EU acts to shield euro from Greece

By Richard Wolf, USA TODAY

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CANNES, France – European leaders moved to isolate Greece and protect the sanctity of the eurozone late Wednesday after failing to stop plans to let Greeks vote on a debt bailout plan.

By Markus Schreiber, AP

French President Nicolas Sarkozy speaks with German Chancellor Angela Merkel upon arriving for the summit in Cannes, France, on Wednesday.

French President Nicolas Sarkozy and German Chancellor Angela Merkel said Greece will not receive any more bailout money from a European rescue fund or the International Monetary Fund (IMF) until the matter is resolved. Although they said they respected the country's right to hold a referendum, the two leaders said Greece's potential pullout from the eurozone wouldn't set off a contagion on the continent.

"The real question is whether Greece remains within Europe or not," Sarkozy said at a hastily called news conference shortly before midnight here, on the eve of the Group of 20 summit of major economic powers. "We will not let the euro be destroyed, nor will we allow Europe to be destroyed or torn apart."

STORY: Greece sticks to bailout vote

The two leaders, who represent the 17-member eurozone's wealthiest countries, said they would speed up implementation of the pact reached last week to bolster the continent's rescue fund, boost its banks' balance sheets and write down Greek debt owed to private lenders by 50%.

They sought the earliest possible referendum in Greece, which Papandreou said could be held Dec. 4-5. "We expect all of the political forces in Greece to rally around this in a consensual way," Merkel said.

G-20 Members

Argentina, Australia, Brazil, Canada, China, European Union, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, Republic of Korea, Turkey, United Kingdom, United States

"This is a very serious task ahead, because we believe in Europe, because we believe in our continent," she said. Of the Greek referendum, she said, "this is part and parcel of democracy."

Papandreou earlier had said the referendum "is our democratic right."

"I believe it's crucial that we show the world that we can live up to our obligations," he added.

The last-minute maneuvering to preserve Europe's latest rescue plan came as President Obama and other world leaders were arriving in the Riviera in hopes that someone else will save Europe — and, by extension, the global economy.

Gone is the optimism of recent G-20 summits, when industrial economies were beginning to grow again and leaders were turning their focus to deficit reduction. Now their economic house of cards is threatened by Europe's debt crisis and Greece's plan to let its people turn thumbs up or down on the bailout.

U.S. holds 'weak hand'

To prevent the potential demise of Europe's monetary union, Sarkozy plans to seek backing for the rescue plan. The G-20's help will take more than the high-minded commitments all so common at such summits, when billions are pledged but not always delivered. Eventually, it could take cash upfront — something in short supply these days, even for an organization that represents 80% of the world's gross domestic product.

It could come from Germany and other Northern European nations, from China, from the European Central Bank or the International Monetary Fund. So far, no one is making an opening bid. And so the contest on the Riviera will stretch through the week, with the United States — still the world's largest economy by far — determined not to pick up the tab.

"The U.S. is playing a very weak hand, because it just can't bring any money to the table," says Eswar Prasad, a trade expert at Cornell University in New York and a former IMF official. Given the size of the U.S. debt and gridlock in Congress, he said, "It's a non-starter."

"Who has the answers? Who can resolve this?" says Heather Conley, director of the Europe Program at the Center for Strategic and International Studies. "What we're seeing is sort of a finger-pointing, 'this is yours to solve.' You know, 'keep us out of it.'"

Three years of recession and slow growth, with the threat of more years to come, has made customarily robust countries less willing to help their neighbors. Take the United States, for instance — now nearly $15 trillion in debt, including debt the government owes to itself, almost the size of its entire economy.

"We can't just be running up our debt in order to help other folks' economies," Obama said last month when asked about the European crisis. He wants developing nations such as China that are enjoying greater economic growth to increase domestic consumption. The

U.S. can assist by lending its "experience and knowledge," White House press secretary Jay Carney said Wednesday.

Calling on China

Sarkozy was scheduled to meet separately here Wednesday night with Chinese President Hu Jintao, whose help is being sought as Europe seeks to raise money for the rescue fund that's used as a backstop for debt-ridden nations such as Greece, Portugal, Ireland, Spain and Italy.

Such an arrangement could be awkward for European leaders, who do not want to be seen as overly beholden. When former secretary of State Henry Kissinger reportedly asked, "If I want to call Europe, who do I call?" he didn't expect the answer to be China.

What's more, any financial aid China pledges "will be peanuts," predicts Sebastian Mallaby, director of geo-economic studies at the Council on Foreign Relations. "Why should the Chinese feel more motivated to bail out Italy than Germany?"

Then there's the European Central Bank — the closest thing Europe has to a Federal Reserve. But if it guaranteed new billions as a backstop for the European Financial Stability Facility, it might inadvertently relieve pressure on debtor nations to take the unpopular steps needed to balance their books.

The IMF has about $380 billion it can lend, which U.S. officials have argued is enough to meet the challenge.

"The IMF has four times greater resources to deal with any crisis around the world than we saw back in 2009," says Lael Brainard, Treasury's undersecretary for international affairs.

Even so, if Italy and Spain need vast sums to avoid default, even more money will be required, and the U.S. is the IMF's biggest contributor.

"At the end of the day, this may come down to the IMF stepping in … and that's us," says Mark Zandi, chief economist at Moody's Analytics.

Such a commitment could prove unpopular for Obama as he enters his re-election year, just as going hat in hand to Beijing might not help Sarkozy six months before he faces French voters.

"This is a very delicate question for us," Conley says. "If we approve a very strong, big, bold role for the IMF … are we then sort of supporting a larger role for the United States to play in this bailout?"