

George Soros's Institute for New Economic Thinking: \$50 Million Vanity Project – or New Trojan Horse?

By Neil Maghami

Summary: George Soros literally wants to “reinvent” economics. He’s organizing conferences and making grants to promote new ideas that he hopes will discredit free market thinking, which he calls “market fundamentalism.” Is his plan foolish or fiendish?

Nobody who has read a business magazine in the last few years can be unaware that these days there really are investors who not only move money in anticipation of a currency crisis, but actually do their best to trigger that crisis for fun and profit. These new actors on the scene do not yet have a standard name; my proposed term is ‘Soroi.’”

– from “Making the World Safe for George Soros” by Paul Krugman, Nobel laureate economist and New York Times columnist.

The Annoying George Soros

Something’s up when America’s best-known liberal economist attacks a billionaire philanthropist who is famous for lavishly supporting liberal causes. Krugman’s snide remark testifies to the low opinion that economists, even liberal ones, have had for the currency trader who desperately wants to be considered a social philosopher.

Soros “would like the world to take his philosophical pronouncements as seriously



Radical philanthropist George Soros, the puppetmaster hard at work pulling the proverbial strings of the left.

as it takes his business acumen,” Krugman sniffs. As the author of hefty treatises with titles like *The Alchemy of Finance* and *The Crisis of Global Capitalism*, Soros likes to expound. He has a doctrine he calls “reflexivity” that is little more than the commonplace observation that people’s expectations influence their perceptions. Soros says his ideas are inspired by the principles of quantum physics, hence the name of his investment firm, Quantum Fund.

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What is it about Soros that causes liberals to keep him—but not his money—at a distance? Despite all his billions in philanthropic gifts to left-wing academics and advocacy groups, George Soros gets no respect.

Perhaps what liberals find so off-putting is Soros's pose as a committed capitalist who boasts that his goal is the transformation of capitalism.

Soros revels in his reputation as the world's greatest speculator. The man makes billions using off-shore investment instruments beyond the regulatory control of any sovereign state. He is fighting in a French court to overturn a conviction for insider trading. He told ABC News anchorman Ted Koppel, "It's not my job as a participant [in the market] to calculate the consequences [of my actions]. This is what a market is. That's the nature of a market."

Yet he insists on denouncing "global capitalism" and sneering at "market fundamentalism" as if microeconomics were the creation

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Address:

1513 16th Street, N.W.
Washington, DC 20036-1480

Phone: (202) 483-6900

Long-Distance: (800) 459-3950

E-mail Address:

mvadum@capitalresearch.org

Web Site:

<http://www.capitalresearch.org>

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Institute for New Economic Thinking

of the Taliban and he was the Apostle Paul smitten on the road to Damascus.

On August 12, 2011, Soros will celebrate his 81st birthday. If he's ever going to win liberal acclaim for his "philosophy," he will need to do something big, very big.

The Institute for New Economic Thinking

This may be why Soros has announced the creation of something called the Institute for New Economic Thinking (INET). (www.ineteconomcs.org). Soros has said he will give the Institute \$5 million each year for the next ten years.

The funding for INET will be channeled through Central European University, an international graduate institution of 1600 students founded by Soros in 1991 and located in Budapest, Hungary, where he was born in 1930. In 2005, Soros gave an additional \$206 million to the University's endowment, which at \$880 million is one of the wealthiest in Europe, according to the Chronicle of Higher Education.

INET vaguely describes itself as the result of discussions among "a group of top academics, policy makers, and private sector leaders" concerning how the economics profession should respond to "policy challenges presented by the economic crisis and the need to develop fresh approaches to economic theory..."

INET may be the closest the billionaire Soros has come to a personal vanity project. Or is it something more?

The agenda of the new organization; why Soros is supporting it; who is assisting Soros in the initiative; where it is making grants; and how INET could interact with other Soros-affiliated non-profits – these topics form the basis for the following report.

"Market Fundamentalism"

While the creation of INET has not received widespread public attention, it cannot have gone unnoticed among economists. This is no doubt because Soros has attracted no less than four Nobel laureates to the INET advisory board: George Akerlof, Sir James Mirrlees, A. Michael Spence and Joseph Stiglitz. (The name Paul Krugman, it should be noted, is nowhere to be found.)

INET also has assembled a glittering advisory board that includes economists Jeffrey Sachs, Director of the Earth Institute at Columbia University, Harvard's Amartya Sen and UCLA's Axel Leijonhufvud. Bruce Caldwell, editor of the collected works of F.A. Hayek, is on the board, but so is *Nation* columnist Thomas Ferguson and Drummond Pike, founder of the Tides Foundation.

Soros set the tone for INET's inaugural April 2010 conference at King's College, Cambridge, with a speech entitled "Anatomy of a Crisis."

Why Cambridge? Because, as one speaker at the conference pointed out, it was at King's College that John Maynard Keynes, the economist most beloved by liberals, spent his formative years. Keynes was lavished with praise by several speakers at the INET event, including University of Texas

economist James K. Galbraith, son of John Kenneth Galbraith.

One of Soros's goals is to have INET identify, mentor and send out into the world a new generation of economists inspired by Keynes. INET proposes nothing less than the reinvention of economics. The purpose of the Soros conference was not to propose specific public policy fixes or to blame Washington or Wall Street for the financial crisis. Instead, Soros wants economists to rework economics. Conference participants were urged to develop new paradigms that explain market imbalances and uncertainties and that reject "static" concepts such as rational expectations and market equilibrium. (Video of the conference sessions is online at <http://ineteconomics.org>)

The three-day conference attracted 200 academics who attended 50 sessions. But the star was Soros. What were his thoughts about the causes of the global recession?

Would Soros acknowledge the role of speculators like himself in the rise of casino-like global financial markets?

Would he make apologies for the global hedge fund industry?

No such luck. Soros's speech was another opportunity to score ideological points by attacking those who conspired to promote what he calls "market fundamentalism."

"I have formulated a specific hypothesis for the crash of 2008 which holds that it was the result of a 'super-bubble' that started forming in 1980 when Ronald Reagan became President of the United States and Margaret Thatcher was Prime Minister of the United Kingdom.

"The prevailing trend in the super-bubble

was also the ever-increasing use of credit and leverage; but the misconception was different. It was the belief that markets correct their own excesses. Reagan called it the 'magic of the marketplace'; I call it market fundamentalism. Since it was a misconception, it gave rise to bubbles. So the



Socialist economist Joseph Stiglitz

super-bubble was composed of a number of smaller bubbles -- and punctuated by a series of financial crises...So the smaller bubbles served as successful tests of a false belief, helping the super-bubble to grow bigger by reinforcing both credit creation and market fundamentalism."

Soros had no specific policy recommendations other than to demand the global regulation of capital flows. The rest of his speech was unremarkable, except for some grandiose self-congratulation.

Some of the economists fell in line behind Soros. They honored him for his insights, parroted his line on "market fundamentalism," and agreed that economics needed new paradigms and had to be rebuilt "from the ground up." Nobel laureate Joseph

Stiglitz complained about how economists use models and mathematical equations that presume too much "rationality" on the part of market players. Nobel laureate George Akerlof argued that the mistaken concept that markets are efficient was responsible for the economic crisis.

INET advisory board member Thomas Ferguson and INET executive director Rob Johnson complained that "market fundamentalism" distorts the US political system. They speculated that stronger American labor unions with larger numbers of dues-paying members will help restore the balance.

Not all the sessions were so intellectually flimsy. A session featuring Keynes biographer Robert Skidelsky and Bruce Caldwell, editor of the works of Friedrich Hayek, was a fascinating dialogue on how the Great Depression of the 1930s influenced economic thought. But other talks were little more than standard-issue leftwing America-bashing. James K. Galbraith complained that the US resembled a "predator state," where authorities regularly make "aggressive efforts to relax standards" to "keep the bubble going."

Given the diversity of speakers, it's hard to predict the intellectual quality of future INET initiatives. But one may question how those at the Soros conference could look at the government takeover of the auto industry and the U.S. healthcare system and seriously argue that the free market has run amok.

Writing in National Review Online, Mercatus Institute fellow Veronique de Rugy notes that Soros and the others behind INET erroneously think "economists and their free-market zeal have dominated not only the past 20 years but are also dominating the current debate over the response to the financial crisis and the health-care debate." She says, "Unfortunately, we see the exact opposite."

De Rugy observes: "Free-market economists continue to lose, as they have in the past. None of the proper lessons from the crisis have been learned. For instance, the unhealthy marriages between government and the financial industry and government and the housing industry are as strong as ever, and the government is taking over a major part of the economy...I think Soros's fortune would be better used trying to get the government out of the market."

In September 2010, INET organized its second conference at Central European University in Budapest. Unlike the King's College event, this conference was a more conventional meeting of academic papers and panel discussions without outbursts against "market fundamentalism" and Ronald Reagan.

It's noteworthy that Soros and his son Jonathan are trustees of the U.S.-registered Central European University Foundation. Other foundation trustees include John Shattuck, a former executive director of the ACLU Washington office, who is the Uni-



Veronique de Rugy

versity's president (since 2009), and Aryeh Neier, president of Soros's Open Society Foundations. Like Shattuck, Neier is a former ACLU executive director. The Central European University Foundation appears to be dormant. It had assets of a mere \$317,627 through November 30, 2009, according to its most recently available IRS Form 990.

The INET Grant Program

INET is more than conferences in Europe. It wouldn't be a Soros initiative without an ambitious grant program.

INET is quick to point out that Soros is not directly involved in evaluating grant proposals. That's probably a wise decision given Soros's pet theory of "reflexivity," which he

considers his "life's work." (In a review of Soros's book, *The Crisis of Global Capitalism*, Federal Reserve Bank of St. Louis economist Christopher Neely calls reflexivity "windy amateur philosophy.") An INET press release quotes Soros: "While I hope reflexivity will be one of the concepts examined, there are numerous alternatives to the prevailing dogma that must be explored."

On October 21, 2010, INET announced it had "identified an initial 27 projects to be awarded grants through its Inaugural Grant Program, with a total target grant amount of about \$3.8 million over three years." The grant program is in keeping with Soros's goal for INET "to promote changes in economic theory and practice through research grants,

Task Force groups, academic partnerships, and conferences.”

INET also announced it had “identified an initial four Task Forces to be awarded grants with a total target grant amount of about \$3.2 million over three years.”

The press release adds that “starting in 2011, INET will conduct two grant cycles annually.” INET claims to have received more than 500 proposals for grants. These proposals were reviewed by a research jury and whittled down to 70 finalists. The 70 finalists were in turn narrowed down to 27 project grants and 4 grants to research task forces.

The initial grants focus on three areas “that the Institute believes central to the onset, the worsening and the consequences of the crisis, specifically:

- * the inadequacy of existing economic knowledge in macroeconomics and finance;
- * the narrowness of current economic research and analytical approaches which overly favor mathematical and statistical economic research strategies versus analysis of similar events in economic history;
- * the causes and consequences of economic growth and development, particularly as they relate to human capital and economic inequality.”

A few examples: to reduce economists’ reliance on equilibrium theory in macroeconomics and efficient markets theory in finance, INET gave a grant (amount unspecified) to Boston College’s Edward J. Kane and two others for a project “To Develop a Market-Based Concept of Systemic Risk and to Develop Operational Indexes to Track Its Behavior Across Countries and Through Time.” At the Cambridge conference Kane examined institutional reasons why financial regulators



James K. Galbraith

failed to anticipate the fiscal crisis. He favors creating a “West Point for top regulators” to reduce the risk that regulators will fail to monitor financial firms and detect mismanagement.

In search of new mathematical methods outside of economics, INET gave a grant to three Carnegie-Mellon economists to show how new computer modeling techniques would resolve macroeconomic disputes. Steven Fazzari, the associate director of the Weidenbaum Center at Washington University,

St. Louis, received a grant to develop a new model for Keynesian macroeconomics.

To reduce the dominance of mathematics and statistics in economic training, UC Berkeley’s Barry Eichengreen and Duke University’s Bruce Caldwell, the Hayek scholar, received separate grants to support the training of more graduate PhDs in the history of economics. At least ten grants support specific topics in the history of economics. They range from an analysis of the impact of banking crises on income inequality (project to be led by

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Oxford economist Tony Atkinson) to an intellectual history of the Coase theorem (to be written by Steven Medema, author of *The Hesitant Hand: Taming Self-Interest in the History of Economic Ideas* [Princeton, 2009]), to a biography of “Paul Samuelson and the Keynesian Golden Age.”

Despite the absence of a project on reflexivity theory, George Soros congratulated INET on its grants: “The Institute’s programs are encouraging economists to rethink the very foundations of economics, as the financial crisis has revealed the current paradigm as a failure. Supporting new economic thinking through initiatives such as the Grant Program will have a tremendous impact on people’s lives, as the economy is the foundation of our existence and determines how we live. INET is a philanthropic project I am most proud of.”

How much new thinking will INET promote? “Giving money to people who already are near the top of the status pyramid in the academic community is not going to do much at the margin to effect change,” writes economist Arnold Kling, a member of the financial markets working group at the Mercatus Center. “I do not think that George Soros will get much bang for the buck giving his millions to Berkeley.”

How INET Promotes Other Soros Initiatives

While the INET grant program funds research, it also develops future talent. As the grant program press release states, “The students of today are the researchers and professors of tomorrow.” But you don’t have to be a researcher or professor to help Soros achieve his political goals. Some INET beneficiaries might eventually be steered towards jobs with public policy organiza-

tions that receive support from Soros’s Open Society Institute (2009 assets: \$1.9 billion). They would then become part of a growing army of policy analysts, spokespeople, and researchers whose salaries are covered by Soros grants.

A review of its 2008 IRS Form 990 reveals that the Open Society Institute made some very large grants: \$2.1 million went to the Center on Budget and Policy Priorities; \$400,000 to the Center for Economic



and Policy Research; and \$900,000 to the Economic Policy Institute. The Center for American Progress received \$1,000,000. The New America Foundation received \$450,000. All these institutions could use more hands on deck to promote their big government agenda.

Like the Trojan Horse of Greek mythology, INET’s purpose may not be the reinvention of economics so much as the nurturing of more policy advocates working at Soros-funded institutes and think-tanks.

Sound far-fetched? Consider the case of Human Rights Watch (HRW), a well-established

organization that has received Open Society Institute funding for many years—\$550,000 in 2008. The organization was founded in 1978 to monitor Soviet compliance with the Helsinki Accords and report human rights violations in the USSR and Eastern Europe. To its credit, OSI has supported the creation of many independent civil society organizations in former Soviet bloc states. In September 2010, Soros announced a 10-year, \$100 million pledge to HRW.

It’s noteworthy that over time HRW has begun to share Soros’s own position opposing the war of drugs. HRW, in its own words, is concerned about whether “international drug control efforts are consistent with human rights protections” and how government drug policies affect “fundamental human rights.” That’s a fair representation of Soros’s views. A long-time supporter of drug legalization, Soros donated \$1 million to support Proposition 19, a California state ballot initiative to legalize cannabis for personal use that went down to defeat in November 2010.

OSI has given \$126,000 to Human Rights Watch to critique “over-reaching drug poli-

cies” abroad. It also has given \$248,000 to the Washington Office on Latin America to study drug policy in Central and South America, and \$4,000,000 to the pro-legalization Drug Policy Alliance.

If grantmaking for “human rights” can lead to opposition to the drug war and support for drug legalization, why can’t INET’s economics grantmaking do the same?

Conclusion

What good will come out of this latest Soros venture? No doubt an innovative economist may receive a grant and wisely do something other than push a political agenda or pay homage to John Maynard Keynes. And that research may help the U.S. to never again fall prey to the events that led to the recession that began in 2008.

But here’s the rub – does George Soros care about what happens to the United States?

As CRC editor Matthew Vadum has observed, Soros’s public statements suggest that he has given up on America and “seems to want Communist China to become a superpower, throwing its weight around on the world stage.”

In November 2010, while accepting a “Globalist of the Year” award in Toronto, Canada, Soros had this to say, as reported in the Toronto *Globe and Mail*: “China has risen very rapidly by looking out for its own interests. They have now got to accept responsibility for world order and the interests of other people as well...Today China has not only a more vigorous economy, but actually a better functioning government than the United States.”

If George Soros can say that, why should

Americans care what he says? Why credit his dedication to protecting “open societies” if he is ready to praise China’s oppressive government?

If so, let Soros dare to repeat it in front of an American audience, not in front of an admiring Canadian crowd. Let’s see how many Americans accept his money after that.

Certainly there’s a case to be made that we need “new thinking” about economics. But we also need some new thinking about George Soros, his role in American politics and philanthropy – and whether his influence is ripe for some serious downsizing.

Neil Maghami is a freelance writer and frequent contributor to CRC’s publications.

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For more on George Soros, see “Citizen Soros” by Matthew Vadum (*Organization Trends*, January 2011); “George Soros, Movie Mogul” by Rondi Adamson, (*Foundation Watch*, March 2008); and “Billionaires for Big Government: What’s Next for George Soros’s Democracy Alliance?” by Matthew Vadum and James Dellinger (*Foundation Watch*, January 2008).

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We need your help in the current difficult economic climate to continue our important research.

Your contribution to advance our watchdog work is deeply appreciated.

Many thanks.

Terrence Scanlon
President

PhilanthropyNotes

President **Obama**'s budget blueprint for fiscal 2012 includes a crackdown on the value of charitable tax breaks taken by affluent people. The president wants to cap itemized deductions at 28% for taxpayers in the highest income tax brackets, the Chronicle of Philanthropy reports. The plan calls for reducing by 30% the value of itemized deductions for individuals in the top bracket. (The top tax bracket is scheduled to rise from 35% to 39.6% in 2013.) Obama also wants to end tax cuts for Americans earning \$250,000 or more when those rates expire in two years and kill exemptions in the death tax that allow couples to pass on estates worth up to \$10 million to their heirs.

Meanwhile, others on the left want to increase charitable incentives. **Brookings Institution** analyst **Isabel Sawhill** wants to see the tax deduction for charitable giving temporarily doubled. "We need to get [wealthy people] to spend that money ... on socially beneficial things," Sawhill told the Huffington Post. "This is simply a device to pry that money out of them." **Norman Ornstein** of the **American Enterprise Institute**, thinks it's "an absolutely terrific idea."

The **Bill & Melinda Gates Foundation** said it is investing \$2 million in a company that makes an application for **Facebook**, the popular social networking website, in order to foster a sense of community among college students. The Schools App, developed by **Inigral**, allows students at a college to create their own group and exclude individuals outside their school. Inigral CEO **Michael Staton** likened it to a "virtual student union."

The **Republican National Committee** is carrying about \$23 million in debt as it gears up for the 2012 election cycle, according to new RNC chairman **Reince Priebus**. The \$23 million figure is roughly \$8 million higher than previously reported. Of the total, \$15 million is in outstanding loans and the balance is owed to vendors. The previous chairman, **Michael Steele**, was criticized for overspending and poor management.

Goldman Sachs WATCH

Despite all the adverse publicity Goldman has received over its generous employee compensation packages, the company is poised to hand out even more gargantuan benefits to its workers, a study conducted by Footnoted.com and the New York Times reveals. Employees received almost 36 million stock options in late 2008 — 10 times the amount issued the year before — when the stock traded at around \$79. Goldman stock is now hovering around \$175 so the stock options could be worth \$6.3 billion.

Goldman alumna Eileen Rominger became Director of Investment Management at the U.S. Securities and Exchange Commission last month. According to the SEC the Division of Investment Management protects investors and promotes capital formation through oversight and regulation of the nation's multi-trillion dollar investment management industry. Rominger comes to the SEC from the asset management industry, where she worked for the past 11 years at Goldman Sachs Asset Management and most recently served as the firm's global chief investment officer.