

George Soros' radical plan to save the EU from its next financial crisis

George Soros has a gift for knowing when social change is coming—and when the cultural and political processes we take for granted are about to collapse.

It's that sensitivity that thrust the wildly successful investor, political activist, and philanthropist into the limelight for making over a billion dollars by shorting the British pound back in 1992, having correctly predicted that the Bank of England wouldn't be able to defend itself from an attack in currency markets. Later, his understanding that markets aren't self-correcting helped him navigate the thorny markets in the aftermath of the 2008 global financial crisis.

Now, Soros' antennae are up again: The multi-billionaire thinks a new financial crisis might be on its way. This time, he's looking to the unsustainable political and social structures brewing in Europe.

Everything is wrong

In a Tuesday (May 29) speech at the European Council on Foreign Relations, Soros laid out his dire diagnosis: "For the past decade, everything that could go wrong has gone wrong." Soros thinks the European Union is already in the midst of an existential crisis, and what comes next will test whether the already fragile collective can stay together.

It's easy to see what Soros means. The post-2008 policy of economic austerity—reducing a government's deficits at any cost—pitted the Greeks against the Germans, and changed the relationship between poor and wealthy European nations to one of struggling, impoverished debtors versus agitated, powerful creditors. The debtor-nations had broken economies and masses of unemployed people, ensuring that they could not meet the conditions their creditors set. This dynamic bred widespread resentment on both sides toward the EU, which populist politicians would later exploit.

A decade later, the far-right Alternative für Deutschland is Germany's largest opposition party. A right-wing populist coalition has advanced in Italy. In the ultimate death knell, the UK marches on towards Brexit. And as Donald Trump abandons the Iran nuclear deal (paywall) and signals the end of the longstanding transatlantic alliance between the US and Europe, the state of the EU looks even more precarious.

Soros thinks everything came to a head with the refugee crisis. Austerity had already set the stage for Germans and other rich countries to think of Greeks as foreign, or other. Then in 2015 came a whole new wave of outsiders from countries like Syria, Somalia, Bhutan, Iran, and Afghanistan. "At first, most people sympathized with the plight of refugees," Soros said in his speech. "But they didn't want their everyday lives disrupted by a breakdown in social services. And soon they became disillusioned with the failure of the authorities to cope." The refugee crisis fueled populist ire even in countries with few migrants. Hungary's current prime minister, Viktor Orbán, ran on an anti-refugee reelection campaign even though Hungary was hardly touched by the crisis.

At least one million people from sub-Saharan African countries have migrated to Europe since 2010, and the overall numbers coming from Africa, especially in post-Gaddafi Libya, only seem to be growing. Some experts believe that because Africa's population skews young (paywall), and because—unlike Syrian refugees who flee war—Africans tend to be economic migrants looking for better opportunities, the African migration crisis will only get worse in the years to come.

In the long run, migration has major benefits for host countries, bringing in diverse populations who can help the economy grow. That said, any country, for a time being, might struggle to handle a high flow of economic migrants. Soros worries that Europe, in its current state of disintegration, political populism, and austerity, could collapse under the pressure to provide social services and jobs to incoming refugees. As migrants join the labor force, it could, in the short term, lead to growing competition for jobs and a fall in wages, only stoking populist anger. If the crisis continues at its current pace, the European Union is at stake.

The “Marshall Plan for Africa”

Soros’ plan to rescue Europe is both simple and incredibly difficult: Solve the refugee problem. Soros wants the EU to commit to giving €30 billion (\$35.4 billion) annually to Africa for a number of years; he left the exact timeline vague. This “Marshall Plan for Africa” would go toward building and fortifying democratic nations in Africa. Support and improve African economies, the thinking goes, and fewer refugees will leave the region.

If Soros’ plan sounds idealistic, that’s probably because it is—crafted more to startle scholars and present an out-of-the-box solution than to pass in any sort of legislative body.

Even Soros, to an extent, is aware of this. “There is a woeful shortage of financial resources... so, where would the money come from?” In 2015, for example, the EU initiated a plan to “address the root cause of migration in Africa,” though it seemed more interested in fortifying borders than building up African democracies. That plan included just €1.8 billion (\$1.9 billion) in funding.

Soros gestures at some financial wizardry, saying he has in mind “an ingenious device, a special-purpose vehicle, that would enable the EU to tap financial markets at a very advantageous rate without incurring a direct obligation for itself or for its member states.” Soros hints that his plan would take advantage of the long under-utilized borrowing capacity of the EU, which also happens to have a high credit rating. It might even staunch the flight of capital from emerging market currencies. “The economic stimulus of a Marshall Plan for Africa and other parts of the developing world should kick in just in time,” said Soros in his speech.

He’s keeping the details of his plan vague. Still, If anyone can figure out a way for the EU to borrow billions of dollars at great rates while taking advantage of mysterious financial devices, it’s probably Soros.

But the plan is still largely a fantasy, sketching out an idea of what ought to be, rather than what might be politically actionable.

“It’s a long shot,” says Rob Johnson, an expert in global finance, a former managing director at Soros Fund Management and a close friend of Soros.

Johnson has unmistakable respect for his former colleague, and considers Soros to be a deeply well-meaning person. He also agrees with Soros' diagnosis of the situation of Europe, and respects the motivation behind his plan.

But any such plan requires political cooperation among nations that might well resist the initiative. Migration is not evenly distributed across countries in Europe. So any plan that spreads the costs disproportionately benefits high-migration places, like southern Italy, at the expense of countries like Germany.

"The German reluctance, and some of the other European countries' reluctance, to engage in collective finance, will be hard to overcome," says Johnson. "Countries like France and Italy want to retain national control over their budgets—you can't have multiple countries control their own budgets and, simultaneously, have a shared financial responsibility."

The message matters more than the plan

Realism aside, the Soros plan is a way of shocking the world and providing a call to action. When you're a famed billionaire investor who thinks something really dangerous is happening, people pay attention.

"I don't think George is suggesting that someone next week is about to draft a bill and pass it, but he's creating a conversation," says Johnson. "He is painting a vision to start a conversation to move the conventional wisdom away from its unsustainable structure." That vision involves bringing about popular recognition that there is a positive, collective interest in everyone pitching in and doing something for Africa.

The Soros proposal is also notable because it involves some pretty controversial ideas—ideas that many, especially the powerful elite, shrink from. For example:

The refugee crisis is Europe's responsibility. Some believe that when the EU cut deals with African nations back in 2015, it simply offloaded handling the refugee crisis to north Africa, essentially bribing poorer countries to handle border security on its behalf. Soros wants the EU to step up to the task. "It's important to recognize that the refugee crisis is a European problem requiring a European solution," he argues.

A European solution, Soros believes, has to be about far more than border security. “The main objective of most European countries is not to foster democratic development in Africa and elsewhere, but to stem the flow of migrants,” says Soros. He says that Europe is shirking its responsibility because “a large part of the available funds [go] to dirty deals with dictators, bribing them to prevent migrants from passing through their territory or to use repressive methods to prevent citizens from leaving.” The final result? More political refugees.

Migration should be entirely voluntary on both sides. “Member states should not be forced to accept refugees they don’t want,” says Soros. “And refugees should not be forced to settle in countries where they don’t want to go.” Soros thinks this fundamental idea needs to be the bedrock of any European migration policy. That means neither “Fortress Europe”—all borders on extreme shutdown—or an endless flood of refugees into Europe would be feasible. But this ideal may just be that. There are plenty of reasons why mutual and voluntary migration may be untenable.

Austerity doesn’t work. “Until recently, it could have been argued that austerity is working,” says Soros. “But austerity is itself a contributing factor to the crisis in which Europe finds itself.” Soros’s plan literally requires nations to abandon the practice of austerity, because no nation could fund so much aid without adding to the national debt.

So take the plan for what it is—a message about the kinds of values that Soros believes should be governing whatever decisions the EU will eventually make.

Could the plan backfire?

Soros is aware, to a degree, that when it comes to the rise of populism in Europe, he may be a part of the problem.

“This initiative needs to be a genuinely grassroots effort,” Soros said at the European Council on Foreign Relations. “Ordinary people feel excluded and ignored. 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.”

In other words, saving Europe requires taking on elitism. Soros is unambiguously a member of the elite. “This is a man who is very wealthy, very influential, very active in politics, very influential in politics, and he has been demonized, he’s been mistrusted,” says Johnson. “Nobody has trust in these elite figures, nobody.”

Both Soros and Johnson believe the everyday electorate is fed up with having big political decisions made for them, instead of with them. With the spread of populism in Europe, it’s likely no “Marshall Plan for Africa,” or aid program in general, can happen without the large-scale support of the body politic—especially a plan that will cost upwards of \$30 billion.

Soros had little to say on just how a plan given to a small audience at the European Council of Foreign Relations could turn grassroots. But he’s hopeful. And despite his history of detecting, and capitalizing on, insecurity, Soros remains fiercely optimistic about the value of the EU. “The idea of Europe as an open society continues to inspire me,” says Soros. Now, to remain a reality, it will need to reinvent itself.

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