‘Lead or leave euro’, Soros tells Germany

By Quentin Peel
September 9, 2012 – *Financial Times*

George Soros has issued a passionate plea to the German government to lead the eurozone out of recession by boosting growth, creating a joint fiscal authority and guaranteeing common bonds, or itself leave the currency union to save the future of Europe.

“Lead or leave: this is a legitimate decision for Germany to make,” the billionaire financier and philanthropist said in an interview with the Financial Times. “Either throw in your fate with the rest of Europe, take the risk of sinking or swimming together, or leave the euro, because if you have left, the problems of the eurozone would get better.”

“It is entirely dependent on Germany’s attitude,” he added. “If they insist on a policy of austerity, of reinforcing the current deflationary stance, and they won’t budge from that, then in fact it would even be better for them in the long run [to leave].”

Mr Soros, a strong supporter of European integration but an outspoken critic of Germany’s eurozone crisis management since 2010, praised the latest move by the European Central Bank to return to buying eurozone government bonds as “a more powerful step than the previous ones.

“It will have an effect,” he said. “It could even lay the groundwork for an eventual solution. But it is a stopgap, not a solution.”

Simply announcing the possibility of ECB intervention should reduce the risk premium Madrid has to pay on its bonds, but it would not be enough to stop the current deflationary spiral, Mr Soros said. He did not expect Spain to apply for support “until it has its back to the wall”.

Demanding tougher austerity conditions from countries such as Spain and Italy, however, would reinforce the division in the eurozone between debtors and creditors: “It is a step towards making a two-tier Europe permanent.”

Mr Soros, 82, will spell out his fears that such a split would lead to the eventual collapse of the currency union – and of the common market and the European Union as a whole – in a speech on Monday night in Berlin. He has also published a lengthy essay on the “tragedy” of Europe in the latest New York Review of Books.

He made clear, however, that his preferred solution is for Germany to abandon its deflationary stance and behave as a “benevolent hegemon” towards its partners, rather than leave the euro.

“Politically it would be a terrible blow,” he said. “All the pro-Europeans I know are shocked by this idea that Germany should leave the euro. It would be much more desirable if Germany underwent a change of heart. Once they look at the costs, they may want to stay.”

To prevent the present confrontation between debtors and creditors becoming permanent would require a fully-fledged “European fiscal authority” (EFA) – a sort of European monetary fund – which would assume the solvency risk of all government bonds purchased by the ECB, he said.

The eurozone should aim for nominal growth of at least 5 per cent, with higher inflation – for a limited period – than the German Bundesbank has ever been prepared to allow. Without the prospect of growth, the debtors would remain in a “deflationary trap” and eventually be forced to default.

An EFA would take over the eurozone rescue funds – the €440bn European Financial Stability Facility and the €500bn European Stability Mechanism – and establish a "debt reduction fund". The latter, very similar to a "debt redemption fund" proposed by the council of economic advisers to the German government, would acquire all eurozone government debt in excess of 60 per cent of their gross domestic product – the debt ceiling they are supposed to aim at. The fund would then issue "debt reduction bills" as a joint obligation of the eurozone countries. Mr Soros suggests they should be treated as the highest quality collateral by the ECB, and would be attractive to investors.

"You have about €700bn of deposits at the ECB which currently earn zero interest," he said. "Instead of keeping that money with the ECB, the banks would put it into these bills, which would have an interest rate better than zero."

The concept of giving eurozone debt a joint guarantee is fiercely resisted in the German government. Angela Merkel, the chancellor, and Wolfgang Schäuble, finance minister, agree that it cannot happen until a "fiscal union" has been established in Europe to police budget discipline. Many of their supporters reject the idea outright.

"Unless they change their view of the euro, they are – without intending it – pushing Europe into an intolerable situation," Mr Soros said. "My real concern is that the euro is now endangering the EU. If it falls apart in acrimony, Europe will be worse off than it was before it started."

He said he expected to be attacked in Germany for speaking as a financial speculator. "But I am not only a speculator. I have effectively retired. I think it is appropriate to speak out at my age," he said.