INTERNATIONAL
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TUESDAY, SEPTEMBER 30, 2008 iht.com

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Frantic effort to save bailout

Charles Dharapak/The Associated Press

Bush walking back to the White House on Monday after speaking to reporters. The House of Representatives voted 228 to 205 against a bailout plan that he had pushed for.

Crisis reaches Europe as four banks teeter

Wachovia becomes latest victim in U.S.

By Carter Dougherty

FRANKFURT: The turmoil that has rocked the U.S. banking system spread to Europe on Monday, buffeting institutions in at least four countries with a chain of new failures. Another U.S. bank was also consumed in a fire sale just when hopes were high that the worst was over.

A day after squabbling U.S. politicians seemed to have a deal on the details of a $700 billion financial rescue package, Asian investors sent stocks tumbling amid potent reminders that the crisis still has unwritten chapters. Europeans followed suit as their week started with governments and central banks fighting fires from Germany to Iceland.

Crude oil prices also dropped sharply, on concerns the U.S. bailout would not be enough to revive the U.S. economy. (Page 15)

New economic data also hinted that a recession in Europe could be near, intensifying the sell-off and sending the euro lower against the dollar.

The U.S. Federal Reserve and the European Central Bank weighed in later in the day, intensifying their efforts to loosen up drum-tight credit markets that could eventually put a brake on the overall economies. The Fed more than doubled its pool of cash to inject into the financial system — known as currency swap lines — to $620 billion.

Yet official efforts to stem the crisis had little of the desired confidence-boosting effect on markets, despite an apparent effort to demonstrate that governments are putting a floor underneath them.

"It looks as though they are trying to make particularly significant statements by making the numbers as high as possible," said Simon Adamson, a banking analyst with CreditSights in London. "But it may be that the market is becoming inured to these kinds of numbers."

Instead, the day resembled a frenzied search for the next victim.

Belgium, the Netherlands and Luxembourg coughed up €11.2 billion, or $16.2 billion, to rescue the retail bank Fortis. The British Treasury said it had seized the lender Bradford & Bingley, after no private buyer emerged. Germany and its banks promised €30 billion to save Hypo Real Estate, a commercial property lender. (Page 15)

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- How a "stupid question" clarified the subprime mess. *Page 17*

Wachovia, an American retail and mortgage lender, sought safety in a sale to Citigroup, but markets then turned on National City Bank, a regional lender based in Cleveland. (Page 15)

In Europe, investors pounded the shares of Commerzbank, a German bank with operations that resemble those of Hypo Real Estate, while Royal Bank of Scotland suffered because it was part of a banking consortium with Fortis that bought ABN AMRO last year. Dexia, a French-Belgian bank that lends heavily to municipalities, plunged on rumors of an impending capital increase.

The race to find affordable credit also sank Glitnir Bank of Iceland, which sold a 75 percent stake to its government. The bank said that the past two weeks — since the bankruptcy of Lehman Brothers — had raised the cost of short-term funding to unbearable levels.

EUROPE, Continued on Page 16

U.S. stocks keep falling as investors stay on edge

By Michael M. Grynbaum

NEW YORK: As voting began on the bailout bill in the U.S. House of Representatives on Monday afternoon, the Standard & Poor's 500-stock index and the Dow Jones industrial average dropped sharply from their already depressed levels.

The Dow, which had been down almost 300 points, fell as much as 705 points in a matter of minutes, and the S&P 500, which had been off more than 4 percent, quickly moved to a decline of 7 percent.

Later in the session, the Dow was off 4 percent and the S&P 500 was down 5.3 percent.

The quick drop showed how investors remained on edge as another week dawned on the embattled canyons of Wall Street.

The Dow and the S&P 500 continued to gyrate as the bill authorizing a $700 billion bailout went down to defeat by a vote of 228 to 205.

The markets opened lower on Monday even though over the weekend U.S. lawmakers negotiated an agreement on the government bailout plan and Citigroup acquired the core business of Wachovia, the ailing lender. The Wachovia move, which was spearheaded by regulators, could have been taken as a sign that the U.S. government was eager to restore stability to the financial system. But the near collapse of Wachovia, which was the fourth-largest bank in the United States, may have underscored the troubling sense among investors that any bank was vulnerable in the current crisis.

The world's credit markets also remained under pressure. Yields on Treasury securities dropped and lending rates stayed high, signs that

MARKETS, Continued on Page 19

Stocks plunged after the U.S. House of Representatives voted down the $700 billion financial bailout plan.

Source: Bloomberg

Lawmakers rebel against rescue plan in close vote

By Carl Hulse and David M. Herszenhorn

WASHINGTON: In a moment of historic drama in the U.S. Capitol and on Wall Street, the House of Representatives voted Monday to reject a $700 billion rescue of the financial industry.

The vote against the measure was 228 to 205. With just five weeks to go before presidential and congressional elections, supporters vowed to try to bring the rescue package up for consideration again as soon as possible.

Stock indexes plunged sharply on Wall Street as it appeared that the measure was going down.

House leaders pushing for the package kept the voting period open for some 40 minutes past the allotted time, trying to convert No votes by pointing to damage being done to the markets, but to no avail.

Supporters of the bill — the biggest federal intervention into private markets in U.S. history — had argued that it was necessary to avoid a collapse of the economic system, a calamity that would drag down not just Wall Street investment houses but possibly the savings and portfolios of millions of Americans. Opponents said the bill was cobbled together in too much haste and might amount to throwing good money from taxpayers after bad investments by Wall Street gamblers.

Many House members who voted for the bill held their noses, figuratively speaking, as they did so. Representative John Boehner of Ohio, the Republican minority leader, said there was too much at stake not to support it. He urged members to reflect on the damage that a defeat of the measure could mean "to your friends, your neighbors, your constituents" as they might watch their retirement savings "shrivel up to zero."

And Representative Steny Hoyer of Maryland, who as Democratic majority leader often clashes with Boehner, said that on this "day of consequence for America" he and Boehner "speak with one voice" in pleading for passage.

When it comes to America's economy, Hoyer said, "none of us is an island."

The House debate was heated and occasionally emotional up to the last minute, as illustrated by the remarks of two California lawmakers.

Representative Darrell Issa, a Republican, said he was "resolute" in his opposition to the measure because it would betray party principles.

But Representative Maxine Waters, a Democrat, said the measure was vital to help financial institutions survive and keep people in their homes. "There's plenty of blame to go

BAILOUT, Continued on Page 16

Stalin still haunts the land of his birth

Justyna Mielnikiewicz for The New York Times

Jamil Ziyadaliev at home with his wife, Fakizar, in Marneuli, Georgia. A Stalin impersonator for weddings and parties, he says business has never been better.

By Dan Bilefsky

GORI, Georgia: With his signature mustache, medal-encrusted Soviet marshal's uniform and determination to be addressed as "comrade," the Stalin impersonator Jamil Ziyadaliev could be forgiven for seeking a new profession in Georgia, a country still reeling from the aftermath of war with Russia.

But Ziyadaliev, 64, an avuncular father of two who dresses up as Stalin, even on days off, insists business has seldom been better. He is a frequent hired guest at weddings, where he dances to Katyusha, a Soviet patriotic song from World War II. The benefits of looking eerily like the former dictator, he boasts, include free meals, free car repairs and free passage through Russian checkpoints.

"Looking like Stalin is like having a visa in Georgia," said Ziyadaliev, a Muslim originally from Azerbaijan who drove a taxi, peddled vegetables and worked as an accountant before deciding on a full-time career as a modern incarnation of the brutal, diabolically brilliant Soviet tyrant.

"All Georgians respect Stalin, because he was a great leader who created a great empire — and, of course, he was the most famous Georgian who ever lived," he said.

Not everyone agrees. Nika Jabanashvili, a Georgian construction worker whose grandparents were deported by Stalin from Tbilisi to Central Asia as part of the repression of ethnic minorities, said Stalin was little more than a murderer.

"Stalin was a Satan. He killed more people than Pharaoh," Jabanashvili said. "I don't care if he was Georgian. He was a bad man."

STALIN, Continued on Page 8

Prosecutor named on fired U.S. attorneys

Attorney General Michael Mukasey appointed a special prosecutor to investigate whether criminal charges should be brought against Alberto Gonzales and others in connection with the firings of nine U.S. attorneys in 2006. The move came as the Justice Department released a scathing report of the process that led to the firings. ***Page 8***

Olmert urges land swap

Discarding longstanding Israeli defense doctrine, Prime Minister Ehud Olmert said Israel must withdraw from nearly all of the West Bank and East Jerusalem to attain peace. ***Page 5***

In crisis, 2 types of leaders

Allies of Senators John McCain and Barack Obama say the current financial crisis best demonstrates the leadership styles with which they would approach problems as president. ***Page 4***

- **For French pundits, the U.S. campaign evokes the Wild West. *Page 3***

Intimidation in Chechnya

In a campaign to punish Chechen families whose sons the police suspect are supporting a 15-year-old insurgency, at least a dozen homes have been burned since midsummer. ***Page 2***

Battery maker gets big lift

Warren Buffett announced Monday that he had agreed to buy a 9.89 percent stake in a Chinese battery maker that plans to sell electric cars in the United States by 2010. ***Page 18***

- **The last two unions at Alitalia agree to deal to save airline. *Page 18***

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NEWSSTAND PRICES

Greece .... € 2.20
Cyprus .... €2.65 (Cy £ 1.55)
Albania .... Leks 330

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CURRENCIES *New York*

Monday, 2 p.m.		*Previous*
€1=	$1.4401	$1.4613
£1=	$1.8032	$1.8388
$1=	¥105.205	¥106.135
$1=	SF1.0956	SF1.0894

Full currency rates | *Page 19*

OIL *New York, Monday, 2 p.m.*

Light sweet crude	$98.85	▼	$8.11

STOCK INDEXES *Monday*

The Dow 2 p.m.	10,663.33	▼	4.31%
FTSE 100 close	4,818.80	▼	5.30%
Nikkei 225 close	11,743.61	▼	1.26%

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John Vinocur

Politicus

The theory and reality of French EU command

PARIS In a time when world leadership appears in short supply, Nicolas Sarkozy is making a case that he can be leader of a Europe able to take a greater hand in global decision making.

It's an interesting idea, absent clear U.S. command for the moment and even, perhaps, extending beyond the arrival of a new president in January.

It depends on not focusing too hard on the details of a Europe whose divisions confront and usually overwhelm its ambitions.

It also means believing both in a multipolar vision of the world and in the long-shot notion Europe's former Soviet bloc countries might soften their conviction that only the United States can guarantee their freedom.

Sarkozy, all the same, has some things going for him:

A degree of success in negotiating on behalf of the West to remove Russian invasion troops from Georgia. The bully pulpit of the European Union's rotating presidency. And no real challenge to his primacy from Britain, or a Germany handcuffed by national elections in 2009 that could focus on the question of where it stands between the United States and Russia.

Of course, there's the problem of a recession looming in Europe, which Sarkozy acknowledges. The subject remains an official no-no across the Rhine, recessionary statistics in the second quarter be damned. In fact, a whole series of difficult German-French contradictions are avoided, wadded in cotton and traditional desires of good will.

"There are tests that forge great character," Le Figaro, a newspaper close to the president, wrote in an editorial. "Nicolas Sarkozy intends to prove that he has the fabric of a European leader able to confront the world's storms."

He has approached some of them with something that may appear to be wisdom. Sarkozy has characterized the world financial crisis as one involving speculative rather than productive capitalism, caused by ridiculously rigid beliefs in the law of the market. In this process, America gets spared being singled out as sole source of the problem.

This is important because it reaffirms Sarkozy's decision that France could never lead Europe without having shed the label of American's eternal antagonist.

But an examination of Sarkozy's leadership qualifications has its smudges and chinks.

On the economic side, in the middle of a crisis whose ongoing horrors are ones of bad debt and liquidity, Sarkozy has indicated France will stay a massive debtor and postpone its promise to live up to EU debt and deficit criteria until at least 2012.

On Russia and Georgia, José Manuel Barroso, the president of the EU Commission, has said Sarkozy supports re-starting postponed EU talks with Russia on a Strategic Partnership as soon as Moscow pulls its forces out of "Georgia proper."

NATO and Barack Obama see things differently: in the presidential debate on Friday, Obama insisted the Russians "have to follow through on the six-point cease-fire. They have to remove themselves from South Ossetia and Abkhazia," the Georgian provinces effectively annexed by Russia.

Other disagreements that keep Europe from speaking with a single voice (and Sarkozy from claiming he can talk as leader of a determined unit) are tucked under a blanket.

For fear of discomforting Angela Merkel — a Sarkozy adviser told me last week the president would consider her losing elections next year a disaster for Europe — France says next to nothing about how using more atomic energy would help break the EU's dependency on Russian energy. (And absolutely nothing about exclusive sweetheart deals, like the German-Russian Nord Stream pipeline, that kill Eastern Europe's confidence in the solidarity of their big continental allies.)

In terms of the diverging French and German approaches marking out convenient responsible parties in the financial meltdown, the difference in tone is sharp.

Sarkozy has avoided the name game. The German government dived into it, offering a chorus of *besserwisserei* or a know-it-all lecturing, to the Americans.

Financial Times Deutschland described as "droning self-righteousness" an attack by Peer Steinbrück, Merkel's Social Democrat finance minister, in which he said the United States will lose its status as the superpower of the global financial system.

Die Welt went so far as to talk about a "change in course" by the pro-American chancellor herself. In focusing on the Americans turning a deaf ear to calls for more financial regulation, Merkel "took the role of a schoolteacher," it said, and skipped over the fact "that Germany was one of the top profiteers from the American cheap money policy."

Other signs of profound European splits, and the difficulty of finding leadership positions to overcome them, were at hand.

An FTD report last week, quoting from a French Foreign Ministry paper presented at a conference of European foreign ministers three weeks ago, illustrated the extent of divisions between countries increasingly mistrustful of Russia and others wanting to retain a status quo relationship.

The newspaper said the French document argued that Russia's invasion of Georgia "confirms that our post-Cold War plan to bind Russia

Of course, there's the problem of a recession looming in Europe.

to Europe has failed" and that "there is no doubt that Europeans and Americans did not correctly evaluate re-awakened Russian power."

Asked about the discussion paper, a French spokesman replied: "There are all kinds of different ideas in it. It was just that, something to prompt discussion."

In that case, its existence points out the distance separating a Europe of multiple positions on the financial crisis, its relationship to America and Russia, and its energy dependencies, from the unity that would make a bid for a role in world leadership more meaningful.

Sarkozy's interest in standing at the head of Europe looks completely legitimate. But the gap between ambition and the complications of the task is enormous.

Could the European Union of October 2008 offer the world a new, clear handhold on stability as it negotiates a series of dark passages?

Reality says do not consider the question again until after America speaks on the first Tuesday in November.

E-mail: pagetwo@iht.com

Tomorrow: Daniel Williams on a water shortage in Cairo.

Newest intimidation in Chechnya: Arson

By C.J. Chivers

SHALI, Russia: The men who set fire to Valentina Basargina's house arrived in the stillness of 3 a.m. There were three of them. Each wore a camouflage uniform and carried a rifle. One held a can of gasoline. They wore masks.

They led Basargina and her son outside and splashed gasoline in their two rooms, she and her relatives said. One man produced a T-shirt, knotted onto a stick. It was damp with gasoline.

"This is for the one who is gone," he said in thickly accented Russian. Basargina's nephew had recently disappeared. The police had said he joined the small but smoldering insurgency fighting for Chechnya's independence from Russia.

The man lighted the torch and tossed it inside. The air whooshed. Flames shot through the house.

The attack late last month was part of what Chechens described as an intensified government effort to stamp out the remnants of a war that has continued, at varying levels of ferocity, for nearly 15 years.

In a campaign to punish families with sons suspected of supporting the insurgency, at least a dozen homes have been set ablaze since midsummer, residents and a local human rights organization said.

The burnings have been accompanied by a program, embraced by Ramzan Kadyrov, Chechnya's president, that has forced visibly frightened parents of insurgents to appear on television and beg their sons to return home.

"If you do not come back I will never forgive you," one father, Ruslan Bachalov, said to his son on a recent broadcast. "I will forgive the man who will kill you."

"I have no other way out," he added. "The authorities and the president demand that I bring my son back."

In the arson cases, each attack has followed the same pattern. The families have been awakened by men in uniforms and black ski masks who have herded residents outside and then torched their homes. Many of the attacks have been accompanied by stern declarations that the homes were being destroyed as punishment.

The burnings have occurred in several districts or towns — including Alleroi, Geldagan, Khidi-Khutor, Kurchaloi, Samashki, Shali, Shatoi, Nikikhita and Tsenteroi — suggesting that the arsonists have been operating with precise information and with a degree of impunity in a republic that is crowded with police and military units.

Residents and the human rights organization said that the impunity was unsurprising, because the arsonists appeared to be members of the police.

The pro-Kremlin Chechen government said it knew nothing about the burnings. "We have no information about what you are talking about, so we cannot help," a spokesman for Kadyrov said to a question from a journalist.

In a series of state-run news programs this summer in Chechnya, senior officials spoke openly of the collective responsibility of people whose relatives have joined the insurgency, and of collective punishment.

The broadcasts are in Chechen, a language spoken in a tiny portion of Russia and understood by scarcely any of the Russian officials in the region who work with Kadyrov's government.

On one, Kadyrov spoke bluntly about households whose young men "go to the forest," the local idiom for joining the rebels.

"The families whose relatives are in the forests, they are accomplices in the crime," he said.

Muslim Khuchiyev, a confidant of Kadyrov's and the mayor of Grozny, Chechnya's capital, went further. "We are not now holding dialogue with you on the basis of the laws of this state," he said. "We will act according to Chechen traditions."

C.J. Chivers/The New York Times

Valentina Basargina in her charred house in Shali, Russia. Residents say at least a dozen homes have been burned since midsummer.

He added: "The evil which is done by your relatives in the forest will return to you and your homes. Each of you soon will feel it on your skin."

Toward the end of his televised remarks, Khuchiyev said the government would not allow relatives to bury insurgents who had been killed. "If we find out that someone buries them, we will take tough and cruel measures on this person," he said.

Violence by all sides in and near Chechnya has been one of the darkest chapters of post-Soviet Russian life.

Since war erupted in 1994, Russia and its local proxies have been implicated in bombings and aerial attacks on civilian areas, armed and indiscriminate sweeps of neighborhoods, and patterns of illegal detention, torture and killings. Tens of thousands of Chechens have been killed. Thousands have disappeared.

The violence has occurred in what human rights groups have called a culture of official indifference to criticism and enduring impunity, which has been documented by human rights researchers and independent journalists.

Last week, in the latest finding against Russia, the European Court of Human Rights ruled that the Russian army had indiscriminately shelled the village of Znamenskoye in 1999, killing at least five civilians.

Russia never conducted a serious inquiry into the shelling, the court found.

The separatists, and criminal gangs that once proliferated under their rule, have committed a wide range of violent acts themselves, including assassinations of pro-Russian officials and intimidation of local supporters of Russian rule.

They have pursued a campaign of terror against Russian civilians, including suicide bombings in Chechnya, in Moscow and in passenger aircraft, and mass hostage-taking episodes in which hundreds of civilians have been killed, including 186 children at a public school in Beslan in 2004.

Since 2005, however, the insurgents have been weakened and have not conducted large-scale operations in Chechnya.

As Kadyrov's strength and confidence have grown, forces under his control have co-opted or defeated the insurgents in former strongholds, including Grozny and all of the towns in the lowlands.

Many rebels have switched sides. A sizable fraction of the remnants have moved to the neighboring Ingushetia, where the Moscow-backed local government is weak.

The events of this summer, however, have made clear that the rebels have proved to be resilient and remain able to recruit new members.

And the Chechen government, attuned to the intensive loyalties that define family life in the Caucasus, has applied massive pressure on what it sees as the insurgents' vulnerability: their relatives.

On television, a mother from Argun begged her son to spare her the pressures she faced. "You must remember me," she said. "You are not on the right path. Open your eyes! Everyone will forgive you. Do not destroy yourself. Do not destroy us!"

How effective the intimidation has been is an open question. Natalya Estemirova, a researcher for Memorial, a private Russian human rights organization with an office in Grozny, said that young men had continued to join the rebels, no matter the threats.

"It is like Palestine," she said. "The young guys leave for the forest, even knowing that their relatives are at risk."

For any insurgents who do return, the government has promised amnesty if they give up their arms. But the amnesty typically does not cover those accused of serious crimes.

In the case of Basargina, she and her relatives said her family had no connections to the insurgency, but had been under police scrutiny since last year.

Before the attack, Basargina and 11 relatives had lived together in several small buildings behind a wall, which were badly damaged and are no longer habitable.

Their troubles began, they said, when a car formerly owned by her nephew was used by a rebel in an attack last year. The rebel escaped after a skirmish, but abandoned the vehicle, which the police traced back to her nephew, Abubakar Musliyev, who is 31 and a father of five.

Musliyev had sold the car long before, the family said, but the police did not believe him. He was summoned repeatedly to the police station during the ensuing year, and beaten several times, they said.

Violence by all sides in Chechnya has been one of the darkest chapters of post-Soviet life.

On Aug. 8, he disappeared. His relatives said they did not know where he went. Their accounts of his activities cannot readily be confirmed.

Once he disappeared, they said, the family notified the prosecutors that he was missing, to seek help in finding him. A week later, a police officer visited their yard, said Nakhapuv Islamova, Musliyev's mother. "He said, 'Your son did not go missing,'" Islamova said. "'He went to the forest.'"

Then the police came several times at night, apparently hoping to catch him, she said. And on Aug. 28, she said, the men with masks appeared, with the torch and the gasoline.

IN OUR PAGES | 100, 75 & 50 YEARS AGO

1908: Shipwreck in Channel

LONDON: The unusual sight of a collier steamer entering Dover yesterday afternoon [Sept. 29] with a dense crowd of passengers on her decks was the first intimation of a collision which occurred in the Channel in the morning, and which resulted in the sinking of the excursion steamer Argonaut, which had 240 persons on board for a voyage from London to the Mediterranean. Tugs were at once sent to the collier, and the shipwrecked passengers were transferred to these and were landed at the Prince of Wales pier. According to the passengers' stories they were at breakfast when the collision occurred, and the force of the impact was so great that they were hurled from their chairs across the cabins. On rushing on deck they found that a large steamer had crashed into the forward part of the Argonaut. Everyone on board was saved, and with the exception of one officer, no one was injured.

1933: Ford Defies Unions

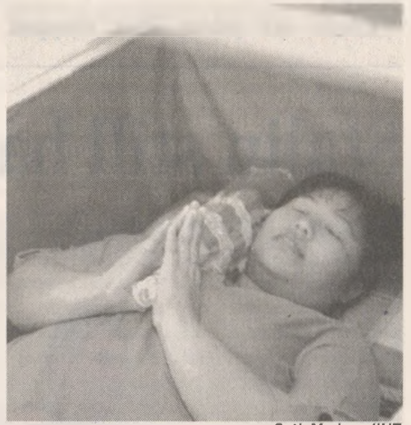
DETROIT: Henry Ford today [Sept. 29] threatened to shut down every Ford plant in the country if organized labor, through further strikes, attempted to force the automobile manufacturer to meet workers' demands for recognition of the right of employees to organize for collective bargaining. Ford expressed doubt, however, that the strike, which has closed down the Chester, Pennsylvania, plant, and has partly crippled the Edgewater, New Jersey, factory, would spread. Insisting that he would not be coerced by strike agitators, he declared he was prepared to close every plant in the United States, if the strike movement spread westward. Meanwhile, the management of the Ford assembling plant at Edgewater has dismissed the 511 employees who failed to report for duty today.

1958: Help for Desegregation

WASHINGTON: The United States Supreme Court declared today [Sept. 29] that states cannot resort to evasive schemes to continue racial segregation in schools. Thus it dealt a blow to such plans as those calling for leasing public schools to private groups. The unanimous opinion of the high tribunal, read by Chief Justice Earl Warren, was handed down shortly after a plan to lease four closed high schools to private organizations was set afoot in Little Rock, Arkansas, where Governor Orval Faubus has been opposing immediate racial integration at Central High School. The full opinion today elaborated on the court's Sept. 12 decision that desegregation must proceed forthwith at Central High. It went further and aimed blows at what it termed schemes to get around its stand that racial segregation in schools is un-Constitutional.

Death and rebirth: $5 and 90 seconds

At Thai temple, an assembly line of new starts for believers



Seth Mydans/IHT

A woman lying in a coffin for her rebirth. Economic woes have increased demand.

By Seth Mydans

NAKHON NAYOK, Thailand: It is the ultimate in second chances: A Buddhist temple here offers, for a small fee, an opportunity to die, rise up again newborn and make a fresh start in life.

Nine big, pink coffins dominate the grand hall of the temple, and every day hundreds of people take their turns climbing in for a few moments as monks chant a dirge. Then, at a command, the visitors clamber out, cleansed — they believe — of the past.

It is a renewal for our times, as recent economic hardship brings uncertainty and people try seeking a bailout on life. In growing numbers, they come here from around Thailand to join what has become an assembly line of resurrection.

"When the economy is down, we latch our hopes onto some supernatural power," said Ekachai Uekrongtham, the writer-director whose movie "The Coffin" is in Thai cinemas with a plot that revolves around such funerals for the living.

"When I went in I felt warm, and when I came out I felt released," said Nual Chaichamni, 52, a masseuse who visited recently and who said she liked the feeling so much that she had done it six times.

"As I lay there and listened to the chanting of the monks, I felt relaxed," she said. "When I got up, I was thinking of good things, thinking of the Buddha image in the hall. I felt good."

Buddhism in Thailand can take strange forms, embracing animist superstition, magical practices — and the entrepreneurial spirit of many senior monks. Many Thais say that the true spirit of Buddhism is being lost.

Many temples have become centers of enterprise that have paralleled Thailand's economic growth over the past few decades, selling good-luck amulets, holding boisterous fairs and telling fortunes.

This temple, Wat Prommanee, about 100 kilometers, or 60 miles, northeast of Bangkok, has offered its unusual daily resurrection service for more than three years, and its clientele keeps growing, said an attendant, Pradap Butcharerm, 69.

On weekends, as many as 700 people a day pay 180 baht each, a little more than $5, for the ceremony and much more for amulets that are auctioned off by temple acolytes.

"We have only 50 of these, a limited edition, the price is up to you!" they cry. "Twenty baht, 50 baht, did I hear 300 baht? Someone has run into luck."

As the number of visitors has grown, their dip into the supernatural has become more perfunctory; now a monk with a bullhorn herds worshipers through the row of coffins, nine at a time.

Like Charlie Chaplin on an out-of-control assembly line, they follow the monks' commands: into the coffin, down on their backs, eyes closed, shroud on, shroud off, up on their feet, quick prayer and scramble out into a new life.

The whole process takes a minute and a half. The next group of nine is waiting.

A cardboard sign warns visitors not to stand behind the coffins, where bad karma sucked from the "dying" devotees may still be hovering.

The rebirth ceremony is unusual, but not surprising, said Suwannan Sathta-Anand, an associate professor of philosophy at Chulalongkorn University in Bangkok.

"These days, a lot of people in Thai society are creating new kinds of rituals and practices to suit whatever purposes they have," she said.

With the hierarchy of organized Buddhism slow to adapt to changing times, she said, "people are looking for their own expression of Buddhism that could be relevant to their lives."

Along with the religion of their past, a tide of modern capitalism has seized the imagination of Thais as their country has rapidly developed in the past three decades.

Two years ago, Thailand was gripped by a frenzy for a magical amulet called Jatukam that sold in several versions with unambiguous names like "Super Rich," "Immediately Rich," "Rich Without Reason" and "Miracle Rich."

The people who come to be reborn here at Wat Prommanee are seeking help for many of the ailments and aspirations of life.

Jirapat Winarungruang, 37, a lawyer, came one recent day to complete a transformation that he began four years ago when he changed his name from the less auspicious Suthep Wina. His new name includes the suffix rungruang, which means prosperity.

Fifty percent of a person's destiny is determined by his name, Jirapat said, and the other 50 percent by his date of birth. When he arose from the coffin, born again, he said, the last vestiges of the old Suthep Wina would be gone.

Woraphot Sriboonyang, 30, an engineer, said he had come with Jirapat and four other family members to rid himself of bad karma. Within just a few weeks, he said, he had suffered a break-in and a bad car accident. He wanted his run of bad luck to stop at two.

Sangkhom Thani, 37, who sells subsidized food for the government, said he hoped for luck in business and relief for his aching back and knees. "If I lie down in the coffin, it will give me a new lease on life," he said as he examined an expensive new amulet.

Chalida Muansawang, 33, a hairdresser, brought her 12-year-old daughter, Saksithorn, in the hope that a few moments in a coffin would help cure her hyperactivity. "I'm excited and a little bit scared," said the girl, who proceeded bravely through the process with her mother lying next to her in an adjacent coffin.

As the morning's ceremony ended, a long line had already formed for the afternoon shift. Among the newcomers was the entire 36-man Royal Thai Army soccer team, in bright red jerseys, preparing for a match the next day.

"We'll lie in the coffins and then we'll go to practice," said one of the players, Nippon Khamthong, 22. Asked what he hoped his rebirth would bring him, he said, "We just want to win tomorrow."

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INSIDE ASIA

Alan Wheatley

Exports no longer a sure bet

BEIJING

The deepest financial crisis since the Great Depression is likely to do more than years of international prodding to wean China and its Asian neighbors from their export-led model of economic growth.

Washington's $700 billion mortgage bailout plan would reshape the U.S. financial industry, perhaps for a generation or two. The fallout for the rest of the world would be far-reaching.

But for Asia, one consequence of the turmoil is already inescapable. After living beyond its means for many years, the United States will have to rebuild its savings, so consumption will fall. Exports to the United States from China, Taiwan, Hong Kong and now South Korea are already weakening.

"I think this is a wake-up call for China," said Stephen Roach, the chairman of Morgan Stanley in Asia.

Roach says that he expects U.S. consumption growth to halve, to about 2 percent, as debt burdens are pared.

As economic weakness spreads to Europe and Japan, the impact on China's exports could cut its growth rate from about 10 percent now, already down from 11.9 percent in 2007, to about 8 percent.

"It just underscores the fact that when you have a vibrant but very large export sector, when you have an external shock and you don't have a lot of dynamism on the internal demand side, you have greater risks to growth," Roach said.

Central banks in the region are already responding. Taiwan, China, Australia and New Zealand have all cut interest rates.

Easing monetary policy is all well and good. Many countries can also afford to resort to fiscal stimulus.

But stoking domestic demand also requires changes that sometimes shake the foundations of an economy, like scrapping deterrents to foreign investment in Japan, ending protection for favored groups in Malaysia or subjecting dominant companies to more competition in the Philippines and Hong Kong.

These are politically arduous tasks at the best of times. That's why economists wanted governments to get cracking on them while the going was good.

Countries instead largely shirked the challenge, content to rely on export-led growth by holding down their exchange rates. Quite apart from hindering the needed rebalancing of the global economy, an undervalued currency acts as a tax on domestic demand, Hong Liang and Yu Song, economists who follow China for Goldman Sachs in Hong Kong, said in a report.

A result is evident in the case of China, where household consumption last year came to just 35.3 percent of gross domestic product, an unprecedented low in peacetime for a major country.

This means that a lopsided economy has scant domestic demand to fall back on as the global downturn deepens. "The real costs of China's resistance to yuan appreciation are now becoming more apparent," Liang and Song wrote.

So what is to be done?

In the case of China, Beijing must provide affordable health care and education and improve its flimsy pensions system. But setting up the administrative structures to ensure extra money is well spent takes time.

"My worry is that there are a lot of things that China can do to boost domestic consumption, including on the fiscal side, but none of these things are going to happen very quickly," said Michael Pettis, a finance professor at Peking University.

For the region more broadly, a precondition of stronger domestic demand is a more efficient financial system. For too long, Asia has in effect contracted out to Wall Street the job of managing its excess savings. If Asia's surpluses now shrink and it keeps more money at home, the region will have to deepen its bond markets at last and, ironically, promote more financial innovation so capital can be invested productively.

With complex, newfangled debt instruments now discredited, making the case for liberalization will be tough. Regulators in Asia will now be extremely cautious about approving any new forms of securitization, said James Seward, a financial-sector specialist at the World Bank.

"No one would advocate that subprime types of securities be introduced in the markets, but the concern is that all new or emerging products will be stopped," he wrote on a World Bank blog.

iht.com/biz

Alan Wheatley is a Reuters columnist. See more of his work online.

BUSINESS WITH REUTERS

International Herald Tribune
Tuesday, September 30, 2008

CRISIS ON WALL STREET

Governments act to stem financial turmoil

Regulators in Europe set rescues of banks

By Matthew Saltmarsh

PARIS: The European financial landscape was shaken again Monday after regulators in Britain and on the Continent swooped in to engineer rescues of leading banks, while investors continued to look nervously for the next likely victim.

As the impact of the global credit crisis continued to spread, the governments of Belgium, the Netherlands and Luxembourg announced late Sunday a partial nationalization of the Belgian-Dutch financial conglomerate Fortis. The three governments are injecting a total of €11.2 billion, or $16.1 billion, into Fortis, and taking a 49 percent stake.

In addition, the British Treasury confirmed Monday that it had seized the lender Bradford & Bingley — the third British bank to tumble this year — after no private buyers emerged.

For the moment, the largest European banks — including Barclays and HSBC of Britain, Deutsche Bank, ING of the Netherlands and BNP Paribas of France — have yet to record subprime write-offs on the devastating scale of their U.S. counterparts. They have not suffered steep losses in investor confidence because they are broadly diversified.

But investors are wondering which banks might have weak spots on their balance sheets. On Monday, shares of Dexia, a Brussels-based lender, tumbled 29.6 percent after the French newspaper Le Figaro said the company might soon announce a plan to raise capital. A spokeswoman for the bank declined to comment on the report or the share price moves but said the lender had a "good capital position."

In Germany, Hypo Real Estate shares slid 71.1 percent. The company, a commercial property lender, said that it had secured a €35 billion line of credit from several banks and the government to shield it from the volatility of financial markets.

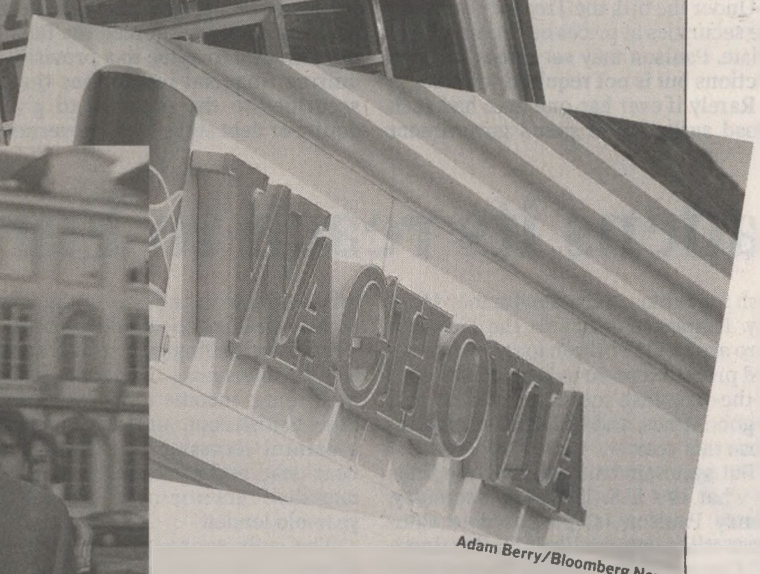
Separately, the Icelandic government said that it had taken control of Glitnir, one of the largest lenders in the country, after it encountered liquidity difficulties.

The bank collapses, and the problems in the property and mortgage markets, have raised questions about whether Europe should come up with its own version of the bailout deal agreed to Sunday by U.S. lawmakers. Government figures in Europe and Japan rejected such a notion last week.

"The financial market turbulence is striking at the core of the euro-area financial system," said Julian Callow, chief European economist at Barclays. "Even though the ECB has sought to differentiate between the U.S. and euro-area financial systems, the events show that 'elephants in the room' can make unanticipated appearances in Europe also."

As part of the Fortis deal, the Belgian government will buy 49 percent of the company's Belgian banking unit for €4.7 billion, the Netherlands is paying €4 billion for a 49

BANKS, Continued on Page 18



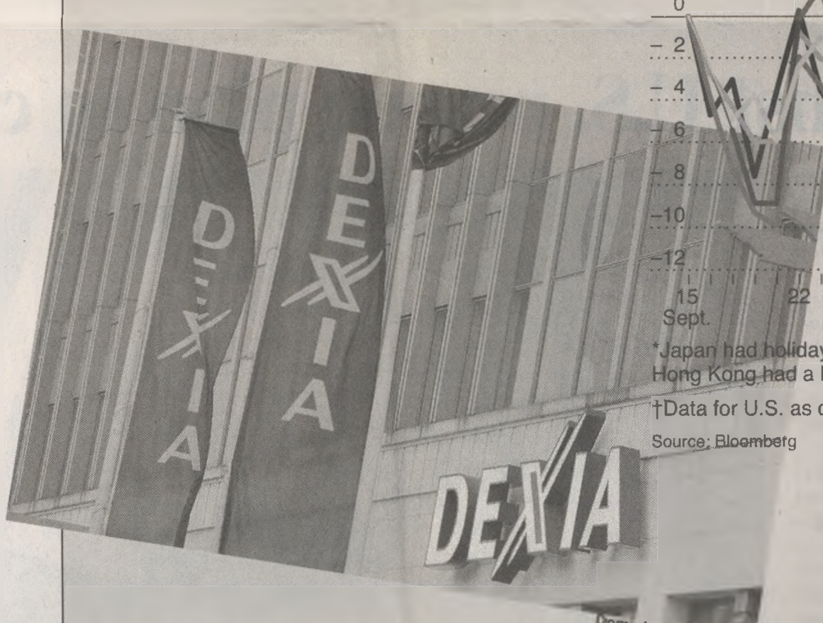
Adam Berry/Bloomberg News

Germany is bailing out Hypo, left, while Wachovia is being bought by Citigroup. Dexia's stock plunged on worries it may be next to fall.

Eric Vidal/European Pressphoto Agency

Filip Dierckx, the chief executive of Fortis.

The collapses have raised questions about whether the EU needs its own bailout

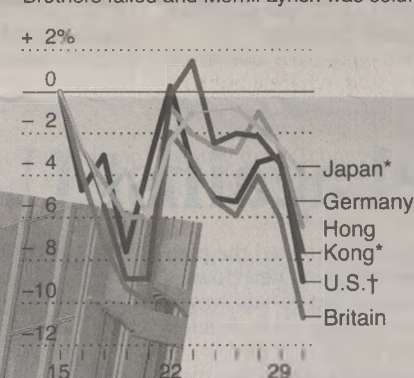


Dominique Faget/AFP

A run on stocks

The failure and near failure of financial companies in Europe sent stocks tumbling around the world.

Change in major market indexes since Sept. 12 — the Friday before Lehman Brothers failed and Merrill Lynch was sold.



*Japan had holidays on Sept. 15 and 23; Hong Kong had a holiday on Sept. 15.

†Data for U.S. as of 6:45 GMT

Source: Bloomberg

Citigroup makes bold deal to buy Wachovia

By Eric Dash and Andrew Ross Sorkin

NEW YORK: Citigroup reached an agreement Monday to acquire the banking operations of Wachovia after making a daring bid that pulled the deeply troubled company from the brink of collapse.

Citigroup will pay $1 a share, or about $2.2 billion, according to people briefed on the deal.

U.S. government regulators worked around the clock over the weekend to orchestrate the sale, finally reaching an agreement at 4 a.m. Monday. In the end, the government agreed to provide Citigroup with a financial guarantee on Wachovia's most risky assets. It is similar to the deal that the Federal Reserve established with JPMorgan Chase's emergency takeover of Bear Stearns.

Citigroup will assume the first $42 billion of losses tied to Wachovia's riskiest mortgages and will pay the Federal Insurance Deposit Corp. $12 billion in preferred stock and warrants. In exchange, the FDIC will absorb all losses above $42 billion.

U.S. government regulators said the move was necessary to stave off what could have been the second big bank failure in less than a week. On Thursday, the government seized Washington Mutual and sold the bulk of its operations to JPMorgan Chase.

"This morning's decision was made under extraordinary circumstances with significant consultation among the regulators and Treasury," Sheila Bair, the chairwoman of the FDIC, said in a statement. "This action was necessary to maintain confidence in the banking industry given current financial market conditions."

Wachovia customers should not notice any changes. "There will be no interruption in services and bank customers should expect business as usual," Bair said.

The deal further concentrates Americans' bank deposits in the hands of three institutions: Bank of America, JPMorgan Chase and Citigroup will control more than 30 percent of the industry's deposits.

Together, they will have unrivaled power to set rates for their loans and services. The institutions would probably come under greater scrutiny from U.S. regulators, given their size and reach. And some small and midsize banks, already under pressure, might have little choice but to seek suitors to compete.

Shares of regional banks fell again Monday, with Cleveland-based National City down 45 percent and Pennsylvania-based Sovereign Bancorp off 32 percent. In Cincinnati, Fifth Third Bancorp dropped 25 percent and FirstFed Financial of California dropped gave up 20 percent.

Citigroup's deal for Wachovia highlights just how bad the banking industry's problems have gotten, as well as the progress that Citigroup has made after being one of

CITIGROUP, Continued on Page 18

Russia pledges more money to shore up banks

Bloomberg News

MOSCOW: The Russian government pledged Monday to provide a further $50 billion to increase liquidity in the banking system and fight "contagion" that has spread from the United States, Prime Minister Vladimir Putin said.

The money will be made available to banks and companies to help them pay foreign loans taken before Sept. 25.

It will be transferred from Russia's international reserves to the state-run development bank, Deputy Economy Minister Andrei Klepach said on the Vesti 24 TV channel.

According to the government's Web site, Putin told government officials: "American authorities have not managed to handle the economic problems and obvious financial crisis. Once again we can say with regret that the contagion has moved into the European financial system."

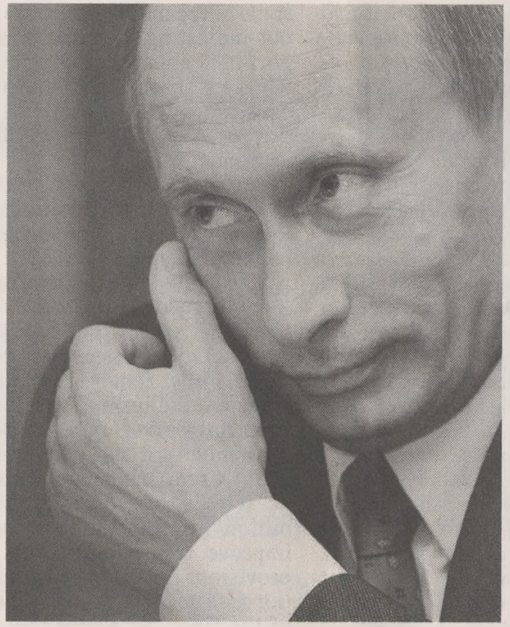
The liquidity injection comes in addition to a $100 billion crisis package comprising loans to banks, tax cuts and delayed tax payments.

The Russian government was pushed into action by investor flight caused by the war in Georgia last month, a drop in commodities prices and the seizure in global capital markets after the bankruptcy of Lehman Brothers.

Stock trading was suspended for two days two weeks ago after record declines. BNP Paribas estimated that foreign investors pulled out $56.7 billion from Aug. 8 to Sept. 19.

"Psychologically, this is very much needed," said Natalia Orlova, chief economist at Alfa Bank in Moscow. "It will help to restore confidence in the interbank market."

The Mosprime overnight rate on Monday rose



Pool photo by Alexander Nemenov

Vladimir Putin said Moscow would add $50 billion.

to 7.8 percent from a two-month low of 4.3 percent on Wednesday.

Also on Monday, the Moscow Interbank Currency Exchange index dropped sharply because of concern that more European banks might fail, with repercussions on liquidity and borrowing costs in the country.

Putin presented other proposals for bolstering the banking sector. They included allowing the central bank to offer loans to banks without the need for collateral.

VEB, or Vnesheconombank, should receive 75 billion rubles, or $3 billion, in budget funds to bolster its capital this year, Putin said.

"Any Russian bank or company can apply to Vnesheconombank to receive a loan to pay debts to foreign creditors on loans taken before Sept. 25 this year," Putin said. "The terms of the loan must, of course, be market based."

Oil slides as anxiety takes hold

Commodity markets shaken by looming U.S. slowdown

By Jad Mouawad

NEW YORK: Crude oil prices dropped sharply Monday over concerns that the U.S. government's $700 billion bailout plan for the financial markets might fail to revive the economy, depressing demand for petroleum products.

Crude oil futures fell as much as 9.2 percent to $97 a barrel on the New York Mercantile Exchange. They have lost more than $20 since last Monday.

In the last two weeks, commodity markets have been shaken by the turmoil on Wall Street while still recovering from the impact of two powerful hurricanes in the Gulf of Mexico.

After reaching $145.29 a barrel in July, prices had slumped to nearly $90 a barrel earlier this month as the economic prospects dimmed for the United States.

But in a wild market, they jumped back up last week thanks to tremendous uncertainty in the financial markets.

Anxiety gripped investors once again on Monday even after congressional leaders said they had reached an agreement about the financial bailout plan, the largest in history.

The bill, which failed to pass Monday in a first vote by the House of Representatives, would allow the Treasury Department to buy back troubled assets held by banks and other financial institutions.

But the news was overshadowed by fresh concerns that the financial crisis was far from over, helping push down both equity and commodity markets.

In the latest episode of the unfolding meltdown, Citigroup will buy the banking operations of Wachovia, while the Belgian, Dutch and Luxembourg governments partially nationalized the European financial conglomerate Fortis, another sign that the crisis that began because of sour home mortgages in the United States could be spreading.

Analysts at Barclays Capital said the frantic weekend negotiations that led to the bailout agreement "appear to have failed to revive market sentiment."

As the economic situation deteriorates, the demand for commodities, including oil, is expected to slow.

"The outlook for global equity, interest rate and exchange rate markets has become increasingly uncertain," analysts at Deutsche Bank wrote in a note to investors. "We believe commodities will be unable to escape the contagion. From a commodity perspective, our most pressing concern is to what extent the U.S. virus spreads globally and specifically to China."

'We believe commodities will be unable to escape the contagion.'

The bank's analysts pared their expectations for next year as oil consumption drops because of slowing economic growth, reducing their oil and gas price forecasts by about 20 percent for 2009.

The weaker economic outlook could further push down oil prices in the coming months if demand for oil in developed countries keeps falling, according to Ben Dell, an analyst at Bernstein Research.

He said he expected oil consumption could fall by 1.3 million barrels a day, or 2.6 percent, in the fourth quarter this year. That is much more than the 470,000 barrels a day drop forecast from the International Energy Agency.

"This dynamic is similar to that of the 1980s and suggests that investors should be increasingly concerned with the slowdown in Europe, Japan and the U.S.," he wrote in a note to clients.

COST $700 billion to be spent in installments: $250 billion immediately, with an additional $100 billion if the president says he needs it. The president can ask for $350 billion more, but Congress could vote to stop it.

WHO RUNS IT? The Treasury secretary, with wide discretion but in consultation with the Federal Reserve, the Securities and Exchange Commission, the Department of Housing and Urban Development and the Federal Housing Finance Agency.

EQUITY STAKE IN FIRMS THAT PARTICIPATE They must give the government warrants to receive stock, providing taxpayers a chance to share in ownership and profits.

DEBT INSURANCE A new form of insurance enabling bailout participants to pay premiums that would guarantee troubled assets.

LAYERS OF ACCOUNTABILITY A multi-tiered oversight including a bipartisan congressional panel, a special inspector general, regular audits by the Government Accountability Office and disclosure of money spent.

EXECUTIVE COMPENSATION RESTRICTIONS Steep tax consequences for some participants with executive salaries exceeding $500,000.

MORTGAGES The government must approve "reasonable" adjustments on mortgages it takes over.

Bill would give Treasury secretary sweeping powers

By Floyd Norris

Lauren Victoria Burke/The Associated Press

Henry Paulson Jr., center, shown with Nancy Pelosi and Harry Reid, would have vast bailout authority as Treasury secretary.

NEW YORK: During its weeklong deliberations, Congress made many changes to the Bush administration's original proposal to bail out the financial industry, but one overarching aspect of the initial plan that remains is the vast discretion it gives to the Treasury secretary.

The draft legislation, which was to be put to a vote in the House on Monday and the Senate possibly on Wednesday, gives Treasury Secretary Henry Paulson Jr. and his successor extraordinary power to decide how the $700 billion bailout fund is spent.

For example, if he thinks it wise, he may buy not only mortgages and mortgage-backed securities, but any other financial instrument.

To be sure, the Treasury secretary's powers have been tempered since the original Bush administration proposal, which would have given Paulson nearly unfettered control over the program. There are now two separate oversight panels involved, one composed of legislators and the other including regulatory and administration officials.

Still, Paulson can choose to buy from any financial institution that does business in the United States, or from pension funds, with wide discretion over what he will buy and how much he will pay.

Under most circumstances, banks owned by foreign governments are not eligible for the money, but under some conditions, the secretary can choose to bail out foreign central banks.

Under the bill, the Treasury is to buy the securities at prices he deems appropriate. Paulson may set prices through auctions but is not required to do so.

Rarely if ever has one man had such broad authority to spend government money as sees fit, with no rules requiring him to seek out the lowest possible price for assets being purchased.

The secretary is supposed to do what he can to maximize the profit or minimize the eventual loss to the federal government as a result of its purchase of mortgages and other financial instruments.

But in the case of mortgages controlled by the government, he is required to approve "reasonable requests for loss mitigation measures, including term extensions, rate reductions, principal write-downs" and other possible changes. Such requests could help homeowners at the expense of the government. Congress forced the Bush administration to agree to a provision requiring financial institutions that sell securities to the program to give an equity or debt stake to the government.

But Paulson will have wide latitude in deciding how large a stake is needed.

His discretion in setting those limits could have a major impact on how many institutions choose to participate.

The limits on executive pay in the bill, also added in response to pressure from legislators, appear unlikely to be used very often. The secretary could take such steps if he bought assets "from an individual financial institution where no bidding process or market prices are available."

Presumably, if there is some kind of bidding process, those limitations, over which the secretary also has considerable discretion, will not apply. However, institutions that receive $300 million or more from the program would face limitations on executive pay.

One of the most important decisions the secretary will make is the price the government pays for securities. Here again, there is wide discretion. He is directed to "make such purchases at the lowest price" that is "consistent with the purposes of this act."

Those purposes, however, are expansive and leave him room to pay well over the lowest price available if he wishes to do so.

The act is designed to "restore liquidity and stability to the financial system of the United States" and protect homeownership, home values and economic growth. If he concludes that a higher price is needed to provide stability in the financial markets, that is evidently acceptable.

When the Bush administration submitted its original proposal, there was an uproar over the lack of oversight of the secretary's actions.

This bill requires frequent reports to congressional committees, including a congressional oversight panel; audits by the comptroller general, and appointment of an inspector general for the program.

The bill also sets up an oversight board, which is directed to "ensure that the policies implemented" by Paulson are proper.

Paulson is to be one of the five members of the board watching over his actions, joined by the chairman of the Federal Reserve, the chairman of the Securities and Exchange Commission, the secretary of housing and urban development and the director of the Federal Home Finance Agency.

If Paulson wishes to use his authority to buy financial assets not linked to mortgages, he can do so after consulting the Fed chairman. But he does not need the approval of the Fed chairman or the oversight board.

The bill does allow legal challenges, but it attempts to assure that they are quickly handled and that the most important decisions can be challenged only on constitutional grounds, not on the ground that they conflict with some other law.

While the bill does not drop the accounting rule that requires banks to report on the market value of their assets — a rule that some banks believe has forced them to report excessive losses — it gives the Securities and Exchange Commission permission to suspend the rule for any individual company if it thinks that is in the public interest.

That is likely to lead to intensive lobbying of the commission, which barred short-selling of financial stocks last week after it was criticized by Senator John McCain, the Republican nominee for president.

Turmoil broadens its reach to Europe as four banks teeter

EUROPE, From Page 1

The latest turn of events also dealt a blow to bank executives and politicians who had ventured the occasional comment in recent months that the worst was over for Europe. Peer Steinbrück, the German finance minister, crowed last week about the end of U.S. dominance in finance, and the validation of Germany's more conservative banking system.

That may still be true, but European officials left little doubt Monday that they were unnerved as credit markets pummeled institutions that betrayed even a whiff of weakness.

"I can only hope that confidence will come back," said Jean-Claude Juncker, finance minister of Luxembourg, "and that this casino game that's going on independently from the good fundamentals stops."

The ECB, which has stepped in repeatedly to ensure adequate overnight cash for banks, went even further Monday. It granted banks in the 15-nation euro area a €150 billion loan for 30 days and promised more to head off the end-of-the-year cash squeeze that is normal in good times, and will probably be intense this year.

But systemic bailout along the lines of what the U.S. Treasury secretary, Henry Paulson Jr., proposed to Congress still seems unlikely in Continental Europe, analysts said. The rush toward the U.S. plan was underpinned by a housing market that shows few signs of recovery, a fact that gives experts confidence that case-by-case rescues can do the job in Europe.

"It's completely unnecessary to do a Paulson-style plan in Europe," said Sylvester Eijffinger, a professor of European financial economics at Tilburg University in the Netherlands. "These are isolated problems."

The exception may turn out to be Britain, analysts said, where a housing crisis similar to the one in the United States is feeding the banking crisis.

Bradford & Bingley lost it all because it gave mortgages to landlords who used rental income to repay the loans. But a British economy that is poised for a painful recession on the back of a near-dead real estate market proved a merciless environment for the six-year-old lender.

The main source of nervousness in financial markets is still the United States.

But since some European banks were no strangers to the global borrowing binge, they are finding no relief from the jarring and persistent tightening of credit.

On Monday, executives pinned the demise of Fortis squarely on its involvement in a bid for ABN AMRO. Fortis paid €24 billion as part of the consortium that took over ABN AMRO, and will now sell its part of that bank, a Dutch retail business, to recapitalize itself.

Filip Dierckx, who recently became chief executive at Fortis, pinned cruel turn of events Monday squarely on the borrowing Fortis did to be part of that record-breaking deal.

"If you look at some of the decisions that were taken in the past, then you can say that probably they were done at the wrong moment," Dierckx said. "If you want me to say that some of the decisions were not the best, I will indeed confirm that."

But growing doubts about Europe's macroeconomic direction amplified a rising sense of unease on a Continent accustomed to regarding the financial crisis as a primarily U.S. problem.

A survey published by the European Commission showed business and consumer confidence in September — even before the latest financial turmoil — dipped almost to the level it registered after the Sept. 11, 2001, terrorist attacks.

Many economists now expect the economy of the 15-nation euro area to contract in the third quarter, the second three-month period in a row, which is a common definition of recession.

That would also be a setback for the optimists, the ECB among them, who forecast the economy would bounce back strongly and shrug off rising credit market turmoil.

"The problem now is that the recovery looks like it's going to be very slow," said Aurelio Maccario, chief euro zone economist at UniCredit in Milan. "The financial crisis is taking a huge toll on that process in Europe."

The ECB is expected to leave its key interest rate on hold at 4.25 percent when it meets Thursday, and most analysts are still leery about predicting a quick cut in borrowing costs. The bank is still focused strongly on inflation, which is running near double its target of 2 percent.

Dominique Faget/AFP

The European Central Bank also intensified efforts to loosen up credit.

Lawmakers rebel against U.S. rescue plan in close vote

BAILOUT, From Page 1

around," she said, and attaching blame should come later.

The House vote came after a weekend of tense negotiations produced a rescue plan that congressional leaders said was greatly strengthened by new taxpayer safeguards.

"If we defeat this bill today, it will be a very bad day for the financial sector of the economy," Representative Barney Frank, Democrat of Massachusetts and the chairman of the Financial Services Committee, said as the debate began and the stock market opened sharply lower. The Standard & Poor's 500 index was down more than 5 percent in midafternoon.

Earlier Monday, Bush urged Congress to act quickly. Calling the rescue bill "bold," Bush praised lawmakers "from both sides of the aisle" for reaching agreement, and said it would "help keep the crisis in our financial system from spreading throughout our economy."

He said the vote would be difficult, but he urged lawmakers to pass the bill promptly. "A vote for this bill is a vote to prevent economic damage to you and your community," he said.

"We will make clear that the United States is serious about restoring stability and confidence in our system," he said, speaking at a lectern set up on a path on the White House grounds.

He addressed concerns about the high cost of the legislation to taxpayers, but he said he expected that "much if not all of the tax dollars will be paid back."

The 110-page rescue bill, intended to ease a growing credit crisis, was shaped by a frenzied week of political twists and turns that culminated in an agreement between the Bush administration and congressional leaders early Sunday morning.

The measure faced stiff resistance from Republican and Democratic lawmakers who portrayed it as a rush to economic judgment and an undeserved aid package for high-flying financiers who chased big profits through reckless investments.

Early in the House debate, Jeb Hensarling, Republican of Texas, said he intended to vote against the package, which he said would put the nation on "the slippery slope to socialism." He said that he was afraid that it ultimately would not work, leaving the taxpayers responsible for "the mother of all debt."

Another Texas Republican, John Culberson, spoke scathingly about the unbridled power he said the bill would hand over to the Treasury secretary, Henry Paulson Jr., whom he called "King Henry."

A third Texan, Lloyd Doggett, a Democrat, said the negotiators had "never seriously considered any alternative" to the administration's plan, and had only barely modified what they were given. He criticized the plan for handing over sweeping new powers to an administration that he said was to blame for allowing the crisis to develop in the first place.

With the financial package looming as a final piece of business before lawmakers leave to campaign for the November elections, leaders of both parties in the House and Senate intensified their efforts to sell reluctant members of Congress on the legislation.

All sides had to surrender something. The administration had to accept limits on executive pay and tougher oversight; Democrats had to sacrifice a push to allow bankruptcy judges to rewrite mortgages; and Republicans fell short in their effort to require that the U.S. government insure, rather than buy, the bad debt.

Even so, lawmakers on all sides said the bill had been significantly improved from the Bush administration's original proposal.

The final version of the bill included a deal-sealing plan for eventually recouping losses: If the Treasury program to purchase and resell troubled mortgage-backed securities has lost money after five years, the president must submit a plan to Congress to recover those losses from the financial industry. Presumably that plan would involve new fees or taxes, perhaps on securities transactions.

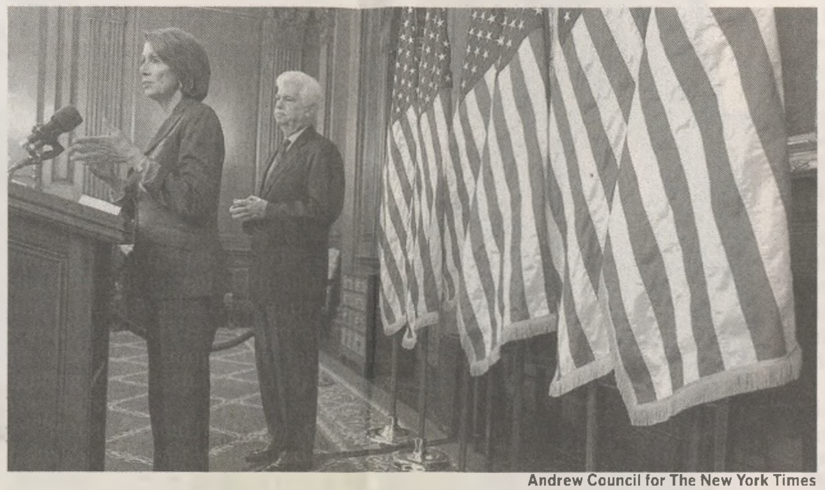
"This is a major, major change," Speaker Nancy Pelosi said Sunday evening as she declared that negotiations were over and that a House vote was planned for Monday, with Senate action to follow.

'Financial crimes have been committed. Now Congress is being asked to bail out the culprits.'

The deal would also restrict gold-plated farewells for executives of companies that sell devalued assets to the Treasury Department.

House Republicans had threatened to scuttle the deal, and proposed a vastly different approach that would have focused on insuring troubled debt rather than buying it. In the end, the insurance proposal was included on top of the purchasing power, but there is no requirement that the Treasury secretary use it, leaving them short of that goal.

It is virtually impossible to know the ultimate cost of the rescue plan to taxpayers, but congressional leaders stressed that it would likely be far less than $700 billion. Because the Treasury will buy assets with the potential to resell them at a higher price, the government might even turn a profit.



Andrew Council for The New York Times

The U.S. House speaker, Nancy Pelosi, and Senator Christopher Dodd, chairman of the Senate Banking Committee, meeting with reporters on the bailout legislation.

That provision, pushed by House Democrats, was the last to be agreed to in a high-level series of talks that had top lawmakers and White House economic advisers hustling between offices just off the Capitol Rotunda until midnight on Saturday, scrambling to strike an agreement before Asian markets opened Sunday night.

The bill calls for disbursing the money in parts, starting with $250 billion followed by $100 billion at the discretion of the president. The Treasury can request the remaining $350 billion at any time, and Congress must act to deny it if it disapproves.

Pelosi, Paulson and others taking part in the talks announced that they had clinched a tentative deal at 12:30 a.m. Sunday, exhausted and a little giddy after more than seven hours of sparring. There were several tense moments, none more so than when Paulson, a critical player, suddenly seemed short of breath and possibly ill. He was tired, but fine.

Trying to bring around colleagues who remained uncertain of the plan, its architects sounded the alarm about the potential consequences of doing nothing. Senator Judd Gregg of New Hampshire, the senior Republican on the Budget Committee and the lead Senate negotiator, raised the prospect of an economic catastrophe.

"If we don't pass it, we shouldn't be a Congress," Gregg said.

Both major presidential candidates, Senator John McCain of Arizona, the Republican nominee, and Senator Barack Obama of Illinois, the Democratic candidate, gave guarded endorsements of the bailout plan. Both McCain and Obama had dipped into the negotiations during a contentious White House meeting on Thursday.

On Sunday evening, both parties convened closed-door sessions in the House to review the plan, and conservative House Republicans remained a potential impediment.

But the party leadership was circulating information aimed at refuting some of the main criticisms of the bailout, indicating they were poised to support it. "I am encouraging every member of our conference whose conscience will allow them to support this bill," said Boehner, the Republican leader.

A series of business-oriented trade associations that wield influence with Republicans also began weighing in on behalf of the plan.

The United States Chamber of Commerce issued a statement on Sunday night that said it "believes the legislation contains the necessary elements to successfully remove the uncertainty and stem the turmoil that has plagued financial markets in recent weeks."

Members of the conservative rank and file remained unconvinced.

"While it creates a gimmicky $700 billion installment plan, attempts to improve transparency, and has new provisions cloaked as taxpayer protections, its net effect is still a huge bailout of the financial sector that will snuff out the free market system," said Representative Connie Mack, Republican of Florida.

Some Democrats bristled that they were now being called on to do the financial bidding of an administration they had viewed as previously uncooperative in dealing with executives who had performed irresponsibly or worse.

"Financial crimes have been committed," said Representative Marcy Kaptur, Democrat of Ohio. "Now Congress is being asked to bail out the culprits."

Throughout Sunday, small groups of lawmakers could be found around the Capitol exchanging their views on the plan. Some said they were willing to take a political risk and back it.

One, Representative Jim Marshall, a Georgia Democrat facing a re-election contest, told colleagues in a private meeting that he would vote for the measure to bolster the economy. "I am willing to give up my seat over this," Marshall said, according to another person who was there.

The architects of the plan said they realized they were calling on Congress to cast a tough vote since lawmakers might not get credit for averting a financial crisis since some constituents will not believe one was looming.

"Avoiding a catastrophe won't be recognized," said Senator Christopher. Dodd, Democrat of Connecticut and chairman of the Senate banking committee. "This economy is not going to have a blossoming on Wednesday."

But he and others said the support from the two presidential contenders should provide some comfort to nervous lawmakers.

One of the more contentious issues was how to limit the pay of executives whose firms seek government aid, a top priority for Democrats and even some Republican lawmakers. But it was a concern for Paulson, who worried about discouraging firms from participating in the rescue plan, which seeks to convince companies to sell potentially valuable assets to the government at relatively bargain prices.

In the end, they settled on different rules for different companies depending on how they participate in the bailout. Firms that sell distressed debt directly to the government would be subject to tougher pay limits, including a mechanism to recover any bonuses or other pay based on corporate earnings that turn out to be inaccurate or fraudulent, and a ban on so-called "golden parachute" severance packages as long as the government has a stake in the firm.

Companies that participate in auctions, or other market-making mechanisms, and sell more than $300 million in troubled financial instruments to the government, would be barred from making any new employment contract with a senior executive that provides a golden parachute in the event of "involuntary termination, bankruptcy filing, insolvency or receivership."

While some critics said the limits did not go far enough, lawmakers described the provision as a historic first step by Congress to limit exorbitant pay of corporate titans. "I think we wrote it as tight as we can get it in here," Dodd said.

Reporting was contributed by Keith Bradsher from Hong Kong, Robert Pear from Washington and Graham Bowley from New York.

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Watch video: *Banking woes grow with new bailouts in Britain and on the Continent.*

BRIEFING

First U.S. CO_2 permits sell for $3.07 in auction

NEW YORK: Permits to release a ton of carbon dioxide from generating electricity in 10 Northeastern states sold for $3.07 each in their first auction, as the United States began putting a cost on businesses that add to global warming.

Fifty-nine bidders took part in the sale on Friday, the Regional Greenhouse Gas Initiative said Monday on its Web site. The organization of 10 states including New York, knicknamed Reggie, requires fossil fuel-burning power plants to have permit for every ton of CO_2 they pump into the skies.

Reggie, the first U.S. market for mandatory permits, aims to reduce global-warming gases 10 percent by 2019. Permits sold for 65 percent more than the $1.86 floor price in the auction. That indicates some buyers believe pollution rights may gain value over time, said Steve Schleimer, director of energy and environmental market regulation for Barclays. *(Bloomberg)*

■ **U.S. CONSUMER SPENDING** was unchanged in August, the Commerce Department said, confounding forecasts of a gain, as households retrenched in the face of rising unemployment and slumping confidence. Consumer spending is faltering as the cushion from tax rebates fades and Americans grapple with job losses, declining home-equity wealth and a credit squeeze that has turned into a financial meltdown. *(Bloomberg)*

■ **JOB SEEKERS IN FRANCE** increased in August, rising by 0.5 percent to 2.373 million last month according to a broad measure used by the government. A narrower measure rose 2.2 percent to 1.950 million, a jump of 41,300 compared with the previous month. The economy minister Christine Lagarde held an emergency meeting to discuss the numbers with the main job agency to discuss how to get people back into work. *(Reuters)*

■ **THE EUROPEAN UNION** and India pledged in Marseille on Monday to speed talks on a free trade deal, while France said it would consider doing business with New Delhi in the nuclear energy field. *(Reuters)*

■ **A BID TO BAN SMOKING** in public places starting Thursday was upheld by the highest court in India, which dismissed an appeal by the cigarette maker ITC and the Hotel Association of India. *(Bloomberg)*