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George Soros, F.A. Hayek, and The Constitution of Liberty

By **Mario Rizzo** May 2, 2011, 1:02 AM Author's Website

I think George Soros is a good man. To me he seems like a person who wants to make the world a better place. He, like Keynes, is against comprehensive economic planning (ambiguities about "planning" noted) but thinks that financial markets are inherently unstable and thus must be regulated by a nimble or flexible regulator.

I was at a forum last Friday at the Cato Institute in Washington, DC in which Ronald Hamowy, Bruce Caldwell, Richard Epstein, and George Soros ostensibly discussed F.A. Hayek's *The Constitution of Liberty* (the new, definitive edition). This post is not meant as a report of the event. I am not a reporter. However, I want to focus on a number of points that Soros made about Hayek's views. I hope this will clarify some sources of misunderstanding about Hayek that may be quite common in some quarters.

First, Soros lumped Hayek in with "market fundamentalists" who believe in the strong version of efficient markets and in rational expectations as a kind of axiom. While these developments post-date Hayek's work, it is abundantly clear that each theory is inconsistent with his economics writings. Competition is a process and a discovery procedure. Knowledge is not simply "embodied" in prices. It must be accumulated and mobilized from diverse sources in a temporal process. Furthermore, to say that the agents in an economic system know the structure of the system in which they operate is to elide the distinction between knowledge of the observer and that of the observed. Hayek found the latter distinction fundamental.

When faced with Bruce Caldwell's excellent response correcting Soros's misconceptions, Soros seemed to retreat. Nevertheless, he fell back on the idea that Hayek has been used by the market fundamentalists for their own purposes. Perhaps, but Caldwell was informing him about the true Hayek.

Second, Richard Epstein said that Hayek, even in *The Constitution of Liberty,* held to the idea that non-intervention by the State is the proper presumption for policy. Soros said that he agrees with this presumption. But when Epstein asked Soros if he would be willing to call for the repeal of the National Labor Relations Board to re-introduce genuine competition in labor markets, he declined. Did he advocate the repeal of the Durbin Amendment (to the Dodd-Frank law) that is drying up credit for low income people and pushing them into pay-day loans and loan-sharks at much higher interest rates? Again, he declined.

Third, on the rule of law, I asked about the effect of the Dodd-Frank regulatory changes on the rule of law. Epstein cogently answered that the law increases the arbitrary power of the regulators, making their behavior harder to predict. Soros said that was okay because the uncertainty and open-endedness of financial markets makes it impossible to set out clear, and effective, rules beforehand. The Fed and other regulators must have the flexibility to do the right thing. (Another example, I should add, of my favorite rule-of-law-be-damned standard: "Do good and avoid evil.")

This is clearly not consistent with Hayek's view but, more interestingly for our purposes here, it is not consistent with J.M.Keynes's view either. Keynes did not want the State to wield great arbitrary power. He wanted to reduce or eliminate the volatility of asset markets by ensuring that a great proportion of investment would be directed by quasi-public authorities who would not deviate from course every time there was a change in the economically-relevant news. Furthermore, the Treasury would beforehand draw up a list of projects that they would pursue as time when on. Keynes was a believer in rules of the road – just not the Hayekian rules.

In the final analysis, Soros's view of Hayek is quite confused. Hayek, like Popper and Soros, values an open society and believes that the search for "truth" is a fallible process of trial and error. Hayek makes these things clear especially in his postscript, "Why I am Not a Conservative."

The central fact Soros forgets is that such things require a prior structure in which the State is limited by clear rules.

We cannot, on the one hand, say that we value the rule of law, the presumption of non-intervention, and recognize that knowledge in society is decentralized and then, on the other hand, endorse arbitrary power on the part of regulators, fail to oppose limitations on competition, and think that regulators have adequate knowledge to control the financial market

Fallibility and openness do not countenance the confusion of thought.

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