

CNBC

"GEORGE SOROS INTERVIEW"

INTERVIEW WITH GEORGE SOROS

CORRESPONDENT: MARIA BARTIROMO

PRODUCER: LULU CHIANG

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MARIA BARTIROMO:

09:49:08:00

Hi, there, Mark. Thank you very much. I am indeed sitting here with George Soros to talk a little about where we are in this environment. And, of course, George, you were one of the few people out there-- who were predicting-- that we would see-- a market meltdown and an economic slowdown around the world. Let me begin by asking you what you believe-- to be the case right now. Would you say the worst is to come? Where are we in this cycle?

GEORGE SOROS:

09:49:30:00

Well, what I did not predict is that the financial system would actually meltdown. And that's what happened when Lehman was allowed to go into bankruptcy, that that was a game-changing

event. The system broke down, had to be put on artificial life support. That's where it is now. Life support is working. Some of the channels, credit, you know, inter-bank and so on-- are reopening.

09:49:59:00

But that-- that event has had a tremendous effect on the real economy. So the storm that started in the financial system has now spread in a very big way to the real economy, which has fallen off the cliff following the Lehman thing. And additional measures are now taken, a stimulus, everything, it's-- it will slow down the rate of decline. But it won't turn the economy around unless a couple of other things are done, recapitalizing the banking system-- preventing-- reorganizing the mortgage system, and taking care of the international repercussions that's something that is not being discussed. But it has had a tremendously negative effect on the emerging economies.

MARIA BARTIROMO:

09:50:55:00                   Yeah.

GEORGE SOROS:

09:50:56:00                   And something has to be done about it because there's big, big trouble brewing there.

MARIA BARTIROMO:

09:51:01:00                   Right. And-- and, of course, we still have the emerging economies also burst. I mean, perhaps the bubble was there as well simultaneously when we saw the bubbles burst in finance and housing. I wanna ask you about the solutions because you talked about recapitalizing the banks, which I'll get to in a moment. One of the ideas coming out of the Obama administration, one of the news items of the day, is that we may see the idea of a bad bank-- solution here, where the government will be buying these-- these assets. Now, you have written about this extensively saying that this is not the way to go.

GEORGE SOROS:

09:51:32:00                   That is correct. And if-- when the original-- \$700 billion-- program had been passed, it had

been used to-- to-- systemically and methodically replenish-- the banking system. It could-- it would have worked. In fact, it may not have needed \$700 billion. But the money was sort of used capriciously as-- as-- half of which was-- was wasted.

09:52:03:00

The other half will be largely needed to plug the holes which have already emerged. And in the meantime, the deficiency in-- in the banking system is now in the range of \$1 trillion and a half, which is what would be needed and should be used to recapitalize the banks. However-- you know, the-- the bell (?) has been a little bit poisoned by the way Paulson handled this thing.

09:52:33:00

And I-- I think-- the Obama administration doesn't feel that it can come back, asking for \$1 trillion and a half in addition to the-- to the-- stimulus package. And, therefore, they saved up \$100 billion from this top (?)--

MARIA BARTIROMO:

09:52:51:00 Right.

GEORGE SOROS:

09:52:51:00 --and they are going to add to it-- a leveraged top from the Federal Reserve so they have \$1 trillion. And that will help to relieve the situation. But it will not be sufficient to turn it around.

MARIA BARTIROMO:

09:53:09:00 You know, you just hit on something and I wanna ask you a little more about-- about what the solutions are because with that second traunch of-- of TARP, the-- the need for recapitalizing the banks remains.

GEORGE SOROS:

09:53:18:00 Yes.

MARIA BARTIROMO:

09:53:19:00 But, you know, the public outrage is there. People are saying why are we keeping-- recapitalizing the banks when, in fact, they're not doing any lending?

GEORGE SOROS:

09:53:25:00 And--

MARIA BARTIROMO:

09:53:26:00 How do you get the banks to lend?

GEORGE SOROS:

09:53:27:00 Yeah. Well, that's important. You have to recapitalize them to get them to lend. But, you see, I would actually now go to a good bank-- bad bank situation. But I would do it the opposite way from the one that is now going to be used because what's happens with-- you divide good bank/bad bank. You put bad assets into the bad bank. You keep the capital in-- in the good bank.

09:53:52:00 I would keep the capital or the existing capital with the bad assets, move the good assets out, and recapitalize that, giving the shareholders the right to subscribe to the required capital. And if they don't do it or to the extent they don't do it then the government could put in the money. Now, this amounts to what people talk

about nationalizing the banks.

MARIA BARTIROMO:

09:54:20:00

Exactly.

GEORGE SOROS:

09:54:22:00

And that-- the political will to do that is not there. But in the end, that is what will have to happen if we want the banks to start lending again. The alternative is that we can order them to lend as-- by fiat, dic-- a government dictate, which is as bad as-- in fact, worse than putting capital in because that's kind of arbitrary dictating to the banks what they should do.

09:54:51:00

It's much better to let them decide what's right but give them the capital to do it with. So I would turn around the good bank/bad bank, keep the capital, the existing capital in the bad bank, and put the new capital into the good bank. And then I think you'd also find that the public, other investors, would be willing to put money into a good bank that doesn't have any of those bad assets. They're very-- very little-- lending

going on. The margins are terrific. It's a very good business to go into.

MARIA BARTIROMO:

09:55:26:00

Yeah. You know, I wanna ask you-- later on, the closing bell, what you think about this leveraging up on the part of governments because "debt" has become a bad word, "leverage" has become a bad word. And I wonder how you feel about governments now around the world doing exactly what-- has been criticized (UNINTEL). We'll see you on the closing bell. In the meantime, I'm gonna send it back to Mark and Erin at the New York Stock Exchange. Guys, over to you.

09:59:31:00

(BREAK IN TAPE)

GEORGE SOROS:

09:59:32:00

(IN PROGRESS) --resources and-- and-- and the power that United States has. As a result, capital started pouring out of the periphery countries back to the center. That's when the dollar rallied. And all the banks were pulling

back their assets to the-- to the center. And-- you have a lot of debt coming due. Estimates are over \$1 trillion of borrowing-- requirements for the periphery in '09. And unless some collective effective action is taken similar to what has been done to stabilize the situation in America and-- and-- and Europe then the emerging markets will be in a terrible mess.

10:00:28:00

So already now-- there's problems with trade financing. And then you also have to stimulate those economies, have some domestic demand, because export demand has fallen off the cliff. And the United States is now not going to import six and a half percent more than it's exporting. And so that falls out, you see?

10:00:56:00

Commodity prices have collapsed. So there has to be-- here-- here you have a storm that has suddenly hit those countries-- all the way from Brazil-- South Africa, all the African countries, Latin America, it's all-- the storm comes from

the center. These countries have actually been-- following good market discipline. Suddenly they are hit and the international financial institutions have to do something to provide them with relief.

10:01:32:00

They need two-- two types. One is to support the banking system and the currency, the debt requires some-- you know, funds that can be employed urgently when needed. And then you need longer term capital to allow the banks to-- the-- countries to engage in counter cyclical-- policies stimulating the domestic economy. So those are the thoughts.

10:01:59:00

And no thought-- not sufficient thought is given to that. Now, what we are doing, we are creating money to make up for the-- for the collapse of-- credit. We need to do that internationally. And there is a mechanism. It already exists. It's called special drawing rights. So we ought to issue special drawing rights on a very large

scale, like \$1 trillion, and then the rich countries would lend or donate, preferably donate, their allocations to--

MARIA BARTIROMO:

10:02:33:00

To the poorer countries.

GEORGE SOROS:

10:02:35:00

--to-- to the-- the poorer countries. And that is what the-- that would be the, let's say, the centerpiece of-- there are other measures that need to be taken. But that's the one that would make-- it would be similar to the stimulus-- that we are passing in the United States.

MARIA BARTIROMO:

10:02:51:00

But do you worry that, you know, while we talk about-- debt and leverage having really, in many cases, gotten us to where we are today, that today the governments are-- are borrowing so much money? I mean-- I mean, you know, some people would say, look, the governments can't afford it. Can the governments, even the-- the richest countries, afford doing this?

GEORGE SOROS:

10:03:08:00 Well, that's a very legitimate question. And-- and I think the-- the-- my answer is that you can't avoid doing it because the alternative is that you are now in a period of deflation and depression, economic-- call it recess.

MARIA BARTIROMO:

10:03:26:00 Right.

GEORGE SOROS:

10:03:27:00 And-- and you have the weight of debt is accumulating. And unless you inflate the-- inject a lot of money-- the weight of debt is going to sink the economies. That's what happened in the 1930s. So that's one lesson we have learned, that you mustn't allow that to-- what-- whatever it takes, you mustn't let that-- that happen.

10:03:55:00 Now-- so you-- you can't reestablish equity improvement in one fell swoop. You've got to take two steps. One actually in-- involves printing a lot of money, increasing the national

debt, expanding the Federal Reserve's-- until--

MARIA BARTIROMO:

10:04:17:00 Which we've seen so much of already.

10:04:17:00 (OVERTALK)

MARIA BARTIROMO:

10:04:18:00 --expanding what? More than-- \$1 trillion in a couple of months.

GEORGE SOROS:

10:04:22:00 Abso-- well, from-- it went more than that.

MARIA BARTIROMO:

10:04:24:00 Yes.

GEORGE SOROS:

10:04:25:00 And we've got guaranteed \$7 trillion. So it's in-- incredible amount.

MARIA BARTIROMO:

10:04:28:00 Amazing.

GEORGE SOROS:

10:04:29:00 That's the right thing actually. But then even when you restart the lending, then you have to drain the-- the-- the-- this money as fast as you put it in because otherwise you swick-- you-- you tip, you-- just-- tip over from the threat of

deflation to the-- a threat of inflation. So, first, you have to induce inflation. And then you have to reduce inflation. These are two steps. Very complicated (LAUGHTER) operation. And the second step in many ways is more difficult because-- you know, it's easier to spend money than to-- than to let's say impose taxes or reduce the money supply.