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"How to prevent the global capitalist system from destroying itself."

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If Bill Gates was the paradigmatic figure of the PC era, George Soros is the defining figure of the network age. Both have acquired enormous fortunes and tremendous political influence by intuitively understanding, quicker and deeper as most others, the nature of their environment. The network age, however, precedes, and will go beyond, the PC. A network is a paradigmatic communication pattern while a PC is merely a technological infrastructure. The financial markets, since their inception in 17th century Amsterdam, have always worked in a network mode. This is one of the reasons why they could expand so rapidly once the technological infrastructure supported this pattern of communication. Characteristically, Gates began his career in the 1970s while Soros started working in the financial markets in the late 1950, first in London and later on Wall Street.

Beyond their larger-than-life status the two have little in common. Gates, all the American middle class, expresses little vision or interest beyond running a successful business.[1] Soros, on the other hand, has been engaged since 1979 in massive socio-political programs carried out through his philanthropic Open Society Foundation. Originally, the book was conceived to detail the world view behind this program: philosophical reflections based on the experience of some forty years of living in the network environment. Many of these ideas have already been presented in an abbreviated form in the essay The Capitalist Threat which appeared in the Atlantic Monthly in February 1997.[2]

The book, consists of two parts. The first half is devoted to a lengthy theoretical exposition of the conceptual framework that guides Soros' understanding of the (networked) world. The second part focuses on the current financial crisis and proposes measures "to prevent the global capitalist system from destroying itself" (p. xxviii).

The Experience of Networks: Reflexivity, Indeterminancy and Radical Fallacity

What makes Soros' at times a bit home-made philosophy interesting is that it deeply reflects the characteristics of the network environment. The central element of his framework is the concept of *reflexivity*. Reflexivity means that self-awareness is part of the environment. Since the future is man-made, thinking about the future will inevitably influence the future itself, thus makes it structurally unpredictable. The principle of reflexivity is derived from Karl Popper's differentiation between the natural and social sciences. In the former, the knowledge acquired about a subject, for example the motion of stars, does not influence the subject itself. In the latter the exploration of the subject is part of the subject itself and does influence its development. Similar ideas have recently been stressed by Anthony Giddens.[3]

In economics, reflexivity runs counter to the notion of *equilibrium* which an free market system is supposed to tend towards. It is, indeed, the reason why open systems do not reach equilibrium but are prone to instability and self-increasing trends, cycles of boom and bust. Development is not linear but feeds on itself. Instead of balancing towards the point of equilibrium self-reinforcing trends create unstable far-from-equilibrium conditions.

The condition of *reflexivity* would not be important if it weren't combined with another condition: the *indeterminacy of reality*. This means that we have, at best, imperfect knowledge of the reality. In absence of an absolute understanding of reality, trend following is a rational strategy. The trend is the most readily recognizable factor shaping the future. Even those who think that Internet stocks are overvalued must admit that they were a good investment. Under conditions of limited knowledge and radical swings, everything can change at any time and what might have been true for a long time does not need to be helpful any longer. The result is a radical *fallacity*: everything we know will turn out to be wrong, sooner or later.

The two central characteristics of the network environment, reflexivity and fallacity, create a condition of extreme flexibility. Everything can change quickly and radically. Everything one knows must be critically reviewed at all times and, if necessary, abandoned. Nothing is exempt from revision.

Soros, true to his own principle of fallacity, claims that the simple dichotomy between an open and a closed society is no longer adequate. Under the condition of extreme flexibility a society can be too open to sustain the basic democratic institutions which rely on a set of shared values among its citizens. The instability introduced by volatile financial markets threatens the normative foundation of the open society.

The Network Crisis: Structural Flaws of Financial Markets and Remedies

This leads to the second half of the book entitled The Present Moment in History. We are at a point where the financial markets have spun put of control and now threaten to destroy civic life. The crisis of the global capitalism has three main reasons. First, the flaws in the banking system, second individual countries at the periphery are being decoupled, and third, the "evident inability of the international monetary authorities to hold it together" (p.171). The three reasons are interrelated through enormous unchecked growth of the financial markets in the last three decades. The flaws in the banking systems are mainly caused by the new investment tools -- futures, derivates, swaps -- made possible by complex computer systems and the abandoning of regulatory oversight. These investments are not only largely unregulated but also they do not show up in the balance sheets of the banks and can therefore not be audited.

The result are huge unchecked risks. The near collapse of the Long-Term Capital Management last fall, a hedge fund with close to $100 billion liabilities that had to be saved through the intervention of the Federal Reserve Bank of New York, was just the tip of the iceberg. The international financial authorities add to the instability by protecting the lenders in an international crisis. As Walter Wriston, former CEO of the CitiBank, once said: *Countries don't go bust!* This only because they are not allowed to declare bankruptcy since this would hurt the lenders. Most programs of the International Monetary Fund (IMF) are directed towards ensuring that the countries receiving support continue to pay back their debts. This is not surprising since the IMF needs to borrow its money from those institutions which have the strongest interest in the debts being paid back, international banks. Consequently, **"the IMF is part of the problem, not part of the solution"** (p.148).

The proposed solution is to set up a de facto international central bank to regulate the financial markets and replace the IMF which, due to its dependency, primarily promotes the interests of large commercial banks. A procedure to bankrupt individual countries would allow them to get rid of unfair debt and continue to be part of the global markets but on their own terms, rather than in absolute dependency from the creditors. While this goes against the interests of the creditors, who control the financial system at the moment, it would add, paradoxically, stability to the system by equally distributing the risk among creditors and debtors.

What is strangely missing from the discussion of remedies is taxation. The proposed Tobin-Tax,[4] a levy on all currency transactions to slow down the pace of capital movement and thus curb speculation, is not even mentioned. Soros' seems to underestimate the decisive element of the increased velocity of capital. Faster money means more money and faster money also means more volatility and instability. This blind spot is even more surprising in the light of Soros' understanding of the nature of networks. He argues, for example, against the notion that networks have no center. "Despite its nonterritorial nature, the system [of the financial markets] does have a center and a periphery. The center is the provider of capital; the periphery is the user of capital." And as always power is at the center and "the rules of the game are skewed in favour of the center" (p.105). While it can be disputed where the center is located -- in London, NYC, Tokyo, or offshore -- it is clear that the centrality arises out of the bundling of strategic decision making capabilities. The effect is distributed centralization. A typical phenomenon in a network environment.

Markets ueber alles: The Moral Crisis in the Age of Global Networks

Underlying the financial crisis is a political crisis. The ideology of "market fundamentalism", the belief that every aspect of social life is best organized according to economic market principle, has replaced civic spirit and discredited collective decision making. While the market, the mechanism to pursue individual interests, expanded to a global scale, the political system, the mechanism to pursue collective interests, remained stuck on a national level and is even receding from there. But aggregated self-interest, as expressed in the market, is not the same as collective interest and rules must be formulated to channel self-interest in collectively beneficial directions.

> "Market discipline needs to be supplemented by another discipline: Maintaining stability in the financial markets ought to be an explicit of public policy" (p.176).

The aim of the book is, ultimately, a moral one. "The fact remains that anonymous market participants are largely exempt from moral choices as long as they play by the rules. In this sense, financial markets are not immoral, they are amoral" (p. 197). But without morals, or shared civic values, open societies disintegrate. Collective decision making, as expressed in social values in general and in the democratic political process in particular, needs to frame individual decision making. If only to prevent the market system from destroying itself.

It is a sign of the sad state of our current political culture and the degree to which a vulgar neo-liberalism dominates main stream discourse that such a view is deemed to be radical.

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Soros, George (1998). The Crisis of Global Capitalism: Open Society Endangered. New York: Public Affairs pp.245 ISBN1-891620-27-4