the world according to George Soros

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Open Society: Reforming Global Capitalism

George Soros
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No man can serve two masters:
for either he will hate the one, and love the other;
or else he will hold to the one, and despise the other.
Ye cannot serve God and mammon.
—Matthew 6:24

George Soros, high stakes financial speculator, international philanthropist, and a man of grand contradictions, tells us in his final paragraph of *Open Society: Reforming Global Capitalism* that writing it clarified his thinking on his plan for the world and led him to a clear sense of mission for his foundation network. He closes with an ominous sentence.

I shall not spell it [the mission for his foundation network] out here because it would interfere with my flexibility in carrying it out—there is a parallel here with the problem of making public pronouncements when I was actively engaged in making money—but I can state it in general terms: to foster the civil society component of the Open Society Alliance.

This is pure Soros: Soros writing a book about Soros and his secret plan to create a global open society. It befits the outsized ego of the man who in an interview for a 1995 *New Yorker* profile reflected on the parallels between himself and the God of the Old Testament and observed that as a child he thought of himself as superhuman.

Open Society, a revised edition of his earlier *The Crisis of Global Capitalism: Open Society Endangered*, is its own contradiction. After presenting a devastating critique of capitalism sure to beguile progressives and infuriate market fundamentalists, it concludes that global capitalism is the best of all possible worlds and sets forth a program of "reforms" that on close reading are little more than a call to give yet more money and power to the stewards of global capitalism—the World Trade Organization (WTO), the International Monetary Fund (IMF), and the World Bank.

There are three reasons to read *Open Society*. The first is for the penetrating Soros critique of capitalism. The second is for insights into the limited worldview of those who live in the world of high finance. The third is to understand why we must be skeptical of the public pretensions of persons of means who profess to serve two masters.

The Critique

Although the insights of the Soros critique of global capitalism are scarcely new, they are rarely articulated with such candor and accuracy by those who have so mastered its ways for personal gain. The following is a sampling of Soros' insights.

1. Unregulated financial markets are inherently unstable. Soros observes that, contrary to conventional economic theory, financial markets are not driven toward a relatively stable and rational price by the objective value assessment of such things as the soundness of a company's management, products, or record of profitability. Rather they are constantly driven away from equilibrium by the momentum of self-fulfilling expectations—a rising stock price attracts buyers who further raise the price—to the point of collapse. The recent massive inflation and subsequent collapse in the price of the shares of unprofitable dot-com companies illustrates Soros' point.

> Bank lending also contributes to the instability, because the price of real and financial assets is set in part by their collateral value. The higher their market price rises the larger the loans banks are willing to make to their buyers to bid up prices. When the bubble bursts, the value of the assets plummets below the amount of the money borrowed against them. This forces banks to call their loans and cut back on the lending, which depresses asset prices and dries up the money supply. The economy then tanks—until credit worthiness is restored and a new boom phase begins.

2. Financial markets render irrelevant the morality of their participants. According to Soros there is no meaningful place for individual moral behavior in the context of financial markets, because such behavior has no consequence other than to reduce the financial return to the ethical actor.

> When I bought shares in Lockheed and Northrop after the managements were indicted for bribery, I helped sustain the price of their stocks. When I sold sterling short in 1992, the Bank of England was on the other side of my transactions, and I was in effect taking money out of the pockets of British taxpayers. But if I had tried to take social consequences into account, it would have thrown off my risk-reward calculation, and my profits would have been reduced.

Soros argues that if he had not bought Lockheed and Northrop, then somebody else would have, and Britain would have devalued sterling no matter what he did. "Bringing my social conscience into the decision-making process would make no difference in the real world; but it may adversely affect my own results." One can challenge the Soros claim that such behavior is amoral rather than immoral, but his basic argument is accurate. His understanding that it is futile to look to individual morality as the solution to the excesses of financial markets is all too accurate.

3. Corporate employees are duty-bound to serve only corporate financial interests. Soros writes:

> Publicly owned companies are single-purpose organizations—their purpose is to make money. The tougher the competition, the less they can afford to deviate. Those in charge may be well-intentioned and upright citizens, but their room for maneuver is strictly circumscribed by the position they occupy. They are duty-bound to uphold the interests of the company. If they think that cigarettes are unhealthy or that fostering civil war to obtain mining concessions is unconscionable, they ought to quit their jobs. Their place will be taken by people who are willing to carry on.

Though not specifically mentioned by Soros, this is why corporations are properly excluded from the political processes by which societies define their goals and the rules of the marketplace. They are incapable of distinguishing between private corporate interests and broader public interests.

4. The fact that a strategy or policy produces economic returns in the short-term does not mean the long-term results will be beneficial. The focus of financial markets is on short-term individual gain to the exclusion of both social and longer-term consequences. The fact that particular policies and strategies are effective in producing short-term financial returns does not mean they are more generally beneficial or desirable. Soros offers the example that running up a budget or trade deficit "feels good while it lasts, but there can be hell to pay later."

5. The relationship between the center and the periphery of the capitalist system is profoundly unequal. The powerful countries at the center of the capitalist system are both wealthier and more stable than countries at the periphery because control of the financial system and ownership of productive assets allows them to shape economic and political affairs to their benefit. "Foreign ownership of capital deprives peripheral countries of autonomy and often hinders the development of democratic institutions. The international flow of capital is subject to catastrophic interruptions." In times of uncertainty financial capital tends to return to its country of origin, thus depriving countries at the periphery of the financial liquidity necessary to the function of monetized economies. "The center's most important feature is that it controls its own economic policies and holds in its hands the economic destinies of periphery countries."

6. In the capitalist system financial values tend to displace social values in sectors where this is destructive of important public interests. Soros writes:

> Monetary values have usurped the role of intrinsic values, and markets have come to dominate spheres of existence where they do not properly belong. Law and medicine, politics, education, science, the arts, even personal relations—achievements or qualities that ought to be valued for their own sake are converted into monetary terms; they are judged by the money they fetch rather than their intrinsic value." Because financial "capital is free to go where most rewarded, … countries vie to attract and retain capital, and if they are to succeed they must give precedence to the requirements of international capital over other social objectives.

The Limitations

The Soros critique would seem to establish an iron-clad case for the conclusion—widely shared among the civil-society groups protesting the forces of corporate globalization—that each nation must maintain its essential economic sovereignty by regulating the flow of goods and money across its borders and that market forces must be subordinated to the democratically determined rules of a strong public sector. Soros' world view and personal interests are, however, much too aligned with the status quo to accept the logical outcome of his own argument.

My critique of the global capitalist system falls under two main headings. One concerns the defects of the market mechanism, primarily the instabilities built into international financial markets. The other concerns the deficiencies of the nonmarket sector, primarily the failure of politics at the national and international levels. The deficiencies of the nonmarket sector far outweigh the defects of the market mechanism.

In his focus on financial markets, Soros scarcely mentions the real economy of goods and services, people and nature. Nor does he make more than passing reference to human rights, democracy, equity, and the environment—all of which are obvious victims of the corporate global economy. As to poverty and economic justice, Soros tells us, "I am altogether leery of so-called social and economic freedoms and the corresponding human rights: freedom from hunger or the rights to a square meal" because rights must be enforced by the state and this "would give the state too big a role in the economy."

In a rare mention of the poor, Soros suggests their needs are best left to the charity of the rich: "We must recognize that under global capitalism individual states have limited capacity to look after the welfare of their citizens, yet it behooves the rich to come to the aid of the poor." His only mention of the possibility of a less extreme form of capitalism that might value a more equitable distribution of income and ownership is to categorically reject it. "Social justice emphatically does not mean equality, because that would take us right back to communism. I prefer the Rawlsian concept of social justice, which holds that an increase in total wealth must also bring some benefit to the most disadvantaged. What 'some' means has to be defined by each society for itself, and the definition is liable to vary over time."

Soros has no great quarrel with democracy in moderation, but warns us to beware of the unruly masses. He fears, for example, that if the General Assembly of the United Nations were turned into an effective legislative body, "we might just have an overdose of democracy, with every NGO breaking down the doors with legislative proposals. International civil society is capable of great achievements such as the ban on land mines, but with the help of the Internet it could become too much of a good thing. We have all seen what happened at the WTO meeting in Seattle." The self-appointed, self-righteous billionaire with a secret plan for the world goes on to tell us that he is "rather leery of self-appointed, self-righteous NGOs."

The limits of the Soros worldview were especially evident in his April 13, 1994 testimony before the Banking Committee of the U.S. House of Representatives. He explained to committee members that when a speculator bets that a price will rise and it falls instead, he is forced to protect himself by selling—which accelerates the price drop and increases market volatility. "No great harm is done," he told the Committee, "except perhaps higher volatility," unless everyone rushes to sell at the same time and a discontinuity is created, meaning that a speculator who has to sell can find no buyers and consequently may suffer "catastrophic losses." When Soros says, "No great harm is done," he means there is no threat to the integrity of the system and the losses of the speculators who created the crisis fall within acceptable limits. The millions of people whose lives and livelihoods are disrupted by the machinations of the global financial casino in which they have no say simply aren't on his screen.

Soros takes no note of the fact that from an élite perspective, the genius of finance capitalism is its ability to manage the money system in a way that maintains a sharp distinction between those who live by their labor and those who live by money—keeping money scarce for the former while allowing the latter to create it in abundance through the interaction of debt pyramids and financial bubbles. The result is an inexorable transfer of control over the real wealth of society from the many whose labor produces the goods and services by which we all live to the financial elites who make only money. Enough money trickles down to the working classes in times of economic boom to create the illusion that new wealth is being enjoyed by all. Behind the illusion, however, there is a darker reality of growing inequality and the depletion of real wealth. Either Soros has not seen through to the reality behind the illusion or he chooses to ignore it.

The Contradictions

Soros professes his allegiance to two masters: maximizing private profit in his market dealings and the public good in his philanthropy. Indeed, he asserts as a guiding principle that, "People should separate their role as market participant from their role as political participant. As market participants, people ought to pursue their individual self-interests; as participants in the political process, they ought to be guided by the public interest." It's a tidy bifurcation, but begs the question of whether it is possible for either individuals or society to sustain such a division between private greed and public citizenship.

Consider what it means in the specific case of George Soros, who at one and the same time is investing hundreds of millions of dollars for his private profit in the countries of Eastern Europe and spending still more hundreds of millions through his foundations in those same countries to shape their economic and political policies in the public interest. One marvels at the discipline that would be required to compartmentalize these interests in one's daily dealings. When Soros meets with political leaders, including heads of state, how are they to know whether they are dealing with the private Soros or the public Soros? Can even Soros be clear which he is representing in any given encounter? When Soros The Beneficent finds himself pitted against Soros The Greedy, whose side is Soros the Arbiter most likely to favor?

The Soros reform agenda reveals the deep conflicts. Most of Chapter 10, "A New Global Financial Architecture," is devoted to spelling out the myriad reasons why governments of countries at the periphery of the global economy best serve their citizens by regulating financial markets, foreign investors, and economic borders. Yet Soros concludes that "the instability of the international financial system has no architectural solution at present; it is more a challenge for day-to-day management" and declares capital controls, the obvious step to curtail instability, to be "beggar-thy-neighbor policies that could disrupt the global capitalist system."

Soros the Benevolent has confronted Soros the Greedy and Soros the Greedy wins hands down. Soros the Arbiter proceeds to settle for a no-reform strengthen-the-status-quo "solution" that calls for the three stewards of global capitalism—the IMF, the World Bank, and the WTO—to keep markets open to foreign predators, keep the periphery in debt (but not too much debt), and step in when the system falters with generous bail-outs for those who made bad bets.

The Soros treatment of democracy is similarly conflicted. He properly acknowledges that "Open society cannot be designed from first principles: It must be created by the people who live in it." Yet his proposal for creating open society centers on a proposed alliance of the world's most powerful states acting under the tutelage of the United States to impose on other states an unspecified set of open society principles. This sounds distressingly similar to the undemocratic, top-down process by which an alliance of the United States, the European Union, Canada, and Japan under the leadership of the United States acts through the IMF, World Bank, and WTO to dictate the principles of open markets to the rest of the world. In the end, the main difference between the "open society" of George Soros and the "open markets" of the market fundamentalists who Soros criticizes is that the former includes just enough space for self-criticism and error correction to prevent the self-destruction of capitalism's powerful mechanisms of wealth extraction and concentration.

Quoting the famous dictum of Cardinal Richelieu that "states have no principles, only interests," Soros concludes that his plan for open society can succeed only with the strong support of civil society. "If citizens have principles, they can impose them on their governments. That is why I advocate an alliance of democratic states: It would have the active engagement of civil society to ensure that governments remain true to the principles of that alliance." The Soros plan thus calls for civil society to impose the principles of open society on powerful states that will in turn impose them on weaker states.

It is here that Soros reveals the most fundamental contradiction of his plan—and the reason civil-society groups must be wary when the beguiling billionaire comes calling with checkbook in hand. "As the recent demonstrations in Seattle and Washington have shown, civil society can be mobilized in opposition to international institutions; a way must be found to mobilize it in their favor.… While civil society is an important part of open society, the common good cannot be left solely in their care. We need public institutions to protect the public interests. The WTO is such an institution; it would be a pity to destroy it."

The thrust of the secret plan for civil society Soros intends to implement through his network of foundations is thus revealed: to mobilize civil society in support of the institutions that to date it has valiantly opposed (even in the face of massive police violence and brutality) as elitist, undemocratic, and a threat to the health of people, community, and planet. Putting it bluntly, Soros plans to buy civil society. The chutzpah of this undertaking is exceeded only by its grand contradiction. Soros needs civil society because it is motivated by principle, not money. To buy civil society, Soros would first have to destroy the dedication to principle that makes it an essential element of his plan.

In his conclusion Soros tells us, "I have learned a lot from other people's criticism, and I can continue to do so after the book is published." I thus commend to him the biblical instruction that "No man [nor woman] can serve two masters." At any given point in our lifetime we each make our choice as to whether we will devote our life to the practice of public citizenship or the pursuit of private greed. George Soros now faces such a choice. If he proceeds with his plan to use his money and influence to realign civil society behind the institutions of greed and his personal financial interests he has made one choice. He could yet, however, make a choice for citizenship by heeding his own critique—which is consistent with that of civil society—and mobilize his foundations in support of civil society's self-defined mission to align the institutions and values of the economy with the interests of life.

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