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To: Epstein, Jeff
Subject: DSK and the Euro Crisis (My Counter history)

The Greek election this Sunday could lead to Greece's exit from the euro, and, if that happens set off the Doomsday clock for the global financial system. Could this disaster have been averted if Dominique Strauss-Kahn had kept his appointment in Berlin instead of going to sail?

DSK: The Counter-History
By Edward Jay Epstein

The 1998 movie Sliding Doors illustrates the contingent nature of reality. At the outset of the film, the character Helen, played by Gwyneth Paltrow, rushes to the subway after she's fired from her job, but when she reaches it, the train's doors slide closed. If she'd gotten there one second earlier, she would have caught the train. The movie then splits into two separate stories. In the first, Helen slips onto the train before the doors shut. She then gets home to find her lover with another woman, which causes her to leave him, move out, and find a new lover. In the second story, Helen misses the train, which causes her to have a minor accident, and, as she gets home too late to discover her lover's infidelity, she stays with him.

The Sliding Doors principle could similarly have changed the story for those in the presidential suite at the Sofitel at 12:06 P.M. on May 14, 2011. At that moment, DSK had been taking a shower. The maid, Nafissatou Diallo, was making her second entry into the suite without her cleaning equipment. If DSK had stayed in the shower for just a few more seconds, Diallo might have heard the shower or seen other signs that the suite was occupied. Since maids at the Sofitel are not supposed to clean rooms while guests are in them, she presumably would have exited the suite before he emerged from the bathroom. She would then have returned to room 2820, where she had left her cleaning cart, and, as the guest in that suite had checked out, she would have finished cleaning it. She would not have encountered DSK, nor would she have had a

degrading sexual experience between 12:06 and 12:13 P.M. She would not have had to wait more than an hour near the employee entrance. She could not have been taken to Roosevelt-St. Luke's Hospital to be examined. She would not have testified before a grand jury, told falsehoods under oath, or had her creditability impugned by prosecutors and the judge, who dismissed the charges against DSK. Nor would she have seen her photograph on the cover of Newsweek, been interviewed on Good Morning America, or filed a civil suit against DSK, which, if successful, could result in a multi-million-dollar payment to her. Instead, if the sliding shower door had opened differently, she would likely still be cleaning rooms on the 28th floor of the Sofitel.

DSK's story would also be very different. But how? On April 13, 2012, I met with him at the elegant Pavillon de la Reine in the Place des Vosges to discuss what might have happened if that sliding door had opened. He had a very clear memory of what he had planned to do on that fateful day. He said he'd been rushing to get dressed when he opened the bathroom door and

encountered the maid. But what if he had stayed in the bathroom a few more seconds and not encountered the maid? I asked.

He would have gotten dressed, finished packing his single suitcase, and left, which would have taken about five minutes. Since it then would have only been 12:11 A.M., he would not have been running behind schedule, so he would not have had to call his daughter Camille on the IMF BlackBerry that he usually kept in his jacket pocket. If he had not called her, he might not have left the phone in a place from which it would go missing. He could have checked out, caught a taxi on 44th Street, and gone to the designated restaurant to meet his daughter and her new boyfriend. After lunch, he would have caught a cab to JFK in time to catch Air France flight 23, which left at 4:50 P.M. He would then have tried to sleep on the transatlantic flight, since he had a busy agenda on Sunday.

The plane would have arrived at Charles de Gaulle airport at 6:01 =.M. on Sunday, May 15. That morning, he would have given his BlackBerry, assuming he still =ad possession of it, to security experts arranged by his advisor Stéphane Fouks. Two months =earlier, his security team had installed encryption software on the phone, but then, for an =known reason, the phone began to fail, so the software had recently =een removed. But he now feared his phone had been compromised, and, if the experts found concrete evidence of =ophisticated tampering, he would know that he was under surveillance and take appropriate counter =measures.

Because DSK had a 3:00 P.M. appointment with German Chancellor =ngela Merkel, he would then have boarded a flight to Berlin that morning. Merkel does not =ften hold meetings on Sunday, but DSK had insisted on it when he was in Washington, DC. He =rgently needed to discuss “Comprehensive,” the code name for a secret plan he had =een working on at the IMF to avert the Greek financial crisis. The plan essentially provided an IMF =ask for the members of the euro zone to absorb the entire Greek =overnment debt

DSK knew that Germany was the key to solving the Greek problem: =nce Germany agreed to his plan, Sarkozy, who DSK knew enjoyed dramatic =escues, would join Merkel. The other countries in the euro zone would =ollow suit. Over the past year, DSK had developed a close working =elationship with Merkel. They could discuss their complex issues in =erman, a language he was fluent in. He also understood the German =bhorrance to incurring debt that could not be repaid. As he explored =he political scenario with Merkel that January, it had become clear to =im that Merkel would need time to overcome this barrier.

But time was running out that Spring. Yes, he agreed with her, =reece was only two percent of the economy of the euro zone, but even =o this unpayable debt was a “cancer” that, if allowed to metastasize, would destroy credibility in the financial =arkets of other member countries, including Spain, Italy, and Portugal, and could unravel the =ntire euro zone. Greece could not solve the problem itself: No matter how much it cut =xpenditures, it could not repay the debt, which would only grow as interest rates rose. Providing Greece =ith loans was also not the answer. So pragmatism had to replace ideology.

This was not just a dilemma in which there were two =hoices—increased debt or increased austerity. DSK termed it a “trilemma,” because the seventeen-nation =uro zone, which shared a common currency, the euro, and a common central bank, the European =entral Bank (ECB), lacked the political means to enforce any decisions it made. The ECB =ould loan money on various conditions, but, as Greece was sovereign, it could not =uarantee that they would be carried out. Yet, if the euro zone made it =vident to the marketplace that it could not solve such problems, the =inancial players in the market would realize that the other heavily =ndebted countries, such as Italy, Spain, and Portugal, could also =efault. The contagion would spread, interest rates would soar, banks =ould be unable to retain their deposits, governments would topple, and =he fragile financial edifice of the euro zone would collapse.

Merkel understood this “trilemma,” but that did not make it any =ess politically repugnant to ask German taxpayers to pay for Greek over-spending. Her finance =inister, Wolfgang Schäuble, had taken the position that if there was to be a bailout, =his should be accomplished by the private holders of Greek debt, most of which were German and French =anks, writing off part of what was owed them, rather than by governments using money paid by =heir taxpayers. But that would lead to an effective default, and negotiating with banks =ould itself add to the growing unease in the marketplace.

DSK had the pragmatic solution. Since the amount of money involved =as then relatively small—about 60 to 70 billion euros—most of it could be =aid by Germany, France, and other euro zone members, with a small portion paid by the banks. The =lternative was that the contagion would spread to Spain and Italy and become an unsolvable =ulti-trillion-euro problem. Then, that May, the Greek finance minister George Papaconstantinou =roposed a quixotic program under which Greece would raise 50 billion euros by privatizing =overnment assets such as airports and monuments. This was so unrealistic that the market =eared an imminent default.

The credit rating services, led by Moody’s, moved toward cutting =reece’s credit into junk territory. This in itself would make it too expensive for Greece to =orrow to refinance its debt, which was coming due. Nor could Greece print money, since it had ceded =hat power, as had all the other members in the euro zone, to the ECB. And the ECB made it =lear that it was not allowed to subsidize a member. So Europe was now at a dangerous =mpasse.

DSK had meanwhile fine-tuned his “Comprehensive” plan to conform to =he political restraints that were holding Germany back. Euro zone members, led by =ermany, would replace most of the unpayable part of the Greek debt with Eurobonds. The =alance would come from the banks, which would agree to a voluntary haircut, and a token amount =ould come from Greece.

This would end the default threat, and, as the financial markets realized that the euro zone could solve default problems, there would be no spread of the malignancy to markets in Italy, Germany, and Portugal.

DSK hoped that Merkel, after four months of conversations with him about the crisis, was finally ready to support his plan. He knew that this would take great political courage on her part, but he tried to convince her that there was no other option if the euro was to be saved. So he hoped when he saw her at 3:00 P.M. on May 15, she would sign onto this plan. If she did, the Greek crisis would likely be solved, or at least put on hold.

But DSK never got to this critical meeting with Merkel. Instead, he was in prison in New York City on charges that would later be thrown out. The crisis was not contained. That Spring, the contagion spread to Italy—where Prime Minister Silvio Berlusconi was forced to resign—and to Spain. By 2012, most of Europe had been plunged into a recession, pain had requested a euro bailout—and Greece was holding an election that could precipitate its exit from the euro.

There was also a sliding door for Sarkozy in May. If DSK had not encountered the maid, he would have returned to France after his meeting with Merkel on May 5. He was by then leading Sarkozy in the polls by almost 20 percentage points. On June 5, he would announce his candidacy for the presidency of France, and the Socialist Party would nominate him as their candidate. He would run on his ability to solve economic problems, an area in which Sarkozy was weak. But would he win?

Just two weeks before his arrival at the Sofitel in May, DSK told editors of *Libération* that one way his opponents might try to stop him was by inventing a rape scandal. This was clearly meant as a joke, as he affirmed to me. He did not believe that, even if it were the only way to win the election, his opponents would go to such lengths. He may have underestimated them.

As it turned out, Sarkozy, a former Minister of the Interior, and his operatives were not without resources. French intelligence had a dossier on DSK that went back many years. The past March, Sarkozy's staff had reportedly established a liaison with the CRI, France's domestic intelligence service, for the purpose of keeping track of DSK. If that is true, the surveillance had the means to transform the local investigation of a prostitution ring run out of the Carlton Hotel in Lille into a scandal that could ensnare DSK in the prostitution ring. According to a recent book on the French intelligence services, this scandal would have been leaked in October 2011 the midst of the Socialist primary. And so, even if DSK had avoided the sliding door at the Sofitel and had not been arrested in New York, and even if he had succeeded in his talks with Merkel in averting the euro crisis, he might still have been brought down, and Sarkozy, instead of losing the election, might still be president of France.

As ever,

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