



**OPEN SOCIETY
LECTURE SERIES**



Inaugural Lecture by George Soros

14 DECEMBER 1994

Open Society Lecture Series

Open Society Foundation for South Africa

OSF-SA is committed to promoting the values, institutions and practices of an open, civil and democratic society. It is working to assist in the establishment of a vigorous and autonomous civil society, not dominated by the state, in which minorities and divergent opinions are respected. It is governed by a Board whose membership is: Dr F Van Zyl Slabbert (Chair), Mr Fikile Bam, Dr Alex Boraine, Ms Leah Gcabashe, Mr Anthony Heard, Ms Rhoda Kadalie, Dr Mamphela Ramphele, Mr Khehla Shubane, Mr Peter Sullivan, Ms Helen Zille. The Executive Director is Professor Michael Savage.

The Board of the Open Society Foundation decided in 1994 to establish an annual **Open Society Lecture**. The lecture is to examine the ideas associated with an open society and will be given by persons prominent in public life. This publication contains the inaugural lecture.

George Soros

Mr George Soros is Chief Investment Advisor to the Quantum group of funds and Chairman of the Soros Foundations, which support democratic change. For his efforts in promoting the Open Society in Eastern Europe, he has been granted honorary doctorates from Yale University, Oxford University and the New School for Social Research. He has established foundations in 22 countries and in 1993 established the Open Society Foundation for South Africa, which he endowed with \$15 million for its initial period of three years. He lives in New York and London.

The Concept of Open Society

Since I am inaugurating the Open Society lecture series, I thought it would be most appropriate if I told you the saga of my own long-lasting involvement with the concept of open society.

It started very early in my life. I was 14 years old when the Germans occupied Hungary and started deporting Jews to extermination camps. I was very fortunate because my father understood the nature of the Nazi regime. He told me at the time that it was an unlawful regime, therefore the right response was not to obey the unlawful laws. He arranged false identity papers and hiding places for all the members of his family and for a number of our friends as well. Most of us survived the war.

SOVIET OCCUPATION

Then I had a taste of the Soviet occupation of Hungary and the formation of the Communist regime. I didn't like it. I found it stifling, especially after the adventures of the Nazi occupation. I decamped for England at age 17, with my father's encouragement. So I learned at an early age how vitally important it is what kind of regime prevails. It may be a matter of life and death.

In England, as a student, I read Karl Popper's book "The Open Society and Its Enemies". It made a deep impression on me because it showed that fascism and communism are similar in character: they both lay claim to the ultimate truth and they both proclaim that the end justifies the means. Doctrines of that kind lead to a closed society in which the individual is subjugated to the collective, society is dominated by the state, and the state is in the service of a dogma which embodies the ultimate truth. In such a society there is no freedom.

RIGID SYSTEMS

Popper juxtaposed the communist and the Nazi doctrines with another principle of social organisation which he called "open society". Popper as a philosopher did not like to give concepts exact definitions because he was afraid that rigid definitions may give rise to rigid philosophical systems that cannot be altered by experience. He preferred to proceed from right to left, to describe the concept and then give it a

label, rather than from left to right, to take a term and then give it definition. I have not re-read Popper lately, but I don't believe he ever defined what he meant by "open society". Open society is not governed by any doctrine but is based on the recognition that no one possesses the ultimate truth. Such a society needs institutions which allow people with different views and interests to live together in peace. It needs a democratic form of government which allows for the orderly transfer of power. It needs a market economy which allows the different tastes and preferences of the people to find expression. And, above all, it needs the rule of law.

PERFECT KNOWLEDGE

I read other books by Karl Popper which made an even deeper impression on me. I remember one in particular, "Conjectures and Refutations", which had the force of revelation. Karl Popper was primarily a philosopher of science. His main contribution was to show that, even in science, perfect knowledge is unattainable. We cannot go from singular statements to generalisations of universal validity by a process of logic. There is no such thing as inductive logic. Scientific generalisations can be stabilised only by an intuitive, inventive process. The generalisations have to be put forward as hypotheses which are subjected to testing.

What sets scientific generalisations apart from other kinds of rules is that they can, in fact, be tested in a public manner. This makes the generalisations much more reliable than they would be otherwise. They are not necessarily valid until they have been falsified. Many theories have, in fact, been falsified and replaced by better ones in a process which is, in theory, never-ending.

PROVISIONAL CONCLUSIONS

Popper's greatest contribution was to show that there is an asymmetry between verification and falsification. Scientific theories cannot be verified, only falsified. They are not embodiments of the ultimate truth but provisional conclusions in a process based on the recognition that we don't have access to the ultimate truth. This is a point of affinity between scientific method and the concept of open society because open society is also based on the recognition that nobody has access to the ultimate truth. This is not the only point of affinity. Scientific method has produced wonderful results; so has open society, because it allows people freedom to exercise their innovative and inventive talents.

But that is where the affinity stops. The principles of scientific method are well understood, partially thanks to the work of Karl Popper; but the principles of open society are not equally well recognised. I had an interesting experience recently, speaking to a group of intelligent people in England. One of them commented: "I had

never realised I live in an open society." Most people living in open societies are not even aware they live in an open society and, even if they are, they don't necessarily subscribe to its principles; and, even if they do subscribe to the principles, they are unlikely to acknowledge that those principles can be derived from the recognition that our understanding of the world in which we live is inherently imperfect.

This is one of the major defects in open societies. To some extent, it might be overcome. It may be possible to explain the principles more clearly and to build consensus around it, but I don't think the consensus would last indefinitely. Open society, even if it prevails, is bound to be a provisional arrangement which needs to be constantly re-affirmed through testing. Unfortunately, it is less likely to survive such testing than the generalisations established by scientific method. This is a point to which I shall return later.

DISEQUILIBRIUM

The main insight I carried away from my reading of Popper and of my student days altogether is that our understanding of the world in which we live is inherently imperfect. Wherever I looked, I could find defects. My main subject was economics, and I had considerable trouble with the theory of perfect competition which is based on the assumption of perfect knowledge. I also had some trouble with mathematics, which is used extensively in economic theory. So I found it more attractive to question the foundations of the theory than to excel in its applications. It didn't make me a good student, but it induced me to develop my own theory which is based not on the concept of equilibrium but on the possibility of disequilibrium. The disequilibrium is brought about by a discrepancy between the participants' perceptions and the actual state of affairs. In many cases, the discrepancy can be ignored as mere noise and the equilibrium theory applies. But there are other cases where the disequilibrium becomes dynamic and the participants' misconceptions can change the actual state of affairs. Such dynamic processes are initially self-reinforcing but eventually they are likely to become self-defeating.

SELF-DEFEATING PROCESSES

Such initially self-reinforcing but eventually self-defeating processes can be observed from time to time in financial markets, where they go under the name of "boom and bust". They don't occur very frequently but, when they do, they change the landscape; they affect not only the fortunes of investors but also the companies in which they have invested, or the entire economy. They are historic events as opposed to the humdrum, everyday activity of the financial markets.

After I finished my studies I became a participant in the financial markets, by acci-

dent rather than design, but once I became a participant, this theory of mine came in rather useful. I became a specialist in boom/bust sequences and, on balance, I seem to have had a better understanding of those sequences than most other participants. I won't bore you with the details of my career; suffice it to say that I became rather successful as the manager of a hedge fund. Hedge funds differ from ordinary funds in that the manager is rewarded by a percentage of the profits rather than a percentage of the amount of money he has under management.

CRITICAL THINKING

When I had made more money than I needed for my personal needs, I started thinking about how I wanted to use that money. That was in 1979, when my hedge fund reached \$100 million in size and my personal wealth must have been around \$20 million or \$30 million. I thought long and hard about what I really cared about and I decided on the concept of open society because people like me can live and flourish only in an open society. I set up a foundation called the Open Society Fund. Its mission was to help open up closed societies, make open societies more viable, and foster critical thinking which recognises that nobody has a monopoly on truth.

FIRST UNDERTAKING

My first major undertaking was in South Africa. I happened to have a Zulu friend who was teaching at a college in New York and then decided to move back to South Africa and got a job at the University of Transkei. I came to visit him and it gave me an opportunity to get to know South Africa from a vantage point which is not normally open to a white man.

South Africa was the perfect example of a closed society, badly in need of opening up. How to go about it? The obvious route was education, to empower disenfranchised black people to confront their oppressors on the basis of intellectual equality. The two great universities, Wits (University of the Witwatersrand) and the University of Cape Town (UCT), professed their devotion to the concept of open society. I was impressed by Stuart Saunders, who was Vice-Chancellor of UCT, and I decided to set up a number of scholarships for black students at that university. My scheme did not quite work out the way I had planned it; when I returned the next year to "inspect" the scheme, I was surprised and disappointed to find how alienated the black students felt at UCT and how hostile their attitude was.

My second trip was much less successful than my first because I had blown my own cover and the genuine human contact which I had enjoyed on my first trip was no longer attainable. At my request, Nadine Gordimer arranged a meeting with some leading personalities who were opposed to apartheid. But the meeting was less

than a roaring success. There was an imaginary pot of gold in the middle of the room and the participants were discussing ways in which it could be divided; that was not what I had in mind.

I looked at a number of projects, but I decided to support few. I recall John Samuel at Sached, the Black Sash, the committee of dependants of political prisoners, some internships for black journalists, MESAB (Medical Education for South African Blacks) and that's about all. I must admit that I gave up on South Africa. I felt that the apartheid system was so strong that it would be difficult to break it and, whatever one tried to do, there was a great danger that one became part of the system one wanted to destroy. That applied to the scholarship scheme at UCT. I had hoped to use the system to subvert it; by paying for their living expenses, I would get the government to pay for the education of black students. But it didn't work out that way: I gave 80 scholarships, but the number of black students increased by a small number and, as I mentioned before, they didn't feel very welcome. I decided to see through the students to whom I had given scholarships, but not to extend the scheme. I switched my attention to Eastern Europe.

MORE SUCCESSFUL

Here I was much more successful, probably because I knew the terrain much better. My main effort went into giving scholarships at Western universities for dissident intellectuals in Eastern Europe. That was the time when Hungary was applying for membership in the IMF and the World Bank and they couldn't very well refuse giving passports to dissidents. The scheme was so successful that the dissidents themselves started to worry that they were beginning to form a privileged class and would lose the moral high ground which they then occupied. They were afraid that being a dissident would become a career rather than a vocation.

ALTERNATIVE ACTIVITY

I approached a representative of the Hungarian government and asked them whether it would be possible to set up a foundation which would engage in an open selection process rather than confine itself to dissidents. To my surprise I got a positive response and, after some rather strenuous but amusing negotiations, I set up a joint venture with the Hungarian Academy of Sciences. This was in 1984. The joint venture effectively operated as an independent foundation inside Hungary, the first such venture anywhere in the communist world. This was a wonderful game in which each side tried to use the other for its own purposes. It was a game we won, because we believed in what we were doing while the other side did not.

Our goal was to foster any alternative activity which was outside the purview of the

official party-state apparatus. We believed that the prevailing dogma was false for the simple reason that it was a dogma and it would become apparent that it was false as soon as there were alternatives available. Therefore we were concerned with providing an alternative, not with deciding what kind of alternative it should be. We were deliberately indiscriminate in supporting unofficial activities. We became an institution of civil society with all its diversity.

It was a wonderful experiment. We were exempt from all the pitfalls that normally beset foundations. We didn't need to control how the money was spent; civil society did it for us, alerting us when people were not living up to their obligations. All the applicants were, in effect, volunteers, giving freely of their own time and energy and only asking for small amounts of money that would empower them to do what they wanted to do anyhow.

HIGHEST ACCOLADE

They were using the facilities provided by the state to engage in unofficial activities. The Ministry of Culture came to accuse us of being an alternate ministry of culture; we considered this the highest accolade because I was spending \$3 million a year in Hungary while the ministry was probably spending a thousand times that amount. I myself am now spending a hundred times more than the \$3 million I spent then, but I don't have the same sense of success.

Emboldened by my success in Hungary, I tried my hand in China, starting in 1986. There I was the loser. The story would take too long to tell, but I ended up with a Chinese co-chairman who, unbeknown to me, was a high official in the secret police. I closed the foundation as soon as I found out, just at the beginning of the student revolt which led to the Tiananmen Square massacre.

I also set up a foundation in Poland and then, when Sakharov was released from his confinement in Gorky and allowed to return to Moscow, I went to the Soviet Union and set up a foundation there. As the disintegration of the Soviet empire accelerated, so did my involvement.

NETWORK OF FOUNDATIONS

By the beginning of 1989 I was so active in the foundations that I had to give up my active involvement in running my hedge fund. I handed over the day-to-day responsibility to a team of younger men and the result was that the performance of the fund improved because they rose to the opportunity I provided. So I was rewarded for my philanthropy by the performance of my business. I don't have to tell you the whole story; suffice it to say that I now have a network of 23 foundations, including one in South Africa, and running these foundations takes more time and energy

than I have got. We are now in the midst of transforming this amateur effort into a professional organisation and that is my punishment for my early success in Hungary.

Since 1989, when I gave up the active management of my investment fund, I have become deeply involved in history. The collapse of communism – first the disintegration of the Soviet empire, then the disintegration of the Soviet Union – was a revolutionary process, the seminal event of our times. I was both an observer and a participant in this process.

THEORY OF HISTORY

This has enabled me to take my theory of history, which I started developing in the financial markets, a step or two further. As in the case of the financial markets, I focused on far-from-equilibrium situations and processes of dynamic disequilibrium. I don't have time to go into details, but, broadly speaking, I applied my analysis of boom/bust sequences to the framework of open and closed societies. This produced some rather encouraging results; I seemed to be able to anticipate the course of events more effectively than other participants.

But it also turned out to be a somewhat frustrating experience because it is much harder to influence the course of history than to make a profit on a boom/bust sequence in the financial markets. According to my theory of history, there is nothing inevitable about the course of events because the events are shaped by the participants' decisions. This is all very well in theory but, in practice, the participants' intentions are superseded by the unintended consequences of their actions, which is also part of my theory. In my case, it was not so much the unintended consequences but the lack of consequences, the lack of impact, that was so frustrating.

UNIVERSAL OPEN SOCIETY

As I saw it, the collapse of a very comprehensive and oppressive closed society offered an opportunity to establish a universal open society in its place. Since open society is a more complex, more sophisticated and more advanced form of social organisation than closed society, the transition could not be accomplished in one revolutionary leap without a firm helping hand from the outside, something along the lines of the Marshall Plan after the Second World War. But the open societies of the free world did not share my vision. I rushed in, hoping to blaze the trail but, as I looked back, I couldn't see too many people following. In any case, our impact was not sufficient to change the course of events.

I could observe only one occasion where outside intervention was determined

enough to cause a reversal of the prevailing trend, and that is happening in Ukraine right now. I take great pride in being an active participant and I keep my fingers crossed that the radical reform which is currently being put together will not run off the rails. For the rest, I see a pattern emerging which is far from assuring. What used to be a universal closed society has broken down into its constituent parts. The breakdown has brought about an economic depression which exceeds in its severity anything that the world experienced in the Great Depression of the 1930s. People are preoccupied with the daunting task of sheer survival. Universal ideas are discredited and, insofar as people can be mobilised behind a common cause, it is likely to be a threat to their national or ethnic survival. This creates a very dangerous situation because it means that ethnic or national grievances are exploited in order to mobilise society behind the state. That is what happened in Yugoslavia, with grievous results.

MATCHING DISINTEGRATION

What is even more disturbing is the attitude of the open societies of the Atlantic Alliance. They didn't rise to the occasion when the Soviet system collapsed and they don't want to get involved now, when the prospects are much less alluring. They fail to realise that the revolution which swept away the Soviet system is also affecting their future, because it has destroyed the stable world order which prevailed during the Cold War. I foresee a very real prospect that the disintegration of the Soviet empire will be matched by the disintegration of the Atlantic Alliance, and the disintegration of the Soviet Union will be matched by the disintegration of the European Union.

I mentioned earlier that open societies suffer from a fatal flaw: the lack of a belief in open society as a desirable form of social organisation. In some ways, freedom is like the air: people struggle for it only when they are deprived of it; when it is there, they take it for granted. But in another way, freedom is very different: if you don't care for it and don't protect it, it has a tendency to disappear.

GREAT ADVANTAGE

I should like to end on a more optimistic note. I believe South Africa has a good chance to make the transition to open society, a better chance than most countries in Eastern Europe. South Africa has a great advantage: most of the institutions necessary for an open society are already in existence: a judiciary and the rule of law; a central bank and a market economy, and so on. They were under the control of the white minority, but it should be easier to integrate them than to set them up afresh. The closest parallel to the transition process in South Africa is found in Poland. A rul-

ing elite recognised that it had lost its legitimacy, which does not imply that it had ever possessed it, only that it used to believe that it did. It engaged in an orderly transfer of power. Five years later, Poland is the healthiest country in Eastern Europe, indeed, by my standards, perhaps in the whole of Europe. I look forward to similar results in South Africa and I am glad that I can contribute, in a modest way, through the Open Society Foundation for South Africa.

George Soros
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JOHANNESBURG

Selected Publications by George Soros

Books

The Alchemy of Finance: Reading the Mind of the Market
(London: Weidenfeld and Nicholson, 1988)

Underwriting Democracy
(New York: Free Press, 1991)

Lectures and Addresses

National Dictatorships versus Open Society
(Lecture delivered at the Harvard Club, New York. November 1992)

Toward a World Order: The Future of NATO
(Lecture delivered at a conference "Democracy, Peace and Security in the New Europe". November 1993)

Hedge Funds and Dynamic Hedging
(Testimony to the US House of Representatives Committee on Banking, Finance and Urban Affairs, 13 April 1994)

The Soros Foundations Network
(Lecture to the European Foundations Centre Conference. November 1993)

The Theory of Reflexivity
(Lecture to MIT Department of Economics Conference. April 1994)

The Dangers of Post-Communism
(Testimony to US House of Representatives Committee, Foreign Affairs Subcommittee on International Security, International Organisations and Human Rights, 2 August 1994)

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