BUSINESS WITH REUTERS
International Herald Tribune | 15
Friday, September 26, 2008

CRISIS ON WALL STREET

Maybe Buffett could get a better deal for taxpayers

By David Leonhardt

WASHINGTON: Maybe the American taxpayers should be asking Warren Buffett to be negotiating on their behalf.

Treasury Secretary Henry Paulson Jr. spent a good part of two days on Capitol Hill arguing that the federal government should not demand a stake in any Wall Street concerns it bails out. Demanding such a stake, Paulson said, could scare away many of those companies from participating in the bailout, leaving the credit markets as hobbled as they are now.

And then Buffett swooped in and announced that his company, Berkshire Hathaway, was investing $5 billion in Goldman Sachs, which made far fewer bad investments than most of Wall Street. Buffett's money will help Goldman shore up its balance sheet. What will he receive in exchange? Something like a 7 percent stake.

Paulson, of course, has a different objective than Buffett. The Treasury secretary is trying to resuscitate the U.S. financial system and keep the economy from falling into a deep recession. If he drives too hard a bargain, he won't solve the problem. Buffet is merely trying to make money.

But to the many critics of the Paulson plan, the juxtaposition of the Goldman deal crystallizes the problems. The critics are worried that the government is taking on too much risk with too little upside. And they can't help but notice that other governments that faced similar crises in recent decades — in Japan and Sweden — struck deals that looked more like Buffett's than Paulson's.

On Wednesday, several members of Congress wistfully mentioned the Goldman deal. "When Warren Buffett invests $5 billion, he gets preferred stock in Goldman Sachs," Senator Jeff Bingaman, Democrat of New Mexico, said to Ben Bernanke, the Federal Reserve chairman. "We're being asked to endorse a bailout where we basically take the assets that these companies — these firms — can't otherwise dispose of at a reasonable price and take them off their hands."

Buffett appears to have gotten a very good deal, one that may not have been available to anybody whose name carries less prestige — which is to say, just about anybody else. (He will receive dividends that will effectively pay him a 10 percent annual return on his investment, as well as the right to buy a sizable stake in Goldman at a price below the current market price.) Goldman partners surely figured that his investment would allow them to turn around and raise yet more capital from other investors. Sure enough, they announced Wednesday that they were doing so.

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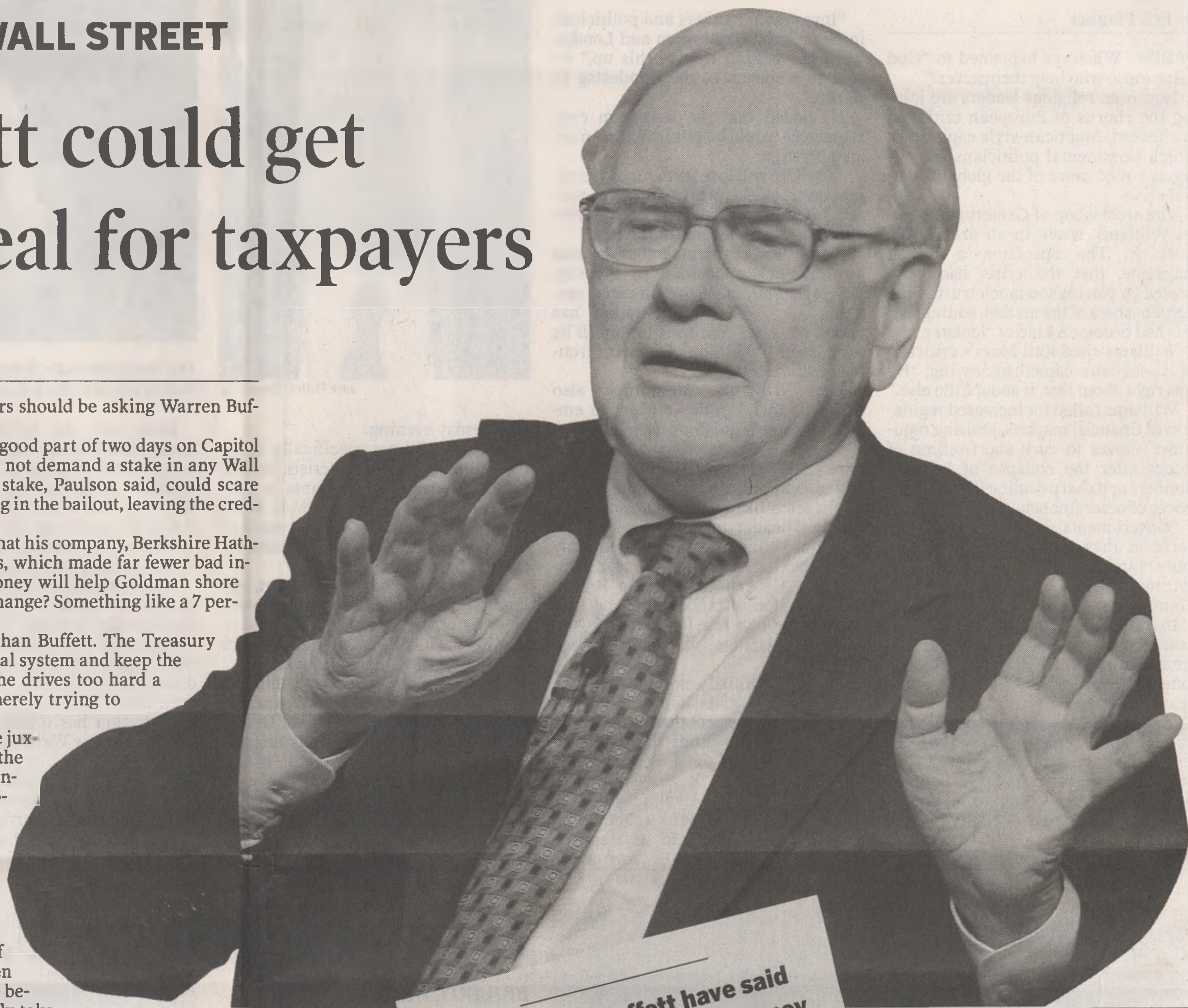

Mike Segar/Reuters

What would Buffett have said if Goldman asked for his money and wouldn't let him share in the upside? 'He would have said no deal!' an investor asserted.

IMF aims to forestall global spread of financial woes

By Mark Landler

WASHINGTON: As Europe and Asia play down the need for an American-style rescue plan, the financial crisis may threaten a different cohort of countries: those in Eastern Europe, Latin America and Africa that depend on foreign capital and share the U.S. affliction of trade deficits.

Emphasizing this threat, the managing director of the International Monetary Fund, Dominique Strauss-Kahn, called this week for a multilateral consultation to confront the crisis.

"We're facing a systemic crisis and it needs a systemic response," Strauss-Kahn said Wednesday during an interview. "The IMF is the right place to organize a global response to weaknesses in the global financial system."

His initiative is an attempt to vault the fund back into the thick of global events, a role it played in previous financial crises in Asia and Latin America, and has not played in the current one.

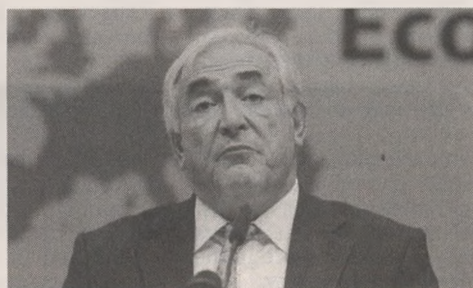
Yet economists agree with Strauss-Kahn, a former finance minister of France, that the crisis, by squeezing off the flow of global capital, threatens countries from the Baltic region to South Africa that depend on foreign capital to finance their balance of payments shortfalls.

"There are a number of countries where you can get quite worried if capital flows stop," said Thomas Mayer, the chief European economist at Deutsche Bank in London. "When you look at current account deficits, Central and Eastern Europe seems particularly vulnerable."

There are more than 20 countries with current account deficits that exceed 5 percent of their economic output, Strauss-Kahn said, putting them in what the fund views as the endangered category.

This list does not include the largest emerging market countries — China, Russia, Brazil and India — which are either running hefty trade surpluses or have hundreds of billions in foreign exchange reserves.

It does include Bulgaria, Romania, Estonia, Greece, Spain, South Africa, Vietnam, Costa Rica and of course, the United States, where the current account deficit in 2007 was 5.3 percent of gross domestic product, according to an IMF estimate.


Thierry Roge/Reuters
Dominique Strauss-Kahn, director of the IMF.

Economist are particularly worried about countries like Estonia and Bulgaria, which have double-digit current account deficits and have overheated economies.

"These countries have been growing too fast or borrowing too much," said Peter Akos Bod, a former president of the Hungarian central bank. "Should there be a sudden stop in capital, they would be in deep trouble."

The IMF held its last multilateral consultation, to discuss global imbalances, in 2006. It was attended by China, Japan, the European Union, Saudi Arabia and the United States. Strauss-Kahn did not say which countries should take part this time, though other officials said it was likely to include that group as well as major emerging economies like Brazil and Russia.

FLOYD NORRIS

Aid to banks: More harm than good?

NEW YORK

It's not easy to run an economy without a functioning financial system. And the United States barely has one.

Somehow getting by while that situation exists has been the underlying goal of most of the moves Henry Paulson Jr. has made as Treasury secretary since the system imploded in the summer of 2007. They have not worked.

In concept, the latest plan is really quite simple: Give the banks lots and lots of money. Once they have money — and no longer are stuck with many of those strange assets that are left over from the discredited financial system that imploded — people will have confidence in them.

That part may be true. But the second part is trickier. If the banks have all that money, will they be willing to go back to lending, or will they continue to show the caution that has been the hallmark of the past year? Is capital something to be conserved, or put at risk?

One lesson of the past 18 months is that when the government promises aid to a financial institution if it needs it, that does more harm than good. What the public hears is that this is an institution that needs help, which means it is not a good place to put your own money. Speculators sell the stock, and they buy credit default swaps. When the price of the swaps goes up, others get worried.

Paulson's latest solution is to funnel hundreds of billions of dollars to banks, whether they need it or not. Since the criteria for getting the money do not involve any actual need for it, the hope is that none of us will think badly of the banks that get the cash.

The proposal is not all that different from his first idea,

All efforts to stabilize a crippled financial system have failed.

announced almost a year ago. Then he wanted the banks to set up what became known as a "Super SIV" to buy dicey assets from the regular SIVs, or structured investment vehicles.

The fear then was that the banks would have to put that junk back on their own balance sheets because those who had funded the SIVs wanted their money back. The assumption was that the banks had plenty of capital and that getting by that problem would end the crisis.

It turned out the banks did not have plenty of capital, and the problem was much larger. That idea died.

One problem with getting capital to banks whether they need it or not is that the healthy ones won't take it if you attach strings. I suspect that is why the Paulson plan, to the dismay of many in Congress, does not call for taking an equity stake in return for buying mortgages and mortgage-backed securities for more than they are worth.

Not that the Paulson plan puts it so bluntly. Instead, it returns to the wondrous fiction that penetrated the super-SIV debate, that assets are worth what someone says they are worth, rather than what someone will actually pay.

The assumption underlying that proposal was that the assets were really O.K. — they had AAA ratings, did they not? — but that their market value had temporarily fallen because of unreasoning panic among investors.

Financial companies have been saying for months now that market prices for mortgage securities were unreasonably low, although none of them seemed eager to buy. Among the companies that most vigorously pushed that idea were AIG and Freddie Mac, which could be a sign that such protestations served to scare rather than reassure.

The Fed and the Treasury now endorse that idea. Contrary to what President George W. Bush said in his speech Wednesday night, the plan proposed by his administration does not call for buying such securities at "current low prices." The price the Treasury wants to pay will be the "hold-to-maturity price" of these securities, not the "fire-sale price" they would fetch in an open market.

And how will we determine that price? Ben Bernanke, the Fed chairman, thinks "auctions and other mechanisms could be devised that will give the market good information on what the hold-to-maturity price is for a large class of mortgage-related assets." That strikes me as dubious at best. Auctions of disparate securities

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Join a discussion with Floyd Norris on his blog, High and Low Finance.

Accord on taxpayer stake and curb on executive pay

By David M. Herszenhorn and Sheryl Gay Stolberg

WASHINGTON: Congressional negotiators from both parties announced Thursday that they had reached general agreement on a $700 billion rescue effort for the U.S. financial system.

Emerging from a nearly three-hour meeting in the Capitol, Republicans and Democrats said they would continue working through the day to complete the legislative language and would begin final negotiations with the U.S. Treasury.

It was unclear if a final draft of the bill would be ready by 4 p.m. when congressional leaders were scheduled to meet at the White House with President George W. Bush and the two presidential candidates, Senator John McCain, Republican of Arizona, and Senator Barack Obama, Democrat of Illinois.

On Wall Street, shares, which had opened higher, rose sharply on expectations of a rescue plan. The Dow Jones industrial average was up more than 220 points, or 2 percent, at midafternoon.

Lawmakers in both parties said that few substantive differences and no major obstacles remained and that they expected it to be approved in days. They said the bill would authorize the full $700 billion requested by Bush, but that Congress was intent on disbursing the money in installments.

They also said that there would be limits on pay packages for executives whose firms sought assistance from the government and a mechanism for the government to be given an equity stake in some of those firms so that taxpayers had a chance to profit if the companies prospered in the months and years ahead.

"We will indeed have a plan that can pass the House, pass the Senate, be signed by the president, and bring a sense of certainty to this crisis that is still roiling in the markets," said Senator Robert Bennett, Republican of Utah. "That is our primary responsibility and I think we are now prepared to meet it."

Bennett, one of the senior members of the Banking Committee, made a point of describing the meeting as free of political "posturing" in remarks that seemed aimed at McCain, who announced on Wednesday that he was suspending his campaign and returning to Washington to help secure a deal.

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ADVERTISEMENT

U.S. system under fire in Europe

Bishops and politicians join in criticism

By Eric Pfanner

PARIS: Whatever happened to "God helps those who help themselves?"

Now even religious leaders are joining the chorus of European critics of unchecked, American-style capitalism, which Continental politicians are citing as a root cause of the global financial crisis.

The archbishop of Canterbury, Rowan Williams, wrote in an article this week in The Spectator, a British magazine, that the crisis had been caused by placing too much trust in the righteousness of the market, adding that this had become a kind of "idolatry."

Williams cited Karl Marx's criticism of laissez-faire capitalism, saying, "He was right about that, if about little else."

Williams called for increased regulation of financial markets, praising regulators' moves to curb short-selling of stocks after the collapse of Lehman Brothers and sharp declines in the share prices of other financial institutions.

"Governments should not lose their nerve as they look to identify a few more targets," added Williams, the spiritual leader of the Anglican Church.

In the trans-Atlantic sniping over the causes and proposed responses to the credit crunch, Williams's scolding tone has been echoed by some European politicians.

Peer Steinbrück, the German finance minister, on Thursday blamed a reckless pursuit of short-term profit and outsized bonuses in "Anglo-American" financial centers — along with a lack of backbone on the part of policy makers unwilling to stand up to this greed.

"Investment bankers and politicians in New York, Washington and London were not willing to give this up," he said in a speech to the Bundestag in Berlin.

He added that the long-term consequences would be punitive for American prestige.

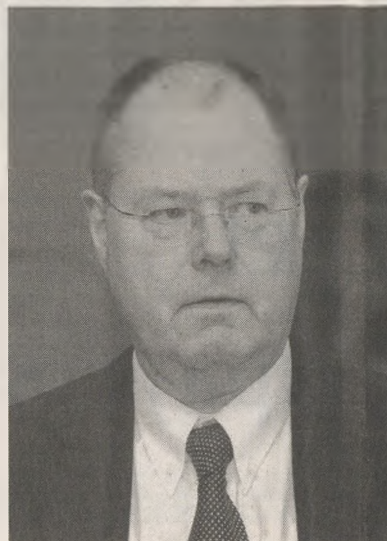
"The U.S. will lose its status as the superpower of the world financial system," Steinbrück said. "The world financial system will become multipolar."

Steinbrück reaffirmed the German government's opposition to a costly, U.S.-style bailout of the financial system. The Bush administration has called on other countries to join in its proposed $700 billion cleanup of troubled bank assets.

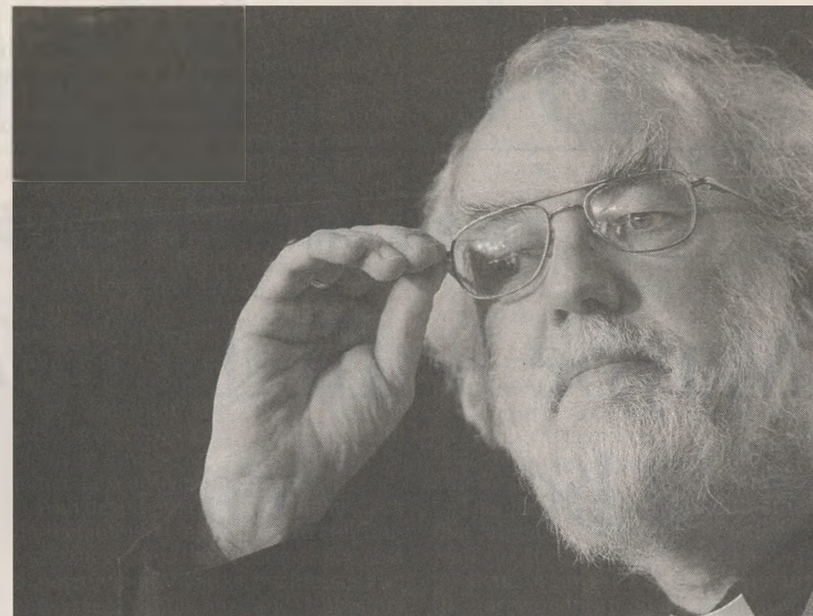
Like Williams, Steinbrück also urged financial policy makers to embrace greater regulatory oversight.

The Wall Street crisis, with its arcane financial terminology — collateralized debt obligations and the like — might seem like an unusual topic for a religious leader to comment on publicly, but Williams has not shied away from making headlines on sensitive subjects. He caused gasps in Britain this year, for instance, when he said there might be a role for Islamic law in settling disputes between British Muslims.

Another British clergyman, John Sentamu, the archbishop of York, was even less circumspect than Williams in criticizing hedge funds that had sold short the shares of a British bank, HBOS, prompting it to arrange an emergency sale to a rival, Lloyds TSB. They were "clearly bank robbers and asset strippers," he said in a speech



Jock Fistick/Bloomberg



Andrew Winning/Reuters

The Anglican leader Rowan Williams, above, has been echoed by politicians like Peer Steinbrück, left, the German finance minister, in censuring U.S.-style capitalism.

Wednesday evening.

Williams did not specifically blame the United States for the crisis. Indeed, financial market participants in Britain profited as much as Wall Street high-rollers from the long boom, and the credit bust has now hit London almost as hard as Wall Street.

But Steinbrück was more blunt, saying, "The United States is the source and the obvious focus of the crisis," adding that it had spread from America to Europe like a "toxic oil slick."

Steinbrück's diagnosis differed markedly from that offered Wednesday night in a speech by President George W. Bush. Bush cited "serious negative consequences" from a credit bubble that was inflated for more than a decade when "a massive amount of money flowed into the United States from investors abroad."

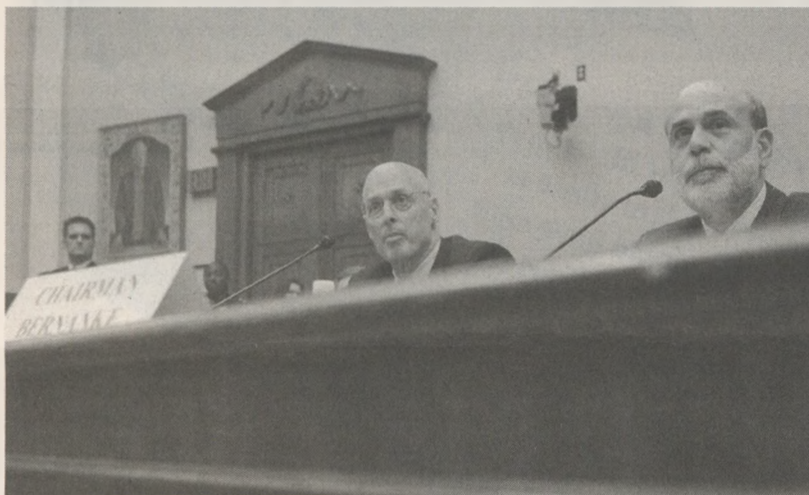
Bush said the inflow of foreign money had been driven by the attractiveness and security of U.S. financial markets to global investors. Economists say U.S. consumers' outsized appetite for spending has made foreign investment necessary to finance the deficit in the U.S. current account.

The comments on both sides of the Atlantic underlined contrasting positions on the response to the financial crisis. Bush used his address to try to rally support for the rescue package, drawn up by the U.S. Treasury secretary, Henry Paulson Jr. The Bush administration has urged other governments to follow Washington's lead with similar measures, a call that leaders elsewhere have generally rebuffed.

Steinbrück said he saw no reason for Germany or other European countries to take part in a bailout, adding that any intervention should be aimed at dealing with specific problems. Germany has stepped in, for example, to help certain banks affected by the credit crisis, like IKB Deutsche Industriebank.

A German-led push last year for greater international oversight of hedge funds was defeated by opposition from the United States and Britain, where many of these funds are based. Steinbrück said these proposals, made during Germany's presidency of the Group of 8 and the European Union, had been "scoffed at or dismissed as a typically German inclination for regulation."

Steinbrück said that as a result of the financial crisis, European banks would play a greater role in the world financial system, along with sovereign wealth funds based in Asia and the Middle East.



Joshua Roberts/Bloomberg News

Treasury Secretary Henry Paulson Jr., left, and Ben Bernanke, the Fed chairman.

Buffett's deal puts onus on Paulson to do better

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A company that accepted money from the Treasury Department would get none of this halo effect. If anything, investors might view a company desperate enough to approach the Treasury as an endangered species unworthy of further investment.

But as imperfect as the Buffett analogy may be, it still raises a real question: Is the government getting a raw deal? The inability of Paulson and Bernanke — as well as President George W. Bush — to make people comfortable with the answer is the main reason that the bailout has encountered so much hostility.

Economists overwhelmingly agree that the economy faces risk that is serious enough to need quick, bold action. Yet they're deeply skeptical that Paulson's plan is the right one. Buffett's deal nicely highlights their two main worries.

The first is that the Paulson plan may not have the best chance of success. Buffett's deal with Goldman injects $5 billion in cash into the company, and those dollars strengthens Goldman's balance sheet. Goldman will then presumably become more willing to lend money, and the credit crisis will be one small step closer to lifting.

The Japanese government, after years of missteps, followed a strategy much like that one in 1998, putting capital directly into its banks. The move helped end a long downturn.

Paulson, on the other hand, has asked for a $700 billion credit line to buy distressed assets from financial concerns. It is the equivalent of trying to cut a tumor out of the financial system. But there is a potential downside.

The Treasury would not be giving money to the companies. It would be buying an asset of some value (albeit much less value than a year ago). As a result, the transaction might not do enough to bolster the companies' balance sheets.

The second worry is that even if the Paulson plan works, it may end up being needlessly expensive. There is huge uncertainty about the true value of those distressed assets. If the government ends up overpaying for them, it won't have any way to recoup the money.

Without an ownership stake — like the one Buffett got or the one the Swedish government got when it bailed out its banks in the 1990s — taxpayers wouldn't really be able to share in the bounty of a Wall Street recovery.

What would Buffett have said if Goldman asked for his money and wouldn't let him share in the upside? "He would have said 'no deal!'" Daniel Alpert of Westwood Capital, an investment firm, said. "And that is what Congress must say as well in defense of the American people."

On Capitol Hill, Bernanke and Paulson answered their critics by returning to the same point they have made before. If companies must hand over an ownership stake, only the sickest may come forward. Others may wait out the crisis, confident they can survive. But the credit markets would meanwhile remain paralyzed, as a Treasury official argued to me, and the economy could deteriorate.

But the Goldman deal, in which a company that didn't seem near extinction agreed to give up a fat equity stake in exchange for cash, puts the onus on Bernanke and Paulson to make a better case than they have so far.

Bernanke pointed out Wednesday that Buffett had urged Congress to pass the current bailout plan. I'd point out that Buffett drove a harder bargain when his own money was on the line.

Deal reached on U.S. rescue plan

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"I appreciate very much my Republican colleagues who participated in the meeting and added tremendously," Bennett said. "We focused on solving the problem, rather than posturing politically, and it was one of the most productive sessions in that regard that I have participated in since I have been in the Senate."

The meeting Thursday morning, in an ornate conference room on the first floor of the Capitol, was convened by Senator Christopher Dodd, Democrat of Connecticut and chairman of the Banking Committee, and Representative Barney Frank, Democrat of Massachusetts and chairman of the Financial Services Committee of the House of Representatives.

The agreement came a day after the president appealed to the American people to support the plan to avert a financial meltdown on Wall Street.

Congressional staff members had worked through the night Wednesday and into the early hours of Thursday to resolve the details of the remarkable rescue effort. Senate and House negotiators gathered for the meeting in the Capitol to resolve the final disagreements ahead of the White House gathering.

The meeting at the White House on Thursday afternoon was not expected to result in any substantive changes to the legislation. But officials said that it could help generate the wider bipartisan support for the package that was needed to push it through Congress despite public uncertainty and the highly partisan atmosphere of a closely contested presidential election.

With their first presidential debate awash in uncertainty, Obama interrupted his preparations in Florida and headed to Washington to join McCain for the meeting.

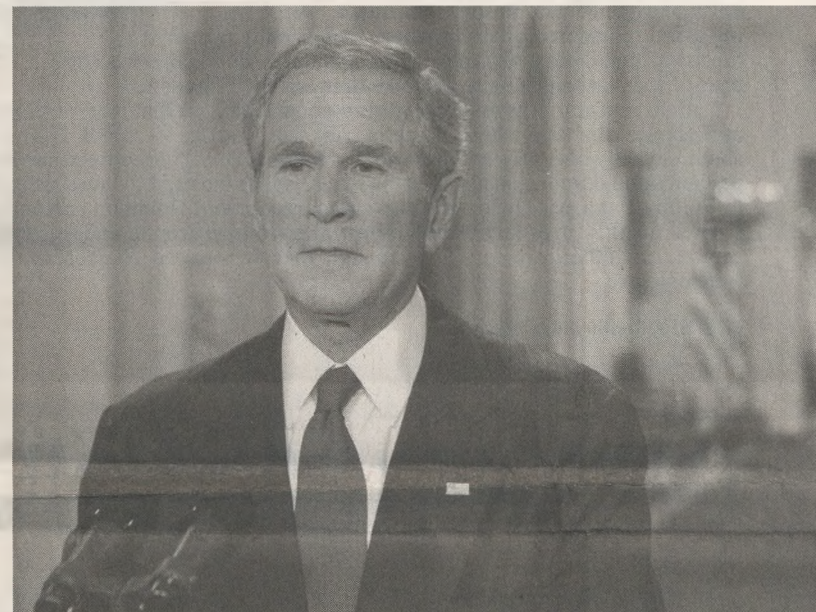
McCain's bold effort to take a leading role in the negotiations by suspending his campaign and seeking a delay in the first debate appeared to have backfired.

Shortly after McCain arrived in Washington around noon, congressional leaders announced the agreement, and his campaign gave indications that if there indeed was a deal, the Republican candidate could take part in the debate Friday evening in Oxford, Mississippi.

The agreement appeared to vindicate Bush's decision to use a televised address during peak viewing hours on Wednesday evening to warn Americans that "a long and painful recession" could occur if Congress did not act quickly. "Our entire economy is in danger," he said.

On Capitol Hill, Democrats said that progress toward a deal came after the White House had offered two major concessions — on pay limits and a taxpayer stake in the deal.

Bush's televised address, and his unusual offer to bring together the two presidential candidates just weeks before the election underscored a growing sense of urgency on the part of the administration that Congress must act to avert a far-reaching economic collapse.



Pool photo by Mark Wilson

President Bush said a "painful recession" could occur without immediate action.

It was the first time in Bush's presidency that he delivered a prime-time speech devoted exclusively to the economy. It came at a time when deep public unease about shaky financial markets and the toppling of such Wall Street icons as Lehman Brothers has been coupled with skepticism and anger directed at a government bailout that would be the most expensive in U.S. history.

But even as Congressional leaders, including Representative Spencer Bachus of Alabama, the senior Republican on the Financial Services Committee, said they had settled on the framework of an agreement, there was still opposition to the rescue package among conservatives.

On Capitol Hill, delicate negotiations between Treasury Secretary Henry Paulson Jr. and congressional leaders were complicated by resistance from rank-and-file lawmakers, who were fielding torrents of complaints from constituents furious that their own money was going to be spent to clean up a mess created by high-paid financial executives.

And despite the rebound in the stock market, other signs pointed to continuing struggles for the economy. The cost of borrowing for banks, businesses and consumers shot up and investors rushed to havens like U.S. Treasury bills — a reminder that credit markets, which had recovered somewhat after Paulson announced the broad outlines of the bailout plan last week, remained under severe stress, with many investors still skittish.

Even as Bush was speaking on Wednesday night, one of the key breakthroughs occurred when Paulson, a former chief executive of Goldman Sachs, signaled a willingness to limit the pay of executives.

"The American people are angry about executive compensation, and rightly so," he said. "No one understands pay for failure."

Officials said the legislation would include a ban on so-called golden parachutes, the generous severance packages that many executives received on their way out the door, for firms that sought government help. The measure also is likely to include a mechanism for firms to recover any bonus or incentive pay based on corporate earnings or other results that later turn out to have been overstated.

At the same time, congressional Democrats said they were prepared to drop one of their most contentious demands: new authority for bankruptcy judges to modify the terms of first mortgages. That provision, aimed at preventing foreclosures, was heavily opposed by Senate Republicans.

Frank, the lead negotiator for congressional Democrats, said they also planned to insert a tax break to aid community banks that have suffered steep losses on preferred stock that they own in the mortgage finance giants Fannie Mae and Freddie Mac.

That change is in addition to others that already have been accepted by Paulson that would create an independent oversight board and require the government to do more to prevent foreclosures.

Mark Landler and David Stout contributed reporting.

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***Watch video:** Valuing the troubled mortgage assets the Treasury plans to scoop up.*

Will U.S. aid to banks do more harm than good?

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with one eager buyer and sellers of varying desperation may show something, but it is unlikely to be the "hold-to-maturity value."

To estimate such a price, you need to make assumptions on how many defaults are likely, and how severe the losses will be, for each group of mortgages that was securitized. That will depend in large part on how long house prices fall, and how severe the recession is. If you think you know all that, then you can make a good estimate of value.

The nature of securitizations is that the losses arrive in lumps. A given security might meet all its payments if the pool suffered losses of 5 percent, and be wiped out if the losses reached 6 percent. Change your assumption a little, and the value may change a lot.

But coming up with any kind of fair value is not the real objective. Instead, the goal is to recapitalize the banking system by placing a floor under the prices of securities that never should have been issued to begin with.

And to place that floor, the government needs to be ready to buy from anyone — domestic banks, foreign banks or even hedge funds. Bailing out foreigners and hedge funds does not sound politically attractive, but the logic of this plan can lead to it.

The Bush administration's concession to Congress, of agreeing to put some kind of limit on executive pay, is a significant change. Unfortunately, it reduces the possibility of getting every bank to take the money, unless the government is prepared to pay a lot more than the real value, or unless the pay caps are easily evaded. A demand for the government to get some sort of equity stake, as Warren Buffett did when he put money into Goldman Sachs, could alienate more banks that think they are healthy and cause them to pass up the program.

If that happens, this bailout plan, like those before it, could be perverse. If you take the help, that means you needed it, and customers may flee.

Bernanke is right to say that "if the credit system isn't working, then firms can't finance themselves, people cannot borrow to buy a car, to send a student to college, to buy a house." It is possible that this plan, if successful and widely used, would recapitalize a lot of banks, enabling them to increase lending. But there is no assurance they would.

Unfortunately, many banks have problems that have nothing to do with mortgages. A report by David Keisman of Moody's warns that in the crazy credit boom that ended last year, many bank loans to overleveraged companies lacked normal protections for the lenders. Recoveries on defaulted loans, he says, "could be far lower than historic averages."

That could hurt the lenders, and the holders of collateralized loan obligations. It could also hurt the companies that wrote credit default swaps that promised to pay if loans defaulted. Fears of such developments could encourage banks to hold on to the cash they get from Uncle Sam.

There is nothing to stop the government from buying up corporate loans and securities, as it proposes to do with mortgages and mortgage securities, but at some point you start to wonder whether you really want the government deciding whether to grant concessions to individual borrowers, whether they are homeowners or companies. Is it possible that contributors to the right politicians could be favored? Is it possible that someone will at least suspect that happened?

I wish I had a better solution. But the excesses of the last credit boom have defied all efforts to stabilize a crippled financial system. Paulson's latest plan is likely to be his legacy. If it does not work, a new administration will have to think of something else.

lobal Edition of The New York Times
Friday, September 26, 2008
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Sarkozy attempts to reassure the French

By Steven Erlanger

PARIS: The French President Nicolas Sarkozy attempted Thursday to reassure the French that their savings and their economy are safe, saying that while the global financial crisis would have consequences for France, their bank deposits would be guaranteed and individual taxes will not be raised.

He promised that the government would move ahead with its reforms, especially in its efforts to shrink the bloated state sector, and he called for an overhaul of the world's financial system, arguing that an era of unregulated markets is now over.

"A certain idea of globalization is drawing to a close with the end of a financial capitalism that imposed its logic on the whole economy and contributed to perverting it," Sarkozy said. "The idea that the markets are always right was a crazy idea."

Sarkozy spoke to some 4,000 supporters in the southern city of Toulon, but his speech, billed as a major address on the economy, was televised nationwide.

"The crisis isn't over, and the consequences will be serious," he said. "Like everywhere else in the world, the French are scared. Scared for their savings, scared for their jobs, scared for their purchasing power."

The main threat to the economy, he said, is fear, and it can only be conquered by telling the truth. For France, he said, there will be further problems "for growth, unemployment and purchasing power."

And he called again for a conference of world leaders before the end of the year to deal with the underlying reasons for the crisis. "We've passed two fingers from catastrophe," he said. "Self-regulation for everything is over. Laissez-faire is over."

Sarkozy emphasized that he was deeply engaged in trying to manage the crisis and would pursue his main economic reforms. Those include a shrinking of the large state sector — eliminating 30,600 jobs next year and streamlining local government — and the ability for more workers, despite the 35-hour work week, to get overtime pay without paying significantly higher taxes.

But his speech, while long on rhetoric about the abuses of capitalism, was short on specifics, especially on what can be done to regulate and improve the global system.

Sarkozy is trying to reassure the French, who are already anxious about falling behind inflation, and who are now convinced that the U.S. economic meltdown will worsen their own financial status.

Already, forecasts for French economic growth for next year have been cut in half to about 1 percent.

In the budget he is scheduled to deliver on Friday, Sarkozy is expected to announce a freeze in real terms on government spending and a retreat from promises to balance the budget by 2012.

BRIEFING

U.S. homes sales fall, as do selling prices

WASHINGTON: New U.S. home sales tumbled in August to the slowest pace in 17 years, while the average sales price fell by the largest amount on record, demonstrating the depth of the problem that Washington is trying to solve.

The Commerce Department said Thursday that new homes sales fell by 11.5 percent in August to a seasonally adjusted annual sales rate of 460,000 units, the slowest sales pace since January 1991.

It was a much bigger sales decline than the 1 percent drop that economists had been expecting. The average price of a new home sold in August dropped by a record amount of 11.8 percent to $263,900, compared to the July average of $299,100.

The government also said Thursday that new claims for unemployment benefits shot up last week to the highest level in seven years.

Orders to factories for big-ticket manufactured goods fell to 4.5 percent in August, a much larger amount than expected. Both signal rising pressures facing the economy. ***(AP)***

■ **JAPAN** reported a rare trade deficit for August because of soaring oil imports and falling car exports, underscoring evidence that external forces are deepening the country's economic gloom. It was the first trade deficit for the Japan since November 1982. But in August, imports outpaced exports by ¥324 billion, or $3.06 billion. ***(AP)***

■ **THE ENDOWMENT FUND** of the Massachusetts Institute of Technology earned a 3.2 percent annual return, less than that of Harvard University, Yale University and Stanford University. In the past 10 years, the MIT fund has averaged an annual 13.2 percent increase. The Massachusetts Institute of Technology said its endowment grew by a net of $88 million, after spending, to $10.1 billion in the 12 months that ended on June 30. Harvard had an 8.6 percent return for the same period. Stanford posted 6.2 percent and Yale, 4.5 percent. ***(Bloomberg)***