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# Hope fades for quick remedy to bank crisis

NICOSIA

## Proposal to funnel aid directly to E.U. lenders meets firm opposition

BY JAMES KANTER

Beleaguered countries like Spain have been counting on a quick and neat way to fix their banks without taking on more crippling debt.

But a weekend meeting here of E.U. finance ministers that was meant to lay the groundwork for that plan revealed

*NEWS ANALYSIS*

the continued difficulty of reaching consensus among the 27 member states — even on measures to which they have already agreed in principle.

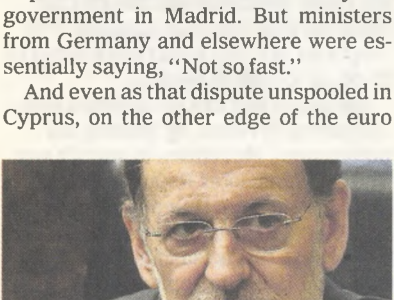
The disagreements also left open a pressing question: How long can Spain afford to go it alone without outside financial assistance?

Spanish banks need tens of billions of euros that Madrid cannot afford to lend. And many economists and analysts say that it is only a matter of time before Spain's debt-plagued central government itself may need a helping hand.

It was on the banking front where the euro zone's discord was most evident over the weekend.

The Spanish finance minister, with French and Italian backing, called for a quick timetable on measures that would allow a bank rescue program for Spain to proceed under terms favored by the government in Madrid. But ministers from Germany and elsewhere were essentially saying, "Not so fast."

And even as that dispute unspooled in Cyprus, on the other edge of the euro



ANDREA COMAS/REUTERS

**Prime Minister Mariano Rajoy of Spain is trying to deal with a deep recession.**

zone tens of thousands of demonstrators in Spain and Portugal continued to march in the streets over the weekend. They were protesting government-imposed austerity measures that had taken a toll on the economies of both countries.

In Portugal, the government is struggling to narrow its deficit to meet the terms of its international bailout. In Spain, Prime Minister Mariano Rajoy is trying to cope with his country's mounting debt problems and recession-racked economy.

Time would seem not to be on his side — despite the assessment in Nicosia of Austria's finance minister, Maria Fekter, that "Europe is stabilized."

Although the European Central

*EURO, PAGE 19*

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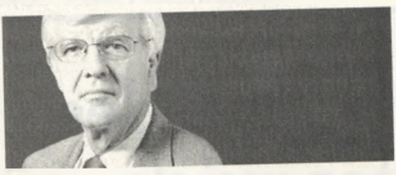
# PAGE TWO

# A tax plan that doesn't quite add up



**Albert R. Hunt**

LETTER FROM WASHINGTON

In U.S. national politics, Republicans flourish when the focus is on tax cuts; they suffer when Medicare is the focus. It looks like it'll be different this year.

Mitt Romney has proposed huge tax cuts that principally benefit the wealthy, while refusing to say how he would pay for them by closing unspecified loopholes. This lacks credibility and may become one of the rare tax-cut promises that is a political loser.

On Medicare, Mr. Romney and his running mate, Representative Paul D. Ryan, have put forth a plan that ultimately would turn the U.S. health insurance program for the elderly into a premium support, or voucher, program. Democrats are winning on this issue in Florida and elsewhere.

> **"You can't get enough base-broadening to finance his rate reductions."**

There are two reasons this is no longer the third rail for Republicans. One, a counterattack charging, speciously, that President Barack Obama's health care program cuts benefits for Medicare recipients. The other is a general recognition that changes need to be made in the program and whatever the problems with the Romney-Ryan proposals, the president has ducked the issue.

On taxes, it's Mr. Romney who's ducking. He has proposed a tax cut of more than $4 trillion over 10 years, an across-the-board 20 percent reduction in individual income tax rates and the elimination of the estate tax, the alternative minimum tax and taxes on capital gains, dividends and interest for those earning less than $200,000. The corporate tax rate would come down to 25 percent from 35 percent.

He insists this can be achieved without raising revenue, by limiting tax preferences. He refuses to specify any. The candidate cites Republican experts like the Princeton University economist Harvey Rosen. However, Mr. Rosen says this is feasible if Mr. Romney eliminates the popular tax deductions for items like home mortgages and charitable contributions for those making more than $100,000 a year.

That's a nonstarter for many Republicans, even with the trade-off of lower rates.

Thus, most tax experts say the Romney plan is a mirage.

"You can't get enough base-broadening to finance his rate reductions," says Michael Graetz, a Columbia Law

## IN OUR PAGES * 100, 75, 50 YEA

**1912 Munsey Buys N.Y. 'Press'**

NEW YORK It is reported that Mr. Frank A. Munsey has purchased the New York "Press," which will henceforth support the Third-Term Candidate for the Presidency. Until the purchase of the "Press" by Mr. Munsey, the only newspaper in New York that supported Mr. Roosevelt's candidacy was the "Evening Mail," though the "Globe" has been accused of leaning toward the "Bull Moose" party. Mr. Munsey has been identified with Mr. Roosevelt's cam-

# Hope fades for quick action to bolster ailing E.U. banks

*EURO, FROM PAGE 1*

Bank's recent announcement of a program for buying troubled countries' government bonds brought some calm to the euro zone, it was an even more recent European policy announcement that was the subject of discord among the finance ministers meeting in Nicosia.

That was the proposal last Wednesday from the European Commission to create a single regulator, working under the E.C.B., to oversee the euro zone's 6,000 banks. The commission proposed setting this process in motion by the beginning of next year and having the new system fully in place by January 2014.

The terms under which Spain hopes its bank rescue can proceed depend on quick adoption of the plan to create a central euro zone banking authority. The euro zone's bailout funds — the European Financial Stability Facility and its successor, the European Stability Mechanism — are not currently allowed to lend money directly to banks — but could do so under the new bank supervisory system.

"We need to stick to the timetable," Spain's economy minister, Luis de Guindos, insisted on Saturday to reporters in Nicosia. "The objective for now has to be ambitious."

Seconding that sentiment was the French finance minister, Pierre Moscovici. "We can't waste time," he told reporters.

But Wolfgang Schäuble, the German finance minister, said at a news conference on Saturday that the commission's timetable "will not be possible."

Mr. Schäuble said the plan as currently drafted had created unrealistic expectations for how rapidly such a big change could be implemented across the euro zone. German state governments also are balking at giving the E.C.B. oversight of their sparkassen — the hundreds of small and midsize sav-


PATRICIA DE MELO MOREIRA/AGENCE FRANCE-PRESSE

**Demonstrators protesting new austerity measures at the Portuguese Parliament in Lisbon. The government is trying to narrow its deficit to meet the terms of an international bailout.**

ings banks that do much of the lending to consumers and small businesses.

The dispute is critical to Spain because, in June, euro zone finance ministers agreed to muster as much as €100 billion, or $130 billion, in emergency loans for the country's ailing banking industry.

The country's real estate bust has left many of Spain's banks with too many bad loans and not enough of a financial cushion against further losses. That, in turn, has imperiled big portions of the financial system, as the country struggles with mounting debt, a double-dip recession and 25 percent unemployment.

But Mr. Rajoy has been reluctant to add to Madrid's debt problems by having the government accept the European bank bailout money and guaranteeing to pay it back. Instead, he wants the money to be loaned directly to the banks.

However, those direct infusions to Spanish banks cannot happen until the new euro zone banking supervisory system is in place.

Just as pressing an issue for Mr. Rajoy is whether and when he might seek assistance from the E.C.B.'s government bond-buying plan that the central bank's president, Mario Draghi, announced Sept. 6.

For now, investor awareness that the E.C.B. stands ready to buy up bonds to reduce beleaguered governments' borrowing costs has taken pressure off Spain and Italy and significantly reduced tension in European and world markets.

In fact, that respite is a big reason why some finance ministers at the meeting in Cyprus said there was no reason to rush to give the E.C.B. yet more power under the bank supervisor proposal.

The E.C.B.'s bond-buying pledge has taken "the catastrophic risk off the table," Jacek Rostowski, the Polish minister of finance said in an interview outside the meeting on Saturday.

The benefits of the market calm for Spain could prove short-lived, though, if Mr. Rajoy is not able to demonstrate he is in control of his country's economic problems. And yet he has his own political reasons for not quickly seizing the E.C.B.'s offer.

E.C.B. intervention in the Spanish bond market could come with conditions from international lenders that Spaniards are unlikely to welcome. The anti-austerity protests that continued over the weekend are a stark reminder to Mr. Rajoy of the political cost of accepting the tough terms that often accompany outside assistance.

Mr. Rajoy "is taking his cue from the markets and sees a window of opportunity to get as much debt out the door as possible at what are still relatively favorable yields for Spain," said Nicholas Spiro, a government bond expert based in London.

Mr. Rajoy is "likely to keep playing for time, partly as a negotiating tactic" to put pressure on European lenders to water down any conditions of a E.C.B.-backed bond-buying program for Spain, Mr. Spiro said.

For now, Mr. Spiro expects investors to keep buying Spain's bonds — if for no other reason than to avoid missing the next leg of the market rally if Mr. Rajoy does eventually decide to ask for help, and E.C.B. bond buying ensues.

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*Jack Ewing contributed reporting from Frankfurt, Raphael Minder from Madrid and Landon Thomas Jr. from London.*