

Debt Aid Package for Europe Took Nudge From Washington

Пише: S.Erlanger, K.Bennhold and D.E. Sanger
четвртак, 13 мај 2010 08:00

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PARIS - [President Obama](#) had just flown into Hampton, Va., Sunday morning to deliver a commencement address. But before he donned his silky academic robes, he was on the phone with Chancellor [Angela Merkel](#) of [Germany](#), offering urgent advice — and some not so subtle prodding — that Europe needed to try something big.

Weeks of hesitant half-steps to address [Greece](#)'s debt problems had only worsened market worries about [the euro](#), and were threatening the still-fragile economic recoveries in the United States and Asia. Now, Mr. Obama told Mrs. Merkel that the Europeans needed an overwhelming financial rescue to end speculation that the euro — and European unity — could crumble.

“He was trying to convey that he knew these were politically difficult steps that the leaders there had to take, that he had gone through them as well,” said one senior administration official familiar with the conversation. “And that, from his experience, trying to get out ahead as much as possible was the right way to go.”

That call was part of what a senior [Treasury Department](#) official called “one long conversation” with European leaders, who over an extraordinary weekend of late nights and early mornings overcame German resistance and agreed to a wholesale expansion of the bloc’s political and financial mission. Bending the rules, they backed the stability of all 16 countries that use the euro with loan guarantees adding up to nearly \$1 trillion.

In the process, the [European Union](#), under crisis conditions, moved fitfully toward more centralization, toward a French vision of an economic government for the region. It is a role not totally unlike the one that the federal government in the United States played during the early stages of the [financial crisis](#) in 2008.

But to get there involved intense bargaining among leaders, especially the French president, [N](#)

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[Nicolas Sarkozy](#)

, who was in Brussels, and Mrs. Merkel, who was in Moscow, but also the Italian prime minister,

[Silvio Berlusconi](#)

; Group of 7 finance ministers; the Japanese; and the Americans, according to interviews with numerous participants in the talks in Europe and the United States.

The deal also required a contentious telephone vote by the members of the board of the [European Central Bank](#)

, who agreed, though not unanimously, to do what the bank said last week it had not even considered — buying up the sovereign debt of the weakest members of the euro zone, those nations using the euro currency, effectively guaranteeing their debt to protect them from anxious investors.

After the 16 leaders of the euro zone met Friday evening into early Saturday to confirm their previous deal for Greece, which the markets had considered inadequate, they agreed they had to do more. Their finance ministers gathered Sunday in Brussels, under a deadline to act before financial markets opened in Asia on Monday morning, to hammer out the details.

It was another of the all-night sessions that have come to epitomize the challenge of making decisions in Brussels, where 27 sovereign states with more than 450 million people sometimes painfully decide to share their sovereignty. The crisis most directly touches the 16 nations that use the euro. But it may also affect the fate of the single currency — a main symbol of the new European unity — and thus touches the entire European Union.

But the states that share the euro, which is controlled by the independent European Central Bank, do not share a single treasury, tax system or budgetary authority. The euro's lack of coordinated financial backing had become excruciatingly evident after Greece admitted that its level of debt was much higher than previously reported, due to bad management and prevarication.

A sovereign debt crisis — compounded by a recession that had cut tax receipts and prompted extra government stimulus spending all over Europe — began to gnaw at those countries most exposed and least competitive: Greece, Portugal and Spain.

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American officials became worried about the European response as early as February, a senior administration official in Washington said on Monday, when European leaders repeatedly stated that the Greece problem was well contained. They believed that mere expressions of support would be enough to calm the markets — and that they did not need to put in real commitments of emergency funds.

The Americans were less persuaded, telling their counterparts that they had to eradicate “the risk of default.” The Europeans debated this internally and, in the mind of one senior American official, who would not speak on the record, the Europeans “waited too long.”

“Had they acted sooner,” he said, “They might have gotten away with less.”

The United States officials began talking to their counterparts about an American concept: overwhelming force. “It’s all about psychology,” said the senior official. “You have to convince people that the government will get its act together.”

But it was not until Sunday, one official noted, that the meltdown spreading across Europe was regarded as “an existential threat.”

Aware that the “wolf pack” markets, as the Swedish finance minister called them, had dismissed their every move so far as too little, too late, some of Europe’s leaders knew they had to act in a big way — to “shock and awe” the markets. To encourage them, Mr. Obama made his calls, first to Mrs. Merkel, who was losing a key state election in North Rhine-Westphalia, and, three hours later, to Mr. Sarkozy.

Washington was also ready to help, in a limited but crucial way. The [Federal Reserve](#) offered to swap euros for dollars, easing pressure on European central banks, which were bleeding dollars.

European finance ministers arrived in Brussels on Sunday with broad agreement on the need for a fiscal contribution from the European Union budget and some kind of fund to stabilize the most troubled markets. By several accounts in Europe, a 500 billion-euro figure first emerged

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Sunday afternoon, when Mr. Sarkozy called Mrs. Merkel after each had spoken with Mr. Obama.

But how was that huge sum to be raised with the agreement of the politicians who wanted to keep control of their hastily devised rescue?

Germany was insisting on a solution that involved bilateral loans from European member states, similar to the much smaller Greek bailout agreed to a week earlier. But countries like Italy and Spain feared that they would be unable to raise the amounts required and lobbied for loan guarantees on funds raised by the [European Commission](#) .

As the evening unfolded, Germany, Britain and the Netherlands all opposed the commission's proposal to raise money on capital markets guaranteed by member states. The British and Dutch said the proposal was tantamount to giving a "blank check" to the European Union's governing commission, according to a European diplomat who spoke on condition of anonymity.

Near midnight Sunday night, the talks appeared deadlocked, these participants said. "The deal is exploding," read the text message of one French official to Paris, where Mr. Sarkozy was demanding regular updates and was pushing for a bigger agreement.

Then came the deal-making idea — put together, according to different officials from different countries, by the French, the Italians, the Dutch and a crucial German banker.

Axel Weber, the president of the conservative Bundesbank, who is favored to succeed [Jean-Claude Trichet](#) as the next president of the European Central Bank, suggested a mechanism for Europewide loan guarantees that finally won support from a reluctant German government during a midnight call, participants said.

The idea was for a new mechanism euphemistically called "a special purpose vehicle" — essentially eurobonds created by intergovernmental agreement among euro zone countries. That vehicle, supposedly to last only three years, would raise up to 440 billion euros on the

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markets with loans and loan guarantees, depending on the need.

The Germans, together with other northern Europeans like the Dutch, British and Austrians, insisted that the European Commission not control the vehicle but only manage it — in conjunction, as with the Greek deal, with the [International Monetary Fund](#) . The fund would provide discipline, as well as roughly one euro for every two from Europe.

The “special purpose vehicle” finally broke the French-German deadlock. [José Manuel Barroso](#) , the president of the European Commission, said Monday that agreement came at 2:15 a.m.

“Now Europe is finally getting noticed,” noted one French official late Monday. “I just wish it was under different circumstances.”

Steven Erlanger and Katrin Bennhold reported from Paris, and David E. Sanger from Washington. Reporting was contributed by James Kanter from Brussels, Sewell Chan and Brian Knowlton from Washington, and Judy Dempsey from Berlin.

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