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Freedom's Narrow Corridor

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The national security law imposed by the Chinese Communist Party on Hong Kong, as of 1 July 2020, is a red alert. A great deal of geopolitical capital was expended for decades to draw China—on highly favourable terms—into the liberal international order. The hope was that, as it prospered, became more deeply integrated with the wider world and developed a thriving middle class, China would liberalise politically and economically; to the general benefit of the global order. Those efforts have failed. That is what the national security law for Hong Kong signifies.

Given the stakes in play, this is the gravest single development since the end of the Cold War. It is actually more alarming than 9/11, precisely because it has to do with China. Indeed, what has just happened demonstrates starkly that the Chinese Communist Party never did end the Cold War. It is still the unregenerate totalitarian regime demonstrated in the infamous Tiananmen Square massacre of democracy demonstrators on 4 June 1989. It is an avowed enemy of those liberal principles and universal human rights espoused by Western powers since the end of World War II.

Philip Pettit's *Republicanism: A Theory of Freedom and Government* (Oxford University Press) was published in 1997; the very year Hong Kong was handed over to China. In it, Pettit argued for what might be called a quasi-Hobbesian view of the nature of the state: its primary purpose is to establish an order in which human beings are free from "dominance, fear and extreme insecurity". Freedom from such things is the precondition for us being able to enjoy fulfilling, decent lives. Such lives are not possible, Pettit argued, when we "live at the mercy of another, having to live in a manner that leaves you vulnerable to some ill that the other is in a position to arbitrarily impose".

By that criterion, the 'national security law' just imposed on Hong Kong runs contrary to the very idea of the state Pettit espouses. The law is so worded that it leaves each and every individual in Hong Kong vulnerable to ills that the Chinese Communist Party is able to arbitrarily impose. Yet 53 states, led by Cuba, in the UN have voted in support of that travesty of state action. Did we think the Cold War was over? We have just learned otherwise. The struggle at the core of the Cold War was over the state of freedom and the state of arbitrary and totalitarian government. That struggle is far from over. It's time to remind ourselves what liberty is all about.

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Imperfect the Pax Americana may have been, but the character of what Xi Jinping's regime is



imposing on Hong Kong is antithetical to every principle of liberty and human rights espoused under the UN Charter. Never close to being globally fulfilled, those principles are now under direct challenge in a way they have not been in many years.

The regime in China may have overseen stupendous economic growth since the end of Mao Zedong's tyranny, but it has failed to accept the need to balance and sustain that growth by setting its people free to practice basic liberties. In consequence, its economic surge is likely, also, to stall in the near future. Hong Kong is the canary in the coal mine; as it has been since 1997, or even 1984. The canary is now choking. It's time for us to get out of the coal mine.

Yet we, in Australia, have a very large stake in China's economic surge. We have no reason to want to see it stall—except the geopolitical concern that its regime, enriched by 40 years of mercantilist growth and armed now with an advanced and xenophobic military, has become a threat to our national security and that of our neighbours. China as a wealthy, capitalist, more-or-less democratic state would have been welcome. China as a totalitarian and hegemonic behemoth not so much. But that is the prospect with which we are now confronted. It is vital, therefore, to pause and reflect not only on the geopolitical challenges looming before us, but on fundamental issues neglected complacently for far too long: the institutional foundations of liberty and prosperity.

This is all the more so because the sinister developments in China are only part of a broader, troubling global scene right now. The EU is floundering. Neo-authoritarian regimes in Russia, Turkey, Venezuela, Brazil and Iran are pushing in illiberal directions that bode ill for the overall liberal project. The United States, the flagship of the international order since 1942, is in crisis and internal turmoil. Donald Trump's America is deeply and bitterly divided, wallowing in debt and deficits, leaning towards isolationism and under assault from within by various militant groups, left and right, whose *modus operandi* is insurrectionist rather than liberal democratic.

For all that, China under Xi Jinping and the United States under Donald Trump are a study in contrasts. The national security law just imposed on Hong Kong is of a piece with practices long since in place within China proper. It forbids freedom of expression, dissent, criticism of the PRC or democratic agitation. It threatens dissidents with arrest and arbitrary detention without due process. By comparison, the United States is rife with dissent of every kind. To take only a few examples: the Lincoln Project, in which Republicans dismayed by Trump's conduct have defected from the GOP and are actively campaigning against him; the Black Lives Matter movement, heavily funded from various sources, all but calling for revolution; John Bolton publishing a tell-all memoir scathing of Donald Trump's national security decision-making. All this is open and not repressed in any significant way. The US, even in its travail, very much to its credit, remains the antithesis of the PRC.

What we need to do, therefore, is take a deep breath and collect our thoughts on what it will require if we are to revitalise the liberal democratic project and push back against the nightmare that is Xi Jinping's totalitarian 'China Dream'. There are many resources for doing so. Among the most accessible is the recent book by Daron Acemoglu and James Robinson *The Narrow Corridor: States, Societies and the Fate of Liberty*, published late last year. I described it to a



friend in early July as ‘Mancur Olson with neologisms’.

Anyone familiar with Olson’s *Power and Prosperity: Outgrowing Communist and Capitalist Dictatorships* (Basic Books, 2000) will at once understand what I mean. They bring to the table a fresh frame of reference and a rich set of empirical studies in comparative historical sociology. The book is delightful and very thought provoking.

It is time to reflect on the institutional foundations of liberty and prosperity.

Daron Acemoglu is a Turkish-born American economist who has taught at the Massachusetts Institute of Technology since 1993, where he is now Elizabeth and James Killian Professor of Economics. James Robinson is a British economist and political scientist, currently the Reverend Dr Richard L. Pearson Professor of Global Conflict Studies and University Professor at the Harris School of Public Policy, University of Chicago. They have collaborated before.

Their earlier book, *Why Nations Fail: The Origins of Power, Prosperity and Poverty* (Crown, 2012), addressed the same basic themes. It was highly acclaimed, but regrettably seriously flawed.

Nobel laureates in economics Kenneth Arrow, Gary Becker, Robert Solow and Michael Spence all gave the book their seal of approval; as did Joel Mokyr, Niall Ferguson, Jared Diamond and Steven Levitt, among others. Yet it was marred by sometimes astonishing errors of detail and advanced a theory which, though it began promisingly, became progressively vaguer and more platitudinous as the authors proceeded. They had spent 15 years researching and writing that book. Seven years later, they have produced a much better one.

In *Why Nations Fail*, they pointed out there are a number of widely held hypotheses about why some nations prosper while others do not, but none of these hypotheses stand up well to critical scrutiny. They were at their best in producing diagnostic evidence which refutes each of these hypotheses. Their evidence was well chosen and very telling. The hypotheses they refuted were the geography hypothesis (that climate and natural endowment determine wealth and prosperity), the culture hypothesis (that religious beliefs and ethical values determine wealth and poverty) and the ignorance hypothesis (those who are poor are so because they don’t know how to create wealth).

However, they then proceeded to advance their own hypothesis and here they got themselves mired in conceptual quicksand. Their hypothesis was that institutions—political and economic—determine the wealth and poverty of nations; specifically that ‘inclusive’ institutions generate wealth, while ‘extractive’ ones produce poverty. Unfortunately, these terms were only vaguely defined. Having set up an overly vague hypothesis, they set about presenting supportive evidence rather than seeking to test it as they had the competing hypotheses.

The consequence was that ‘extractive’ and ‘inclusive’ got stretched to fit societies that happen to have been (more or less) poor and (more or less) wealthy to the point where meaningful distinctions got lost and prognoses proceeded by tautology. Betraying an exceedingly weak grasp



of classical history, they argued, for instance, that the Roman Republic was ‘inclusive’ while the Roman Empire was ‘extractive’, so the latter was bound to fall. Never mind that the Republic looted the Mediterranean basin and then fell, while the Empire extended Roman citizenship around that basin, enabled trade to flourish and lasted for 500 years.

Most growth in China has been in the private sector, despite Party-state strictures.

They wrote that Robert Mugabe had run a regime in Zimbabwe that was “no less extractive” than that of the preceding white colonial regime under Ian Smith and that “its economic performance has been even worse (sic) than before independence”. But Rhodesia’s performance before independence was actually very respectable; so much so that Mugabe was told by Julius Nyerere and Kenneth Kaunda in 1980 that he had inherited “the jewel of Africa” and should take care not to tarnish it. He did worse than tarnish it. He made a complete hash of it economically and politically.

Closer to our present concerns, they allowed that a great deal of wealth had been generated by an ‘extractive’ regime in China, since Deng Xiaoping opened it for business again. They asserted, however, that this could not last, because extractive institutions can’t sustainably create wealth. Their argument in this pivotal case was thin and their prognosis tautological, rather than incisive. As it happens, most of the growth in China had been in the private sector, despite the strictures place on it by the Party-state. At the same time, the Party had set in place a number of institutional mechanisms which facilitated rapid growth, not least through massive investments in infrastructure and admission of huge flows of foreign direct investment. Extractive or inclusive?

In their new book, they pay more attention to the specific institutional questions seated at the heart of the nexus between liberty and prosperity. They improve very substantially on the simplistic ‘extractive/inclusive’ dichotomy and, in doing so, provide us with a number of useful conceptual levers to pull in tackling intractable problems around the world, from Africa to Latin America, from the EU to China and the United States—and just possibly in Australia. The key to the argument in *The Narrow Corridor* is that Acemoglu and Robinson tackle head-on the vexed question of the state. Using Thomas Hobbes as their pivotal point of reference—order is indispensable to public goods and private security and each of these to prosperity—they articulate variations on his core idea of the state as a ‘Leviathan’.

Liberty and prosperity require citizens to run hard just to remain in one spot.

The state is necessary in order to put an end to predation and anarchy. That was Hobbes’ central, 17th century proposition. But what if the state itself becomes predatory? Acemoglu and Robinson blend these ideas by setting out four variations on the Hobbesian state: Absent, Paper, Despotic and Shackled ‘Leviathans’. The first is the situation of anarchy or tribal life, in which fear and envy stifle liberty and, in doing so, prevent the rise of prosperity. The second is where a state arises, but is bureaucratic, parasitic and ineffectual. The third is where a state arises that is purposeful and effective, at least up to a point, but oppressive and ‘extractive’. The fourth is that in which a



state arises that is in many ways effective, but is constrained by sound constitutions and free citizens holding it to account, by actively defending their prerogatives and liberties.

To these ideal typical variations on Hobbes, they add two other neologisms that are conceptually significant: the Narrow Corridor and the Red Queen effect. The first is a crucial piece of their conceptual architecture. Liberty and prosperity do not occur automatically, by default or as the natural outcome of a process of historical evolution. They are not something that can be established once for all. They are not something that can be assumed or gifted or imposed. They require the citizens and leaders of any given social order to become and remain engaged in the extended exercises of building agency among citizens, the protection of property and the workability of governance that are the preconditions for freedom and economic growth.

The Red Queen effect is borrowed from the peerless Lewis Carroll. Building liberty and prosperity are not a one-off affair. The citizenry of a society are required to keep running hard, even if just to remain in the one spot. These things are no one's birth right. Liberties can erode. Prosperity can decay and evaporate. New problems can arise for which old solutions do not work. Their favourite case study in this regard is the US Constitution and the various inefficiencies that have arisen over the two centuries and more since the founding of the United States. These inefficiencies accumulated as the 18th century design drifted into the 19th century industrial era and then into 20th century geopolitics and global economics. States can be 'strong' in various ways, yet have strange weaknesses when novel challenges arise.

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Helena Bonham Carter as the Red Queen in *Alice in Wonderland* (2010). Photo: © Walt Disney Pictures

One of the richest aspects of *The Narrow Corridor* is the breadth of case studies from around the world, in space and time, that inform its 'Olsonian' judgements. At a time when our humanities have been seriously undermined by anti-liberal, anti-Western and grievance-based ideologies, it is deeply refreshing to see how clear-headedly and judiciously these two economists draw upon a rich range of histories to explore the issues in question. Not least among these vignettes are their account of the evolution of the Athenian constitution between the time of Solon and that of Aristotle. Here they show the oscillation between the Despotism and the Shackled Leviathan as Athenians worked for a constitution that would be stable and also productive of freedom and relative prosperity.

The state needs to be constrained by those with a stake in markets.



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The Narrow Corridor's authors Daron Acemoglu (top) and James A Robinson.

Their reflections on the medieval Italian city states are also richly illuminating. The most significant case studies, however, are those of institutional entrepreneurs engineering better outcomes through innovative measures in such anarchic and violent cities as Lagos (Nigeria) and Bogota (Colombia) in the very recent past. Bola Ahmed Tinubu in Lagos and Antanas Mockus in Bogota stand out as leaders in pushing back against predation and economic gridlock. They not only protected and incentivised individuals, but raised revenue intelligently and invested it in infrastructure and public safety in ways conducive to liberty and prosperity rather than fear and withdrawal.

My partner is Venezuelan. She works in Caracas, teaching in the MBA program, running a leadership program and generating a new narrative for Venezuela. Tinubu and Mockus speak to the challenges in Caracas far more usefully than abstractions about free markets or the American constitution.

They show what can be done—even in the most challenging of circumstances—to get the Red Queen moving. To get into the Corridor is the biggest challenge. Staying there is an ongoing one.

Importantly, Acemoglu and Robinson argue Western Europe all but stumbled into the Corridor in the Middle Ages. German traditions of moot assemblies blended with Roman traditions of state effectiveness to set the Red Queen in motion. Walter Scheidel, in *Escape From Rome: The Failure of Empire and the Road to Prosperity* (Princeton University Press, 2019), advances a congruent argument. This matter warrants endless pondering. It ought to be part of a basic liberal education in our universities. Certainly, those affiliated with the Institute for Public Affairs should delve into these new books. They will find endless encouragement for the laborious tasks with which those of a liberal and entrepreneurial cast of mind are now confronted.

But contemplating the fall of empires and the Red Queen effect brings us back to our starting point: China's Despot Leviathan and its exit from the Corridor. Chinese expatriate Dali L. Yang pondered China's options, in his 2004 book *Remaking the Chinese Leviathan: Market Transition and the Politics of Governance in China* (Stanford University Press).

"The Chinese leadership has been in a marathon quest for institutional development," he wrote. Talk about the Red Queen! He quoted Karl Polanyi as saying free markets did not come into being merely by allowing things to take their course...laissez-faire was enforced by the state. Polanyi was half right. Liberty and good markets do require the state. But the state needs, also, to be constrained by those with a stake in markets.



Capitalism and civil liberties are under threat in HK, China and, indeed, around the world.

Which brings us back to Hong Kong and its suppression by Xi Jinping's Despotic Leviathan. Jiwei Ci, Professor of Philosophy at the University of Hong Kong, published a wonderfully reflective book in December 2019, *Democracy in China: The Coming Crisis* (Harvard University Press). He wrote:

China cannot expect fully to resolve the domestic legitimation crisis unless it makes significant progress in enhancing its legitimacy around the world... democracy in Hong Kong and its impact on Chinese democracy are so closely connected that this dual topic deserves relatively comprehensive treatment in its own right.

He was correct, as the national security law shows. But his hopes have been set back, with the hammer of the Despotic Leviathan falling on Hong Kong. Ci could now be arrested and imprisoned merely for having written his deeply informed and thoughtful book.

Here, therefore, is where we now stand. In a manner as stark as anything we have experienced since Winston Churchill's famous Iron Curtain speech in Fulton, Missouri, on 5 March 1946, we are forced, very much against our will and preferences, to again confront the collision between the principles of the Shackled Leviathan as a model for social order and the lack of principle of the Despotic Leviathan. Alas, Xi's China is a more formidable antagonist than was even Stalin's USSR. Last year, amid the protests in Hong Kong, Ci got the situation crucially wrong, when he wrote:

Capitalism is definitely not under threat in Hong Kong. Nor are civil liberties and the rule of law, for the most part, as judged by real world rather than text-book or imagined Western standards, although in jealously guarding these core values of Hong Kong, as they are now called, activists sometimes understandably and usefully exaggerate the threat.

Capitalism and civil liberties are, indeed, under threat: in Hong Kong, in China and, indeed, around the world. This is not a matter of 'imagined Western standards'. It is a matter of the tugging and hauling required to bring states into the Corridor—and keep more-or-less liberal and prosperous Shackled Leviathans from exiting the Corridor and becoming either Absent, Paper or Despotic Leviathans. Dismayingly, China under Xi is not even in the Corridor.