



ECONLOG PERMANENT LINK | APRIL 29, 2011

Printable format for http://econlog.econlib.org/archives/2011/04/soros_on_hayek.html**Soros on Hayek**

Arnold Kling

FAQ: Print Hints

Yesterday, I attended an invitation-only event at the Cato Institute, featuring a new edition of the Hayek's *The Constitution of Liberty*. [UPDATE: now [available on youtube](#)]. The panel consisted of Bruce Caldwell, Richard Epstein, and George Soros. In terms of volubility, Caldwell was overshadowed, but he was my favorite among the panelists.

[UPDATE: For more Caldwell on Hayek, see [this essay](#) on ten insights that apply today.]

Epstein spoke so rapidly that I cannot be sure that I got what he was saying, but he seemed to suggest that Hayek would have been better off incorporating the concept of a social welfare function. I actually think that is one of the more tenuous concepts in all of economics, and it is hard for me to see how Hayek could have wanted or needed it in his work.

Soros equated Hayek with the Chicago school of economics. In particular, Soros blamed Hayek for promoting rational expectations and the efficient markets hypothesis. I doubt that anyone else on the panel or in the room shared this view of Hayek. However history views Hayek, I do not expect him to get credit for anticipating Fama or Lucas. In fact, as Frydman and Goldberg point out in *Imperfect Knowledge Economics*, rational expectations runs counter to Hayek's theory of local knowledge, which is one of his most important contributions. I do not see how Hayek could approve of any form of representative-agent modeling.

Soros expressed regret over political polarization. My sense is that this is what the Left complains about when it is not doing well. It would be interesting to correlate stories on polarization with polling data on support for Democrats. My guess is that when the latter is high, the press is less likely to describe the public as polarized.

Soros framed the choice as one of believing that markets always work or believing that markets sometimes fail and therefore we need government. Afterwards, a few people said to me that they wanted to intercede with the line "Markets fail. That's why we need markets."

Suppose we were to hold Soros up to the standard: how well do your arguments impress those who disagree with you?

My sense is that he did poorly by that standard yesterday. However, who among us does well by that standard?

TRACKBACKS (0 to date)

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COMMENTS (20 to date)

Latest Comment

david writes:

Wait, why was Soros there? A game theorist, an economic historian, and... a businessman? What? This seems like a panel disinclined to talk to each other.

Posted April 29, 2011 12:06 PM

Gaspard writes:

"However, who among us does well by that standard?"

I'm generally a social democrat, but find a lot of your pieces pretty persuasive and thought provoking, so you're doing OK!

Posted April 29, 2011 12:37 PM

Shangwen writes:

Like Gaspard, I also think you are doing OK (actually much more than OK). I was once a muddling centrist who supported a lot of received wisdom about the role of government, but this website (the blog and podcast especially) more than any other resource contributed to turning me into a full-blown libertarian. More pertinently it introduced me to the thoughtful arguments for libertarianism, and that, in turn, allowed me to put libertarianism into practice at work.

Unfortunately, I am also now much less socially popular in policy discussions, but I will take the blame for that.

Posted April 29, 2011 1:21 PM

Daublin writes:

I don't know for sure, but I imagine Greg Mankiw is very approachable by people who don't share his conclusions. He has two great tricks:

1. He makes one firm point and then lets other people talk.
2. He spends considerable space emphasizing the commonality among economists.

Posted April 29, 2011 1:49 PM

A Castillo writes:

Soros equated Hayek with the Chicago school of economics. In particular, Soros blamed Hayek for promoting rational expectations and the efficient markets hypothesis.

facepalm

Did he not even bother to do a courtesy Google check before he spoke?

Posted April 29, 2011 2:22 PM

Seth writes:

Arguments with factual errors and straw men should not hold up, even for those who agree with you.

Soros probably rarely finds himself in an environment where folks point out his errors and fallacies to him. Did anyone at the meeting? Were there polite chuckles?

Posted April 29, 2011 3:22 PM

PrometheeFeu writes:

Quite honestly, the more I learn about government, the more I become libertarian. Ultimately the likes of Soros are stuck re-reading Plato's Republic. Wouldn't it be great if we have a benevolent and infinitely wise Philosopher

King? Yes. It would be. Can we talk about reality now please? I think a lot of this comes with your interest in participating in politics. I once wanted to make it my vocation. The idea of gaining power so I could help my fellow man was very appealing. The libertarian arguments seemed idiotic. After all, I am a nice guy and I was going to win elections and make the world a better place. What do you have against living in a better world? But I now realize that the people in charge are well... not me, nor are they the sort of people I would count as friends. They are some combination of corrupt, stupid, facing bad incentives. In this reality, I don't want a King, because he will most likely be a fool, not a philosopher.

Posted April 29, 2011 4:29 PM

vt writes:

Soros probably rarely finds himself in an environment where folks point out his errors and fallacies to him. Did anyone at the meeting?

Yes they did. Soros responded by saying something like "ok, perhaps Hayek didn't really believe those things, but he has now been appropriated by those who do believe those things".

Posted April 29, 2011 5:27 PM

Steve Z writes:

david:

I think it was the law professor Richard Epstein, not the game theorist.

Posted April 29, 2011 5:52 PM

Lawrence H. White writes:

The video of the event is now available. You'll see that Bruce Caldwell corrects Soros on several points. In *The Constitution of Liberty*, which was ostensibly the topic under discussion, Hayek wrote that money is "a loose joint" that keeps a monetary economy from being always in equilibrium, meaning that Hayek was not fully on board with the spirit of RatEx and EMH. For the detailed evidence that Hayek held this view throughout his career, see [this old paper](#).

Posted April 29, 2011 8:31 PM

Lawrence H. White writes:

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Posted April 29, 2011 9:20 PM

Wayne writes:

Do you think Soros's strawman argument, that Hayek is a Chicago School economist, comes from ignorance or intellectual dishonesty?

Posted April 30, 2011 4:50 AM

Minamar writes:

I cannot really understand all this debate here and there, and especially after the YouTube video... about general questions that have been resolved by the simplest form of a general equilibrium theory, and is as simple as is needed to get answers of "A YES or NO or Maybe" ... where from Nobel price winners to the God itself nobody can deny them !

Competitive market outcomes are equivalent to "central planners" given very broad, general, strong and fundamentally unrealistic assumptions. Ironically those assumptions are mostly cited by Hayek as a failure to "central planning", whereas in the same time can condemn the competitive outcome, too. So, i give a lot of cred to Arnold for this paragraph

"... but he seemed to suggest that Hayek would have been better off incorporating the concept of a social welfar function. I actually think that is one of the more tenuous concepts in all of economics, and it is hard for me to see how Hayek could have wanted or needed it in his work ..."

This last sentence is the crucial point for making the "two schools of thought" diverge.

Do we accept that there is social function or not ? If we are about to accept it indeed, then a bunch of Hayek's ideas are simply deconstructed by it's own arguments. In the same time, if this social welfare function is something that comes out by virginal generation, i am puzzled how in a political systems of representative democracies can this work. How, for example, we could decide who much each of us will pay for having courts ??? Or how much each of us will contribute to fund space exploration ? Apparently there is, a minimum social function to maximize, and this role (fortunately or unfortunately) is assigned to the elected representatives. How good or bad are doing their jobs is another question. Nevertheless, it legitimates perfectly the concept of "Paretc Optima". Consequently, there are irrefutable answers to those questions:

1. Do markets fail in general: Yes
2. Can We restore optima (or constrained optima) in general: Yes
3. By whom: "Central Planner"
4. How ?? "WE DO NOT KNOW" and even if we know are hard to be implemented in practice

Do i am getting something wrong here ???

I have the luck to be supervised by an economist who is assumed among the best in GE theory, and one of experts in Economic policy, not a media guy, although is well known in academics.

He told me once something that it was also mentioned by Lucas in a slightly different manner (Lucas called it "Tolstoy's" Welfare theorems)

The biggest misconception of the economists so far was that given that we know for a perfect world we can reac perfect results, this led us to believe that in a slightly perfect world we would have expect an equally slightly les perfect results. And here it is the fallacy !!! Seems counter intuitive but slightly less perfect world does NOT produce slightly less perfect results. In contrast, it may even produce "BAD" outcomes.

Economics itself my not reach a consensus on the HOW part, but it leaves as an old fashioned discussion anything that has to do with the laissez faire, market failures, government intervention etc etc

My apologies for the long comment !

Posted April 30, 2011 9:28 AM

John Papola writes:

I think that EMH and RatEx have been turned into such boogieman talking points for interventionists like Soros c Schiller or Galbraith that they simply can see anything but "markets are perfect" or "government needs to step in". The nuances of Hayek and austrian economics regarding the nature of human action, knowledge and decisio making in a world of uncertainty are simply lost on them. They know that austrians support laissez faire, therefore they MUST by "perfect market" types. At least he came to forum. I like that. Maybe he walked away with tome questions to consider.

[link fixed--Econlib Ed.]

Posted April 30, 2011 9:35 AM

aez writes:

"Soros probably rarely finds himself in an environment where folks point out his errors and fallacies to him. Did anyone at the meeting?"

As a sometime Popperian, the subdued critical rationalist in him is perhaps seeking discipline by falsification now (about time!). I was encouraged to hear he was going to Cato Institute, and it'll be interesting to see the video.

Posted April 30, 2011 10:34 AM

Peter Van Valkenburgh writes:

When asked to comment on "The Road to Serfdom" he said he'd have to read it again. I'm pretty sure he meant for the first time. And I really like Epstein but I agree with you about the weaknesses of swf's. All in all I felt sorry for Caldwell, who was most interested and qualified to speak about Hayek, but nobody asked him questions... preferring to focus on the idiot billionaire.

Posted April 30, 2011 10:42 AM

Pietro Poggi-Corradini writes:

Soros said "govt plans fail, that's why we need govt", which is the mirror image of "markets fail, that's why we need markets". I would call this "Soros's challenge" after "Hayek's challenge".

Posted April 30, 2011 3:34 PM

Jonathon Hunt writes:

@minamar

Competitive market outcomes are equivalent to "central planners" given very broad, general, strong and fundamentally unrealistic assumptions. Ironically those assumptions are mostly cited by Hayek as a failure to "central planning", whereas in the same time can condemn the competitive outcome, too. So, i give a lot of credit to Arnold for this paragraph

Can you be more specific on these "broad, general, strong, and fundamentally unrealistic assumptions?" I'm curious to what assumptions you think Hayek makes.

Consequently, there are irrefutable answers to those questions:

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Well, I'm glad you believe these answers are "irrefutable."

1. You'll find economic history very odd if you seriously believe this. Many, many socialists gave up on this proposition years ago; most have moved onto moral arguments after realizing the enormous generation of wealth for all that is achieved by market economies.

2. "Equilibrium" is one of those unrealistic assumptions you must be alluding to in second paragraph, and it is

one I would agree with you on. The theory of equilibrium is both theoretically flawed and unpractical, however, is voluntary interaction among people that bring us closer to equilibrium!

3. There have been many economists, such as Mises and Hayek, who have discussed why "central planning" is flawed at its core. Mises was the one to explain to us why the entrepreneur was such an important phenomena in the market, consequently this phenomena was nonexistent in planned economies. Hayek was the one who elaborated the knowledge problem that planned economies could never hope to answer.

4. Central planning has a lot more problems than simple application.

Posted May 1, 2011 7:40 AM

@ **Hunt** writes:

From your comments, its seems that you do not have any idea about what i was talking for ..

What shall i discuss ?

I am sure that, if Arnold wants, can intervene and make the explanations clear to you. Otherwise ignore it and go on.

My sincere apologies for that.

Posted May 1, 2011 3:03 PM

Rimfax writes:

Markets discover, which means a lot of failure and a virtual guarantee of eventual improvement, which is the only kind of success that you're ever going to get. Central planning and regulation strangles discovery, which means that your system can usually limp along at some positive growth rate, so you still get to declare success. Even better for the central planners and regulators, since ideas are free, as in speech, if you have a free market in your idea universe, you can scavenge discoveries from them to make your system come even closer to free market growth rates.

Posted May 1, 2011 10:55 PM

[Return to top](#)

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