

CHINA'S FUTURE AND THE DETERMINING ROLE OF THE MARKET FOR IDEAS

Ning Wang

The ultimate success of China's search for economic prosperity, cultural renaissance, and a "peaceful rise" depends, in large part, on whether a free market for ideas can reemerge and flourish in China. The concept of the "market for ideas" (*sixian shichang*) was first introduced to a Chinese audience by Ronald Coase and myself in *How China Became Capitalist* (Coase and Wang 2012, see also Coase 1974). It quickly won acceptance among academics and the media. China is the only leading economy where the production and communication of ideas remains under strict state control. Universities, the primary venue where new ideas are produced, are run by the state. Newspapers, radio and TV stations, and publishers are all controlled by the state; ideas unwelcome by the state have a hard time to see the light of day. Because the freedom to supply ideas, choose ideas, and criticize ideas is severely limited, the creativity of the Chinese people is underutilized and their innovative potential undertapped.

In the past several years, our argument has been picked up and further developed in China—most consistently and prominently by

Cato Journal, Vol. 37, No. 1 (Winter 2017). Copyright © Cato Institute. All rights reserved.

Ning Wang is a Senior Fellow at the Ronald Coase Institute and is the International Director of the Ronald Coase Center for the Study of the Economy at Zhejiang University. This article is a revised and expanded version of a speech first delivered at the Cato Institute on October 6, 2016. The author thanks Jim Dorn and Tom Clougherty for comments and suggestions; the usual caveat applies.

Weiyang Zhang (2015).¹ In public speeches and writings, Zhang (e.g., 2014) highlights the leading role played by ideas in energizing and transforming the Chinese economy and emphasizes the importance of a free market for ideas in facilitating political reform and sustaining economic development. Wu Jinglian (2016) is another prominent Chinese economist who has come to appreciate the importance of the market for ideas in determining China's future. Outside economics, Chinese legal scholars (e.g., Guo Daohui 2015) have also recognized the market for ideas as a critical check on state power and as a prelude to the rule of law.

The Chinese translation of our book was published in January 2013, with a different title, 变革中国：市场经济的中国之路. If translated back into English, it reads: "China under Transformation: China's Road to the Market Economy." That the Chinese publisher had to erase "capitalist" from the title and substitute "market economy" or "market system" for "capitalism" in the book is an act of self-censorship. This is a delicate art of compromise between reality and integrity, between the pressure of power and the pursuit of truth—a critical skill of survival in a society where a free market for ideas is lacking. Nonetheless, the contents and arguments of the book are kept intact. A major argument that Coase and I put forward in the book is that China's future crucially hinges upon whether it can embrace a free market for ideas.

This is what we wrote:

As remarkable as the Chinese market transformation is, capitalism with Chinese characteristics is impoverished by the lack of a free market for ideas; this deficiency has become the most restrictive bottleneck in China's economic and social development. Ever since the start of economic reform, the Chinese government has been persistently calling for the "emancipation of the mind," but nothing is more effective than an active market for ideas in freeing people's minds.

¹Our argument for the market for ideas, including the significance we place on the importance of ideas in the working of the modern economy, is greatly elaborated upon by Deirdre McCloskey (2016), who singles out ideas, or rather, changes in ideas, and not capital or institutions, as being mainly responsible for what she calls the "Great Enrichment" and the beginning of the modern world (see also McCloskey 2015).

Indeed, without this, any “emancipation of the mind” is doomed. The creative minds of the Chinese people and their inventive power have been underexploited. This is unfortunate since capitalism with Chinese characteristics could definitely be more innovative and more driven by quality rather than quantity. As the largest producer of PhDs in the world, China could have contributed much more to the growth of human knowledge. In today’s world, new products and industries, novel ideas and practices, flexible and innovative organizations and institutions urgently need to tackle global challenges, from poverty and disease to war, from energy conservation and water shortage to environmental protection. We simply cannot afford to set aside the human potential of one-fifth of humanity [Coase and Wang 2012: 199].

The rest of the article is organized as follows. First, I distinguish the market for ideas from democracy; this separation obtains special significance in the Chinese context. Next, I defend the freedom to partake in an open market for ideas as a basic natural right; the prevailing practice to associate the market for ideas as a bundle of political rights mischaracterizes the relationship between the state and the market for ideas. Following the defense and elaboration of the market for ideas, I then sketch a new, rather Hayekian, vision of the economy, which portrays the modern economy as an enterprise of knowledge. I conclude with a battle cry for the market for ideas.

Priority of the Market for Ideas over Democracy

Among many factors, Coase and I singled out the lack of a market for ideas as China’s most vital defect; this was a novel and quite unconventional position. When our book manuscript was under review, we were censured by several reviewers for our overarching stress on this market for ideas. At the time, many China experts instead placed their emphasis on democratization—that is, on opening up the political system and introducing multiparty political competition to replace the existing party-state—as the most critical challenge facing China. When and how China will embrace democracy, and whether the Chinese Communist Party can survive democratization, were the main questions asked about China’s political future. That we did not engage with these questions certainly left

some readers disappointed. Yet with no pretense of pleasing everyone, and absent any pressure to maximize readership, we stuck to our position and offered in the book a different diagnosis of the main flaw of the Chinese market economy: China has developed a robust market for goods, but it still lacks a free market for ideas. For China to become a normal country, we argued, it has to embrace—or, rather, reembrace—this market for ideas.

A market for ideas flourished much earlier in China, at the time of Confucius. During the so-called Axial Age, Confucius, Lao-zi, and Mo-zi and their followers, each established competing schools of Chinese thought. These thinkers lived in an era when the Zhou dynasty was disintegrating and China was divided into many small states, each competing with the others for wealth, power, and human talent. As learning was no longer a privilege confined to the royal house of Zhou, knowledge began to spread out in society, transmitted by private tutor houses, somewhat similar to the academies in ancient Greece. New ideas about the nature of man and society, and competing views and strategies about the pursuit of wealth and power, all burst into life. From this emerging marketplace for ideas, all the Chinese schools of philosophy were born; together these gave life and character to Chinese civilization.

Since Chinese civilization first emerged out of “competition among one hundred schools of thought” (*baijia zhengming*), the idea of a free market for ideas has acquired sacred status in Chinese history. It has remained an inspiration for the Chinese literati and is accepted as a golden benchmark by which to judge the merits and legitimacy of political regimes. The first emperor of Qin, despite his historical role in unifying China, is forever condemned as a “tyrant” (*baozheng*) for “burning books and burying Confucian scholars alive” (*fenshu kengru*). A thousand years later, the first emperor of the Song dynasty set a rule that no scholars or critics of government should be killed, laying a crucial platform for the glory of Song China.² Modern China

²While it was weak militarily, and was eventually conquered by the powerful army of Genghis Khan, Song China achieved significant advances in art, literature, science, and technology; the Chinese economy was more commercialized and life more urbanized in Song than in any previous or following dynasty. Technological advances in printing enabled mass production of books. As the cost of book printing fell dramatically, books were no longer a luxury good for the wealthy and became, for the first time in Chinese history, readily affordable. Private universities also flourished. All this contributed to a lively market for ideas in Song China.

witnessed a brief resurgence of this free market for ideas during the early decades of the 20th century, after the collapse of the Qing dynasty and before the socialist revolution. During this period, while the nation was ravaged by foreign invasion and civil wars, a modern free press and private universities boomed. It may seem ironic, but even Mao himself, probably the most damaging enemy of the free market for ideas in modern China, who executed many critics of his policies and imprisoned hundreds of thousands of intellectuals, admitted the need to “let one hundred flowers bloom and one hundred schools of thought contend.” If the long history of Chinese political thought can be distilled into a single piece of wisdom, it may well be that attributed to Wei Zheng, the chief minister of the first emperor of the Tang dynasty: “listening to all sides makes you enlightened, heeding only one side leaves you in the dark” (*jiāntīng zēmíng, piāntīng zē'an*). This dictum puts the market for ideas at the foundation of good governance and social harmony.

In contrast to the market for ideas, multiparty competition has virtually no precedent in Chinese history. Political parties emerged for the first time in China only at the beginning of the 20th century when the Qing dynasty was falling apart. Sandwiched by the obstinacy of residual imperial power and the violence of modern revolutionary ideology, political parties had little breathing room and quickly collapsed, leaving few footprints in Chinese political history. What is worse, the Chinese word for “party” has a strong negative connotation in traditional Chinese political thinking.³

In the West, any political party assumes as its mission securing and defending the interests of its members. In China, however, “forming a party to pursue its own self-interest” (*jiédāng yìngsì*) has been consistently condemned as violating justice and undermining social harmony. The Book of History (*shangshu*), one of the five Confucian classics, says, “In the absence of partialities and parties, the kingly way is broad and vast. In the absence of parties and partialities, the kingly way is level and smooth” (*wupian wudang, wangdao dang-*

³Since the political party did not exist in Chinese society, the Chinese lexicon had no term for it. “Dang” (党) was first appropriated by Japanese scholars to translate the English term “party” after the Meiji Restoration. It was later accepted by the Chinese before they knew anything about the nature and role of political parties in the modern world. This poor choice of word has cast a long shadow on the fate of political parties in modern China.

dang; *wudang wupian*, *wangdao pingping*). Ouyang Xiu, a famous scholar-official of the Song dynasty, reinforced the long-standing critique of political parties. In his celebrated article, “On Parties” (*pengdang lun*), he attributed the sudden collapse of the almighty Tang dynasty to its failure to check the rise of parties.

In addition to this uniquely Chinese historical factor, there is another general reason for us to prioritize the market for ideas over democracy. Namely, that the market for ideas is, in one sense, more fundamental than democracy.

First and foremost, functioning democracy requires the presence of an effective market for ideas. Without such a market, democracy inevitably degenerates into straightforward majority rule. Indeed, without freedom of speech and the press, genuine democracy would be hardly possible. Democracy works only when genuine political debate is honored by most citizens as part of their civic duty and valued by them as the only legitimate way to resolve conflict in political life. Democracy survives only when the losing side concedes graciously, trusting their voice can still be heard in an open market for ideas and their life, property, and pursuit of happiness will be equally protected. By contrast, once people get used to accepting the rule of the majority as the triumph of democracy, democracy itself is at serious risk: the tyranny of majority is on the horizon.

Second, the market for ideas is a precondition for order and prosperity in any political regime, whether it is a democracy or not. After waves of democratization, democracy has become a dominant form of organizing political life all over the world (Dahl 1998, Tilly 2007). Even nondemocratic countries, such as China, are compelled to recognize democracy as a “good thing” (*hao dongxi*) (Yu 2009). This, however, does not change the fact that democracy is a newcomer to political life. In contrast, the market for ideas has a much longer and richer history. Baghdad stood out as the global center of learning and knowledge in the 8th century, with a booming market for ideas reaching far beyond the Arabic world, yet democracy was alien to Islam. Britain, too, was not in any meaningful way a democracy during Adam Smith’s time; yet Smith had no difficulty enjoying a lively social life, engaging in debates with other scholars, and publishing books, including *The Wealth of Nations*, which in due course would change British economic policy forever. China offers another example of a place where the market for ideas once flourished with no hint of democracy.

Natural Right versus Political Right

In a society with a free market for ideas, every individual enjoys the right to create new ideas and share them with others; to criticize and debate ideas in coffeehouses, tearooms, classrooms, and newspapers, as well as at seminars, conferences, and forums, on TV programs, and on the internet; to promote and defend ideas one endorses; to ignore or repudiate those one finds misleading or wrong; to be inspired and informed by ideas; and to come up with still better ones. Such a right exists prior to the birth of the state or any government. Before the rise of politics, before the birth of the state, people must have learned to think, to record their thinking and put it down as ideas. If natural rights exist, the right to think independently and communicate freely must surely count as one of them. It follows, then, that a free market for ideas must be a basic human right—a natural right for any person as a human being.

Here we diverge from the existing economics literature, in which the market for ideas is often treated as a bundle of political rights, such as freedom of expression and the press.⁴ Aaron Director (1964) was probably the first modern economist to explicitly use the term “the market for ideas,” in contrast to the “the market for economic goods and services.” A decade later, Coase (1974) used the term in a similar fashion in his influential paper “The Market for Goods and the Market for Ideas.” As Coase (1974: 384) explained, in the context of the United States, the market for ideas is concerned with the expression of opinion in speech, writing, and other channels—that is, “activities protected by the First Amendment.” For both Director and Coase, it is clear that the market for ideas refers to a set of political rights enjoyed by people in a free society.

While it is true that wherever it exists, the market for ideas is protected by the state via laws and regulations, and wherever it does not exist, the market for ideas is banned by government, we must not make the mistake of treating the market for ideas as a creation of the state or as a gift handed down from government. The main reason for emphasizing that the market for ideas is a natural right rather than a political right is to steer us away from this error.

⁴Another common usage of “the market for ideas” in economics is rather narrow, referring to the market for patentable or salable innovation and invention (e.g., Gans and Sterns 2010, Chatterjee and Rossi-Hansberg 2012).

The market for ideas belongs in a special category of human inventions that flourished before the rise of any government, because their presence and operation, notwithstanding crude forms and primitive manners, must have played a critical role in man's rise from the jungles to build human civilization. While the details of human evolution remain sketchy, and there are still many gaps in the story of human beginnings, it is clear that modern *Homo sapiens* faced several competing species of hominid, including Neanderthals—who branched out from the *Homo sapiens* lineage 500,000 years ago and became extinct only about 30,000 years ago—and Denisovans, who separated from the *Homo sapiens* lineage 700,000 years ago. Over a long stretch of time—much longer, anyway, than recorded human history—*Homo sapiens* coexisted with Neanderthals and Denisovans in the same environment; occasionally they interbred. We know little about the genetic and epigenetic advantages *Homo sapiens* enjoyed over their competitors.⁵ But what we do know suggests that it was the social use of brainpower, rather than the brain itself, that enabled *Homo sapiens* to outcompete other hominids. The use of the brain in various social settings, and for various emotional and cognitive tasks, further stimulated the growth of brainpower, which in turn enabled our ancestors to conduct a lively communal life, to master the cumulative growth of knowledge, and thus to increase adaptability in the face of rapidly changing environments. In this long process, the market for ideas, in its most crude manner, allowed our ancestors to exchange information, to winnow truth from rumor, and to pass knowledge on to the next generation—which could in turn constantly revise, improve, and expand in a cumulative fashion the existing stock

⁵With the recent publication of the genomes of the two extinct *Homo* species, scientists can now compare the genomes of *Homo sapiens*, Neanderthals, and Denisovans. Apparently, the genetic differences between *Homo sapiens* and other hominids are much smaller than previously thought. For example, the two amino acid changes in gene *FOXP2*, widely associated with the emergence of modern language and other unique human cognitive capabilities, are found in *Homo sapiens* and Neanderthals. The *KLK8* protein, which is preferentially expressed in the central nervous system and is involved in learning and memory, and which was until recently thought to be unique to *Homo sapiens*, has now been found in both the Neanderthals and Denisovans. According to a recent study, “*H. sapiens*, Neanderthals, and Denisova are virtually equal when the molecular aspects involved in the cognitive processes considered here are compared” (Paixao-Cortes et al. 2013: 2).

of knowledge. Long before the rise of any government, the market for ideas gave *Homo sapiens* an evolutionary advantage through social learning and the accumulation of knowledge.

Unlike stone tools and other artifacts that our ancestors used in their daily lives, many of which have survived and are available for us to inspect, the market for ideas that was in operation before human civilization took off remains intangible. Its nature is often abstract and its working opaque and complex. It left few footprints with which we can trace its development over time. Nonetheless, its existence, and the central role it played in empowering *Homo sapiens* to prosper and conquer the Earth, cannot be denied.

Besides the market for ideas, other members of this category of human inventions include the market itself, law, money, language, and knowledge.⁶ With the rise of centralized state bureaucracy, these easily fell prey to naked political power. Almost without exception, they were enslaved, maimed, and deformed in the hands of political power—if they were lucky enough to survive at all. It was only with the advent of the Enlightenment—and particularly following the rise of what Adam Smith called “commercial society”—that the West entered what Deirdre McCloskey (2016) calls “the Bourgeois Era.” Only then did these vital institutions gradually liberate themselves from overbearing political power and regain their independence.⁷ This process is still ongoing and subject to fluctuation and reversal.

Political power can, and does, suppress the market for ideas, but it is far from its only enemy. Bad ideas often cast a long and dark shadow. The market is often put at risk by our ignorance or worse, knowledge we hold dear but is no better than half-truth. For example, the concept of perfect competition helps to breed a pervasive misunderstanding of the nature of knowledge in the working of the

⁶The social sciences rarely treat it as an institution, but knowledge is itself a human invention that came into existence long before the rise of any government. And just like the market, law, money, and language, knowledge has been subject to state intervention. The expanding role of the state in public education, as well as in research and development, is today often taken for granted, even in most developed market economies. For an early critique, see Friedman (1962: Ch. 6) and Coase (1974).

⁷In most cases, the autonomy of these institutions is now protected by laws. This has misled many to credit the state as their ultimate creator. In reality, however, these institutions emerged and developed spontaneously, without the direction of a central authority.

market system (Hayek 1937, 1945). Perfect competition presumes perfect information. With perfect information, there is little need for the market for ideas. No wonder Hayek's messages have fallen to deaf ears and mainstream economics has little room for knowledge, let alone the market for ideas. When economics leaves knowledge out of the equation, it is bound to degenerate into what Coase (1992) called "blackboard economics," an intellectual exercise detached from the real world economy.

The Economy as an Enterprise of Knowledge

Our belief that the market for ideas plays a determining role in China's future rests on our view of the economy as an enterprise of knowledge, and our conviction that the market for ideas determines the growth of that knowledge. To view the economy as an enterprise of knowledge is to come to terms with the simple fact that the growth of knowledge—broadly understood to include scientific, technical, and institutional knowledge—has always been, and will always be, the most critical force driving economic development.

In hunter-gatherer society, economic output is mainly determined by biological processes, which determine what fruits and plants are available to pick and what animals to hunt. In such a society, one's livelihood depends on local or folk knowledge. Where to fetch water and find food, how to build shelters, avoid predators and recover from illnesses, how to raise a family, and many other daily challenges of life all require local knowledge, which is often passed from one generation to the next through oral tradition and observation. When knowledge is accumulated in this manner, its growth is limited and haphazard. As long as environmental change is gradual, relative to the rate of knowledge accumulation, members of the society can manage to live a slow-paced life. But when environmental change is abrupt and rapid, leaving little time to adapt, the survival of the whole community is at risk.

In an agricultural society, the biological process is increasingly harnessed by human knowledge. Surpluses in food production make possible the rise of a nonagricultural population, including kings and lords, priests and scholars, knights and soldiers, as well as various craftsmen and merchants. After the rise of agriculture,

food supply becomes stable and human settlement becomes feasible. The market for ideas becomes institutionalized, at least for priests, scholars, craftsmen, and merchants, facilitating the accumulation of knowledge. In societies where (or during times when) knowledge is monopolized by political or religious power, the market for ideas is suppressed and the growth of knowledge is slow, if it occurs at all. This jeopardizes the survival of the whole society. In societies where (or during times when) trade is open and plays a significant role in economic life, the market for ideas has a much better chance to prosper and life is longer, healthier, richer, and easier.

Even though knowledge is crucial in hunter-gatherer and farming societies, its growth is often so slow that its critical role can hardly be recognized. The rise of manufacturing, however, puts knowledge at the center of production. Like craft production before it, manufacturing would simply be impossible without sufficient accumulation of knowledge. Manufacturing is subject to the division of labor, which in turn facilitates the growth of skills and knowledge and generates a positive feedback loop linking manufacturing and the growth of knowledge—a symbiotic relationship that hardly exists in more primitive societies.

Modern manufacturing transforms energy and material into consumer goods. Both inputs are subject to the law of preservation; the transforming force comes from knowledge, which can grow infinitely. The whole production process is directed by what consumers want and is constrained by what entrepreneurs know about the nature of their materials, the technology of production, and the art of organization. In a market economy, what consumers want changes constantly as innovation brings out waves of new products and makes the existing stock of goods obsolete. The pace and direction of this Schumpeterian process of “creative destruction” is largely determined by the working of the market for ideas.

Modern economics is divided into two separate fields, equilibrium theory and growth theory. The former is concerned with resource allocation; the latter focuses on determinants of economic progress. After Solow (1957), growth economics has gradually come to terms with the historical fact that sustainable economic growth has been driven primarily by the growth of knowledge—or technological innovation—rather than the accumulation of capital. This point was

made explicit by the recent endogenous theories of growth (e.g., Romer 1986 and Lucas 2000).⁸

But resource allocation is equally knowledge dependent. Unless economic actors hold different information and entertain different expectations about the future, and unless such information and expectations are constantly updated and revised, trade would be a one-time event, with the economy quickly moving into equilibrium. But without continuous trade, market-based efficient resource allocation would be impossible. Behind the shuffling and reshuffling of things in the marketplace, resource allocation provides a channel whereby private knowledge is revealed, business acumen is exercised, and idiosyncratic judgment is made. The frequency and intensity of trade, the characteristics of traded goods, the size of the trading network, and its diversity or heterogeneity—these are among the most important factors impacting the amount and nature of knowledge pooled together through trade.

As commonly presented in textbook economics, the seemingly innocuous assumptions of perfect information and equilibrium turn resource allocation into a mechanical problem of economizing, which simply means “shuffling around available resources in order to secure the most efficient utilization of *known* inputs in terms of a *given* hierarchy of ends” (Kirzner 1976: 79; emphasis added). Since inputs are all known, and ends are all given, all the knowledge required for resource allocation is already on the table, freely available to anyone with an interest. No effort is required on the part of economic actors to stay alert to any unexplored opportunities. Decisions are reduced to choices based on cost-benefit calculation, and there is no demand for judgment calls. In this world of zero transaction cost, there is no need for the firm (Coase 1937), the law (Coase 1960), or even the market (Cheung 1998). As this imaginary world is devoid of uncertainty, there is no room for entrepreneurship (Knight 1921). The Hayekian problem of knowledge (Hayek 1937, 1945) is completely assumed away.

⁸For a critical review of the new growth theory, see Nelson (1997). By emphasizing ideas as the engine of economic growth, the new growth theory takes an important step in recognizing the economy as an enterprise of knowledge. A common defect of the literature, however, is to assume ideas have a uniform impact across the economy.

Alfred Marshall was probably the first modern economist to foresee the growing importance of knowledge when he, as early as 1890, highlighted knowledge as the “most powerful engine of production” (Marshall [1890] 1920: 115). More than half a century later, Fritz Machlup (1962) published the first empirical investigation documenting the impact of knowledge in a modern economy.⁹ Following Marshall, we accept knowledge as the most important factor of production. In *How China Became Capitalist* (Coase and Wang 2012), we take the market for ideas as a factor market for knowledge, like the capital market being a factor market for capital. Yet knowledge differs from other factors of production, and the market for ideas is unlike other factor markets. At the least, knowledge is nonrivalrous; it is this insight that has fired up the recent literature on endogenous growth. Moreover, knowledge is unfathomable, its depth endless, and its growth infinite (Bartley 1990).¹⁰ As Popper (1985: 56) put it, “While differing widely in the various little bits we know, in our infinite ignorance we are all equal.” Together with Hayek’s (1937, 1945) insight on diffuse knowledge, the thesis of infinite knowledge and our endless ignorance implies that the market for ideas, as imperfect and fragile as it may be, is the most reliable solace available to save us from bigotry and idiocy.

That knowledge is unfathomable and its growth open, unpredictable, and infinite renders the knowledge-intensive modern economy non-ergodic, full of novelty and surprises. When Paul Samuelson (1969) made economics “scientific,” moving it from “the realm of history” into “the realm of science,” he was probably not aware that this tradeoff inevitably cut economics off from the real world economy.¹¹ In order to take seriously the idea that the human economy is an enterprise of knowledge, economics has no choice but to study man as he is and the economic system as it actually exists.

⁹According to Machlup’s estimates, as early as 1958, the size of what he called “the knowledge economy” accounted for 29 percent of U.S. GDP. See Langlois (1985) for an account of Machlup’s efforts to come to terms with the economics of knowledge.

¹⁰Zhuang-zi, a contemporary of Mencius, was one of the first philosophers to stress the infinity of knowledge, in contrast to the shortness of life. Among contemporary philosophers, Karl Popper and Michael Polanyi have taken great pains to develop the thesis and elaborate its profound implications. For an accessible and updated account, see Deutsch (2011).

¹¹North (1999) and Davidson (2012) are among the minority who emphasize the non-ergodic nature of the modern economy.

Conclusion

China's market transformation in the past four decades is essentially an entrepreneurial revolution; it is a triumph of the market. Far from a state-led economic program, it resulted from "marginal revolutions"—initiatives undertaken by economic actors marginalized during Mao's radical socialism, such as farmers and unemployed city residents, as well as local officials. It was their ingenuity and tireless efforts to feed and clothe their families—steering away from starvation and poverty—that fortuitously transformed the Chinese economy. China's market transformation thus offers the latest example of what Hayek (1967: Ch. 6) called the "unintended consequences of human action." In this process, the Chinese government's role was mainly "to emancipate the mind" (*jiefang sixiang*), to free it from Mao's radical ideology, and allow it to approach economic development pragmatically. Deng Xiaoping and his comrades quickly realized that the state had to withdraw from economic planning and open the economy to the market and entrepreneurship. The rest is history.

As remarkable as it is, China's market transformation in the past four decades only consisted of the first stage of industrial revolution, a process mainly of catching up. In the decades to come, as China moves closer to the technological frontier, it will have to become far more innovative. Without a free market for ideas, China would certainly be ill positioned to face up to the challenge. Despite the many serious problems that China faces today with its much slower-growing economy, I remain cautiously optimistic that the Chinese people will choose to stand on the right side of history. The disaster of central planning is still too fresh to forget, and the fruit of economic freedom has not yet reached the most disadvantaged.

For the first time in the modern era, China has begun to come to terms with its history, as well as the outside world and its position in it. Chinese tourists now discover Mao's shadow in North Korea, seek the peace of Buddhism in Thailand and Bhutan, appreciate the past glory of Tang and Song in Kyoto and Nara, and go after the vagaries of modern fashion in Paris, London, and New York. At the same time, Arab merchants launch their enterprises in Yiwu, African traders seek their dreams in Guangzhou, western bankers and investors dig for their "first bucket of gold" in Shanghai and Shenzhen, and architects and designers from around the globe build

their architectural wonders all over China. In short, what Coase and I wrote a few years ago remains true today:

China's embrace of both its history and globalization leads us to believe that Chinese capitalism, which just started its long journey, will be different. This is desirable not just for China, but for the West and everyone else as well. It is also desirable for the global market economy. Today, biodiversity is recognized as vital for sustaining our natural environment. Institutional diversity plays a similar role in keeping human society resilient. Capitalism will be much more robust if it's not a monopoly of the West, but flourishes in societies with different cultures, religions, histories, and political systems. While trade in the global market for goods makes war too expensive to fight, a global market for ideas can accommodate and thrive on the clash of ideas but steers us away from the clash of civilizations [Coase and Wang 2013: 10].

References

- Bartley, W. W. III (1990) *Unfathomed Knowledge, Unmeasured Wealth: On Universities and the Wealth of Nations*. LaSalle, Ill.: Open Court.
- Chatterjee, S., and Rossi-Hansberg, E. (2012) "Spinoffs and the Market for Ideas." *International Economic Review* 53 (1): 53–93.
- Cheung, S. N. S. (1998) "The Transaction Cost Paradigm." *Economic Inquiry* 36 (4): 514–21.
- Coase, R. (1937) "The Nature of the Firm." *Economica*, n.s. 4 (16): 386–405.
- _____ (1960) "The Problem of Social Cost." *Journal of Law and Economics* 3 (October): 1–44.
- _____ (1974) "The Market for Goods and the Market for Ideas." *American Economic Review* 64 (2): 384–91.
- _____ (1992) "The Institutional Structure of Production." *American Economic Review* 82 (4): 713–19. (Coase's Nobel Lecture, 1991).
- Coase, R., and Wang, N. (2012) *How China Became Capitalist*. London and New York: Palgrave Macmillan.
- _____ (2013) "How China Became Capitalist." *Cato Policy Report* (January/February): 1, 8–10.

- Dahl, R. (1998) *On Democracy*. New Haven: Yale University Press.
- Davidson, P. (2012) “Is Economics a Science? Should Economics Be Rigorous?” *Real-World Economics Review* 59: 58–66.
- Deutsch, D. (2011) *The Beginning of Infinity: Explanations that Transform the World*. New York: Viking Press.
- Director, A. (1964) “The Parity of the Economic Market Place.” *Journal of Law and Economics* 7: 1–10.
- Friedman, M. (1962) *Capitalism and Freedom*. Chicago: University of Chicago Press.
- Gans, J., and Stern, S. (2010) “Is There a Market for Ideas?” *Industrial and Corporate Change* 19 (3): 805–37.
- Guo, D. (2015) “The Rule of Law in China and the Rule of Law in the World” (*Fazhi Zhongguo zai Fazhi Shijie zhong de Jiaose*). Available at: www.unirule.org.cn/index.php?c=article&id=3781.
- Hayek, F.A. (1937) “Economics and Knowledge.” *Economica*, n.s. 4: 33–54.
- _____ (1945) “The Use of Knowledge in Society.” *American Economic Review* 35 (4): 519–30.
- _____ (1967) *Studies in Philosophy, Politics, and Economics*. Chicago: University of Chicago Press.
- Kirzner, I. (1976) “Equilibrium vs. Market Processes.” In E. Dolan (ed.), *The Foundations of Modern Austrian Economics*, 115–25. Kansas City: Sheed and Ward.
- Knight, F. (1921) *Risk, Uncertainty and Profit*. Boston: Houghton Mifflin.
- Langlois, R. (1985) “From the Economics of Knowledge to the Knowledge of Economics: Fritz Machlup on Methodology and on the ‘Knowledge Society.’” *History of Economic Thought and Methodology* 3: 225–35.
- Lucas, R. (2000) “Ideas and Growth.” *Economica* 76 (301): 1–19.
- Machlup, F. (1962) *The Production and Distribution of Knowledge in the United States*. Princeton: Princeton University Press.
- Marshall, A. ([1890] 1920) *Principles of Economics*. London: Macmillan.
- McCloskey, D. (2015) “Ideas, Not Interests or Institutions, Caused the Great Enrichment.” *Man and the Economy* 2 (1): 7–24.
- _____ (2016) *Bourgeois Equality: How Ideas, Not Capital or Institutions, Enriched the World*. Chicago: University of Chicago Press.

- Nelson, R. (1997) "What is New in New Growth Theory?" *Challenge* 40 (5): 29–58.
- North, D. C. (1999) "Dealing with a Non-Ergodic World: Institutional Economics, Property Rights, and the Global Environment." *Duke Environmental Law and Policy Forum* 10: 1–12.
- Paixao-Cortes, V.; Henriques Viscardi, L.; Mauro Salzano, F.; and Hunemeier, T. (2013) "The Cognitive Ability of Extinct Hominins: Bringing Down the Hierarchy Using Genomic Evidence." *American Journal of Human Biology* 25 (5): 702–5.
- Popper, K. (1985) "Knowledge without Authority." In D. Miller (ed.), *Popper Selections*, 46–57. Princeton: Princeton University Press.
- Romer, P. (1986) "Increasing Returns and Long-Run Growth." *Journal of Political Economy* 94 (5): 1002–37.
- Samuelson, P. (1969) "Classical and Neoclassical Theory." In R. W. Clower (ed.), *Monetary Theory*, 170–90. London: Penguin.
- Solow, R. (1957) "Technical Change and the Aggregate Production Function." *The Review of Economics and Statistics* 39 (3): 312–20.
- Tilly, C. (2007) *Democracy*. New York: Cambridge University Press.
- Wu, J. (2016) "China's Economic Malaises Lie in Its Lack of a Market for Ideas" (*Zhongguo Zhuduo Jingji Bibing, Genyuan Zaiyu Quefa Sixiang Shichang*). Available at http://pit.ifeng.com/a/20161104/50204664_0.shtml.
- Yu, K. (2009) *Democracy Is a Good Thing*. Washington: Brookings Institution Press.
- Zhang, W. (2014) "The Market for Ideas Pushes China's Reforms" (*Sixian shichang tuidong zhongguo gaige*). *China News Weekly* (April 14).
- _____ (2015) "The Power of Ideas and Leadership in China's Transition to a Liberal Society." *Cato Journal* 35 (1): 1–40.