"Ideas" in Development from George Soros: Power and Influence through Philanthropy?

Saab, Samer

Johns Hopkins University - SAIS

November 2005

Online at https://mpra.ub.uni-muenchen.de/1878/
MPRA Paper No. 1878, posted 23 Feb 2007 UTC
“Ideas” in Development from George Soros:

Power and Influence through Philanthropy?

By Samer Y. Saab

Johns Hopkins University

School of Advanced International Studies

Ideas in Development
Prof. Gilbert Khadiagala

Fall 2005
Abstract

This paper mainly examines the economic ideas and models brought forward by the always controversial global financier George Soros. The aim is to first explore whether in fact Soros has developed over time a well-articulated model for development based on a coherent system of beliefs and (economic, social, political, and philosophical) ideas, and second examine the notion that the world's wealthiest (including Soros) wield enough power and influence (through philanthropy and other means) to shape the economic landscape of countries. The latter point poses a more problematic question: if indeed the world's wealthiest wield unlimited powers in shaping the global development landscape, it could then be assumed that the quality of their "ideas" does not matter much. How do the resources they control ultimately facilitate the transformation of their beliefs and practices into valid economic "ideas"? Do wealth, power and influence validate ideas? The flip side to this coin is that time (hopefully) eventually weeds out the bad ideas, and only the good ones prevail and propagate in the world, and that the Soros's of the world do not matter much in the long run.

A lot has been said and written about Soros's controversial financial dealings but very few attempted to systematically explore his system of ideas and evaluate their cohesiveness. He is too often dismissed as a philosophe manqué. The paper will briefly review the written works of Soros and his publicly stated positions on some of the more significant issues in development and economics today, and at times offer a light critique (or praise) where due. A parallel with Keynes on some of the issues is also drawn. The paper will also offer insight on the question of whether philanthropy is conducive to the germination (and, most importantly, diffusion) of ideas.
I. Soros: Philosopher King or Global Manipulator

1. Life and Times

George Soros (born August 12, 1930 in Budapest, Hungary as Schwartz György) is a financial speculator, stock investor, philanthropist, and political activist. He is the son of the Esperanto writer Tivadar Soros. Currently, he is the chairman of Soros Fund Management and the Open Society Institute and is also former member of the Board of Directors of the Council on Foreign Relations. He is known around the world for the role he played in Georgia's Rose Revolution. In the United States he is known for donating large sums of money in an attempt to defeat President George W. Bush's bid for re-election.

On March 19, 1944, when Nazi Germany took military control over its ally Hungary, and started exterminating over 500,000 Hungarian Jews, Soros was thirteen years old. In the following year, Soros survived the battle of Budapest, as Soviet and Nazi forces fought house-to-house through the city. George's father, Tivadar tells of his ordeal to survive fascist Hungary, and help many people escape it, in his book Maskerado. George first traded currencies during the Hungarian hyperinflation of 1945-46.

In 1946 George escaped the Soviet occupation by participating in an Esperanto youth congress in the West. (Soros was taught to speak the language from birth and thus is one of the rare native Esperanto speakers.)

Soros emigrated to England in 1947 and graduated from the London School of Economics in 1952. In 1956 he moved to the United States. He has stated that his intent was to earn enough money on Wall Street to support himself as an author and philosopher. His net worth reached an estimated $11 billion.

2. Business Claims to Fame (Infamy)

Soros is the founder of Soros Fund Management. In 1970 he co-founded the Quantum Fund with Jim Rogers. It returned more than 4000% during the next ten years, and created the bulk of the Soros fortune.

On Black Wednesday (September 16, 1992), Soros became instantly famous when he sold short more than $10bn worth of sterling pounds, profiting from the Bank of England's stubborn reluctance to either raise its interest rates to levels comparable to those of other European Exchange Rate Mechanism countries or to float its currency. Finally, the Bank of England was forced to withdraw the currency out of the European Exchange Rate Mechanism and to devalue the Pound Sterling, and Soros earned an

1 Most background information on George Soros was taken from www.wikipedia.com
estimated US$ 1.1 billion in the process. He was dubbed "the man who broke the Bank of England."

The Times wrote on Monday October 26, 1992: "Our total position by Black Wednesday had to be worth almost $10 billion. We planned to sell more than that. In fact, when Norman Lamont said just before the devaluation that he would borrow nearly $15 billion to defend sterling, we were amused because that was about how much we wanted to sell."

In 1997, under similar circumstances during the Asian financial crisis, then Malaysian Prime Minister Mahathir bin Mohamad accused Soros of bringing down the Malaysian currency, the ringgit. The speech, delivered on the eve of the World Bank/IMF annual meeting, was the latest in the escalating, public row between the two men, beginning with Mahathir's charge that the "moron" speculator Soros had orchestrated a run on the ringgit. Given their respective jobs, some friction between the prime minister and the financier was to be expected. Soros's hedge fund deals in currencies, and Mahathir's country has suffered from having its currency attacked.

But it was in France that Soros got into trouble with the authorities. In 1988, he was asked to join a takeover attempt of a French bank. He declined, but he did buy the bank's stock. In 2002, a French court ruled that was insider trading. Soros denies any wrongdoing and says news of the takeover was public knowledge. Nevertheless, he was fined more than $2 million; roughly the amount French authorities say he made from the trades.

3. Philanthropy Network

When trying to navigate through the myriad foundations and organizations supported by Soros, it's quite easy to get lost. At present, the keyword which all of them have in common is open society (a concept to be discussed in detail in section (5) (iii)). The conceptual framework by which Soros operates his open society activities is the following: "The concept of [the] open society is based on the recognition that people act on imperfect knowledge and nobody is in possession of the ultimate truth."(see also George Soros “The Open Society Reconsidered”).

Officially, the bulk of Soros' activities are centered around education, libraries, publishing, and media. Various scholarships are offered to students in order to give them, in theory, access to resources. Similarly, Soros sponsors various cultural activities in order to bring resources to people. In Albania, for example, the Soros Foundation organized an exhibition of paintings in 1992 which, according to Eduard Muka, an artist and assistant-professor in the visual arts department of the academy of visual arts in Tirana, "was the only known medium at the time".

Soros' activities haven't been limited to supporting educational mobility and exhibitions, but has also been involved in the creation of educational and media facilities. Perhaps the most well-known of these is the Central European University (CEU), an accredited,
degree-granting educational institution that is "dedicated to educating students from the region and to researching the transition underway there."

Although Soros activities are similar in many respects, they are also unique to the region in which they are undertaken. One of the biggest projects launched by the International Soros Foundation (ISF) was the development of the backbone in Moscow, which would link commercial and academic providers and institutions to the city's telephone switching centers. As Gordon Cook, author and compiler of the COOK report, a monthly review of computer and net-related issues, explained in a report of December 8-11 1994, "the purpose of the backbone was to link the city's commercial and research sites to each other and to an international channel that [would bring] Russia 'live' onto the Internet for the first time."

In Russia, Soros hasn't limited himself to just Moscow or the "European" side of the Urals. Recently, some 12,000 students and teachers at the Far East State University in Vladivostok were hooked up to the Internet. This is all in accordance with a special five year program signed between him and Prime Minister Viktor Chernomyrdin in the spring of 1996 which will see 32 Russian provincial universities all hooked up to the Internet. Already, as part of this program, like projects have been completed in the Central Siberian city of Novosibirsk and, closer to Moscow, the industrial center of Yaroslavl.

Meanwhile, in other places of the former Soviet Union, a plan for development that mirrors the Russian one is underway. In Belarus, work has begun to set up a powerful IP backbone network in Minsk that would make Internet access possible for a large number of organisations throughout the country. In addition to such technical assistance, the Soros Foundation in Belarus has set for itself the task of introducing and spreading "Internet culture and ideology" as a means of "bringing together large groups of different users". The purpose for this is quite clear. According to Igor Tavgen, Program Coordinator for the Soros Foundation in Belarus, the "Internet is developing now and will keep on developing. The president can't close it down, and nor can a minister or anyone else."

These were brave words, especially taking into account the political situation in Belarus at the time. This is one of the unique aspects of Soros' activities. Unlike other non-UN funded agencies, such as the British Council, the Soros Foundation can be found in the most politically volatile areas of Central/Eastern Europe and the former Soviet Union - including Bosnia and Serbia

Activities in these politically volatile areas are usually in support of independent media, namely independent radio stations, and this is where it gets really interesting.

In an age-old tradition of European political patronage, George Soros routinely taps his billions to fund journals, politicians and educators in Europe and elsewhere. More often than not, these have an exclusively left-wing bias. The goal of the Open Society Fund: to dismantle socialism.
Take the example of Hungary: Soros is Hungarian-born, but a US citizen. The Soros Foundation-Hungary dispenses millions of dollars a year in the country. Miklos Vasarhelyi, the president, is a former Communist official who stood trial after the 1956 uprising. A political party he helped found is a partner in the present government. That government is a coalition of ex-Communists and a left-liberal group, the Alliance of Free Democrats (AFD). Soros provides many AFD leaders with income. Soros gives away more than $300 million annually through a network of 1,000 employees in 30 countries. Soros annually pumps some $60 million into outfits in Hungary, among them his Central European University, whose goal is to educate an "administrative elite”.

These days, the Soros Foundations extend well beyond Central and Eastern Europe: The foundations network consists of national foundations in 29 countries, foundations in Kosovo and Montenegro, and two regional foundations, the Open Society Initiative for Southern Africa (OSISA) and the Open Society Initiative for West Africa (OSIWA) (see box below). OSISA and OSIWA, which are governed by their own boards of directors and staffs from the region, make grants in a total of 27 African countries.

### The Global Soros Empire

Soros has established autonomous institutions around the globe. The specific activities of each foundation are determined by a local board of directors and staff in consultation with George Soros and OSI boards and advisors.

<table>
<thead>
<tr>
<th>Country</th>
<th>Foundation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>Open Society Foundation for Albania</td>
</tr>
<tr>
<td>Armenia</td>
<td>Open Society Institute</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>Open Society Institute</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>Open Society Fund--Bosnia and Herzegovina</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>Open Society Institute--Sofia</td>
</tr>
<tr>
<td>Croatia</td>
<td>Open Society Institute--Croatia</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>Open Society Fund--Prague</td>
</tr>
<tr>
<td>Estonia</td>
<td>Open Estonia Foundation</td>
</tr>
<tr>
<td>Georgia</td>
<td>Open Society Georgia Foundation</td>
</tr>
<tr>
<td>Guatemala</td>
<td>Fundacion Soros--Guatemala</td>
</tr>
<tr>
<td>Haiti</td>
<td>Fondation Connaissance et Liberte</td>
</tr>
<tr>
<td>Hungary</td>
<td>Soros Foundation--Hungary</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>Soros Foundation--Kazakhstan</td>
</tr>
<tr>
<td>Kosovo</td>
<td>Kosova Foundation for Open Society</td>
</tr>
<tr>
<td>Kyrgyzstan</td>
<td>Soros Foundation--Kyrgyzstan</td>
</tr>
<tr>
<td>Latvia</td>
<td>Soros Foundation--Latvia</td>
</tr>
<tr>
<td>Lithuania</td>
<td>Open Society Fund--Lithuania</td>
</tr>
<tr>
<td>Macedonia</td>
<td>Foundation Open Society Institute--Macedonia</td>
</tr>
<tr>
<td>Moldova</td>
<td>SorosFoundation--Moldova</td>
</tr>
<tr>
<td>Mongolia</td>
<td>Open Society Forum</td>
</tr>
<tr>
<td>Montenegro</td>
<td>Foundation Open Society Institute--Representative Office Montenegro</td>
</tr>
<tr>
<td>Poland</td>
<td>Stefan Batory Foundation</td>
</tr>
<tr>
<td>Romania</td>
<td>Open Society Foundation--Romania</td>
</tr>
<tr>
<td>Serbia</td>
<td>Fund for an Open Society--Serbia</td>
</tr>
<tr>
<td>Slovakia</td>
<td>Open Society Foundation--Bratislava</td>
</tr>
<tr>
<td>South Africa</td>
<td>Open Society Foundation for South Africa</td>
</tr>
<tr>
<td>Southern Africa</td>
<td>Open Society Initiative for Southern Africa</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>Open Society Institute</td>
</tr>
<tr>
<td>Thailand</td>
<td>Assistance Foundation--Tajikistan</td>
</tr>
<tr>
<td>Turkey</td>
<td>Open Society Institute</td>
</tr>
<tr>
<td>Ukraine</td>
<td>International Renaissance Foundation</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Open Society Foundation</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>Open Society Institute</td>
</tr>
<tr>
<td>West Africa</td>
<td>Open Society Initiative for West Africa</td>
</tr>
</tbody>
</table>

Sources: www.soros.org
For many years, Soros did not involve himself greatly in US politics, but that recently changed under President George W. Bush. In an interview with The Washington Post on November 11, 2003, Soros said that removing Bush from office was the "central focus of my life" and "a matter of life and death" for which he would willingly sacrifice his entire fortune. Soros gave $3 million to the Center for American Progress, committed $5 million to MoveOn.org, while he and his friend Peter Lewis each gave America Coming Together $10 million. (All were groups that worked to support Democrats in the 2004 election.) On September 28, 2004 he dedicated more money to the campaign and kicked off his own multi-state tour with a speech: Why We Must Not Re-elect President Bush delivered at the National Press Club in Washington, DC. According to the Center for Responsive Politics, during the 2003-2004 election cycle, Soros donated $23,581,000 to various 527 Groups dedicated to defeating President George Bush. Bush was subsequently reelected to a second term as president on November 2, 2004.

This paper will not go deeper into the nature of the activities that the Soros network of foundations funds, but it does raise the question of the presence of a real hidden agenda behind these fundings. After all, what does Soros want and how does he go about achieving it? Speculations abound, as Soros himself has not made it clear in his speeches or writings. Evidence point to both a benign interest in global human higher causes like freedom and equity, or a personal desire from Soros to be universally recognized as a philosopher and thinker, or a more malignant grand scheme to exert power and influence over local and global agendas for the sole purpose of advancing a personal ideology. The later would seem to contradict the essence of the concept of Open Societies. This paper is however more interested in describing his ideology (section 5).

4. Influences and Building Blocks

At LSE Soros met the man who changed his life: Prof. Karl Popper, teacher of logic and scientific method, towering intellect, and author of The Logic of Scientific Discovery. An Austrian Jew forced to flee the Nazi Anschluss, Popper was also a distinguished social philosopher whose passionate denunciation of all forms of totalitarianism in The Open Society and Its Enemies (1945) gave Soros a lifetime belief system and a brand name for his future charities. Among Soros's philanthropic foundations is the Open Society Institute, a think-tank named in honor of Popper's The Open Society and Its Enemies, which Soros founded to advance the Popperian defense of the open society against authoritarianism and totalitarianism.

Soros came into contact with Popper while pursuing his Master’s degree. Although he never studied under Popper, Soros read his works, particularly The Open Society and Its Enemies, and submitted essays for the philosopher’s review and comment. He has popularized the concepts of dynamic disequilibrium, static disequilibrium, and near-equilibrium conditions. His writings also focus heavily on the concept of reflexivity (see (5 (ii)) below).

Soros says that his investment strategies are modelled on Popper's understanding of the advancement of knowledge through falsification.
Falsifiability is an important concept in the philosophy of science that amounts to the apparently paradoxical idea that a proposition or theory cannot be scientific if it does not admit the possibility of being shown false.

Falsifiable does not mean false. For a proposition to be falsifiable, it must be at least in principle possible to make an observation that would show the proposition to be false, even if that observation had not been made. For example, the proposition "All crows are black" would be falsified by observing one white crow.

Falsificationists claim that any theory that is not falsifiable is unscientific. Psychoanalytic theory, for example, is held up by the proponents of Karl Popper as an example of an ideology rather than a science. A patient regarded by his psychoanalyst as "in denial" about his sexual orientation may be viewed as confirming he is homosexual simply by denying that he is; and if he has sex with women, he may be accused of trying to buttress his denials. In other words, there is no way the patient could convincingly demonstrate his heterosexuality to the analyst. The proposition that the patient is homosexual is thus not falsifiable. This is an example of what Popper called a "closed circle" or what is commonly known as circular reference.

Many viewpoints in economics are often accused of not being falsifiable, mainly by sociologists and other social scientists in general. The most common argument is made against rational expectations theories, which work under the assumption that people act to maximize their utility. However, under this viewpoint, it is impossible to disprove the fundamental theory that people are utility-maximizers, or so claims Soros in his critique of market fundamentalism and the rational expectations theory.

Reflexivity, falsification, and the rejection of market fundamentalism are thus the supposed building blocks of a unified Soros theory of economic analysis. Below we examine some of Soros ideas in detail.

5. Ideas

The choice of Soros as subject is interesting for several reasons. Practitioners often upbraid economic theorists with the jibe, ‘if you’re so smart, why aren’t you so rich?’ Soros, despite some spectacular losses, has managed to sustain high returns on his investment strategies over too many years for the possibility that he was just plain lucky to loom large. Thus there is a prima facie case for taking seriously the Soros account of how economic actors interact with the economic systems in which they participate. Here there is maybe a parallel with John Maynard Keynes, whose investment strategies, albeit on a much smaller scale, were, a few disasters apart, successful enough to convince practitioners that his economic analysis was worth taking seriously.

It is also intriguing that Soros was not only trained in economic analysis but has also published, during his working life as an investment practitioner, a major treatise on
economic analysis (Soros 1987, 1994). Although his formal economics education took place in the early 1950s, Soros has clearly kept up with developments in areas such as the theory of efficient markets. Practitioners often dismiss economic analysis as being ‘okay in theory but not in practice’ without bothering to articulate a theory that would be ‘okay in both theory and practice’. Soros claims to have done both.

Finally, Soros is unusual in having a sophisticated understanding of the philosophy of science. Many criticisms of economic theory are based on false epistemological premises. A popular one is that economic theories are fundamentally flawed because they have not been, and could not be, demonstrated to be true (see falsification). Exposed to Popper early on, Soros understands that no theory can be demonstrated to be true, be it in the physical, natural or social sciences. Instead theories can only be assessed indirectly via attempts to falsify them. Thus the Soros assessment of standard economic analysis avoids false epistemological premises and raises issues that are possibly valid.

At this stage, this paper offers a definition of what we exactly mean by economic ideas. The following definition is largely borrowed from A. Coats and D. Colander, found in their introduction to “The Spread of Economic Ideas”. It is noted that the concept of economic ideas is elusive: it covers a wide spectrum ranging from carefully formulated and fully specific doctrines and theories to assumptions, postulates, statements and speculative guesses. Very specifically, an economic idea is “a conception or notion of something to be done or carried out; a plan of action.”

It is assumed that advocacy to an economic idea is not confined to professionals, but includes many who do not fully grasp either the underlying logic or the implications. It is also assumed that the topics which economics purports to deal with are important everyday issues, and are wide ranging. Hence, almost any “idea” dealing with any political or social subject is an economic idea, since economics itself is a hybrid science (or art).

In the following sections, the paper tries to group Soros’ ideas under three major themes of discussion: Globalization, Capitalism, and Democracy. Soros himself did not probably categorize his statements this way, but for the purpose of this paper, only ideas along these major, interconnected themes will be discussed. Section 6 offers a critique of his ideas on those subjects.

i. On Globalization

Globalization is a recurrent theme in Soros writings and speeches: in “George Soros on Globalization” (Soros, 2002), he equates globalization with "the free movement of capital and the increasing domination of national economies by global financial markets and multinational corporations." In this treatise, he explains how his vision to "make global capitalism more stable and equitable" acknowledges that anti-globalization protesters have a case against the mainstream consensus that the market works well. Instead of dismantling existing international financial and trade institutions, though, Soros suggests reform. Market fundamentalists, he says, are unwilling to modify existing institutions to
create a level playing field; moreover, they're loath to create institutions to foster social goals like reducing poverty. Protestors, he observes, are "strangely blind" to the need to improve the quality of government and public life in poorer countries. Soros's suggested method provides aid that will "enable, encourage, and reinforce" voluntary compliance with international standards relating to environment, education and labor.

His proposal? The richer countries in the IMF issue Special Drawing Rights (SDRs) for international assistance i.e., international reserve assets a process that shares the burden equitably, with the United States paying its fair share. A board of "eminent persons" chooses who's eligible for assistance, and a separate audit commission evaluates those chosen. After September 11, Soros notes in conclusion, Americans must recognize the world's precarious interdependence.

ii. On Capitalism, Market Fundamentalism, and Financial Markets

Market fundamentalism (or free-market fundamentalism) is a term coined by George Soros, to criticize the philosophy that the free market is always beneficial to society. The meaning can be considered economic liberalism or laissez-faire capitalism taken to an extreme.

It refers to the idea that the free market is always beneficial to society, that the common good is always best served by market forces. Critics argue that markets sometimes produce beneficial results, sometimes negative results. They argue that where the market works for the public interest, it should be allowed to do so, and where markets work against the public interest, state regulation should step in. Soros blames many of the world's problems on the failures inherent in market fundamentalism.

The starting point for Soros is the fallibility of knowledge about the external world. As Popper pointed out, the logic of modus ponens cannot be applied to scientific hypotheses, which leaves the logic of modus tollens. Thus scientific hypotheses are conjectures that can be demonstrated to be false, but cannot be demonstrated to be true. The fallibility of human knowledge about the external world provides the cornerstone for the Soros philosophy of life: ‘... we cannot live without a set of reasoned beliefs ... the question is, can we have a set of beliefs based on the recognition that our beliefs are inherently flawed? ...I believe we can and, in my own life, I have been guided by my own fallibility’ (Soros1995, p. 212).

According to Soros, the central problem with standard economic theory is that it assumes that economic agents have perfect, in the non-reflexive sense to be defined later, knowledge about their economic world. This is inconsistent with the inherently fallible nature of human knowledge, and hence standard economic theory is based on false premises about what it is possible for economic agents to know.

The Soros alternative account of the behaviour of economic agents was derived from his analysis of the logical problem of self-reference. This can be illustrated by the Liar’s paradox. Consider the claim: ‘all short statements in economics are false’. If this claim is
true it must also be false, because of the self-reference to the present economics essay. This type of self-referential problem provided the background to the Soros articulation of why knowledge of economic and social systems is different to that of physical systems. The problem is that the agents who are trying to acquire knowledge of economic and social systems are themselves participants whose behaviour affects the economic or social environment they are trying to understand. This gives rise to the Soros notion of reflexivity in economic behaviour: ‘... on the one hand, reality is reflected in people’s thinking — I call this the cognitive function; on the other hand reality is affected by people’s decisions — I call this the participating function — these events have a different structure from the events studied by natural science — they need to be thought about differently ... I call these events reflexive’ (Soros 1995, p. 214).

A basic problem with this argument is that observations in the natural sciences are also theory dependent: observations of, say, sub-atomic particles are generated by theories speculating that such particles exist. The Soros response is that theories in economics can change the behaviour of the reality observed in a sense that, say, Heisenberg’s uncertainty principle does not change the behaviour of quantum phenomena.

Thus emerges a trichotomy between true, false and reflexive statements. Economics can generate true statements, but only in the context of purely axiomatic models. Economic propositions about empirical phenomena can be expressed as the implications of hypothetico-deductive models, as with the Popper characterisation. Such propositions are refutable, but, according to Soros, they are inconsistent with the evidence. The problem is to model how thinking and participating agents interact with historical events. If economic agents cannot do other than act on the basis of reflexive beliefs or statements about the world, the truth value of such statements is inherently uncertain. And so, therefore, is economic knowledge.

At first pass this position appears nihilistic about the possibility of economic knowledge. Non-reflexive economic theories are going to be falsified in situations where reflexivity ‘plays an important role’. This is taken to be the case in financial markets: ‘... the theory of rational expectations and efficient markets is highly misleading ... I believe that the performance of the Quantum Fund alone falsifies the random walk theory’ (Soros 1995, p. 219). This leaves reflexive statements, which can be considered as similar to the incantations involved in alchemy: ‘... the alchemists made a big mistake trying to turn base metals into gold by incantation ... with chemical elements alchemy doesn’t work ... but it does work in the financial markets, because incantations can influence the decisions of the people who shape the course of events’ (Soros 1995, p. 221).

Thus neo-classical economists, rather than drawing their metaphors about the workings of economic systems from Newtonian mechanics, would have found more appropriate metaphors from Newton’s writings on alchemy. Hence the title of the major Soros treatise on economics, The Alchemy of Finance (1987, 1994).

The apparent nihilism of The Alchemy of Finance, however, is partly dispelled by the subsequent clarification in Soros (1995). Here the distinction drawn between near-
equilibrium and far-from-equilibrium conditions is given greater significance. In near-equilibrium conditions, which might be considered to be ‘the normal situation’, ‘... the discrepancy between thinking and reality is not very large and there are forces at play that tend to bring them close together, partly because people can learn from experience, and partly because people can actually change and shape social conditions according to their desires’ (Soros 1995, p. 69).

In such situations economic theories that ignore reflexivity might not be too wide of the mark. In far-from-equilibrium conditions, however, which might be thought of as circumstances in which major changes in the economic environment take place, ‘... the prevailing bias and the prevailing trend reinforce each other until the gap between them becomes so wide that it brings a catastrophic collapse’ (Soros 1995, p. 70).

An example of a bias that can generate far-from-equilibrium conditions is provided by errors in valuation. So, in the international lending boom beginning in the late 1970s, for example, banks judged the borrowing capacity of debtor countries by looking at debt-GDP or debt service-export ratios. The problem is that such ratios are reflexive, in that they reflect the lending activities of the participant banks as well as any ‘fundamentals’ affecting borrowing capacity. Thus trends of increased lending were established on the basis of reflexive valuations. Eventually the gap between beliefs about borrowing capacity and the reality of actual borrowing capacity became so large that the bias underlying the beliefs came to be realised, and lending collapsed. Thus reflexivity in economic behaviour is capable of bringing about far-from-equilibrium situations and regime changes. This, far from being nihilistic, is an intriguing account of endogenously-generated regime changes. In terms of economic analysis the suggestion is that the behaviour of economic agents using rules of thumb such as valuation ratios, and of economic modellers themselves, need to be introduced into economic models in order to capture the interaction between thinking and reality.

From the foregoing discussion it is clear that Soros views the postulates of rational expectations and market efficiency that have dominated the economics literature on financial markets in recent years as implausible descriptions of behaviour.

The rational expectations hypothesis has two components: each agent maximises an objective function subject to some perceived constraints; and the constraints perceived by the agents in the system are mutually consistent. Thus ‘... the decisions of one person form parts of the constraints upon others, so that consistency, at least implicitly, requires people to be forming beliefs about others’ decisions, about their decision processes, and even about their beliefs’.

If agents were not behaving in such a way there would be unexploited opportunities for profit, which would be inconsistent with the neo-classical conception of market equilibrium. Rational expectations in this sense are clearly inconsistent with the Soros first principle that human knowledge is fallible. If the rational expectations hypothesis were true, agents would be able to know the equilibrium probability distributions for the events about which they form expectations. Economists themselves do not know what
such probability distributions are, and are obliged to use econometric techniques to attempt to estimate probability distributions and ‘laws’ of motion. Such inferences are inevitably fragile and fallible, as is apparent from the disagreements amongst economists and econometricians. Thus the rational expectations hypothesis is implausible both because it attributes knowledge to economic agents that even economists and econometricians do not have, and in that it ignores the inevitably fallible and conjectural nature of any body of scientific knowledge.

The implication of efficient markets drawn from the rational expectations hypothesis is also inconsistent with the Soros view. In its weak form the efficient markets hypothesis says that market prices reflect any ‘laws’ of motion evident in prices, so that any correlation between the present price and past prices is eliminated; in semi-strong form the hypothesis says that market prices also reflect any publicly available information about the processes determining market prices; in strong form the hypothesis has market prices reflecting or discounting insider information as well (see Shiller 1996). In a world of efficient markets, changes in market prices should be random in the sense of being uncorrelated with past prices and publicly or privately available information. This would leave no room for the investment strategies pursued by Soros and the Quantum Fund to be consistently more successful than the rest of the market. The Quantum Fund could have been amazingly lucky, but it is more plausible to agree with Soros that ‘... the performance of the Quantum Fund alone falsifies the random walk theory’ (Soros 1995, p. 219).

In conclusion, Soros asserts that financial markets are discounting a future that is contingent on the bias that prevails in the markets, and the reflexive interplay between expectations and outcomes yields unstable results. Public policy measures are thus needed to keep the inherent instability of financial markets under control. The choice facing the world today is “whether to regulate global financial markets internationally... or leave it to each individual state to protect its own interest” (Soros, 1998). In essence, events showed that the late nineties financial crises could not be solved by market forces alone.

iii. On “Open Society” and Democracy

The Open Society concept is not an easy one, and Soros has not done a good job clarifying it, as he himself admits in Open Society: Reforming Global Capitalism (Soros 2002, p119). An open society is a concept originally developed by philosopher Henri Bergson. In open societies, government is responsive and tolerant, and political mechanisms are transparent and flexible. The state keeps no secrets from itself in the public sense; it is a non-authoritarian society in which all are trusted with the knowledge of all. Political freedoms and human rights are the foundation of an open society.

In Karl Popper's definition, found in his two-volume book The Open Society and Its Enemies, he defines an "open society" as one which ensures that political leaders can be overthrown without the need for bloodshed, as opposed to a "closed society", in which a
bloody revolution or coup d'état is needed to change the leaders. Democracies are examples of the "open society", whereas totalitarian dictatorships and autocratic monarchies are examples of the "closed society".

The Popperian concept of the open society stems from his philosophy of science. Since no one has the perfect knowledge on the perfect government, the next best thing is a government that is ready to change the politics it runs. An open society also has to be pluralistic and multicultural, in order to benefit from the maximum number of viewpoints possible to the given problems.

Open society advocates most often see the civil society as the engine of the evolution of the open society. For Soros, Open Society is a concept that guides nearly all of his philanthropic activities through OSI. OSI was created in 1993 to support his foundations in Central and Eastern Europe and the former Soviet Union. Those foundations were established, starting in 1984, to help countries make the transition from communism. OSI has expanded the activities of the Soros Foundations network to other areas of the world where the transition to democracy is of particular concern.

Open society is an ideal concept that nations should try to attain. Moreover, it is a universal ideal, i.e. nations should try to adopt it to serve national policy first, but mostly international relations. Open society stands for freedom, democracy, rule of law, human rights, social justice, and social responsibility as a universal idea (see box below).

<table>
<thead>
<tr>
<th>The Seven Principles of Open Society</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular. Free. And fair elections</td>
</tr>
<tr>
<td>Free and pluralistic media</td>
</tr>
<tr>
<td>The rule of law upheld by an independent judiciary</td>
</tr>
<tr>
<td>Constitutional protection for minority rights</td>
</tr>
<tr>
<td>A market economy that respects property rights and provides opportunities and a safety net for the disadvantaged</td>
</tr>
<tr>
<td>A commitment to the peaceful resolution of conflicts</td>
</tr>
<tr>
<td>Laws that are enforced to curb corruption</td>
</tr>
</tbody>
</table>

Sources: Open Society: Reforming Global Capitalism (Soros 2002)

Soros also discusses the role of the State in open society: if open society is to be translated into practice, an alliance of the world’s open societies needs to form to foster the development of open societies on a national level, but mostly on an international level by establishing international laws, rules of conduct, and institutions to implement these norms. Yet the matter cannot be left entirely to the State (sometimes an agent of oppression), as much as rules of conduct cannot be dictated from outside, as this is a
violation of open society principles. To the extent possible, outside help should take the form of incentives, and punitive measures, though unproductive, are sometimes necessary. Impetus from inside should come from the people, and democratic governments will react to the wishes of their electorate.

6. Keynes and Soros

In rejecting the idea that the uncertainties surrounding economic behaviour can be tamed by assuming that agents have perfect knowledge of some objective equilibrium probability distributions, Soros is in the same camp as John Maynard Keynes. The untractable nature of the uncertainty surrounding economic decision-taking was stressed in the General Theory (Keynes 1936, ch. 12) and in Keynes’ response to his reviewers (Keynes 1937): ‘... the outstanding fact is the extreme precariousness of the basis of knowledge on which our estimates of prospective yield have to be made ... our knowledge of the factors which will govern the yield of an investment some years hence is usually very slight and often negligible ... if we speak frankly, we have to admit that our basis of knowledge for estimating the yield ten years hence of a railway, a copper mine, a textile factory, the goodwill of a patent medicine, an Atlantic liner, a building in the City of London amounts to little and sometimes to nothing ... in fact, those who seriously attempt to make any such estimate are often so much in the minority that their behaviour does not govern the market’ (Keynes 1936, pp.149-150).

Keynes then proceeds to point out that the existence of securities markets means that the underlying physical investments ‘... are governed by the average expectation of those who deal in the Stock Exchange as revealed in the price of shares, rather than by the genuine expectations of the professional entrepreneur’ (1936, p. 151). How, then, are the expectations of those dealing in securities determined? Here there are several similarities between Soros and Keynes. A first is that, in both Soros and Keynes, investors follow conventions or rules of thumb. In Soros this is the trend-following behaviour pursued by investors, particularly prevalent in funds whose performance is measured relative to the rest of the market, rather than in absolute terms. The expectation implicit in such an investment strategy is that the present trend will continue. In Keynes the trend is called a convention, whose essential feature is the assumption ‘... that the existing state of affairs will continue indefinitely’ (1936, p. 152). Such conventions can survive in what Soros would call near-equilibrium conditions, and are compatible with ‘... a considerable measure of continuity and stability in our affairs’ (Keynes 1936, p. 152).

Such conventions, however, as in Soros, rely on expectations for which there is no secure epistemological foundation: ‘... we are assuming, in effect, that the existing market valuation, however arrived at, is uniquely correct in relation to our existing knowledge of the facts which will influence the yield of the investment, and that it will only change in proportion to changes in this knowledge; though, philosophically speaking, it cannot be uniquely correct, since our existing knowledge does not provide a sufficient basis for a mathematical calculation’ (Keynes 1937, p. 152).
A second area of similarity concerns what happens in what Soros calls far-from-equilibrium conditions. In such circumstances trends are broken, and conventions regarding the correctness of existing market valuations are no longer tenable. In Keynes such circumstances arise inevitably in systems where valuations are established as ‘the outcome of the mass psychology of a large number of ignorant individuals’ because there are ‘... no strong roots of conviction to hold it steady’. Keynes’ ‘abnormal times’ correspond to Soros’ ‘far-from-equilibrium conditions’ in which perceptions and reality are far from being synchronised. For Keynes such changes occur ‘... when the hypothesis of an indefinite continuance of the existing state of affairs is less plausible than usual even though there are no express grounds to anticipate a definite change’. The implication is that ‘... the market will be subject to waves of optimistic and pessimistic sentiment, which are unreasoning and yet in a sense legitimate where no solid basis exists for a reasonable calculation’ (Keynes 1936, p. 154).

A third area where Soros and Keynes are close is in relation to reflexivity. In Soros the theories which economic agents use to attempt to understand their environment also change the environment when used as a basis for decision-taking. In Keynes this sort of self-referential behaviour arises because investors are inevitably involved in a game requiring each participant to guess what the basis of conventional valuation will be in the future. The conventional valuation that emerges will depend on a particular participant’s own guess about what other participants will be guessing, who in turn will be guessing about the particular participant’s guess. Thus the market valuation will be reflexive. This is the basis for Keynes’ striking beauty contest metaphor: ‘professional investment may be likened to those newspaper competitions in which the competitors have to pick out the six prettiest faces from a hundred photographs, the prize being awarded to the competitor whose choice most nearly corresponds to the average preferences of the competitors as a whole; so that each competitor has to pick, not those faces which he himself finds prettiest, but those which he thinks likeliest to catch the fancy of the other competitors, all of whom are looking at the problem from the same point of view ... it is not a case of choosing those which, to the best of one’s judgement, are really the prettiest, not even those which average opinion genuinely thinks the prettiest ... we have reached the third degree where we devote our intelligence’s to anticipating what average opinion expects the average opinion to be ... and there are some, I believe, who practice the fourth, fifth and higher degrees’ (Keynes 1936, p. 156).

7. Critique and Criticism

Soros is a man with multiple faces and personalities, and seems to attract a growing number of critics who comment on every activity he does (or doesn’t do). His theories have been criticized as having been prompted in part by his ignorance of recent developments in economic theory.

Despite his carefully groomed media image, Soros is a controversial figure. Although he has become extremely wealthy as an international investor and currency speculator (his fortune in 2004 was estimated at US$ 7 billion), he freely acknowledges that the current
system of financial speculation undermines healthy economic development in many underdeveloped countries. Contradiction? Maybe not.

Soros has been criticized for his large donations, as he also pushed for the Bipartisan Campaign Reform Act of 2002 which was intended to ban "soft money" contributions to federal election campaigns. Soros has responded that his donations to unaffiliated organizations do not raise the same corruption issues as donations directly to the candidates or political parties.

Although Soros has been blamed for many financial collapses, including those in Eastern Europe and Thailand, he says "As a market participant, I don't need to be concerned with the consequences of my actions." This probably explains the dichotomy between Soros’ ideas and actions. Soros devotes a large share of his profits to charity, thus morally compensating for his speculation’s negative effects, albeit on a much smaller scale.

Soros emphasis on Popper’s work is sometimes characterized as misdirected: From an American viewpoint, Popper’s admirable two-volume Open Society and its Enemies contains a flaw that might not have mattered much had Soros not fallen so completely under its spell. Throughout 480 pages of text and 258 pages of notes, the U.S. is mentioned only in three short paragraphs that do not touch on the US constitutional republic. The U.S. system of checks and balances with a Bill of Rights simply wasn’t part of Popper’s discussion. He focused on closed societies that suppressed reason—ones he classed as “magical, tribal or collectivist”— but didn’t say as much about the open society itself.

Instead, Popper emphasized freedom for scientific inquiry and the freedom to dissent as the essence of an open society, but said little that might have kept Soros from later making a fetish of dissent at the expense of the rule of law and the sovereignty of nations.

More sinically, Soros is a capitalist, a philanthropist, and a philosopher king, but he’s been also called a government-toppler, a campaign-finance meddler, an anti-capitalist capitalist, and a hypocrite (not to mention self-hating jew, imperial wizard, shylock, and other out-of-this-world creatures). This paper is more interested in the critique of his ideas than passing judgement on his character, his business life, or his mental health.

To be fair, some of Soros’ concepts borrow a lot from well known and respected thinkers and philosophers before him. Who can deny that Soros’ rejection of market fundamentalism has something of a Polanyan feel to it? Markets are needed, but markets also need to be regulated to curb excesses. This argument was first advanced by Karl Polanyi in his Great Transformation, paving the way to what we call today institutional economics.

In his emphasis on open societies and the principles behind it, namely democracy and freedom, Soros also displays echoes of Amartya Sen. In his critically acclaimed milestone Development as Freedom, Sen seeks freedom as an end to itself. Development then follows naturally once the conditions of freedom are satisfied. Critics of Soros
described Soros’ open society as utopian, ideal, and universal, citing the widespread rejection of universal ideas across history. Any argument of the sort directed at Sen instead would have little chance of survival. The most that can be said is that Soros’ idea of open society is not as well articulated as Sen’s, but in essence is the same.

Previous sections of this paper described at length the Popperian and Keynesian influences on Soros. The following crude representation has then some validity:

\[
\text{Soros} = \text{Keynes} + \text{Popper} + \text{Polanyi} + \text{Sen} + e
\]

Soros even draws similarities with people with whom he’s been in public disagreement with: no more prominent example comes to mind than \textit{Mahathir Mohammad}, the ex-prime minister of Thailand. Mahathir and Soros appear to share a deep mistrust of unfettered markets and the belief that governments have regulatory roles to play. Soros claimed that he was at "loggerheads with the laissez faire ideology which contends that free markets are self-sustaining and market excesses will correct themselves." This, Soros added, is "a very dangerous idea." In an op-ed, Mahathir hits at the same theme, saying, "when something legitimate is abused and people get hurt, governments must outlaw such practices (See related article: "Highwaymen of the Global Economy -- WSJ Sept. 23, 1997)."

Like his Malaysian foe, Soros sees monopolists lurking in capitalism and believes government can be the white knight. In the capitalist system, Soros said, there is "a natural tendency for monopolies and oligopolies to arise, and this needs to be constrained by regulation." Mahathir looked back at how oilman John D. Rockefeller "achieved monopoly through brutally eliminating his competitors" and praised the U.S. government for outlawing this with anti-trust laws. Both men also style themselves as champions of "values" -- never really defined -- that they think can become the victims of untrammeled capitalism.

Even \textit{Paul Krugman} (Krugman 1998) tends to agree with Soros: “But if reading Soros isn't exactly a pleasure, he is nonetheless saying something important-namely, that the rules of the game under which he and others like him have prospered are dangerous for society as a whole. This is not what you'd expect to hear from a speculator, or for that matter anyone in the financial world. The typical view from Wall Street or London's City is that left to its own devices, the global capital market will always reward economic virtue and punish only vice. As one Wall Street Journal op-ed writer enthused, "Foreign exchange markets are a continuing, minute-by minute election in which everyone with wealth at stake, including residents of the country, gets to vote, an election in which the winners are those countries whose governments have the most pro-growth policies." Accordingly, if these days national economies seem to be falling like dominoes, it must be their own fault—or that of the IMF, which many conservatives see as having a demonic ability to wreak economic havoc with very little actual money. Has anyone noticed just how small a player the IMF really is? That $18 billion U.S. contribution to the IMF, which has finally been agreed upon after countless Administration appeals and conservative denunciations, is about the same size as the short position that Soros single-
handedly took against the British pound in 1992-and little more than half the position Soros' Quantum Fund, Julian Robertson's Tiger Fund, and a few others took against Hong Kong. Soros, however, believes that financial markets are "inherently unstable," that left unregulated they inevitably produce recurrent crises."

If Soros doesn’t seem sometimes to have the right answers, at least he seems to be asking the right questions.

II. Philanthropy and Ideas

In this section, we turn our attention to the question of the role of philanthropy in the germination and diffusion of economic ideas. At first, the idea sounds rather silly: are we implying that people with more personal wealth tend to somehow produce more and better ideas? The issue is neither relevant nor interesting to explore. Instead, what we are interested in is the notion that philanthropy may advance the adoption and diffusion of a certain ideology through funding, either explicit or implicit. Then we ask the question: is funding enough? What about relevance, and policy implications? Finally we ask if all this matters, given the widespread belief among thinkers that eventually time weeds out the bad ideas from the good ones. Soros, again, will be a primary focus, but Ted Turner and Bill Gates will also be surveyed, even though they don’t really advance “ideas” per se (or do they?).

1. Germination and Diffusion

Various groups in society outside the economics discipline use economics for specific tasks which are their responsibility: government officials to formulate and implement public policy, business people to operate private enterprises efficiently, and the media to interpret events for the public. But there is another, more amorphous, segment of society which makes use of economic ideas as well, and in several ways provides for their spread throughout the community. It resides in the private sector but is the obverse of private interests: its sole declared objective is the safeguard of public interest, and the complexity of its existence is witnessed by the customary use of negatives rather than positives to describe its function: the units in this sector are “non-partisan”, “not-for-profit”, and, customarily, “tax exempt”. Under the designations philanthropy, endowment, trust, charity, or most generally “foundation”, this segment of society is able to both subsidize and to propagate directly ideas and forms on inquiry that it approves and to discourage those it depletes.

Indeed, the use of philanthropic organizations as a cover for economic and, ultimately, political and social exploitation already has a precedent. In their exhaustively researched book, "Thy Will be Done - The Conquest of the Amazon: Nelson Rockefeller and Evangelism in the Age of Oil" (Harper Collins), authors Gerard Colby and Chalotte Dennett documented the process by which Nelson Rockefeller was able to conquer the Amazon and other South American regions for US corporations with the help of religion and philanthropy. This was done by encroaching into coveted territory by selling
American agricultural products to South American farmers through supposedly philanthropic organizations. Eventually, the farmers were forcefully removed from their land. A comparison with Soros is frighteningly similar: the difference between them is Rockefeller went south, Soros east; Rockefeller's objective was oil, Soros telecommunications and media (at least initially).

At this point, one begins to wonder if Soros' activities aren't part of some larger plan. Mark Stahlman of New Media Associates, who studies and enquires into the nature of, and relationship between, social engineering and technology - utilizing the theories and works of various people like H.G. Wells, Alvin Toffler, and John Perry Barlow - finds the larger dimension of the ISF interesting. Although he doesn't see Soros deliberately trying to conquer the world, the philosophical basis of his philanthropy is open to debate. This is especially so for the concept of the "open society". When combined with the Rockefeller's tactics in the Amazon, such philanthropy turns out to be an even more clever control mechanism than the authoritarianism it seeks to displace.

In the history of the world, few have opened their wallets for the welfare of humankind as have Bill Gates and Ted Turner. Yet as the influence of such business titans increases, concern is being raised about the power of philanthropists beholden to no one but themselves. Watchdog groups applaud the generosity but question the unelected roles the super-wealthy are taking in shaping the world agenda.

"Imagine, and it's not really so science-fiction, what I'll call a Dr. Evil Donor," said Tom Riley, director of research at the Philanthropy Roundtable, a right-of-center association of charitable donors in Washington. "You can argue that we've already had one with Osama bin Laden," Riley said, referring to the suspected bankroller of international terrorism. "Or, if you're a pro-lifer, maybe Ted Turner qualifies. But it's not at all difficult to imagine an extremely wealthy philanthropist imposing his ideology or interests on impoverished or developing countries. Subjects like biotech, narcotics legalization and other emerging topics could lead to the potential for some serious mischief by rich people who were never elected to anything by anyone."

Lack of accountability also troubles the National Committee for Responsive Philanthropy, a liberal organization also based in Washington. "Charitable foundations are accountable to their boards but the boards aren't democratically elected," said Neil Carlson, director of communications. "Don't get me wrong. Foundations are necessary. Turner and Gates do some great work. But that isn't a substitute for a strong and vigorous civil society and a government that has the capacity to respond to the needs of its citizens."

Gates and Turner are self-made billionaires who, like Soros, rank among the world's richest businesspeople. Gates heads Microsoft, the giant software company, while Turner has grown a media empire that includes CNN, the around-the-clock Cable News Network.
The criticism is more theoretical than pointed, and it's not as loud as the choruses of praise for Gates, whose foundation gave more last year to fight world health problems than the entire U.S. government, or Turner, who has pledged $1 billion to U.N. humanitarian programs. But the worries are being voiced. In December, when Turner gave another $34 million to the United Nations to help make up for a reduction of the United States' contribution, Britain's ambassador to the United Nations joked that the world had recognized Ted Turner as a government. Asked if there should be checks in place to curb philanthropic influence, Turner turns sarcastic. "Maybe what we ought to do is put a limit on giving," he replied. "But you be the one to decide how to do that. And if it passes through Congress, we'll adhere by it, OK?"

Opponents of abortion, for example, also see Turner as a menace. Newsweek reported last May that the Turner Foundation made a multimillion-dollar grant to the National Abortion Rights Action League (NARAL) and Planned Parenthood to help identify voters supporting abortion rights and to train activists in key states where Democrats faced anti-abortion Republicans. Maura Donlan, a spokeswoman for Turner, acknowledged the donations but said that no money was granted for "the provision of abortion." It's the international funding of family planning that most offends Human Life International, an anti-abortion and anti-contraception group based in Front Royal, Va. According to a March 2000 report by Turner's United Nations Foundation, a grant of $2.5 million was directed to Honduras alone for "social licensing of reproductive health clinics." "This is the worst kind of colonialism and economic imperialism when we go in and force population control on the Third World," said Human Life International spokesman Andy Blom. "And it's all under the apparently wonderful banner of family planning, which is a moral sin and economic sin."

The increased advocacy has alarmed some traditional foundation executives. Jonathan Fanton, president of the $4.2 billion John D. and Catherine T. MacArthur Foundation in Chicago, argues that foundations should limit themselves to spotting issues, funding research and encouraging public debate. "To go all the way to where a foundation thinks it has the answer and it's going to try to work that answer through to a solution, that's a more difficult question," Mr. Fanton says.

Donors are taking a variety of approaches to their new advocacy, in part to meet the federal tax code. Private foundations like Soros's are barred from lobbying, so Soros has eschewed tax deductions in funding a separate Open Society Policy Center with $750,000. Among issues for which the center is lobbying are ratification of an international treaty outlawing discrimination against women, an increase in funding for AIDS and creation of a new mechanism to award foreign aid.

To head its Washington office, the Gates Foundation hired David Lane, the Commerce Department's chief of staff under President Clinton. Sylvia Mathews, former deputy director of the Office of Management and Budget, is the foundation's executive vice president. The fund is barred from direct lobbying -- defined as approaching members of Congress to influence specific legislation -- but has other ways to press its agenda.
"When Bill (Gates) makes a case for increased spending on HIV or malaria, government leaders sit up and listen," says foundation spokesman Trevor Neilson.

The Gates Foundation, Mr. Soros and Edward W. Scott Jr., co-founder of BEA Systems Inc., have also contributed a total of $3 million to launch a Washington office for rock star Bono’s group called Debt, AIDS and Trade for Africa, or DATA, which will press for removal of protectionist trade barriers as well as increased foreign aid.

Finally, big philanthropists are always seeking bigger roles in shaping policy; Bill Gates, George Soros, Ted Turner are trading tax deductions for results and influence.

2. The Invisible Hand of Truth

If we acknowledge that some of the science behind the philanthropists is ill-informed, what assurances do we have that these ideas don’t eventually find a way to perpetuate and flourish? Is funding and patronage enough for the wide scale diffusion of ideas, or are we somehow protected by an “invisible hand” similar to Adam Smith’s that ultimately leads us to truth by “weeding out” bad ideas?

It would be most convenient if theories have to pass some Darwinian acid test, so in the end there would only be one superior theory. Alas, that is not the way the world works. Nowadays the number of theories, methodologies, and specializations is almost without bound. The editors of the Journal of Economic Literature (JEL) have to think of new JEL codes for new categories each year.

The easy way out of this question is to murmur the cliché ‘it depends’. There is also no check on the validity of opinions uttered, as scientists are not only producers and demanders, they are also gatekeepers of the academic conversation. Under such Babylonian circumstances pluralism is tantamount to excessive duplication.

The trouble starts, of course, when you do start to think about the substance of ideas. It is troubling because who has the arrogance or knowledge to deem one theory better than another? In all honesty, no one possesses such knowledge although it is part of the game to advertise with the arrogance of young Turks that you do know.

David Colander (Colander 1989) is more pessimistic: His view is that in economics normal “science has run amok. The invisible hand of truth has lost its guiding influence.” Clearly, some normal science, and some advancement in understanding, takes place, but that cement is the exception, not the rule, and may not even be large enough to replace what is forgotten. The reason why economics has run amok is to be found in the sociological approach to economics which focuses on the internal dynamics of the profession: who is allowed to become a member, who gets promoted, who gets paid what, who gets the laurels, as opposed to the external dynamics which considers how truth-seeking individuals can best find truth.
Philosophers of science have given short shrift to the internal dynamics (which they see as external to science); they assume that researchers have a desire to find the truth and do their best to answer questions that will advance science. They believe that if they can specify a scientific method which will most likely lead to discovering the truth, then researchers will follow that scientific method. But that is simply an assumption. They do not logically show why people want to discover the truth.

The above arguments have been suggestive, rather than conclusive. The hope is that the invisible hand guiding economics toward the truth is not, instead, an invisible foot stomping on anyone with the audacity to scream that the emperor has no clothes.

III. Conclusion

A not uncommon criticism of economic theories is that they are out of touch with practice, by which is presumably meant reality. George Soros, unlike many of the other critics, has made a rather constructive contribution by articulating a method of analysis which could put economic theory into closer contact with reality. In this essay we have argued that, although approaching the issues from a Popperian background, the Soros approach is resonant with Keynes on economic behaviour in the face of uncertainty. This line of thought is sometimes depicted as being nihilistic about the possibility of economic knowledge. We have argued, on the contrary, that foundations of the Keynes-Soros type are analytically fecund. Similarities between his ideas and Polanyi or Sen cannot be ignored.

So what does Soros really want? Soros is not the first person, nor will be the last, to believe in a somewhat misconceived and complicated ideology that sounds nice but carries little relevance. When all is said and done, Soros is merely part of a new group of commercial philosophers to have made their appearance in the post-modern period. Many of these "pomosophers" ["pomo" = post modern + "sophos" = wise] are business people and popstars with nagging conscious', who like to surround themselves with a host of intellectuals and artists in order to satisfy their vanity and make themselves feel intellectually important. What Soros really wants, at the end of the day, is to be recognized as a major philosopher and to be granted respect for his ideas and activities. As Robert Slater, Soros' biographer, rightly pointed out: "Soros wants that respect; he didn't get it from Gorbachev, he would have loved to have become a kind of economic advisor to an American President, or to a Secretary of State, and I think it's always bothered him that a lot of the attention that he's gotten has been from the fact that he made so much money." As the story goes with most famous philosophers and prophets, if they aren't already predestined for greatness (usually signified by a miraculous birth or beginning of some sort), then they are either outcasts or successful members of society who undergo a psychological experience, or awakening, the result of which is a fundamental shift in their values. This culminates in a fortuitous and blessed change in their life and, in turn, that of the rest of humanity. In other words, they "see the light". Soros appears, or makes himself appear, to be following in this same tradition among
philosophers and prophets. As Morton relates, "in his autobiography, Soros says that he underwent a psychological crisis in the early '80s. For a long time, he simply couldn't accept that he was a success, and the more money he made, the more insecure he felt. He separated from his wife and his business partner, and decided that he needed a new orientation in life." According to Soros himself, "after a great deal of thinking, I came to the conclusion that what really mattered to me was the concept of an open society."

So one could say that Soros is primarily a philosopher, and his successes in business and philanthropy are merely an expression of his views on the world. Certainly Soros sees himself that way, having aspired to be a philosopher since childhood.

He’s also a philanthropist, and philanthropy is a wonderful thing. Applied to public policy instead of the usual good causes it becomes an interesting thing too, allowing rich men to run experiments from which governments might learn, and to counter policies of which they disapprove. Much of Soros’s giving falls into the first category, Ted Turner’s recent gift of $1 billion to the United Nations into the second. The unknown is what sort of philanthropist Bill Gates will become. At $40 billion, his fortune dwarfs Soros’s. He promises to be an interesting giver. Explaining his failure to do much to date, he has said that “giving away money effectively is almost as hard as earning it in the first place.” Maybe.
References


