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Wisdom Series Addition

This series of essays, as successive inserts to the Advanced Studies newsletter, was planned under the following titles;

Thinking Changes Over Time
The Mind, Brain and Heart: A Paradigm for Predicting Outcomes
Visions and Values: Western and Islamic Heritages
Education - The Notion Potion
Developing a Strategy to Change Academic Behavior.

The first three essays have been published in the Advanced Studies newsletter. Since the start of publication an additional essay, *Our Institutional Reform to Reflect Our Values* has been written. It is now being published in two parts: *Part I: The Current Situation*; and *Part II: Moving Toward a Solution*.

This two-part essay will be fourth and fifth in this series of inserts leading to the concluding two essays. The seventh and final essay, to be published in the latter part of 2006, calls for more relevance in academia, especially through a blending of disciplines and applying the concept of consilience.

Institutional Reform to Reflect Our Values; Part I: The Current Situation ¹

By Maury Seldin ²

If you accept the belief in our inalienable rights espoused in the Declaration of Independence, “We hold these Truths to be self-evident, that all Men are created equal, that they are endowed by their Creator with certain inalienable Rights, that among these are Life, Liberty, and the Pursuit of Happiness,” and, if you believe in the application of reason, then you are likely to believe that our nation’s policies should reflect and respect the existence of the rights of people beyond our borders. That is the easy part.

The difficult part is in developing, adopting, and implementing national policies that reflect and respect the existence of the rights of people beyond our borders and that recognizes the obligation of our nation to provide appropriate assistance. This is in addition to our domestic reform obligations.

The difficulty arises in several dimensions. One dimension is the recognition of structural changes that relate to sovereignty. Another dimension is recognizing the US role (past, present, and future) in these changes, and, most importantly, determining our policies based upon our traditional values.

¹ This essay is derived from an essay series that is the spine of the Seminar on Improving Decisions at the Academy of Senior Professionals at Eckerd College. It draws heavily from the book in progress, *Improving Decisions: Toward a New Age of Enlightenment*, available on the ASPEC Center for Scholarly Enterprise (ACSE) site, <http://www.spicequest.com/acse/index.htm> [Click on “Improving Strategic Decisions”]. A major theme of the book is the application of the concept of consilience to enhance our social science disciplines in their use of forecasting outcomes of different policies. The two areas of particular attention are in dealing with terrorism and in dealing with a variety of real estate issues. Some of these essays are planned for publication by the Homer Hoyt Advanced Studies Institute.

² Dr. Seldin, a chair professor emeritus from the American University in Washington, DC, is leading a seminar at ASPEC that relates to his work at the Homer Hoyt Advanced Studies in Real Estate and Land Economics, where he is President and Chairman of the Board of Directors.

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A Structural Change

The first dimension is respect for the sovereignty of the foreign state in which others reside. The respect for foreign sovereignty has been applied in the western world since 1648, when the Treaty of Westphalia dealt with the principle of noninterference in internal matters of another state. This tradition of respect may have been eroded by our recent actions in which western nations increasingly champion values such as human rights, which we see as the greater good.

The erosion of sovereignty also stems from changes in the nature of international trade. In an earlier era, international trade was product oriented with the producers generally being domestic entities. Now, not only are there many foreign-owned entities producing in a domestic economy, but the production is not simply a replication of facilities existing in other countries. Rather, the production integrates components manufactured in other countries into the multinational firm's product. This production relates to the service sector as well, such as getting data processed in Ireland or computer-related assistance from technicians in India.

The economic activity of corporations simultaneously operating in more than one country, with production integrated from two or more countries, changes the accountability situation and power relationships. The country of corporate origin loses some power; and, while the foreign country has some regulatory authority, its power is less than that which it has over a domestic corporation. The multinational corporation thereby picks up a power position with lesser accountability and responsiveness than a purely domestic operation would have.

There is another aspect of the emerging structural dimension, described by Thomas L. Friedman in his latest book, *The World is Flat: A Brief History of the Twenty-first Century* (2005). The key phrase is found on page 10: "...the new found power for *individuals* to collaborate and compete globally." This is a significant structural change in that people are operating as part of a global community in relationships other than the traditional domestic hierarchal structure. When they operate through a multinational they get freedom beyond the single employer. They also may, with electronic communications, shift employment to another company elsewhere. It is an entirely new competitive situation.

These new structural dimensions produce a lesser position for sovereign states and a greater power structure for multinationals, and are further characterized by international capital markets that have changed power structure. In an earlier era, and in some of the lesser-developed countries, the provision of capital necessary for economic progress was a domestic affair. Provisions of capital might be government controlled, or privately controlled, and may not fairly reflect market forces. Under the emerging structure of openness to competition, however, the influence of the market has increased.

The great problem with open market competition is that it embodies a lot of heartless hot money, money that may flow in and out of a local economy with dramatic and sometimes devastating effects. The decisions may or may not be well reasoned, but there is the absence of a safety net that considers the broader picture. As Americans, we are accustomed to government regulations that provide a safety net when the market goes berserk. Many other countries, and especially emerging nations, lack the institutional and legal structures that provide a safety net.

The world is going through a process similar to that faced during the industrial revolution and its aftermath. The rules of competition must be dealt with, the playing fields need to be leveled, and bottom lines other than profit must be considered.

These bottom lines, other than profit, refer to corporate responsibilities to the communities in which they operate. Corporations, in essence, are government-created persons. Persons created by nature develop responsibilities to the community in which they interact. The logic holds for corporations as well. The differences between natural and government-created persons lie in the ways in which the social contract and other regulatory forces operate. Just as we need to do better with the relationships of natural persons, so we need to seek improvements in the relationships of state-created persons, i.e., corporations. What has changed significantly is the scale and the relationships of individuals to the various communities, corporate

and non-corporate, domestic and international. The relevant scale has shifted exponentially from small communities to estates to the globalization of the international community

Multilateral Patterns

Multilateral organizations have emerged in a global economy to deal with economic development and related issues, especially trade and finance.

Our Historic Role. The United States has been a major player in the development of the international organizations shaping the globalization of economic activity. In the words of Michael Hirsh in his book, *At War with Ourselves* (2003),

“Every major international institution – the UN, the World Bank and International Monetary fund, the ‘trade rounds’ that led to the WTO, NATO – was literally made in America. The open byways of this system, of international markets and trade rules, international standards for human rights, and even democracy, are largely American-influenced and secured by American power” [Page 71].

After almost a century of being a leader in international institution building, the United States now is helping shape a world bound together by ties that go beyond those of the World Bank, United Nations, or WTO. We have fostered the globalization of markets and it is this globalization that holds hope for economic development of the countries that have not yet benefited from the sea change following the Enlightenment. The strategy for developing countries needs to take cognizance of the realities of changes in cultures that are significantly different from our own.

Our Nation’s Efforts at Reforming International Policy

History is replete with the injustices of the empire builders. The stories are those of expanding territories throughout the millennia and the resulting exploitation of resources, both human and natural. The results have been human tragedy to those who lived in those times. The remnants of exploitation, even after the crumbling of the empire, have impeded the ability of the local societies to function effectively, especially in Central Asia. But empire building has also happened elsewhere, and in more recent times, giving the western world a bad reputation.

The situation is aggravated by the disparities in the welfare of the western nations that realized the benefits of the Enlightenment, compared with the welfare of nations that did not capitalize on the economic progress that accompanied the new-found freedoms that emerged in the West. This disparity is a feeder to the hate for the West, especially for America, and is a feeder to the supply of terrorists, terrorist supporters, and terrorist sympathizers.

Now comes the ironic part: The very countries that are the least developed have their best chances for economic progress with the benefits of the internationalization of economic development. The Central Asian countries are a case in point. Under Soviet rule their borders were closed except to the rest of the Soviet Union. After the collapse of the Soviet Union, there was little local leadership available to guide economic development. Many of the newly independent states, in fact, saw one tyrant succeeding another. The wealth of oil and gas reserves in the region, though, marks the emergence of a new Great Game. This time the Great Game is between the United States and Russia, and perhaps China, rather than between Great Britain and Russia as in an earlier era.

This Great Game still has a strong economic dimension, and the politics of the region are critical to policy. For instance, the route of a potential pipeline is currently being debated and pressure for human rights in some of the countries is an issue.

The issue here is how we conduct our foreign policy to balance the vital strategic interests of our nation and the local interests of others, as well as the economic interests of transnational corporations, including oil companies. The perceptions of foreigners towards US international business activity and foreign policy have an impact on their attitudes towards us. These perceptions are critical to our future and to the future of

free societies. We must zealously guard against special interests exploiting the economic opportunities at the expense of the values of our heritage.

Consider the following quote from Thomas L. Friedman's *The Lexus and the Olive Tree*

“There is increasingly a seamless web between all these different worlds and institutions, and reporters and strategists need to be as seamless as that web. Unfortunately, in both journalism and academe there is a deeply ingrained tendency to think in terms of highly segmented, narrow areas of expertise, which ignores the fact that the real world is not divided up into such neat little beats and that boundaries between domestic, international, political and technological affairs are all collapsing” [Page 24] .

The point here is that we would do well to view the policy issues from an interdisciplinary perspective. We need to start with our values and then proceed to our interests. But, and this is a critical point, we must be realistic about the nature of the institutions required for the successful transformation of other economies being drawn into the globalization of markets. American institutions developed over the last few centuries, building upon culture derived mostly from Europe. The economic progress of the West was significantly greater than that of the rest of the economic world, especially that part with a predominantly Muslim population. Those parts of the world did not develop the institutions that facilitated western progress, particularly the institutions that emerged to enhance freedom, private property rights, and competitive capital markets.