*, forthcoming.



gies. By and large, however, I would hypothesize that *as transnational processes increase in number and in scope for a specified set of states, the level of interdependence among them similarly increases*. Although subject to empirical verification this would seemingly be the case because state objectives would become increasingly a function of intersocietal interdependence.

I treat this hypothesis as an assumption in the discussion below. Even though the focus on international economic interdependence raises operational difficulties which are as intractable as those of transnational economic relations, the concept is useful for two reasons. First, much of the debate over changes in international economic relations has revolved around the question of whether there has been a secular increase in the level of international economic interdependence over the past century. Second, given the hypothesis stated above a number of questions about transnational economic processes are covered in a discussion of international interdependence.

The discussion of international interdependence is controversial even before an attempt is made to measure the phenomenon or to trace longitudinal trends in its growth. Arguments against the usefulness of conceptualizing international politics in terms of notions of interdependence have recently been brought together in an essay by Kenneth Waltz, "The Myth of National Interdependence." An analysis of Waltz's argument, therefore, serves as a useful foil for the present discussion. Waltz argues that "a comparison of the conditions of internal and external interdependence will make it clear that in international relations interdependence is always a marginal affair."<sup>15</sup> While Waltz's analogy may be an apt one, his conclusion does not follow from his assumption. This is apparently a result of Waltz's bias against "the mistaken conclusion . . . that a growing closeness of interdependence would improve the chances of peace."<sup>16</sup> Waltz's view that an increase in international interdependence would be destabilizing for international society as a whole is probably correct. Yet, his bias against the concept results in a failure to define it explicitly and also in the complacent belief that international affairs are more "stable" than other views might imply.

The concept of interdependence ought to be viewed in neutral terms without the value judgments of optimists who invoke a harmony of interest theory or of pessimistic prophets of doom. Even here the analogy between international and domestic society remains appropriate. This distinction, however, need not imply that in international society interdependence is always marginal. What it does imply is that the level of political integration outside the state is, by definition, lower than that within it. Interdependence, as defined above, has to do with the ability of statesmen to achieve those goals which have been set for them when goal attainment is contingent upon activities

<sup>15</sup> Waltz, in Kindleberger, p. 206.

<sup>16</sup> Ibid., p. 205.

pursued elsewhere. For example, the margin within which any Western industrialized state can establish the rate of exchange for its currency is a function of market mechanisms in the international monetary system and the tolerance of other governments. If a government devalues its currency beyond this margin in order to enjoy the trade benefits which accrue to an undervalued currency, it can be certain that foreign governments will retaliate—for example, by devaluing their currencies proportionately or by refusing trade credits—in order to nullify unfair advantage. The margin of autonomy and the limitations put on it are indices of monetary interdependence. By postulating that interdependence is always a marginal affair internationally Waltz's analysis avoids the most interesting set of questions. This has to do with the political effects of interdependence on both patterns of international behavior (the functioning of the international monetary system in the example cited) and on domestic politics (the mix of anti-inflationary and growth policies implied by the example).

Waltz continues his argument against the utility of the concept of interdependence through an elaboration of the classic dichotomy between the state and international society. His argument on interstate interdependence is based on the traditional dictum of statecraft which says that all states are alike in that their leaders must maximize state security. Within the domestic order, however, there is a functional division of labor: "The domestic order is composed of heterogeneous elements; the international order is composed of homogeneous units. . . . The international order is characterized by the coaction of like units. . . . Because the units that populate the international arena are the same in type, interdependence among them is low even if those units are of approximately equal size. . . . This last point can be stated as an iron law; high inequality among like units *is* low interdependence."<sup>17</sup>

Classical trade theory would tell us that the logic of Waltz's argument is quite correct. Homogeneous units would find little need for trade-offs based on comparative advantage, and the level of interdependence among them would thus be low. His argument at this point therefore depends on the empirical generalization that international society is composed of like units. But is it? The Rankean assumption that states are alike in that their leaders maximize security seems terribly antiquated to a contemporary observer. Waltz's generalization may, in fact, have held for the powers of classic diplomacy. These powers were all European, their leaders were educated in similar types of schools, they spoke the same language of diplomacy and understood the same signals, and their expectations for change were relatively low. Today the number and type of international actors appear to be historically unparalleled.<sup>18</sup> The international system is composed of some 120 states that

<sup>17</sup> Ibid., p. 207.

<sup>18</sup> For a stimulating discussion of changes in the types of international actors and their current diversity see Oran R. Young, "The Actors in World Politics," in *The Analysis of International Politics*, ed. James N. Rosenau, B. Vincent Davis, and Maurice A. East (Glencoe, Ill: Free Press, forthcoming).

vary tremendously in size, level of economic development, cultural heritage, type of political system, language, style, and expectations. In addition, the diversity of governmental and nongovernmental organizations, corporations, and other types of actors which form the linkages of transnational society present a world foreign to Waltz's system of like units.

The capstone of Waltz's argument is that the international system since 1945 has been based on two superstates, highly unequal to all the others, from which follows, given his "iron law" of inequalities, that interdependence today is at such low levels as to be specious. Waltz then turns to evidence from trade and investment transactions to bolster his argument. This thesis can be challenged on four counts. One is theoretical; a second involves distortions which result from a security-focused view of international politics; a third comes from a logical fallacy; and a fourth from further omissions in longitudinal economic analysis of trends.

On the theoretical level the problem encountered in the writings of Waltz flows from the nature of his implicit definition of interdependence. This definition skirts the major issues involved in the study of international interdependence or of transnational society. We want to know what units are interdependent in terms of specified sets of activities (e.g., technology or transportation), geographical or functional areas (e.g., the North Atlantic region or international trade), and in terms of specified state objectives (e.g., security, peace, wealth). To speak of interdependence on a general level of abstraction without specifying these matters can result only in fruitless disputation over its empirical existence or its usefulness as a concept.

The second problem found in Waltz's analysis involves distortions which stem from his security focus of international politics. The traditional objective of the units of international society has been termed security maximization. It is that set of security objectives which comes immediately to mind when Waltz speaks of a bipolar world in which two states share the "pinnacle of power."<sup>19</sup> But is this world one of low interdependence? We can clarify this point by looking at the converse of interdependence, namely, autonomy. In the bipolar system does the security of any state—even of the two at the "pinnacle of power"—involve autonomous actions only? Or does the security of the whole system depend upon contingent actions taken (or not taken) by the major states? An affirmative answer to the latter question flies directly in the face of Waltz's argument. Here evidence is far more substantial than conventional wisdom. This evidence has been described elsewhere as "the most outstanding example of menacing cultural lag in our world today."<sup>20</sup> It has to do with the accelerating pace of technological change and the conse-

<sup>19</sup> Waltz, in Kindleberger, p. 207.

<sup>20</sup> Hornell Hart, "The Hypothesis of Cultural Lag: A Present-Day View," in *Technology and Social Change*, by Francis R. Allen et al. (New York: Appleton-Century-Crofts, 1957), p. 428.

quent exponential growth of destructive capacity rather than 1) growth in areas governed by single political systems and 2) growth in the "area in which human beings can kill each other from a given base."<sup>21</sup> The effects of these changes in technology, power to govern, and power to destroy taken together have been described as follows:

In atomic cultural lag, the leading variable is the maximum area within which, at any given date, people could be killed from a given base. The lagging variable is the ability to prevent this accelerating power from damaging or destroying the kind of civilization which is valued within the accepted frame of values. . . .

Although the killing area had been growing with acceleration since before the dawn of history . . . in 1900 it was still almost negligible compared with the governing area. . . . From that date [1912] onward, however, the killing area increased precipitately. In 1944 it surpassed the size of the largest governing area ever attained. . . . The development of refueling in the air, and the development of bombers of still greater range, have extended the potential killing radius to globe-encircling dimensions.<sup>22</sup>

Developments in both destructive power and delivery power since these lines were written mean that with respect to "survival" the world has never before been as interdependent as it is today—size of states notwithstanding. Nor have the transnational aspects of defense and security ever been so striking.

The third problem stems from Waltz's logical fallacy of first asserting that the world is less interdependent given its present "two pinnacles of power" and then supporting this assertion with evidence drawn from trade and investment flows. The fallacy once again results from the failure to conceptualize interdependence in terms of specific state objectives, activities, and parameters of action. On the one hand, the "iron law" is one which is drawn from "high politics"—from actions concerned with maximizing security and prestige. The evidence, on the other hand, is drawn from areas of "low politics"—activities whose objective concerns the maximization of wealth and welfare.<sup>23</sup> The connection between the two spheres is one which is not specified in any way. In addition, there is another logical gap in this argument. Waltz has generalized from interactions between the United States and the Union of Soviet Socialist Republics to the structure of global society. At best, his generalization ought to be restricted to Soviet-American interactions. Even if levels of interdependence between the two societies could be shown to have been reduced during this century, this does not permit one to leap to conclusions about relations between member states of the European Economic Community (EEC), of the Council for Mutual Economic Assistance (CMEA), or of any other region however defined.

<sup>21</sup> Ibid.

<sup>22</sup> Ibid., p. 432.

<sup>23</sup> For an elaboration of this argument see my article in *World Politics*, Vol. 22, No. 3, pp. 377-383.

The fourth set of problems encountered by Waltz and others who argue that there has been a decrease in the level of economic interdependence in international society during the course of the last 50 years is, perhaps, the most intriguing for our purposes. It also raises exceedingly complex questions of analysis. Since it involves changes in the levels of various types of economic interactions as well as transformations in the global economy, it is worth dwelling on at some length.

### III. TRENDS IN TRANSNATIONAL ECONOMIC ACTIVITIES

Evidence of changes in the nature of international economic interdependence and the consequent growth of transnational economic society can be found in transaction data and in the expected consequences of an increased sensitivity of domestic economic activities to external stimuli. Most analysis has focused on the former, while the latter has recently also been submitted to rigorous examination.<sup>24</sup>

Transaction analysis can focus on trade and investment figures as well as on evidence drawn from the mobility of persons. The findings of these analyses are well known, but it is useful to review some of them briefly. In most cases a similar set of trends obtains. There are two general characteristics of these trends in transnational economic activities during this century which ought to be singled out in any discussion of transnational processes. The first trend is the almost continuous process of change and transformation which these activities have been undergoing. The second is the appearance of 1914 as a watershed year regardless of what set of activities is considered.

The accelerated increase in the mobility of persons, for example, was one of the first consequences of the application of technology to modes of transportation. Innovations in shipping, in railroad construction, and, later, in the automotive and aviation industries had several effects: Speeds of transportation increased at an exponential rate of growth after 1820,<sup>25</sup> capacity similarly increased, and costs of transportation declined precipitously.<sup>26</sup> The relative openness of borders to immigration in the nineteenth century, the desire to leave one's homeland because of famine, repression, or revolution, and the attraction of material betterment in North America, northern Europe, or Australia resulted in an unprecedented movement of persons across borders, espe-

<sup>24</sup> For examples of the former see Waltz, in Kindleberger; Deutsch and Eckstein, *World Politics*, Vol. 13, No. 2; and Deutsch, Bliss, and Eckstein, *Economic Development and Cultural Change*, Vol. 10, No. 4. For examples of the latter see Cooper; and Ingvar Svenhållson, *Growth and Stagnation in the European Economy* (Geneva: United Nations Economic Commission for Europe, 1954).

<sup>25</sup> See Bruce M. Russett, *Trends in World Politics* (Government in the Modern World) (New York: Macmillan Co., 1965), pp. 7-10. J. Edwin Holmstrom has pushed the exponential growth curve back several millennia to the use of wagons and the consequent increase of capacity over "man-transport" and pack animals. See his book, *Railroads and Roads in Pioneer Development Overseas: A Study of Their Comparative Economies* (London: P. S. King & Son, 1934), p. 56.

<sup>26</sup> This decrease in transportation costs also, of course, affects global trade. See Cooper, pp. 65-66.

cially away from Europe. The era of most rapid rate of growth was the 30-year period preceding World War I after which there was a precipitous decline in international migration.<sup>27</sup> By the outbreak of World War II there was a virtual halt in both absolute terms and as a percentage of total world population in the international flow of persons. In order to determine the effects of these changes on international interdependence (and vice versa) we must ask why the decline occurred.

The lowering of barriers to migration represented an obvious growth in transnational society however defined. This growth was primarily the result of technological change. Its coming to a halt after World War I was not, on the other hand, attributable to technological change. Rather, it was the result of conscious governmental policy designed for social and political reasons to restrict mass movements of population. Does this mean that as a result of a decline in population movements across territorial boundaries the world has become less interdependent? The contrary would seem to be the case. Governmental intervention occurred as a means of controlling and stabilizing this form of interdependence. As Gunnar Myrdal has described it, "the doors are closed at the very time when cheaper travel makes movement easier and the spread of knowledge opens up new vistas and horizons. The closing of the boundaries is also one of the many factors leading to an absurd intensification of national allegiances which is continuously weakening that basis of international solidarity upon which international policy has to be built."<sup>28</sup>

At the same time that shifts in population declined in intensity the means of supporting such shifts increased through further reductions in transportation costs. What has occurred, then, is an even further increase in personal mobility which is obscured by national actors. Some idea of the phenomenal increase in personal mobility can be gained if we focus for a moment on the post-World War II growth in international travel. The number of persons arriving from abroad in the various states of the world has doubled every decade since World War II. Figures for three representative years are: 1948, 40,601,200; 1958, 81,487,900; 1968, 168,752,300.<sup>29</sup>

While the decrease in migration levels seems to indicate a lower level of international interdependence, the effects of this enormous growth in personal mobility on interdependence cannot be underestimated. A large and increasing number of travelers go abroad for business purposes, and this itself

<sup>27</sup> For details on the volume of international migration in aggregated as well as disaggregated form (by country of origin and country of entrance) see Svenhållson, pp. 65-68; Kuznets, pp. 51-56; and Gunnar Myrdal, *An International Economy: Problems and Prospects* (New York: Harper & Brothers, Publishers, 1956), chapter 7.

<sup>28</sup> Myrdal, p. 95.

<sup>29</sup> Figures are drawn from the United Nations *Statistical Yearbook* (12th and 21st eds.; New York: Statistical Office of the United Nations, 1961, 1969). The number of international travelers during 1970 has been estimated at over 200 million. The largest part of this travel, some 50 percent, represented exchanges among persons residing in the industrialized societies of Western Europe and North America.

helps partially to explain the growth in postwar trade. In addition, international travel has the important, if diffuse, effect of "broadening the horizons" of citizens of all countries to varying degrees. This also is an important, if incommensurable, aspect of transnational society (increases in domestic travel notwithstanding).

In addition, a large number of persons travel abroad to seek employment. When, as in the EEC, this mobility of labor is a result of consciously and jointly executed policy on the part of a group of states, "transnational problems" are inevitably generated. Free movement of labor leads to a "transnationalization" of problems of labor relations—social security, health benefits, health insurance, and family remissions. Some of these affect the balance of payments of individual countries and governmental intervention in foreign as well as domestic sectors.

Capital mobility has exhibited a pattern of growth not unlike that of the mobility of persons. There was a remarkable increase in the flow of investment in the century preceding the First World War (a rate of increase of 64 percent per decade before 1914), a retardation during the Great Depression, and another vast increase in flow after 1950. Generalizations are far more tenuous with regard to capital flows, and a complete account of capital movements to support such generalizations is outside the scope of this essay.<sup>30</sup> Nonetheless, certain general features of this pattern can be summarized.

First, in spite of the parallel between the phenomenal growth of capital flows during the nineteenth century and the emergence of European empires, "a substantial proportion of these capital flows [at least half] went to developed countries."<sup>31</sup> Although the shares of portfolio capital versus credit and of private versus public sector contributions shifted (in each case toward the latter) after 1950, the share invested in developed countries remained high. In both periods the findings indicate substantial asymmetry in the structure of the global economy with centralization of control institutionalized in the highly industrialized states. At the same time two-way capital flows between advanced countries developed after 1950, although American businessmen have been much less reluctant to take advantage of international investment opportunities than have their European counterparts. In any case, it remains true that, even with the increase in capital mobility since 1950, investment abroad represents a smaller share of domestic savings in lending countries than it did a century ago.

What accounts for the increased mobility of capital since 1950? Why should such an increase result in a higher level of interdependence, at least among

<sup>30</sup> For a more complete discussion based on a disaggregation of capital flows see Kuznets, pp. 321–334, for the period between 1820 and 1960; Cooper, pp. 82–91, carries the discussion through the middle of the 1960s. A discussion of some of the political effects of these flows in the postwar period is found in the essay by Lawrence Krause in this volume.

<sup>31</sup> Kuznets, p. 327.

advanced industrialized societies? Richard N. Cooper has outlined several factors which have fostered capital mobility. Among those he lists are "the desire by an investing firm to exploit some quasi-monopoly it holds, whether special skills, patent rights, or 'good will'"; the recovery of Europe and the return to currency convertibility by the end of 1958; the consequences of the implementation of the Treaty Establishing the European Economic Community (Rome Treaty); the general improvement in the European political position; and the sense of security which followed the dampening of the cold war.<sup>32</sup> These factors, in short, were mainly political, but they were aided by improvements in the structure of capital markets and a general "widening of business horizons."

This does not refute Waltz's claim that a situation different from the pre-1914 conjecture obtains in a world in which two powers appear to be little dependent on the rest of the world. It does, however, severely restrict his position when we ask to what set of factors this dependence pertains. Waltz himself notes that "the higher the costs of disentanglement, the higher the degree of dependence," but he argues that even for the United States it would be a "hard blow" to absorb a sudden and general loss of trade outlets or of investments.<sup>33</sup> It is difficult, then, to understand why he concludes that the United States, like the Soviet Union, is "little dependent on the rest of the world."<sup>34</sup> Waltz's argument is based on the improbability that recipient countries would be willing to accept a future loss which would arise from their nationalization of American-owned capital. Such a situation would imply a high level of interdependence.

Additional evidence of increased interdependence arising from capital mobility accrues from another source, namely, the tendency of the structure of the international monetary system to breed crises. This system can be described as one in which a great deal of interdependence has developed but centralized authority capable of formulating policy has not. The consequence is that governments are forced to coordinate their decisionmaking processes with regard to monetary matters—a process which is not easy given the number of countries involved but which is facilitated by the unacceptability for all governments concerned of the costs of either retrenching to a position of relative autonomy or of fostering a unification of their currencies.

There is an important reason why it can be expected that international crises, such as the ones characteristic of the international monetary system in the late 1960s, will appear in a system in which there exist high levels of interdependence but weak structures for international policy coordination. This is because transnational interactions result in losses of governmental control over the foreign activities of citizens. This has been the case especially with short-

<sup>32</sup> Cooper, pp. 88–90.

<sup>33</sup> Waltz, in Kindleberger, p. 216.

<sup>34</sup> *Ibid.*, p. 214.



term capital flows associated with the multibillion dollar Eurodollar market. Private transactions may bring about situations in which governments are forced to take action but often with their freedom of action restricted. As transnational interactions of this sort increase, the possibilities of effective decisionmaking in a purely national setting, of isolation or of national encapsulation, become less likely. Therefore, control becomes a more difficult problem, especially insofar as knowledge of the effects of interdependence is still limited.

The third kind of economic transaction which enters the argument about transnational society has to do with foreign trade and the importance of the international sector as a component of gross national product (GNP) in an economy. Here, again, we find the familiar trend, and the controversy is over its interpretations. The transactions involve both commodities and services.

In historical terms this pattern has been described as follows:

The time pattern of the international flows of resources and goods contrasts sharply with this movement [of technological knowledge]: the rapid acceleration in the rate of increase of these flows that began in the 1820s was followed by the markedly disrupting effects of the two world wars of this century and of the political institutional changes that were the consequences partly of these wars, partly of the spread of modern economic growth under auspices that militated against the widening of peaceful international economic flows. The decline in the rate of increase of such flows that began with World War I, extended to the end of World War II, and only currently is being compensated for by the high rate of some of these flows since the early 1950s, is in contrast with the apparently continuous and perhaps accelerated rise in the transnational stock of useful knowledge. . . .<sup>35</sup>

This high rate of growth of foreign trade between the 1820s and 1913 was in sharp contrast to the much lower rate of slightly over 10 per cent shown for the period back to the mid-eighteenth century; and it dropped sharply over the five decades that followed 1913, to about 21 per cent per decade—despite the remarkably high rate for the 1950s. . . .<sup>36</sup>

There is a series of questions which must be asked with regard to these trends in determining the political importance of these transnational activities. The first has to do with the share of the international sector in the domestic economy in terms of GNP: Does a decreased share imply as an automatic consequence a lower level of international interdependence and, consequently, a decrease in the importance of transnational society? A second question has to do with structural change in the countries involved and asymmetric patterns of interactions: Does a reduction in the number of great-power interactions imply a lower level of interdependence for the system as

<sup>35</sup> Kuznets, pp. 294–295.

<sup>36</sup> *Ibid.*, p. 305.

a whole? A third question most appropriately raised at this juncture has to do with the limitations of transaction analysis in measuring the scope of transnational society: Are transactions in themselves appropriate indicators of interdependence?

The first question is crucial to the argument that interdependence has been decreasing. It is here that the work of Karl Deutsch has played a central role.<sup>37</sup> Deutsch has used a series of indicators to argue the case that as societies become more industrialized, at least after a certain threshold, national introversion increases. Evidence is drawn not only from the foreign trade sector but also from international migration data, letters sent abroad, and elite interviews. The evidence drawn from foreign trade is crucial to his argument. The data Deutsch used is widely accepted as valid, and his conclusions are widely agreed upon.<sup>38</sup> For the older industrialized states of the West the share of the foreign trade sector in GNP was much greater before World War I than it is today. Even though this share rose in the 1950s above its depression levels, it has still not reattained the earlier levels. In addition, the share of the foreign trade sector has not risen for the more recently developed countries, including those of the Soviet bloc. The major questions to be asked, then, are why this is so, and what are the implications of this for trends in international interdependence.

The first question is somewhat easier to deal with than is the second. In the first place, the initial growth of the foreign trade sector was somewhat extraordinary. It reflected the suddenness with which businessmen and other groups were able to take advantage of the revolution in transportation discussed above. As domestic economies continued to grow, it was natural for the relative proportion of the foreign trade sector to decline. Second, the period was one of trade liberalism, reflecting "a policy decision by the United Kingdom, the economic leader of the time, to foster international division of labor and freer trade. . . ."<sup>39</sup> In the later period there was a series of political decisions designed to foster policies of autarky rather than of trade liberalism for two sets of reasons which, in a sense, grew out of the experiences of World War I.<sup>40</sup> These resulted in a decline after World War I both in intra-European

<sup>37</sup> See Deutsch and Eckstein, *World Politics*, Vol. 13, No. 2; and Deutsch, Bliss, and Eckstein, *Economic Development and Cultural Change*, Vol. 10, No. 4. In addition, the following works should be consulted: Karl Deutsch et al., *France, Germany and the Western Alliance: A Study of Elite Attitudes on European Integration and World Politics* (New York: Charles Scribner's Sons, 1967); and Karl Deutsch, "Transaction Flows as Indicators of Political Cohesion," in *The Integration of Political Communities*, ed. Philip E. Jacob and James V. Toscano (Philadelphia: J. B. Lippincott Co., 1964), pp. 75-97.

<sup>38</sup> Kuznets, however, disagrees with Deutsch's findings for the pre-1914 period. He finds "that the trends in the trade proportions of the older developed countries in the period before World War I were generally and significantly upward, not downward." Kuznets, p. 316.

<sup>39</sup> *Ibid.*, p. 319.

<sup>40</sup> There were other effects of the war which fostered stagnation in economic growth. Among these were financial losses, losses of manpower, of overseas markets, and a withering of the psychology of free trade; see Svennilson, pp. 18-20 and 41-61.

trade and in Europe's share of world trade. On the one hand, governmental controls introduced during the war were maintained as part of preparation for future wars. On the other hand, the aftermath of the Bolshevik Revolution coupled with the controls instituted during the war years and the depression in the non-Communist states demonstrated that national economic policies, which required relative isolation from the world economy, could be used to control domestic economic growth. In short, as Kuznets has remarked, "It is hardly a surprise that the *international* dislocations that marked the post-1913 period depressed the *international* flows to a much greater extent than the *national* economic activity of the developed nations. . . ."<sup>41</sup>

What, then, was the relationship between a lower share of the foreign sector and international interdependence? In one sense the data itself cannot tell us. For, if interdependence is understood as a function of state objectives, then the declining share of the foreign trade sector after World War I and the stagnation of world trade in the interwar period were partly reflected in the costs governments were willing to accept in order to enhance the autonomy of their economies. Thus, the stagnation in economic growth reflected, in part, the enormous cost of national autonomy once high levels of international interdependence obtain. As national economies grow and become more potentially specialized, the potential welfare effects of trade liberalization may increase interdependence even in the absence of higher absolute or relative levels of trade.

In addition, the structure of trade has changed considerably since the pre-1914 period. Today the greatest powers do not trade substantially with each other as they did in the earlier period.<sup>42</sup> At the same time the terms of trade for primary products, the principal exports of less developed countries, has appreciably worsened while trade in manufactures for manufactures between industrialized non-Communist states has increased substantially. What this means is that the structure, not necessarily the level, of interdependence has shifted in terms of the international economy. The upshot is a complex structure of relationships; some of these relationships represent a thickening web of interdependence and others do not. Evidence drawn from the share of the international sector is, in short, inconclusive. Indeed, it raises as many questions as it answers. It means that a mapping of interdependencies is not as simple as would be implied from this sort of transaction analysis. It also implies that interdependence is a rather important affair laden with significant political effects that are obscured when its importance is minimized.

The second major question posed above pertains to structural changes in the countries involved in this web of interdependence and to asymmetric

<sup>41</sup> Kuznets, p. 321. The reasons, of course, are far more complicated than the highlights outlined above. Fuller treatment is found in Kuznets and in Svennilson.

<sup>42</sup> Yet, there is some importance in the fact that these do not represent the same specific states.

patterns of interaction. This, too, is a controversial issue and far too complex to be treated completely in this essay. It is relatively misleading to generalize about patterns of interdependence without reviewing asymmetries within them. The units of international society themselves vary tremendously and this variety is further reflected in relations between them. Moreover, just as there have been changes in the structure of individual political systems, there have also been complex changes in their relationships. Some of these changes have been more rapid than others and have resulted from political considerations such as the growth of the Communist system and its relative isolation from the global economy. Others have been more evolutionary and have reflected the processes of economic growth. As new relationships have developed, others have withered. Thus, simultaneous trends such as the growing closeness of the industrialized states of the West, the isolation of the Communist bloc, and the disintegration of the European-centered empires give the appearance of both disintegration and the creation of new forms of international institutions.

One of the forms of social disintegration most commented upon in economic and political literature is the increased gap between relatively modernized societies and latecomers to the modernization process. This gap is indicative of one of the most disintegrative aspects of social change in general and economic change in particular in the twentieth century.<sup>43</sup> Paradoxically, the poorer societies have benefited from some of the concomitants of the modernization process but have also suffered because of their inability to handle the wide spectrum of problems which accompany this process. They have, for example, been able to reduce mortality rates through the application of advanced medical techniques but have not been successful in reducing fertility rates. They have developed pockets of modernity in their major cities but only at the cost of bifurcating their own social structures between traditional and modern sectors. But most of all, in terms of the global economy, they have relied primarily on export sectors based on specialization in primary products for which the terms of trade have continuously deteriorated for over one-third of a century. At the same time these less developed societies have failed to significantly increase trade between themselves. The divisions in the international economy which this implies, i.e., the apparently increased dependence of less developed societies upon the more modernized world and their sustained isolation from one another, seem to make arguments about increased levels of international interdependence difficult to accept. However, if we accept for the moment the hypothesis that the process of change in international society involves the appearance of newly integrated structures of rela-

<sup>43</sup> It is this disintegrative quality of modernization which Marion Levy has in mind when he argues that "the structures of modernization, once they have reached certain levels of development, constitute a sort of universal social solvent." Marion J. Levy, Jr., *Modernization and the Structure of Societies: A Setting for International Affairs* (Princeton, N.J.: Princeton University Press, 1966), p. 14.

tionships and the disintegration of others, the argument is incomplete until an attempt is made to identify these new structures.

Economic historians have pointed out that one of the most marked features of international trade in the mid-twentieth century has been the phenomenal growth of trade in such commodities as machinery and transportation equipment between relatively advanced societies and a contraction in trade between them in textiles, primary products, and other miscellaneous processed materials which were products of the first wave of industrialization.<sup>44</sup> Traditional trade relationships involving an exchange of "land-using," or primary, products for "labor-using" manufactures has, in short, shifted toward trade in manufactures for manufactures. As Cooper has pointed out, "exports of manufactures have grown from less than 40 per cent of world trade in 1928 to nearly 60 per cent in 1966. During the period 1953-64, world exports of manufactures rose 228 per cent, compared with a growth of 84 per cent in other products."<sup>45</sup> Most of this increase in trade, then, represents an increased share of trade for industrialized countries.

In short, along with a perceivable "disintegration" in the global economy reinforced by the isolation of Communist-bloc countries from the growth in trade there has been a growing interdependence among industrialized societies with respect to the benefits they mutually derive from trade with one another. This growth in interdependence has been reinforced by changes in forms of decisionmaking for the "global economy." These decisionmaking structures are of two types, although sometimes, as in the case of the International Monetary Fund (IMF), the same organization deals with both sets of problems. Some relate to the way non-Communist industrialized societies regulate and adjust the political problems which stem from their growing interdependence. Thus, a set of trade, mutual problem-solving, and monetary arrangements has arisen to foster the coordination of decisionmaking. These arrangements include the IMF, the Organisation for Economic Co-operation and Development (OECD), the Group of Ten, the EEC, etc., and all have become centers of important political action as economic activities have grown to reflect the changing power relationships between industrialized states. Other arrangements relate to decisionmaking for rich and poor societies alike. General problems of global liquidity to finance trade, of market arrangements, and of loans and aid for development also have been centered more and more in international organizations. The upshot has been a centralization of decisionmaking for international economic affairs, itself, perhaps, the most important indirect index of international interdependence.

It might be objected that this increased centralization of economic decision-making only reflects the greater dependence of less developed societies on

<sup>44</sup> See Svennilson, pp. 175-180.

<sup>45</sup> Cooper, pp. 60-61.

wealthier ones. This, indeed, is the case because it is virtually impossible for any less developed society to achieve goals associated with increased levels of modernity in isolation from global activities. But the same generalization obtains for more advanced societies in other policy areas. The result is that no society, however economically advanced, can achieve the entire spectrum of its goals in isolation. Thus, the degree of interdependence with regard to such goal achievement remains significantly asymmetric because of the split between advanced and less developed societies and the centralization of decisionmaking primarily in the hands of the former.

There is an additional asymmetry in these interdependent relationships. It has to do with the relative size of societies measured in terms of GNP. It is this asymmetry which has, in part, led Deutsch and others to conclude that as societies become more industrialized, at least up to a point, the share of their external sectors declines. But one still finds, as Kuznets has pointed out, "that foreign trade proportions are positively correlated with the level of economic development as measured by per capita income, once the size factor is taken into account, [and this] lends further support to the inference that small countries can attain economic growth *only* through heavy reliance on foreign trade. . . ."<sup>46</sup>

These asymmetric relationships give rise to several qualifications to some of the generalizations made above concerning the political implications of interdependent relations. First, there is a divergence among societies in terms of their willingness to grant decisionmaking power over economic activities to supranational groupings. Since a large, highly developed society such as the United States is relatively more capable of insulating itself from effects of interdependence, its leadership is less willing to give up decisional power and will opt for coordination of economic policies when such coordination is necessary. Second, these asymmetries are reflected in the relative negotiating strength of the various states when decisions with respect to the transnational effects of interdependence are imposed upon them. It is this kind of asymmetry in power which has been apparent in the decade-long process of negotiating new credit facilities within the IMF and the Group of Ten in which the American position on special drawing rights (SDRs) eventually won out. Moreover, these asymmetries notwithstanding, there is a great deal of evidence that interdependence, at least among more industrialized states, has increased with respect to international economic activities of all sorts in recent years. While the situation is relatively complex, the general trends which created it remain clear.

A third question which must be dealt with in determining the political implications of transnational phenomena concerns the nature of the evidence available for measuring changes in international interdependence and, spe-

<sup>46</sup> Kuznets, p. 302.

cifically, the adequacy of transaction data to provide sufficient information about the scope and growth of transnational society. This sort of evidence is utilized by Deutsch when, for example, he argues that "European integration has slowed since the mid-1950's, and it has stopped or reached a plateau since 1957-58."<sup>47</sup> Deutsch's data is based on flows of international trade, mail, travel, and the exchange of students. In particular, Deutsch bases his statistical computations on the "Index of Relative Acceptance—the RA index—which measures the percentage by which the volume of actual transactions (such as, for instance, trade) between two countries exceeds or falls short of the hypothetical amount that would be proportional to the overall share of each of these two countries in the total flow of transactions among all countries of the world."<sup>48</sup> Analyzing structural integration among the six, Deutsch has found that "if the RA index of structural integration . . . had continued to grow in the 25 years after 1938 at the same rate as it did from the eve of World War I to the eve of World War II, the index in 1963 would have reached 94 per cent, far above the 77 per cent it actually did."<sup>49</sup>

Are we to conclude, however, that the movement toward European integration stopped before the Rome Treaty was implemented? How could one then explain the need to coordinate anti-inflationary policies in 1963 or the effects of the French devaluation and German revaluation of 1969 on the EEC common agricultural policy? Two sets of problems seem to lead one to question Deutsch's conclusions. One has to do with transaction analysis itself, and the other has to do with what Deutsch omitted from his analysis.

The reliability of transaction data in providing evidence for growth or decline in interdependent relationships has recently been questioned. Oran Young, for example, has argued that some of the most significant aspects of the growth of transnational interdependence "do not manifest themselves in iterative transactions."<sup>50</sup> For example, the empirical reference to volatile factors such as trade and mail flows "make dubious indicators of long-term secular trends at best."<sup>51</sup> Equally important, perhaps, is the failure of Deutsch to take into account such indirect and relatively intangible measures of interdependence as the fragility of the international monetary system in which interdependence gives rise to predictable crises, the increased sensitivity of domestic economic activities to external phenomena, the growth of capital mobility, and the increased expectations of gain by business in an increasingly interdependent international system.

The second problem with transaction analysis has to do with what it omits. Cooper has leveled a succinct attack on the thesis that the international eco-

<sup>47</sup> Deutsch et al., p. 218.

<sup>48</sup> Ibid., p. 220.

<sup>49</sup> Ibid., p. 221.

<sup>50</sup> Young, *International Journal*, Vol. 24, No. 4, p. 733.

<sup>51</sup> Ibid., p. 734.

conomic system was more interdependent or more highly integrated before 1914 than it is today. Cooper has argued that there are several important reasons why a comparison of the contemporary international economy with that of the pre-1914 period is not appropriate. First of all, governments everywhere have assumed far more extensive responsibilities for assuring the achievement of minimum standards of welfare including employment and salary levels. "These new tasks," Cooper argues, "place greater burdens on the available instruments of policy" and result in the increased sensitivity of the domestic economy to international activities.<sup>52</sup> Second, the perfection of communication links between all advanced industrialized societies increases the knowledge of investors of opportunities to achieve higher interest rates on short-term capital than ever before. Finally, even though tariff barriers were relatively low before 1914, there were other barriers to trade including, especially, shipping costs that have since been significantly overcome: "Thus, the integration of the pre-1914 world economy was something of an illusion. While the pre-1914 world was integrated in the sense that government-imposed barriers to the movement of goods, capital and people were minimal, those imposed by nature were much greater and economic integration was not high in the sense used here: quick responsiveness to differential earning opportunities resulting in a sharp reduction in differences in factor rewards."<sup>53</sup>

#### IV. EXPLAINING TRANSFORMATIONS IN INTERNATIONAL SOCIETY

These recent trends in international economic relationships have been the subject of much debate and controversy. These debates pertain to fundamental questions about international politics. Is there a permanent nation-state focus of international society which stems from the fragmentation of the state system into relatively autonomous political systems, or has the emergence of transnational phenomena substantially altered that fragmented universe? Is transnationalism something new, or has it been even more marked in other epochs such as the sixteenth and seventeenth centuries when the state system coexisted with "transnational remnants" of medieval Christendom? Has the system been disintegrating from its relatively more homogeneous status of a century ago, or has the web of interdependence grown tighter?

The divergent interpretations implied by these questions probably result from the variety of biases and analytic foci in current writings. For some the focus of analysis is ideological, and the explanation offered has something to do with the rise of the "new diplomacy" associated with the apotheosis of liberalism under Woodrow Wilson or of Marxism under Lenin.<sup>54</sup> A second

<sup>52</sup> Cooper, p. 151.

<sup>53</sup> *Ibid.*, p. 152.

<sup>54</sup> See, for example, Arno J. Mayer, *Political Origins of the New Diplomacy, 1917-1918* (Yale Historical Publications, Study No. 10) (New Haven, Conn: Yale University Press, 1959).



framework focuses on the instruments of force, and the explanation pertains to the revolution in weaponry which occurred simultaneously with the collapse of the Euro-centered international political system and the emergence of Soviet-American relations as the central ordering axis of the international system.<sup>55</sup> A third focus is a more general one and pertains to the revolution of modernization and its concomitant, continuous, and enormous (probably exponential) growth of knowledge.<sup>56</sup>

The controversies which emerge from contrasting these different frameworks are not likely to be decidedly resolved in the near future. Clarifications and refutations may readily be made, but the underlying controversies will remain as long as no theoretical breakthroughs develop which can settle the matter by explaining the interrelationships between trends such as those discussed in this essay. My own bias in this analysis would lead me to argue that changes in international economic and political relations over the past century have been dramatic and transformational. The growth of transnationalism, it seems to me, is a direct offshoot of the phenomenal growth in knowledge, knowledge which cannot be monopolized by any one society but which is inherently transnational. Indeed, the foundation of transnational society can be viewed, to borrow Kuznets's phrase, as the increasing "transnational stock of knowledge." As he has argued, the basis of modern economic growth and therefore the basis of transnational phenomena is "the increase in the stock of useful knowledge and the extension of its application. . . ." He has further asserted that "no matter where these technological innovations emerge . . . the economic growth of any given nation depends upon their adoption. In that sense, whatever the national affiliation of resources used, any single nation's economic growth has its base somewhere outside its boundaries—with the single exception of the pioneering nation, and no nation remains the pioneer for long. Indeed, this dependence of a single nation's growth on the transnational stock of useful knowledge is implicit in the concept of an economic epoch. . . ."<sup>57</sup>

The relationship between the processes of modernization which Kuznets and others have described and the growth of transnational society is little more than a hunch. Although no one has been able to make a theoretical linkage between the two, it is likely that efforts will be made in this direction in research during the next decade. Evidence for this linkage which presently exists is little more than indirect. It has to do with such phenomena as the monetary crises outlined above, with perceived "technology gaps" and political

<sup>55</sup> Something of this is found in Kenneth E. Boulding, *Conflict and Defense: A General Theory* (Center for Research in Conflict Resolution Publication) (New York: Harper & Brothers, Publishers, 1962), but the notion is widespread.

<sup>56</sup> Kuznets, p. 286.

<sup>57</sup> *Ibid.*, pp. 286–287. For a more general view of the phenomenon of modernization defined in terms of cumulative growth of knowledge see Black, pp. 7ff.

responses to them in Europe and elsewhere, and with international efforts to coordinate national policies so that transnational phenomena can be brought under control. Above all, it seems to me, it has to do with the politicization of economically derived values which has had as a concomitant the increased sensitivity of national economic policies to external activities.

The increased scope of governmental activities in all states, but especially in the most advanced industrialized states, is the major link between the general processes of modernization and transnational phenomena. This increased scope is everywhere associated with the emergence of the "good life" as a major political goal. For governments to provide the general welfare they must get involved in the provision of social services, guarantees of minimal levels of individual consumption, and the like. At the same time specialization of national production increases with modernization just as the possibility of autarky diminishes. From the latter develops the major incentive to international economic cooperation—fear that the inability to pursue an autarkic policy will lead to the cutoff of foreign markets and sources of supply without which the good life could not be attained.

Both the increased scope of governmental attitudes and the increasing incentives for internationally coordinated policies, coupled with such transnational activities as those associated with capital mobility, bring me to the point with which this essay began, namely, the merging of economic and political phenomena which is a characteristic of contemporary domestic and international life. The mark of our current dilemmas and the failure of our major ideologies result significantly from our predisposition to think of political and economic activities in separate terms. If modern society bears any resemblance to primitive societies it is precisely in this realm. The age of transnational society is one in which only holistic accounts will suffice. The politicization of economics and the creation of economic value for political goods are what transnational processes are all about. One can no longer be conceptualized independently of the other.

This mark of contemporary international affairs is one of the substantive bases for claiming that things simply are not the same as they were during the period of classic diplomacy. International relations today correspond neither to the theories of power politics characterizing an "anarchic international system" nor to the utopias of world government depicting a single international society, although aspects of both are found everywhere. Foreign policy and international relations are, rather, in an intermediate and transitional position and assume mixed and diverse forms. Whichever direction they move in during the coming decades, toward increased autonomy or toward the creation of new institutions to control transnational processes, no development will arise without having momentous significance for the whole set of international relationships.