The Crisis of Global Capitalism: 
Open Society Endangered
by George Soros
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When someone consistently makes money trading in 
financial markets, it is due either to exceptionally good luck or to some 
superior insight or skill.

Unless one is confident of the former explanation, when such a 
person commits their thoughts to writing they are thus entitled to receive 
some attention.

Such is the case with George Soros’ latest book, The Crisis of Global 
Capitalism: Open Society Endangered.

Soros’ book is not only about his conclusion that, without intervention, 
the global capitalist system is on the verge of collapse.

It is also about his broader economic, political and social 
methodology and philosophy, including his commitment to an ‘open 
society’ – a commitment he has been prepared to back with large amounts 
of his own money through a foundation he established: the Open 
Society Fund.

Soros’ book falls into two main parts. The first lays out his 
methodology and his philosophy, and the second applies these to the current 
international financial and political situation.

The key elements of Soros’ methodology are his principles of 
‘reflexivity’ and ‘fallibility’. By ‘fallibility’ Soros means that, while an 
objective reality exists, all theories about that reality, and all other 
constructs of the human mind, are inherently imperfect. However 
theories are capable of being improved and thus can approach 
closer to (while never reaching) perfection.

By ‘reflexivity’ Soros means that in 
markets and in the social sciences, 
theories and expectations of the future 
can themselves affect what the future 
will be. This can occur when the 
person formulating the theories and 
extpectations is also a participant in 
the events about which those theories and 
extpectations are formulated. By 
contrast, in the natural sciences what 
will happen will happen, regardless of 
the expectations of the scientist.

Soros argues that faith in the free 
operation of markets – which he calls 
‘market fundamentalism’ – is 
 misplaced, because traditional 
economics overlooks the existence of 
these factors of fallibility and 
reflexivity.

In particular, these factors mean 
that markets do not inevitably tend 
to equilibrium as traditional economics assumes. While in 
‘humdrum’ cases they often do so, in 
other cases a combination of a 
prevailing trend and a prevailing bias 
of thinking amongst the participants 
can drive the market far from 
equilibrium and keep it there for some 
considerable time, until ultimately 
reality forces a dramatic reversal. This 
is the cause of the ‘boom-bust’ cycle 
in financial markets, and this cycle is 
not self-correcting without regulatory 
intervention.

Soros is also concerned that 
excessive commitment to market 
values, coupled with a decline in social 
values, is causing market behaviour to 
be extended to inappropriate areas, 
such as culture, the professions and 
government. People, he says, ought to 
distinguish between playing by the 
rules and setting the rules, and in 
addressing the latter, people should be 
considering the common good, not 
their individual self-interest. The 
intrusion of market behaviour is 
corrupting the political process and 
thus in a ‘reflexive’ manner reinforcing 
the trend to extending even further 
the areas in which market behaviour 
occur.

Soros is a supporter of an ‘open 
society’ – a society which can freely 
debate and modify its theories of 
reality – which Soros contrasts with 
a closed or totalitarian society. One of 
the main characteristics of such a 
society is that a rigid dogma is 
imposed and no-one is permitted to 
draw attention to disparities between 
reality and the official ‘facts’ of the 
dogma. In light of the Russian 
experience Soros considers that ‘open 
society’ balances precariously between 
‘closed society’ on the one hand and a 
lawless society on the other.

In the second part of his book, 
Soros argues that there is currently a 
crisis in global capitalism due to the 
‘wrecking ball’ effect of swings in 
international capital flows. From the 
1980’s, capital flowed into countries 
at the financial periphery. Continuing 
capital inflow boosted the value of 
investments in those countries, thus 
reinforcing the initial decision to 
invest there (the principle of 
‘reflexivity’ at work). For a long time 
this sustained a gap between the 
apparent and true profitability of 
investments in those countries. 
However, once doubt set in, there was 
a sudden loss of liquidity and capital 
flowed out, and this swung the process 
into reverse, causing collateral to lose 
its value and defaults to flow through 
the system.

Soros illustrates and supports his 
arguments with detailed description 
of and commentary on international 
financial events from the Thai 
difficulties of July 1997 through to 
October 1998, concentrating 
particularly on Asia and Russia.

Soros (writing up to November 
1998) considers the most likely 
outcome is that, without regulatory 
intervention, the current financial
flows out of countries at the periphery will become so extreme that many countries will opt out of the international financial system, as Malaysia has done. These will obtain short-term benefit at long-term cost, and put even greater pressure on their neighbours. Furthermore, intense poverty will cause social unrest and the overthrow of governments, which will be replaced by regimes that will not only prevent free capital flows, but are also likely to reject free trade and nationalise existing foreign investments in their countries.

Soros further predicts that if this outcome does not occur as a result of the current financial situation, the markets will be tested even more severely later on, and the results he predicts will follow then.

His remedies are basically threefold:

- a greater willingness by governments to provide liquidity to the system in appropriate circumstances while also imposing greater financial pain on lenders;
- regulation of the international financial system to an extent similar to western countries’ regulation of their domestic financial systems (which requires the establishment of new international financial institutions), and
- greater commitment to the principles of an open society and a restoration of non-market values such as civic virtue.

While Soros’ book is written in a direct and unaffected way, and contains some acute observations on markets and human psychology, it suffers from two fundamental and glaring flaws.

The first is Soros’ use of his principle of 'reflexivity' as a new and radical insight capable of explaining almost every current economic and financial problem. While Soros’ analysis of the practical interplay of bias and trends in financial markets may be original and valuable (others can judge this better), the general proposition that participants’ expectations can affect outcomes is neither new nor radical.

The second flaw is Soros’ frequent misstatement of alternative views in the form of straw men, which he then proceeds to knock down. One obvious example is his claim that traditional economics has failed to recognise that market forces can push the market away from, rather than towards, equilibrium. This claim is readily refuted by the fact that almost every basic undergraduate economics textbook sets out the ‘Cobweb Theorem’ which shows that if producers base next year’s production decisions on this year’s prices, prices and market volumes can oscillate wildly.

The frequent appearance of these readily dispensable ‘straw men’ results in Soros not tackling many of the deeper questions which his lines of argument trigger. For example, he does not even address – let alone refute – the proposition that many free market supporters would advance: that the financial difficulties many countries have experienced are mainly attributable to the lack of adequate domestic financial regulation and economic reform, which could have prevented their problems arising or greatly reduced the effects.

Neither does Soros address the argument that the greater openness and liquidity of modern markets, and the speed of adjustment which new technology permits, in fact reduces, rather than increases, the effects of financial market fluctuations on underlying real economic activity, provided there is a sound domestic regulatory regime. If you wake up in the morning and find half your paper wealth wiped out but expect that the market has probably bottomed, you (and others) get on with addressing that reality, rather than struggling on for weeks hoping for a market rebound and clinging to increasingly implausible asset values.

I suspect that Soros’ straw men are not the result of deliberate artifice on his part. Rather they reflect the fact that on the sound foundation of his strong practical understanding of markets and human thinking, Soros has cobbled together a ramshackle philosophical superstructure based on his own theorising and bits and pieces he has accumulated over time from various disciplines with which he has had some superficial contact.

This superstructure appears to have suffered badly from a lack of exposure to and testing by those familiar with particular disciplines such as economics, politics and moral philosophy.

Further, and even more tellingly, on the evidence of this book Soros’ intellectual strength to date does not lie in economic, political or moral theory. Some of his analysis and factual observations pose serious questions that need to be answered about how the regime under which the international financial system operates should best be constituted. While others may feel the same unease as the author about contemporary political and moral values, this book does not persuade the reader that Soros has the answers.

On the other hand, the book’s narrative description of the unfolding financial market drama is informative. The book also has some astute observations such as the following, to which Soros attributes the foundation of his business success:

...a financial hypothesis does not have to be true to be profitable; it is enough that it should become generally accepted. But a
false hypothesis cannot prevail forever. That is why I liked to invest in flawed hypotheses that had a chance of becoming generally accepted, provided I knew what the flaw was: It allowed me to sell in time. (p. 22)

Despite its serious flaws, the book is a worthwhile read. To parallel Soros' own language of 'reflexivity', the fact that it is out in the public arena influencing perceptions, and perhaps even reinforcing trends, makes it desirable for those interested in these issues to be aware of what the book is saying.

Reviewed by Robert Clark,
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Justice for Here and Now
by James P. Sterba

James Sterba's project is an exciting one. He proposes what he calls a 'peacemaking' way of doing philosophy, and by this method he undertakes first to demonstrate that morality is a requirement of rationality, and then to reconcile the different moral perspectives of libertarians, welfare liberals, socialists, feminists, pacifists and deep ecologists. It is hardly surprising that these ambitions are not fully realised, but Sterba's failure, I think, is an instructive one.

The most interesting part of the book, at least for readers of this journal, is chapter three, in which Sterba tries to show that libertarian principles, if consistently applied, actually justify an extensive system of social welfare and redistribution. Sterba's argument proceeds directly from the idea of liberty, which is so precious to libertarians. He argues that defence of property rights against the poor is a restriction of their liberty:

What is at stake is the liberty of the poor not to be interfered with in taking from the surplus possessions of the rich what is necessary to satisfy their basic needs. ... When the conflict between the rich and the poor is viewed as a conflict of liberties, either we can say that the rich should have the liberty not to be interfered with in using their surplus goods and resources for luxury purposes or we can say that the poor should have the liberty not to be interfered with in taking from the rich (p. 45).

If all that is at stake is a bare conflict of liberties, it is not hard to see why the liberty of the poor should be preferred, on the basis of their greater need. (A slightly more involved version of the same argument is used against 'Lockean' libertarians, who take property rights rather than liberty as primary.) I have no problem with the conclusion that the wealthy are morally obliged to spend their resources on meeting the basic needs of the poor, if those needs cannot be met in any other way (e.g. by the poor using their initiative). There is a big gap, however, between that conclusion and the welfare state.

Sterba tries to bridge that gap by way of what he calls the 'Conflict Resolution Principle,' which says that 'if any action is morally required for a person to do, all things considered, that action is reasonable to ask or require that person to do' (48; original emphasis). But this principle trades on an ambiguity in the term 'require'; on one reading it clearly suggests that there is someone there to do the requiring (not just the moral principle itself). In other words, coercion of the immoral is on the agenda.

But on this reading, the Conflict Resolution Principle is clearly unacceptable; in fact, its denial is absolutely fundamental to liberalism, which must recognise that people can do morally objectionable things without anyone thereby acquiring a right to interfere with them. And indeed Sterba does not go that far, but he goes far enough to be worrying, saying that although 'not all moral resolutions can be justifiably enforced,' those relating to 'severe interpersonal conflicts of interest can
However, while never falling into parody or anything close to embarrassment, but never reaching any exultant heights either not even with the delayed appearance of the flimsy but loved Karma Chameleon Culture Club were happy to have a set loaded with covers, leaning to what the Boy explained was his comfort decade, the 1970s, and always pleasant rather than genuinely exciting.