

Political turmoil
in the eurozone93
Enter the technocrats

As Italy becomes the latest and biggest country to find its sovereign debt in the danger zone, elected leaders are being forced to give way to crisis managers. But can stability be restored without a popular mandate?

By Tony Barber

Europe's debt crisis has been compared more than once to an earthquake - but never in such dramatic terms as the headline that appeared on Thursday on the website of *Il Sole 24 Ore*, the voice of Italian big business: *Fate presto* - "Act fast".

The same words were used 31 years ago by *Il Mattino di Napoli*, a Naples newspaper, when it urged Rome to stop dithering after an earthquake killed almost 3,000 and left another 300,000 homeless. Their reappearance was a sign that the euro emergency had wreaked a deeper shock than ever. World leaders and financial markets went on to red alert, and by the end of the week two democratically elected leaders - Greece's George Papandreou and Italy's Silvio Berlusconi - found themselves being eased out of office at Europe's behest and replaced by unelected technocrats.

Like a life-threatening disease, trouble spread this week from the eurozone's fingers and toes into its beating heart. The nation in peril was no longer a small, outlying state such as Cyprus, Greece, Ireland or Portugal, but Italy - the world's eighth largest economy, a founder member of the European Union and a country so deeply in debt that the funds required to save it would be far beyond anything yet amassed by Europe's crisis managers.

"It's hard to see that Europe would have the resources to take a country the size of Italy into the bail-out programme," observed Jyrki Katainen, Finland's prime minister.

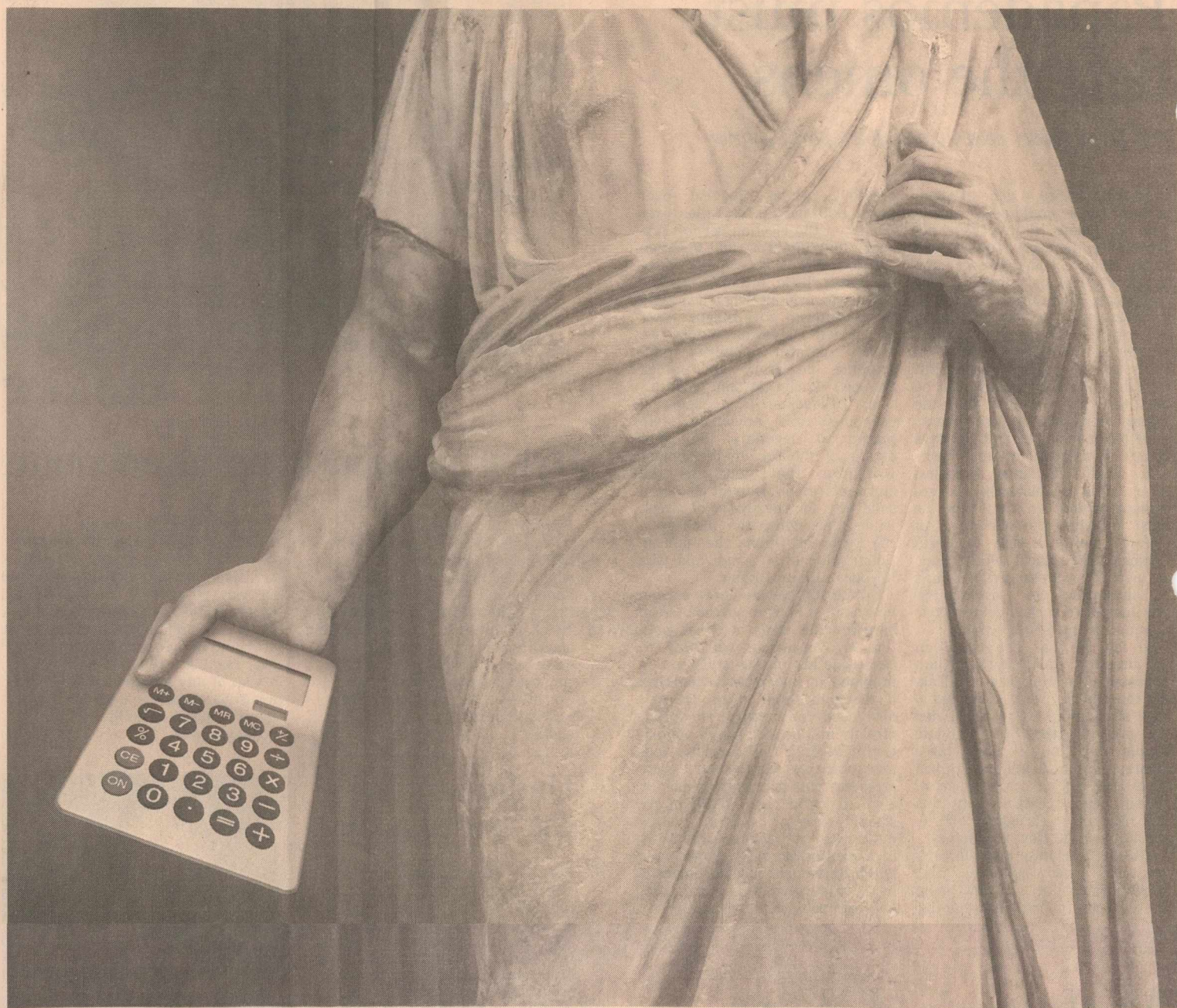
According to private sector economists, Europe - with or without the help of other governments and the International Monetary Fund - would have to supply up to €650bn (\$895bn) in order to spare Italy the need to access sovereign debt markets over the next three years. Another €50bn might be required to support its banks. The sums are so colossal that Europe is finally confronted with a question to which it has seemed never to want to give a precise answer. When they say they will do whatever it takes to save the euro, what will Europe's leaders actually do?

One first stab at an answer - get China to make a contribution from its \$3,200bn foreign exchange reserves - is apparently going nowhere fast. Jin Lihou, supervisory board chairman of China Investment Corporation, a sovereign wealth fund with \$410bn in assets under management, bluntly told Al Jazeera television: "If you look at the troubles which have happened in European societies, this is purely because of the accumulated troubles of the worn-out welfare society. The labour laws induce sloth and indolence rather than hard work."

Another response involves the surgical removal of elected leaders in Greece and Italy and their replacement with technocratic experts, trusted within the EU to pass economic reforms deemed appropriate by policymakers in Berlin, the bloc's top paymaster, and at EU headquarters in Brussels. Europe this week prised open the lid of the dustbin of history to accommodate Mr Papandreou, Greece's Socialist prime minister since October 2009, and Mr Berlusconi, the billionaire who has dominated Italian politics since 1994.

The sidelining of elected politicians in the continent that exported democracy to the world was, in its way, as momentous a development as this week's debt market turmoil. In effect, eurozone policymakers have decided to suspend politics as normal in two countries because they judge it to be a mortal threat to Europe's monetary union. They have ruled that European unity, a project more than 50 years in the making, is of such overriding importance that politicians accountable to the people must give way to unelected experts who can keep the show on the road.

If so far there is little public outrage in Athens and Rome, it is surely



FT montage Photos: Alamy, Dreamstime

because millions of Greeks and Italians hold their political classes in such contempt. In Italy, people recall that a technocratic government formed in 1993 by Carlo Azeglio Ciampi, a former Bank of Italy governor, did a good job of extracting the nation from economic crisis. But in Greece there may well be street unrest next Thursday when anarchists and other radicals demonstrate on the 38th anniversary of the day when the then military junta crushed a student sit-in at Athens Polytechnic.

Mr Papandreou's fate was sealed on October 31 when he announced a referendum on Greece's European future, only to abandon the idea three days later. An outraged Angela Merkel, Germany's chancellor, and Nicolas Sarkozy, French president, threatened for the first time to let Greece drop out of the eurozone. They also pressed for a government of national unity that would unhesitatingly approve the austerity measures and structural reforms attached to a €130bn international rescue plan set up for the country last month.

This government is to be led by Lucas Papademos, a former European Central Bank vice-president, until a national election pencilled in for February 19. He will therefore lead a 100-day administration that few imagine will emulate the feats of Franklin Roosevelt in his famous first 100 days as US president in 1933.

Mr Papademos is a soft-spoken, thoughtful individual but some bankers in Athens fear that he is neither a seasoned bruiser capable of imposing his will on Greek politicians nor a public presence commanding enough to extract more sacrifices from the hard-pressed masses. Betraying his central banker's background, Mr

Papademos accepted his nomination with the less than inspirational words: "I am confident that the country's participation in the eurozone is a guarantee of monetary stability."

On a parallel track with Mr Papademos's ascent to power was the emergence in Rome of Mario Monti, a former European commissioner, as the likely successor to Mr Berlusconi.

A clutch of rebellious centre-right legislators caused Italy's prime minister to lose his parliamentary majority on Tuesday in a vote that prompted him to scribble on his notepad: "Eight traitors." One day later, Giorgio Napolitano, Italy's president, made Mr Monti a senator for life in a step that grants him a parliamentary seat and potential platform to serve as premier.

Mr Monti is revered in Brussels as one of the most effective commissioners for competition and the internal market that the EU has known. But the task facing the next Rome government will be more daunting than anything Italy has experienced since the collapse of fascism in 1945. "We need a strong national unity government for one to one and a half years to do what the politicians haven't had the courage to do," says a prominent Italian banker.

Interest rates on 10-year Italian government debt soared on Wednesday to almost 7.5 per cent, a level regarded as unsustainable in the long term. Even more ominous was the appearance of a phenomenon known in bond markets as an inverted yield curve.

In normal times the yield, or interest rate, on long-term debt is higher than that on short-term paper, reflecting the bigger risk of holding a bond over a long period of time. If a coun-

try's yield curve inverts, it implies that markets expect it to suffer a severe financial crisis in the near future. This is what happened over the past 18 months to Greece, Ireland and Portugal, each of which now languishes in Europe's financial intensive care unit, and this week it happened to Italy.

For months, meanwhile, the French government has made the struggle to retain its triple A rating a centrepiece of its anti-crisis strategy, not to mention Mr Sarkozy's bid for re-election next year. This explains why François Fillon, prime minister, on Monday unveiled another €7bn in budget cuts for 2012, on top of €11bn announced in August.

Paris was furious on Thursday when an alert appeared on the website of Standard & Poor's, the rating agency, suggesting it had downgraded France. S&P called it a mistake. But in a sign that France's top-notch rating is indeed under strain, the premium investors demand to hold French rather than German debt stood on Friday at 167 basis points, up from just 40 basis points in June.

Small wonder that Tim Geithner, the US Treasury secretary, concluded an Asia-Pacific economic conference in Honolulu this week with a plea to European policymakers on the other side of the globe - whom ever they might these days be. "The crisis in Europe remains the central challenge to global growth. It is crucial that Europe move quickly to put in place a strong plan to restore financial stability," he said.

It is not the first time that US leaders have delivered such an appeal. But this week it sounded more urgent than ever.

'We need a strong government of national unity to do what the politicians haven't had the courage to do'

Read

European burden With debt markets in Italy needs an estimated €500bn to survive the next three years, banks perhaps another €50bn

Out of office In effect, eurozone policymakers have ruled that European politicians of such importance that they are accountable to the people must give way to unelected experts who can keep the show on the road

Key for Paris The premium that investors now demand to hold triple A French rather than German debt is 167 basis points - up from just 40 basis points in June

On the web

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Obituary

The haute bohémienne with an innate approach to fashion

Loulou de la Falaise
Designer, jewellery designer and muse to Yves Saint Laurent since 1961

She simply had natural talent. Loulou de la Falaise recalled this week how she met Loulou de la Falaise one day in the 1970s when London was swinging so long ago and she was just out in fashion," she said. "I will vividly remember this young woman dressed a bit like a model. She simply had natural

talent. Loulou de la Falaise - better known as the muse of the designer Yves Saint Laurent last Saturday aged 63 in Boury-en-Vexin, a small town in Normandy - characteristically did not speak or fuss. She was always a bundle of energy and intuition. Her intuition helped inspire some of his

most revolutionary creations, such as the black tuxedo for women - "Le Smoking" as the French call it.

She was far more than a muse for the couturier, however. She said so herself. "A muse is someone who looks glamorous but is quite passive... and I certainly wasn't passive." Pierre Bergé, Yves Saint Laurent's business partner, also put it aptly in the newspaper *Le Monde* this week. She was for Yves Saint Laurent what Mitzah Bricard - also immensely captivating and chic - was for Christian Dior, becoming Dior's muse, adviser and collaborator.

Loulou was different because she was a born rebel. She developed her own vision of life - what Mr Bergé calls "an art de vivre at the same time exquisite, poetic and of great originality". In short, this daughter of an Anglo-Irish fashion model and a French aristocrat was a great eccentric who lived a most eccentric life. Her mother modelled for Elsa Schiaparelli and legend has it that she was baptised not with holy water but with "Shocking", Schiaparelli's famous perfume.



Legend has it that she was baptised not with holy water but with Schiaparelli's famous perfume, 'Shocking'

She was born in Sussex in May 1948, and Cecil Beaton, the society photographer, described her as "the only English woman I know who manages to be really chic in hideous clothes".

In Paris, when she first met Saint Laurent in the late 1960s, she was wearing tunics and bandannas around her hair while most other Parisian girls still wore pleated skirts below the knee. The New Yorker called her "the quintessential Rive Gauche haute bohémienne". Indeed, she helped Saint Laurent develop his Rive Gauche prêt-à-porter business, gave him the idea of dressing women in see-through blouses and later developed her own line of chunky, avant-garde jewellery and accessories.

Her upbringing was also eccentric and her relatives make up an interesting portrait gallery. Her maternal grandfather was the painter Sir Oswald Birley. One of her uncles was the late Mark Birley, who founded Annabel's, the London night spot. Another uncle, on her French side, was the third husband of Gloria Swanson, the Hollywood diva.

Another was a French Olympic gold medalist in fencing.

Her parents divorced un-amicably when she was two. A French court considered her mother Maxime de la Falaise's behaviour and extramarital affairs so unsuitable that she and her brother Alexis were placed in foster care. She went to boarding schools in England and Switzerland and then the French Lycée in New York. She was expelled from all these establishments as a result of her pranks and rebellious nature.

Bored in New York, she moved to London when she was 18, went to work for society magazine *Queen* and married an Irish aristocrat and art historian, Desmond FitzGerald, Knight of Glin. She went to live in his castle in Limerick, separated a year later and then divorced. In 1977, she married again. This time, the marriage, to Thadée Klossowski de Rola, a writer and the younger son of the painter Balthus, was joyful and lasting. She wore a harem and turban ensemble from Yves Saint Laurent at the wedding and the couple had a daughter, Anna.

But it was the meeting of minds with Saint Laurent that changed her life and allowed her creative talents to thrive. She became omnipresent at his couture and prêt-à-porter houses and you always catch a glimpse of her in photographs of the great couturier - in the shadow of her master but with her radiant allure.

She also used to say that the important thing in life was to keep inventing yourself. So when Saint Laurent decided in 2002 to retire, she launched her own line of jewellery and collaborated with many other fashion designers, including creating costume jewellery for Oscar de la Renta.

According to *Women's Wear Daily*, the so-called bible of fashion, Loulou de la Falaise was diagnosed with cancer last June "but implored intimates to keep her health a private matter". To the very end, she embodied a joie de vivre, a creative talent that was both sophisticated and frivolous and that rarest of all qualities: natural chic.

Paul Betts

