

Verum Serum

Thoughts on Soros' Speech at the Cato Institute

John on April 29, 2011 at 10:26 am



Glenn Beck has everyone trained to see a monster in George Soros, but at Cato yesterday he actually offered an interesting take on macro-economics and where human psychology fits into the story. I'm not saying he's right, but he's not stupid. Kudos to Cato for engaging the man at the level of his ideas, rather than caricature. A [sample](#):

Hayek argued that economic agents base their decisions on their interpretation of reality, not on reality — and the two are never the same.

That is what I call fallibility. Hayek also recognized that decisions based on an imperfect understanding of reality are bound to have unintended consequences. But Hayek and I drew diametrically opposed inferences from this insight.

Hayek used it to extol the virtues of the invisible hand of the marketplace, which was the unintended consequence of economic agents pursuing their self-interest. I used it to demonstrate the inherent instability of financial markets.

He goes on to argue that, later on, Hayek undid his earlier rejection of scientism because of political considerations, i.e. anti-Communism:

Because he was fighting communism, a scientific theory that proved that market participants pursuing their self-interest assure the optimum allocation of resources was too convenient for him to reject. But it was also too good to be true.

If I understand him, Soros is arguing that Hayek can't be right because our perception of what is truly in our best interest never really matches reality, therefore optimal results, while possible in theory, are rarely achieved.

My gut reaction is that there is some truth to this, though I hesitate to say how much. For example, you walk into a shop to buy a used car. Your self-interest may have led you to do previous research on which model you can afford and will be the most reliable, etc. However, there will often be things you don't know about the car in question, e.g. how the previous owner drove it and when they changed the transmission fluid. As a result, you may buy a car expecting it to last for years only to discover later that you've got a lemon.

Since Soros is making a kind of epistemological challenge to enlightened self interest, let's talk about epistemology (the study of knowledge). Entry level philosophy students are taught that knowledge can be defined as "justified true belief." That means for something to be knowledge it must be true. You must believe it. And you must have justification for doing so. You wonder what time it is, so you look at your watch. The watch gives you a justification for your belief that it is 9:56am Pacific Standard Time.

But philosophy students also learn about a series of challenges to this definition known as the Gettier cases. Edmund Gettier was a smart-alec who, in 1963, published a short paper showing possible exceptions to the definition of knowledge. There are dozens of these, but one of the easiest to understand goes as follows:

Suppose you're wondering what time it is. You look up at the wall and the clock says 10:02. You now have a justified true belief that it is 10:02, i.e. you know what time it is. However, what if unbeknownst to you the clock in that particular room is stopped. In fact, it has been showing 10:02 for more than a week because no one has put a new battery in it. But—and here's the trick—it just so happens that when you looked, it actually was 10:02! So it seems you have a true belief which *appears* justified but is actually not (since the clock has stopped). Is this still knowledge? Well, yes and no.

That's the sort of thing that undergrad philosophy students like to wrestle with but it doesn't take long to see that Gettier cases, while interesting as ideas, don't play into our real world experience all that much. Most of the time the clock is working or, failing that, the time it shows is so far off that you'd probably notice it's wrong.

I wonder if the same can't be said about Soros' challenge to Hayek. It's not that what he's saying is false, but I wonder how much it really matters in the real world. Going back to the used car example. So, you bought a lemon. Fortunately, you also bought a warranty which allows you to trade the car out. It's not clear to me that his objections based on imperfect knowledge is going to really ding the overall value of enlightened self interest in the majority of cases any more than Gettier cases undo the definition of knowledge.

Now I suppose this is where Soros could argue that "lemon laws" are the kind of necessary government oversight he's talking about. Then again, in a world without lemon laws, word would quickly spread about who *not* to buy from or which cars *not* to buy. Hayek, like nature itself, may be cruel to the individual but that doesn't mean the overall effect may not be quite efficient and even beautiful when admired from a distance.

But I'm neither a philosopher or an economist, so I'll throw it out to those who are to chew on all this.