16

SAVING WATER
LEVI STRAUSS SHOWS THE WAY

PAGE 13 | BUSINESS WITH REUTERS

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TIMES
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BY THOMAS COEX

nalyst said.

Euro crisis hijacks summit's agenda

FRANKFURT

Amid gathering clouds, a desperate attempt to hold things together

BY JACK EWING AND STEVEN ERLANGER

The Group of 20 summit meeting in Cannes was supposed to be a chance for Europe and the event's host, President Nicolas Sarkozy of France, to shine. Instead, the two-day meeting is coming at an extraordinarily dark time for the Continent, with Europe in political disarray, its economy tipping into recession and the future of the euro zone in doubt.

If anyone can afford to strut on the beaches of the Côte d'Azur during the summit Thursday and Friday, it would be the fast-growing developing countries, especially China but also India, Russia and Brazil. So rapidly has the balance of power shifted that Europe is now asking them for money, and they are in a stronger position to push their views on trade rules and other issues.

But the leaders of the big emerging economic powers of the world are not likely to be crowing. Not only do they face vulnerabilities of their own, like worrisome levels of inflation in China, but they also do not want to see their best customers struggle economically, especially when another crucial outlet for their exports — the United States — is also suffering.

''China is going to be in a pretty good position,'' said Uri Dadush, a senior associate at the Carnegie Endowment for International Peace in Washington. ''But don't interpret that to mean that China is happy with all this. China is part of the world economy.''

That was the sentiment that President Hu Jintao of China expressed in an interview with the French newspaper Le Figaro this week. ''China sincerely wishes to see stability in the euro zone and the euro,'' he said.

Typically, G-20 summit meetings are an occasion for the host leader to appear statesmanlike and push pet issues. Mr. Sarkozy had originally intended the Cannes meeting to focus on his call for changes to the international monetary system, in a bid to reduce exchange rate fluctuations and give the euro and other currencies more status vis-à-vis the dollar.

In character for the frenetic French president, the agenda also contains an ambitious list of other goals, including changing bank regulation, as well as dealing with unemployment, corruption, tax evasion, food security and global warming. Mr. Sarkozy's schedule even includes a meeting Thursday morning with Bill Gates, the co-founder of Microsoft, to discuss development financing.

There will undoubtedly be pronouncements on many of these issues. Most of the work on such questions is done in advance by lower-level officials. The summit meeting, which begins with a working lunch Thursday, is to a large extent a photo opportunity at which leaders issue communiqués that were agreed upon well ahead of time.

But events this week have forced Mr. Sarkozy and Angela Merkel, the chancellor of Germany, to become mired in Greek politics when they would rather that their constituencies saw them appearing on the global stage with President Barack Obama or Mr. Hu.

Mr. Sarkozy and Mrs. Merkel met in an emergency session Wednesday afternoon with the heads of European Union institutions and the International Monetary Fund to discuss the Greek situation. They were scheduled to see President

G-20, PAGE 15

LIONEL BONAVENTURE/AFP

Angela Merkel met with other leaders in an emergency session Wednesday in Cannes.

G-20 SPECIAL REPORT
The Group of 20 leaders gather in Cannes to confront a renewed global struggle for certainty and cash. *INSIDE*

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Mood shifts as Greek leader wins cabinet support for vote

ATHENS

BY RACHEL DONADIO

In the chaotic aftermath of Prime Minister George Papandreou's surprise announcement to hold a referendum on a new European debt deal, the political ground shifted Wednesday before a confidence vote that risks bringing down his government.

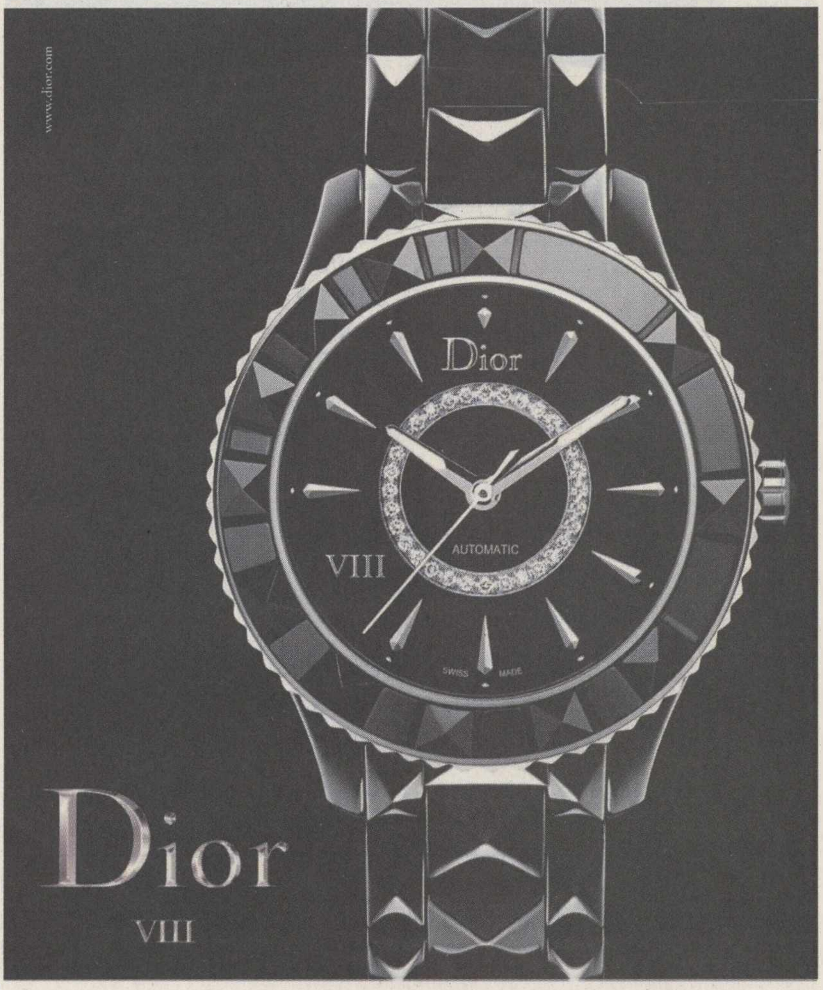
Before leaving for Cannes to meet European leaders at a Group of 20 summit meeting, where he was widely expected to be upbraided for throwing the debt deal into jeopardy and plunging Europe into new financial turmoil, Mr. Papandreou secured the support of his cabinet on his referendum plan.

But it remained to be seen whether dissident members of his restive Socialist governing party would support the government in a confidence vote Friday — let alone in the referendum, whose questions must be approved by a parliamentary majority before being put to the Greek people.

The Greek government spokesman, Elias Mossialos, said the government aimed to hold the referendum on whether to accept the loan deal with the European Union "as soon as possible" — and

GREECE, PAGE 4

ITALIAN CABINET SEEKS REMEDY FOR CRISIS
Government ministers met Wednesday night in hopes of approving urgent debt-crisis measures. *PAGE 13*



Papandreou gains cabinet support for referendum on E.U. debt deal

GREECE, FROM PAGE 1

"on the condition" that Greece had the "basic elements, not the full agreement" of the deal in place.

News reports Wednesday said the referendum might be brought forward to as soon as December. But there is a power struggle over the timing. Mr. Papandreou has said he wants the referendum on the new loan deal, which puts pressure on Europe to finalize a plan he could put to the Greek electorate.

Europe has put pressure on Greece to hold the referendum as soon as possible since a no vote might jeopardize the entire plan and push Greece closer to a disorderly default.

The complexities and brinkmanship surrounding the matter prompted the center-left daily Eleftherotypia to sum up the general atmosphere in a headline branding Mr. Papandreou as simply "The Master of Chaos."

Amid feverish political maneuvering, it appeared that some members of his governing Socialist party who had said they would vote against Mr. Papandreou may have relented. Two other independent deputies suggested they would back him, giving the prime minister a greater chance of passing the vote Friday with his razor-thin two-vote majority.

If he loses, his government would fall and the country would go to early elections. That would add more uncertainty into an already volatile equation involving Greek democracy, world markets and disagreements at the highest levels of the European Union over how to prevent Greece from a default that would rattle the euro zone.

The International Monetary Fund, which with the European Union and European Central Bank is one of Greece's three foreign lenders, suggested that it would withhold its next installment of aid to Greece until after the referendum, according to Reuters.

The more the stakes rise, the strategy of Greece's center-right New Democracy opposition appears to be to wait for the Socialists to implode.

The leader of the center-right opposition, Antonis Samaras, repeated calls Wednesday for early elections but did not ask his legislators to resign, as he had hinted he might do, a move that would have immediately led to early elections. The next general election is not expected until 2013.

"I think today the mood has slightly changed," said Kyriakos Mitsotakis, a member of Parliament from New Democracy. "I think probably they will carry the vote, but I think Papandreou personally has been completely discredited and his leadership capabilities discredited by his own party. I can't see this government going on for a long time."

Indeed, Mr. Papandreou's political fate now lies with the governing Socialist party, which is divided among reform-minded politicians who think he has failed to deliver reforms; those who support him; and traditionalists loathe to dismantle the welfare state they helped build.

On Oct. 16, three government ministers issued a statement calling on Mr. Papandreou to carry out reforms more quickly, a move widely seen as positioning themselves as reformers in a post-Papandreou future — or perhaps the start of a potential breakaway party in a new political constellation.

On Wednesday, Mr. Papandreou appeared to win the support of two other independent members of Parliament — Elsa Papadimitriou, a former conservative who is now an independent and Louka Katseli, a former minister who was ousted from the Socialist party after she voted down one of the provisions in an the last austerity vote this month.

According to George Katrougalos, a professor of constitutional law at the University of Thrace, there was "obvious change of climate within Pasok" after the cabinet meeting. (Pasok is Mr. Papandreou's governing Socialist party.) They realized that with no coalition government possible, as some Socialists had requested, the only alternative they had would be elections or, even worse, a dissolution of Pasok or a "catastrophic result in premature elections," he added. "So they were convinced that unison within the party was crucial."

ALKIS KONSTANTINIDIS/EUROPEAN PRESSPHOTO AGENCY

Headlines attracted attention on a street in Athens on Wednesday as news reports said the referendum on the bailout might be brought forward to as soon as December.

All the other opposition parties have said they will vote no in the Friday confidence vote, including the far-right LAOS party, which has backed Mr. Papandreou in past votes on austerity measures.

Until the Friday vote, the jury is out. In the past, Socialist members of Parliament have been known for "empty threats," said Vasiliki Siouti, a political reporter at the center-left daily Eleftherotypia.

"If Papandreou's government will fall, no one can know," she added. "Because no one wants to be the one to actually kill the majority, the one to put the last nail in the coffin. No one wants to do the first step."

Niki Kitsantonis and Dimitris Bounias contributed reporting.

Views

EDITORIAL OPINION

International Herald Tribune

THE GLOBAL EDITION OF THE NEW YORK TIMES

CORZINE'S BIG BET

The bankruptcy filing by the brokerage firm raises some troubling questions about the financial system.

Why did Jon S. Corzine make the risky bets that have now plunged MF Global Holdings into bankruptcy court? We don't know, but the likely explanations are disturbing.

Over the past year, most investors have been fleeing the sovereign debt of Spain, Italy and other euro-zone basket cases. Not Mr. Corzine. The onetime chief executive of Goldman Sachs and former New Jersey senator and governor who has run MF Global since early 2010, was all in, buying up $6.3 billion worth of discounted euro-zone debt.

As reported in The New York Times on Tuesday, Mr. Corzine appeared to be wagering that the European Union would come to the rescue of Europe's troubled economies, averting a default. In other words, Mr. Corzine was betting on a bailout.

A euro-zone bailout may well come, but not in time for Mr. Corzine and MF Global. Concerns about Mr. Corzine's big bet led two ratings agencies to downgrade the firm to junk last week, draining investor confidence — and cash — from the firm, and sending it spiraling into bankruptcy proceedings. The fact that Mr. Corzine built a strategy betting on a government rescue should be a chilling reminder of how far the world has not come since the darkest days of the financial crisis. Europe is trying to bail out Greece, in part, to protect its big banks.

In fact, the financial system, on both sides of the Atlantic, is still dominated by too-big-to-fail banks and regulations intended to ensure that their collapse won't bring down the financial system are still a work in progress. It is progress that in Europe, at least, creditors are being asked to bear some of the burden. But the need for bailouts is still very much with us.

Another reason that Mr. Corzine's bets may have gone so wrong — and another echo of the financial crisis — is that American regulators did not rein in the firm. MF Global was highly leveraged, with liabilities at the end of June of $44.4 billion and equity of only $1.4 billion.

In a research note published on Tuesday, Steve Blitz, a senior economist with ITG Investment Research, pointed out that MF Global was one of the firms designated by the Federal Reserve as a primary dealer in United States Treasuries. After the havoc of high leverage in the financial crisis, how is it possible that the Fed allowed MF Global to operate with so much leverage? Are the Fed, the Securities and Exchange Commission and other relevant regulators fully monitoring the risks at other broker dealers?

Meanwhile, self-regulation is clearly not the answer. The Wall Street Journal reported on Monday that the Financial Industry Regulatory Authority, a self-regulatory agency for brokerages, recently warned MF Global to shore up its capital to cushion against its increasingly risky positions. Whatever the firm did, if anything, clearly wasn't enough.

In the end, the American people are lucky that MF Global was small enough to fail, its riskiness and recklessness absorbed by the bankruptcy process. But with the devastating damage from the crisis still hobbling the U.S. economy, relying on luck is not enough.

MF Global is a warning that the system is still far too vulnerable and the work of regulatory reform far from finished.

No continent is an island

EURO CRISIS I

Europe is not the only continent which needs a bolder strategy to return to growth.

Gordon Brown

World leaders attending the G-20 meeting this week may be excused for feeling that the pressure on them has been relieved because of Europe's three-part rescue plan. After all, last week's summit meeting delivered a 50 percent Greek debt restructuring, a €100 billion recapitalization of banks by next June, and a scaled up euro stability fund with firepower that could be the equivalent of €1 trillion.

But no one should be lulled into a false sense of complacency. The euro summit, called to bring a lasting solution to a three-year crisis, may have bought little more than a short breathing space.

Already there is uncertainty, not just because of Greece's political crisis or its proposed referendum, but also because the source of the stability facility's funding is unclear.

In coming weeks, European resolve over the strength and size of its guarantee will be tested, not least through market pressure on Italy, and euro zone members will be challenged on whether they are really prepared to take joint responsibility in support of all the countries at risk.

A few months ago I argued that the real purpose of the stability facility was not to bail out banks and countries but to guarantee the funding of the Italys, Spains, Portugals and Irelands while the euro was being reformed. European leaders had to send an unmistakable signal to world markets of the euro zone's utter resolve to defend the European economy.

My view was that European leaders had to guarantee at least €2 trillion during the period in which they reshaped the euro and European fiscal coordination. On the basis of a timetable for fundamental reform — and a guarantee of joint responsibility — they could have asked the European Central Bank to be the temporary funder, or they could have borrowed from China or the oil states with or without the I.M.F. as an intermediary.

Outside observers may already be reluctantly concluding that last week's financial engineering arose because the euro zone's large countries were refusing to pay the full cost of an iron-tight guarantee. The search for sovereign wealth and Chinese money may be increasingly seen not as a quest for loans to back up rock-solid European commitments, but as a substitute for commitments that have not been forthcoming.

The same observers may conclude that the rest of the world is being asked for help simply because not enough euro zone countries will take ultimate responsibility for their own problems. They may wonder whether the debate about the fund exposes a Europe attempting to avoid making the guarantees a single currency needs.

Before last week, Europe's problems were not just the solvency of its banks and the integrity of its public finances, but also the puniness of its economic growth. Little that is new was said in the euro summit's conclusions that will spur growth, and not enough is being done about unemployment, particularly job opportunities for the rising numbers of young people now doing nothing.

And in the absence of a growth strategy coming out of Brussels, banks may now feel they have no alternative but to de-leverage, liquidating billions, and putting a record number of European companies under yet further pressure.

Europe, however, is not the only continent which needs a bolder strategy to return to growth. The G-20, charged in 2009 to deliver a growth pact, meets without any credible plan to re-ignite world growth.

Ten years ago America by itself could have propelled the world economy to higher levels of growth. Ten years from now Asia may be able to do likewise. But today no continent is strong enough to propel sustained growth, and there is a precarious balance between an East that produces most and a West that consumes most, both dependent on each other.

In a low-inflation environment, a growth pact makes sense. If China increases its consumer spending and Asia opens it markets, and if America invests in infrastructure, then as the I.M.F. has suggested, there could be 5 percent more growth, worth 25 to 50 million more jobs and up to 100 million people taken out of poverty.

Unfortunately the growth pact envisaged in 2009 has descended into a dispute over currencies, with the United States Senate now calling China a currency manipulator. A return to the 2009 idea would take us beyond bland statements of what each country is doing on its own to a genuine attempt to coordinate measures for shared growth and rising employment.

It is the only way the G-20 can answer the growing insecurity felt by millions, on show in the streets of New York and in many countries where demonstrations are now a regular feature of economic life. Only that heightened cooperation among continents can prevent the G-20 entering the same spiral of decline as the world economy.

DANTE TERZIGNI

GORDON BROWN, a Labour member of the British Parliament, was Britain's prime minister from 2007 to 2010 and chancellor of the Exchequer from 1997 to 2007.

How to prop up the euro

EURO CRISIS II

European leaders have focused on treating the symptoms of what ails the common currency, rather than the disease itself.

Steven Rattner

Here's the critical takeaway from last week's European rescue plan: Nothing in it addresses the endemic economic weaknesses that nearly propelled the euro zone into a meltdown.

However successful the package may prove in quelling turbulent markets (a questionable assumption, particularly after Greece's decision to submit its latest rescue plan to a referendum), the members of the common currency still face the more daunting challenge of how to restructure their Rube Goldberg contraption so that such turmoil doesn't recur.

The initial misstep by European leaders, of course, was lashing their nations to a common currency without integrating other critical policies, such as government borrowing and regulation.

That allowed differences in growth rates among the countries to persist — and even expand — during the boom-bust cycle of the past half-decade.

Visit Germany and be struck by the palpable energy and drive within the business community. In part because of a "grand bargain" nearly seven years ago that blended deregulation, job security and wage restraint, German productivity and economic output both grew by almost 10 percent between 2000 and 2010.

Contrast that with Italy, where Sergio Marchionne, the exceptional chairman of both Fiat and Chrysler, has lambasted worker efficiency, even threatening to quit the country. In 2009, each worker at Fiat's Italian factories assembled an average of 30 cars per year, compared with nearly 100 per year in Poland, while being paid more than three times Polish wages.

Italy was the only major European country in which productivity stagnated in the last decade. Its economy barely grew.

Italy is not alone in its difficulties. Spain is digging out of the wreckage of a euro-fueled borrowing and construction boom, with unemployment stuck above 20 percent thanks to its rigid labor market. Like Greece, Portugal is struggling with an uncompetitive economy and bloated government payrolls. Of the weaker countries, Ireland has made perhaps the most progress in adjusting to the hangover from a real-estate-fueled splurge.

By having a single fiscal policy and regulatory framework, the United States has experienced far fewer internal stresses and strains. The federal budget includes "automatic stabilizers" that, without further congressional action, shuttle money to hard-hit areas.

For example, the federal government reimburses individual states for half the cost of extended unemployment insurance. In Europe, these programs, known as "transfer payments," evoke strong negative emotions in wealthy countries — and not just Germany.

Similarly, regional differences in unemployment in the United States are mitigated by the propensity of Americans to move in search of work, as they have done in leaving cities like Detroit for fast-growing Sun Belt locales. Impeded by language, cultural traditions and other barriers, Europeans don't relocate as readily.

To date, European leaders have focused on treating the symptoms of what ails the common currency, rather than the disease itself. Assembling enormous pools of capital and creating lenders of last resort does nothing to resolve the inherent tensions among countries growing at such disparate rates.

Already, the markets are signaling skepticism: The interest rate on Italy's debt has breached 6 percent, three times what Germany pays to borrow money.

Absent a fresh approach, prospects for the weaker economies are grim — a grinding down of government budgets and private-sector wages in a perhaps vain effort to become competitive with Germany (what the Europeans euphemistically call "internal devaluations"). None of these countries has yet demonstrated the fortitude to navigate this difficult route to competitiveness. And at every sign that efforts are flagging, bond market vigilantes remain ready to pounce.

What are the alternatives to just muddling through? The 17 euro nations could decide to abandon the common currency, allowing the weaker countries to deploy the more conventional approach of devaluation. Such a reversal would entail unimaginable complexity and bring its own form of chaos.

Instead — and ideally — Europe should move forward with much greater speed toward true integration. To be sure, greater flexibility in labor markets cannot be achieved by mandates.

However, nothing prevents the adoption of a single fiscal policy (including transfer payments) and a harmonized approach to competitiveness except the tortuous politics of national pride and a fear of German domination.

Both are certainly understandable. But if the euro members remain committed to the vision of an integrated continent spawned in the post-World War II ashes, they need to think as Europeans.

Otherwise, European policy makers won't be able to restrain the markets, any more than King Canute could hold back the sea.

STEVEN RATTNER, a New York-based investment banker, served as the lead auto adviser in the U.S. Treasury Department.

Air power's century of false promises

Daniel Swift

SARATOGA SPRINGS, NEW YORK A hundred years ago on Nov. 2, an Italian airman named Giulio Gavotti dropped three hand grenades out of his monoplane onto a camp of Arab and Turkish troops at Ain Zara, just east of Tripoli, during the Italian-Turkish War. It was the world's first aerial bombardment. Each grenade weighed three pounds, and it is likely that no one was hurt. "I came back really pleased with the result," Lieutenant Gavotti wrote to his father. Italian newspapers raved about the sortie: "Terrorized Turks Scatter."

From this modest beginning, the air raid as a style of war grew both in scale and imagination. Popular novelists like H.G. Wells had been fantasizing about war by airship and flying machine since the late 19th century.

When the First World War began, these science fiction scenes recurred in the policy assessments of military planners, who assumed that victory and defeat in a bombing war would be absolute and immediate.

In 1914, Rear Adm. Paul Behncke, deputy chief of the German naval staff, noted that a raid upon the government buildings in the Whitehall section of London would "cause panic in the population which may possibly render it doubtful that the war can be continued." In January 1915, the raids began; by the end of the war, German zeppelins had dropped 6,000 bombs on Britain — and killed 556 people. In 1917 Gen. Jan Smuts predicted, "The day may not be far off when aerial operations with their devastation of enemy lands and destruction of industrial and populous centers on a vast scale may become the principal operations of war."

Bombing always promised to transform war. "No longer will the tedious and expensive process of wearing down the enemy's land forces by continuous attacks be resorted to," argued Billy Mitchell, the father of the United States Air Force, in the 1920s. He went on to insist that bombing must surely cause "the amelioration and bettering of conditions in war because it will bring quick and lasting results."

This was an attractive alternative to the messy land-based wars of the past, and air power's most enthusiastic proponents were haunted by the memory of the trenches of the First World War, most powerfully described by the poet Wilfred Owen, who famously wrote,

It's been 100 years since the first bomb was dropped from a plane, but we're no closer to clean or cost-free conflicts.

"Bent double, like old beggars under sacks,/ Knock-kneed, coughing like hags, we cursed through sludge." Owen had wanted to be an airman, but like so many others, he was killed as a soldier on French soil. More than 57,000 British soldiers fell on the first day of the Battle of the Somme alone.

Nothing could be as horrific as that, and if you have to fight a war somewhere, you might prefer the sky to the mud. On May 30, 1942, the Royal Air Force launched its first 1,000-bomber raid on a German city, Cologne. Two weeks later, the commander in chief of Bomber Command, Arthur Harris, wrote to Winston Churchill requesting a still greater bomber force. This was the only way, he insisted, to keep British troops from massacre "in the mud of Flanders and France." At the Casablanca conference in January 1943, Roosevelt and Churchill agreed upon a joint bombing offensive. Between July 1944 and April 1945, this combined Anglo-American campaign dropped over a million tons of bombs upon Europe.

The wars go on, as does the bombing. Between 1950 and 1953 the United States dropped 635,000 tons of bombs on Korea, in addition to 32,557 tons of napalm. According to the historian Bruce Cumings: "Korea recapitulated the air force's mantra from World War II, that firebombing would erode enemy morale and end the war sooner." This wishful thinking continued to determine strategy. On Feb. 13, 1965, President Johnson ordered the start of the Rolling Thunder bombing campaign. Gen. Maxwell Taylor imagined "a slow but inexorable barrage of air attacks advancing to the north, capable of convincing the Hanoi government that everything in the Hanoi area was going to be destroyed unless the leaders mended their ways."

Perhaps the bombs sped the ends of these wars, though we can't know for sure. But no one would claim that bombing campaigns made Vietnam a clean conflict, that they made Korea efficient. Any history of bombing must also be a history of civilian casualty, for bombing saves the lives of soldiers only at the expense of other lives. The statistics of civilian deaths by bombing are always unreliable, but perhaps 500,000 German civilians were killed by Allied air raids during the Second World War. Operation Rolling Thunder is estimated to have killed 182,000 North Vietnamese civilians.

Nonetheless, we continue to shape our wars around a utopian idea about bombing. In March of this year, French planes bombed Libyan tanks outside Benghazi, and began a NATO campaign which lasted until the death of Muammar el-Qaddafi on Oct. 20. That single event is telling: an American Predator drone and a French warplane were in the skies overhead, but it was Libyan foot soldiers on the ground who captured their former leader.

Aerial bombardment is a form of warfare that was designed as an escape from the past. And yet each new conflict is only another episode in bombing's long history of promises about "cost-free" victory and clean war. For each example of a conflict apparently made easier by air power, there is a counter-example of a war which air power has only served to complicate and intensify. While the conflict in Libya would almost certainly have been far bloodier in the absence of NATO air power, bombing raids by Predator and Reaper drones in Afghanistan and Pakistan are a focus for anti-American sentiment. Bombing is an unpredictable weapon, and perhaps its greatest danger is that, in suggesting an easy conflict, it draws us into wars we might otherwise have avoided. In that way, it is both the symbol of our faith in technology, and the sign of our entrapment in the past.

This summer, a NATO plane bombed Ain Zara — now a suburb of Tripoli. A century later, we're back where we began.

DANIEL SWIFT is the author of the memoir "Bomber County: The Poetry of a Lost Pilot's War."

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a Midas touch cools

JIN LEE/BLOOMBERG NEWS

e of his credit-focused funds gain 600 percent amid a broad market downturn in 2007.

little restraint in his fund-raising efforts, amassing assets at the expense of performance. His marketing team has a staff of more than two-dozen professionals, higher than many large hedge funds. And he also has separate teams devoted to different types of investors, including endowments, foundations and pension funds.

The firm started to show cracks this year. Mr. Paulson lost $500 million on Sino-Forest, a Chinese timber company accused by an analyst of running a huge Ponzi scheme. His stakes in Bank of America, Citigroup and Hewlett Packard — part of a bullish call on the economy — have also withered.

He conceded to investors in October that he ''made a mistake.'' The Advantage Plus fund is off 47 percent through September. To climb out of that hole and start charging lucrative performance fees, the fund will need to post returns of at least 100 percent. Other funds like Advantage and Recovery will have to notch returns of at least 60 percent to get above water. The losses are so significant that some competitors joke Mr. Paulson would need to pull off returns on par with his subprime success.

Investors who have recently met with the money manager say his usual swagger has diminished, and he appears worn. Last month, protesters at Occupy Wall Street focused on his New York townhouse. He responded in a statement that ''instead of vilifying our most successful businesses, we should be supporting them.''

Despite the reversal, investors are largely remaining patient. Some are loath to sell their positions in Mr. Paulson's funds at their low point. Other big institutions are willing to stick by the money manager given the proven team and strong record.

''With a fund of our size, we are going to constantly have investments that do very well and those that don't,'' said M. Steve Yoakum, executive director of the $30 billion Public School & Education Employee Retirement System of Missouri, which has $118 million with Mr. Paulson. ''One of the biggest differences between institutions and private investors is the tendency to sell when things are bad.''

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Dangers abound in Greek vote

Mike Dolan

INSIDE THE MARKETS

LONDON Greece's proposed referendum on its bailout spells at least several more weeks of deep freeze for global investment, and that hiatus may be enough to tip the world economy back into recession this winter.

For many global investors, it is hard to overestimate the impact of Prime Minister George A. Papandreou's surprise decision to call a public vote on the latest and tortuously assembled rescue by the European Union.

Before money managers even begin to discuss the likelihood that Mr. Papandreou will win the vote — and most assume that will be a struggle at least — any hopes of a year-end rally or even stabilization of world markets have now been doused.

''Try as we might, there is nothing good to be said about this decision as it affects markets and growth over the balance of this year,'' said Paul Mortimer-Lee, global head of market economics at BNP Paribas.

A main issue for the world economy at large in recent months was whether dire readings of business and household confidence were overly pessimistic and too focused on volatile markets rather than on the more robust actual economic data starting to emerge, especially from the United States.

A brief stabilization of financial markets last month suggested that a durable policy solution for the euro zone could allow sentiment to recover.

But as the call for a referendum revives concerns about bank and government financing and creates renewed uncertainty in Europe, actual economic activity may again deteriorate in line with the surveyed gloom. A Greek government spokesman said the referendum would be held ''as soon as possible,'' and news reports Wednesday said it might happen sometime in December.

And the timing could not be worse. Global manufacturing surveys for October hover on the cusp of another major contraction that needs only another nudge to go into a full-blown recession.

''Grenade'' was a word used most by investors and other E.U. governments, like Ireland, a fellow bailout recipient, to describe the shock of Mr. Papandreou's proposal. Markets reacted accordingly.

But this shock is affecting not only Europe — it is rippling worldwide. Despite weeks of impressive domestic economic data, U.S. stocks have lost more than 5 percent since the referendum bombshell, returning to their lowest levels in 10 days.

That instant repricing makes clear that markets see the wait for the referendum as putting all aspects of the stabilization plan on ice.

''As we near the referendum date, uncertainty over its outcome as well as the future of the euro zone as a whole can only increase and introduce increased volatility into asset markets,'' said Andreas Utermann, global chief investment officer at the asset manager RCM.

The bigger problem for many investors is that the prospect of a make-or-break referendum does not merely return markets to the levels before the summit meeting. It opens up a whole new can of worms.

''Grenade'' was used most by investors and E.U. governments to describe the shock.

A rejection of the bailout plan would almost certainly lead to a disorderly default on Greek debts, since the government would lose any mandate to persevere with the austerity required to secure debt-servicing funds.

A forced default and subsequent bankruptcy of Greece would amplify internal and external calls for it to exit the euro bloc, generating speculation about the removal of other countries.

While some economists say that the referendum gamble, even if it is successful, may have some chance of paying off for Greece over the medium term, they wince at the damage it causes to everyone else right now.

A ''glance into the abyss'' of national chaos may persuade Greeks to vote in favor of Mr. Papandreou's referendum, said Jan Amrit Poser, chief economist at the Swiss private bank Sarasin. ''But the biggest downside is that he is also taking fellow Europeans and financial markets to this abyss,'' Mr. Poser said.

Mike Dolan is a Reuters correspondent.

G-20 copes with crisis and a new order

G-20, FROM PAGE 1

George A. Papandreou of Greece later in the evening, after he upset financial markets and undermined the latest European rescue plan by saying he would let his people decide in a referendum whether or not they supported his tough-minded, often painful efforts to keep Greece afloat. A no vote could lead to Greece's exit from the euro zone.

With the Greek government struggling to stay in power, France and Germany want a quick answer from Mr. Papandreou, but it is not clear what he can offer before the referendum, even if he survives a confidence vote in Parliament scheduled for Friday night. The earliest the referendum could be held, Greek officials said Wednesday, would be mid-December.

Mr. Sarkozy has complained that Mr. Papandreou's announcement "took the whole of Europe by surprise," and the French prime minister, François Fillon, told the French Parliament: "Europe cannot be kept waiting for weeks for the outcome of the referendum. The Greeks must say quickly and without ambiguity whether they choose to keep their place in the euro zone or not."

Mrs. Merkel told reporters in Berlin, on her way to Cannes, that "for us, it is actions that matter. We agreed on a program with Greece last week. And from the E.U. side, at least for Germany, we want to implement this program, and for this, we need clarity and that's what these talks tonight are about."

Officials also repeated the point that until Greece's commitment to the plan to fix its budget overruns is clear again, the country is unlikely to receive an €8 billion, or $11 billion, aid installment, due this month, and needed before the end of the year to pay bills and salaries.

A German Finance Ministry spokesman said Greece apparently had enough money to keep running until mid-December, when it has to redeem more than €6 billion in debt.

Meanwhile, the relentless flow of negative economic news continued. A survey of managers in manufacturing, published Wednesday, pointed to a decline in European output during the last three months of 2011. The biggest drop in sentiment came in Italy, further heightening fears that a combination of slow growth and political paralysis could make it impossible for that country to continue to service its debt.

While markets Wednesday recovered some of the ground they lost earlier in the week, investors' unease was apparent when the European Financial Stability Facility pulled back from a planned €3 billion deal to issue 10-year bonds to help finance Ireland's bailout because of a lack of buyers.

As part of the overall European effort to maintain stability in the euro zone, the E.F.S.F. is to be enlarged from €440 billion to €1 trillion and provide "risk insurance" to new bonds issued by struggling euro zone countries.

PEER GRIMM/EUROPEAN PRESSPHOTO AGENCY

Police officers patrolled the beach in Cannes on Wednesday as part of security measures for the summit meeting of Group of 20 leaders.

"China has a strong self interest in preventing financial Armageddon in Europe."

The last-minute cancellation of the small and normally routine operation is "indicative that there is a huge amount of uncertainty out there which hasn't been helped by the Greek decision," said Nick Matthews, senior European economist at Royal Bank of Scotland. "A week ago we thought we had a grand plan."

Contributing to the spirit of turmoil, the Occupy Wall Street movement is expected to inspire a robust turnout for anti-G-20 protests in nearby Nice.

"The timing is not good for the French president," said Gregory Chin, a senior fellow at the Center for International Governance Innovation in Waterloo, Ontario. The agenda "raised too many expectations instead of delivering on the core issue of global growth," Mr. Chin said by telephone from Cannes.

With the advanced industrial countries weakened, they will be in less of a position to nag China on perennial issues like its undervalued currency or the need to increase domestic consumption and reduce its trade surplus. China will be in a better position to promote the issues it cares about, like a greater voice in the International Monetary Fund.

But China will face restraints in deploying its clout. For one thing, to do so would mean accepting more global responsibility. "They'll keep trying to free-ride as much as possible to focus on their internal challenges," said David Schorr, a policy analyst at the Stanley Foundation, an organization in Muscatine, Iowa, that promotes international cooperation. "The U.S. will keep nudging them to shoulder more responsibilities as a rising power."

Despite its growth, China has serious internal problems, including credit and housing bubbles in some regions, overindebted local governments and rising wages that make it harder to compete with nations like Indonesia or Vietnam.

"They come across as cocky sometimes," said Mr. Dadush, of the Carnegie Institute. "But they are very aware they don't want to push their weight around. They have their own issues to deal with."

There are few expectations for any serious breakthroughs. But investors in markets will be watching the sessions in Cannes closely, anyway, putting leaders under pressure to offer a stronger response to the European debt crisis even though that issue is not formally on the agenda. German officials, who could not be quoted because of the sensitivity of the matter, insisted they would not use the summit meeting to beg China or other countries like Russia and China to contribute to the European rescue fund.

Klaus Regling, the chief executive of the European Financial Stability Facility, was in China and Japan this week trying to attract investors for the fund.

Many analysts are skeptical that the G-20 leaders, who will be together only a little over 24 hours, will be able to deliver anything more than a bland assurance that Europe will do whatever it takes to contain the crisis.

"I think we will get a disappointing comment from them on this," said Carl B. Weinberg, chief economist at High Frequency Economics in Valhalla, New York. "They have said over and over that the governments of Europe will do whatever has to be done."

China is unlikely to announce a major financial contribution to Europe, analysts said. But it is also unlikely to exploit Europe's weakness too much.

"China has a strong self-interest in preventing financial Armageddon in Europe," said Arvind Subramanian, a senior fellow at the Peterson Institute for International Economics in Washington and author of the book, "Eclipse: Living in the Shadow of China's Economic Dominance."

"The closer Europe goes to the brink, the more power China has," Mr. Subramanian said. "But it's an interconnected world."

Steven Erlanger reported from Cannes.