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SOROS' BUDAPEST LECTURES: MAIN HEADINGS OF A PHILOSOPHICAL CRITIQUE

The following points offer an abstract of criticism focusing on crucial issues. They are addressed to main junctures of articulation in the Budapest Lectures. This should be read in relation with my May 14th, 2009 document.

1/ Knowledgeability is embedded in human nature. This is ultimately grounded on the identity of the elements and basic structures constitutive of both the knowing subject and the known object. Fallibility is derivative and negative: error is failure of truth; it is not normal. And as a matter of fact we do know a lot of things. Esp. we can well have certain knowledge of the essential nature of things and of the order of reality in its various realms. Knowledge should not be confused with reductionism and scientifism.

2/ Reflexivity is controlled by rationality.

Rationality is the fundamental character of human nature. Theoretical rationality means (identifying) correspondence to reality. Practical rationality means that knowledge of reality is the absolute condition for a successful pursuance of self-interest. Further, human activity does not impinge on the order of things and the structure of reality. Rather it concerns particular events in the stream of reality, and affects their accidental configurations, not their essential attributes. Such effect as it may have can indeed be magnified in the realm of human affairs because of a distinctly human factor: the possibility of persistent and insistent error. But even so, the fact that man's action does not influence the essence of things and the structure and order of reality entails that its final outcome in each case (and in a sufficiently broad temporal perspective) is independent of its irrational intentions, and is only a natural consequence (according to the objectively valid lawfulness of reality) of the act itself. The role and range of reflexivity, as a systemic condition and not as mere reflection of ignorance or wishful thinking in

particular instances) is thus negated in the long run, and minimized in the medium.

3/ Natural systems are intrinsically stable (and can be shown to be so on some extremely general conditions of existence). Natural general equilibrium is dynamic. Thus it is both inherently periodic (and again this can be shown to be so on some very general conditions of existence) and self-adaptable to changing circumstances in the natural system (expansion, differentiation, deepening and higher integration).

Crises are the limits of periodicity (the uppermost points in the movement of the pendulum). Equilibrium and crises belong to the same order of things and observe the same logic of reality, being parts of the same cyclicity. A unified theory is therefore required for both of them.

4/ Interference in a human natural system causes distortions to its periodicity. In particular, interventions aiming to maintain its upsurge trend beyond its critical extreme limit, or to keep it persistently longer (or, in utopias, forever!) on the positive, and esp. uppermost, parts of its sinusoidal curve, disturbs its stability, while broadening the amplitude and intensifying the vehemence of its oscillation. The "noise" introduced to the clarity of the signal by means of such interferences increases the length, agitation and unpredictability of the adjustments that the natural system undertakes in response to the interfering irritation. No interference can of course alter the rhythm of the signal. Attempts to control, postpone or avert and avoid (!) economic crises (= limiting points) end up naturally by disrupting the rational, optimal distribution of roles and resources within the system, and magnifying the inevitable turmoil of the periodic, automatic and necessary restructuring towards optimal performance and maximal efficiency that the natural system effects of its own continually and in moments of crises, periodically, thoroughly.

The economic and financial history of the last decades followed exactly the predictable and inevitable pattern. By not allowing a consecutive sequence of relatively minor crises to act in their salutary way of creative destruction, or by trying to protect the economies (or worse, specific institutions) from their sweeping blow and thereby by trying to delimit their salubrious effects of spontaneous self-adjustment and deepening rationalization, authorities have caused the Megacrisis to erupt with extreme violence. And so the series of sovereign debt crisis, portfolio insurance crisis, the savings and loans crisis, the emerging markets crisis, the internet bubble, led eventually to the present Megabubble. Mishandled in exactly the same way, this crisis now starts to generate new asset bubbles, a sovereign debt crisis, and the rest will follow in ineluctable concatenation.

The cause of the present Megacrisis is one. In terms of general economy, it is at bottom some deep lying irrationality, a fundamental misallocation of roles, functions, resources and funds. Financially, this is expressed as excess capital, created for a variety of particular reasons and by a variety of specific means- for political purposes, ideological beliefs in the overcoming of cyclical processes, preoccupation on the part of investors and managers with short term gains

and speculation,-- and by irrational exuberance in stock markets, unsupportable levels of indebtedness, high leverage through increasingly complex derivatives and so on. When the bubble is burst, the wave of destruction hits first the weakest links in the chain of the globalised network along its fault lines, the weakest spots and the weakest sectors and the weakest institutions. The rest follow normally suit till the ground has been to a large extent cleared from existing imbalances and any significant weaknesses.

5/ Markets operate under the equalizing law of great numbers. The invisible hand that orders them is the law of dynamic equilibrium of natural systems. Prices are the variables that objectively reflect general hierarchical schemes of valuation of human needs on, and against, available and procurable resources- a system of calibration of human demands upon suppliable means of satisfaction and an objectivisation of the interrelated nexus of man's desires relative to human nature on the one hand and his environment as worked upon by his intelligence on the other. The more open, free and transparent the markets are, the more stable they become. Particular misalignments between prices and underlying fundamentals can only be due to various kinds of restriction imposed on the natural system, such as limitations of information and knowledge flow, flaws of transparency, obstacles of any description in the movement of goods and the availability of services, prohibitions, etc. Even these can be automatically to a large extent factored in the system of prices without too much economic destabilizing effect. On the other hand, a systematic misalignment of prices with fundamentals can only be caused and sustained by excess money cheaply supplied. Big and overabundant amounts of money on easy terms in times of rapid growth and hefty profits are an irrationality. There is a natural rate of interest- as the theory of the natural systems predicts and is amply testified by examples of ancient economic systems functioning without central banks and political interference.

6/ The morality of markets resides in the law of natural returns which apportions automatically (i.e. by the judicious agency of the objective invisible hand) due reward for success and punishment for failure. Risk provides the basic test of rational behaviour. Interference with that principle on any grounds is the major destabilization factor in any natural human system. The market ethics is stern but efficacious, as it is firmly geared to the ultimate law of self-interest.

A truly free market harmonizes objectively the equalization factor of the great numbers with the creativity of the innovative individual, and this with the power and organizational gains of big entities. Similarly on the political sphere, with a free society under a mixed-type constitution like the American democracy, the most developed and progressive instrument of societal organization in modern times.

Very big entities ("too big to fail") corporational or statal, is an anomaly which is usually the unintended product of laborious in form and protectionist in spirit regulation. They represent ways of profiting through avenues left open after the blockade of others more natural but closed to competition. The more constraints are introduced into a system, and the less its degree of freedom of movement is, the more of its productive energy is consumed unproductively in

internal friction. A really free system will rarely develop cancerous growth, and not while it is still in health. Too big entities can of course be broken by further regulation, but the most rational way of distributing size in an economic system is to allow it to develop freely unencumbered by heavy restrictive regulations and thus with maximal internal antagonism in the first place, rather than to first in effect encourage and promote the concentration of market power through complex and cumbersome arrangements with a marked anticompetitive, because protectionist, bias, and then to try to reign in the exceedingly big players thereby created with special or even ad hoc measures.

Freedom is the principle and the guarantee of an effectively rational market. It is the same for an effectively rational political system. And more generally, exercise of freedom and the pursuit of knowledge that can lead to real happiness alone, go intrinsically hand in hand together. Free market and a libertarian democracy and human progress are a triad in unity. And so the primary and fundamental purpose of the state is to safeguard and nurture them through the provision of the proper framework for their unimpeded functioning. The State should be simply a freedom producing, sustaining and securing organization. This is the cardinal *raison d'état*.

7/ Freedom by itself ensures for man in the nature of things differentiation and excellence as it allows the natural, uninhibited growth of individuals in an environment that definitively tends to bring to the surface in actuality what capabilities and potencies are best in each of them. Differentiation and excellence have a reinforcing feedback on competition and creativity. And all involve essentially rationality and truthfulness, theoretical and practical. And produce well-being. Given the positive (potent and non self-destructive) character of being in general, self-interest is bound up with competitive advantage and thus with differentiation and excellence. Which secure freedom. And so we come back to the beginning full-cycle. Freedom is the single defining condition of a natural human system.

Thus we do not need to add truthfulness into the definition of an open society- but only in its explication. Even more, there is no reason to emphasize the openness of a natural system: its liberty ensures its openness. Any constraint in movement of a natural system is a reduction of its degree of freedom.

Seeing that freedom is the ultimate principle of a human system appropriate to man's perfectibility and conducive to his well-being, undercuts also automatically all foundation from even the best intended dirigiste endeavours. For it is more important to maintain and secure freedom, and immeasurably higher value accrues to liberty, than any possible value and benefit could be obtained by interfering with it for any other good purpose whatever, apart of course from what is absolutely necessary in order to maintain and secure it. Apparently paradoxically, even measures conceived to serve ulterior purposes like the unimpeded pursuit of knowledge and human well-being (purposes which freedom itself is inherently serving) cannot be weighted regarding their final outcome against the loss of freedom that they would introduce.

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