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# Adam Smith

## George Soros

Guest:

GEORGE SOROS, Founder, The Soros Foundations,  
President, Soros Fund Management

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## George Soros

**ADAM SMITH:** *[voice-over]* This man made more than a billion dollars last year in a single week. That's right, a single week.

**GEORGE SOROS, Founder, The Soros Foundations, President, Soros Fund Management:** That bet was— is avail— has been available for the last 10 years, and it only paid off at that particular moment.

**SMITH:** *[voice-over]* Then he spent the next few months giving it away, sometimes \$100 million at a time.

**ANTHONY RICHTER, The Soros Foundations:** George has always said that he makes his money in the West and spends it in the East.

**SMITH:** *[voice-over]* Meet George Soros and find out what drives one of the world's most successful investors.

**Mr. SOROS:** It sounds very— certainly it sounds very— sounds like something that one needs to look into.

**SMITH:** George Soros is a man of many paradoxes. He's a world-class speculator who sounds and writes like an Oxford philosophy professor. He certainly doesn't sound like a Wall Street fund manager. Last year he gave away more than \$100 million in Russia, yet he thinks it may be too late to stop Russia from sliding into chaos.

**Mr. SOROS:** He's an expert in Soviet minorities.

**SMITH:** *[voice-over]* I spoke with George Soros last fall after his great currency coup, when he made \$1 billion almost overnight. But the more I heard about his recent philanthropy, the more I wanted to talk to him again. I wanted to find out what kind of man would stake more than his entire fortune against the Bank of England, and then give away so much of the winnings.

They call it "Black Wednesday," the day that currency speculators broke the Bank of England. The bank and British taxpayers lost six billion pounds. The bank got caught in a financial tug of war. Britain was in a deep recession and needed to lower interest rates to turn the economy around, but British interest rates and exchange rates were locked into the high rates of Germany and the European Community. Something had to give. Soros acted. He borrowed pounds, converted them to other currencies, and waited. When the pound finally did fall, Soros paid back his loans, but because pounds were cheaper, it cost him less to repay his debts and he pocketed the difference. Stan Druckenmiller manages Soros's Quantum Fund. I asked him about the events last September.

**STANLEY DRUCKENMILLER, Soros Fund Management:** It was inevitable. It was a conclusion that could not be avoided under any intellectual thought process. And I must say, as the person actually managing the fund, that would have led me maybe to do two or three or four billion dollars, and that was where— where the combination of experience, courage, whatever you've heard about this man, came into play, because it was he who pushed very, very

hard on me to take the position to where we took it and actually wanted to take it further, but we didn't— we ran out of time.

**SMITH:** *[voice-over]* Soros leveraged his portfolio and ended up betting more than the entire value of the funds he managed.

*[interviewing]* Basically, you took the whole Quantum Fund and bet one and a half times that. That's really called betting the ranch.

**Mr. SOROS:** Well, no, actually, in terms of the risk we take, it wasn't. It wasn't even a full exposure, because the risk of loss was maybe 2, 2.5 percent. So if 1.5 times 2.5 percent would be, let's say, 4 percent loss. It wouldn't have killed us.

**SMITH:** So that really was a fabulous one-way bet.

**Mr. SOROS:** That was. It was a safe bet, but it's a question whether it was worth making it. That bet was— is avail— has been available for the last 10 years, and it only paid off at that particular moment. So this is where this— this equilibrium reached a climax.

**Mr. DRUCKENMILLER:** It's really a once-in-a-decade, and that's when he is really— that's when he is George Soros. That's when he just says you can't have enough of this. And if there's one thing I've learned from him, is that when you're right and you know something, you really feel it, you can't have enough. And the biggest mistake— if I had to sum up his investment philosophy in one sentence, it's that it's not whether you're right or wrong, you just have to have the maximum when you're right, and that's his unique innate ability.

**SMITH:** What kind of man would go eyeball to eyeball with the Bank of England and bet his fortune that the pillar of financial establishment would blink? A man with an unconventional view of the world, to be sure. George Soros's world view was formed as a teenager during the Second World War, when all the usual rules of normal life were suddenly fractured.

**Mr. SOROS:** It really started in 1944, when Hungary was occupied by the Germans, and me being Jewish, I was in danger of life.

**SMITH:** *[voice-over]* His father, a prominent Budapest attorney who had lived through the Russian revolution, understood the art of survival.

**Mr. SOROS:** When the Germans came in, he said, "This is a lawless occupation. The normal rules don't apply. You have to forget how you behave in a normal society. This is an abnormal situation." And he arranged for all of us to have false papers, everybody had a different arrangement. I was adopted by an official of the minister of agriculture, whose job was to take over Jewish properties, so I actually went with him and we took possession of these large estates. That was my identity. So it's a strange, very strange life. I was 14 years old at the time.

**SMITH:** George, you've written, "The Second World War gave me a lesson I've never forgotten." What was the lesson?

**Mr. SOROS:** The main lesson that I learned during the war is to expect the unexpected. I mean, the situations that you get into are

so out of context with what you have grown up with that you have to examine the framework in which you think, and then you realize that we all work with preconceived ideas, and those ideas don't necessarily correspond to reality. So there is this gap between perception and reality, and that's the gap that I have really kind of explored and also exploited.

**SMITH:** After the war, Soros left Hungary and went to England, to the London School of Economics. There he discovered the works of philosopher Karl Popper. Soros was deeply influenced by Popper's views on the nature of science.

**Mr. Soros:** So I came to the conclusion that basically all our views of the world are somehow flawed or distorted, and then I concentrate on the importance of this distortion in shaping events.

**SMITH:** *[voice-over]* Soros took Popper's ideas and applied them to the financial markets. He wrote a book explaining his theory of reflexivity, that markets don't always reflect reality because they're based on faulty perceptions.

**Mr. Soros:** It really is the method of alchemy, because the value of securities or the value of currencies is much more dependent on the kind of incantations or formulas that you are using. And so you really are dealing with a process of alchemy rather than a process of science.

**SMITH:** If investment is a process of alchemy, Soros has found a formula that does bubble up gold. If you had invested \$10,000 with him in 1969, you would have more than \$10 million today. How did he do that? By looking for places where he thinks perception and reality are out of whack.

**Mr. Soros:** I'm basically interested in manias or what I call boom-bust sequences, that is to say, processes which are initially self-reinforcing but unsustainable and therefore eventually have to be reversed.

**SMITH:** Give me an example. Does a little bell go off in your head when you read the morning paper? How does it work?

**Mr. Soros:** Well, you know, it doesn't happen every day, first of all, because these processes occur infrequently and there are long periods in between when it's sort of, from my point of view, is noise. And that's, you know, sort of just a normal kind of situation. We'll take, for instance, what I called Reagan's imperial circle, when Reagan embarked in the early 1980s on an aggressive program of rearmament and was unwilling to pay for it, and so it was deficit financing, and you had a self-reinforcing process, you know, of a strong dollar, strong economy, strong stock market which was, however, unsustainable, and had eventually to be reversed. So it was a boom-bust kind of sequence. And I think that I understood it reasonably well.

**SMITH:** And the same thing would work on the down side, in a depression. Is there a great depression anywhere in the world today that has to be reversed?

**Mr. Soros:** I think that we are in a great depression now in the world. I think that—I think that we are in conditions very similar to what prevailed in the 1930s. I think—

**SMITH:** Why is—

**Mr. SOROS:** —that, for instance, for the first time since the Second World War, see, prices are actually falling in a country like Japan, for instance. That is something that hasn't happened since the 1930s.

**SMITH:** [*voice-over*] From this small trading room in New York, Soros trades currency, stocks and bonds around the world. But looking for the unexpected on a global scale is not an easy job. Soros made one of his biggest mistakes in his own back yard.

[*interviewing*] You wrote that you saw the crash coming in the late '80s, in '87, and yet you got caught like everyone else. How do you explain that?

**Mr. SOROS:** I made a very big mistake, because I expected the crash to come in Japan, and I was prepared for that, and it would have given me an opportunity to prepare for the follow-up in this country, and actually it occurred on Wall Street and not in Japan. So I was wrong.

**SMITH:** [*voice-over*] Some estimate that that mistake cost Soros \$650 million. Since then, the Soros funds have continued to grow. Even though Soros travels constantly, he's still very involved in the day-to-day management of the funds.

**Mr. DRUCKENMILLER:** He is here maybe a third to a half the time. Because of his other activities, he's often in eastern Europe or places, when you're trying to talk to him on the phone, it's very, very scratchy and it maybe lasts a minute or so a day. The way I look at it is having the greatest financial adviser in history to help create and bounce off ideas on an ongoing basis.

**SMITH:** [*voice-over*] So what ideas does George Soros have about the investment opportunities of tomorrow?

**Mr. SOROS:** Well, investment opportunities are difficult to find, because the situation in the United States has improved, but I think the markets have largely discounted them. I think that, for instance, China as an investment area looks very attractive, but slightly overheating, and there's this— my concern that the United States may not— may become more restrictive. I think that Mexico is a very— is a great success story, but again, I think the stock market has largely reflected it. I think there are some opportunities in Latin America. I'm very keen on Italy, of— in Europe, because they have been through a serious crisis, and I think that they have— they will survive it and emerge from it. And so I think that's a special situation. But on the whole, it's not easy right now to find really attractive investments.

**SMITH:** George Soros, like many Americans, watched with fascination as the Iron Curtain fell and eastern Europeans began to rebuild their societies. But unlike many Americans, he also thought about what this change would mean to the people of the former communist bloc and what he might do to ease the transition to democracy.

**Mr. SOROS:** What happened is that communism as a system collapsed. It was a closed system, it was a more primitive system than ours, and so people thought, well, once you are— you throw off the yoke, you enter the promised land. But that's not the way it works,

because our system is more sophisticated, you can't make the transition without a lot of preparation and a lot of help.

**SMITH:** This other side of George Soros was also inspired by Karl Popper.

**ANTHONY RICHTER, The Soros Foundations:** The common goal comes out of Karl Popper and his book *Open Society and Its Enemies*, namely that in the old days these countries were dominated by monolithic dogma which was patently false. The activities of the foundation have promoted pluralism, multiple perspectives, and the opportunity for new voices to be heard in order to create strong democracies.

**SMITH:** [voice-over] Starting in 1984, Soros established foundations throughout eastern Europe and the former Soviet Union. Right now there are roughly 35 Soros-affiliated organizations in 20 countries, including a central European university with branches in Prague and Budapest. Their goal is to encourage democracy. What do they do specifically?

**Mr. SOROS:** Well, they do a great number of things. It's such a broadly diversified and locally managed thing that I don't know everything that's going on, and actually, the most gratifying things are the ones that I don't know about. But I can tell you some of the major—

**SMITH:** Yes.

**Mr. SOROS:** —things. Our most successful program in Russia is the transformation of the education of humanities, which we do together with the Russian ministry of education. We have got, let's say, 300 new textbooks in preparation. We are holding seminars for the principals of schools. They prepare their new programs and then we support it.

**SMITH:** Teaching—teaching what?

**Mr. SOROS:** This is teaching social sciences and humanities, economics, replacing Marxism, Leninism in the school with normal subjects.

**SMITH:** I'm surprised that many western governments didn't help. It seems like the natural thing to do. Why did they not?

**Mr. SOROS:** You see, government help is, generally speaking, very ineffective. As my— as the director of my foundation says, it's the last instance of a command economy, because the help is given to benefit the donors and not the recipients, and this is where my foundation is different, because we really try to help the recipients.

**SMITH:** [voice-over] Among the recipients are, remarkably, Russian scientists. Soros set up a fund to provide them with grants.

**Mr. SOROS:** This is a very large grant, and that is to try to— you see, there are three reasons I did it. One, because there is a, really, a first-class natural science in Russia which survived even during the Stalinist times, and it is a great asset to humanity. It's a somewhat different strain than the one we have in the West, and I think it would be a great loss if it were now to disappear as a result—

**SMITH:** So what are you doing?

**Mr. SOROS:** So what we are doing is, we are giving help to scien-

tists and scientific projects. It's like— it functions like the National Science Foundation in giving grants for research.

**SMITH:** And how much money have you given to this?

**Mr. SOROS:** A hundred million dollars.

**SMITH:** You've given \$100 million?

**Mr. SOROS:** Yes.

**SMITH:** Personally.

**Mr. SOROS:** Personally.

**SMITH:** Now, that would put you ahead of almost any western government.

**Mr. SOROS:** I think it does, actually.

**SMITH:** *[voice-over]* In addition to the \$100 million to Russian science, Soros gave \$50 million in humanitarian aid to war-torn Bosnia and offered Macedonia a \$25-million loan to buy fuel oil through the winter, all this on top of the roughly \$30 million he was already committed to spending in 1992.

*[interviewing]* George Soros has astounded people by giving away several hundred million dollars in one year. Do you think he'll go on like that, at this rate?

**Mr. RICHTER:** Well, I would think that 1993 is probably going to be something like \$100 million.

**SMITH:** And will he spend \$100 million a year?

**Mr. RICHTER:** We may be able, if we work hard enough, if everybody pulls, to— to spend the \$100 million in a year. It'd be a threefold growth over the last year, but—

**SMITH:** But he'll use up his fortune at that rate, won't he?

**Mr. RICHTER:** I don't know. Only George knows.

**SMITH:** *[voice-over]* Keeping up with his foundations takes not only money, but time. Soros is constantly on the move, dropping in on the outskirts of his far-flung philanthropic empire. Here in Prague, Soros is building a home for his central European university.

**Mr. SOROS:** Originally I committed \$5 million a year for five years. Our current level of spending is already well in excess of that figure.

**SMITH:** *[voice-over]* Like some roving ambassador, he's as welcome in the corridors of power as he is at the tables of Czech intellectuals. It's surprising how hard it is to give away millions of dollars effectively. Here in Hungary, he's been accused of being part of a quote, "international Jewish conspiracy," quote, to destroy Hungary, and his accusers include members of the current government.

**Mr. SOROS:** Hungary is now a democratic country. It is now threatened by this— what I call nationalist dictatorship tendency, I call it NADI for short. These NADIs are quite influential, they have an ideology which is in direct conflict with mine, because they have developed— it is very reminiscent, actually, of Hitler's concept of the Judeo-plutocratic-Bolshevik conspiracy. And that— the hold that the communists were trying to destroy Hungary, the capitalists are trying to destroy the Hungarians of Hungary, and the communists were Jews or cosmopolitans, and the capitalists are Jews and cosmopolitans, so there is this conspiracy, and I suppose that I am a key figure in that conspiracy because my foundation

was established in 1985 and it helped in the transition from communism to capitalism.

**SMITH:** Do you think there'll be attacks on you in other countries?

**Mr. SOROS:** I'm sure. I'm sure, and there's already— I'm attacked in Romania as a Hungarian agent, I'm attacked in Slovakia as a Hungarian and a Jew, which is, I mean— and so I accept it because I also attack this NADI ideology.

**SMITH:** *[voice-over]* But despite these attacks, Soros is committed to continuing his activities.

**Mr. RICHTER:** The key to George's success and to his vision is his understanding of time and of change. George has been able to read the signs as they appear, discern the landscape, and pick out the most important phenomena, and to lead the foundation in that direction.

**SMITH:** So the same thing he has in making money he has in giving it away?

**Mr. RICHTER:** Exactly. I think, most of all, George is a visionary, and somebody who, again, is defined by having identified this change, somebody who profoundly understands the needs of people in central and eastern Europe. I don't know a single person who has met with as many of the political leaders and opposition of these countries throughout central and eastern Europe. He is the best adviser that the West can have for plotting the course of how we should help those countries make that transition.

**Mr. SOROS:** I feel that I have gotten sucked in a little deeper than I am really prepared for, because it is, in the end, very draining, and very exhausting. I started it, you know, thinking— and this is where I made an error, because I thought this is a revolution, and in the revolutionary fervor, in the first few months and first few years, you can set the pattern for the future before things become too solidified. It turns out that this moment has passed, and the pattern that's emerging is really a very unfavorable one. So it's going to be a very long, drawn-out process. I now have to think in biblical terms, you know, where you have to wander 40 years in the desert, and I don't think that I can frankly keep it up with energy, so I hope to slow down a bit.

If you start with the assumption that you are successful, you don't do— you lose the whole process that has made you successful. You must be willing to take the pain that comes with recognizing your own terror, and if you are not willing to go through that process, if you are not willing to take the pain, if it doesn't hurt anymore, then you are wrong, you see. That's when you lose the edge.

**SMITH:** It takes a certain gift to make money by the billions. It takes another kind of gift to write a coherent philosophical explanation of what makes this possible, and it takes a very great gift to give that money away so that you have a major impact on your times. George Soros has done all three.

I'm Adam Smith. See you next week.

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