THE COFFEES OF THE SECRETARY-GENERAL
GEORGE SOROS

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Bringing New Perspectives to the OECD

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Short Bio
George Soros

George Soros came of age in Hungary at a time when it was a battleground in the decades-long conflict between fascism and communism, the two great totalitarian ideologies of the 20th century. A personal experience of this conflict—including the violence, foreign occupation, anti-Semitism, and other forms of intolerance that went with it—as well as a personal fascination with philosophy shaped Soros's thinking in later years and influenced his successful strategies in both finance and philanthropy.

Born in Budapest in 1930, Soros survived the Nazi occupation of Hungary during World War II as well as the postwar imposition of Stalinism in his homeland. Soros fled Communist-dominated Hungary in 1947 and made his way to England. Before graduating from the London School of Economics in 1952, Soros studied Karl Popper's work in the philosophy of science as well as his critique of totalitarianism, The Open Society and Its Enemies, which maintains that no philosophy or ideology has the final word on the truth and that societies can only flourish when they allow for democratic governance, freedom of expression, a diverse range of opinion, and respect for individual rights.

Later, while working as a financial analyst and trader in New York, Soros adapted Popper's thinking in developing his own application of the social theory of "reflexivity," a set of ideas that seeks to explain how a feedback mechanism can skew how participants in a market value assets on that market. After concluding that he had more talent for trading than for philosophy, Soros began to apply his ideas on reflexivity to investing, using it to predict, among other things, the emergence of financial bubbles. In 1967, he helped establish an offshore investment fund. In 1973, he set up a private investment firm that eventually evolved into the Quantum Fund, one of the first hedge funds.

Soros's memories of anti-Semitism in wartime Hungary prompted him, in 1979, to begin providing financial support for black students at the University of Cape Town in apartheid South Africa. In 1984, Soros created an education and culture foundation in Hungary. He later supported dissident movements in Eastern Europe's other Communist countries, helping people to organize themselves at a time when popular organizations were banned, to voice their opinions when dissonant opinions were considered anti-state propaganda, and to promote tolerance, democratic governance, human rights, and the rule of law when a one-party dictatorship exercised a monopoly on power.

As the East bloc crumbled during the late 1980s and the Soviet empire collapsed in the early 1990s, Soros expanded his funding in an effort to help create open societies in all of the region's countries. He demonstrated his commitment to critical thinking and democratic political development by establishing the Central European University in 1991. In 1993, he founded the Open Society Institute. Over the past three decades, Soros's philanthropy has spawned a network of foundations dedicated to promoting development of open societies in Africa, Asia, Europe, Latin America, and the United States. To date, Soros has given over $8 billion to support human rights, freedom of expression, and access to public health and education in 70 countries.

Soros's books include: Financial Turmoil in Europe and the United States (2012), The Soros Lectures: At the Central European University (2010), The Crash of 2008 and What it Means: The New Paradigm for Finance Markets (2009); The Age of Fallibility: Consequences of The War on Terror (2006); The Bubble of American Supremacy (2005); George Soros on Globalization (2002); Open Society: Reforming Global Capitalism (2000); The Crisis of Global Capitalism: Open Society Endangered (1998); Soros on Soros: Staying Ahead of the Curve (1995); Underwriting Democracy (1991); Opening the Soviet System (1990); and The Alchemy of Finance (1987). His essays on politics, society, and economics appear frequently in major periodicals around the world.

http://www.georgesoros.com/
http://www.opensocietyfoundations.org/

A Conversation with George Soros

Full transcript[1]

Secretary-General: A warmest welcome to George Soros and to his team. We are very honoured that you are with us today. I will be putting some questions to George and we will also take some questions from the floor.

Let me start with your knowledge of financial markets, as very few people know how these markets work as well as George Soros does. I remember that in your book "The New Paradigm for Finance Markets", you argue that the international financial system was built on a series of false premises. Do you think those 'false premises' still persist today? Has the global financial system improved or is it back to business as usual?

George Soros: The crash of 2008 was an earth shattering event. We are still experiencing its after-effects today. In fact, we had a near collapse of the global financial system and although it was avoided, the underlying problems were not solved. This near bankruptcy was also a bankruptcy of a scientific doctrine of economic theory – what I call market fundamentalism. Markets left to their own devices assure the optimum allocation of resources. That is based on an axiomatic Euclidian geometry system. But the assumptions that Euclid made about geometry actually resemble the real world – not entirely but still, very closely.

The assumption that economic theory made at an early stage was to imitate Newtonian physics where you can study and predict events, as well as explain them. Economic and social systems, however, have human participants with a mind of their own. This is then a fundamental difference with very far reaching implications; and those implications have been missing from the prevailing doctrine about financial markets.

INET was born as a response to the financial crisis and has made considerable progress in mathematically and conclusively demolishing the rational choice theory and efficient markets hypothesis. In order to develop a better understanding of how markets behave and to what extent they can be predicted is still a work in progress. We understand, I believe, the problems better;

1 The original transcript of the Conversation with George Soros has undergone minor editing to ensure that the text published in this brochure is presented in a reader-friendly format.

the authorities were able to prevent a financial crisis turning into an economic collapse. But the measures they have taken have, in many ways, extended the process. In fact, what the financial authorities did was what you usually do to correct a skidding car. You first turn the wheel in the direction of the skid to regain control and then change direction. That is what the authorities did; there was excessive liquidity so they flooded the economy with more liquidity. The US is now on the verge of trying to withdraw from QE. Europe which has been the slowest, for specific reasons, is now entering QE and this is where we are. At an early stage of something that will probably last for a few more decades.

Secretary-General: Let me take it from there, you said Europe is only now starting QE. Your last book is called "The tragedy of the European Union, Disintegration or Revival'. Suggesting of course that something pretty bad is going on. The question is: What is the tragedy of the EU? We like to think of ourselves as a do-tank we are policy-based, what advice can we give to our partners and members in Europe to help them face these challenges?

George Soros: Europe was in the process of creating a European Union when the crisis hit from the outside. The origin of the crisis was in America, but because financial markets had been globalised, the European banks were even more exposed to the subprime instruments which actually lost their value and created a big hole in the banking system. The problem in Europe is that you had a union in the process of being formed and then an economic calamity which affected it. Nations can survive anything: Latin American countries lost a decade after the financial crisis of 1982; my native country Hungary was occupied by the Turks for 150 years, but it is still there – nations are great endurers. But an incomplete association of nations may not survive.

During the Euro financial crisis, only one institution was working, the European Central Bank with the backing of the emerging hegemonic power, Germany. Mario Draghi declared that he would do whatever it takes to preserve the euro. The political effects of the financial crisis have already transformed the EU into something different than what it was intended to be. From a voluntary association of equals into a creditor debtor relationship where the debtors have difficulty meeting their obligations and therefore the creditors are in charge in deciding what conditions the debtors must enter and therefore making it very difficult to escape from their inferior position. The result is an involuntary association of unequals. That is not very attractive politically and we see a certain amount of resistance to that now. The Euro crisis has turned into a political crisis.

We also see Russia proposing a return to a form of international co-relationship which Europe was hoping to put behind it, a return to the rule of force as opposed to the rule of law. This a very real external threat combined with the internal threat of the unresolved political situation. In my opinion, the EU is now in serious danger of either becoming something very different from what it was meant to be or actually collapsing.

Secretary-General: You said an involuntary association of unequals, a very interesting and dramatic way of putting it. Let me focus on Greece – a grexit or not? How do you see this in the involuntary association of unequals? The inequalities seem to be stretching and becoming greater. Everybody wants to keep it together but at the same time, objectively this may not be possible. How do you see this?

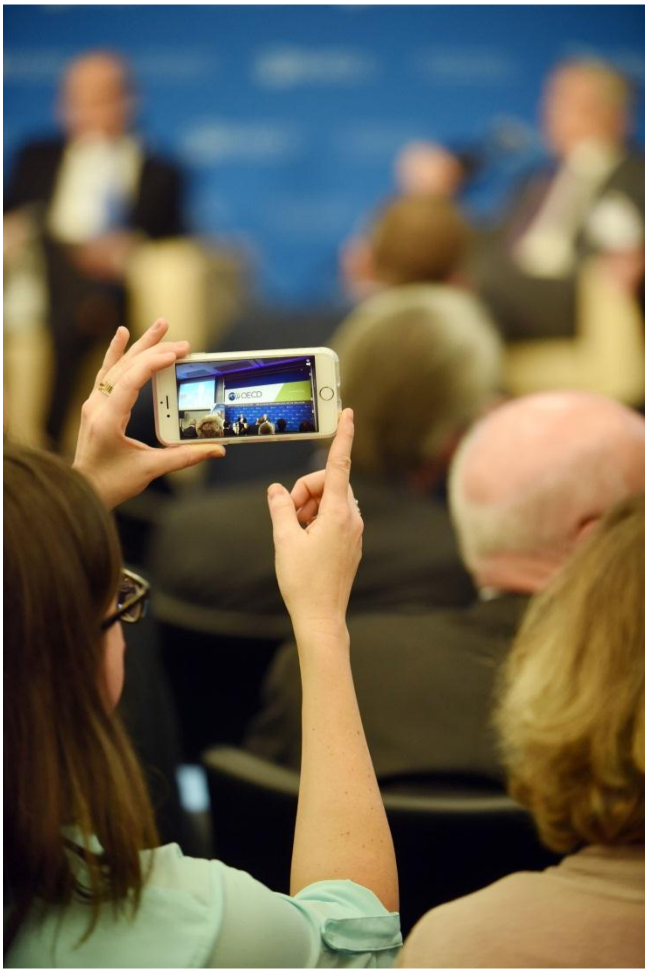
George Soros: It is a very serious situation. QE is actually the right policy and given the limitations of the EU, fiscal stimulus is not available. Therefore, you can only have monetary stimulus. One of the side-effects of this will be an increase in inequality; it is quite predictable and inherent in the policy. Creditor countries' positions will be enhanced vis-à-vis the debtor countries and it will improve the relative position of people with wealth as the stimulus occurs through reinforcing the value of assets. It is in fact an asset bubble, it will make the rich richer and the poor will benefit somewhat, as there will be some improvement in employment, but there will not be any real wage increases.

Secretary-General: The Russia-Ukraine relationship is another source of concern and tension. As a citoyen du monde, you were born in Eastern Europe and then made a very successful career abroad. Your advice is constantly sought after and you have been very active in Eastern Europe. You are pivotal in the transition process of the countries in that region. What can you tell us about this force of tension?

George Soros: It is not the first time I have been involved in this area. I was also involved in the region 25-30 years ago during the collapse of the Soviet system when I established a network of foundations in each of the former communist countries. I started in communist Hungary in 1984 and then Poland and Russia in 1987, before the collapse of the Berlin Wall. I also established a foundation in Ukraine in 1990, two years before independence. The Foundation which is run by Ukrainians is an established institution and plays an important role in what is happening in the country.

Today, there is a 'new Ukraine', determined to be the opposite of the old Ukraine with its corrupt and inept government and corrupt oligarchic business community. This new Ukraine is born out of the Maidan events where the old regime tried to dispel by force those who protested against the deal between Yanukovych and Putin. Putin asked Yanukovych to get rid of the demonstrators before he could get the first 3 billion dollar loan. Yanukovych tried and instead of people running away, they stayed at Maidan and that is where the new Ukraine was born.

In some ways it is quite unique. Normally when you have a spontaneous manifestation and revolutionary movement, it expresses itself in protest, but in Ukraine you have a participatory democracy where people are engaging in nation-building. This has been happening for a year and it is just beginning to make its effect felt now, it is gathering momentum. At the same time, this new Ukraine is an existential threat to the Putin regime because if you could have a functioning democratic Ukraine, couldn't you also have one in Russia? Another important actor is of course the EU, but people in Europe do not really understand what is happening and do not really care. For these reasons, Putin has – temporarily I hope – made progress in achieving his goal of destabilising Ukraine.



Secretary-General: President Obama said inequality was a defining issue for the rest of his administration and beyond. We had Mr Piketty here twice. Inequality has led our work for the past 10-15 years and it is now mainstreamed in that work. The problem remains that inequality is still growing and must be tackled. We have calculated that inequality restrains economic growth, it is not intuitive. What is your notion about how we can address this issue? Will it be resolved by simply getting growth back on track?

George Soros: I think it has to be an objective of economic policy. Just as markets left to their own devices are unstable, economies left to their own devices create inequality. When you read the communist manifesto of 1848, it was a brilliant analysis of that phenomenon which is still largely valid today. That doesn't make me a communist but I have to recognise a contribution when I see one. Fighting inequality must be an objective of public policy and the results are not independent of the policies which prevail. So this is where I have a problem with the analysis of Piketty, not with the phenomenon he deals with. The framework is still old economic thinking. Piketty will be here tomorrow I believe and I will be very interested in hearing him.

Secretary-General: On the question of scenarios, several different outlooks exist. One is a very mediocre sluggish muddling through scenario. Another is a slightly more vibrant scenario. How do you see the next few years? How do we move on from this mediocre and undesirable evolution to a better path?

George Soros: I think the headline in today's FT is the prediction of sluggish growth in the major economies, I hate to be in agreement with the majority, but in this case I am. This is what is expected and the main problem is the lack of international coordination of economic policies.

We are facing a period of considerable turmoil. This can also be said about the currency markets, because of this contrast between the Bundesbank orthodoxy, which is still very influential in Europe on the one hand; and the US on the other, which is now further advanced and is moving out of QE. This creates big tension and QE is going to work mainly by its effect on the currency.

Secretary-General: Your team and your Foundations are working not only on economic thinking but also on issues of governance, good government, good delivery of services and particularly on the fight against corruption in Africa, Asia, Latin America and in Europe. Corruption seems to be a cancer we cannot extricate ourselves from. Would you please comment on this?

George Soros: This is actually what has brought me here today. The OECD has found a very valuable niche in this area. I remember when I first visited the OECD during the collapse of the Soviet Union; at the time I recall a large number of PhDs sitting around pushing a lot of papers and without a mission. Now the OECD has found this niche: transparency, anti-corruption and accountability. That happens to be the area where the Foundation has also gotten very involved. It is a very important area where a lot of progress has already been made and a lot more can be done. We have two organisations yours and ours both dealing with the same subject areas, taxation, disclosure of beneficial ownership etc.

But there are also differences between our organisations, you are an intergovernmental organisation while we are working with civil society. You are a do-tank and we are a grant giving organisation. I believe there are a lot of synergies; we need access to the intergovernmental process whereas democratic governments need a closer relationship with civil society. The purpose of our meeting today was to find how we can work together in specific areas. We focused on two major branches, one is the global G20 process and the other is the local, individual countries and particularly countries which are undergoing democratic regime change.

Secretary-General: We are now seeing green shoots in the recovery of the larger economies while the emerging economies seem to be in trouble with no growth, large current account deficits, a lack of productivity and competitiveness. How do you see this evolution? Are you worried about it happening or do you see it as an exaggeration?

George Soros: I think there is a positive secular trend of lesser inequality between the developed world and the developing world. The positive side is that a number of developing economies are now gaining a middle class. On the other hand, there is a lack of international cooperation on economic and financial policy, particularly between Europe and the US.

There is a need for China to find a new growth model and adjust from its export and investment based rapid growth, to a middle-income growth based on domestic demand. These are the two big global trends; they create currency movements which are too big to be healthy.

Secretary-General: George, thank you for being with us today and for sharing your experiences and your wisdom on these issues.

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