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In search of a euro truce

77

PETROS GIANNAKOURIS/THE ASSOCIATED PRESS

Charm offensive Antonis Samaras, left, the Greek prime minister, with Jean-Claude Juncker, the president of the forum for euro zone finance ministers, in Athens, where they met Wednesday about the debt crisis. "All that we want is a little breathing room to get the economy going and increase revenue," Mr. Samaras told a German newspaper.

Hints of a thaw as Greek leader courts Germany

BERLIN

BY MELISSA EDDY AND JACK EWING

Bild, Germany's most-read newspaper, has accused Greece of "making our euro kaput" and only a few days ago referred to the country as "a bottomless pit."

On Wednesday, though, the paper featured a friendly chat with the man in charge of that bottomless pit: Antonis Samaras, the Greek prime minister, who pleaded during an interview for more time to repair his country's shattered economy. The Bild reporter even inquired how Mr. Samaras was feeling after an eye operation.

Coming from a newspaper known for a keen understanding of what its 2.8 million readers want to hear, the shift in tone could be significant. It coincides with signals from members of Chancellor Angela

THOMAS PETER/REUTERS

Chancellor Angela Merkel is scheduled to meet Friday with the Greek leader.

Merkel's inner circle this week that, within limits, Germany may no longer be so insistent that Greece stick to existing agreements on its finances.

"All that we want is a little breathing room to get the economy going and increase revenue," Mr. Samaras told Bild, two days before his first trip to Berlin as head of government. "More time does not automatically mean more money."

Some top officials in Ms. Merkel's governing coalition continue to insist that Greece stick to agreements it has made to rein in its government finances. But others, including Guido Westerwelle, the foreign minister, and Michael Meister, the deputy leader of Ms. Merkel's Christian Democratic party in Parliament, have indicated a willingness to extend the schedule for meeting the terms that international creditors imposed on Greece.

"It is essential that the government in Athens presents a credible plan to implement the measures," Mr. Meister told the newspaper Handelsblatt on Wednesday. But if the government did, Mr. Meister said, "maximum flexibility" was possible.

EURO ZONE, PAGE 14

ECONOMY IN CRISIS

The unemployment rate has more than tripled in Greece since early 2008, to over 23 percent.

Source:

U.S. needs fair rationing of health care

Economic Scene

EDUARDO PORTER

NEW YORK Older adults in the United States are understandably anxious about the political sniping over the future financing of Medicare, the government health care program largely for the elderly. That is precisely the intention of the presidential campaigns.

Yet the cross-fire over who will cut Medicare by how much sidesteps a critical issue about the future of American medical care: If the United States must ration its care to hold down costs in the future, how can it do so in a fair, efficient and transparent way?

The campaign of Mitt Romney, the presumptive Republican presidential candidate, was brazenly misleading in its charge that President Barack Obama's health plan would cut medical services to older adults by reducing Medicare spending by $716 billion. Mr. Obama's savings will come mostly from smaller payments to managed care companies, which provide the same services as Medicare at a higher cost, and from slower growth in reimbursement rates to health care providers.

Rationing is inevitable in a world with finite resources. The United States already does it, too.

But the response of Mr. Obama's campaign also aimed to stoke voters' fears. It emphasized — rightly — that the plan to curb Medicare costs proposed last year by Representative Paul D. Ryan of Wisconsin, Mr. Romney's vice-presidential running mate, would increase older Americans' out-of-pocket expenditures by thousands of dollars. Yet it ignored Mr. Ryan's recent efforts to soften the plan.

Both campaigns claim they are out to protect future health care. Yet the sniping hides the real issue. Protecting U.S. government health programs over the long term, as the American population ages and medical costs keep rising faster than economic growth, will require curbing the programs' spending. Americans have not quite figured out how to do that.

The U.S. government's spending on health care consumes 4.8 percent of the country's economic production and is expected to eat up 9.2 percent in 25 years, according to estimates from the Congressional Budget Office. Most economists agree that restoring a sustainable budget will mean either cuts in Medicare and Medicaid — a social program for poor people — or a tax increase on the middle class.

Decisions will have to be made about which services are not worth the cost. Yet so far, American political leaders have failed to acknowledge this to voters, offering instead an illusion that the United States can resolve the matter without any pain.

Consider the political firestorm in 2009 when the Preventive Services Task Force recommended that women start regular screening for breast cancer at age 50 rather than 40. "This is how rationing begins," said Representative Marsha Blackburn, a Tennessee Republican. "This is when you start getting a bureaucrat between you and your physician."

The task force is an independent panel of experts financed by the Department of Health and Human Services. Doctors and private insurers usually follow its recommendations. Still, in 2010 — after Mr. Obama's health care legislation passed Congress — the department said insurers should ignore its latest findings and instead go back to its recommendation from 2002: that women start screening at 40.

Does it make sense that older Americans in their last year of life consume more than a quarter of Medicare's expenditures, costing more than six times as much as other beneficiaries? Are there limits to what Medicare should spend on a therapy prolonging someone's life by a month or two?

It is a tough political call. In light of the difficulties, American political leaders have preferred to pass on the issue, hoping that it does not have to be decided on their watch. Instead, when they talk about health care, they call rationing by some other name.

Rationing is inevitable in a world with finite resources. The United States does it, too, and it still has one of the least fair and most inefficient rationing systems in the world. Americans get health care if they have the money to pay for it; if not, they probably will not get it.

The wealthiest 30 percent of the U.S. population accounts for nearly 89 percent of health care expenditures, according to a government study. Tens of millions of Americans — those whose employers do not provide health insurance and who are too poor to pay for it themselves and yet are too rich to use Medicaid — get the least health care of all.

A study of hospital emergency rooms in Wisconsin found that victims of severe traffic accidents without health insurance got 20 percent less care. Hospitals spent $3,300 more on average for each victim who was insured. They kept the insured 9.2 days, on average, and the uninsured just 6.4 days. Unsurprisingly, the uninsured were 40 percent more likely to die from their injuries.

Every health care proposal from the right and the left includes some form of implicit rationing device. Mr. Ryan's plan, on the Republican side, would keep spending on Medicare to less than 4.75 percent of the U.S. gross domestic product until 2050 by giving adults born after 1958 a dollop of money to buy their own insurance, which would require many to choose cheaper plans or fewer procedures.

Mr. Obama's health care overhauls encourages rationing, too, by levying a tax on "Cadillac" insurance plans, and in turn pushing employers to seek less expensive options and lower costs. It creates an advisory board to cut costs from Medicare if spending rises above a set rate. And it finances an institute to evaluate which therapies are most clinically effective. Careful to avoid political blowback, the president's plan forbids Medicare from basing its reimbursement decisions on the institute's findings.

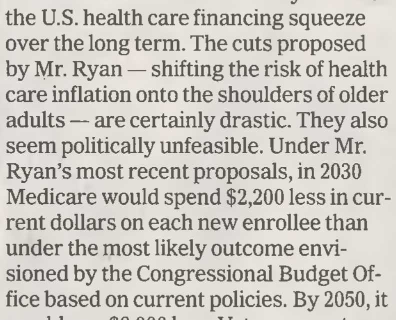
But neither initiative is likely to solve the U.S. health care financing squeeze over the long term. The cuts proposed by Mr. Ryan — shifting the risk of health care inflation onto the shoulders of older adults — are certainly drastic. They also seem politically unfeasible. Under Mr. Ryan's most recent proposals, in 2030 Medicare would spend $2,200 less in current dollars on each new enrollee than under the most likely outcome envisioned by the Congressional Budget Office based on current policies. By 2050, it would pay $8,000 less. Voters seem to think that might be too drastic a cut.

Mr. Obama's plan was more about offering health insurance to all, to end the Dickensian system of rationing by income, than about long-term cost control. Savings mandated by the Affordable Care Act over the next 10 years will be difficult to maintain beyond that.

It puts a lot of faith in eliminating waste, with potentially large savings. David Cutler, a health economist at Harvard, says that a third of American health care dollars go to therapies that do not improve people's health. A lot of that waste could be slashed simply by no longer paying providers a fee for each service, whether patients need it or not, and paying them instead to keep people healthy.

Going after waste seems sensible in a health care system that costs more than almost any other in the developed world, yet delivers lower-quality care. But savings from waste tend to be hard to achieve. Even with the Affordable Care Act in place, U.S. government health spending will eat up almost twice as much of the U.S. economic product in 2037 as it does today, according to the budget office.

While it is reasonable for politicians to shy away from rationing — especially when voters believe no expense should be spared to save a human life — if the experience of other countries serves as precedent, they will probably get there sooner or later. In Britain, the National Institute for Health and Clinical Excellence determines which therapies will be covered by the National Health Service. It generally recommends against paying for a therapy that costs more than $47,000 for each year of life gained, adjusted for quality.



MIKE BLAKE/REUTERS

The U.S. presidential campaign is raising fears among the elderly about health care.

Putting a value on life, as it were, is controversial. The institute has denied or limited coverage of expensive drugs for ailments like pancreatic cancer, macular degeneration and Alzheimer's. But in a world of limited budgets, such decisions must be made.

Similar systems exist in many countries, including New Zealand, where the government decided not to pay for a universal vaccine against pneumococcal disease until its price fell to 25,000 New Zealand dollars, or about $20,000, per quality-adjusted life year.

Though this concept may sound foreign to Americans, Washington has been putting a price on life since the administration of President Ronald Reagan — who determined that regulations should pass through a strict cost-benefit analysis, with values placed on factors like life and health. The U.S. Environmental Protection Agency values a life at about $9 million. In 2009, the Transportation Department used a price tag of about $6 million. If safety improvements on a road were projected to cost more than the value of the lives expected to be saved by the improvement, the project would be deemed too expensive.

This approach has been contentious. And it has had an effect on Americans' health. In 1991, an appeals court reversed the E.P.A.'s decision to ban asbestos on the ground that it was too costly. The E.P.A., it argued, "would have this court believe that Congress, when it enacted its requirement that the E.P.A. consider the economic impacts of its regulations, thought that spending $200 million to $300 million to save approximately seven lives (approximately $30 million to $40 million per life) over 13 years is reasonable." The court disagreed.

Medicare could well be required, one day, to make similar evaluations.

ANGELOS TZORTZINIS/BLOOMBERG NEWS

Shoppers in Athens. There seems to be a growing realization in Germany that the austerity measures demanded by international creditors have already pushed Greece to the limit.

Hints of a thaw as Greece courts Merkel

EURO ZONE, FROM PAGE 1

The debate about Greece has intensified before a report to be issued next month on the country's progress in attaining its fiscal goals. Officials have been hinting that parts of the report from the troika of international lenders — the International Monetary Fund, the European Commission and the European Central Bank — may be more positive than expected. But the debate is also pressuring euro zone leaders to acknowledge that the austerity program imposed on Greece by the troika has taken such a toll on living standards that it has become counterproductive.

Some members of Ms. Merkel's government, including the finance minister, Wolfgang Schäuble, have continued to talk tough on Greece. Volker Kauder, head of the Christian Democrats in Parliament, said repeatedly this week that lawmakers were in no mood to grant concessions to Athens.

"The agreements stand," Mr. Kauder said in remarks to the Passauer Neue Presse newspaper on Wednesday. "Only when agreements in Europe can be upheld, can we rebuild trust."

The seemingly conflicting positions taken by key figures in the chancellor's party may be designed to prepare the German public for a shift in policy. Hardliners like Mr. Kauder are trying to remind the Greek public that Berlin remains steadfast in its demand for a major overhaul of the economy. The more conciliatory statements are designed to bring Germans around to the idea that granting Greece more time to meet its goals is essential to saving the euro and so, ultimately, is in their best interest.

Ms. Merkel, who usually likes to keep her options open, has not made her position clear. But Christian Schulz, an economist with Berenberg Bank, wrote in a research note that Germany and Greece were moving toward a compromise that might include earlier disbursement of aid payments.

"Minor policy makers may be clamoring for Greece's scalp," Mr. Schulz wrote, "but no actual leader seems to want to go down in history for throwing Greece out and potentially triggering grave chaos."

Matthias Schäfer, a political analyst with the Konrad Adenauer Foundation in Berlin, an institution close to the Christian Democrats, has a similar view.

"There is a lot being communicated to the public, with a view to the idea of building up certain positions so as not to appear to be caving in too quickly," he said.

For all their differences, Ms. Merkel and Mr. Samaras have a similar problem. Both are trying to reconcile the expectations of their voters with the choices they know they must make to preserve the euro and prevent Greece from leaving, a move that could lead to even greater instability.

Mr. Samaras, leading a fragile, two-month-old coalition government, must be able to show the Greek people that their sacrifices have been worthwhile and that their lives will improve at some point, said Jürgen Matthes, an economist at the Cologne Institute for Economic Research. "If he's able to tell such a narrative, then things could change," Mr. Matthes said. "People need to be able to see the light at the end of the tunnel."

Ms. Merkel enjoys widespread popularity among voters, but still faces a tough job persuading them to accept that giving Mr. Samaras more time to preserve the integrity of the euro zone is in their best interest. "It is not just about economic questions, but a deeply political question, namely, the future of Europe as a whole," Ms. Merkel said Wednesday during a visit to Chisinau, the capital of Moldova.

The Greek foreign minister, Dimitris L. Avramopoulos, who visited Berlin on Monday, pointed out that two million Germans took their vacations in Greece this summer. He called them the "best ambassadors" for his country. But there are many Germans who would be just as happy for Greece to leave the euro.

Mr. Samaras's most recent efforts to cut government spending were recognized by the online edition of the newsmagazine Der Spiegel on Wednesday under the headline: "Europe's Biggest Saver." In a nation of savers, that is high praise. But the article set off a flurry of angry comments. "Germany must remain hard!!" read one. "The reality looks different," said another. Wrote one reader, "The headline should read: 'Europe's Biggest Liar.'"

Nevertheless, there seems to be a growing realization in Germany that the government austerity measures dictated by the troika have already pushed the country to the limit, and that further cuts would slow the economy further, reducing tax revenue and making Greece's debt problems even worse. Social pressures, including the rise of extremist groups, would also continue to build.

While the Greek government is often criticized for procrastinating on plans to sell state-owned assets and reduce the size of the public work force, it has managed to cut spending about 20 percent. In the United States, that would be the equivalent of more than $1 trillion in budget cuts.

"I can only imagine the debate if we had those kinds of cuts," Mr. Matthes of the Cologne Institute said.

Adam S. Posen, a U.S. economist who is an external member of the Monetary Policy Committee of the Bank of England, said Wednesday that Germany would be undermining its own economy if it allowed the euro zone to fall apart.

"That would be a very ill-advised move," Mr. Posen said on BBC television. "Germany's currency would shoot through the roof. Germany's trade relations would be disrupted. Germany's banks would then be on the bailout list instead of poor people in other countries."

Mr. Samaras's visit to Berlin on Friday is one of a series of meetings Greek officials have scheduled this week to press their case.

Mr. Samaras and his finance minister, Yannis Stournaras, met Wednesday in Athens with Jean-Claude Juncker, the president of the Eurogroup of euro zone finance ministers, to discuss the crisis.

On Saturday morning, the Greek prime minister will head to Paris for talks with President François Hollande, who has been softer in his approach to Greece than the chancellor.

The leaders are not expected to reach any concrete agreements until after the troika completes its assessment of Greece's progress next month. But they could provide an indication this week of where policy is headed.

In the Bild interview, Mr. Samaras insisted that Greece was doing everything possible to resolve its problems.

"All of our partners should know: We Greeks are really making an effort and I am confident that we will make it," he told Bild. "I am equally confident that our European partners are on our side and Greece's success will make Europe stronger."

Jack Ewing reported from Frankfurt. David Jolly contributed reporting from Paris.

Fed is seen ready to act to stimulate economy

FEDERAL RESERVE, FROM PAGE 1

The central bank said the recovery seemed to have lost steam in the first half of 2012, forecasting growth to "remain moderate over coming quarters and then to pick up very gradually" and the unemployment rate to fall "only slowly."

The unemployment rate is stuck above 8 percent, and the spring and summer have seen a steady stream of weak economic data in manufacturing, consumer sentiment and industrial production, among other indicators, though there have been new signs of life in the housing market.

The persistent headwinds identified by the Fed and other economic analysts include high unemployment, a still-depressed housing sector and financial market strain emanating from the sovereign debt crisis in Europe.

In June, the Fed cut its official forecasts for growth both this year and next. It said it expected the U.S. economy to expand 1.9 percent to 2.4 percent in 2012, down from the forecast of 2.4 percent to 2.9 percent it made in April. In 2013, it anticipated growth of 2.2 percent to 2.8 percent, down from the 2.7 percent to 3.1 percent it forecast in April.

The Fed is already engaged in ambitious programs to support demand, bolster employment and support the wan recovery. It has cut its short-term interest rates to close to zero and held them there to encourage investment, and it has said it will continue to keep interest rates low at least through 2014. It is also engaged in a bond-buying program through the end of this year to bring down long-term interest rates.

But the latest economic weakening has raised investor speculation that the Fed might take yet more measures to support the economy.

Many market participants are betting on a huge new round of bond-buying by the central bank. It would be the Fed's third such program of quantitative easing.

But some Federal Reserve officials have expressed hesitancy about whether such measures would work. Those on the committee who are more concerned with the specter of rising inflation than that of a sluggish economy have also argued that the Fed should abstain.

Some economic figures have come in better than expected recently. Most important, there are signs of a nascent housing recovery, with home prices and sales volumes picking up and builders more confident in breaking ground. And although the unemployment rate did not fall in July, hiring picked up.

Another looming problem for the U.S. economy is the "fiscal cliff," as Ben S. Bernanke, the Fed chairman, has termed the tax increases and spending cuts due to hit on Jan. 1. On Wednesday, the Congressional Budget Office warned that if lawmakers did not delay them, their effect could throw the country back into recession.

"The most effective way that the Congress could help to support the economy right now would be to work to address the nation's fiscal challenges in a way that takes into account both the need for long-run sustainability and the fragility of the recovery," Mr. Bernanke told the Senate Banking Committee this summer. "Doing so earlier rather than later would help reduce uncertainty and boost household and business confidence."

But Congress, looking toward the presidential and congressional elections to be held in November, has taken no action.

U.S. Congress warned on risk of new recession

WASHINGTON

BY ROBERT PEAR

The Congressional Budget Office said Wednesday that the economic recovery would continue "at a modest pace" for the rest of the year, that the unemployment rate would remain above 8 percent and that the federal budget deficit would total $1.1 trillion.

The agency said, however, that if Congress took no action to stave off tax increases and automatic budget cuts scheduled to take effect on Jan. 1, the economy could fall into a recession, with total output shrinking and the jobless rate rising to about 9 percent in the second half of 2013. That analysis echoes that of many other private and government forecasts.

In its semiannual report, the budget office said the economy was somewhat weaker than it had projected in January. Fears about tax increases and spending cuts — the "fiscal tightening" — are depressing economic growth, it said.

"Economic output would be greater and unemployment lower in the next few years if some or all of the fiscal tightening scheduled under current law was removed," the report said.

The budget office estimates that federal spending will total $3.56 trillion in the current fiscal year, which ends on Sept. 30, while the government will collect $2.44 trillion in revenue. The projected deficit is equivalent to 7.3 percent of the economy.

In its new report, the budget office sees the economy shrinking at an annual rate of 2.9 percent in the first half of next year and growing at an annual rate of 1.9 percent in the second half.

In January, the budget office predicted that the economy would grow 0.5 percent in 2013. Now it predicts that the economy will contract 0.5 percent, partly as a result of the "sudden and sizable fiscal tightening" scheduled to occur under current law.

The budget office said that 2012 would be "the fourth year in a row with a deficit more than $1 trillion."

"Federal debt held by the public will reach 73 percent of gross domestic product by the end of this fiscal year — the highest level since 1950 and about twice the 36 percent of G.D.P. that it measured at the end of 2007, before the financial crisis and recent recession," said Douglas W. Elmendorf, the director of the budget office.