



**Australia between West and East:
Now and in the Future**

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Wolfgang Kasper

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Introduction

Civilisations are based on shared rules, which ceaselessly evolve. Religious, intellectual, artistic, and political elites tend to shape visions, customs and laws (the *meta* rules of civilisation) and inspire us regular souls to comply. This less visible 'cultural software of civilisation' enables people to be creative and productive, generating the tangible hardware of civilisation: industries, works of art, material goods, amenities, and monuments. If the elites, for reasons of opportunism, twist the rules too far in their favour or – because they lack sufficient cognition – fail to adjust to changing circumstances, people's loyalty erodes and community cohesion fractures. Civilisations then become vulnerable; they may fall should unexpected threats materialise.

Openness and systems competition with other civilisations tend to promote adaptations and reforms that revitalise civilisations — a fact that explains the extraordinary longevity of Western civilisation and its unique material success.

Since the 1960s, our shared civilisation has become less cohesive. Various enemies of Western civilisation have come to the fore – revived revolutionary Marxism, Islam, Green and social-welfare activism, as well as numerous other single-issue lobbies. The new media now equips the adversaries of Western civilisation with the means to organise. At the same time, political elites have become more self-serving, confused and shortsighted, incurring unsustainable public debts and providing more and more regulations that favour well-connected cronies.

The material achievements of the past and political opportunism have created widespread complacency throughout the West, and a reluctance to come to grips with new challenges – e.g. technical and demographic changes, emerging resource scarcities, rise of new competitors, mass immigration of low-skilled welfare seekers from failed states.

The unprecedented emergence of a newly (and justifiably) confident China now challenges the West in unprecedented ways, not least the hegemon, the US. This promises to become the 'grandmother of all systems competitions', triggering ill will and resentments, as well as reluctant but necessary reforms in the West. Some observers even argue that we are destined for war.

This paper assesses the likelihood of open conflict with China, which would be calamitous for Australia, a frontline state of Western civilisation facing the 'Confucian orbit'. My conclusion is that, on the balance of probabilities, open conflict is unlikely, given a traditional sense of pragmatic realism in Chinese culture and China's economic weaknesses (rapid ageing, slowing economic growth, resource bottlenecks, massive capital misallocation, corruption, dependency on world markets, and above all incompatibilities between a free economic and an autocratic political order).

Australia, a bystander in US-China rivalry, will do best by remaining open, also to ideas and professionals from East Asia, and by learning to understand the 'institutional software' of Confucian civilisation. We should observe the path to modernity taken by East-Asian nations with informed empathy, however *without* making *any concession to individual freedom*, which is the essential quality that permeates our Western heritage.

Professor of Economics, *emeritus* (University of New South Wales). — E-mail: wrkas@iinet.net.au. — This paper is an extended version of an address at the Western Civilisation Conference, which the Mannkal Foundation for Economic Education held in Perth, WA on 24 November 2017. — I thank Regine Kasper, Jeff Bennett, Ted Rule and the conference participants for, mostly helpful, comments on an earlier version, but of course retain all responsibility for what is said.

Civilisation — Salient Features

“We are servants of the law, so that all may be free”.

Marcus Tullius Cicero (106-43 BC)

“Freedom is special, for it brings out the best in us”.

Immanuel Kant (1724-1804)

“The aim of any political association is to uphold the natural and inalienable rights of man; these rights are liberty, property, safety and resistance to oppression”.

Article II of the French Human Rights Declaration of 1789

To begin with, I have to sketch what I mean by ‘Western civilisation’:

[a] *Civilisation is based on shared rules.* Civilisations rest on foundations of shared, high-level (or *meta*) rules, attitudes and aptitudes. By obeying these rules, members of a civilisation pursue their own self-chosen purposes and interact most of the time like corellas in the West Australian sky or fish in the ocean – co-ordinated as if by an invisible hand.

The Greek word συμφωνία comes to mind: »singing from the same song sheet...».
or

... CONCORDIA! The Latin word for “our hearts moving in unison and harmony...”

The rule (or institution) set is not only a shared inheritance, but also a unifying vision that is widely accepted (Kasper *et al.*, 2012, pp. 173-178). Its pervasive influence may be likened to the DNA, which shapes the appearance and behaviour of a civilised community. The institution set may help or hinder certain types of creativity to produce specific goods and amenities that avoid pain, enhance pleasure and inspire truth and beauty. There is interdependence between

the quality of a culture (which I call “the software of civilisation”) on the one hand, and the material manifestations (“the hardware of civilisation”), as well as peace, social harmony and security on the other¹. The rule set will also determine how a civilisation can cope with external hostility, as well as unforeseen technical, environmental and social adversities².

[b] *Civilisation evolves ceaselessly, but slowly*. In the early Middle Age, papal reformers “launched the rocket called Occident” into an enduring trajectory – so French philosopher, historian and Hayek expert, Philippe N  mo), drawing on tap roots from Antiquity. Christendom was locked onto a path of rational, progress-oriented fundamental values by a number of papal reformers, most notably Gregory VII (pope from 1073 to 1085). These reforms were to imprint a particular shape on Western civilisation, which from then on, began to diverge from Orthodox Christianity with its more mythical, more static frame of mind. It is only from this ‘Gregorian synthesis’ onwards that we should speak of ‘Western civilisation’ (N  mo, 2007; Kasper, 2011; N  mo-Aizp  n Bobadilla, 2017; ; also Brown, 2003, ch. 15 and 16).

The institutions of Western tradition have never stood still since. When Medieval scholastic concepts became sterile, could no longer be reconciled with new geographic and scientific discoveries and the rule set was abused by religious and temporal elites, the reforms of the Renaissance and the Reformation created a new institution set. In 17th and 18th century Europe and North America, our civilisation metamorphosed further under the influence of the ‘Republic of Letters’ and the Enlightenment, which encouraged people to think critically for

¹ Although much ink has been spilled over how ‘civilisation’ and ‘culture’ are defined in various European languages, I have become an agnostic and will often use the terms interchangeably. If there are differences, ‘culture’ emphasises more the rule set – the ‘software of coordination’ – and ‘civilisation’ the material fruit of human effort – the ‘hardware’, such as material goods, infrastructures, architecture, libraries, artistic creations – music, painting, literature...

² By the way, an emphasis on complying in public life with shared and enforced rules would make the Australian government’s efforts at integrating new migrants into our society more understandable and effective, whereas general political ‘value waffle’ in the current immigration/integration debate does not lend itself to practical legislative and administrative action. Let me mention that immigrants in Switzerland, who receive generous welfare payments, lose them if found out to have been engaged in hate speech against European civilisation. However, a focus on the rules and the penalties for those who violate them, requires political courage.

themselves without being patronised by others. Reason replaced revelation. The cultural rule set was secularised. It also fostered the scientific revolution (Mokyr, 2017; Kors, 1998; also Appendix to this paper). As thinkers developed a clear sense of intellectual and personal liberty in the 18th century, political and judicial reforms produced modern democracy and private property rights were defined so that capitalism could mobilise creativity and productivity. The way was paved for the industrial revolution. England and soon the United States led the way, Northwestern Europe soon followed. History shows that, under normal circumstances, cultures evolve, but only slowly. Much of the cultural DNA is stubbornly persistent. Even when a generation of the daughters and sons appears to have embraced cultural change, it often happens that the generation of the grandchildren reverts to earlier civilisational patterns. Creating ‘new man’ by revolution has never been a success.

I agree with French philosopher-historian Philippe N  mo that the following elements define Western civilisation: (i) the polis, as well as philosophy and scientific explication of natural phenomena by the Greeks, (ii) law, particularly private law, from Rome, (iii) Christian love, rational compromise, the notions of equality in the eyes of God, the concepts of original sin and progress, as well as the tying of morality to *religio* (Brown, 2003, pp. 70-71); and (iv) the Germanic notion of rule by consent³; (v) Gregory the Great’s reforms that emphasised individual responsibility and rationality, and (vi) the intellectual liberalism, democracy and capitalist market economy shaped during the 18th and 19th centuries (N  mo-Aizp  n Bobadilla, 2017; N  mo, 2007). Nowadays, many representatives of Western civilisation contend that it can now lay claim to universality. Over the most recent half-century, globalisation, new social media,

³ What has been called by Continental European historians the ‘Germanic spirit’ is often overlooked — the contributions of the Goths, Vandals, Lombards, later Franks and Saxons, “free men” who contributed traditions of customary law and the germ of constitutional monarchy. The idea of rule-bound governance was, for example, reflected in the formal admonition by Catalanian and Aragonese nobles to newly anointed rulers: “Never forget that you have power over us, because **we** want you to have it.” As I never tire of reminding Anglo-Saxon audiences, this was part of Visigoth constitutions (*usatjes*) that were in force more than two centuries before *Magna Carta*.

space discoveries and social tribulations appear, however, to lead yet again to changes that will reshape our long-lived civilisation.

[c] *Civilisation is passed on by teaching and learning.* The rules and attitudes that make for a civilised community are acquired by learning, some when the young imitate models and mentors, some when ‘apprentice citizens’ are taught certain rules through formal education. What matters in particular is curiosity and the attitude to risk exploring new knowledge and testing it, in short the spirit of enterprise. The fashionable Freudian approach – parents letting their offspring develop without guidance or constraints, and teachers just being ‘resource persons’ in an open-space classroom full of children that are supposed to discover themselves – is no way to pass on the wisdom of earlier generations and the torch of civilisation!

[d] *Civilisation is shaped by religious, intellectual, artistic, military and political elites.* Leaders identify concepts and high-level, abstract *meta* rules that inspire their contemporaries with “the spirit of a constructive life” (J. W. Goethe). If most identify with shared ideas and visions, civilisations are cohesive; they then rise materially and politically. For example, after 1945 internationally-oriented elites created a new world order under the *Pax Americana*. The peoples of the West – chastised by their experiences during the Thirty Years’ War of 1914-1945 – accepted this. Our civilisation was revived and became more universal. If and when the cohesion between elites and us ordinary mortals declines, civilisations become vulnerable and may fall.

[e] *Civilisations are cyclical; they are born, flourish and decline – and may rise again.* ‘Big History’ teaches us that civilisations become more intense and rise with new ideas, shaped by creative leaders, then plateau and decay when powerful elites exploit their privileges or fight amongst themselves. It may indeed be more appropriate to speak of ‘intensification’ and ‘abatement’ of cultural evolution (Brown, 2003, pp. 20-29). When many ordinary people reject shared concepts, cognitive dissonance pervades communities. The same sometimes happens, when self-centred, isolated elites fail to recognise changed

circumstances and persist with protecting past social structures. Once societies fracture and the people defy and resist the overarching rules, the decline and fall of a civilisation becomes a possibility (Quigley, 1972; Gibbon, 1776-88/1996). Declining openness to new ideas and a tug-of-war between rulers and the ruled have frequently made flourishing civilisations vulnerable to the challenge of new technologies, outside attacks, epidemics or climate changes. If politico-industrial elites try to stymie creative responses to such challenges, civilisation is under threat. Alas, complacent, opportunistic elites normally fail to foresee the fall of their civilisations. Yet, no civilisation comes with the guarantee of eternal life. Western civilisation has brought lasting benefits, but will it last?

[f] *System competition promotes and revitalises civilisation.* Openness to ideas, capital and enterprise has always been the most powerful antidote against the opportunism of ruling elites, who typically suffer from cognitive and analytical limitations (Kasper-Streit-Boettke, 2012; pp. 426-45; Bernholz-Streit-Vaubel, 1998). Competition from outside their own institutional system has ever so often helped to focus the rulers' minds on protecting the people from fraud and outside aggression and disciplined their opportunism when they engaged in political redistribution games. Systems competition has tended to invite risk-taking, stimulate innovation, foment social mobility and engage the young. English-Australian historian Eric Jones popularised this old insight by comparing the political rivalry of the small West European states with closed Habsburg-Bourbon Spain and centrally ruled, closed China during the Ming and Qing eras (Jones, 1981/2003)⁴.

The – by comparison with other civilisations – longevity of Western civilisation can be explained only by the open, disciplining rivalry among various jurisdictions, occasional costly wars between them notwithstanding. System

⁴ Australians should certainly have living memories of this fundamental fact. They can compare the growth and cultural flourishing since the 1980s with what would have happened had inward-looking, mercantilist trends persisted beyond the stodgy Fraser years. Not to make too subtle a point: Would we still be driving Holden Toranas and embrace attitudes of self-righteous, protectionist conservatism?

competition, both among member jurisdictions in a civilisation and from the outside, has time and again been the saviour. To put it differently: xenophobic, inward-looking arrogance, rejection of concepts and challenges coming from the outside and self-congratulatory praise of all things past are the hallmarks of threatening cultural decline.

However, the stimulating tonic of systems competition is potentially a dangerous medicine, as European history has demonstrated all too often. Political rivalry to attract mobile capital, skills and enterprises in the interest of enhancing a jurisdiction's tax base and cultural standing can turn to aggressive hostility when infused with nationalist passion. To cite Mario Vargas Llosa's words in his recent splendid speech against Catalan independence: "The worst passion... is nationalism, a secular religion, a lamentable inheritance from the worst of the Romantic age. [It] has filled the history of Europe and the world with wars, blood and corpses" (Vargas Llosa, 2017; my translation).

The Enemies of Western Civilisation

Since one's value judgements about something abstract such as civilisation are strongly influenced by personal experiences and encounters, I permit myself to intersperse some such personal memories in my remarks:

When, 25 years ago, American public-choice economist Gordon Tullock asked me what I was working on and I told him that I was co-authoring a book on 'Institutional Economics', he immediately retorted: "Drop it! Institutions only restrain what people want. Now we live in the Age of Freud and Aquarius: everything goes. Rules apply no more".

The old rascal saw only too clearly that established rule sets, which had inspired trust and confidence during post-war recovery, were being opportunistically broken by political elites and increasingly rejected by disaffected outsiders. Highlighting the shared traffic rules – he told me tongue-in-cheek – was a lost cause, as our civilisation – founded on simple, abstract, just and trusted institutions – was now headed for decline.

Since the 1960s, the attacks of outsiders and intellectuals on existing rule systems have intensified, as the Austrian-American economist Joseph A. Schumpeter foresaw long ago in one of his darker moments (Schumpeter, 1947). Of course, openness to criticism and new concepts is important to maintaining a society's cultural vigour. But there is a clear line between selective criticisms of aspects of civilisation and the total criticism and rejection of all its aspects, which leads to a fractious society. What now characterises the growing attacks on Western, time-tested traditions is not only that they are totalitarian, but also that they are not based on facts and rational analysis, rather on mere ideologies. In the post-truth era we are inundated by consciously falsified facts (*vide* climate science, bots and fake news). The new social media have become a tool for small and big tyrants and autocrats. Hordes of self-anointed experts now try to dictate to us how to live and act.

Groups, who see themselves as losers and therefore reject 'the system', are multiplying. Political entrepreneurs try to attract support by casting such groups of people as victims, then promise salvation through new redistribution programmes, regulations or prohibitions. With such identity politics, collective

responsibility displaces individual responsibility and arbitrary rule takes hold. Not only does individual freedom go out the window, but the very rule system that constitutes the foundation of civilisation (see point [a] above).

To my mind, Western civilisation is, in the first instance, threatened by four horsemen of a new apocalypse, two red and two green. The first red rider – *revolutionary Marxism* – we had deemed defanged after the ‘*annus mirabilis*’ of 1989. Now, surprisingly, revolutionary political demands for collectivisation are again gaining traction: In the US, Bernie Sanders managed to drum up a considerable following, as do Jeremy Corbyn in the UK, Jean-Luc Mélenchon in France, and the ‘*indignados*’ in Spain. In Germany, the Left party – a reincarnation of the Socialist Unity Party SED, which had misruled the GDR for forty years – is running strong. Jacinda Ardern, former president of the International Union of Socialist Youth and now NZ Prime Minister, asserts that “capitalism has been a blatant failure”. Large numbers of young people are now following neo-Marxist utopians, seemingly oblivious of the pains socialist totalitarianism inflicted on their parents and grandparents. I believe that many still underestimate this renewed attack. – Faced with radical palaeo-Marxism, the political Right displays gutless confusion: Who stands up for robust individual freedom, secure private property rights, free, open competition, the subsidiarity principle, and *laissez-faire*?

A lighter shade of red characterises the second horseman, the *social-democratic ‘well-feel state’*. All political parties in all affluent democracies are given to social engineering. They rival for the vote in particular by promising voters redistributive programmes that infantilise us and destroy the spirit of enterprise. We also know that current welfare programmes are unaffordable, given taxpayer resistance, an ageing population and the competitive pressures of a globalised world economy. Yet, the generosity with other people’s money knows no bounds! Politicians of all shades are gutless when welfare costs escalate and cutbacks would be necessary. The handout system in electoral democracies will remain entrenched. In Western Europe, 7% of the world population are now obligated to

finance half the world's social transfers (*Financial Times*, 16/12/2012). — Throughout the mature economies, we witness an unprecedented preparedness to incur public debts and create more and more paper money in the face of public insouciance. Add to this record private household debts, and you will conclude that the entire system is becoming vulnerable. In Australia, Rudd-Gillard-Swan unnecessarily embarked on a borrowing spree during a mining investment boom; and Turnbull-Morrison-Corman now are adding to the mountain of public debt. As a student of monetary history in his 115th semester, I shudder at the eventual dangers of grave macroeconomic instability, when the equilibrium between saving and investment has been shattered. What explains the stratospheric stock-market valuation of Tesla shares, when that company has incurred losses of US-\$ 4 bn over the past twelve months? Central banks have flooded the world with US-\$ 15,000 billion, causing monetary euphoria. But destructive inflation looms ahead, and with it inter-generational injustice, societal vulnerability and political turmoil. Negative interest rates now already lead to widespread wastage and misallocation of valuable capital. Rising asset prices already presage an inflation of consumer- and investment-goods prices.

The decline and fall of the Roman Empire went along with hyperinflation under Emperor Diocletian. Governments in Rome, weakened by mountains of debt, no longer had the wherewithal to defend the Empire. The same happened in China to the neo-Confucian northern Song and again to the Yuan (Mongol) dynasties after a burgeoning bureaucracy bankrupted the government and allowed the hyperinflation of the world's first paper currency: the state was unable to fend off the invasions of northern tribesmen (in the 1120s and mid-14th century respectively).

What will happen to the present-day mountains of debt in Europe and North America? How will hugely inflated debt and paper money volumes in the dollar, yen, renminbi and euro areas ever be wound back without pain?

One rider of the new apocalypse wears the green colours of *Islam*, a religion inspired by a mission to subjugate the peoples of the world and inflict the

implacable harshness of a cruel desert culture on the decadent West (*jihad*). The Western principle of separation between church and state is explicitly rejected — and with it the freedoms of religion, speech and association. A core element of Islam is the ultimate form of identity politics: the systematic discrimination between members of the *ummah* (true believers) and all others is the primary organising principle of political life under Islam. Add to this the extremely conservative concept of present-day Islam that all laws are fixed for all time by the words, which Mohammed supposedly dictated 1,400 years ago. All evolutionary reform of the rule system has over recent centuries therefore considered blasphemy (Kasper, 2005). The resulting, Koran-focussed mindset has contributed to very poor education standards in Muslim countries⁵. It also inspires intolerant opposition to our liberal, evolutionary and tolerant Western traditions. Yet, Muslim leaders demand our tolerance of their intolerance, confronting hapless Western politicians with an unresolvable and growing dilemma. Political string-pullers in Riyadh, Ankara and Tehran not only encourage the emigration of their brethren to the West, but also their non-integration in the societies of the ‘Great Sheitan’. Before he became Turkish President, T. R. Erdoğan called “assimilation a crime against humanity”⁶....

And if those decadent liberal societies get weakened by terrorism, so much the better!

The reactions of most Western leaders have been utterly confused. In 2015, Chancellor Angela Merkel spontaneously declared that all ‘asylum seekers’ were welcome in Germany. Without having consulted other European governments, she unilaterally annulled the ‘Dublin Regulation’, an agreement on handling

⁵ The *Trends in International Mathematics and Science Study* (TIMSS) of fourth-grade pupils, for example, shows huge international differences in tests of school knowledge, an early indicator of intellectual and cultural performance: While East Asian countries rated between 320 and 500 top maths performers among 1,000 students (Japan and Singapore respectively), Turkey scored only 50 and Iran just 10. Most other Muslim-majority countries did not even bother to participate in these tests or failed to rate even 1 out of 1,000 students (TIMSS, Figure 1, accessed 31 Oct. 2017; also Heinsohn, 2017). — BTW: In Australia, just 90 made the ‘advanced grade’ in mathematics, and 90 out of 1,000 did not even reach the lowest benchmark of mathematical capability. Tests of science and of older students regularly show similar low levels of educational attainment in Muslim-majority countries.

⁶ In 2008, at a public rally of 20,000 Turks in Cologne, Germany (*The Local*, 11 Feb. 2008, cited from Murray, 2017).

illegal immigrants in the borderless Schengen zone, triggering a flood of immigrants, most of them not displaced Syrians, but economic migrants mostly from Muslim countries. Merkel's decision perplexed many. Only five years earlier, in a speech in Potsdam, she had expressed what many knew to be true: "...multicultural society ... has failed, utterly failed" (BBC, 17 Oct. 2010). Immediately after her 'welcome speech' in 2015, people from Nigeria to Bangladesh began to sell their houses, farms and businesses to pay people smugglers and join the European welfare states. More than one million came to Germany within the first twelve months of Merkel's invitation. The stepped-up inflow has not stopped since (Murray, loc. 2262). Now, the first phase of 'chain migration' has set in: family members of the first wave of migrants want to gain entrance into the welfare state, despite the fact that very few of the first wave can be genuinely employed, given their low education levels. In recent months, Mrs Merkel has tried to backtrack somewhat in the face of growing popular criticism. It is evident that she – an erstwhile agitprop apparatchik in the Youth League of communist East Germany – lacks a moral compass informed by an understanding of Western civilisation.

With such leadership, European civilisation seems doomed. Mass immigration not only places huge new financial burdens on Western nations, but also inflicts fears and insecurity. Stagnant or decreasing native populations in Europe are now confronted by masses of unskilled immigrants, who consciously object to accepting the institution set that underpins a free, pluralist society. Three quarters of the recent immigrants depend on social welfare. In Germany, the massive increase in social-welfare spending is almost completely the consequence of immigrants from failed states. Only one out of 7 new immigrants have the minimal skills to enter the German labour market (Heinsohn, 2017). The average human-capital level, a decisive factor for the future development of a nation, is thus being lowered by mass immigration. Ordinary European citizens increasingly realise this, but the political and media elites typically preach a continuing 'welcome culture' and denigrate anyone critical as a fascist and a person of bad character. An astute observer of the European scene, British

journalist Robert Murray, sees this as the driver of the slow suicide of European culture (Murray, 2017). The cost of Muslim aggression is further increased by the reaction of Western governments, when they inflict indiscriminate searches on everyone, scrutinise meta data without recourse to courts of law, and dismantle many other traditional protections of liberty. In Europe, all this occurs at a time of deeply felt malaise. Europeans are worn out by their history and weighed down by guilt – the collective psychological breeding ground for the fall of a civilisation.

I have dwelled in some detail on the Islamic challenge, because it is the single biggest threat to the cultural traditions of the heartland of Western civilisation, Europe. We, the outliers in North America and the Southwest Pacific should begin to think about becoming ‘cultural orphans’, but also retainers of the Western tradition.

Many ordinary Europeans admire Australia’s stand against illegal immigration, envious that we have geography on our side. How often during a recent two-months trip through Europe were we told: “You are doing it right! We admire the hard stand on illegal immigration of the Australian President.. or whatever!”

I have to pause here to emphasise that, in my opinion, it is immigration by culturally different, poorly skilled and integration-resistant groups that imperils Western civilisation. This has nothing to do with racism – a repugnant stance as no one can change his genes. It has all to do with attitudes and rule sets. We can expect – indeed must insist – that newcomers learn and embrace our shred ‘traffic rules’, i.e. our time-tested cultural institutions. This point is important, because defenders of Western civilisation are frequently and unthinkingly denigrated as racists.

The other green rider has arisen on our democratic home ground: *Green* groups and contemporary observers, politicians and their media lackeys, who reject the very concept of Western civilisation as out-dated, racist and religious, above all see it as a civilisation out to destroy Planet Earth. Irrespective of the fact that

Roman and Medieval Europe flourished during phases of global warming (once known as climate optima) and that cool phases caused much suffering, the Green movement now tells us that – possibly naturally occurring – warming is an existential threat to all of mankind. The Green push has been whole-heartedly embraced by the United Nations who, having failed in their original tasks to preserve world peace and foster human rights, now try to justify their existence by relying on climate fear. — How much avgas was burnt, how many taxpayer millions were consumed by the more than 20,000 delegates at the latest world climate conference in Bonn, Germany this month of November? How many are idealists who want a borderless world, a world without national identities and governments? How many just cynical, opportunistic parasites?

In Australia – a nation exceptionally well endowed with primary energy resources (coal, gas, uranium, sun and wind, Plimer, 2017) – confused policy makers have created brownouts and electricity price inflation, instead of removing all subsidies and letting the market rip! Let investors discover the best means of powering our lives. — Around the world, Green prophets now attribute, with unscientific megalomania, every conceivable threat to human wellbeing to supposed anthropogenic warming – volcanic eruptions, hurricanes, droughts, floods and, yes!, even cold spells⁷.

The regular climate conferences may promote borderless internationalism, but Western sovereign nations are still the best guardians of a shared culture and individual freedom.

Time and space prevent me from saying more about this particular rider of the new apocalypse.

Western society faces these horsemen of the new apocalypse at a time when cultural relativism and dumbing down pervade education and public discourse. Those who uphold time-tested cultural institutions – which survive only when taught and learnt – are shouted down by an intolerant political-correctness police.

⁷ Yes, indeed! Al Gore told the world in 2006 that “global warming is global cooling, because the melting of Arctic pack ice will slow the Gulf Stream and thus produce calamitous cooling in Europe”.

How many attack traditions without realising that they are the children of Freud and Marcuse? When the history and essence of Western civilisation is increasingly ignored, cultural relativism dominates public discourse and policy making. Few stand up for the notion of individual freedom under the law – as Cicero spoke about it. Instead, customs, time-tested habits, good manners and laws are rejected as mere out-dated shackles on real freedom. But liberty is not license! Many who denigrate Western culture, at the same time exaggerate the achievements of other civilisations. They do not ask why so many are deserting their failing societies to move to the West. Let us beware of cultural relativism and judge the civilisational trees by their fruit: Where are supposedly universal values, such as peace, liberty, prosperity, security and a liveable environment, best safeguarded?

A big role in all of this is played by self-anointed elites, who search for new causes to obtain government funding. Others are turning our democracy into a ‘vetocracy’, where everyone has a right to stop changes and the initiatives of others (Sowell, 1998, 2009; Postrel, 1998). Before social-media became available, big government, big media, big unions and big industry dominated public discourse, and elites shaped the opinions of the wider population. Now, electronic networking has given a cacophony of opinion makers a voice and, more importantly, a cheap way of organising resistance to the setting of standards that serve the long-term welfare of the entire community. Similar to the advent of book printing in the Reformation, the spread of social media now enable discontents, single-issue activists and advocacy organisations like Get-Up to foment social discord and erode elite-shaped rules, i.e. the very foundations of our civilisation. People increasingly only inform themselves by accessing their preferred platforms and discussing emotionally with the like-minded. Bots and fake news magnify the differences. Opposing views are screened out. Emotion replaces fact-based analysis. Social discourse has thus become polarised, and common ground for cool, rational compromise has shrunk. Given the ugliness of political discourse, many are turning their back on it all. The quality of

democracy has declined (*The Economist*, 2017; O’Sullivan, 2017).

There is a fundamental problem with single-issue politics. Any pluralist political community must aspire to approximate a multiplicity of universal, fundamental values – freedom, security, equity, peace, justice, prosperity, preserving a liveable environment and so on. This requires compromise and trade-offs. Single-issue politics, however, pushes one goal to the detriment of all others. Compromise and a balanced multi-value approach to policy-making therefore has become harder and harder. Policy reversals, once some core objectives have been badly neglected, introduce costly instability, opaqueness and sheer hostility into policy making. Combined with political correctness, single-issue lobbyists now suppress our freedom to discuss and investigate everything, once a valuable trait of Western civilisation.

Admittedly, it is often not easy to defend Western values and institutions. Western cultural jingoism – “democracy and markets are the best systems of societal organisation ever invented!” – sounds unconvincing when one sees the short-sighted opportunism of elected governments, the mediocrity of leaders and self-serving political elites overriding the will of the people. Referenda are avoided or their results overturned by political subterfuge. Cases like Brexit have become rare. In Third-World countries, like PNG or Kenya, bloodshed and corruption regularly mar elections, bringing democracy into even greater disrepute.

Equality between citizens and traditional democracy are also destroyed by identity politics: We are then not individuals equal before God and the law, but members of (typically aggrieved) groups, which determines our behaviour. This white-ants a constituent element of the Western institution set, namely the equality of all individuals before the law. Indications are that governance for organised groups, as it becomes more and more ambitious and intricate, becomes less transparent. Even well informed business elites are becoming increasingly dissatisfied with this fashion in politics. The latest research by the [Swiss] World Competitiveness Center reports on “a rather alarming picture [of what leading

business executives around the world are thinking. Business leaders in...] 60% of the countries we study... perceive the governments to be less transparent in their policies [than ten years ago]”. The report says that low levels of transparency weaken the citizens’ trust in government and destroy a sense of loyalty and inclusiveness. Much-touted attempts at e-government and sloganeering about more open participation in governance have been ineffectual in changing this deplorable trend (IMD World Competitiveness Center, 2017). Finally, I tend to agree with Deirdre McCloskey, when she said at the recent Mont Pèlerin Society meeting in Stockholm that democracy plus hate- and envy-driven populism (yet without a liberal commitment) is always likely to slide into dictatorship – as for example in post-Weimar Germany or more recently in Venezuela.

My own, most intensely felt gripe about the socio-political trends of the past fifty years, however, is that political correctness has been an all-round killjoy; the PC wowsers dominate the media, the courts and political life. Where have the larrikins gone? Was Bill Leak the last one? Where are the humour and the laughter?

... Humour makes us human; it is part of our civilisation. “No one is born laughing. But we become human, humane and civilised, when we learn to laugh”...

It is often also hard to argue that present-day Western capitalism is an ideal system of coordinating economic life. Most democratic governments do not favour market competition, but only their business cronies. What is important about capitalism is that new ideas and creations are tested in free, open competition. When price signals do not reflect the wishes of the buyers, as is often the case, capitalism fails to serve the long-term interests of the wider community. Nowadays, prices are distorted by manifold regulations, taxes and subsidies, which in turn reflect the self-interests of the well-organised and the well-connected (supplier bias). Newcomers – innovators, the young, and foreigners – are habitually discriminated against. After a cycle of liberalisation after the oil crises of 1970s/early 1980s to the turn of the century, economic

freedom (secure property rights and free markets) has stalled, even declined in the West, while it has improved – from a low level – in East Asia (Figure 1). The reality is far from the textbook ideal of competitive markets and flexibly adjusting industry structures. Competition-sapping interventionism and natural and political obstacles to rapid structural change depress economic performance in the democracies.

What will all this mean when further, unexpected outside challenges hit our civilisation?

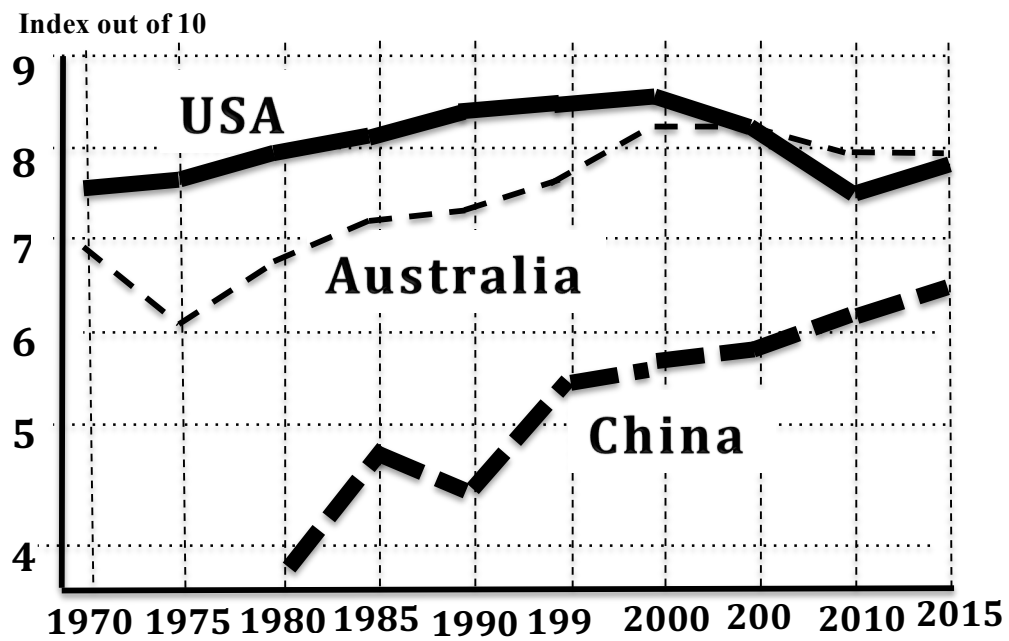
One weakness of Western civilisation is the consequence of its own success. Ordinary people now enjoy a great deal of security. Elites can no longer so easily rely on fear to make people compliant. In our comfortable circumstances, we no longer realise how profoundly the four traditional horsemen of the Apocalypse – Subjugation by Conquest, War, Famine and Sudden Death – used to dominate human consciousness since the beginning of time.

When I travelled in southern India after several failed monsoons, I stumbled across starving peasants, too weak to harvest and thrash the new rice crop – an experience that was common in Western civilisation, too. That must have shaped human attitudes profoundly and permanently and convinced people to accept rules that promised salvation.

And I haven't even spoken about hetero-sexual marriage as a foundation of civilisation, gender choice, feminism, nihilistic atheism, the self-destruction of some Christian churches, special political privileges for Aborigines and part-Aborigines, and other contemporary cultural phenomena. Other speakers at this conference will no doubt take care of some of these topics.

Figure 1

Cycle of Liberalisation: How Economic Freedom Flourished, Stalled, Declined



Source: EFW.

Short-sightedness, Complacency and a Crisis of Confidence

Despite the afore-mentioned gripes, we can look with a measure of self-satisfaction at the achievements of Western civilisation. In the guise of democracy and capitalism, the institutions have enabled an unprecedented share of mankind to live secure and materially comfortable lives, with little fear of premature death, undue pain and violence. Most live longer, healthier and more independent lives. A large part of mankind enjoys unprecedented degrees of civil, economic and political liberty. Australia belongs to those affluent countries where almost everyone can consider himself part of the middle class, and few see a need to change things fundamentally.

The comfortable majority of the citizenry gladly accept political guarantees of their security, health and safety. Many voted for the likes of Donald Trump, who promise to put national interests first. Germans voted for Angela Merkel, who promises no change and shirks tackling pressing problems. The French elected Emmanuel Macron, who promotes '*patriotisme économique*' and hopes to share national taxes and debts throughout the Euro zone. Most Europeans tolerate an intrusive, unelected Brussels bureaucracy, which erected a protectionist wall around agriculture and protects industry by decreeing safety and environmental standards, which new competitors cannot meet. Who cares about the long-term consequences? Few worry that this may lead to instability and damaging protectionism.

That globalisation would bring major changes and disrupt industrial and employment structures with a lop-sided impact was entirely predictable. Since the 1960s, businesses have led the globalisation push, moving capital, knowhow and high technical and organisational skills to Third-World locations. There, they helped to upgrade cheap local production factors of labour, land and administrative capability. Together with the *Pax Americana* and cheaper transport and communications, this exerted enormous pressures on internationally immobile production factors engaged in old, high-cost industrial locations, as represented by unions and government administrations. Globalisation made the

ever-more-perfect welfare state untenable. Unions and government administrations would have had to cease acting like monopolists and instead become support organisations for mobile capital and enterprise.

One did not need a degree in economics to understand that globalisation would inflict painful structural changes. A billion willing and increasingly skilled workers in new industrial countries have joined the global labour market since the 1960s. Low-skilled workers in high-income/high-cost/high-tax countries were confronted with unpleasant choices: (i) to accept wage cuts, (ii) to raise productivity by working longer and changing untenable work practices, which was resisted as being too hard, or (iii) lose their jobs. Since (i) and (ii) was politically unacceptable, jobs were lost. The losses typically hit low-skilled workers in high-cost locations, whereas the benefits of generally lower prices accrued thinly, often even unnoticed by the wider public. Economists (myself excepted!) were rarely keen to highlight this problem. Now the job losses promote the new populist protectionism (Rodrik, 2011; King, 2017). In the light of these downsides, it matters little that globalisation has greatly reduced world poverty and advanced world peace.

Far-sighted policy makers could indeed have anticipated the impact of the emergence of new industrial countries. But most decision makers in governments, unions and industries fostered illusions and still implement palliative, backward-looking policies that postpone and increase the inevitable adjustment problems. Populist politicians (such as Kim Carr with his proposed \$A 1 bn. Manufacturing Future Fund or Christopher Pyne) the world over pretend that they will be able to turn the clock back. However, low-skilled workers in high-income locations will never again be able to justify their high wages, easy work conditions and socialised welfare in the global market place.

By now, the high-taxing governments of rich nations have formed political cartels, such as G-5, G-10, G-20 and associations under the auspices of OECD to outflank the multinationals and slow the effects of globalisation. To the extent that they are successful, this will produce political tensions with the emerging

industrial countries and retard economic growth throughout the world. As of 2017, it looks to me that the post-war era of rapid globalisation under Western auspices – inspired by spreading economic freedom and opening borders – has petered out. Besides, the global hegemon, the USA, seems tired of supporting the *Pax Americana*.

If history teaches us anything, the comfortable, wealthy burghers and their political champions are now dangerously complacent in the face of these developments. Political palliatives like more regulations, more protectionism and more government spending will – over the medium term – augment the risks of subsequent stagnation or recession, as well as international conflict. When enterprise, self-reliance, risk-taking and innovation efforts are stifled and social structures rigidify, economies will not only suffer, but civilisations are also headed for costly tribulations.

Kiwi-US economist Tyler Cowen recently diagnosed the self-defeating dynamics of the prevalent soft protectionism and complacency for the US in a bestseller entitled ‘The Complacent Class’ (Cowen, 2017). Had he applied the same analysis to Old Europe, he would have come to even more glum conclusions. Western civilisation in the ‘off-shoots’ of North America and Australia at least seems less endangered to me than in its traditional West European heartland (Murray, 2017; Winkler, 2017).

Looking at Australia – a frontline state of the affluent West facing dynamic East Asia – I cannot help but seeing similar, though still less ominous dangers ahead (Figure 1) The cycle of liberalisation has come to an end here, too. I observe with concern and foreboding that Australia has slipped down the international competitiveness and economic freedom rankings in recent years. Yet, we share all the hallmarks of complacency.

These reservations and criticisms notwithstanding, it is absolutely crucial that the majority of citizens in the West continue to believe in the potential of our civilisation to serve us well and even take some pride in our history (McCann, 2017). This will not be the case if populism is allowed to dominate and demean

the democratic system and if market competition is distorted by pervasive interventionism. It is therefore important to fight for liberal values and a free market economy. Once political and economic rule systems are no longer imprinted by genuine freedom, democracy and capitalism lose the necessary support — and the enemies will win!

In dealing with the enemies of our traditions, we must always ask them what realistic alternatives they can offer. When Western history is depicted as nothing but a sequence of abuses, violations, exploitation and worse by the elite and when cultural relativists depict all other civilisations as better, we are on a losing streak.

When monuments of historic figures get defaced or even toppled and the authorities turn a blind eye, our civilisation is in crisis. Complacency and indifference on the part of the majority then make it possible for aggressive, committed minorities to overturn the familiar order and destroy the rules and attitudes that are the very foundations of our civilisation. And if the enemies of our civilisation and the actual imperfections of our system cause us to abandon our belief and pride in Western civilisation, teachers inculcate contempt for our traditions and most of us resign ourselves to fatalism, our civilisation may fall surprisingly fast.

The Grandmother of All Systems Competitions

My reading of history does not allow me to end with a pessimistic forecast of dystopia. Western civilisation has, time and again, shown resilience and adaptability in the face of internal dysfunction and external challenges (Appendix). Thanks to an undercurrent of individual self-reliance and freedom, private and collective actors have, time and again, absorbed cultural concepts and technical ideas from innovators and outsiders to overcome periods of tribulation. Our civilisation has then risen again, and with renewed vigour. Whereas collective, elite-dominated civilisations persisted rigidly with traditional ways and perished, Western civilisation was rescued and revived, time and again, by competing individuals and rivalling jurisdictions, who recognised arising issues and weaknesses and tackled them with innovative solutions. For example, the power grabs of Germanic guest workers – originally a challenge to late Roman civilisation – eventually reshaped the mainstream of European civilisation, producing the Visigoth and Frankish revivals. And the new discoveries during the age of Galileo, Columbus and Luther were – sometimes painfully – absorbed into medieval scholastic tradition to produce modernity (Kors, 1998; Mokyr, 2016). Ever so often, it was thus inter-jurisdictional competition and the movement of capital and enterprises both within the West and with outside challengers that has kept our civilisation alive and vigorous (Jones, 1981/2003; Findlay, 1992, as well as many previous observers from David Hume to Max Weber)⁸. In short, systems competition has ever so often been the saviour of our civilisation.

What has begun over recent decades with great speed is what I would call the ‘grandmother of all systems competitions’ – the amazing cultural and material challenge from East Asia, that part of the world that is impregnated with

⁸ A dramatic object lesson recently unfolded in the Spanish province of Catalonia. A passionate, corrupt and mendacious nationalist Catalan regional government had been trying to sunder the 500-year integration of the Catalan provinces with Spain. Only when a large number of Catalonia-based businesses relocated their headquarters out of over-governed, left-leaning Catalonia and jobs began to move elsewhere, did the majority of Catalonia’s population rise against the *independista* minority – an object lesson on how inter-jurisdictional mobility constrains political opportunism!

Confucian cultural DNA⁹. The space between Seoul and Singapore, Kashgar and Kaohsiung, Tokyo and Tibet – with the home of Confucian civilisation, China, as its heart and centre – has emerged with great vigour onto the world scene.

‘Confucian culture’ is the unifying umbrella, but it of course has as little precise and static meaning as ‘Christian culture’. It has undergone as many historic permutations and regionally differing incarnations as has the Christian worldview.

There are palpable differences between East and West — between the two most durable, broadest and deepest civilisations mankind has created. A first difference is that Eastern civilisation is less directly anchored than Christendom in the transcendental. Indeed, one may contend that it is a rationalistic, humanistic system of values and rules that relates only loosely to the spiritual and transcendental. Confucius is not venerated in temples as a god, but as a great thinker and teacher. Foreigners find that often hard to comprehend. Can we imagine that somewhere in Europe they would build a temple venerating Voltaire or a chapel to celebrate Darwin’s contribution to knowledge?

Neo-Confucianism emerged in the late Tang era (800-900 AD) and again under the southern Song in reaction to the earlier arrival of Buddhism from India. The ensuing transformation was similar to the way Christianity reshaped Greco-Roman culture a few centuries earlier. However, East Asians certainly lack the Judeo-Christian concept of original sin, which has to my mind become the Achilles heel of Western civilisation. This enables East Asians to do without guilt complexes for enjoying the material fruit of hard work, saving and honest, loyal cooperation.

⁹ My choice of the term “Confucian” to designate salient, unifying treat of Eastern civilisation is not unproblematic. Many readers will think of Max Weber’s theory that the Confucian worldview was an obstacle to progress, or the opposite fashionable in the 1970s and 1980s that Confucian values were the main explanation for the rapid rise of the East Asian economies. Both opinions have some empirical justification, since the great calamities of the 20th century have led to subtle, but productivity-promoting changes in the moral code of East Asians (Hofstede-Bond, 1988; Kasper *et al.* 2012, pp. 172-73; 436-37). — When I use the term, I want to steer clear of this primitive, mono-causal explication for the economic ascendancy of East Asia. Rather, I want to indicate that the tenets of Confucianism are a trait that Eastern civilisation has in common, whether democratic, capitalist or autocratic.

Compared to the Western tradition of individuality and rivalry, Eastern societies often strike us as more cooperative, more focussed on family loyalties, social harmony and order. Another immediately obvious trait is that – while Westerners interact socially in lateral ways (for example through contracts) – East Asian interaction is much more governed by vertical obligations. The respect for one’s superiors and elders reflects the Sage’s teachings of filial piety. It is palpable even to short-term visitors (... and pleasant for people on the threshold of senility like me!). Confucius relied heavily on the internal institutions of society, rather than external government enforcement: “Whoever wants to order the state and does not rely on custom, resembles a man who wants to plow without a ploughshare” (Confucius, *Book of Rites*). As a consequence Eastern civilisation relies greatly on education, the character formation of a proper gentleman (*junzi*), whether he hails from humble or noble backgrounds. Young gentlemen were to be inculcated with a number of qualities, which are also considered virtues in the West¹⁰. In contradistinction to the fundamental chasm between Islamic and Western civilisation, referred to above, Confucian and Western civilisation not only share many fundamental qualities, but also have a history of flexible and successful adjustments to new circumstances. Finally, it is worth noting that the Confucian emphasis on education has done much to ensure its long-term continuity and periodic rigidity, since civilisation is taught and learnt (see point [c] in the opening section).

The key thrust of practical Confucian philosophy focuses on improving governance, it is infused with an underlying tenor of optimism: good people can master life and improve the affairs of the state. On my numerous visits to China and surrounding countries, I have been struck time and again by the optimism and sensible pragmatism inherent in that culture. This sentiment probably also resonates in people’s tolerance of prescriptive, top-down policy-making by their betters — till disorder proves that the policies are failing badly.

¹⁰ A gentleman has to be educated to embrace *rén* – humane benevolence; *yì* – just intentions; *lǐ* – respectful propriety; *zhì* – intelligent wisdom; and *xìn* – integrity. In addition, there should be, among other virtues, *zhōng* – loyalty, *yǒng* – courage and *xiao* – filial piety and respect for seniors. The older I get, the more I appreciate this latter virtue...

While neo-Confucianism (and the CPC's preferred version of it) comes with authoritarian traits, these are limited by other elements in the Eastern tradition. There is a strong undercurrent of individualism. More than once, Chinese friends have quoted Mencius (372-289 BC) to me: "The people are the most important element in a nation; the spirits of the land and grain (i.e. productivity) are the next; the sovereign is the least." Then, there is the 2,500-year old concept of the 'Mandate of Heaven' (*tiān ming*) – that higher powers approve of the rulers by allowing good harvests and prosperity. Rule has therefore always been conditional on this-worldly, material success. I suspect this idea still matters; it would explain the commitment of the PRC's leadership to economic growth. Throughout history, the 'Mandate of Heaven' has acted as a disciplining control of misrule and has been used to justify dynastic changes. Mencius went so far as to say that misrule justifies rebellion. In the West, misrule of course also triggered rebellions — in the Netherlands, when they sought independence when Spain became exploitative in the 16th and 17th centuries, in Stuart England at roughly the same time, or in the American colonies when they rebelled against taxes for the King in London in the 18th century.

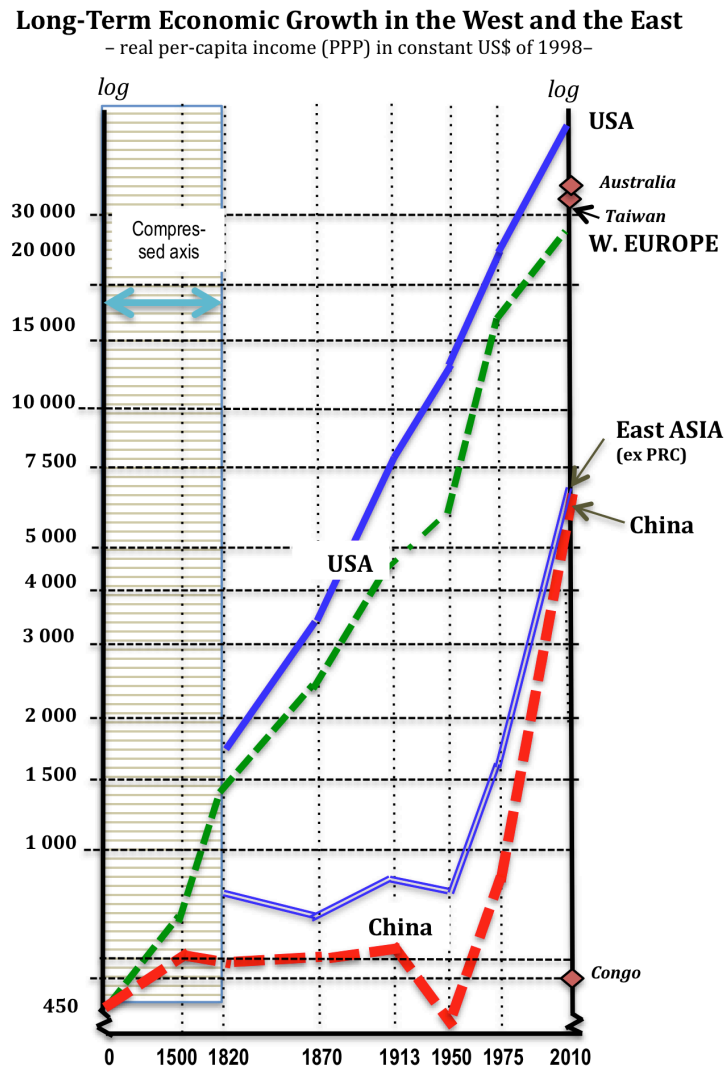
A frequent misconception of the Chinese world is that it is uniform. When I first travelled on a China-wide lecture tour in 1981, I was taken aback by the enormous diversity of landscapes, architectural styles, culture and food, as well as the demeanour and physical appearance of the people and their languages. The provinces of today's People's Republic have considerable autonomy in development and taxation policy, and many officials, though members of the one Party, act on the old principle that "*tiān gāo, huángdì yuǎn* – the Heaven is high and the Emperor is far away".

For the past 2,500 years, the East-Asian world system has been understood as *tianxia* (天下), a system of shared codes of behavior obeyed by gentlemen (*junzi*), which rules all 'under Heaven'. The links between the central imperial power and the people has always been much than what is considered normal in Western nation states. At the centre, *tianxia* has been China ruled by an imperial

bureaucracy and an emperor, surrounded by concentric rings of tributary states and, further out, barbarians. Thus, China did not have an empire with outlying colonies, but was the centre of a world with outlying islands of a more or less shared culture. In a way, it has been rightly compared with the present-day American system of outreaching soft power: All around the world are now islands of people who embrace American ways and mores and look to the USA as their cultural reference point. Eastern observers understand this as the Western *tianxia* (Wang Gungwu, 2013; Babones, 2017). To reactionary Islamic powerbrokers, this is an intolerable provocation. To the PRC leadership, the brain drain of many gifted, young Chinese who are attracted to American cultural ideas is now obviously is also a cause for concern.

More economic freedom (Figure 1) and, consequently, material achievement is at the heart of the East-Asian ascendancy. Figure 2 compares the long-term growth of per-capita incomes in Western Europe and the United States with those of China and the rest of East Asia.

Figure 2



Sources: Maddison (2001), and Maddison databank:
<http://www.ggdc.net/maddison/maddison-project/data.htm>

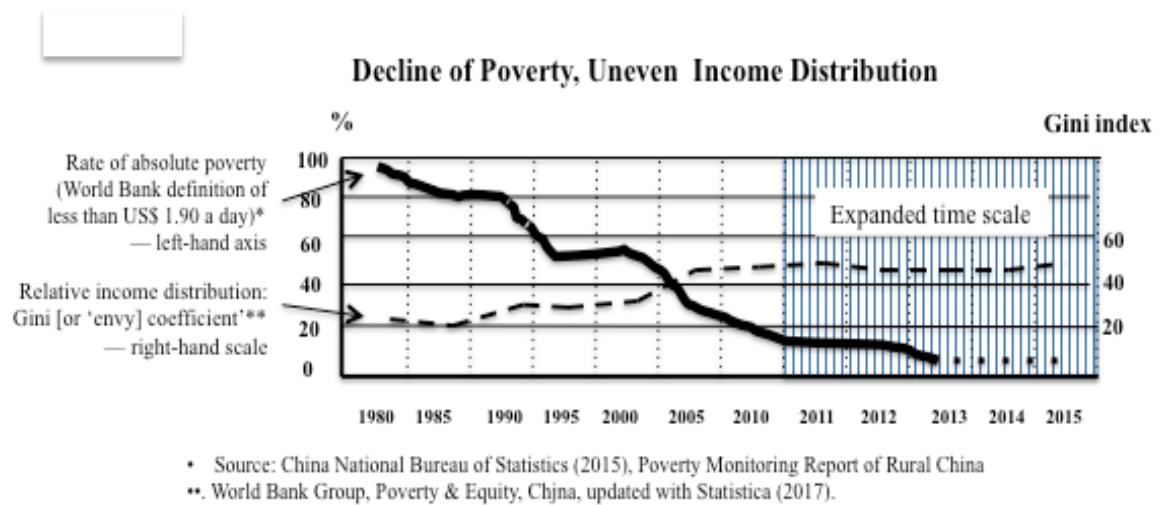
The graph tells an interesting story. In Roman and Han dynasty times, average citizens in the East were almost as miserable as average Europeans (or the Congolese today). Then, European jurisdictional diversity caused governments to rival by providing rule sets that were citizen-friendly and attracted skills, capital and enterprise. Attracting these production factors became a means of strengthening the tax base and filling war chests. This in turn enabled entrepreneurs to generate fairly persistent economic growth, in particular since the end of the Middle Ages. The notion that governments had to serve the people became even stronger in the American colonies, whereas the more centralised and increasingly closed Chinese system was based on the notion that the people were

there to serve the emperor and the mandarins. China's economy more or less stagnated from 1500 onwards, although the Chinese were world leaders in many types of technology. However, the application of technology (innovation) was less widespread and slower, so that population growth matched more production (extensive growth).

Living standards even descended in absolute terms during the calamitous first half of the 20th century, owing to internal armed conflicts and pitiless Japanese occupation. Fortunes turned around somewhat after the Communist revolution — calamitous policies, such as the Great Leap Forward and the Cultural Revolution notwithstanding. Since 1975, when the economy was opened to foreign knowledge, trade and investment, China's economic progress has been unprecedented in world history. Never have so many people been lifted out of absolute poverty in one generation.

The rapid takeoff of course shifted income distribution, as one would expect when the young study longer (and for the duration remain poor) and people have to provide for a longer retirement. However, government interventions have held this natural shift in China to less than in most other developing countries (Figure 3). As a result of these experiences, everyone in China now knows that openness is good for prosperity, that the Chinese can succeed in world markets and that the 'Mandate of Heaven' favours the one-Party rulers in Beijing. It all amounts to a new sense of confidence and pride that we in the West have to take into account.

Figure 3



The PRC's new-won self-confidence is a factor in China-US relations. These have moved from the post-Mao/Nixon state of "neither friend nor foe" to one of rivalry. Led by China, the Confucian orbit is now entering into cultural, economic and political competition with the West. Western claims to universality are rejected, as is the US role as the hegemon who protects a worldwide international order. Those who believe that the global order still needs an American presence in Asia may be right (Razeen, 2017). But will the US government want to perform this costly role? And will an economically inward-looking, heavily indebted America be able to shoulder the huge burdens of upholding a global *Pax Americana*? Will a newly assertive People's Republic remain a rule-taker in the US-led international order, or try to influence rule making to conform more with its own Confucian traditions? Will the PRC tolerate the erstwhile hegemon, or want to resurrect its own traditional *tianxia* sphere of influence – a *Pax Sinica*, in which the elites of peripheral states are bribed by tributes and gift exchanges? I believe that – alas – we have reached the end of the post-1945 *Pax Americana* and now have to envisage a bi-polar world.

Observers, who are somewhat familiar with the ways of the East, assume that West and East will continue to share and exchange technology and knowhow, but will nevertheless adopt different, 'multiple modernities' that reflect deeply embedded cultural traditions (Eisenstadt, 2000; 2003). What matters here is that

different communities with differing cultural institution sets can justifiably maintain that each of them has the world's best rule system. After all, the quality and effectiveness of rules depend on what people, invariably suffering from cognitive limitations, are familiar with (Kasper *et al.*, 2012, p. 104). The East Asians, steeped in a tradition of two-and-a half millennia of Confucian habits, often find Western individualism, democracy and capitalism alien and less congenial. They may therefore use new, universally available knowledge and technology differently from us and develop their own modernity, which will be different from ours. Many dream of combining a market economy with autocratic rule. Different approaches will become a mighty source of systems competition, which I hope will force the West to rejuvenate itself by embarking on a new liberalisation cycle and promote free markets and growth.

Confucian culture and popular attitudes often facilitate highly effective human-technology interfaces. A more disciplined, coordinated approach to new problems is often more effective than the more individualistic, creative and rivalrous approach typical of the West. As a frequent visitor to China and surrounding countries, I often observe how discipline and obedience to collective rules make the use of modern knowledge and technologies more effective than seems possible in Western societies. This holds true not only in education or research, where Chinese scholars now often match or surpass their Western counterparts (for example in artificial intelligence, image net recognition, and deep learning, non-military drones), but also in public life¹¹.

Instead of making this point in abstract ways, let me illustrate it with just two telling examples from personal experience:

(i) The German high-speed InterCity Express (ICE) and Canada's Bombardier trains served as the prototypes for the Chinese gaotie or G trains, which meantime run on a network of more than 20,000 km. Protracted legal battles and an accident in 1998 caused German Rail for a long time to limit speeds to 220 km/h, way below the technical capability of their ICE-3 trains. High-speed

¹¹ It is no coincidence that Apple is spending US\$ 500 mill. to set up two research laboratories in two of China's elite universities (Beijing and Suzhou). And 'The Economist' recently asked whether Silicon Valley would be able to catch up with China.

trains in Germany stop on average for 5 to 7 minutes. By contrast, China Railways is now running its improved high-speed trains at a standard speed of 350 km/h, and trains stop on average for 2 minutes! In Europe, the trains wait for the people, whereas in China the people wait for the trains. The Chinese, of whom we long thought that queuing was not in their genes, have learnt to accept standing in line for their trains in precise spots as indicated on their tickets. Country folk and disoriented foreigners, like initially ourselves, are promptly guided by helpful fellow passengers to the right jump-off spot, lest the train be delayed. Thus, cultural attitudes favour taking technical risks and guiding people's actions. The result is an improvement on the Western model.

(ii) As of 2017, inner-urban transport in many Chinese cities has been switched by decree to electric vehicles (scooters, small busses, trucks). This happened very quickly and has alleviated air pollution, which used to be similar to the once notorious London fogs. It has also made city streets eerily quiet. A drawback is that electric vehicles often give the unsuspecting tourist an unpleasant jolt when they sneak up without the familiar warning of engine noise.

One should not overestimate the advantages of a more collective, top-down approach to modernisation. Picking winners is easy for bureaucracies when the economy begins to catch up from a low level and foreign success stories can simply be imitated. Industry policy becomes hit-and-miss when the economy approaches the technology frontier and simple imitation of foreign models is no longer possible. In recent years, China's industry-subsidisation policies have ranged from impressive successes such as the new high-speed trains to failures, such as in the semiconductor and auto industries.

Observers skeptical about some of the advantages of the emerging Confucian modernity should visit Taiwan, where – for my money – the future of East-Asian civilisation is already on display. The case of Taiwan – a Confucian capitalist democracy – is, incidentally, also instructive of how a country can overcome the usual ‘middle-income trap’, i.e. a state of affairs where two decades of industrial takeoff are followed by near-stagnation because corruption and regulatory obstacles to enterprise hinder progress; in other words, where the advanced industrial hardware is not matched by the appropriate cultural-industrial software of development (Kasper, 2013).

“We, the Chinese, Are Not Crazy”

Inevitably, the systems competition between the (ex-?)Christian West and the Confucian East is focused on the two dominant nations, the United States and the People’s Republic. Both have a tradition of playing hegemon in their sphere. And now their ambitions overlap. Such competition can lead to violent conflict. This was, for example, the case in the late 19th century when an ascendant Wilhelmine Germany, flushed with newfound scientific, technical and industrial prowess, challenged the British hegemon – the rest is tragic history. Over recent months, Harvard historian Graham Allison has appeared on numerous US talk shows with the hypothesis that war between the United States and China is nearly inevitable. In his bestselling book ‘Destined for War’ (Allison, 2017), he refers to the armed conflict between Athens and Sparta, about which ancient Greek historian Thucydides had said that the rise of Athens almost unavoidably made the hegemonic Spartans go to war. Allison discusses similar upsets of pecking orders in more recent history and comes to the conclusion that a ‘Thucydides trap’ is now facing the US vis-à-vis China. His message obviously fits the angry, nationalist mood of the Trump era. The book has been promoted with typical American pizzazz, as military tensions in the South China Sea are mounting.

It is also evident that the influential elites in America and China see the world quite differently. They do not share the same factual base for forming opinions and predictions, which is a possible source of conflict (HacHigian, 2014, Pei Minxin, 2014). Better mutual understanding is not advanced by the fact that the Chinese authorities restrict open access to information available around the world. For example, Google is not accessible to ordinary Chinese since the management of Google refused to accept some censorship of the free flow of information.

However, is open conflict likely? Does the simplistic, sensationalist analogy of the ‘Thucydides trap’ hold? In a delightfully biting review of Allison’s book, American China scholar Arthur Waldron, whom I greatly respect, showed that Allison not only misconstrues the historic Sparta-Athens precedent, but that

present-day China is far from able to challenge the United States' position. Despite the unprecedented rise in productivity and income, China's average per-capita income falls far short of the levels attained in the West, in particular the USA. Admittedly, China's total gross domestic product has grown from only 18 per cent of that of the USA in 1980 to about equal size now (King, 2017), but it is *real per-capita* income, not the volume of nominal national income, that matters to strategic capacity. On that score, it is worth recording that average real per-capita incomes in the US are about five times those in the PRC (Figure 1).

Moreover, there have been clear indications for some years that the Chinese 'growth engine' is now turning less fast and likely to run into some of the obstacles that tend to make for a notorious 'middle-income trap' (Gave, 2013). The one-Party state, though in many respects reliant on private capitalism, every now and then is given to interventions that distort markets – more so under Xi Jinping than before. China's economy is capital rich, but also an example of extravagant capital wastage. Infrastructures have been expanded impressively, but in many instances far in excess of what makes economic sense. Many cities are now surrounded by countless half-completed apartment blocks, testimony to speculation in bricks and mortar by the new, inflation-weary middle class. The credit and banking system is vulnerable. In the era of expensive energy, energy efficiency is far below what is achieved in other major economies¹². This is becoming a massive break on economic growth, which is doubly concerning because China depends massively on imported hydrocarbons. The PRC is still building dozens of new conventional power stations a year, as new nuclear and hydro power plants are not sufficient to meet rapidly expanding demand. Environmental degradation is serious in many localities. The economy depends heavily on open trade — for energy, quality food and minerals from Australia, Africa and South America, and advanced technology goods and services from America, Europe, Australia and Taiwan.

¹² One standard energy unit produces just US\$ 0.33 of real national output in the PRC, compared to \$3.00 in Western Europe and \$5.60 in Japan.

In assessing whether the Chinese challenge will be peaceful or conflictive, one must also take note of the considerable emigration of Chinese professionals, now a real concern for the Beijing leadership. It is quite possible that one million skilled Chinese citizens will vote each year with their feet and that many more will convince themselves that they belong to islands of American culture in a *tianxia* system centred on the US. One million out of a population of 1,200 million may seem small. But remember that elites matter. The expulsion of educated Jews from early modern Spain or the extermination and flight of German Jews after 1933 had a disproportionate and lasting impact on the human capital stock of these countries.

Above all, demography is destiny. The official aspiration to “grow rich, before we grow old” is not even half met at this stage. Population growth now slows dramatically. The one-child policy (1979-2017) lowered the average number of births per woman from about 35 per 1000 in the late 1960s to some 12 now. In the densely populated, wealthy coastal provinces, the fertility rate has fallen even further. This has left a serious problem for future prosperity and cultural vigour: China’s population will age rapidly and soon decrease, not least because the number of females, the potential mothers, was reduced by the frequent abortion of baby girls. The new generation of spoilt single brats may well act very differently from their parents and grandparents, who knew extreme penury.

Overarching all these problems is an incompatibility of sub-orders: an increasingly free economic order often clashes with the persistently authoritarian one-Party state. So, even if corruption could be effectively controlled and China does not long tarry in a middle-income trap, near-Western productivity levels and average living standards are likely to remain out of reach for a long time to come.

In my opinion, the systems competition between East and West will remain cultural and economic, albeit with occasional tensions and high political decibels. I say this because I respect the Chinese tradition of pragmatism. The aforementioned review of Allison’s book by Arthur Waldron cites a high-placed officer of the People’s Liberation Army who – when confronted with a scenario

of nuclear conflict – spontaneously exclaimed: “We, the Chinese, are not crazy!” They will not risk their impressive material achievements so far.

The next generation in East and West will have to live with intense rivalry. Innovation, learning and institutional adaptation will often be resented and reluctant. The now prevalent Western complacency will prove untenable. Protectionism will be tried and probably backfire. The West will experience something like the ‘*défi Américain*’ that excited many Europeans in my youth. At the time, it produced much political heat, but was ultimately resolved by trade and monetary reforms. Given the high stakes in the nuclear era, statecraft and rational negotiation should promote solutions advantageous to both protagonists. My cautiously optimistic conclusion should hold even when rogue actors – such as North Korea now or some ambitious cabal of PLA officers possibly down the road – try to disturb the peace.

What Does it all Mean for Australia?

Australia – to repeat this crucial point – is and must remain part and parcel of the Western civilisational tradition. Yet, our position is special in that we are a geographic outlier located in the ‘Confucian longitudes’ on the globe. We are a frontline state of the West, exposed to more non-Western cultural influences than Europe or North America, despite the fact that Sydney is further from Beijing than Berlin. We have fared well, economically and psychologically, with our endowment of institutional capital, mostly inherited from Britain and cross-fertilised from the United States. We are part of the US-centred *tiānxià*. We are therefore attractive to internationally mobile professionals from around the world, who want to become part of our traditions, indeed who may hail from outlying islands of American/Anglo-Saxon culture embedded in other civilisations.

An open trans-Pacific conflict would expose Australians to grave dangers. It is therefore in the highest national interest to confine trans-Pacific rivalry to the realm of economic and cultural competition and avert war. Although Australia has only a limited influence on the affairs of the giants on the world stage, we can set an example for policy makers and thinking elites in East and West of how much good a commitment to freedom can achieve. It would be foolhardy to fritter away our valuable institutional assets out of self-doubt, timidity, petty, shortsighted political games, or macroeconomic stupidity.

Australians need to become better informed about what is happening in East Asia, particularly in China... as I have tried to do in a cursory way over the past few minutes. I would urge all those who study and defend Western civilisation in Australia to also study the great cultural traditions of the East. Not only will this give us a better understanding of the strengths and weaknesses of our own culture, but also enable us to convey better to our neighbours to the north what we stand for. Australians with a good understanding of East Asia will then be valuable partners to the family of Western nations. Indeed, we can become occasional mediators and policy advisors to North American and European governments regarding East Asia, as well as to businesses from these far-away

places that wish to engage there¹³.

This does not mean that we become Asians. More knowledge about, and openness to, East Asia does not mean that we change our cultural spots. Nor does it mean that we tolerate undue official or semi-official influence on our governments and universities, nor accept Chinese attacks on the open world order. If, for example, untrammelled passage through the sea and air spaces of the South China Sea were hindered, the Western alliance and everyone else should firmly oppose such policies. If we are well informed about China's traditions and mores, we will be better able to know when and how to push back and refuse to accommodate unacceptable political ambitions. We should also beware of simply belittling and critiquing everything that is different in Asia – a tendency in the European press. Instead, we must learn to distinguish between what is legitimate and sensible against the background of the East-Asian tradition and what is inimical to our genuine long-term interests.

Australians should gain as much as possible from full, unhindered engagement in trade and investment with Asia, as well as from people exchanges. Students from East Asia should become either ambassadors for our way of doing things if they return home, or engaged fellow citizens in the Australian way of life if they stay. I have come across and worked with many of both sorts and am convinced of the merits of this kind of engagement. Since future prosperity and cultural flourishing will depend on finding and testing of new knowledge, our immigration policy should aim at enhancing this nation's human capital stock, should attract high-performing individuals. East Asians, with their preference for high intellectual and educational achievement, seem a good place for our employers to start looking. Let's not be churlish about competing for the world's top talent by exploiting Australia's free, peaceful lifestyle¹⁴.

¹³ This is already happening to an impressive degree now. The Australia Association in Shanghai reportedly counts many hundreds of young Australians. Those whom I have met in the gold-rush atmosphere over there, appear to be having a ball!

¹⁴ The aforementioned TIMMS study shows where Australian employers and bureaucrats should look for high talent: Most East-Asian countries produce between 30 and 50 fourth-grade students who pass the Advanced Benchmark, whereas only 9 young Australians do (Figure 1 of TIMMS, 2017).

Some aspects of Western civilisation in its Australian incarnation can and will benefit from Chinese and other East-Asian cultural influences. Some ‘East Asian cultural genes’ would indeed blend in well with our free, individualistic traditions: remember my quote of Mencius. Some aspects of ruthless, reckless individualism in our political culture should arguably be modified by Confucian-inspired cooperative, tolerant attitudes. A better understanding of what civilisation is will not only help Australians to understand with empathy what moves the United States and China, but may also help us to assist these self-centred monoliths to come to grips with each other peacefully.

Australian culture, as it inevitably evolves, is better placed than any other to draw inspiration from the two greatest, deepest civilisational traditions mankind has created – the Christian Occident and the Confucian Orient. This is a great opportunity for future generations of Australians. Open competition between the two will be beneficial to future generations — as long as we oppose the envy-driven blockheads who preach populism, and slash back the regulatory jungle to defend our open, pluralist society to remain anchored in the bedrock of freedom – the heritage from Cicero, Kant, Voltaire and so many others of our philosophical heroes.

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