# Markets and Freedom

*By Dwight Lee*

**Question for thought:** How do freedom of exchange and wealth reinforce each other in market economies?

The social cooperation that emerges in free markets permits the specialization on which prosperity depends. We would be much poorer without the specialization that is possible only when large numbers of people can coordinate production and consumption through market exchange. But even more important than the material wealth we realize from the marketplace is the benefit of freedom. We would soon be deprived of most of our freedom without the accountability and discipline possible only in market economies.

Freedom is easy to take for granted, especially in the United States where we have enjoyed what people in many other countries can only dream about. Freedom is a lot like good health: people tend not to appreciate it until they lose it. Just as healthy people can destroy their health by yielding to short-run temptations, free people can destroy their freedom by opting for short-run political advantages that undermine the conditions on which freedom depends.

Also, as important as wealth is, it is secondary to both good health and freedom. Wealth is of limited value to those without the health or the freedom to enjoy it. Furthermore, good health and freedom are important elements in the production of wealth, with freedom being absolutely essential. Sick people can be productive, but without freedom the productive cooperation of the marketplace is impossible.

So I shall discuss two separate but related points here. First, the productive cooperation of the marketplace depends on freedom, and second, freedom depends on the productive cooperation of the marketplace. Economists typically have the unpleasant task of pointing to the tradeoffs that are the inevitable consequence of scarcity. But with wealth and freedom, there is no tradeoff; they reinforce each other in market economies, with it generally impossible to have one without the other.(1) Attempts to increase wealth with political policies that reduce freedom invariably end up reducing both.

## Markets Require Freedom

Markets work their magic by allowing people to communicate the benefits they realize from the efforts of others and the costs of their efforts to benefit others. Ultimately, all benefits and costs are subjective, depending on people's preferences and circumstances, which only they can accurately evaluate. This is obvious in the case of benefits. Who but the person who consumes a good, or avails himself of a service, is in a better position to judge the value of the benefits realized? But if benefits are subjective, then so are costs, which are nothing more than the value of forgone benefits. And since they are subjective, people can accurately communicate costs and benefits to one another only by having the freedom to enter into, or exit, different markets as they see fit, and to buy and sell at any mutually agreeable price. Government price controls restrict our freedoms as both buyers and sellers, and destroy wealth by censoring our communication with one another.

Central planning fails because people don't have the freedom to act on the local information that only they possess. When the central direction of political authorities is substituted for the market choices of individual producers and consumers, economic decisions are necessarily made in an informational vacuum. A productive economy requires the use of information that is dispersed throughout the population, and that information cannot be used without individual freedom. Destroy freedom and you destroy the information flows that are the essence of market economies.

## Freedom Requires Markets

The connection between freedom and markets also runs the other way. Just as the market depends on freedom, so freedom depends on the market. Certainly private property, which is fundamental to all market economies, protects individual freedom. If the state owns all of the auditoriums and printing presses, how much freedom do you have to speak out against government policy? If the state owns all the means of production, how much freedom do you have to launch your own business? Start eliminating private property, and undermining the market that depends on it, and you start eliminating freedom.

But the market also protects freedom by establishing the only setting in which it can be tolerated. Freedom without responsibility is mere license, indulgence, and privilege, and will not long be tolerated. Real freedom, and the only freedom that can survive, is exercised in ways accountable to the concerns of all. The only freedom that satisfies this requirement is that which is subject to the discipline of the marketplace. Eliminate markets, and you eliminate the accountability necessary for freedom to survive.

For example, pollution problems result directly from not having markets in the use of the environment as a dump. If such markets existed, polluters would have to pay prices that reflected the cost their emissions imposed on others. Polluters would be accountable to others, and we could tolerate the freedom to discharge waste products into the environment. But because we don't have pollution markets, we accept government restrictions on polluting activities that would be unacceptable in most areas of our lives.

## Our Freedoms Are Vulnerable

Freedoms are seldom taken away all at once. They are typically lost a little at a time, with people seldom noticing the loss. Even when freedom is reduced directly, as when government imposes occupational licensing in the name of protecting consumers, few people notice, and even if they do, they don't see the restrictions as affecting them. But as the great Austrian economist F. A. Hayek pointed out, "The benefits I derive from freedom are . . . largely the result of the uses of freedom by others."[2] For example, those who suffer the most when people lose their freedom to become barbers without having to pass state exams on the chemical composition of hair are not aspiring barbers, but people who need haircuts.

Also, there is an insidious dynamic to the loss of freedom. Direct restrictions always reduce freedom by more than is apparent because every restriction imperceptibly undermines the accountability of the marketplace that makes freedom possible.

Thomas Jefferson was correct when he said, “Eternal vigilance is the price of liberty.” People are more likely to exercise vigilance in protection of their freedom when they understand the inextricable connection between it and the market.

**Concluding questions:** How do trade restrictions and taxes affect freedom of exchange? How do they effect wealth creation?

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1. I have qualified this statement to account for the situation where a country possesses great wealth because of natural resource endowments and has an autocratic political regime, suppressing the freedoms of its subjects. But even in this case, the lack of freedom prevents the country from realizing the full benefit from its resources, and undermines the productivity necessary to expand, or even maintain, its wealth. ↩

2. See F.A. Hayek, *The Constitution of Liberty* (Chicago: University of Chicago Press, 1960), p. 32. ↩