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# FORTUNE

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## George Soros VS. George Bush

The billionaire philanthropist is mad as hell at the cowboy President—and he's putting his money where his mouth is.



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# GEORGE SOROS IS MAD AS HELL

He made billions anticipating blowups. Now he thinks George Bush is creating one. BY MARK GIMEIN

GEORGE SOROS OWNS NO PRIVATE plane, no Caribbean island, no yacht, no ranch in the West, no collection of Old Masters. When he travels to Budapest, the city where he was born and survived the Nazi occupation, he stays in an unfashionable hotel that happens to be nestled in the middle of a beautiful park where he can go for vigorous walks. He travels solo, his wife pre-

ferring to stay in the U.S. while he tours his international philanthropic empire. Walking onto a stage in Europe, he is illuminated by the flashes of little pocket cameras that audience members hold over their heads. But offstage he waits in line at the bar for his Campari like everybody else, looking a little lost. He is naturally reserved, and that is somehow accented by his precise Cen-

## SOROS

tral European inflections. In a public setting he can appear strikingly alone, even lonely, a private man who has found himself living a very public life.

His demeanor belies his influence. George Soros is one of the most successful investors of all time. Even now, though he manages little or no money besides his own, he can move markets with a ten-minute appearance on cable television. Detractors have accused him of destabi-

lizing world currencies and wrecking the economies of entire nations. He is appealing a French conviction for insider trading. He has received humanitarian awards too numerous to count.

Soros has always been a polarizing figure, and over the next few months he is sure to become even more of one, especially in the U.S., where his name has never had the totemic power it does in Europe. At the age of 73, George Soros has found new pur-

pose: He has recast himself as a fierce, angry, partisan critic of the Bush administration and American policy. In what amounts to a barnstorming tour that has taken him from town halls in Seattle to a school of international relations in Baltimore to the World Economic Forum in Athens, Soros has argued that the U.S. right now is in the midst of a crisis. He believes that both at home and abroad, the American government has put in jeopardy the values of openness and democracy in a search for "invisible enemies." A careful observer of the international political scene, with contacts ranging all the way from UN chief Kofi Annan to Brazilian President Luiz Lula da Silva to Bush foreign-policy eminence Paul Wolfowitz, Soros attacks Bush in the most direct and dramatic terms.

"I lived through both German and Soviet occupation," Soros told me as we walked through a park on Budapest's Margaret Island. "When I hear President Bush say that those who are not with us are against us, I hear alarm bells." He calls Bush's speeches "Orwellian" and compares the Bush vision of international democracy—"You can have freedom as long as you do what we tell you to do"—to Soviet rhetoric about "people's democracies."

Soros has just committed \$10 million of his own money to an effort to drum up support for Democrats in key states, immediately becoming one of the biggest individual donors to next year's electoral race. In September he staged a fundraiser for former Vermont governor Howard Dean. And after years of writing moderate, carefully argued—and not very influential—tracts about the international economy, he is now almost ready to publish a very different kind of work, a book to be called *The Bubble of American Supremacy*. It's a no-holds-barred attack on what he sees as the hubris of American policy. "I've come to the conclusion," Soros told FORTUNE, "that one can do a lot more about the issues I care about by changing the government than by pushing the issues." In short, he has become the world's angriest billionaire.

IT WOULD BE POLITE TO CALL SOROS'S crusade something like the "debate about America's place in the world," but it is simpler to call it a fight against the Bush administration. "I was very comfortable with what this country stood for," Soros says. "But with the Bush administration coming into power, and the way it has exploited the terrorist attacks of Sept. 11, I feel very uncomfortable about the direction in which

## \$4.6 billion and counting

Soros's Open Society Institute, which takes its name from philosopher Karl Popper's phrase for free and democratic states, supports 33 foundations that funnel money into global philanthropy. Many of Soros's greatest successes have been in Eastern Europe, where Soros was close to dissidents who came to power after the fall of Communism (though his record in Russia was mixed). All told, his annual giving rivals the Ford Foundation's. — Christopher Tkaczyk



Soros's foundations and programs are active in 60 countries. Here are a few highlights:

### OPEN SOCIETY INSTITUTE—RUSSIA

**\$1 billion** 1987 TO 2003

Funded independent media, health care, and scientific research. But he shut his foundation there in June.

### OPEN SOCIETY INSTITUTE/U.S.

**\$565 million** 1996—PRESENT

Initiatives include: reducing gun violence, campaign finance reform, and improved care for the dying.

### CENTRAL EUROPEAN UNIVERSITY/HUNGARY

**\$300 million** 2001

Endowed the Central European University, a graduate school in Budapest.

### OPEN SOCIETY FOUNDATION/SOUTH AFRICA

**\$135 million** 1993—PRESENT

Affordable housing for low-income South Africans.

### STEP BY STEP

**\$110 million** 1992—PRESENT

A childhood-education program active in 29 countries.

### FUND FOR AN OPEN SOCIETY/SERBIA

**\$100 million** 1991—PRESENT

OSI's involvement in the former Yugoslavia helped bring down the dictatorship of Slobodan Milosevic.

### INTL. HARM REDUCTION DEVELOPMENT PROGRAM

**\$52 million** 1997—PRESENT

200 centers in 26 countries for HIV/AIDS prevention.

### FONDATION CONNAISSANCE ET LIBERTÉ

**\$35 million** 1995—PRESENT

Community development in Haiti, including funding for schools and libraries.

### ALBANIAN EDUCATION DEVELOPMENT

**\$30 million** 1994—2002

Helped rebuild the Albanian school system.

### IRAQ REVENUE WATCH

**\$150 thousand** MAY 2003—PRESENT

Monitors the use of Iraq's oil revenue.

the U.S. is taking the world, and to me it is not business as usual.”

Last summer Soros holed up with half a dozen top Democratic political strategists at a house he owns on Long Island to try to figure out how he could help bring down Bush, getting an education from some of the Democratic Party’s most prominent fundraisers and consultants. In August he agreed to lead several other major donors in what Democrats hope will be \$75 million in spending on a grass-roots get-out-the-vote effort in 17 battleground states. Called America Coming Together, it’s directed by top Democratic fundraisers Steve Rosenthal and Ellen Malcolm. That makes Soros a key player in the huge “soft money” push that the Democrats, hampered by new restrictions on campaign finance, hope will be one of the keys to matching Bush’s formidable fundraising apparatus in the 2004 election.

The people who talked politics with Soros are discreet about those meetings. Mark Steitz, a political consultant, says Soros “approached it like a businessperson going into a new business.” Rosenthal, the former political finance guru for the AFL-CIO, says that for Soros “it was more of a listening and absorbing session. He’s not a guy who felt it necessary to comment on everything.” But if he is willing to listen when it comes to election tactics, Soros has some very definite ideas about his broad agenda. He believes that by thumbing its nose at multinationalism, the Bush administration has frittered away its credibility abroad

Soros funded the Czech dissidents who were led by Vaclav Havel (right, foreground).

## “We are becoming enmeshed in a vicious circle of escalating violence.”

since Sept. 11. Having done more to build Eastern European democracies after the fall of Communism than any other individual, Soros now advocates a “Soros doctrine,” in which the U.S. would team up with the United Nations and other multilateral groups to intervene early and peacefully in countries facing the prospect of social meltdown. He has a domestic program, too. Despite an admitted aversion to giving his money to the government, Soros is pushing for more progressive taxation—read: higher taxes for the wealthy—including a return of the estate tax (an idea that would cost Soros himself billions, albeit posthumously). Soros is a deficit hawk who believes the Bush Administration’s deficits will stifle any economic recovery. He is furious about what he sees as the Bush administration’s encroachments on civil liberties, regarding the Patriot Act and much of the broader domestic war on terror as an insidious threat to what he calls open society. Soros thinks that if the U.S. doesn’t change its outlook, at home and abroad, the country is in grave danger.

Soros has made a career in finance and philanthropy out of seeing when normal situations turn far from normal. “Life is generated at the edge of chaos,” Soros told me, “so I specialize in

this edge of chaos situation. And that’s when I did best.” He has become one of the richest men in the world by charting these moments of change—and reacting to them earlier than other financiers and much earlier than most governments. Soros is convinced this is exactly the kind of moment we’re in now.

One crisis Soros foresees is economic. In one of his books Soros gives the example of a “benign circle” in which currencies steadily rise when an economy is strong, and investors gravitate toward buying stocks and bonds in the rising currency (precisely the situation the U.S. has been in for most of the past decade). But when the pattern is reversed, the circle unwinds astonishingly fast. Soros thinks this may well happen to the U.S. in the wake of rising deficits and military spending.

But the bigger bubble that Soros sees is ideological. “The crisis now, the one that I’m predicting, the crisis of global capitalism, latest version, is a political and military crisis,” an agitated Soros told me. “It has been brought about by the exploitation of Sept. 11 by the Bush administration to pursue its policy of dominating the world in the guise of fighting terrorism.” In his writings, Soros discusses how bubbles or “self-reinforcing” trends develop when a wrong idea—whether in finance or politics—survives a comparatively easy test, making an idea that’s unsustainable in the long term appear prescient in the short. That’s how Soros thinks of the Iraq war: A quick military victory reinforces the wrongheaded idea that thanks to an unbeatable military, the U.S. can achieve its international objectives by going to war. In a draft of the forthcoming *The Bubble of American Supremacy*, Soros puts it more strongly: “[W]e are becoming enmeshed in a vicious circle of escalating violence.”

OVER THE PAST TEN YEARS, SOROS has given away \$4 billion, for everything from curing tuberculosis in Russian prisons to supporting dissidents in Zimbabwe to setting up hospices in the U.S. For those keeping count, his annual giving is up there with the Ford Foundation’s. He has written seven books on economics and world affairs, dense tracts of political theory and complex



economic programs. The staggering weight of his accomplishment leaves one almost embarrassed to mention, you know, his money, which is the reason we became interested in George Soros in the first place.

But it is often the people who know Soros from his life as a manager and maker of money who offer the best and bluntest insights into what drives him. Stanley Druckenmiller, who spent a decade running Soros's Quantum fund, says, "He's a brilliant man, a brilliant manager. But his greatest strength, not to be foul or anything, is his balls. When he'd see something, obvious or not obvious, he was willing to bet it bigger than other people."

Descriptions of Quantum usually put it in the category of "macro funds"—short-hand for its strategy of making leveraged bets on worldwide macroeconomic events. It is easy to forget that before Soros there was no such thing as a macro fund. There were stock funds and bond funds (not nearly as many as there are now), but Soros invented something new. Here was a fund manager who saw the whole world as a stage, who made bets on currencies and stock indexes, who tried to guess the behavior of the central bankers who were really his closest counterparts.

Druckenmiller describes Soros as the first money manager to say, "I don't have to just trade stocks or bonds—if I've got five or six weapons at my disposal ... I'll go where the action is."

Soros started his first hedge fund in 1969 with \$4 million, just a fraction of it his own. Between that year and 2000, the last twelve years with Druckenmiller's help, Soros's flagship fund returned an average of 31% annually, with only three losing years (the tech stock crash made 2000 one of them). Today his fund company has about \$12 billion under management. Of that, \$7.4 billion is in the flagship Quantum Endowment fund. Though Soros maintains that there are outside investors in Quantum, former executives of his fund company believe that the overwhelming share, if not all, of that \$7.4 billion belongs to Soros and his family.

The fortune that Soros has acquired, and the reg-

## "My view of the world was formed when the Nazis were deporting Jews to Auschwitz."

ularity with which he has predicted the turns of the world economy, obscure what a painful, emotional business making money has been for him. In an interview with Byron Wien in *Soros on Soros*, a collection of conversations about money and politics, he admits that often he would know it was time to sell out a position when his back started killing him. And when he describes his one truly awful year as an investor, when he lost 23% of his fund in 1981, he describes it as "blowing up"—not a failure of analysis but an unconscious, primal response.

Soros has always appeared somewhat stunned by his own preternatural ability to make money in the financial markets. Though he has written a book about it, *The Alchemy of Finance*, he has never believed that his talent is "teachable," nor has he ever really succeeded in explaining it. The upshot of Soros's theories about the financial markets is that while in ordinary

times the markets undulate with the steady, sinuous waves we know from market charts, there are extraordinary periods in which the markets change rapidly, and the interaction of market realities and investors' expectations creates powerful, self-reinforcing trends—bubbles and crashes. Soros likes to call those situations "far from equilibrium," a safe, scientific-sounding term for situations that to most people are frightening and puzzling.

Soros tries to recognize these situations by the small signs that "normal" is turning into a bubble, a boom/bust cycle, or a crisis. We all know about the hurricane that begins with the flap of a butterfly's wings, but Soros is the rare person who is habitually willing to follow the implications. Very often those signs come from politics: Soros has been particularly adept at noticing those instances when statesmen, Finance Ministers, and politicians try to react, tentatively and incompletely, to big economic and social trends that are just about to—but have not yet—become full blown crises.

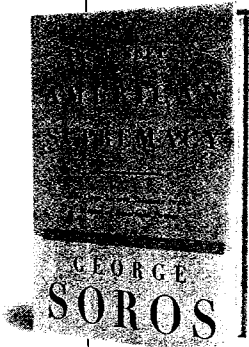
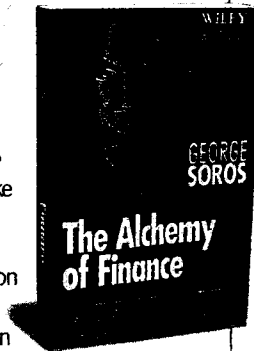
Soros and Druckenmiller famously made a billion dollars betting that the British pound would go down. In *Soros on Soros*, he says the sequence of events that led to the bet started with an offhand comment from the German Finance Minister about the lira. That led Soros to believe that the whole European currency market was a lot less stable than anyone else thought. One example of a small event hinting at major disruption that he often turns to is the phone call that Mikhail Gorbachev made to noted dissident Andrei Sakharov in 1986. It was to Soros a subtle but unmistakable sign that the entire Soviet system was on the verge of transformation.

UNDERSTANDING CHAOS IS something that Soros has pursued in what he calls the labo-

### Soros in his own words

George Soros's new book, *The Bubble of American Supremacy*, should make a splash when it is published in January (see main story). But Soros also published a book this fall: a new edition of *The Alchemy of Finance*, his 1987 explanation of the financial markets. In this new version he tries to clarify his theory of "reflexivity." Some readers have understood this concept to mean that market prices are influenced by expectations, not just "fundamentals."

Ho hum. Soros uses the new intro to explain what he really meant: Expectations and real-world facts interact in ways that often change the supposedly solid facts in surprising ways. For example, inflated expectations of Internet companies ran up the value of their stocks. But some of these companies, like America Online, used the stock to make acquisitions. Suddenly the "facts" changed. Just ask anybody at Time Warner if Soros is on to something.



SCOTT THOMPSON

ratory of finance and in reading and writing philosophy, but it also has very deep roots in his psyche. Soros and his family were among the minority of Budapest Jews who survived the 1944 Nazi invasion of Hungary. His father, Tivadar Soros, wrote a little-read but riveting book titled *Masquerade* about the family's months of hiding and running from the Germans and their collaborators. Lucid and even casual in tone, *Masquerade* recounts the way so many of Budapest's Jews, unable to see how dark their situation was, fell into the tightening noose of the "Jewish laws"—even answering summonses to the local police station to be deported to concentration camps in alphabetical or-

## "Most of the time he was treated seriously as a **donor**, not a **thinker**."

der. And yet a few—including Tivadar Soros and his family—were able to use the confusion of war as a cover to hide under false identities.

"[My] view of the world, I would say, was formed very much in the traumatic experience in the Second World War when Hungary was occupied by Nazi Germany and they were deporting Jews to Auschwitz," Soros told me. "I

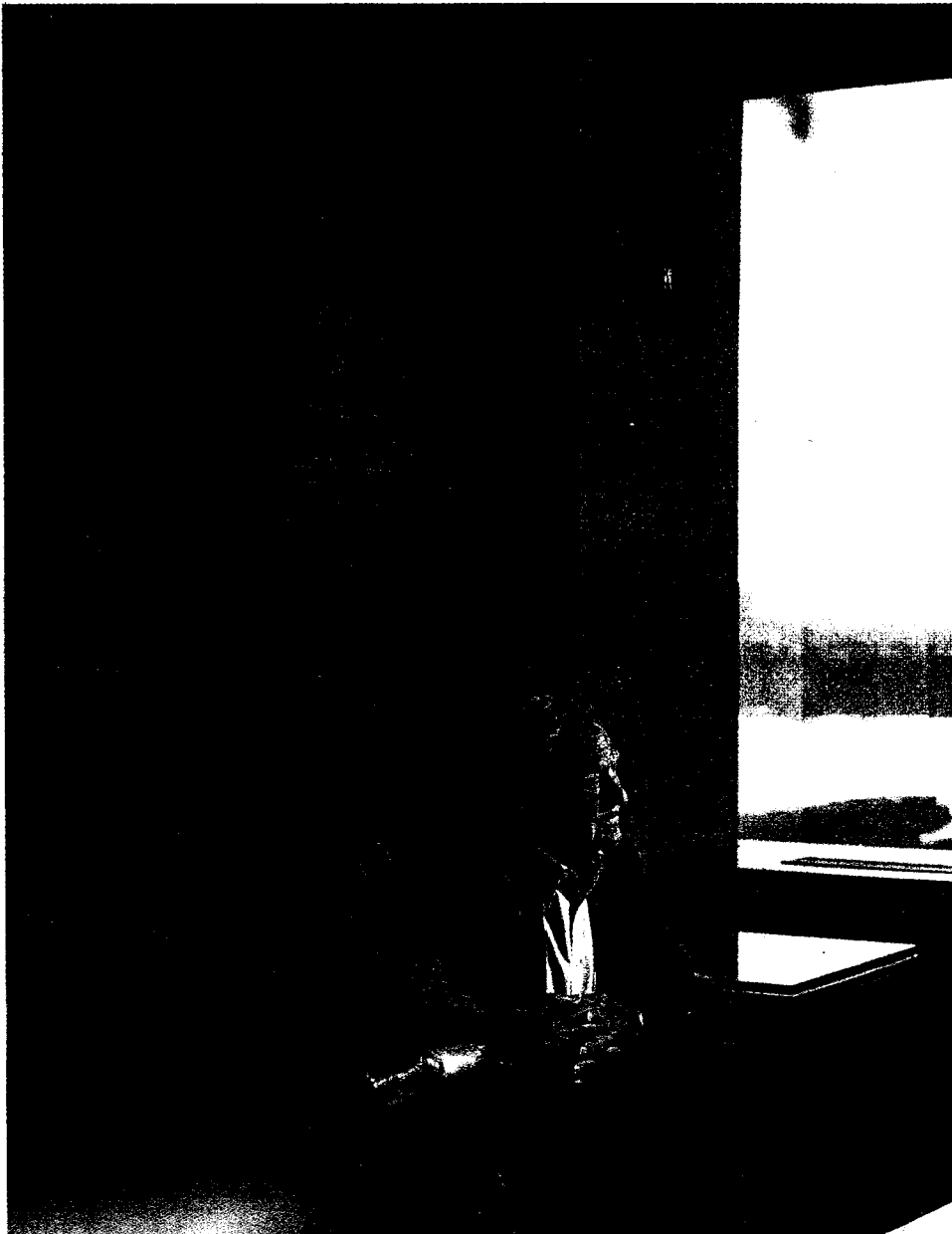
Soros, in his New York office, made a career of operating "at the edge of chaos."

was lucky enough to have a father who understood that this is not normalcy. This

is far from equilibrium. And if you go by the rules that you normally go by, you're going to die. I learned from a grand master in the Second World War, and I basically applied this view of the world to the financial markets and also to my political vision."

Soros has outlined those views in his books. Repeatedly he has tried to systematize his thinking, generally returning to the theory he calls "reflexivity" and trying to use it to explain the emergence of "out of equilibrium" conditions—whether the rapid fall of the Communist bloc or the Asian currency crisis. Soros seems puzzled that these books have not been more influential. He has joked that he is a "failed philosopher" but admits that he was irked when his biographer, Michael Kaufman, took that estimation at face value. But in fact the density and abstraction of his books—which rarely grant the reader a personal detail—have greatly limited their influence. "Most of the time," says Soros's friend Wiktor Osiatynski, a Polish legal scholar who sits on the boards of several of Soros's foundations, "he was treated seriously as a donor but not so seriously as a thinker." Stanley Druckenmiller, who remains a friend of Soros's but disagrees with him on nearly every political point, argues that Soros's strength has been not been putting together theoretical models but "relying on the intuitive" to know when the world is changing enough to make existing models obsolete.

It's that intuitiveness, the visceralness of his Hungarian experience, that has been missing from Soros's writing. The draft of *The Bubble of American Supremacy* is the first of his books to have it. In it, Soros notes with some pride that his politics have become "rabid." He has sometimes talked about how in his first fund, his partner, Jim Rogers, did the analysis while Soros "pulled the trigger," making the decisions. It is as if when it comes to politics and philosophy, Soros himself has decided to pull the trigger. "We are now being led by people who follow a false and dangerous ideology," Soros told a sympathetic Washington audience in September. "[This country] is where the future of the world is being decided." It is, in other words, the kind of "out of equilibrium" situation that engages Soros.



## SOROS

SO HOW SERIOUSLY SHOULD WE TAKE Soros's warnings? Soros himself hedges a little. If, as Soros does, you spend your time looking for "far from equilibrium" situations, you're bound to find them. Soros is very much aware of this: In 1998 he wrote a book, *The Crisis of Global Capitalism*, predicting a meltdown that never quite happened. "Just as economists have predicted the last ten of three recessions," he says, "the same way, I predict ten boom-bust situations out of three."

Whether or not Soros turns out to be right this time in thrusting himself into the election debate, he has made himself a big fat target for the Republicans. Before the election season is out you can expect Soros's dire predictions, and Soros himself, to become an issue. For those who have distrusted him, Soros has always been easy to paint as an Ian

Democratic fundraiser Ellen Malcolm, a participant in Soros's summer retreat, deflects questions about Soros's views by saying, "He's a very thoughtful, intelligent person who cares deeply about democracy."

Whichever side of the political divide you are on, it makes sense to pay Soros some heed on international economics. When he has been right about international trends, it has often been spectacularly so. To Soros, the casual phrases of a Finance Minister or a Treasury Secretary are never just casual. Last summer, for instance, Soros told viewers on CNBC that the new U.S. Treasury Secretary, John Snow, was intentionally exposing the dollar to a precipitous drop and that Soros himself was betting against the dollar. Soros saw Snow's vague comments that a falling dollar would help U.S. exports as the sign of a deliberate, short-sighted pol-

## "George Soros has **purchased** the Democratic Party for \$10 million."

Fleming villain. Secretive moneymaking apparatus? Check. Member of the Council on Foreign Relations? Check. Hobnobs with heads of state? Phony-sounding, palindromic name? Check, check. Add to that "biggest soft-money contributor to the anti-Bush forces," and you have a recipe for copious mudslinging.

"The Democratic party has been unable to broaden their message," says Republican National Committee spokeswoman Christine Iverson, "and as a result they remain beholden to a very small group of very wealthy people with narrow special interests." Soros's "interests" may be very different from those of corporate PACs angling for their bit of gain in the legislative and regulatory arenas. Distinctions like that don't last long in the rough argot of real-world politics, though. "George Soros has purchased the Democratic Party for \$10 million," Iverson says.

Meanwhile, Democrats soft-pedal how much influence he is likely to have. "I don't think he'll make much headway in some of his particular issues," says Tom Mann, a Democratic political analyst at the Brookings Institution. "Will it affect the agenda of the party? It's a matter of relative resources. Do you really believe Soros's \$10 million will make a difference in the party's agenda in an election in which \$4 billion will be spent?" Well, yes, if it gets Soros's ideas noticed. But ironically, the more money Soros gives, the more the Democrats have to avoid the appearance that they're kowtowing to him.

icy that would give a temporary boost to U.S. exports while hurting the rest of the world. "Deliberately devaluing the dollar is in some ways reminiscent of the competitive devaluations that occurred in the interwar period, which then resulted in a global depression," Soros says now. "It was a nice frosting on the cake [for Snow] to say 'we can screw Old Europe by devaluing the dollar.'"

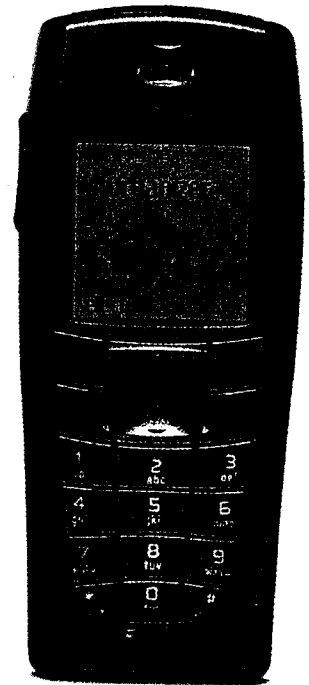
Most analysts at the time believed that Snow's comments were, if not a slip-up, then a trial balloon rather than a reflection of a new economic policy. The President soon reiterated the traditional American commitment to a strong dollar. Now, six months later, the dollar is back on the agenda, and at the latest international economic summit, the U.S. pushed for ... a weaker dollar.

It makes for an impressive display of Soros's mix of political and economic acumen, especially notable because it is driven not just by a feel for the movements of the world economy but even more by a feel for what motivates American politicians. "The kind of boom-bust sequence I have been best at reading," Soros says, "always has a political element." That talent for reading politics and politicians is one that Soros will likely have plenty of opportunity to display. Actually, you can think of the big game of domestic politics that Soros has taken on as being a lot like the wrenching exercise of running billions of dollars. Just with higher stakes. **E**

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