

*“He’s like Marx, only right.”*

## Soros, Epstein, and Caldwell Debate the Meaning of Hayek

In 1960, F. A. Hayek published an important book that acted as the positive counterpart to his more famous *The Road to Serfdom*. Whereas the latter fiercely critiqued the very idea of a centrally planned economy, the former provided his view of what should take its place. This spring, a distinguished panel convened in the Cato Institute’s F. A. Hayek Auditorium to discuss the new, definitive edition of that work, *The Constitution of Liberty*, edited by Ronald Hamowy. The panel included Bruce Caldwell, Hayek’s intellectual biographer; Richard Epstein, the brilliant legal scholar; and George Soros, the hedge-fund billionaire and founder of the Open Society Foundations.

Soros opened his talk with his own interpretation of the great economist. “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,” Soros said. He went on to describe what he considers the two main pillars of this brand—the efficient market hypothesis and the theory of rational expectations—which, he insisted, place Hayek firmly in the dominant strain of American economics. Most label this breed the Chicago School. “I refer to it as market fundamentalism,” Soros said.

Richard Epstein did not concur. “In some sense, I’m taking exactly the opposite side of George Soros,” he said. While Soros praised Hayek’s warning “against the slavish imitation of natural science” in the social sciences, Epstein thought his ideas weren’t systematic enough. In acknowledging that they were “enormously instructive,” he ultimately concluded that those

ideas were “incomplete.” Epstein argued furthermore that Hayek’s work points not to unfettered markets but to a “presumption against regulation.”

Giving voice to some of the raised eyebrows in the audience, Bruce Caldwell responded to Soros. “I think that George has a handle on some parts of Hayek, but misunderstands other parts,” he said. With a better grasp of the missing pieces, Caldwell was convinced that Soros “would identify himself, I’ll say it provocatively, as a Hayekian.” He then countered some of the billionaire’s specific claims. Hayek actually rejected the usefulness of the so-called twin pillars in “capturing the workings of the market process,” Caldwell told Soros, demonstrating that “he’s not the sort of mar-

ket fundamentalist that you’re describing. I think a pithy way of putting this is that there’s definitely a difference . . . between Chicago and Vienna.”

Continuing his earlier call for all sides to acknowledge that they only have half of the truth, Soros made some concessions. “Maybe we can find common ground,” he said. “I

*Continued on page 19*



A Cato Book Forum on April 28 for the new and definitive edition of *The Constitution of Liberty* by F.A. Hayek featured spirited debate among financier **GEORGE SOROS**, legal scholar **RICHARD EPSTEIN**, and *Hayek Collected Works* editor **BRUCE CALDWELL**. The new edition, edited by Cato fellow Ronald Hamowy, is published by the University of Chicago Press.



At the *Constitution of Liberty* event Cato senior fellow **RICHARD RAHN** (right) talked with former Virginia governor **JIM GILMORE**, now president of the Free Congress Foundation.

enforcing sunsets to pressing for additional scrutiny. Most importantly, he calls for the scope of National Security Letters to be narrowed. “There is no legitimate reason to indefinitely retain detailed information about tens of thousands of Americans who are not suspected of involvement in terror or espionage,” he writes. Sanchez acknowledges the climate of fear and uncertainty that vindicated these expanded powers in the first place. “Now, with the benefit of a decade’s experience,” he concludes, “we have the opportunity to do better.”

### Development Tax Scams

Politicians often find creative ways to finance their spending habits. In “**Crony Capitalism and Social Engineering: The Case against Tax-Increment Financing**” (Policy Analysis no. 676), Cato Institute senior fellow Randal O’Toole details one increasingly popular method. Tax-increment financing (TIF) is a mechanism that uses taxes generated from new developments to subsidize those same developments. Yet, far from achieving its stated purpose of economic improvement, TIF is often employed to capture scarce tax dollars otherwise intended for schools, libraries, fire departments, and various urban services. Indeed, “most cities can use TIF to increase their rev-

enues at little political cost,” O’Toole writes. Often, this money is then funneled into favored projects, which range from shopping malls to sports stadiums to the latest fads in urban planning. “No matter how well-intentioned, city officials will always be tempted to use TIF as a vehicle for crony capitalism, providing subsidies to developers who in turn provide campaign funds to politicians,” he writes. O’Toole examines the mechanisms of TIF, tracing the circumstances of its origin and the politics behind its abuse. Ultimately, he concludes, it is little more than an instrument of collusion between market players and an increasingly powerful government—one that should be repealed rather than reformed.

### Dumping on Exports

“The president exhorts U.S. exporters to ‘win’ a global race,” writes Daniel Ikenson, associate director of trade policy studies at the Cato Institute, “yet he ignores the fact that the government’s hodgepodge of rules and regulations has tied their shoes together.” In “**Economic Self-Flagella-**

**tion: How U.S. Antidumping Policy Subverts the National Export Initiative**” (Trade Policy Analysis no. 46), Ikenson identifies a glaring oversight in the centerpiece of this administration’s trade agenda. The National Export Initiative (NEI), which seeks to double exports by 2014, fails to include sensible reforms to the 90-year-old antidumping law. This omission “erodes the competitiveness of U.S. firms.” By restricting access to imports, the law raises the cost of raw materials for many downstream companies, thereby squeezing their profits and elevating foreign competition. The administration, in other words, is undermining its own initiative. “In countless ways, the antidumping status quo subverts the goals of the NEI and is an albatross around the neck of the U.S. economy,” he writes. Ikenson proposes several modest but meaningful reforms, which include granting legal standing for the consuming industries, requiring a public-interest test, and applying a lesser-duty rule. In the end, he raises the curtain on the antidumping regime, revealing how the idealized imagery surrounding the law conceals the real story. Antidumping is often misconstrued as a dispute between patriotic American producers and predatory foreign traders. “The battle is better characterized as ‘we against us,’” he writes. ■

*Continued from page 17*

think that we would all agree that government regulation is a necessary evil... so if you can avoid regulations, you should.” Many observers picked up on Soros’s criticisms of the less-than-savory political and legislative processes that produced the recent health care and financial-reform bills. In the end, the discussion was both provocative and civil.

The event mirrored a long-standing debate over the great economist’s influence. Last year, Kate Zernike wrote in the *New York Times* that Tea Party activists were resurrecting “long-dormant ideas [found in] once-obscure texts by dead writers.” She was referring, of course, to writers like Hayek. But she may have sold him short.

This is the same man, after all, who won the Nobel Prize in Economics in 1974. Years later, he met with President Reagan at the White House. He also met with Margaret Thatcher, who, in reference to *The Constitution of Liberty*, declared: “This is what we believe.” Hayek was described by Milton Friedman as “the most important social thinker of the 20th century” and by White House economic adviser Lawrence H. Summers as the author of “the single most important thing to learn from an economics course today.” He was the mind behind *The Road to Serfdom*, a book that has never gone out of print and, in fact, sold over 100,000 copies last year alone. Cato is proud to note that, in the last years of his

life, Hayek became a distinguished senior fellow at the Institute.

But even that doesn’t do him justice. “On the biggest issue of all, the vitality of capitalism, he was vindicated to such an extent that it is hardly an exaggeration to refer to the 20th century as the Hayek century,” John Cassidy once wrote in the *New Yorker*. Hayek, however, was much more than an economist. He also published impressive works on political theory and psychology. He embodied the type of intellect that influenced disciplines across the spectrum, remaining relevant long after his own lifetime.

As executive vice president David Boaz wrote on Cato@Liberty, “He’s like Marx, only right.” ■