

## From the President

by Richard M. Ebeling

THE  
FREEMAN  
(Ideas On Liberty)

NOVEMBER 2004



# Aaron Director on the Market for Goods and Ideas

**A**aron Director, one of the outstanding American economists of the twentieth century, died September 11, 2004, at the age of 102. Few people outside the circle of professional economists have heard of him. This is partly because he published very little, either of a scholarly or popular nature. His greatest influence was through his teaching from 1946 to 1966 at the University of Chicago, during which he helped change how an entire generation of economists and lawyers thought about government regulation and the impact of antitrust laws on market competition. Indeed, many of his students and colleagues have emphasized his role in the development of the field of “law and economics.”

Director also influenced the trend of free-market thinking in the United States when he persuaded the University of Chicago Press to publish an American edition of Friedrich A. Hayek’s *The Road to Serfdom* in September 1944, after it had first appeared in Great Britain in March of that year. In addition, Director was a founding member of the Mont Pelerin Society, attending its first meeting in Switzerland in April 1947. Organized by Hayek, the Society became an association of classical-liberal and free-market thinkers who wished to revive an interest in the ideas of freedom following World War II.

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It is sometimes difficult for people today to realize how greatly the world was threatened by the ideology of socialism in the years immediately after the war. The spread of Soviet power into eastern and central Europe following the defeat of Nazi Germany, and the Marxian idea that the demise of capitalism and the triumph of socialism were historically “inevitable,” had a powerful impact on Western intellectuals who had become sympathetic to the notion of government “planning” to solve the ills of society.

Socialism was made even more appealing to many of these intellectuals because they were persuaded that government control of a society’s economic affairs did not require any significant loss of personal freedom or civil liberties.

Aaron Director was one of a handful of careful and serious thinkers at the time who clearly understood that securing personal freedom was inseparable from the preservation of economic liberty in a free, competitive market. He made this case in a paper delivered at a conference on Freedom and the Law at the University of Chicago Law School in 1953. The paper was published shortly afterwards under the title “The Parity of the Economic Market Place” and was reprinted over a decade later in *The Journal of Law and Economics* (October 1964).

He explained that many intellectuals failed to see the connection between personal and economic freedom because they live in a rarified and secluded academic world separate from the everyday affairs of



ordinary citizens who go about earning a living in the marketplace. Furthermore, these intellectuals snobbishly and arrogantly presumed that while they were concerned with the big and important issues—virtue, justice, beauty, “the good”—the ordinary people pursued mere material satisfactions that have a far lower order of importance. The free market of ideas, therefore, is more important than any free market for material goods.

In addition, the intellectuals had a bias toward believing that the most significant competition in society occurs in the arena of democratic decision-making. Thus the exchange of ideas in political discourse is far more essential to a free society than any exchange of goods and services. Society “speaks” through the trading of ideas, not products.

Aaron Director responded with three arguments. First, he said that this attitude on the part of too many intellectuals shows a total disregard of and disrespect for the essential importance of market freedom for the general public. “For these people,” he said, “freedom of choice as owners of resources in choosing within available and continually changing opportunities, areas of employment, investment, and consumption is fully as important as freedom of discussion and participation in government.” Director also quoted from Alexis de Tocqueville, who in *Democracy in America* pointed out the character-building qualities that self-interested conduct taught men in the everyday marketplace.

## Fewer Choices

Second, Director noted that choices and opportunities were far fewer and less frequent in the arena of politics. “It is only under a system of voluntary exchange that freedom is maximized,” he explained. The democratic process was inherently coercive, with the losing minority having to accept the choices of the winning majority. There was little room for the minority to

opt out between elections. “The choice for a minority which does not consent to socialist institutions . . . is that of departing with bare feet.” He added, sarcastically, “And such restriction is described as regulation of possessions or property rather than of men.”

In the competitive arena of supply and demand each individual has the ability to select what options he finds most attractive, and the relative degrees to which he finds them desirable, without needing to persuade many others in society to “vote” his way. The marketplace, therefore, offers pluralistic outcomes open to change every day through the consumption choices each of us makes, unlike the majoritarian winner-take-all outcomes of the democratic process.

Finally, Director warned that without the separation of politics from economics, the preservation of our civil liberties is far from certain. For example, he said, “The privilege against self-incrimination may not be an important protection of freedom . . . when the state becomes the principal employer or determines the conditions of employment . . . [A]ny legal protection of this general type will become an empty piece of ceremonial apparatus when its exercise and protection are accompanied by the loss of one’s livelihood.”

When Director made this argument in 1953, he clearly had in mind the events going on in the United States during the McCarthy era, when suspicion of “disloyalty” resulted in loss of a government job. The existence of a large private sector meant that whether accused truthfully or falsely of un-American beliefs or conduct, an individual could continue to earn a living outside of government, and therefore did not have to be afraid to follow his conscience and refuse to testify at a congressional hearing.

The close connection between the free market and personal freedom may be better understood today than it was in 1953, but if this is so, it is due to the well-reasoned and articulate arguments of people like Aaron Director. □