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George Soros on the Coming U.S. Class War

'The situation is about as serious and difficult as I've experienced in my career.'

by [John Arlidge \(/contributors/john-arlidge.html\)](/contributors/john-arlidge.html) | January 23, 2012 12:00 AM EST

You know [George Soros \(/articles/2011/07/27/george-soros-hedge-fund-closes-why-wealth-men-work-into-old-age.html\)](/articles/2011/07/27/george-soros-hedge-fund-closes-why-wealth-men-work-into-old-age.html). He's the investor's investor—the man who still holds the record for making more money in a single day's trading than anyone. He pocketed \$1 billion betting against the British pound on “Black Wednesday” in 1992, when sterling lost 20 percent of its value in less than 24 hours and crashed out of the European exchange-rate mechanism. No wonder Brits call him, with a mix of awe and annoyance, “the man who broke the Bank of England.”

Soros doesn't make small bets on anything. Beyond the markets, he has plowed billions of dollars of his own money into promoting political freedom in [Eastern Europe \(/articles/2011/06/30/uranium-smuggling-arrests-in-moldova-revive-security-debate.html\)](/articles/2011/06/30/uranium-smuggling-arrests-in-moldova-revive-security-debate.html) and other causes. He bet against the [Bush \(/articles/2011/04/29/george-w-bush-lance-armstrong-lead-afghanistan-iraq-veterans-in-texas-ride.html\)](/articles/2011/04/29/george-w-bush-lance-armstrong-lead-afghanistan-iraq-veterans-in-texas-ride.html) White House, becoming a hate magnet for the right that persists to this day. So, as Soros and the world's movers once again converge on Davos, Switzerland, for the World Economic Forum this week, what is one of the world's highest-stakes economic gamblers betting on now?

He's not. For the first time in his 60-year career, Soros, now 81, admits he is not sure what to do. “It's very hard to know how you can be right, given the damage that was done during the boom years,” Soros says. He won't discuss his portfolio, lest anyone think he's talking things down to make a buck. But people who know him well say he advocates making long-term stock picks with solid companies, avoiding gold—“the ultimate bubble”—and, mainly, holding cash.

He's not even doing the one thing that you would expect from a man who knows a crippled currency when he sees one: shorting the euro, and perhaps even the U.S. dollar, to hell. Quite the reverse. He backs the beleaguered euro, publicly urging European leaders to do whatever it takes to ensure its survival. “The euro must survive because the alternative—a breakup—would cause a meltdown that Europe, the world, can't afford.” He has bought about \$2 billion in European bonds, mainly Italian, from MF Global Holdings Ltd.,

the securities firm run by former Goldman Sachs head Jon Corzine that filed for bankruptcy protection last October.

Has the great short seller gone soft? Well, yes. Sitting in his 33rd-floor corner office high above Seventh Avenue in New York, preparing for his trip to Davos, he is more concerned with surviving than staying rich. “At times like these, survival is the most important thing,” he says, peering through his owlsh glasses and brushing wisps of gray hair off his forehead. He doesn’t just mean it’s time to protect your assets. He means it’s time to stave off disaster. As he sees it, the world faces one of the most dangerous periods of modern history—a period of “evil.” Europe is confronting a descent into chaos and conflict. In America he predicts riots on the streets that will lead to a brutal clampdown that will dramatically curtail civil liberties. The global economic system could even collapse altogether.



George Soros. , Photograph by Jake Chessum for Newsweek

“I am not here to cheer you up. The situation is about as serious and difficult as I’ve experienced in my career,” Soros tells *Newsweek*. “We are facing an extremely difficult time, comparable in many ways to the 1930s, the Great Depression. We are facing now a general retrenchment in the developed world, which threatens to put us in a decade of more stagnation, or worse. The best-case scenario is a deflationary environment. The worst-case scenario is a collapse of the financial system.”

Soros’s warning is based as much on his own extraordinary personal history as on his gut instinct for market booms and busts. “I did survive a personally much more threatening situation, so it is emotional, as well as rational,” he acknowledges. Soros was just 13 when Nazi soldiers invaded and occupied his native Hungary in March 1944. In only eight weeks, almost half a million Hungarian Jews were deported, many to Auschwitz. He saw bodies of Jews, and the Christians who helped them, swinging from lampposts, their skulls crushed. He survived, thanks to his father, Tivadar, who managed to secure false identities for his family. Later, he watched as Russian forces ousted the Nazis and a new totalitarian ideology, communism, replaced fascism. As life got tougher during the postwar Soviet occupation, Soros managed to emigrate, first

to London, then to New York.

Soros draws on his past to argue that the global economic crisis is as significant, and unpredictable, as the end of communism. “The collapse of the Soviet system was a pretty extraordinary event, and we are currently experiencing something similar in the developed world, without fully realizing what’s happening.” To Soros, the spectacular debunking of the credo of efficient markets—the notion that markets are rational and can regulate themselves to avert disaster—“is comparable to the collapse of Marxism as a political system. The prevailing interpretation has turned out to be very misleading. It assumes perfect knowledge, which is very far removed from reality. We need to move from the Age of Reason to the Age of Fallibility in order to have a proper understanding of the problems.”

Understanding, he says, is key. “Unrestrained competition can drive people into actions that they would otherwise regret. The tragedy of our current situation is the unintended consequence of imperfect understanding. A lot of the evil in the world is actually not intentional. A lot of people in the financial system did a lot of damage without intending to.” Still, Soros believes the West is struggling to cope with the consequences of evil in the financial world just as former Eastern bloc countries struggled with it politically. Is he really saying that the financial whizzes behind our economic meltdown were not just wrong, but evil? “That’s correct.” Take that, Lloyd Blankfein, the Goldman Sachs boss who told *The Sunday Times* of London at the height of the financial crisis that bankers “do God’s work.”

To many, the idea of Soros lecturing the world on “evil” is, well, rich. Here, after all, is an investor who proved—and profited hugely from—the now much-derided notion that the market, or in his case a single investor, is more powerful than sovereign governments. He broke the Bank of England, destroyed the Conservative Party’s reputation for economic competence, and reduced the value of the pound in British consumers’ pockets by one fifth in a single day. Soros the currency speculator has been condemned as “unnecessary, unproductive, immoral.” Mahathir Mohamad, former prime minister of Malaysia, once called him “criminal” and “a moron.”

In the U.S., where the right still has not forgiven him for agitating against President George W. Bush and the “war on terror” after 9/11, which he described as “pernicious,” his prediction of riots on the streets —“it’s already started,” he says—will likely spark fresh criticism that Soros is a “far-left, radical bomb thrower,” as Bill O’Reilly once put it. Critics already allege he is stoking the fires by funding the Occupy movement through Adbusters, the Canadian provocateurs who sparked the movement. Not so, says Soros.

Soros’s fragrant personal life will also prompt many to pooh-pooh his moralizing. Last year, Adriana Ferreyr, his 28-year-old companion for many years, sued him in New York Supreme Court in Manhattan, alleging he reneged on two separate promises to buy her an apartment, causing her extreme emotional distress. Ferreyr, a former soap-opera star in Brazil, said Soros had given the apartment he had promised her to another girlfriend. She also claimed he assaulted her. Soros has dismissed Ferreyr’s claims as “frivolous and entirely without merit” and “riddled with false charges and obviously an attempt to extract money.”

Despite his baggage, the man who now views himself as a statesman-philanthropist is undeterred. Having profited from unregulated markets, he now wants to deliver us from them. Take Europe. He’s now convinced that “if you have a disorderly collapse of the euro, you have the danger of a revival of the political conflicts that have torn Europe apart over the centuries—an extreme form of nationalism, which manifests itself in xenophobia, the exclusion of foreigners and ethnic groups. In Hitler’s time, that was focused on the Jews. Today, you have that with the Gypsies, the Roma, which is a small minority, and also,

of course, Muslim immigrants.”

It is “now more likely than not” that Greece will formally default in 2012, Soros will tell leaders in Davos this week. He will castigate European leaders who seem to know only how to “do enough to calm the situation, not to solve the problem.” If Germany’s Angela Merkel or France’s Nicolas Sarkozy nurses any lingering hopes of finding their salvation outside the continent, they are mistaken. “I took a recent trip to China, and China won’t come to Europe’s rescue,” Soros says. Despite all its woes, he nevertheless thinks the euro will—just barely—survive.

While Soros, whose new book, *Financial Turmoil in Europe and the United States* (<http://www.amazon.com/exec/obidos/ASIN/1610391527/thedaibe-20/>), will be published in early February, is currently focused on Europe, he’s quick to claim that economic and social divisions in the U.S. will deepen, too. He sympathizes with the Occupy movement, which articulates a widespread disillusionment with capitalism that he shares. People “have reason to be frustrated and angry” at the cost of rescuing the banking system, a cost largely borne by taxpayers rather than shareholders or bondholders.

Occupy Wall Street “is an inchoate, leaderless manifestation of protest,” but it will grow. It has “put on the agenda issues that the institutional left has failed to put on the agenda for a quarter of a century.” He reaches for analysis, produced by the political blog ThinkProgress.org, that shows how the Occupy movement has pushed issues of unemployment up the agenda of major news organizations, including MSNBC, CNN, and Fox News. It reveals that in one week in July of last year the word “debt” was mentioned more than 7,000 times on major U.S. TV news networks. By October, mentions of the word “debt” had dropped to 398 over the course of a week, while “occupy” was mentioned 1,278 times, “Wall Street” 2,378 times, and “jobs” 2,738 times. You can’t keep a financier away from his metrics.

As anger rises, riots on the streets of American cities are inevitable. “Yes, yes, yes,” he says, almost gleefully. The response to the unrest could be more damaging than the violence itself. “It will be an excuse for cracking down and using strong-arm tactics to maintain law and order, which, carried to an extreme, could bring about a repressive political system, a society where individual liberty is much more constrained, which would be a break with the tradition of the United States.”

In spite of his warnings of political turmoil in the U.S., he has no plans to engage in politics directly. “I would prefer not to be involved in party politics. It’s only because I felt that the Bush administration was misleading the country that I became involved. I was very hopeful of a new beginning with Obama, and I’ve been somewhat disappointed. I remain a supporter of the Democratic Party, but I’m fully aware of their shortcomings.” Soros believes Obama still has a chance of winning this year’s election. “Obama might surprise the public. The main issue facing the electorate is whether the rich should be taxed more. It shouldn’t be a difficult argument for Obama to make.”

If there is a glimmer of hope for the world in 2012, Soros believes it lies in emerging markets. The democratic-reform movement that has spread across the Middle East, the rise of democracy and economic growth in Africa, even reform in Russia may yet drag the world out of the mire. “While the developed world is in a deep crisis, the future for the developing world is very positive. The aspiration of people for an open society is very inspiring. You have people in Africa lining up for many hours when they are given an opportunity to vote. Dictators have been overthrown. It is very encouraging for freedom and growth.”

Soros insists the key to avoiding cataclysm in 2012 is not to let the crises of 2011 go to waste. “In the crisis period, the impossible becomes possible. The European Union could regain its luster. I’m hopeful that the

United States, as a political entity, will pass a very severe test and actually strengthen the institution.” Nor has he quite given up hope that the central bankers and prime ministers gathering in Davos this week have got what it takes to rally round and prove him wrong. This time, being wrong would make him happy indeed.

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