

[Check Against Delivery]

## George Soros Remarks at the Brussels Economic Forum 2017

Brussels, 1 June 2017

I am greatly honored to be invited to address this illustrious audience. The European Commission just published a reflection paper on the future of the European Monetary Union, which will open a debate I greatly welcome. I should like to join the previous speaker in dedicating my remarks to the memory of my great friend Tommaso Padoa Schioppa. Thinking of Tommaso brings back bitter-sweet memories. We became close collaborators during his retirement. We worked together trying to save the European Union at a time when few people realized it was moving towards an existential crisis. I firmly believe that he worked himself to death. I'm glad to have this occasion to remember him.

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Before I come to the subject of my speech, I should like to tell you who I am and what stand for. I am an 86-year-old Hungarian Jew who became a US citizen after the end of World War II. I learned at an early age how important it is what kind of political regime prevails. The formative experience of my life was the occupation of Hungary by Nazi Germany in 1944. I probably would have perished if my father had not understood the gravity of the situation. He arranged false identity papers for his family and many other Jews; with his help, most of us survived.

In 1947, I escaped from Hungary, which was by then under Communist rule, to England. As a student at the London School of Economics, I came under the influence of the Austrian philosopher Karl Popper, and I developed my own conceptual framework, built on the twin pillars of fallibility and reflexivity.

I distinguished between two kinds of political regimes: one in which people elect their leaders, who are supposed to serve the interests of the people rather than their own, and the other, where the rulers manipulate the people so that they serve the interests of their rulers. Under Popper's influence, I called the first kind of society open, the second, closed. In George Orwell's time the closed society could be best described as a totalitarian state; today it is best characterized as a mafia state, one which maintains a façade of democracy but the rulers use their control of the media, the judiciary and the other levers of influence, to enrich and maintain themselves in power.

This classification is too simplistic. Even so, I find the distinction between the two types of regimes illuminating. I became an active promoter of open societies and an opponent of totalitarian and mafia states.

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My purpose today is to explain what Tommaso Padoa Schioppa and I would be working on together if he were still alive.

We would try to save the European Union in order to radically reinvent it. The first objective, saving Europe, has to take precedence because it is in existential danger. But we wouldn't forget about the second objective either.

The reinvention would have to revive the support that the European Union used to enjoy.

We would do it by reviewing the past and explaining what went wrong and how it could be put right.

And that's what I want to talk about today.

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Let me start with the past. After the Second World War, Western Europe was rebuilt with the help of the Marshall Plan, but it was still threatened by the Soviet Union, which occupied the eastern part of the continent. A group of visionaries led by Jean Monnet wanted to bind the western part together into an organization whose members would never wage war with one another.

The visionaries engaged in what the Karl Popper called piecemeal social engineering. They set limited but attainable goals, established a time line and generated public support, knowing full well that each step would necessitate a further step forward. The European elite of our generation responded enthusiastically. I personally regarded the European Union as the embodiment of an open society.

All went well until the Maastricht Treaty, which was signed in 1992. The architects knew that the treaty was incomplete: it created a central bank but did not establish a common treasury. They had reason to believe, however, that when the need arose the necessary political will could be summoned and the next step forward would be taken.

Unfortunately, that is not what happened. Two things intervened: the collapse of the Soviet empire and the reunification of Germany, which were so intimately interrelated that they count as one event, and then came the crash of 2008 which is the second event.

Let me discuss the Soviet collapse and German reunification first. Chancellor Kohl recognized that Germany could be reunited only in the context of a more united Europe. Under his farsighted leadership Germany became the main driver of European integration.

Germany was always willing to contribute a little bit extra so that every bargain could be turned into a win-win situation. President Mitterrand wanted to tie Germany more closely into Europe without giving up too much national sovereignty. This Franco-German bargain was the foundation of the Maastricht Treaty.

Then came the draft constitutional treaty, which sought to transfer sovereignty to centralized institutions, notably the European Parliament and the Commission but it was defeated by referenda in France and the Netherlands in 2005. During the euro crisis which followed the crash of 2008, de facto political power migrated to the European Council, where the heads of state were able to take urgently needed decisions in the nick of time. This discrepancy between formal and de facto power is at the heart of what I call "The Tragedy of the European Union".

The crash of 2008 originated in the United States but hit the European banking system much harder. After 2008, a reunited Germany felt neither politically motivated nor rich enough to remain the motor of further integration.

After the collapse of Lehman Brothers, when the finance ministers of Europe declared that no other systemically important financial institutions will be allowed to fail, Chancellor Merkel insisted that

every country should be responsible for its own banks. In doing so, she was reading German public opinion correctly. And that was the tipping point from integration to disintegration.

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The European Union is now in an existential crisis. Most Europeans of my generation were supporters of further integration. Subsequent generations came to regard the EU as an enemy that deprives them of a secure and promising future. Many of them came to doubt whether the European Union can deal with a multiplicity of accumulated problems. This feeling was reinforced by the rise of anti-European, xenophobic parties that are motivated by values that are diametrically opposed to the values on which the European Union was founded.

Externally, the EU is surrounded by hostile powers – Putin’s Russia, Erdogan’s Turkey, Sisi’s Egypt and the America that Trump would like to create but can’t.

Internally, the European Union has been governed by outdated treaties ever since the financial crisis of 2008. These treaties have become less and less relevant to prevailing conditions. Even the simplest innovations necessary to make the single currency sustainable could be introduced only by intergovernmental arrangements outside the existing treaties. That is how the functioning of European institutions became increasingly complicated and eventually rendered the EU itself dysfunctional in some ways.

The eurozone in particular became the exact opposite of what was originally intended.

The European Union was meant to be a voluntary association of like-minded states that were willing to surrender part of their sovereignty for the common good. After the financial crisis of 2008, the eurozone was transformed into a creditor/debtor relationship where the debtor countries couldn’t meet their obligations and the creditor countries dictated the terms that they had to meet. By imposing an austerity policy the creditor countries made it practically impossible for the debtors to grow out of their debts. The net result was neither voluntary nor equal.

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If the European Union carries on with business as usual, there is little hope for an improvement. That is why the European Union needs to be radically reinvented. The top-down initiative started by Jean Monnet had carried the process of integration a long way but it has lost its momentum. Now we need a collaborative effort that combines the top-down approach of the European institutions with the bottom-up initiatives that are necessary to engage the electorate.

Brexit will be an immensely damaging process, harmful to both sides. Most of the damage is felt right now, when the European Union is in an existential crisis, but its attention is diverted to negotiating the separation from Britain.

The European Union must resist the temptation to punish Britain and approach the negotiations in a constructive spirit. It should use Brexit as a catalyst for introducing far-reaching reforms. The divorce will be a long process taking as long as five years. Five years seems like eternity in politics, especially in revolutionary times like the present. During that time, the European Union could transform itself into an organization that other countries like Britain would want to join. If that happened, the two sides may want to be reunited even before the divorce is completed. That would be a wonderful outcome, worth striving for. This seems practically inconceivable right now, but in

reality it is quite attainable. Britain is a parliamentary democracy. Within five years it has to hold another general election and the next parliament may vote to be reunited with Europe.

Such a Europe would differ from the current arrangements in two key respects. First, it would clearly distinguish between the European Union and the Eurozone. Second, it would recognize that the euro has many unsolved problems and they must not be allowed to destroy the European Union.

The eurozone is governed by outdated treaties that assert that all member states are expected to join the euro if and when they qualify. This has created an absurd situation where countries like Sweden, Poland, and the Czech Republic have made it clear that they have no intention of joining the euro, yet they are still described and treated as “pre-ins”.

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The effect is not purely cosmetic. It has converted the EU into an organization in which the eurozone constitutes the inner core and the other members are relegated to an inferior position. There is a hidden assumption at work here, namely that various member states may be moving at various speeds but they are all heading to the same destination. This has given rise to the claim of “an ever closer union” that has been explicitly rejected by a number of countries.

This claim needs to be abandoned. Instead of a “multi-speed” Europe we should aim for a “multi-track” Europe that would allow member states a wider variety of choices. This would have a far-reaching beneficial effect.

Right now, attitudes towards cooperation are negative: member states want to reassert their sovereignty rather than surrendering more of it. But if cooperation produced positive results, attitudes may improve and some objectives that are currently best pursued by coalitions of the willing may qualify for universal participation.

There are three problem areas where meaningful progress is indispensable. The first is the refugee crisis; the second, territorial disintegration as exemplified by Brexit; the third, the lack of an economic growth policy

We need to be realistic. In all three areas we start from a very low base and in the case of the refugee crisis, the trend is still downward. We still don't have a European migration policy. Each country pursues what it perceives to be its national interest and it often works against the interests of other member states. Chancellor Merkel was right: the refugee crisis has the potential to destroy the European Union. But we mustn't give up. If we could make meaningful progress on alleviating the refugee crisis, the momentum would change in a positive direction.

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I am a great believer in momentum. I call it reflexivity in my conceptual framework. And I can see a momentum developing that would change the European Union for the better. This would require a combination of top-down and bottom-up elements and I can see both of them evolving.

Regarding the top-down political process, I kept my fingers crossed during the Dutch elections in which the nationalist candidate Geert Wilders fell from first to second place. But I was greatly reassured by the outcome of the French elections in which the only pro-European candidate among many achieved the seemingly impossible and emerged as the president of

France. I am much more confident about the outcome of the German elections where there are many combinations that could lead to a pro-European coalition, especially if the anti-European and xenophobic AfD continues its virtual collapse. The growing momentum may then be strong enough to overcome the biggest threat, the danger of a banking and migration crisis in Italy.

I can also see many spontaneous bottom-up initiatives and, significantly, they are mainly supported by young people. I have in mind the “Pulse of Europe” initiative, which started in Frankfurt in November and spread to some 120 cities across the continent; the “Best for Britain” movement in the United Kingdom; and the resistance to the Law and Justice Party in Poland, and to Fidesz in Hungary.

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The resistance that Prime Minister Viktor Orban encountered in Hungary must have surprised him as much as it surprised me. He sought to frame his policies as a personal conflict between the two of us and has made me the target of his unrelenting propaganda campaign. He cast himself in the role of the defender of Hungarian sovereignty and me as a shady currency speculator who uses his money to flood Europe--particularly his native Hungary--with illegal immigrants as part of some vague but nefarious plot.

This is the opposite of who I am. I am the proud founder of the Central European University that has, after 26 years, come to rank among the fifty best universities in the world in many of the social sciences. I have generously endowed the university and that has enabled it to defend its academic freedom not only from interference by the Hungarian government but also from its founder.

I have strenuously resisted Orban’s attempts to translate our ideological differences into personal animosity – and I have succeeded.

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What lessons have I learned from this experience? First, that to defend open societies, it is not enough to rely on the rule of law; you must also stand up for what you believe in. The university I have founded and the organizations that my foundation has supported are doing so. Their fate is in the balance. But I am confident that their determined defense of freedom—both academic freedom and the freedom of association will eventually bring the slow-moving wheels of justice into motion.

Second, I have learned that democracy cannot be imposed from the outside; it needs to be asserted and defended by the people themselves. I am full of admiration for the courageous way the Hungarian people have resisted the deception and corruption of the mafia state the Orban regime has established. I’m also encouraged by the energetic way the European institutions have responded to the challenge emanating from Poland and Hungary. I can see the revival of the European Union gaining more and more ground. But it won’t happen by itself. Those who care about the fate of Europe will have to get actively involved.

I must end with a word of caution. The European Union is cumbersome, slow-moving and often needs unanimity to enforce its rules. This is difficult to achieve when two countries, Poland and Hungary, are conspiring to oppose it. But the EU needs new rules to maintain its values. It can be done, but it will require resolute action by the member states and the active engagement of civil society.

Let's get engaged!