



Written by [Joe Wolverton, II, J.D.](#) on May 2, 2011

George Soros a Student of the Austrian School?

George Soros courageously walked into the Cato Institute on Thursday to debate some of the nation's leading scholars of the Austrian School of economics. Specifically, the billionaire backer of "regime change" sat down with Richard Epstein, Hayek expert Bruce Caldwell, and a moderator to discuss Friedrich A. Hayek's *The Constitution of Liberty*, a new edition of which was recently published by the University of Chicago Press.



The so-called Austrian School of economics is named after the country of origin of the modern proponent of the theory, Carl Menger. Menger was an economist at the University of Vienna and is credited with making significant contributions to the "theory of value." Menger reckoned that the economic value of a thing derives from the mind of man and not from any inherent aspect of the good or service. In practice, markets set value by taking into consideration the assignment of value by producers and consumers and then this valuation is revealed in a price system.

As described by Congressman Ron Paul in his book [Liberty Defined: 50 Essential Issues That Affect Our Freedom](#), the Austrian School provides "the most robust defense of the economic system of the free society that has ever been made." Not exactly the sort of position typically attributed to George Soros.

F.A. Hayek, author of the book that was the subject of the Cato confab, was a student of Menger and a champion of the Austrian School in his own right. Most would be surprised to learn that Soros claims to have been significantly influenced by Hayek's friend, Karl Popper. According to coverage of the panel discussion [published](#) on April 29 in *Reason*:

It might be news to some that Soros studied under and was profoundly influenced by Hayek's best friend, the Austrian classical liberal economist/philosopher Karl Popper, and in fact (as Soros said yesterday), sided with Hayek in some of the famous-for-economics pre-war debates between the two econo-pals over methodology and principle. Before shifting his non-investment spending focus on "regime change" in America during George W. Bush's first term, Soros' main contributions to applied economic philosophy were creating Economics and Philosophy departments at his Central European University (at which much Austrian econ can be found), and flogging his own Popper-derived "Theory of Reflexivity" to explain how irrational market actors working with incomplete information create feedback loops that produce bubbles, instability, and (most importantly to his



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own life, though not to the success of propagating his philosophy) excellent investment opportunities. The puzzle for those of us who've been watching the guy for two decades is how Soros could travel so decisively from Popper and Hayek to a startlingly reactionary stance against "market fundamentalism."

As the day went along, Soros (a man familiar with the weaving and marketing of half-truths) continually interchanged Hayek and the Austrian School with the Chicago School of economic theory. A synopsis of Soros's shady attempt at substituting Chicago as a synonym for Austria was [published](#) in *Politico*:

Friedrich Hayek is generally regarded as the apostle of a brand of economics which holds that the market will assure the optimal allocation of resources — as long as the government doesn't interfere. It is a formalized and mathematical theory, whose two main pillars are the efficient market hypothesis and the theory of rational expectations.

This is usually called the Chicago School, and it dominates the teaching of economics in the United States. I call it market fundamentalism.

The record of the relationship between Hayek and the Chicago School is not so chummy, however:

Key words: "generally regarded." As Jason Sorens noted, "So Soros fundamentally misunderstands Hayek." Arnold Kling flushes out the complaint:

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.

Hayek, in fact, was frequently at odds with the Chicago School. This is not some super-obscure, hair-splitting distinction; it's right there on Wikipedia:

Though a faculty member at the University of Chicago, his faculty position was unpaid and he is usually categorized not as a member of the Chicago School, but rather more associated with his time at the London School of Economics, as well as the Austrian school of economics.

Why would George Soros — a man notorious for spending billions on building his version of a political hall of mirrors where everything is warped and cast in deliberately unrecognizable shapes, most of which frighten common people with the false fire of "global threats" — willingly walk into a room where the reflections of not only his tactics but his credibility would themselves be cast in unflattering ways? Could the ultimate huckster be going legit? As the April 29 *Reason* [article](#) by Matt Welch speculates:

Did appearing at Cato to discuss Hayek amount to a first step out of the partisan ditch Soros has dug for himself? Though *Politico* is semi-teasing that storyline, and though Soros did cause some jaws to drop by agreeing with Richard Epstein about a presumption against regulation, I seriously doubt it. You don't spend six years building up mirror institutions to what you perceive as the institutional attack-dog Right unless you on some level think the them has grown far too dangerous to go unopposed. That remains true even if us regains the White House and Congress, outnumbers the media them by any sane measure, and mangles Hayek in the service of slandering Chicagoans. Shoddy intellectualism in the defense of anti-market-fundamentalism is and will likely remain no vice.

The video of Soros's appearance at the Cato Institute celebration of Hayek is available [here](#).



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Americans concerned about the restoration of our Republic's financial stability are advised to study the principles of the free market espoused by professors of the Austrian School.



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