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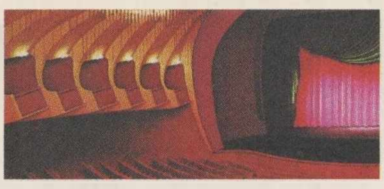

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INSIDE: Greece's leadin

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THE GLOBAL EDITION O

Skepticism centers on Greece as rescue nears

LONDON

Athens poised to receive funding, but pressure grows on multiple fronts

BY LANDON THOMAS JR.

After months of wrangling, Greece's frustrated lenders are on the verge of disbursing funds to keep the near-bankrupt nation solvent.

But as investors and increasingly frantic policy makers confront mounting fears of a run on European banks, the need to bail out Italy and a second global recession, the €8 billion tranche Greece expects to receive from its creditors could well be too little, too late.

Under intense pressure from the United States, euro zone leaders spent the weekend in Washington working to craft a rescue plan to bolster sickly banks and buy the bonds of weak countries like Italy. But past efforts to bring an end to the debt crisis in Europe — including a second, €109 billion rescue plan for Greece forged by Europe and the International Monetary Fund in July — have failed to stand the test of time. Investors remain skeptical that yet another grand plan will be any different.

On Saturday, Evangelos Venizelos, the finance minister of Greece, said that his country had received a "clear message of support" from U.S. and European officials at the annual meetings of the I.M.F. and World Bank, held this weekend in Washington.

Mr. Venizelos, who was scheduled to meet on Sunday with Christine Lagarde, the managing director of the I.M.F., also said that he expected the next allotment of funds to be released soon.

"Greece is and will always be a member of the euro, a member of the euro zone," Mr. Venizelos said.

But the very fact that Mr. Venizelos had to come out and insist that Greece was not leaving the euro zone — until recently an unspoken article of faith in Greece — underscored how close the country has come to defaulting on its debt and how dangerous such an outcome could be, not just for the euro zone but for a global economy teetering on the verge of recession.

With Greek government debt trading on the open market below 40 cents on the dollar, it is quickly approaching what debt experts call the recovery rate — the price investors would get for their bonds if the country officially defaulted.

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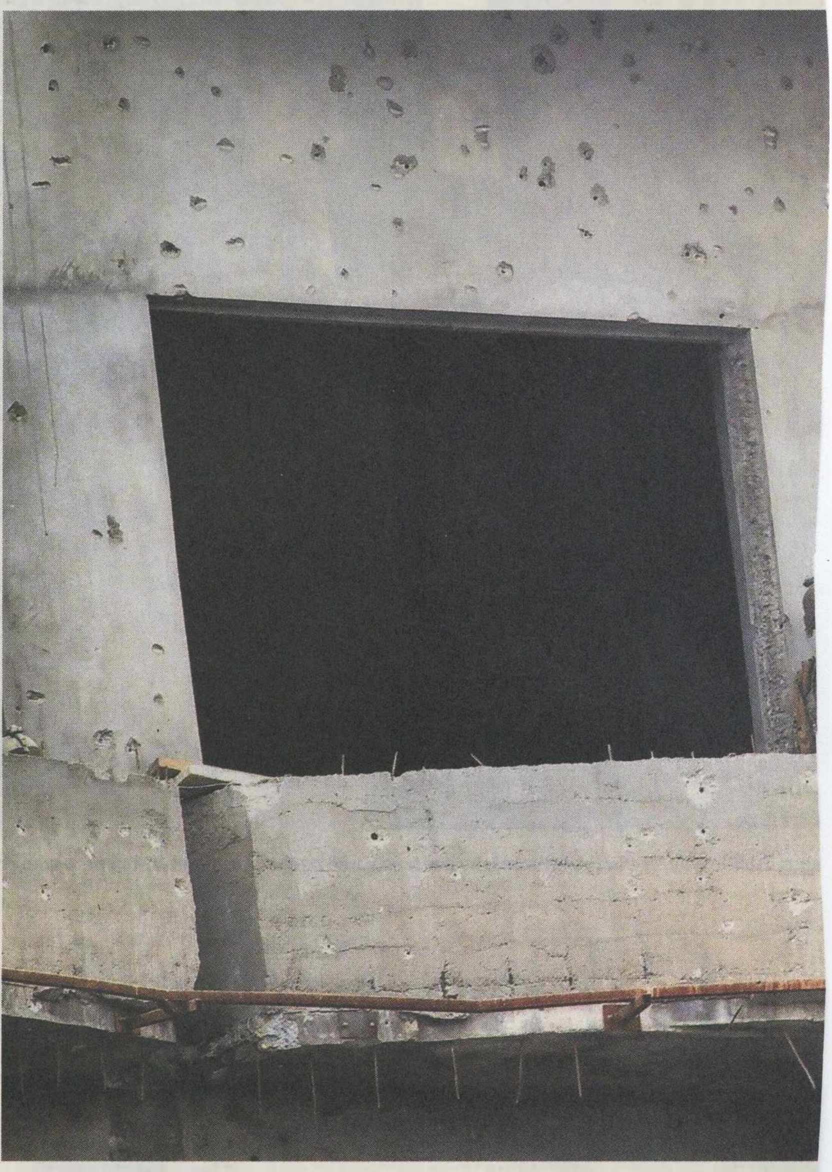
KOSTAS TSIRONIS/BLOOMBERG

Finance Minister Evangelos Venizelos said Greece had received messages of support.



A coalition soldier battling Haqqani fighters who staged an assault on the U.S. Embassy in

Crime group snarls U

WASHINGTON

Some U.S. officials fear that it may be too late to diminish clan's power

BY MARK MAZZETTI, SCOTT SHANE AND ALISSA J. RUBIN

They are the Sopranos of the war in Afghanistan, a ruthless crime family that built an empire out of kidnapping, extortion, smuggling, even trucking. They have trafficked in precious gems, stolen lumber and demanded protection money from businesses building roads and schools with U.S. reconstruction funds.

They safeguard their mountainous turf by planting deadly roadside bombs and shelling remote U.S. military bases. And they are accused by U.S. officials of being guns for hire: a proxy force used by the Pakistani intelligence service to carry out grisly, high-profile attacks in Kabul and throughout the country.

Today, U.S. intelligence and military officials call the crime clan known as the Haqqani network the most deadly in-

Middle class starts to buckle under weight of Greek austerity

ATHENS

BY RACHEL DONADIO

Sitting in the modest living room of the home she shares with her parents, husband and two teenage children, Stella Firigou fretted about how the family would cope with the uncertainties of an economy crashing all around them. But she was adamant about one thing: She would not pay a new property tax that was the centerpiece of an austerity package announced this month by the Greek government.

"I'm not going to pay it," Ms. Firigou, 50, said matter-of-factly, as she lighted a cigarette and checked her ringing cellphone to avoid calls from her bank about late payments on a loan. "I can't afford to pay it. They can take me to jail."

While banks and European leaders hold abstract talks in foreign capitals about the effect of a potential Greek default on the euro and the world economy, something frighteningly concrete is under way in Greece: the dismantling of a middle-class welfare state in real time — with nothing to replace it.

Since 2010, the government has raised taxes and cut pensions and state salaries across the board, in an effort to rein in the bloated public sector that employs one in five Greeks. Last week, the government announced that it would put

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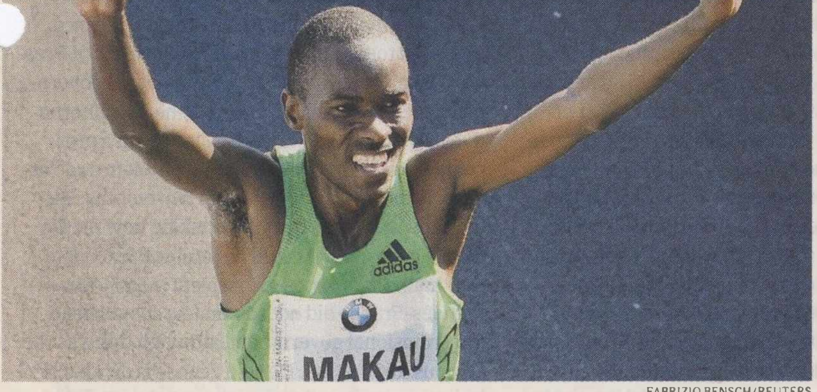
SPORTS

Vettel wins race, but not title

Sebastian Vettel won the Singapore Grand Prix Sunday, but didn't get the points to claim the drivers' title. *PAGE 14*

A lament for the goalkeepers

The initiation by fire faced by two young goalies testifies to their thankless task, Rob Hughes writes. *PAGE 14*



FABRIZIO BENSCH/REUTERS

Marathon record Patrick Makau of Kenya won the Berlin Marathon on Sunday, setting a new world record in two hours, three minutes and 38 seconds. *PAGE 15*

WORLD NEWS

Republicans sharpen attacks

Mitt Romney and Rick Perry are digging in for what Republicans believe could be a long and bitter fight for the presidential nomination. Nominally independent but well-financed groups are planning get-out-the-vote efforts and attack ads. *PAGE 8*

Yemeni still refuses to leave

President Abdullah Ali Saleh has been prodigal in proposals to end the eight-month-old violence but has followed up on none that entail his surrendering power. This time, he called for early elections. Protesters in Change Square were disappointed. *PAGE 5*

Abbas hails 'Palestinian Spring'

Two days after seeking full U.N. membership for a state of Palestine, Mahmoud Abbas returned to the West Bank and told his supporters that they were part of a "Palestinian Spring" and that he would resume peace talks when Israel froze settlement building. *PAGE 5*

BUSINESS

French rebellion against Apple

Eight publications, including Le Figaro and the sports daily L'Équipe, are banding together to sell their digital offerings through their own "kiosk" because they consider the U.S. company's network too rigid. *PAGE 18*

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Greek middle class starts to buckle as austerity bites

GREECE, FROM PAGE 1

30,000 workers on reduced pay as a precursor to possible termination and would cut pensions again for nearly half a million public-sector retirees.

A clerk in her local town hall, Ms. Firigou, like all public-sector workers, took a precipitous pay cut last year — in her case to less than €1,000, or $1,350, from €1,500 a month — as the government cut wages to meet the terms of its foreign lenders. Her husband, who sells used car parts, has seen his commissions drop. Her mother's pension was cut to about €600 a month from around €680.

Like many families here, the Firigous cushion the effects of such cuts and the rising cost of living with property acquired in the past. Her grandfather built the two-story apartment house in this Athens suburb, Psychiko, where the six now live, starting in the 1930s and finishing it after World War II. And so the new tax, probably in excess of €1,500 per year for the Firigous, stings particularly hard. ''The house is the only thing we have left,'' Ms. Firigou said.

There is a lot for Greeks to swallow. Beyond the public-sector wage cuts, in recent months the government has also imposed a ''solidarity tax'' ranging from 1 to 4 percent of income on all workers and an additional tax on self-employed workers, who make up the bulk of the economy. It has also raised its value-added tax on many goods and services, including food, to 23 percent from 13 percent.

The economy is flagging, and it is not uncommon for even private-sector workers to see pay cuts of 30 percent or more, sometimes in exchange for a reduction in working hours.

The so-called troika of foreign lenders — the European Central Bank, the European Commission and the International Monetary Fund — is increasingly playing hardball with the Greek government, insisting that it meet its deficit-reduction goals before it decides whether to release the next installment of €8 billion that Greece needs to meet expenses.

Many Greeks fear a vicious circle: a death spiral of more austerity measures, further economic contraction and correspondingly lower tax revenues, making it that much harder to make a dent in the debt, pushing the country toward default in spite of the austerity. Unions have called general strikes for Oct. 5 and Oct. 19, and tensions are building.

Economists say the measures are necessary to reduce debt and modernize the Greek economy. But the cuts have come far faster than the modernization, and the social fabric is starting to fray — if not tear. The unemployment rate, already at 16 percent, and emigration are increasing; the birth rate is dropping; and the rate of suicide is rising. The education minister recently apologized that public schools lacked textbooks, and the country's morale is flagging.

''The government is increasingly at war with the citizens,'' said Jens Bastian, an economist at the Hellenic Foundation for European and Foreign Policy in Athens. ''It is taking decisions whose consequences are not only squeezing the middle class, but threatening its very existence.''

Some private-sector workers say they have not been paid in months. ''It's illogical and unfair,'' Aphrodite Korogiannaki, 38, a speech pathologist at a center for intellectually disabled youth, said of the property tax as she participated in a peaceful demonstration in Athens last week. ''If I haven't been paid for two months, how can I pay?''

More and more, Greeks are asking that question, and increasingly their anger is focusing on the proposed property tax, the one that Ms. Firigou insists she cannot pay.

The government has said it expects to raise €2 billion through the tax, which would affect an estimated 5.5 million homeowners. There is no precise number for Greek homeowners, since the country still lacks a comprehensive land register. According to the Hellenic Property Federation, an association representing Greek homeowners, the tax would cost an average family between €900 and €1,500 extra per year.

Last week, the Socialist prime minister, George A. Papandreou, implored Greeks to accept the measures. ''There is no other path. The other path is bankruptcy, which would have heavy repercussions for every household, for every Greek citizen,'' he said. ''We know it will be difficult, but now is the time for the most decisive battle of all.''

The tax would be levied through electricity bills, another source of frustration here. A failure to pay would result in the shutting off of power, but the powerful union that represents the workers of the public energy company has said it will refuse to cooperate, jeopardizing its implementation.

A growing chorus of members of the governing Socialist Party is opposed to the tax, and a vote on the measure scheduled to be held in Parliament this week is widely expected to be close.

Critics say the country has failed to crack down adequately on tax evaders among the wealthiest segments of society and failed to carry out more focused cuts because it is reluctant to take on some public-sector unions that protect a small, powerful cadre of workers with deep ties to the Socialist Party.

''I don't think they know what to do,'' Nikos Panoutsopoulos, 38, an archaeologist who works at the Culture Ministry, said as he participated in a demonstration in Athens this month. ''Instead of fighting'' the electric company union, or the train company union, he added, ''they just cut salaries horizontally.''

Some of the short-term unemployed will still be expected to pay the new property tax. Faced with that prospect, a woman who gave her name only as Antonia as she waited in an unemployment center in central Athens burst into tears, a day after losing her job as a cleaner for the Ministry of Education.

''My husband is a construction worker; he has hardly had any work this month now, due to the collapse of the construction market,'' she said. ''My son is 20 years old and also unemployed.''

Such stories are common in Greece today. Yet even as the country bleeds, it is not meeting the deficit-reduction targets set as terms for its bailout. According to government data released Thursday, net revenues were €3.5 billion off target and expenses €1 billion higher than projected in the first seven months of 2011.

In her living room, Ms. Firigou said she had not seen it coming. ''No one warned us,'' she said. ''I have no hope, not for myself, not for my children, and I am only 50.'' But she said some things still made her laugh. ''I can't get it into my mind that my life is such a mess,'' she said. ''It's a joke.''

Niki Kitsantonis contributed reporting.

EIRINI VOURLOUMIS FOR THE NEW YORK TIMES

Stella Firigou, at right, with her mother, Dimitra. Ms. Firigou's salary has fallen to less than €1,000 from €1,500 a month; her mother's pension was cut to about €600 a month from €650.

Skepticism and hope circle Greece

EURO, FROM PAGE 1

In effect, that means investors have given up.

The Greek government has moved to reassure investors, rolling out new austerity measures that include plans to lay off 50,000 public sector workers and to make deeper cuts in wages and pensions. But the Greek economy is expected to shrink by 6 percent this year and 2 percent next, and unemployment, already at 16 percent, is ticking up toward Spain's level of 20 percent.

Even with fresh aid coming in, investors see little chance that Greece, facing such harsh economic conditions, will be able to cope with a debt burden that the I.M.F. now expects to hit 190 percent of gross domestic product next year.

In fact, next year Greece will be paying out 6.1 percent of its G.D.P. in interest payments to creditors — a higher proportion of its overall economic output than any other country in Europe. Even scarier for policy makers is that following closely behind Greece is Italy, where the ratio is 5.6 percent of G.D.P. — a figure that is expected to rise as the country's debt financing costs continue to ramp up.

No Greek politician will admit this openly, but to keep paying out such a sum to its bankers is unsustainable.

Which is why policy makers in the United States and Europe are working hard to come up with a plan to prepare for a hard restructuring of Greek debt. The goal is to contain the damage from such an event and ensure that it does not result in a string of bank failures across Europe and the spread of contagion to Italy, the euro zone's third-largest economy, after Germany and France.

''Something will need to be done to safeguard the European banks, especially if Greece is about to default,'' said Stephen L. Jen, a former economist at the I.M.F. who now runs a London-based hedge fund.

At the root of these discussions is a widening view on the part of credit ratings agencies as well as European governments that the banks that funded Greece's borrowing binge during the previous decade must accept a larger loss on their bond holdings than currently proposed.

Wolfgang Schäuble, the no-nonsense German finance minister, suggested as much in a tough speech delivered to international bankers at the Institute for International Finance over the weekend. He argued that because bankers had made bad lending decisions, they shared the blame for Greece's predicament and should also share in the cost of resolving it.

''Without a substantial contribution from financial institutions, the legitimacy of our Westernized capitalized systems will suffer,'' he said.

As part of the second bailout package, Greece has presented a debt exchange deal in which it would swap its short-term debt for longer-term securities, which would result in a 21 percent loss for the banks.

Because Greek government debt is now trading at a discount of 60 percent to 70 percent, the deal has been seen as a very good one for the banks, especially because the new bonds they will receive will make it easier for them to pursue legal action against Greece if the country defaults.

The offer does not close until early October, but as it stands, it will make only the smallest dent in Greece's debt burden. For that reason, many are coming to believe that a larger write-down of Greek debt should be at the center of any renewed rescue operation.

''Instead of cutting public sector wages and cutting spending, Greece should demand much larger haircuts on the debts that they have,'' said Peter Boone, a banking and finance expert at the London School of Economics. ''The current deal does not reduce the debt burden enough to make much difference.''

BRENDAN SMIALOWSKI/AFP

Olli Rehn said there was ''increasing political will'' for efforts to soothe investors.

But the chairman of the group that drew up the terms of the debt swap said any change was unlikely.

''It is not feasible to reopen the agreement and, given the benefits to Greece, we should focus now on its timely and resolute implementation,'' said Josef Ackermann, the outgoing chief executive of Deutsche Bank and chairman of the I.I.F., which represented the banks.

If the banks can be convinced to go back to the bargaining table, the challenge is ensuring that they can handle not the 21 percent loss they have been preparing for, but a much larger one.

By the numbers alone, this should be affordable. French and German banks have the largest exposures to Greek debt, totaling about $100 billion.

But with major French banks like Société Générale and BNP Paribas rapidly losing the trust of their investors and lenders, their ability to sustain a larger loss is in doubt.

For German banks, the situation is hardly any better. According to Morgan Stanley, their most recent core ratio of capital to assets is just 8.3 percent, compared to 8.2 percent for Greece. For France, the ratio is 9.2 percent.

Analysts and regulators believe that a capital ratio of at least 10 percent is needed to provide a sufficient buffer to absorb losses.

It is for these reasons that the discussions in Washington this weekend have focused on the need to reinforce Europe's much-derided rescue mechanism, the European Financial Stability Facility, with more cash and the flexibility to allow it to bolster the capital levels of banks.

Olli Rehn, the European Union's monetary affairs commissioner, said Saturday that there was ''increasing political will'' among European leaders for a new effort to soothe investors.

The facility is designed to [illegible] as much as €440 billion, or $600 billion, in loans to troubled nations and banks. Mr. Rehn said officials were discussing a plan to multiply the firepower of the E.F.S.F. so that it could instead insure a few trillion euros in loans.

The French and German officials in Washington continued to insist publicly that they were focused on the plan that was announced in July, but in private meetings over the weekend they made it clear that they now understood the need for a new proposal, according to a senior U.S. official who described the private conversations on condition of anonymity.

One option under consideration, suggested by the U.S. officials, is to treat the E.F.S.F. as an insurance program. The European Central Bank, which has an unlimited ability to create money, would lend money to investors to buy the deb[t] of troubled countries. The b[illegible] fur[illegible] would agree to absorb any los[ses].

Mr. Rehn said that countries were [fo]cused first on approving the pl[an] reached in July, which allows the fu[nd] more flexibility — for example, to ma[ke] pre-emptive loans to countries that [are] not yet in distress. Legislatures in e[ach] euro zone country must approve [the] changes, and so far only 6 of the 17 ha[ve], but Mr. Rehn and other officials s[aid] they were confident that the proc[ess] would be completed by mid-October.

European officials have promised [to] present ''a collective and bold act[ion] plan'' with other major economies [in] early November, when the leaders [of] the Group of 20 largest economies hol[d a] scheduled meeting in France.

If financial markets continue [to] plunge this week, however, there will [al]most certainly be pressure for more im[]mediate action. The Dow Jones indu[s]trial average rose fell 6.4 percent la[st] week, its worst performance since Oc[to]ber 2008.

Binyamin Appelbaum contributed reporting from Washington.