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The Future of Europe: An Interview with George Soros  
George Soros and Gregor Peter Schmitz

Gregor Peter Schmitz: The conflict in Crimea and Ukraine has changed the shape of European and world politics, and we will come to it. But let us first talk about a subject on which you've taken a critical position over the years: the crisis of the European Union: With regard to the euro, isn't the worst over?

George Soros: If you mean that the euro is here to stay, you are right. That was confirmed by the German elections, where the subject was hardly discussed, and by the coalition negotiations, where it was relegated to Subcommittee 2A. Chancellor Angela Merkel is satisfied with the way she handled the crisis and so is the German public. They reelected her with an increased majority. She has always done the absolute minimum necessary to preserve the euro. This has earned her the allegiance of both the pro-Europeans and those who count on her to protect German national interests. That is no mean feat.

So the euro is here to stay, and the arrangements that evolved in response to the crisis have become established as the new order governing the eurozone. This confirms my worst fears. It's the nightmare I've been talking about. I'm hopeful that the Russian invasion of Crimea may serve as a wake-up call. Germany is the only country in a position to change the prevailing order. No debtor country can challenge it; any that might try would be immediately punished by the financial markets and the European authorities.

Schmitz: If you said that to Germans, they would say: Well, we have already evolved a lot. We are more generous now and have modified our policy of austerity.

Soros: I acknowledge that Germany has stopped pushing the debtor countries underwater. They are getting a little bit of oxygen now and are beginning to breathe. Some, particularly Italy, are still declining, but at a greatly diminished pace. This has given a lift to the financial markets because the economies are hitting bottom and that almost automatically brings about a rebound.

But the prospect of a long period of stagnation has not been removed. It's generally agreed that the eurozone is threatened by deflation but opposition from the German Constitutional Court and its own legal departments will prevent the European Central Bank (ECB) from successfully overcoming the deflationary pressures the way other central banks, notably the Federal Reserve, have done.

The prospect of stagnation has set in motion a negative political dynamic. Anybody who finds the prevailing arrangements intolerable is pushed into an anti-European posture. This leads me to expect the process of disintegration to gather momentum. During the

acute phase of the euro crisis we had one financial crisis after another. Now there should be a series of political rather than financial crises, although the latter cannot be excluded.

Schmitz: You say that current arrangements are intolerable. What exactly needs to change? What needs to be reformed?

Soros: At the height of the euro crisis, Germany agreed to a number of systemic reforms, the most important of which was a banking union. But as the financial pressures abated, Germany whittled down the concessions it had made. That led to the current arrangements, which confirm my worst fears.

Schmitz: As we speak, European finance ministers are in the process of concluding an agreement on the banking union. What do you think of it?

Soros: In the process of negotiations, the so-called banking union has been transformed into something that is almost the exact opposite: the re-establishment of national “silos,” or separately run banks. This is a victory for Orwellian newspeak.

Schmitz: What’s wrong with it?

Soros: The incestuous relationship between national authorities and bank managements. France in particular is famous for its *inspecteurs de finance*, who end up running its major banks. Germany has its *Landesbanken* and Spain its *caixas*, which have unhealthy connections with provincial politicians. These relationships were a major source of weakness in the European banking system and played an important part in the banking crisis that is still weighing on the eurozone. The proposed banking union should have eliminated them, but they were largely preserved, mainly at German insistence.

Schmitz: That is a pretty drastic condemnation. How do you justify it?

Soros: In effect, the banking union will leave the banking system without a lender of last resort. The proposed resolution authority is so complicated, with so many decision-making entities involved, that it is practically useless in an emergency. Even worse, the ECB is legally prohibited from undertaking actions for which it is not expressly authorized. That sets it apart from other central banks, which are expected to use their discretion in an emergency.

But Germany was determined to limit the liabilities that it could incur through the ECB. As a result, member countries remain vulnerable to financial pressures from which other developed countries are exempt. That is what I meant when I said that over-indebted members of the EU are in the position of third-world countries that are overindebted in a foreign currency. The banking union does not correct that defect. On the contrary, it perpetuates it.

Schmitz: You sound disappointed.

Soros: I am. I left no stone unturned trying to prevent this outcome, but now that it has happened, I don't want to keep knocking my head against the wall. I accept that Germany has succeeded in imposing a new order on Europe, although I consider it unacceptable. But I still believe in the European Union and the principles of the open society that originally inspired it, and I should like to recapture that spirit. I want to arrest the process of disintegration, not accelerate it. So I am no longer advocating that Germany should "lead or leave the euro." The window of opportunity to bring about radical change in the rules governing the euro has closed.

Schmitz: So, basically, you are giving up on Europe?

Soros: No. I am giving up on changing the financial arrangements, the creditor–debtor relationship that has now turned into a permanent system. I will continue to focus on politics, because that is where I expect dramatic developments.

Schmitz: I see. Obviously, people are concerned about the rise of populist movements in Europe. Do you see any opportunity to push for more political integration, when the trend is toward disintegration?

Soros: I do believe in finding European solutions for the problems of Europe; national solutions make matters worse.

Schmitz: It seems the pro-Europeans are often silent on important issues because they are afraid that speaking up might increase support for the extremists—for example, in the case of the many refugees from the Middle East and Africa who hoped to reach Europe and were detained on the Italian island of Lampedusa.

Soros: Like it or not, migration policy will be a central issue in the elections. We must find some alternative to xenophobia.

Schmitz: What do you propose to do about it?

Soros: I have established an Open Society Initiative for Europe—OSIFE for short. One of its first initiatives is Solidarity Now, in Greece. The original idea was to generate European solidarity with the plight of the Greek population that is suffering from the euro crisis and Greek solidarity with the plight of the migrants, who experience inhuman conditions and are persecuted by the ultranationalist Golden Dawn party. It took us some time to get the project off the ground, and by the time we did, it was too late to generate European solidarity with the Greeks because other heavily indebted countries were also in need of support. So we missed that boat, but our initiative has had the useful byproduct of giving us a better insight into the migration problem.

Schmitz: What have you learned?

Soros: That there is an unbridgeable conflict between North and South on the political asylum issue. The countries in the North, basically the creditors, have been generous in

their treatment of asylum seekers. So all the asylum seekers want to go there, particularly to Germany. But that is more than they can absorb, so they have put in place a European agreement called Dublin III, which requires asylum seekers to register in the country where they first enter the EU. That tends to be the South, namely, Italy, Spain, and Greece. All three are heavily indebted and subject to fiscal austerity. They don't have proper facilities for asylum seekers, and they have developed xenophobic, anti-immigrant, populist political movements.

Asylum seekers are caught in a trap. If they register in the country where they arrive, they can never ask for asylum in Germany. So, many prefer to remain illegal, hoping to make their way to Germany. They are condemned to illegality for an indefinite period. The miserable conditions in which they live feed into the anti-immigrant sentiment.

Schmitz: Looking at other European issues, aren't your foundations also very involved in the problems of the Roma (Gypsies)?

Soros: Yes, we have been engaged in those issues for more than twenty-five years. The Roma Education Fund has developed effective methods of educating Roma children and strengthening their Roma identity at the same time. If this were done on a large-enough scale it would destroy the hostile stereotype that stands in the way of the successful integration of the Roma. As it is, educated Roma can blend into the majority because they don't fit the stereotype but the stereotype remains intact.

This is another instance where the European Commission is having a positive effect. I look to the European Structural funds to scale up the programs that work.

Schmitz: What do you think of Vladimir Putin's recent policies with respect to Ukraine, Crimea, and Europe?

Soros: Now you are coming to the crux of the matter. Russia is emerging as a big geopolitical player, and the European Union needs to realize that it has a resurgent rival on its east. Russia badly needs Europe as a partner, but Putin is positioning it as a rival. There are significant political forces within the Russian regime that are critical of Putin's policy on that score.

Schmitz: Can you be more specific?

Soros: The important thing to remember is that Putin is leading from a position of weakness. He was quite popular in Russia because he restored some order out of the chaos. The new order is not all that different from the old one, but the fact that it is open to the outside world is a definite improvement, an important element in its stability. But then the prearranged switch with Dmitry Medvedev from prime minister to president deeply upset the people. Putin felt existentially threatened by the protest movement. He became repressive at home and aggressive abroad.

That is when Russia started shipping armaments to the Assad regime in Syria on a massive scale and helped turn the tide against the rebels. The gamble paid off because of the preoccupation of the Western powers—the United States and the EU—with their internal problems. Barack Obama wanted to retaliate against Syria's use of chemical weapons. He asked for congressional approval and was about to be rebuffed when Putin came to the rescue and persuaded Assad to voluntarily surrender his chemical weapons.

That was a resounding diplomatic victory for him. Yet the spontaneous uprising of the Ukrainian people must have taught Putin that his dream of reconstituting what is left of the Russian Empire is unattainable. He is now facing a choice between persevering or changing course and becoming more cooperative abroad and less repressive at home. His current course has already proved to be self-defeating, but he appears to be persevering.

Schmitz: Is Russia a credible threat to Europe if its economy is as weak as you say?

Soros: The oligarchs who control much of the Russian economy don't have any confidence in the regime. They send their children and money abroad. That is what makes the economy so weak. Even with oil over \$100 a barrel, which is the minimum Russia needs to balance its budget, it is not growing. Putin turned aggressive out of weakness. He is acting in self-defense. He has no scruples, he can be ruthless, but he is a judo expert, not a sadist—so the economic weakness and the aggressive behavior are entirely self-consistent.

Schmitz: How should Europe respond to it?

Soros: It needs to be more united, especially in response to Russian aggression in Ukraine. Putin prides himself on being a geopolitical realist. He respects strength and is emboldened by weakness. Yet there is no need to be permanently adversarial. Notwithstanding the current situation in Ukraine, the European Union and Russia are in many ways complementary; they both need each other. There is plenty of room for Russia to play a constructive role in the world, exactly because both Europe and the United States are so preoccupied with their internal problems.

Schmitz: How does that translate into practice, particularly in the Middle East?

Soros: It has totally transformed the geopolitical situation. I have some specific ideas on this subject, but it is very complicated. I can't possibly explain it in full because there are too many countries involved and they are all interconnected.

Schmitz: Give it a try.

Soros: I should start with a general observation. There are a growing number of unresolved political crises in the world. That is a symptom of a breakdown in global governance. We have a very rudimentary system in place. Basically, there is only one international institution of hard power: the UN Security Council. If the five permanent members agree, they can impose their will on any part of the world. But there are many

sovereign states with armies; and there are failed states that are unable to protect their monopoly over the use of lethal force or hard power.

The cold war was a stable system. The two superpowers were stalemated by the threat of mutually assured destruction, and they had to restrain their satellites. So wars were fought mainly at the edges. After the collapse of the Soviet Union, there was a brief moment when the United States emerged as the undisputed leader of the world. But it abused its power. Under the influence of the neocons, who argued that the United States should use its power to impose its will on the world, President George W. Bush declared “war on terror” and invaded Iraq under false pretenses.

That was a tragic misinterpretation of the proper role of hegemonic or imperial power. It is the power of attraction—soft power—that ensures the stability of empires. Hard power may be needed for conquest and self-protection, but the hegemon must look after the interests of those who depend on it in order to secure their allegiance instead of promoting only its own interests. The United States did that very well after World War II, when it established the United Nations and embarked on the Marshall Plan. But President Bush forgot that lesson and destroyed American supremacy in no time. The neocons’ dream of a “new American century” lasted less than ten years. President Obama then brought American policy back to reality. His record in foreign policy is better than generally recognized. He accepted the tremendous loss of power and influence and tried to “lead from behind.” In any case, he is more preoccupied with domestic than foreign policy. In that respect America is in the same position as Europe, although for different reasons. People are inward-looking and tired of war. This has created a power vacuum, which has allowed conflicts to fester unresolved all over the world.

Recently, Russia has moved into this power vacuum, trying to reassert itself as a geopolitical player. That was a bold maneuver, inspired by Putin’s internal weakness, and it has paid off in Syria because of the weakness of the West. Russia could do what the Western powers couldn’t: persuade Assad to “voluntarily” surrender his chemical weapons. That has radically changed the geopolitical landscape. Suddenly, the prospect of a solution has emerged for the three major unresolved conflicts in the Middle East—Palestine, Iran, and Syria—when one would have least expected it.

The Syrian crisis is by far the worst, especially in humanitarian consequences. Russia’s entry as a major supplier of arms, coupled with Hezbollah’s entry as a supplier of troops, has turned the tables in favor of Assad. The fighting can be brought to an end only by a political settlement imposed and guaranteed by the international community. Without it, the two sides will continue to fight indefinitely with the help of their out-side supporters. But a political settlement will take months or years to negotiate. In the meantime, Assad is following a deliberate policy of denying food and destroying the medical system as a way of subduing the civilian population. “Starve or surrender” is his motto.

This raises the specter of a human catastrophe. Unless humanitarian assistance can be delivered across battle lines, more people will have died from illness and starvation during the winter than from actual fighting.

Schmitz: What about Iran?

Soros: There has been an actual breakthrough in the Iranian crisis in the form of a temporary agreement on nuclear weapons with the new president Hassan Rouhani. The sanctions imposed by the Western powers have been very effective. The Iranian revolution itself advanced to the point where it fell into the hands of a narrow clique, the Revolutionary Guard; the mullahs were largely pushed out of power. As head of the mullahs, the Supreme Leader could not have been pleased. He must also be aware that the large majority of the population has been profoundly dissatisfied with the regime. In contrast with previous attempts at negotiations, he seems to be in favor of reaching an accommodation with the United States. That improves the prospects for a final agreement. We must take into account, as Vali Nasr recently wrote, that Iran has, after Russia, the world's second-largest reserves of natural gas; and it potentially might compete with Russia in supplying gas to Europe.

Schmitz: That leaves the longest—lasting crisis, Palestine.

Soros: Recent developments in Egypt have improved the chances of progress in the long-festered Palestinian crisis. The army, with the active support of Saudi Arabia and the Gulf states, has removed the legally elected president and is engaged in the brutal suppression of the Muslim Brotherhood. This otherwise disturbing development has a potentially benign side effect: it raises the possibility of a peace settlement between the Palestinian Authority and Israel, to the exclusion of Hamas. This would have been inconceivable a few months ago. Secretary of State John Kerry became engaged in the Palestinian negotiations well before this window of opportunity opened, so he is ahead of the game. Prime Minister Benjamin Netanyahu is very suspicious but, for all his intransigence, cannot openly oppose negotiations because, having openly supported Mitt Romney in the American elections, he holds a relatively weak hand. Negotiations are making progress, but very slowly indeed.

If all three crises were resolved, a new order would emerge in the Middle East. There is a long way to go because the various conflicts are interconnected, and the potential losers in one conflict may act as spoilers in another. Netanyahu, for instance, is dead set against a deal with Iran because peace with Palestine would end his political career in Israel. Nevertheless, the broad outlines of a potential new order can already be discerned, although we cannot know the effects of the current crisis in Ukraine. Russia could become more influential, relations between Saudi Arabia and the United States may become strained, and Iran may emerge as America's closest ally, second only to Israel. But the situation remains fluid and may change from one day to the next.

Schmitz: Recently the crisis in Ukraine has overshadowed all the others.

Soros: Indeed. Ukraine and in particular Crimea are of much greater interest to Russia than anything in the Middle East. Putin woefully misjudged the situation. Last autumn he had no difficulty in outmaneuvering the European Union, which was hamstrung by its

internal political and financial problems. Under German leadership it offered too little and demanded too much. Putin could easily offer a better deal to Ukrainian President Yanukovich. But the Ukrainian people rebelled, upsetting the calculations of both sides.

The rebellion wounded Putin in his Achilles heel. The idea of a spontaneous rebellion simply did not enter into his calculations. In his view the world is ruled by power and those in power can easily manipulate public opinion. Failure to control the people is a sign of weakness.

Accordingly, he made it a condition of his assistance that Yanukovich should repress the rebellion. But the use of force aroused the public and eventually Yanukovich was forced to capitulate. This could have resulted in a stalemate and the preservation of the status quo with Ukraine precariously balanced between Russia and Europe, and a corrupt and inept government pitted against civil society. It would have been an inferior equilibrium with the costs exceeding the benefits for all parties concerned.

But Putin persisted in his counterproductive approach. Yanukovich was first hospitalized and then sent to Sochi to be dressed down by Putin. Putin's instructions brought the confrontation to a climax. Contrary to all rational expectations, a group of citizens armed with not much more than sticks and shields made of cardboard boxes and metal garbage can lids overwhelmed a police force firing live ammunition. There were many casualties, but the citizens prevailed. It was a veritable miracle.

Schmitz: How could such a thing happen? How do you explain it?

Soros: It fits right into my human uncertainty principle, but it also reveals a remarkable similarity between human affairs and quantum physics of which I was previously unaware. According to Max Planck, among others, subatomic phenomena have a dual character: they can manifest themselves as particles or waves. Something similar applies to human beings: they are part freestanding individuals or particles and partly components of larger entities that behave like waves. The impact they make on reality depends on which alternative dominates their behavior. There are potential tipping points from one alternative to the other but it is uncertain when they will occur and the uncertainty can be resolved only in retrospect.

On February 20 a tipping point was reached when the people on Maidan Square were so determined to defend Ukraine that they forgot about their individual mortality. What gave their suicidal stand historic significance is that it succeeded. A deeply divided society was moved from the verge of civil war to an unprecedented unity. Revolutions usually fail. The Orange Revolution of 2004 deteriorated into a squabble between its leaders. It would be a mistake to conclude that this revolution is doomed to suffer the same fate. Indeed the parties participating in the interim government are determined to avoid it. In retrospect the resistance of Maidan may turn out to be the birth of a nation. This promising domestic development was a direct response to foreign oppression. Unfortunately it is liable to provoke further pressure from abroad because successful resistance by Ukraine would present an existential threat to Putin's continued dominance in Russia.

Schmitz: You are referring to the Russian invasion of Crimea. How do you see it playing out?

Soros: If it is confined to Crimea it will serve as a further impetus to greater national cohesion in Ukraine. Crimea is not an integral part of Ukraine. Khrushchev transferred Crimea to Ukraine in 1954 by an administrative decree. The majority of its population is Russian and it is the base of the Russian Black Sea Fleet. That is exactly why Putin is liable to put military and economic pressure on Ukraine directly and they are not in a position to resist it on their own. They need the support of the Western powers. So Ukraine's future depends on how the Western powers, particularly Germany, respond.

Schmitz: What should the Western powers do?

Soros: They should focus on strengthening Ukraine rather than on punishing Russia. They cannot prevent or reverse the annexation of Crimea. They are bound to protest it of course because it violates the Budapest Memorandum of 1994 that guaranteed the territorial integrity of Ukraine, including Crimea, but they are not in a position to oppose it by military means. Even sanctions ought to be used sparingly in order to preserve them as a deterrent against the real danger, namely of direct military or economic assault on Ukraine. Russian forces have already occupied a gas plant in Ukraine supplying Crimea and may take more territory unless they are stopped.

Fortunately economic sanctions would be a potent deterrent provided they are used judiciously. Freezing the foreign assets of Russian oligarchs is the opposite of smart sanctions. Oligarchs sending their profits and their children abroad weaken the Russian economy. Until now capital flight was more or less offset by foreign direct investment. Effective sanctions would discourage the inflow of funds, whether in the form of direct investments or bank loans. Moreover, the US could release oil from its strategic reserve and allow its sale abroad. That could put the Russian economy into deficit. The Russian economy is fragile enough to be vulnerable to smart sanctions.

Schmitz: Wouldn't that be cutting off your nose to spite your face? Germany has a lot of investments in Russia, which are equally vulnerable.

Soros: Effective sanctions against Russia should be threatened at first only as a deterrent. If the threat is effective, they wouldn't be applied. But Chancellor Merkel faces a fundamental choice: should Germany be guided by its narrow national self interests or should it assert its leadership position within the European Union and forge a unified European response? On her choice hinges not only the fate of Ukraine but also the future of the European Union. Her passionate speech to the German Parliament on March 13 gives me hope that she is going to make the right choice.

Schmitz: What is your idea of the right choice?

Soros: A large-scale technical and financial assistance program for Ukraine. The EU and the US, under the leadership of the International Monetary Fund, are putting together a multibillion-dollar rescue package that will save the country from financial collapse. But that is not enough: Ukraine also needs outside assistance that only the EU can provide: management expertise and access to markets.

Ukraine is a potentially attractive investment destination. But realizing this potential requires improving the business climate by addressing the endemic corruption and weak rule of law. The new regime in Ukraine is eager to confront that task. But only the EU can open up its domestic market and provide political risk insurance for investing in Ukraine. Ukraine in turn would encourage its companies to improve their management by finding European partners. Thus Ukraine would become increasingly integrated in the European common market. That could also provide a much-needed fiscal stimulus for the European economy and, even more importantly, help to recapture the spirit that originally inspired the European Union.