

FREE MINDS AND FREE MARKETS

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ABSTRACT: Freedom is crucial both in markets and for ideas. For society to improve upon the human condition, there must be a free flow within both. Drawing on the ideas of J.S. Mill, Immanuel Kant, F.A. Hayek, and other intellectual greats, this essay examines the intellectual connection between ideas and goods and how freedom of speech and commerce breaks down barriers. This essay argues that freeing channels of speech and commerce keeps human behavior in check and sets the necessary foundation to better the human condition and that without a free flow of ideas and goods, society would be worse off.

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My title, “Free Minds and Free Markets,” has been the subtitle to *Reason* magazine since its founding. Others have noted the correlation between freedom of speech and thought, and the freedom of contract to determine the terms of exchange. This idea is not at all unique to me. You can unearth the argument in the writings of J.S. Mill and more recently in Thomas Sowell. In fact, I would like to recommend that all of you take the time to read Thomas Sowell’s *Knowledge and Decisions*. Although perhaps his most difficult book, I believe it is well worth the effort for students of society.¹ Sowell builds from F.A. Hayek’s famous article, “The Use of Knowledge in Society,” methodically exploring the logic of the trade-offs that human actors negotiate in all walks of life, examining the alternative institutional arrangements that impress themselves on that ability, and accounting for the ways people interact with each other in these different realms.² In order to negotiate these trade-offs, we, human actors, require tools to aid us in

1 THOMAS SOWELL, *KNOWLEDGE AND DECISIONS*, (Basic Books 1980).

2 Frederick A. Hayek, *The Use of Knowledge in Society*, 34 THE AMERICAN ECONOMIC REVIEW 4, 519-530 (1945).

our deliberations over different courses of action. To make our efforts more effective, we must learn from the situations that we face. Given our circumstances, we must strive to do the best we can to achieve our desired goals (whether they be of the highest moral aspirations or simply basic material comforts). Our learning requires feedback, which in turn will guide our adjustments as we strive to better our situation and govern our responses to changing circumstances.

The analogous relationship between freedom of speech and freedom of contract hinges on the necessity of *truthful* feedback. By *truthful*, I mean the unvarnished expression of opinion and exploration of the ‘facts’ as one understands them. We strive to have free and open discourse, not marred by motivated reasoning, nor by the necessity of content that is hidden or coded to avoid persecution. Discussion, instead, should subject errors in reasoning and the marshalling of facts to constant *reasoned* contestation, with the ultimate aim being mutual enlightenment. Discussion is *not* the same as clever debate, but vigorous debate can be a vehicle for an enlightening discussion. Consider J. S. Mill’s argument in *On Liberty* concerning freedom of thought and expression:

But the peculiar evil of silencing the expression of an opinion is, that it is robbing the human race; posterity as well as the existing generation; those who dissent from the opinion, still more than those who hold it. If the opinion is right, they are deprived of the opportunity of exchanging error for truth: if wrong, they lose, what is almost as great a benefit, the clearer perception and livelier impression of truth, produced by its collision with error.³

Mill's reasoning on freedom of thought also holds true for the free market. By analogy, if prices are not allowed to reflect freely the expression of the terms of voluntary exchange between parties, they will "rob" us of critical feedback for learning how to better arrange economic affairs. If these prices are distorted by controls, or confusing because of inflationary manipulation by monetary authorities, then human actors will be misled. Consequently, the market will lose both gains from mutual exchange and from technological innovation. Consider the difficulties of allocation arising from the current pandemic. These difficulties are owed

3 JOHN STUART MILL, *On Liberty*, in JOHN STUART MILL: A SELECTION OF HIS WORKS, 1-147 (John M Robson ed., 1966).

in part to “price-gouging” laws and government dictates concerning production and distribution, which prevent prices from guiding the processes of exchange and production for urgently demanded goods and services. We face a cloudy future in the economic sphere as we await the aftermath of this public health crisis. Extraordinary measures have been taken to alleviate the crisis by the Federal Reserve System. Additionally, the Treasury of the United States has applied extreme fiscal measures to stave off economic collapse. It is one thing to discuss the immediate economic hardships caused by a government-mandated shutdown; it is another to discuss how to unwind these policies once the crisis ends in order to minimize, or avoid altogether, an augmenting of what David Stockman has dubbed “The Great Deformation.”⁴ The post-crisis stage will require a recalculation of the best use of capital and labor. To engage in that calculation rationally, prices must be allowed to guide us, the possibility of profits to lure us, and the penalty of loss to discipline us. All of this will only be possible if property rights are well defined and enforced. These measures must prod us to act on those

4 DAVID STOCKMAN, *THE GREAT DEFORMATION: THE CORRUPTION OF CAPITALISM IN AMERICA* (Public Affairs Books 2013).

signals and feedback in a manner that promotes productive specialization and peaceful social cooperation through exchange. To use Mill's term, if we fail to allow property, prices, and profit-and-loss to impress upon us freely the expressions of values and preferences, the technological possibilities and alternative uses, and the possibilities of mutual gains from trade, then we will be "robbed" of the improvements in human well-being that come from the coordination of economic activities through time.⁵

Consider the complications to the economic system if, for whatever reason, profit and loss accounting is not permitted to perform its function within a market economy—rewarding some with profit and penalizing others for poor decision-making with losses. When profit and loss are able to speak the truth, they work in conjunction with hard budget constraints to incentivize both prudence and entrepreneurship in economic actors. When, however, various governmental actions, such as the rules surrounding bank bailouts or housing market policy distort the ordinary

5 JOHN STUART MILL, *On Liberty*, in JOHN STUART MILL: A SELECTION OF HIS WORKS, 1-147 (John M. Robson ed., 1966).

accounting of profit-and-loss, they create the potential for massive discoordination. If we privatize profits but socialize losses for investment banks, it logically follows that they would become highly leveraged in their portfolio. Similarly, if, to increase access to housing, the government mandates that banks deviate from prudent lending practices in home mortgages, we should not be surprised that individuals then purchase homes that place them in potentially vulnerable financial situations when faced with even slight misfortune. The Savings and Loan Crisis of the 1980s and the Global Financial Crisis of 2008 both illustrate the devastation and despair that can be wrought by government manipulation of money and by credit distortions in the practice of prudent finance and profit-and-loss accounting.

By contrast, in a free and dynamic market economy, we can observe disciplined creativity. Assuming that prices are permitted to change freely as terms of exchange are negotiated between voluntary parties, and that each party faces hard budget constraints, we can rest assured that the market process will continually agitate to bring about adaptations and adjustments. As time unfolds, these

alterations will bring about the coordination of plans at the most favorable terms and at the lowest cost. In this continual unfolding process, every act of entrepreneurship is a wishful conjecture. However, conjectures that are bold, but wrong, are disciplined. Meanwhile, bold conjectures that prove correct are richly rewarded. In economics, the truth speaks to the demands of consumers, the costs of production, and ultimately the distribution of goods and services among the relevant population. The array of relative prices guides us in our decision-making, the possibility of profit lures us, and the reality of loss disciplines us. It is in this way that the market system impresses upon economic actors a sorting mechanism that classifies enterprises as desirable, feasible, or merely viable. This categorization can only happen if the marketplace is viewed as an arena for the *truthful* expression of ideas, values, and imagined futures. As Deirdre McCloskey often discusses, the market process must be embedded in a social environment that encourages individuals to “give it a go,” and in doing so through experimentation in the marketplace,

the “trade tested” ideas will survive and improve our lives.⁶

In the marketplace of ideas, however, can we find disciplining and sorting mechanisms that are analogous to what the competitive market provides for profit-and-loss accounting? Here we turn the analogy back in the other direction. How are incoherent ideas, or coherent but impractical ideas, disciplined in social discourse? The regulation of speech fails to discipline muddled ideas. As with regulation of the market process, regulation of speech will result in the distortion of the signal quality of the information communicated. Thus, the discovered knowledge content will also be distorted. The arguments are symmetrical—freedom of thought is a general example of freedom of exchange. Furthermore, the mechanisms we have identified for disciplined creativity in the market guide us in our examination of mechanisms that discipline the expression of opinion and fact in public discourse. Regulation

6 DEIRDRE McCLOSKEY, *THE BOURGEOIS VIRTUES: ETHICS FOR AN AGE OF COMMERCE* (University of Chicago 2006); DEIRDRE McCLOSKEY, *BOURGEOIS DIGNITY: WHY ECONOMICS CAN'T EXPLAIN THE MODERN WORLD* (University of Chicago 2010); DEIRDRE McCLOSKEY, *BOURGEOIS EQUALITY: HOW IDEAS, NOT CAPITAL OR INSTITUTIONS, ENRICHED THE WORLD* (University of Chicago 2016).

in either instance is not the answer. As Mill put it, rather than exchanging error for truth, we get error embedded into the system.⁷ To push the economic analogy, rather than sorting out the bad ideas through a filter of competition, regulation allows loose and wishful thinking to supplant disciplined and rigorous thinking.

Immanuel Kant once argued that out of the crooked timber of humanity nothing straight is ever made.⁸ We are imperfect beings who live within imperfect institutions, and thus perfection in human affairs is not a possibility. Falsehoods and errors permeate the marketplace of ideas, just as various imperfections permeate the commercial marketplace. The question is: What are the best mechanisms to minimize the damage from these imperfections and maximize the chance that error will be exchanged for truth?

The answer comes by examining the teachings of the related but distinct disciplines of economics and political economy. These disciplines show that competitive freedom in

7 JOHN STUART MILL, *On Liberty*, in JOHN STUART MILL: A SELECTION OF HIS WORKS, 1-147 (John M Robson ed., 1966).

8 IMMANUEL KANT, *Idea for a Universal History with a Cosmopolitan Aim*, in KANT'S IDEA FOR A UNIVERSAL HISTORY WITH A COSMOPOLITAN AIM 9-23 (Amélie Oksenberg Rorty & James Schmidt eds., 2009).

speech and in commerce is our best hope to check the spread of manipulation and deception, falsehood and superstition, dogma and oppression. In our speech, we should strive to speak truth even if that truth challenges the conceit of the powerful. In our acts of commerce, we should strive to offer favorable terms of exchange even if forced to challenge the dominant position in the market of incumbents, including those with privileges bestowed by those in power. Freedom of speech and of commerce breaks down the barriers.

Therefore, read once again J. S. Mill's classic *On Liberty* and follow that up with Thomas Sowell's *Knowledge and Decisions*. I believe you will see the intimate intellectual connection between the free flow of ideas and the free flow of goods and services as a necessary foundation in our quest to improve the human condition.

