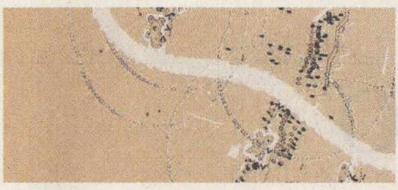

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Greece gets help but is it enough?

Pain of austerity may stunt growth for years to come

PARIS

BY STEVEN ERLANGER

Greece, effectively bankrupt and with a European gun to its head, has committed itself to years of austerity. But there are serious questions about whether such deep cuts in salaries and benefits are politically sustainable over time, even as deflation will make it impossible

NEWS ANALYSIS

for the country to grow its way out of its debt.

Everyone involved agrees that the Greek economy is broken and needs major structural reform. The deal done on Sunday is intended to give Athens a few years of breathing room to change the fundamental pattern of Greek behavior. The government is now committed to whacking back the public sector, including pensions and popular social benefits; to raising consumption taxes to record levels; and to promoting tax reform, in an effort to shrink the enormous black market, reduce tax evasion and increase government receipts.

The goal is to cut the deficit from the current 13.6 percent of gross domestic product to under 3 percent of G.D.P. in 2014.

But some influential economists fear that such harsh measures risk killing the patient. At the same time, they see the intensity of Greek pain as a serious warning to other countries in the euro zone to get their own economic houses in order before the currency union itself is undermined by rampaging market speculation.

Yet this new wave of austerity also risks pushing the entire European Union into a period of artificially low growth just as economies are trying to recover from the recession of last year, caused by the huge housing and banking crisis that started in the United States. Continued stagnation will increase already sizable unemployment and put new pressure on government spending, as well as on the banks themselves, and make it harder for everybody to reduce their debts.

"How can Greece grow out of its debt if there is deflation?" asked Jean-Paul Fitoussi, a professor of economics at the Institut d'Études Politiques in Paris. "Deflation increases the debt burden, so we are following this virtuous circle that is bringing us toward hell," he said.

Embedded in the euro zone and thus no longer in control of its own currency, Greece cannot take the relatively easy way out of its debt, by devaluing. So the

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MERKEL'S CHALLENGE

The German chancellor's next task is to push through the unpopular economic bailout of Greece and restore her country's position of leadership. *PAGE 15*

IN LAND OF HOMER, EPIC TALES ON TAXES

Tax evasion has played a significant role in Greece's debt crisis and the government has begun to go after tax cheats as never before. *PAGE 15*

Bailout no cure-all for threats to other E.U. countries

ATHENS

BY DAN BILEFSKY AND LANDON THOMAS JR.

Greece announced Sunday that it had reached an agreement on a long-delayed rescue package that will require years of painful fiscal belt-tightening, but the deal probably will not defuse the potential threats to other European countries also suffering from mounting debts and troubled economies.

"I have done and will do everything not to let the country go bankrupt," Prime Minister George Papandreou said in a televised address that urged Greeks to accept "great sacrifices" to avoid "catastrophe."

The bailout, which was worked out over weeks of negotiations with the International Monetary Fund and Greece's European partners, calls for as much as €110 billion, or $145 billion, in loans intended to stave off an immediate debt default and stop the spread of economic contagion to other parts of the region.

But analysts warned that Greece itself has not yet solved its fundamental problems and that other sovereign debt crises could arise as lenders and market speculators turn their attention to a handful of similarly vulnerable nations.

"The immediate impact may be soothing, but the inflammation will soon show up again," predicted Edward Hugh, an economist in Barcelona who writes for the influential Fistful of Euros blog. "My feeling is the rot has now gone too far."

In Greece, Mr. Papandreou, the scion of a Socialist dynasty whose father, An-

FRANCOIS LENOIR/REUTERS

George Papaconstantinou and Jean-Claude Juncker of the Eurogroup in Brussels.

dreas Papandreou, helped erect the sprawling Greek welfare state when he was prime minister in the 1980s, sought to embolden Greeks to accept what is expected to be the greatest overhaul of the state in a generation.

"I want to tell Greeks very honestly," he said, "that we have a big trial ahead of us."

While the bailout provides a lifeline to the Greek government, similar challenges lie in wait for Portugal, Spain and perhaps Italy, the other countries on Europe's deficit-wracked southern tier. Moreover, outside the nations that rely on the euro as their common currency, Latvia, Hungary and Romania are all faltering in their own efforts to meet economic and fiscal goals set in conjunction with the I.M.F.

And even Britain, which has its own currency and so far has had little trou-

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Bailout of Greece is back in Germany's hands

BERLIN

BY NICHOLAS KULISH

The ball is back in Germany's court.

Now that Greece has reached an agreement with the International Monetary Fund and the European Union on a long-delayed rescue deal, the responsibility rests with Chancellor Angela Merkel not just to deliver the largest share of the multibillion-euro aid package, but to restore Germany's position of leadership after months of stalling.

Mrs. Merkel said Sunday that she would present draft legislation to her cabinet on Monday and hoped to have the approval of the German contribution through Parliament by Friday. "I'm going to get behind such a path by all means," Mrs. Merkel told reporters in Bonn, after praising the measures agreed to in Athens.

At stake is the stability of the common currency, but also the project of a united Europe, which has suffered greatly in the finger-pointing that erupted over Greece's outsized deficits and the best response to propping up the ailing country.

The urgency is driven by the fact that the Greek government must repay bondholders more than €8.5 billion, or $11 billion, on May 19. But first Mrs. Merkel's party and that of her struggling coalition partners, the Free Democrats, must face unhappy voters in Germany's most populous state, North Rhine-Westphalia, on Sunday.

"The German economy itself has been through a tremendous period of cost-cutting in the last 15 years," said Ian Stewart, chief economist for Deloitte in Britain. "Germany had to work very hard from the early '90's onward to squeeze wage cuts to restore their own competitiveness. If Germany had to go through that, why shouldn't other countries as well? The German public is not happy about the bailout, but I think that's understandable. They are faced with making a least-worst choice."

Mrs. Merkel may have more trouble with her allies than her enemies. The loudest voices against the bailout have come from the pro-business Free Democrats, her governing coalition partners. The party won nearly 15 percent of the vote on promises to cut taxes, and have now fallen to just 8 percent in many recent polls.

Many of their voters, disappointed over the party's inability to keep its campaign promise in a tough budgetary environment, are among the majority of the German public who oppose aid for Greece, including members of Parliament from Mrs. Merkel's own governing coalition. And a group of lawyers and economists have promised to try to stop any bailout by challenging it before the Constitutional Court in Karlsruhe before President Horst Köhler even has a chance to sign it.

"The court can move very quickly, within a week," said Karl Albrecht Schachtschneider, a professor of economic law at the University of Erlangen-Nürnberg, who was also part of a group that filed a lawsuit before the court in 1998 to try to stop the introduction of the euro.

"The attention is much greater now because everyone can see that we were right 12 years ago," Mr. Schachtschneider said. "At the time we only argued, now the facts speak for us. That's a real difference." Their bid to derail the legislation is a long shot at best, but the constitutional questions undoubtedly slowed down the German response and still present an element of uncertainty.

Critics say Mrs. Merkel spent too long worrying about domestic politics and was only prodded into action by the downgrading last week of the sovereign debt of Greece, Portugal and Spain, and by the urging of the I.M.F. managing director, Dominique Strauss-Kahn. In the process, the costs of a bailout mounted rapidly. Her defenders argue that giving financial guarantees to Greece with no strings attached would have been even worse for the long-term viability of the euro.

"There's a big concern about setting the wrong kind of precedent, and that's justified," said Jakob von Weizsäcker, an economist at Bruegel, an economic policy research institute in Brussels, who once worked for the economics ministry in Berlin. There is the fear — and not just in Germany — that once one member of the euro zone is bailed out, others will expect the same treatment.

While he said he understood the difficult position she was in, he also questioned Mrs. Merkel's handling of the crisis. "It's in her nature to be cautious, but it's turned into procrastination and that's a bad thing," Mr. von Weizsäcker said.

The leading opposition parties, including the Social Democrats, said last week that they would work with Mrs. Merkel's government to fast-track the bailout legislation. The bad news out of Greece, and in particular the fear that larger countries like Spain could require assistance if the problem was not dealt with swiftly, seemed to have lent a degree of inevitability to the bailout.

Jack Ewing contributed from Frankfurt.