

George Soros and the Founding of Central European University

GEORGE SOROS

Born in Budapest in 1930, George Soros grew up in a family of educated, middle-class, secular Jews. Thirteen years old when the Nazis overran Hungary and began deporting the country's Jews to extermination camps, Soros managed to escape capture during the war. In 1946, as the Soviet Union took control of Hungary, Soros attended a conference in the West and defected. He arrived in England in 1947 and supported himself by working as a railroad porter and a restaurant waiter while attending university.

At the London School of Economics, Soros became acquainted with the work of Austrian-born philosopher Karl Popper, whose ideas on open society had a profound influence on Soros's intellectual development. Soros's experience of Nazi and Communist rule attracted him to Popper's critique of totalitarianism, *The Open Society and Its Enemies*, which maintained that societies can flourish only when they allow democratic governance, freedom of expression, a diverse range of opinion, and respect for individual rights. In 1952 Soros graduated from the London School of Economics and obtained an entry-level position with an investment bank. In 1956 he immigrated to the United States, working as a monetary trader and analyst until 1963. During this period, Soros adapted Popper's ideas to develop his own theory of "reflexivity," a set of ideas that seeks to explain the relationship between thought and reality. By applying reflexivity to monetary markets, he successfully anticipated, and profited from, emerging financial bubbles, and soon concluded that he had more talent for trading than for philosophy.

In the late 1960s Soros helped establish an offshore investment fund, and he set up a private investment firm that evolved into one of the first hedge funds. "I used the financial markets as a laboratory for testing my ideas," Soros wrote in 1991. "The results were rather encouraging: one thousand dollars invested in my fund, the Quantum Fund, at its inception in 1969 has grown to more than half a million dollars by now."¹

¹ Soros, George, *Underwriting Democracy*. New York: Free Press, 1991, p. xiii.

Teaching Case Writing Program Director Barry Varela prepared this teaching case under the supervision of Professor Joel Fleishman and Associate Professor Kristin Goss as a basis for class discussion rather than to illustrate either the effective or ineffective handling of an administrative situation.

KARL POPPER: LIFE AND THOUGHT

Born in Vienna, Austria, in 1902, Karl Raimund Popper attended the University of Vienna, where he studied the works of Marx and the psychoanalytical writings of Freud and Adler, earning a Ph.D. in philosophy in 1928.

Popper opposed the reigning school of philosophy in Vienna, logical positivism, which propounded the so-called verifiability criterion of meaning. The verifiability criterion states that metaphysical, theological, and ethical statements cannot be proven true (verified), serve only to express the feelings of a speaker, and are therefore meaningless; only mathematical or logical sentences are meaningful. The verifiability criterion can be summed up: “A genuine statement must be capable of conclusive verification”²

To counter the logical positivists, Popper returned to a longstanding philosophical conundrum, the “problem of induction” as formulated by David Hume. The problem of induction states that scientific statements can never be positively verified as true, but can only be proven false. For example, the statement “The sun comes up in the morning” can never be verified: regardless of how many times the sun has come up in mornings past, it is impossible to prove logically that the sun must come up tomorrow. Hume’s formulation cast doubt upon the inductive process (i.e., the movement from particular instances to universal generalization) by which science generally proceeded.

Turning the problem of induction on its head, Popper dismissed verifiability as a criterion, preferring to use the concept of falsifiability to distinguish scientific statements, which can be disproved, from nonscientific statements, which, while potentially useful, cannot be proved. To take the example in the preceding paragraph, a single instance of the sun *not* coming up would logically disprove the statement “The sun comes up in the morning”; the statement, while not verifiable, is in principle falsifiable, and therefore it is scientific. (Whether it is true or not is a separate question.) In contrast, the statement “Dogs are common domestic animals” is not falsifiable and so is not scientific; nevertheless, the statement may be meaningful and useful. Because all scientific statements must be, in principle, falsifiable, and none of them can be verifiable, Popper argued that all knowledge is contingent. Certainty is impossible, though of course some theories are much stronger than others. (It’s quite likely, though not absolutely certain, that the sun will come up tomorrow.)

At the time Popper was formulating his concept of falsifiability, many serious thinkers considered Marx’s theory of history, as well as Freud’s and Adler’s theories of psychology, to be “scientific” in the sense that they were based on observation and had explanatory power. Popper argued that neither Marxism nor psychoanalytic theory was scientific, because no observation conceivably existed that could disprove them. Being unfalsifiable, Marxism and psychoanalysis were unscientific (though perhaps useful in some ways).

In the late 1930s, Popper was forced, along with many of his fellow Jews, to flee Austria to escape Nazi totalitarianism. He resided in New Zealand until 1946, when he joined the faculty of the London School of Economics, where he taught for the next two decades.

Popper’s study of Marxism and psychoanalysis, as well as his personal experience in narrowly escaping Nazism, led him to apply his ideas about falsifiability to social and political philosophy. In *The Open Society and Its Enemies* (1950), he argued that adherents of Plato’s aesthetic idealism and followers of Marx’s historicism had in common a radical—indeed, totalitarian—program. Popper argued that both Platonists and Marxists were dangerous because they were convinced of the absolute correctness of their ideas. Faith in one’s own infallibility

² Schlick, Moritz, *Naturwissen*, 1931; quoted in Ruja, Harry, “The Present Status of the Verifiability Criterion.” *Philosophy and Phenomenological Research*, 22, 2 (December 1961), p. 217.

leads to the committing of atrocities: perfect ends will justify any means. As Popper put it, “Both Plato and Marx are dreaming of the apocalyptic revolution which will radically transfigure the whole social world.”³ Popper argued that because human knowledge can never be verified but only falsified, it is always imperfect; any radical transfiguration of society, whether led by Platonists, Marxists, or Nazis, will also be imperfect, even disastrous:

In all matters, we can only learn by trial and error, by making mistakes and improvements; we can never rely on inspiration. . . . [W]e should expect that, owing to lack of experience many mistakes would be made. . . .

Aestheticism and radicalism must lead us to jettison reason, and to replace it by a desperate hope for political miracles. This irrational attitude which springs from an intoxication with dreams of a beautiful world is what I call Romanticism. It may seek its heavenly city in the past or in the future; it may preach “back to nature” or “forward to a world of love and beauty”; but its appeal is always to our emotions rather than to reason. Even with the best intentions of making heaven on earth it only succeeds in making it a hell—that hell which man alone prepares for his fellowman.⁴

Popper observed that Plato’s political program rested on the notion that “society is ‘by nature’ divided into classes or castes”; Plato further argued that, given people’s natures, maximum happiness is achieved by everyone’s “keeping one’s place,”⁵ in Popper’s phrase. Popper continued:

To put this point more precisely: I believe that Plato, with deep sociological insight, found that his contemporaries were suffering under a severe strain, and that this strain was due to the social revolution which had begun with the rise of democracy and individualism. He succeeded in discovering the main causes of their deeply rooted unhappiness—social change, and social dissension—and he did his utmost to fight them.⁶

According to Popper, in the space between the behavioral restrictions created by superstition, taboo, and the rigid conventions of social life on the one side, and the laws of the state on the other, lies the “field of personal decisions, with its problems and responsibilities.”⁷ A society in which taboo overwhelms personal autonomy, or in which the power of the state is pervasive, leaves no room for individual freedom. Popper wrote that this sort of “magical or tribal or collectivist society will . . . be called the *closed society*, and the society in which individuals are confronted with personal decisions, the *open society*.”⁸

Popper’s concept of the open society, by the way, should not be confused with the common term *civil society*. The Center for Civil Society at the London School of Economics offers the following definition of civil society:

Civil society refers to the arena of uncoerced collective action around shared interests, purposes and values. In theory, its institutional forms are distinct from those of the state, family and market, though in practice, the boundaries between state, civil society, family and market are often complex, blurred and negotiated. Civil society commonly embraces

³ Popper, Karl R., *The Open Society and Its Enemies*. Princeton, NJ: Princeton University Press, 1950, p. 161.

⁴ Popper, *The Open Society and Its Enemies*, p. 164.

⁵ Popper, *The Open Society and Its Enemies*, p. 165.

⁶ Popper, *The Open Society and Its Enemies*, p. 167.

⁷ Popper, *The Open Society and Its Enemies*, p. 169.

⁸ Popper, *The Open Society and Its Enemies*, p. 169.

a diversity of spaces, actors and institutional forms, varying in their degree of formality, autonomy and power. Civil societies are often populated by organisations such as registered charities, development non-governmental organisations, community groups, women's organisations, faith-based organisations, professional associations, trades unions, self-help groups, social movements, business associations, coalitions and advocacy groups.⁹

Open societies, Popper argued, can change, adapt, and correct their mistakes—mistakes that are inevitable because all knowledge is flawed. Closed societies, by contrast, depend upon the infallibility of the taboos or ideologies upon which they were founded. Plato, Marx, Hitler—all were promulgators of closed societies, though obviously the societies they worked to create differed dramatically. Popper opposed each of them. “We can never return to the alleged innocence and beauty of the closed society,” Popper wrote:

Our dream of heaven cannot be realized on earth. Once we begin to rely upon our reason, and to use our powers of criticism, once we feel the call of personal responsibilities, and with it, the responsibility of helping to advance knowledge, we cannot return to a state of implicit submission to tribal magic.¹⁰

After retiring from the London School of Economics in 1969, Popper continued to lecture and write prolifically. He died in 1994.

SOROS THE PHILOSOPHER

When Soros as a young man entered the London School of Economics, he encountered the work of Karl Popper. “Popper’s book, *Open Society and Its Enemies*, struck me with the force of revelation,” Soros recalled:

[I]t showed that fascism and communism have a lot in common, and they both stand in opposition to a different principle of social organization, the principle of open society. I was even more influenced by Popper’s ideas on scientific method.¹¹

Reflexivity

Soros took Popper’s concept of falsifiability, and the related notion that all human knowledge is imperfect, and added several further observations. He pointed out that human minds have imperfect knowledge not only of the outside world, but of themselves as well. When humans effect change in the world (Soros argued), that change in turn affects minds, including minds’ understanding of themselves. Reality, perception, and perception of perception are thus engaged in an ongoing, dynamic, recursive process. In his book *Underwriting Democracy* (1991), Soros recounted how he tried as a student and young man to “describe the two-way connection between thinking and reality . . . but time and again . . . got caught in the web of

⁹ Center for Civil Society, London School of Economics and Political Science, “What is civil society?” Retrieved from http://www.lse.ac.uk/collections/CCS/what_is_civil_society.htm.

¹⁰ Popper, *The Open Society and Its Enemies*, p. 195.

¹¹ Soros, George, with Byron Wien, “Investing and Global Finance.” In Soros, George, with Byron Wien and Krisztina Koenen, *Soros on Soros: Staying Ahead of the Curve*. New York: John Wiley & Sons, 1995, p. 33.

circular reasoning.”¹² He called the feedback relationship between minds and reality “reflexivity” and tried to explain to his intellectual hero, Popper, and to others his insight:

[R]eflexivity cannot be described in purely logical terms, because it is not a purely logical phenomenon. On one level it describes a mental process; on the other, it is a process that occurs in reality. I call the mental process the cognitive function and the process that affects reality the participating function. It is clear that the two functions connect thinking and reality in opposite directions: in the cognitive function reality is supposed to be a given and thinking refers to it; in the participating function thinking is supposed to be the constant and reality the dependent variable. But the simultaneous operation of the two functions renders the distinction between thinking and reality illusory: what is supposed to be a purely mental process is also part of reality.¹³

Perhaps unsurprisingly, Soros was unable to convince Popper of the importance of reflexivity, and indeed Soros himself was unable for many years to untangle the threads of objectivity and subjectivity that reflexivity knotted up:

I remained bogged down in this infinite regression in one form or another for many years until I abandoned the attempt to formulate the concept of reflexivity in purely philosophical terms. In the meantime I started using the concept experimentally, first as a participant in the financial markets and later as a participant in the demise of the Soviet system. I succeeded as a practitioner where I failed as a theoretician. Eventually, my practical success gave me the courage, and the reputation, to try my hand again at a theoretical formulation of my ideas. The result was *The Alchemy of Finance*, published in 1987, which impressed academics with my financial achievements and confounded financial experts with the obscurity of my philosophy.¹⁴

It’s probably safe to say that most successful investment bankers do not base their investment strategies upon abstract philosophical concepts; but if Soros can be taken at his word, that is exactly what he did. His philanthropy, too, was very much rooted in Popper’s work and his own investigations into reflexivity.

Three Forms of Reflexive Interaction

In *The Alchemy of Finance* and elsewhere, Soros argued that perception and reality didn’t always match up. He identified three forms that reflexive interaction could take: dynamic near-equilibrium, static far-from-equilibrium, and dynamic far-from-equilibrium.

Dynamic near-equilibrium (Soros argued) occurs when perception hews closely to reality, critical thinking is encouraged, and participants learn from experience. Events occur, the world changes, and participants’ biases—which are inevitable, knowledge being imperfect—change to accommodate new information. Open societies, he observed, are in states of dynamic near-equilibrium.

Static far-from-equilibrium occurs when perception and reality diverge wildly, yet critical thought is discouraged. Biases do not change to reflect new information. Closed societies—the culture that depends upon “tribal magic,” for example, or the modern totalitarian state—are in states of static far-from-equilibrium. Soros observed that societies can maintain static disequilibrium—can remain closed—for long periods of time.

¹² Soros, *Underwriting Democracy*, p. 152.

¹³ Soros, *Underwriting Democracy*, p. 153.

¹⁴ Soros, *Underwriting Democracy*, p. 153-154.

The third form of reflexive interaction, Soros argued, was *dynamic far-from-equilibrium*. When static disequilibrium produces a gap between perception and reality that widens to the breaking point, something has to give—change occurs, in thinking and in reality, and occurs in unpredictable, often chaotic ways. Societies in dynamic far-from-equilibrium states may undergo sudden radical transformations.

Soros applied his ideas about dynamic far-from-equilibrium states to financial markets through the concept of the boom-bust pattern. Occasionally, bias and reality trend in the same direction, as in a strongly bull market. “When that happens,” Soros wrote:

the bias is also strengthened by the fact that it is validated by what is happening in the real world. The divergence between perception and reality gets wider, the longer the self-reinforcing process continues. But it cannot go on forever. Eventually, the distortion in perceptions must become apparent and when it does, the trend—which had become increasingly dependent on the bias—is also subject to correction, causing a reversal in both trend and bias that also becomes mutually self-reinforcing. The reversal tends to be faster and more spectacular than the original process. It can be observed both in history and in financial markets. In history it leads to revolution, as in Eastern Europe in 1989, and in financial markets it leads to crashes, as in 1929 or 1987.¹⁵

The trick for the investor, or for the philanthropic backer of social revolutions, was to recognize when reflexivity had led perception and reality to diverge to the breaking point. In a 1995 book summing up his life’s work to that point, Soros described his aspirations as a philosopher and the role his quirky worldview played in his life as an investor and as a philanthropist:

Philosophy has deteriorated into an academic profession, but it ought to play a more central role. We cannot live without a set of reasoned beliefs. The question is, can we have a set of beliefs based on the recognition that our beliefs are inherently flawed? I believe we can and, in my own life, I have been guided by my own fallibility. I have been less successful in communicating my ideas and getting them generally accepted. That is why I consider myself a failed philosopher.¹⁶

SOROS AND PHILANTHROPY

In the late 1970s, having successfully applied reflexivity to financial markets and made a fortune, Soros turned his attention from accumulating wealth to giving it away. “[W]hen the fund had reached a size of \$100 million dollars, and my personal wealth had grown to roughly \$25 million, I determined after some reflection that I had enough money,” he wrote in 1995. “After a great deal of thinking, I came to the conclusion that what really mattered to me was the concept of an open society.”¹⁷

¹⁵ Soros, *Underwriting Democracy*, p. 168.

¹⁶ Soros, with Wien, “Philosophy,” p. 212.

¹⁷ Soros, George, with Krisztina Koenen, “Geopolitics, Philanthropy, and Global Change.” In Soros, George, with Byron Wien and Krisztina Koenen, *Soros on Soros: Staying Ahead of the Curve*. New York: John Wiley & Sons, 1995, p. 112.

Soros's introduction to philanthropy came through the provision of 80 scholarships for black students to attend the University of Cape Town in apartheid South Africa—"a truly closed society based on the separation of races"¹⁸ in Soros's estimation.

"My first major [philanthropic] undertaking was in South Africa in 1979, where I identified Capetown University as an institution devoted to the ideal of an open society," Soros wrote. "I established scholarships for black students on a scale large enough to make an impact on the university. The scheme did not work as well as I had hoped, because the university was not quite as open-minded as it claimed to be and my funds were used partly to support students already there and only partly to offer places to new students."¹⁹

In 1980 Soros started directing his philanthropic efforts toward Central and Eastern Europe, which were then under the domination of the communist Soviet Union, a prototypically closed society. Soros named his philanthropic organization the Open Society Fund and began awarding scholarships to students from Central and Eastern Europe, supporting human rights organizations, and funding dissident movements such as Poland's Solidarity, Czechoslovakia's Charter 77, and Russia's Sakharov campaign.²⁰ In 1984 Soros established a separate foundation in Hungary to support education and culture, with the ultimate (if unstated²¹) aim of creating an open society. According to Hungarian attorney and Soros associate Alajos Dornbach, the establishment of the Soros foundation in Hungary was a milestone in the decline of Soviet hegemony:

It marked the first time that Communist authorities anywhere had met with people from the private sector and negotiated on matters of social and cultural significance. They offered guarantees of independence and accepted the participation of so-called forbidden people. It was simply unprecedented.²²

Soros recalled how the Hungarian authorities underestimated him:

When I concluded a contract with the Hungarian government in 1984, its representative thought they were dealing with a well-meaning rich expatriate who wanted to have a foundation to gratify his ego. They agreed to practically all my conditions, thinking that once I had set up the foundation, they could control it. But they had a surprise waiting for them. When they failed to meet my condition, I threatened to quit, and I meant it. They had to give in more than once. It was those victories that established the reputation of the foundation.²³

Of his activities in Hungary in the late 1980s, Soros wrote:

I identified two . . . objectives: one was business education, and the other, much closer to my heart, the promotion of open society throughout the region. Specifically, I wanted to promote greater contacts and better understanding with the other countries of the region. Programs involving neighboring countries had been strictly taboo; now nothing stood in

¹⁸ Soros, with Koenen, "Geopolitics, Philanthropy, and Global Change," p. 114.

¹⁹ Soros, *Underwriting Democracy*, p. 5.

²⁰ Soros, with Koenen, "Geopolitics, Philanthropy, and Global Change," p. 115.

²¹ Indeed, in order not to nettle the Hungarian authorities unnecessarily, Soros abstained from referring to the concept of open society when naming the Soros Foundation-Hungary.

²² Quoted in Kaufman, Michael T., *Soros: The Life and Times of a Messianic Billionaire*. New York: Alfred A. Knopf, 2002, p. 195.

²³ Soros, *Underwriting Democracy*, p. 141.

the way of greater cooperation with Soros-sponsored foundations in other countries. We established our first joint program, a series of seminars at the Dubrovnik (Yugoslavia) Inter-University Center, which took place in April 1989.²⁴

One important project undertaken by Soros's Hungarian foundation was the importation of photocopy machines, enabling citizens and activists to spread information and publish censored materials. In 1991, Soros wrote:

I started out some ten years ago by trying to create small cracks in the monolithic structure that goes under the name of communism in the belief that in a rigid structure even a small crack can have a devastating effect.²⁵

Breakup of the Soviet Union

During the 1980s, small cracks did indeed begin to appear in the edifice of Soviet rule. The so-called Brezhnev Doctrine, formulated in 1968 to justify Soviet suppression of the Prague Spring, stated that the "correlation and interdependence of the national interests of the socialist countries and their international duties" dictated that no nation within the Soviet sphere would be permitted to leave the Warsaw Pact or to form an "antisocialist" government.²⁶ But by the mid 1980s, the Soviet economy was on the verge of implosion and the nation could no longer afford to project power across half of Europe. In 1985 Soviet leader Mikhail Gorbachev introduced policies of social and political reform (glasnost, or "openness") and economic reform (perestroika, "restructuring"). The Brezhnev Doctrine gave way to the jocularly named Sinatra Doctrine: though Warsaw Pact nations were still forbidden from quitting the alliance, each was allowed to determine its own internal affairs (i.e., do it "My Way").

In 1989, in an astonishingly rapid sequence of events, Soviet hegemony began to evaporate. In June, Solidarity rose to power in a freely held election in Poland. In October, Hungary declared the Third Republic. In November the Berlin Wall fell; and in December Czechoslovakia underwent the Velvet Revolution. In February 1990 the Communist Party of the Soviet Union gave up one-party rule, and in April the Soviet legislature passed a law allowing its constituent republics to secede. A coup in August 1991 failed, and in December the nation formally dissolved itself.

Soros's role in the collapse of the Soviet system is difficult to quantify. Beginning in 1981, Soros annually distributed approximately \$3 million to dissident groups in Central Europe and the Soviet Union. Much of Soros's early philanthropy is difficult to trace, even for Soros himself. The Open Society Institute, which now monitors and oversees the network of Soros foundations, did not become fully operational until 1995. Particularly in the 1980s, when much of his philanthropy was targeted at groups and causes seeking to undermine their own repressive governments, Soros did not typically require of grantees extensive documentation or analysis of problems to be solved, nor the specific uses to which donations were put. It was enough for Soros to know that his gifts had been passed on discreetly to dissident movements bubbling just under the surface in Poland, Czechoslovakia, and other oppressed nations where communist regimes were struggling to maintain their increasingly tenuous hold on power.

By the early 1990s, the closed society maintained by the Soviet Union had collapsed, but that didn't mean that the nations of Central and Eastern Europe were ipso facto open societies. Individuals' habits of mind, long molded by life in a closed society, hadn't changed overnight.

²⁴ Soros, *Underwriting Democracy*, p. 26.

²⁵ Soros, *Underwriting Democracy*, p. ix.

²⁶ Brezhnev, Leonid, speech before the Fifth Congress of the Polish United Workers' Party, November 1968.

Retrieved from the Internet Modern History Sourcebook: <http://www.fordham.edu/halsall/mod/1968brezhnev.html>.

The mental traits—critical thinking, awareness of one’s own fallibility, willingness to modify one’s views—characteristic of open societies had yet to be developed. Likewise, the civil society, market, and state institutions that might serve to promote openness were mostly nonexistent. Soros, and many others, feared that the Soviet system would be replaced not by an open society but by some other form of totalitarianism: kleptocracy, oligarchy, jingoistic nationalisms. No one knew how the region’s dynamic far-from-equilibrium would resolve itself.

In 1991, Soros wrote:

My original objective has been attained: the communist system is well and truly dead. My new objective is the establishment of an open society in its stead. That will be much harder to accomplish. Construction is always more laborious than destruction and much less fun.²⁷

How had Soros’s philosophy guided his philanthropy?

Given his beliefs about the nature of closed and open societies, and the relatively limited resources of the Open Society Fund, what sorts of initiatives might Soros have supported in the early 1990s to promote the construction of an open society in Central Europe? Where might Soros have expected to encounter resistance? What might Soros have done to anticipate and defuse resistance to his efforts?

THE FOUNDING OF CENTRAL EUROPEAN UNIVERSITY

In the late 1980s, Soros sponsored a series of seminars on the future of Europe at the Inter-University Centre of Postgraduate Studies in Dubrovnik, an institution founded in 1971 to promote the exchange of ideas by scholars from East and West. The idea for an independent, international university located in Central Europe first arose during a meeting at the Inter-University Centre in April 1989.

Participants at the Dubrovnik meeting included George Soros; sociologist Rudolf Andorka, literature scholar Endre Bojtár, historian Péter Hanák, economist Márton Tardos, sociologist István Teplán, computer scientist Tibor Vámos, and journalist and dissident Miklós Vásárhelyi from Hungary; Canadian-born philosopher William Newton-Smith and philosopher Kathleen Wilkes from Oxford; and historian Jan Havranek, sociologist Michal Illner, and historian Jiří Kořalka from Czechoslovakia. Those arguing for the university felt the need for an institution that would serve to connect Central and Eastern European college graduates with the West. According to a history of Central European University published in 1999:

The general sense of the Dubrovnik meeting was that the most important area which the new undertaking should concentrate on was that of social sciences at the graduate level. The reasoning behind this was that while in the socialist and communist countries science and technology education had been maintained at quite a high level (especially mathematics, chemistry, biological sciences, physics, etc.) the social sciences were quite backward, suffering from ideological oppression, the unquestionable and “unchallengable,” monolithic Marxist paradigm, and general neglect of new trends in all

²⁷ Soros, *Underwriting Democracy*, p. 128.

social science fields. It was generally felt that there were many outstanding students in social, political and economic sciences who needed a relatively short and intensive “catch up” education in these fields. The experiences of “flying universities,” organized by dissidents, and the Dubrovnik seminars themselves showed that the right group of experts could very easily bring such young people up to par. And, since, from day one, the idea was that of a transnational university it was natural that a “common” language [i.e., English] was needed. This in turn made such an education feasible only at the graduate level, for students who had appropriate language skills and a social science background.²⁸

Soros recalled:

At that time I rejected [the idea of CEU] in no uncertain terms. “I am interested not in starting institutions but in infusing existing institutions with content,” I declared. After the fall of the Berlin Wall, I changed my mind. A revolution needs new institutions to sustain the ideas that motivated it, I argued with myself. I overcame my aversion toward institutions and yielded to the clamor for a Central European University.²⁹

Because Soros at first resisted the idea, it wasn’t until a year after the April 1989 Dubrovnik meeting that he seriously considered the possibility of founding a university. He then consulted with influential political leaders, including Erhard Busek, Austrian Minister of Science and Research; Polish parliamentarian Bronisław Geremek; Václav Havel, president of Czechoslovakia; and Árpád Göncz, president of Hungary. Soros also met with a long list of prominent academics, including Rudolf Andorka, Endre Bojtár, Morris Bernstein, Ladislav Cherych, Csaba Csáki, Alajos Dornbach, György Enydedi, Ágnes Erdélyi, Péter Hanák, Jan Havránek, Imre Hronszky, Michal Illner, Péter Kende, Tamás Kolosi, Jiří Kořalka, György Litván, Imre Mécs, Krzysztof Michalski, Fabio Riversi Monaco, Jiří Musil, Gábor Neumann, Aryeh Neier, István Rév, Włodzimierz Siwinski, William Newton-Smith, Pál Tamás, Márton Tardos, István Teplán, Tibor Vámos, Miklós Vásárhelyi, and Kathleen Wilkes.³⁰ See Exhibit A, “Central European University: A Statement of Intent,” by George Soros.

One of the first issues to be decided was the location or locations of the university. Soros and his advisers considered Bratislava, Prague, Warsaw, Budapest, Vienna, Trieste, Cracow, and Moscow among others. As a native of Hungary, Soros was reluctant to place the university in Budapest. He recalled, “I was anxious not to start the university in Hungary. Since I am myself Hungarian, the university would have immediately become a Hungarian one.”³¹

In May 1990, representatives of the governments of Czechoslovakia, Poland, and Hungary agreed to support the fledgling institution. Soros’s personal friendship with Czechoslovakian President Václav Havel turned out to be the key determinant of the university’s initial location. In June 1990 the Czechoslovakian government agreed to provide buildings in both Prague and Bratislava and pay for operating costs, to an amount up to 50 million crowns (approximately \$2 million at 1990 rates).³² The government of Hungary promised to make available a building in Budapest for use as a third campus.

In April 1991, Central European University’s Prague campus officially opened, with four projected academic departments: economics, environmental sciences, politics and sociology, and

²⁸ *Central European University, Ten Years in Images and Documents: Central European University, 1989-1999*. Budapest: CEU Press, 1999, pp. 8-9.

²⁹ Soros, *Underwriting Democracy*, p. 129.

³⁰ *Central European University, Ten Years in Images and Documents*, p. 14.

³¹ Soros, with Koenen, “Geopolitics, Philanthropy, and Global Change,” p. 134.

³² *Central European University, Ten Years in Images and Documents*, p. 16.

history. At the opening ceremony, Soros officially committed to funding the university for five years at \$5 million per annum. Summer courses were held in Prague in July and August, in a 10,000-square-foot, 10-story office building that was owned by a trade union but had been made available by the Czechoslovakian government. Meanwhile, because the Hungarian government had reneged on its promise to provide a building for the Budapest campus, Soros privately rented out a building in Budapest. The Czechoslovakian government's commitment to Bratislava was put on hold while the Prague campus was established.

Soros conceived of CEU as a place “to combine teaching, research and engagement”³³ in order to promote the development of open society. In comments to CEU alumni in 2001, Soros recalled (in language reminiscent of his thoughts on reflexivity):

[Teaching, research, and engagement] reinforce each other. If you only teach, you really need to do research; you need to think as well as teach. And if you only think, you are in an ivory tower, and it is a real danger. There used to be—and I think there still is—a real danger in this region for intellectuals to be drawn into research and thinking, and to separate themselves from the society in which they live. . . . To break that separation, you want the people who think and do research also to teach. . . . And then, of course, social engagement requires thinking. It is not enough to be an activist. You also have to think about what you are doing, and your actions often have unintended consequences. You have to try to learn from that experience, and to some extent anticipate it. That is why the three things go together, and I hoped that the university would be part of this.³⁴

As 100 students started the fall semester in Prague, optimism ran high. The Prague library opened, and the university announced five future academic programs: art (Prague); European studies (Prague); history (Budapest); a \$500,000 Research Support Scheme (RSS) to support scholarship independent of the University's programs (Prague); and European law (Budapest). István Rév, an economist and member of the CEU executive committee, described his hopes for the university in an opinion piece that ran in the campus newspaper:

. . . The Central European University can act as an intellectual, cultural, and even moral exemplum. A university with several campuses in the different countries of the region, with a regional, even international faculty and student body, many languages, different cultures, and historical experiences, can help to overcome national intolerance, hegemonic efforts, and can speak in many voices. . . .

The future belongs to those who cooperate with each other, with their immediate neighbors and with the international academic world. Science cannot be national—only international.³⁵

Not all was going smoothly, however, as issues surrounding CEU's Prague building arose. The real estate market in Prague had started to boom, and the trade union that owned the building, realizing that the property was increasing in value, wanted to convert it into a hotel. In a move designed to evict the university, the trade union

³³ Soros, George, “This Is the Only University I Know of that Was Started Before a Plan Was Developed: Excerpts from Comments by George Soros at the Alumni Brunch on October 13, 2001.” *CEU 10 Year Anniversary Booklet*, p. 2.

³⁴ Soros, “This Is the Only University I Know of that Was Started Before a Plan Was Developed,” p. 2.

³⁵ Rév, István, “A Personal View.” *CEU Gazette*, Vol. 1, No. 3, November 1991.

unilaterally raised the rent on the building from essentially nothing to \$1 million annually.

The union also pointed out that, according to the government's agreement with Soros, the university would have to win accreditation within two years or be shut down. To fulfill the legal agreement, the university formed a foundation in Luxembourg, in the hopes of gaining accreditation there. Other tactics to earn accreditation would be employed in the months that followed. Just as he had faced down the Hungarian authorities in 1984, Soros was willing to play a high-stakes game with the Czechoslovakian (and, later, the Czech) government. "If they want us, they will give us a charter to award degrees. That will be an important test," he said in early 1992. "If not, it will have been a valuable contribution, and we will pull out."³⁶

Having received 975 applications for the Research Support Scheme, the University in March awarded 75 grants totaling \$350,000. Pleased by the quality and quantity of applicants, Soros announced that he was doubling the RSS fund to \$1 million, the remainder of which would be awarded in May.

Throughout the spring of 1992, Soros and the university moved at an astonishing pace. Even as CEU Press, under the direction of Francis Pinter, was being founded, Soros announced a five-year \$25 million Higher Education Support Program (HESP) that would help support new academic initiatives at universities throughout Central and Eastern Europe. HESP quickly announced its sponsorship of four college-level evening courses in Bucharest starting in the fall. Soros reported that academic institutions in Sofia, Warsaw, Bratislava, Moscow, and other cities would also receive HESP funds.³⁷

The inaugural CEU class graduated in June, and soon thereafter the university reached an agreement with Eötvös Loránd University (commonly known as the University of Budapest) in Hungary and with Charles University in Prague that CEU graduates would receive diplomas jointly from those universities and CEU. In July, CEU was granted a provisional charter by the state of New York (the state's accreditation rules did not require that a school be physically located in New York), ending the university's problems with accreditation. The trade union was temporarily assuaged, though the high rent on the Prague building continued to strain the university's finances.

In the fall, CEU's Budapest campus opened, and the university reached agreement with the Polish government to establish a campus in Warsaw. By spring 1993, however, circumstances in the Czech Republic (Czechoslovakia having dissolved itself the previous fall) were rendering the CEU Prague campus untenable. Most of the Prague departments would move to Budapest over the following two years, and by January 1996, CEU Prague would cease to exist altogether. The Warsaw campus, consisting solely of the department of sociology, would soldier on for seven more years before closing in 2003. See Exhibit B, "Central European University: Chronology of Events, 1989-1996."

For further details on the closing of the Prague and Warsaw campuses, see the Duke Foundation Research Program case *The Open Society Institute and Central European University: Three Campuses, Three Outcomes*.

Central European University has grown tremendously since its modest inception in 1991. In 2004-05, CEU employed 429 faculty and staff on an annual budget of over \$23 million; 583 master's candidates, 356 doctoral candidates, and 28 students in exchange programs were enrolled in 14 academic departments.³⁸ As of 2007, George Soros's philanthropic organizations

³⁶ O'Leary, John, "Lessons in Freedom." *The Times*, February 25, 1992.

³⁷ Soros, George, "CEU Pledges More Than \$25 Million to Support Universities Throughout the Region." *CEU Gazette*, Vol. 2, No. 2, June 1992.

³⁸ Central European University, "CEU Facts and Figures." Retrieved from http://www.ceu.hu/facts_figures.html.

are active in more than 50 countries around the world, including countries in the Middle East, Central Asia, Africa, and Latin America. The foundation network spends about \$400 million annually.

EXHIBIT A

Central European University: A Statement of Intent

The Central European University has come into existence in response to the revolutionary changes that have occurred in Central and Eastern Europe recently. The primary impetus comes from Central European intellectuals who seek to understand their past and prepare for the future. But it has also received enthusiastic support from Western intellectuals who are concerned about the future of Europe. Everyone in Central Europe today wants a high-quality Western-style education. The CEU will provide for the region the academic equivalent of the best Western education, and thereby attract students of the highest caliber. It will also aim to provide a window of opportunity for some of the most able students whose studies should lead to a period of further study at a leading Western university.

The principal objectives of the Central European University are:

- A. To develop a new curriculum which can be taught both at the CEU and in other universities of the region.
- B. To help educate a new corps of Central European leaders.
- C. To raise the standards and methods of teaching and research throughout the region.
- D. To foster cooperation and understanding among the citizens and nations of the region.

The core countries involved are Poland, Hungary and Czechoslovakia; but the CEU intends to extend its activities to all parts of the erstwhile Soviet Bloc. The main disciplines are economics, politics and sociology, history, law, European studies, comparative literature and culture, and last but not least, environmental sciences, including ecology, conservation and the study of complex dynamic systems. But the CEU is ready to expand into other areas as the opportunities and needs arise. The University will start functioning with students who have completed a first degree. It will expand in due course to include both those who have completed doctorates and those completing first degrees. Above all, the CEU is being designed as an open structure, and its growth and development will be organic.

The CEU will put far more into the educational system than it takes out. To ensure this, the CEU will also sponsor both teaching and research at *existing* institutions at the same times as it sets up and runs its own postgraduate centers. It will also sponsor and support research fellows of the highest caliber to work within their own institutions. The CEU intends to collaborate directly with a number of academic institutions: These will become “affiliated” with the University. Moreover, to avoid any conflict with existing institutions, the CEU does not intend to award its own academic degrees, but will do so in cooperation with established universities. Eventually, these cooperating universities may form a network whose academic reputation will be enhanced by their association with the CEU.

The CEU will carry on its activities at several sites throughout the region with major bases in Prague and Budapest. Every activity will be directed by a multinational staff selected on the basis of academic excellence, irrespective of location. The language of teaching and research will be English. All programs will involve leading Central European academics working alongside their Western counterparts. Students will be drawn from several if not all the countries of the region. Thus, the CEU will be truly international and outward looking in its character. It will not resemble any of the universities currently in existence. Rather, it will hark back to the network of universities which flourished in the late Middle Ages with scholars moving from place to place in search of enlightenment.

Cooperation between local and Western scholars will follow two distinct patterns. In subjects such as history, sociology and politics, Central European scholars will co-opt Western specialists; in the School of Environmental Studies, the leadership will be in the hands of Western experts who will seek to pass on their approach to a select group of Central European students. Both schools will be interdisciplinary in their approach and it is hoped that there will be lively interaction between them.

To summarize, at its inception the CEU will have four main branches of activity, namely:

1. *The School of Social Studies*

The CEU will organize seminars in five key areas of social studies: Economics; politics and sociology; law and European studies; the humanities, arts and literature. In the first instance, these seminars will result in the establishment of a new curriculum which can be taught both at the CEU and elsewhere.

Subsequently, they will coalesce into a full-year seminar program which will be part of a postgraduate education which will either lead to a higher degree at a western or local university, or to a diploma awarded by the CEU. Links already exist with the many major universities throughout western Europe and the United States, and further links are being developed all the time.

2. *The School of Environmental Sciences*

A distinguished group of Western scientists has agreed to serve as the Academic Board. An eight-week summer course will be held starting this year for up to sixty graduates with degrees in natural sciences or mathematics. At the end of the program, at least half the students will be awarded scholarships, either to attend a Master's course at Manchester University or to work for one or two years as research assistants with one of the Board members. The results of the research will be presented at subsequent summer schools. Following the second summer school, a full-year program of research and study would be inaugurated, probably in Budapest, while the scholarship program would also continue.

3. *The Research Fellowship Program*

The CEU will award fellowships to leaders and participants in key research programs. These CEU fellows will continue to be based at their own institutions but receive a salary and a research grant from the CEU. They will be chosen by competitive peer review involving Western and Central European academics. They will present their findings at CEU seminars, and when appropriate, the results of their research will be included in the teaching curriculum of the CEU. In these cases, fellows may be required to spend a maximum of six weeks a year participating in seminars at the CEU. This program will be academically integrated with the School of Social Studies.

4. *The External Teaching Program*

The CEU will support courses given at other educational institutions which serve raise students' level of education to Western standards. The principal aim is to prepare fourth and fifth year students for further study, either at the CEU itself or at a Western university. The programs supported will be academically independent of the CEU, and the CEU will play only the role of a grant-giving institution. Dr. Z.A. Pelczynski of Oxford University is currently conducting an assessment of needs and opportunities. This review will establish the basis of CEU support.

The Central European University is being founded by Mr. George Soros. It is a logical evolution from his network of foundations which already cover Central and Eastern Europe. He has pledged a minimum of \$5 Million a year for five years. The Czech Government has pledged a building with living accommodations for up to 250 people and an annual budget of 36 Million Czech Crowns. The governments of Hungary, Poland and Slovakia have indicated their intention to contribute, and further contributions are being sought from Austria, Italy and the European Community, as well as from Western foundations.

Independent CEU foundations have been established in Hungary and Czechoslovakia; and in due course, the project will be handed over to a separate international foundation whose domicile is yet to be determined. President Václav Havel of Czechoslovakia, President Árpád Göncz of Hungary, and Mr. Bronisław Geremek of Poland have indicated their willingness to serve on the Board of Trustees of this foundation. The project is currently in the hands of an Academic Planning Board, which is headed by a three-man Executive Committee. Each subject area within the School of Social Studies and the School of Environmental Sciences has its own Steering Group to evaluate and develop the individual academic programs and curricula. The Chairman of each Steering Group, which incorporates both leading Western and Central European experts, also sits on the CEU Academic Planning Board. Financial controls will eventually be transferred to the Board of Trustees and academic control to a University Rector and a University Senate which will be based on the current Academic Planning Board membership.

March, 1991

Source: Soros, George, "Central European University: A Statement of Intent." *CEU Gazette*, Vol. 1, No. 1, April 1991 (insert).

EXHIBIT B

Central European University: Chronology of Events, 1989-1996

April 1989

Idea of creating a new university first arises during meeting attended by George Soros at the Inter-University Centre in Dubrovnik, Yugoslavia; Soros declines to pursue idea.

June 1989

Solidarity comes to power in Poland.

October 23, 1989

Third Republic declared in Hungary.

November 9, 1989

Berlin Wall falls.

November-December 1989

Czechoslovakia undergoes Velvet Revolution

December 29: Czechoslovakian federal parliament elects Václav Havel as president.

February 1990

Communist Party of the Soviet Union gives up one-party rule.

March-April 1990

Hungary holds first free elections in 45 years; conservative Hungarian Democratic Forum comes to power.

April 1990

Soviet legislature passes a law allowing constituent republics to secede.

May 1990

Overcoming his initial skepticism, Soros commits to founding new university; Bronisław Geremek of Poland, Václav Havel of Czechoslovakia, and Árpád Göncz of Hungary agree to serve as patrons.

Fall 1990

CEU Executive Committee formed, consisting of George Soros, William Newton-Smith, Jiří Musil, Ladislav Cherych, and István Rév.

April 1991

CEU Academic Planning Board meets in Prague.

April 19: CEU Prague declared open.

CEU signs five-year partnership agreement with government of the Czech Republic.

Summer 1991

CEU negotiates with Hungarian government on obtaining use of building in Budapest.

May-June: Summer schools open in Prague and Budapest.

August 1991

Soviet hardliners overthrow Gorbachev in failed coup designed to halt the weakening of the Soviet Union.

September 1991

With more than 100 students, CEU Prague commences first academic year.

CEU Library opens in Prague.

December 16, 1991

CEU Foundation established in New York

December 31, 1991

Soviet Union formally dissolves itself.

Spring 1992

CEU Press founded.

Summer 1992

CEU announces \$25 million Higher Education Support Program (HESP) to promote academic work at nine universities located in Czechoslovakia, Hungary, and Poland.

CEU purchases building in Budapest.

June: Right-wing Civic Democratic Party (*Občanská demokratická strana*, ODS), headed by Václav Klaus, wins election in Czech Republic; the liberal Movement for a Democratic Slovakia, headed by Vladimír Mečiar, wins election in Slovakia.

July 17: Slovak parliament adopts declaration of independence of Slovak nation.

July 24: CEU granted provisional charter by New York State Board of Regents.

September 1992

Second academic year commences in Prague; first academic year commences in Budapest.

Fall 1992

CEU pledges to establish campus in Warsaw.

November 17: Czechoslovak federal parliament adopts law to dissolve nation.

December 31, 1992

Velvet Divorce finalized: Czechoslovakia ceases to exist. Klaus remains in office as prime minister of Czech Republic; Mečiar retains office of prime minister of Slovakia.

January 7, 1993

Education Minister Peter Pitha informs Soros that the Czech government will not pay rent on CEU building in Prague beyond 1993-94 academic year.

Soros announces that the economics, European studies, and society and politics departments may be forced to move from Prague to Budapest.

Winter 1993

CEU Press publishes its first book.

May 1993

Soros reaffirms commitment to Prague campus at least through 1994-95 academic year.

June 1993

Open Society Institute launched at conference held in Seregélyes Castle outside Budapest; OSI will operate as umbrella body coordinating work of CEU, twenty Soros foundations, and other Soros policy and research institutes and units.

Fall 1993

Soros announces \$200 million donation to CEU, plus additional \$30 million donation toward renovation of Budapest campus.

Alfred Stepan, former dean of Columbia University, appointed CEU president and rector, effective January 1, 1994.

Art history department prepares to move to Prague Castle.

Spring 1994

CEU one-year postgraduate courses achieve full accreditation from New York Board of Regents: M.A. programs in medieval studies, history, political science, and economics; and two LL.M. programs.

Summer 1994

CEU announces sociology department will be located in Warsaw starting academic year 1995-96.

January 1996

The International Relations and European Studies (IRES) program moves from Prague to Budapest, ending CEU's presence in the Czech Republic.

Sources: Adapted from *Central European University, Ten Years in Images and Documents: Central European University, 1989-1999*. Budapest: CEU Press, 1999, pp. 65-66. Material also drawn from *CEU Gazette*, Vol. 1, No. 1 (April 1991) through Vol. 6, No. 1 (Winter/Spring 1995-96).