When Boeing hits turbulence, U.S. lending agency flies to help
THE BIG READ 18-19

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BUSINESS & FINANCE 21

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Reuters

Banks' bonuses hit by 50% levy in U.K. budget

By Sara Schaefer Muñoz And Alistair MacDonald

LONDON—The U.K. on Wednesday slapped banks with a 50% tax on some bonuses they pay to individuals, in perhaps the most aggressive move yet by a government to rein in banking compensation after the financial crisis.

The tax, which would remain in effect until April 5, 2010, reignited sharp debate over London's future as a financial center and heightened tension between the government and members of the banking community here, who said the move would put them at a competitive disadvantage and could spark an exodus from the City.

The tax, unveiled as part of the government's latest budget plan, is an effort by the ruling Labour Party to address public anger over bank bonus pay ahead of next year's general election.

The U.K. bonus tax will be paid by banks on discretionary individual bonuses that exceed £25,000 ($41,000). For instance, if a bank pays an individual a bonus of £30,000, it would pay a 50% tax on the £5,000 portion over the threshold.

The individual's income tax wouldn't be affected. Law firm Thomas Eggar LLP estimates that banks operating in the U.K. plan to pay about $6 billion in bonuses this year, about $1 billion of which is discretionary, as opposed to bonuses guaranteed to bankers by contract.

The government says the tax will raise about £500 million for the deficit-laden U.K. budget. But a U.K. Treasury spokeswoman said the driving idea behind the tax is to end the banking industry's culture of compensating risk-takers and to push down bonuses so that banks retain more capital and step up lending.

The U.K. tax goes much further than measures in the U.S., where officials have moved to limit bonuses at companies receiving the most substantial government assistance, such as **American International Group** Inc. and **Citigroup** Inc. But efforts to impose a flat tax on bonuses received by certain AIG executives have failed, and Congress and the Obama administration haven't broadly considered such measures.

The U.K.'s move takes it far ahead of anything that has been done elsewhere in Europe, despite some virulent rhetoric from politicians. In France, the administration of President Nicolas Sarkozy has introduced a code of conduct to police banker remuneration but stopped short of imposing taxes or caps on bonuses.

A joint editorial by Mr. Sarkozy and U.K. Prime Minister Gordon Brown in Thursday's Wall Street Journal endorses the idea of a one-off bo-

Please turn to page 6

Fiscal factors

In Obama speech, war and peace

By Elizabeth Williamson

U.S. President Barack Obama's Nobel Peace Prize acceptance speech Thursday will focus on the discordant note struck by a war president receiving the world's highest honor for peacemaking, senior administration officials say.

Mr. Obama has drafted the speech himself, beginning the day after he announced an escalating of the Afghanistan war last week. He will address the juxtaposition of the two very different events, as well as critics who say a president newly in office and pursuing two wars doesn't deserve the prize.

"It is a very compelling context: When do you commit men and women to war?" said Ben Rhodes, an Obama speechwriter who is helping to hone the speech.

The prize is usually given for a life's work in pursuit of peace and human rights. In Mr. Obama's case, the Nobel committee, in a controversial choice, awarded it to the president prospectively, citing his desire to curb nuclear proliferation and to push for a greater U.S. outreach to other nations, in particular the Muslim world.

"He does believe that part of this award represents the desire for American leadership, despite some of the difficulties of the international environment in recent years," said a senior adviser to Mr. Obama.

The president and Michelle Obama arrive in Oslo Thursday. After meeting Norwegian officials and the Nobel Committee, they will attend the presentation ceremony at the Oslo City Hall at 1 p.m. local time. The building holds 1,000 people, and organizers turned down thousands of requests for seats. After the ceremony, which for the first time will feature jazz music, the town will hold a torchlight parade before a white-tie dinner.

Some Democratic advisers expected the president to lay out a broad foreign-policy vision in the speech. That likely won't be a central element. The Obama adviser said the presentation won't include specific policy recommendations and won't dwell long on any particular country or region.

"I think he'll be speaking to aspirations that he thinks people have everywhere, be they in free societies or authoritarian nations. The No-

Please turn to page 3

The Quirk

Beer-can collectors are watching as their hobby goes flat. Page 33

World Watch

A comprehensive rundown of news from around the world. Pages 34-35

Editorial & Opinion

Gordon Brown and Nicolas Sarkozy on global finance regulation. Page 17

PAGE TWO

Time to puncture the economic bubble

[Agenda]

PATIENCE WHEATCROFT

In retrospect, economic bubbles look glaringly obvious. The problem is that while they are inflating, too many people are enjoying the uplifting sensation to want to puncture the mood.

Take Ireland, where the puff of the Celtic Tiger put up property prices by an annual average rate of more than 12% between 1995 and 2006. The Irish celebrated their perceived good fortune with a spending spree: As the Tiger was about to lose its tail, there were more Mercedes cars in Ireland, per head of population, than there were in Germany.

But the bubble burst and now Ireland is having to endure the painful consequences. Finance Minister Brian Lenihan delivered a budget intended to put the Irish economy further along the road to restored health. "Brutal" was the adjective it instantly attracted, as it spelled out another €4 billion of cuts on top of the €8 billion that already had been made in two earlier emergency budgets.

The contrast with Alistair Darling's performance in the U.K. a few hours earlier could hardly have been more marked. While the Irish are facing up to the scale of their problems and taking tough actions, the British are delaying, influenced, inevitably, by the impending general election.

While Mr. Lenihan was able to accept that he had to move strongly because, otherwise, "the very financial survival of this country would have been at risk," Mr. Darling, the U.K.'s chancellor of the Exchequer, was greeted with raucous laughter for his assertion that his budget was delivered "from a position of strength."

The ratings agencies would have joined in the guffaws, for they have been cautioning about the prospects for a possible downgrading of U.K. debt if the government doesn't act sharply to reduce the deficit, which, albeit not as perilous as Ireland's had become, continues to trouble them.

Associated Press

Britain's Chancellor of the Exchequer Alistair Darling

Mr. Darling, however, announced an increase in National Insurance, which amounts to a tax on jobs, but delayed it until 2011. In the meantime, he is still planning for public spending to grow, including public-sector salaries, although that growth will be capped.

There will be vociferous protests that the hit on bonuses will destroy the reputation of the City

There was no such pussy-footing in Ireland, where public-sector pay and pension contributions are about to suffer a further haircut. The pain is being felt in government, where ministers, including the Taoiseach, the country's leader, will each suffer a drop of around 30% in the value of their pay and pension package.

Although they have found their expenses under attack, British ministers don't face any such raid on their salaries. Instead, the chancellor, as had been well foreshadowed, turned to bankers to carry the can.

The temporary tax regime he is promising will occasion howls of outrage from some quarters and will certainly pose some problems for the Treasury as it tries to close all the potential loopholes, which such a measure is likely to incorporate. There will be vociferous protests that the hit on bonuses will destroy the reputation of the City and drive banks out of Britain.

Such reactions may be overdone. However, as much as bankers might like to believe the crisis is over and it is "business as usual," that isn't the case. As an outspoken Paul Volcker, former head of the U.S. Federal Reserve, told the audience at The Wall Street Journal's Future of Finance Initiative earlier this week: "Financial weaknesses brought us to the brink of a great depression that would have ended your livelihood." He made it clear he thought compensation structures had been in part to blame and that they needed to be rethought.

Against that background, a scheme that is likely in this one exceptional year to encourage banks to give a slice of planned bonus pools to the government instead of bankers may be seen, even by those who will be deprived, as not totally unreasonable. They know that without the support that governments pumped into the markets, the chances of any bonuses this year would have been scant. As Mr. Darling put it: "It is only fair that they contribute more to the public finances, in a year when profits have been facilitated by significant taxpayer support for the banking sector as a whole."

Not once, but twice, at the FFI conference, Barclays President Bob Diamond acknowledged the importance of that support. Even though he then argued that a "windfall" tax on U.K. bonuses would be against the spirit of the G-20 agreement on remuneration, he did sound like someone who might be preparing to give in gracefully.

Any fight against Mr. Darling's bank tax looks unlikely to have the support of the U.K. opposition party, the Conservatives. The shadow chancellor, George Osborne, has repeatedly said of the economic crisis: "We're all in it together." As his party's plans, should it win the election, must include cutting public-sector jobs and pensions, then trying to defeat moves that would see banks and bankers being forced to share in the national sacrifice would be uncomfortable politically.

Besides, a little humility from bankers wouldn't go amiss right now. Goldman Sachs's Lloyd Blankfein may have been ironic when he suggested they "do God's work," but they certainly do have a crucial role to play in the economy.

Nevertheless, as a class, they played a pivotal role in inflating the "super bubble" that, in the words of George Soros "did pop pretty big."

Mr. Soros, that expert on markets, was one of the stars of FFI. He probably didn't endear himself to many in the audience any more than did Mr. Volcker, for his argument is that markets can't be given free reign. Left alone, they will always create bubbles that, eventually, burst.

Governments and regulators have to control bubbles, he said, and checks on remuneration are one of the levers to be applied.

What's News

■ **The U.K. slapped banks** with a 50% tax on some bonuses they pay to individuals, in perhaps the most aggressive move yet by a government to rein in banking compensation. The tax reignited sharp debate over London's future as a financial center. 1

■ **VW plans to buy** a 20% stake in Suzuki Motor for $2.5 billion, as the auto makers focus on emerging Asian markets and small cars. 21,36

■ **Spain became** the latest euro-zone country to face a possible downgrade of its government debt, raising fears that similar fiscal woes triggered this week in Greece are spreading. 4

■ **Big oil producers are** beginning to fret over a long-term drop in demand and revenue amid calls for cuts in carbon emissions. 5

■ **Kraft proposed** minor changes to its hostile bid for candy maker Cadbury. 22

Inside

Baritone gives new meaning to the term 'opera buff.' 31

Another rally point as Formula One sponsorship drops. 32

ONLINE TODAY

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Iain Martin on Politics

blogs.wsj.com/iainmartin

"These one-liners that Number 10 has been drafting for the prime minister were really not very good."

Iain Martin on Brown's responses during Prime Minister Questions

Continuing coverage

Follow developments as President Obama accepts the Nobel Peace Prize at **europe.wsj.com**

Question of the day

Vote and discuss: Is a one-time tax on bankers' bonuses the right move?

Vote online at **wsj.com/dailyquestion** and get complete coverage of the prebudget report at **europe.wsj.com**

Yesterday's results

Q: Do you think tougher capital requirements for banks could drive business from London?

Yes	70%
No	30%

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NEWS

YouTube takes Nobel ceremonies live

With streaming of lectures, foundation behind storied prize trades in some secrecy to expand the brand

By Paul Sonne

For decades, the laureate lectures delivered by Nobel Prize winners were available only in real-time to privileged invitees in Oslo and Stockholm. But much of this year's Nobel wisdom is available to everyone live, via YouTube.

The Web program the Nobel Foundation struck earlier this year with Google Inc.'s YouTube to offer live streaming of both its award announcements and the series of laureate lectures is an example of the foundation's recent drive to harness its long-neglected intellectual-property rights and make greater use of the Nobel brand.

Established in 1900 to manage the money that finances the prizes, the Nobel Foundation was for years shrouded in secrecy because its legal structure prevented it from funding modern media projects or partnering with private corporations. But in 1999, the foundation created a non-profit rights association that now oversees four companies that manage media rights, run a Web operation and operate two museums.

"We encountered a rising demand for information about this mysterious phenomenon," said Michael Sohlman, executive director of the Nobel Foundation. "The foundation is creating new things every year—interesting things—and we wanted to control it in order to expand our reach."

This year, the foundation's growing appetite for exploiting its content comes against a backdrop of criticism in some quarters over the selection of President Barack Obama as winner of the Nobel Peace Prize. Some saw his selection as a blatant attempt to create buzz with a winner who hasn't yet done enough to merit the honor.

Mr. Sohlman says the organization's "absolute Chinese walls" prevent anyone at the subsidiary companies or the foundation from influencing the selection committees.

For years, Swedish and Norwegian television broadcast the ceremonies under an informal arrangement. It wasn't until 2004 that Nobel Media AB, in consolidating the foundation's intellectual property, moved to take control of the rights and begin charging a fee.

"It was quite natural that one should try to take control of the total amount of intellectual property rights that were connected to the prize," said Camilla Hylten-Cavallius, CEO of Nobel Media. "The foundation naturally thought that we are the organizer of these events, we host and finance them and we should also have control over how the message is spread across the world."

Now the media company has a portfolio of 12 to 15 television programs a year, including documentaries and discussion shows, many sponsored by corporations and aired on public broadcasters such as PBS and the BBC.

When Mr. Obama delivers his speech at the Nobel Peace Prize ceremony in Oslo, television companies will pay Nobel Media an undisclosed licensing fee to broadcast the feed.

> TV companies from around the world will pay Nobel Media a licensing fee to broadcast the feed.

(The feed will be seen on the Nobel Foundation's Web site, but not on the Nobel YouTube channel.) The money will be reinvested in the non-profit media company's publicity and educational efforts through programs like "Nobel Minds," a 60-minute roundtable with Nobel laureates that will be broadcasted widely by BBC World this weekend.

Non-television initiatives include a lecture series sponsored by Honeywell International Inc., which has brought Nobel laureates in physics and chemistry to lecture to more than 14,000 students and teachers across the world, and a similar initiative sponsored by pharmaceutical company AstraZeneca PLC for Nobel laureates in medicine and physiology.

The Nobel Media operation receives about two-thirds of its revenues from corporate sponsors and the rest from licensing agreements. With five full-time employees, it brought in revenues of $4.3 million in 2008, up from $3.8 million the previous year.

On the Web, new features developed in conjunction with corporate sponsors have driven more than 38 million people to the Nobel Web site each year, it says. Nobelprize.org received 3.3 million visits from Oct. 5-12, as this year's announcements drove a 87% increase in visitors compared with 2008.

On Nobel's YouTube channel, an "Ask a Laureate" feature allows users to receive responses to their questions to 2006 physics laureate John Mather about the Big Bang and the expansion of the universe. The Plano, Texas-based technology company EDS helped the Nobel Website install an online media player to stream more than 100 hours of archived educational video and audio content.

By bringing private companies into the fold, the Nobel companies have faced obstacles. Last year, Swedish prosecutors opened a preliminary investigation into Nobel Media sponsor AstraZeneca's ties to the Nobel committee, after German scientist Harald zur Hausen won the prize in medicine for discovering that the human papilloma virus causes cervical cancer. AstraZeneca made a component of vaccines preventing the virus.

The investigation didn't proceed. AstraZeneca says it didn't seek to influence the prizes and Nobel said the company's involvement had no bearing on the prize.

Associated Press

Workers in Jakarta put the finishing touches on a statue of U.S. President Barack Obama in his youth. Mr. Obama lived in Indonesia as a child.

Obama's war, peace speech

Continued from first page

bel Prize has represented a universal set of values and rights, and he'll be speaking to that," the adviser said.

The speech will include a review of foreign-policy priorities, similar to the discussion of America's role in the world over the past 60 years the president delivered at the end of his speech at the U.S. Military Academy at West Point. The speech will reiterate the president's stance that nuclear weapons are a leading challenge to world security, but that won't be the core of the message.

Former Al Gore speechwriter Chris Lehane said the occasion lends itself to a "big speech, looking to the horizon, the behemoth bestriding the globe—but with a degree of humility."

"One of the tests I always have for these speeches is when you read the coverage, is there a unifying headline and a pull quote that everybody uses? If so, you've broken through with a vision and a message."

Mr. Obama will salute past recipients of the award, perhaps including Martin Luther King Jr., Nelson Mandela, Elie Wiesel and others, and has reviewed their speeches. He will offer tributes to the military, prodemocracy activists and others whose sacrifices are deserving of the prize.

Mr. Obama has been working late nights on the speech, scheduling time to write around the White House holiday schedule. Presidential speechwriters Jon Favreau and Ben Rhodes will help to polish the final draft, likely right up until its delivery.

Ratings firm shifts outlook for Spain

Action heightens worries that Greece's problems may be spreading, highlights divergent economic states across Europe

By Brian Blackstone

Spain on Wednesday became the latest euro-zone country to face a possible downgrade of its government debt, raising fears that similar fiscal woes triggered this week in Greece are spreading.

The situation highlights the divergent courses that euro-zone countries are taking out of the most severe economic downturn since the 1930s. Ireland and a number of Southern European countries that outpaced larger nations' growth during flush times are emerging from the crisis with their economies and finances in much worse shape than Germany and France.

That disparity is testing institutions such as the European Union and European Central Bank, which set policies for the region as a whole.

"Those countries that had these high growth rates are now in trouble because much of that growth was financed by debt," said Paul De Grauwe, a professor of economics at the University of Leuven in Belgium.

Standard & Poor's Corp. cut its outlook on Spain's AA+ rated debt to negative from stable. S&P cited the risk of a "prolonged period of below-par" economic growth and "persistently high fiscal deficits." In January, it lowered Spain's maximum AAA rating. S&P's decision comes a day after Fitch Ratings downgraded Greece's government debt a notch to BBB+, the lowest in the euro zone.

Spain's deficit is expected to top 11% this year, according to the European Commission, while Greece's could come in at almost 13%. Both are well above the 3%-of-GDP limit set by EU budget rules.

A Spanish Finance Ministry spokesman said Spain maintains its maximum rating with ratings agencies Moody's Investors Service Inc. and Fitch.

"We don't share S&P's view [on Spain], and neither do the other agencies," the spokesman said.

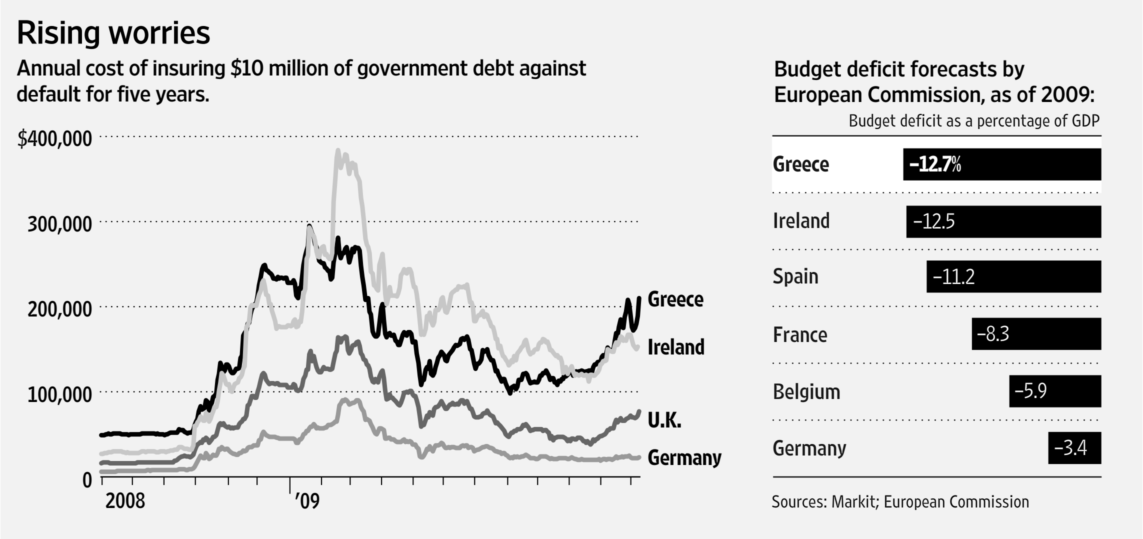
Spain's stock market fell 2.3%. Greek shares, which fell more than 6% on Tuesday, shed an additional 3.4% Wednesday.

Greek officials on Wednesday moved to ease concerns over its finances, while other European governments maintained pressure on Athens to act decisively and regain the confidence of financial markets.

"We're not waiting around for someone to save us," Greece's Finance Minister George Papaconstantinou told reporters in Athens. "It's up to us to solve our own problems." Prime Minister George Papandreou went even further, calling Greece's finances a threat to its sovereignty.

Agence France-Presse/Getty Images

Striking stage employees burn invoices in front of the Greek Parliament on Wednesday during a demonstration where they demanded permanent jobs.



The spread between Greece's government debt yields and the German equivalent widened further Wednesday despite those assurances, approaching a fresh seven-month high of nearly 2.5 percentage points. Fitch kept up the heat Wednesday, saying its downgrade signaled a "higher—albeit still remote—risk of a sovereign default."

Spreads on Spain's government debt widened as well to about 0.7 percentage point above German bunds.

Analysts said those spreads, which make it more expensive for Greece and Spain to finance their debt, could spur those governments to make the tough structural changes to make their economies more competitive.

Although the euro zone expanded last quarter after five consecutive periods of contraction, gross domestic product in Greece and Spain declined. At 19.3%, Spain has one of the highest unemployment rates in Europe. Greece's unemployment rate is much lower, though its statistics aren't as current. Many economists say those countries didn't make the kind of structural reforms during the boom years that would have helped them withstand the financial crisis and maintain competitiveness in the face of a strong euro.

"The calls from the ECB for structural reform didn't work, so we have a situation where the market is taking over and exercising pressure," said Jacques Cailloux, economist at Royal Bank of Scotland.

French Finance Minister Christine Lagarde played down the risk that Greece would go bankrupt, but European leaders nevertheless kept up the pressure on Athens to curb its deficit. "The ball is in Greece's court," Germany's central bank President Axel Weber said.

Simon Johnson, former chief economist at the International Monetary Fund, says he thinks too much is at stake for Greece for it to follow the route of default and rescue.

"The pressure will mount, and then they'll sort it out," he said.

—Nathan Becker and Jonathan House contributed to this article.

ECB will cap ultralong liquidity as first step in exiting stimulus

By Nina Koeppen And Sean Carney

FRANKFURT—The European Central Bank will begin exiting special stimulus measures by capping liquidity offered through ultralong tenders and, only as a very last step, by limiting its main weekly refinancing operations.

"I believe the withdrawal from special measures will happen in an inverse-proportional order to the launch of these measures, so that there will be a certain natural sequence," ECB governing council member Axel Weber said.

European investors are focused on the ECB's plan to drain excess liquidity after it has flushed financial markets with funds to avert a full-blown credit crisis and further bank defaults. Currently, around €670 billion ($991 billion) in ECB liquidity is outstanding, compared with about €450 billion before the financial crisis began.

The ECB currently pursues a fixed-rate, full-allotment policy for its market operations, under which it provides banks with as much cash as needed at the benchmark rate, or refinance rate, of 1%.

"I believe that the main refinance rate will be the last operation that we will switch back to a normal tender procedure from the full-allotment procedure," said Mr. Weber, who is also head of Germany's central bank.

Separately, Ivan Sramko, a member of the ECB's governing council and outgoing governor of the Slovak central bank, won't seek another term in office after his current stint expires at the end of this year. Mr. Sramko in January helped Slovakia become the 16th member of the euro zone.

His successor in both roles will be Jozef Makuch, a member of the Slovak central bank's monetary-policy board and a former financial-markets regulator, said Jana Kovacova, the Slovak central bank's spokeswoman.

The Slovak cabinet's nomination of Mr. Makuch needs parliamentary approval and then the president's signature. Both are expected without delay, Ms. Kovacova said.

COPENHAGEN SUMMIT

Emission cuts could hurt oil revenue

By Spencer Swartz

With some of the world's fastest-growing oil consumers under pressure to cut carbon emissions, big petroleum-producing states are beginning to fret over a long-term drop in crude-oil revenue.

For years, oil-producing states have worried about rich nations like the U.S. cutting back on energy consumption through conservation or turning to nonoil alternatives such as ethanol and other biofuels.

But Saudi Arabia and other big Gulf states now fear that emerging markets like China—the biggest driver behind the growth in world oil consumption—may also cut crude demand as dozens of countries converge in Copenhagen to try to hammer out a pact to reduce carbon emissions.

Those fears and the potential impact on future government revenue could erode Gulf Arab states' support for any deal in Copenhagen, Gulf officials said.

Senior officials from the Organization of Petroleum Exporting Countries, which includes a handful of Gulf states, are expected to attend the second half of the Copenhagen meeting next week. These officials include the oil cartel's secretary-general, Abdalla Salem El-Badri, who is expected to make a presentation, and some oil ministers from OPEC member states.

In effect, the recent pledges of major nations to reduce "carbon intensity" equate to commitments by these fast-growing economies to make their factories, power plants and cars dramatically more efficient.

China and India recently announced plans to reduce the energy intensity, or the amount of carbon emissions per unit of gross domestic product, of their economies over the next decade. China, which increased vehicle fuel-efficiency standards in recent years, wants to cut its carbon intensity by as much as 45% from 2005 levels by 2020 while India has targeted a reduction of as much as 25% from 2005 levels over the next decade.

Amy Myers Jaffe, a senior fellow in energy studies at Rice University's Baker Institute, estimates that 4.5 million barrels a day of Chinese oil demand alone may not materialize over the next two decades if the country makes big inroads on improving energy efficiency and using more alternative energy resources.

To Saudi Arabia, the world's biggest oil exporter, that could squeeze trillions from the kingdom's future oil revenue, said Mohammad Al Sabban, the chief Saudi negotiator on climate-change issues.

Saudi Arabia estimates that OPEC, of which the kingdom is the biggest member, stands to lose at least $6 trillion in oil revenue over the next two decades if an effective Copenhagen deal takes effect, Mr. Al Sabban said.

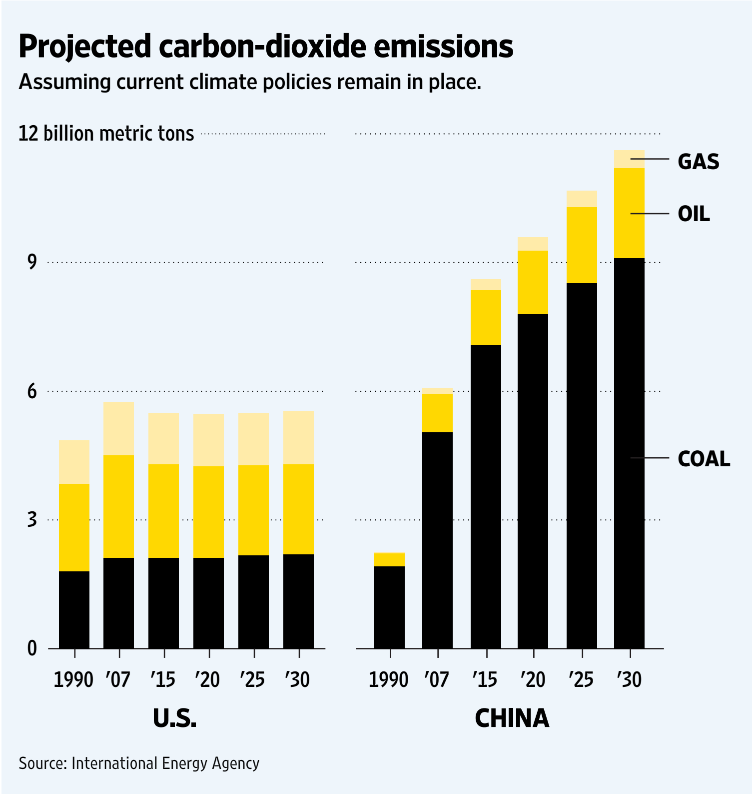
Analysts say such a projection could hurt future investment in crude production capacity in Saudi Arabia and other Gulf oil states.

"If we think demand is not going to be there, why should we invest huge amounts of our money," said a senior official from a Gulf oil-producing state.

The official added that Gulf states' support for a Copenhagen deal could also be withheld if they aren't assured billions of dollars in financial compensation.

"We will protect out interests, like everyone else," the official said.

—Elffie Chew in Kuala Lumpur contributed to this article.



Bloomberg News

Irish Finance Minister Brian Lenihan said the economy will return to growth in the next six to nine months, but his budget cuts, while likely to please Brussels, could alienate voters.

Ireland prepares levy on domiciles

Cash-strapped government plans charge on the rich regardless of tax residence while promising big budget cuts

By Quentin Fottrell

DUBLIN—Ireland's cash-strapped government Wednesday said it will impose a €200,000 "domicile levy" on those earning more than €1 million in income worldwide, and who have capital located here of over €5 million.

Finance Minister Brian Lenihan said this levy will apply to all those Irish nationals and domiciled individuals who qualify "regardless of where they are tax resident."

Mr. Lenihan said the government must ensure that every wealthy Irish domiciliary who pays little or no income tax through tax loopholes should make a contribution during a time of fiscal difficulty.

Some see it as a token gesture. Martin Phelan, head of William Fry Tax Advisors, said, "The levy will raise little money. Instead, it may encourage them to close their businesses in Ireland leading to increased unemployment."

Ireland delivered what many economists billed as the most painful budget in a generation, making €4 billion ($6 billion) in spending cuts to curb the country's soaring debt.

Mr. Lenihan told parliament that the economy will return to growth in the next six to nine months and that he sees gross domestic product contracting roughly 1.25% in 2010 after shrinking an estimated 7.5% in 2009.

Ireland faced an acute version of the difficult balancing act many governments are confronting in the wake of the financial crisis: If it didn't cut enough, its debt would soar and rattle investors. The financial crisis hit Ireland harder than most other developed economies, due to the real-estate market's collapse, and an overextended banking system that helped inflate it.

Budget cuts by the European Union's erstwhile economic success story are likely to please Brussels but alienate voters, particularly public-sector workers who are bearing the brunt of the burden.

Mr. Lenihan cut €760 million from social-welfare programs and €980 million from day-to-day spending. He will introduce €960 million in savings on investment projects and slash €1 billion from the public-service payroll.

"Those at the top will lead by example," he said. The government will cut Prime Minister and Fianna Fail party leader Brian Cowen's €285,000 annual salary by 20%, or by a total of 30% including adjustments in the public-sector pension levy. Mr. Lenihan also cut ministerial pay by 15%; this includes a voluntary 10% pay cut earlier this year by Ireland's senior ministers, whose annual salaries are €225,000.

The government chose to leave Ireland's attractive 12.5% corporate-tax rate unchanged, crucial in luring U.S. multinationals to help create the decadelong, and now dead, Celtic Tiger.

Mr. Lenihan also cut excise duties on alcohol and lowered the value-added tax to 21% from 21.5% to help keep shoppers from heading to the U.K. province of Northern Ireland.

U.K. slaps 50% tax on some bankers' bonuses

Continued from first page

nus tax.

"We agree that a one-off tax in relation to bonuses should be considered a priority due to the fact that bonuses for 2009 have arisen partly because of government support for the banking system," it says.

The two leaders put forward other propositions to world leaders that they say will "encapsulate both the responsibilities of the banking system and the risk they pose to the economy as a whole," including levies on financial transactions and resolution funds that banks pay into and can be used to bail them out in the event of banking failures.

Treasury chief Alistair Darling announced the tax during a speech to the House of Commons, in which he said that banks' priority "should be to rebuild their financial strength and increase their lending."

"If they insist on paying substantial rewards, I am determined to claw money back for the taxpayer," he said.

Still, the government knows it is treading a fine line between sating public anger and wounding an industry that, at its height, contributed over 25% of its corporate tax take. On Monday, Mr. Darling assured a room full of bankers that finance "is a big industry for us and I am determined that we do not do anything that undermines that position."

Treasury officials Wednesday made clear they would try to block any loopholes that banks seek to skirt the tax. It is part of a budget that is expected to be passed early next year, but would apply retroactively starting Wednesday.

Criticism from the opposition Conservative Party, which has also decried large bonus payments, was muted. "The real test of this new tax will be whether it curbs bank bonuses instead of bank lending," the party's shadow Treasury Chief George Osborne said.

Banks were awaiting more details on the tax, but Wednesday's announcement revived claims that London is an increasingly unfriendly place for financial companies.

To foreign banks, London may now look "like a significantly less attractive place to build a business," said a statement from the British Bankers' Association. "We must repeat that only concerted international agreements will succeed in reforming remuneration in the financial sector."

The bonus tax follows the Group of 20 guidelines on compensation, in which major banks in the U.K. were the first to agree to defer significant amounts of pay, compensate staff in noncash rewards such as shares, and make bonuses subject to clawbacks if the recipient is later to found to have caused losses.

The tax leaves banks facing either a reduction in their bonus payouts, or holding the bonus amounts steady and finding more money to pay the tax—a move that could be hard to justify to shareholders.

But the new tax applies only to discretionary and not contractual bonuses. Banks will avoid the charge, then, for payments to any banker whose bonuses are guaranteed by contract. Guaranteed bonuses were among the most controversial when bankers walked away from failed banks with large payments written into their contracts.

Nicola Plant, a partner at law firm Thomas Eggar LLP, took her first call not long after Mr. Darling had finished his budget statement, and says that within three hours her company had received up to 20 inquiries from clients looking for advice on the new tax. The first banker who called wasn't affected, given his bonus will be contractual, but for those who are not this "is incredibly punitive," she said.

The higher taxes coupled with bank-bashing rhetoric in the U.K. media and politicians have inspired predictions of an exodus from Britain to New York, Switzerland, the Cayman Islands and the Channel Islands.

In addition to the new tax on pay, bankers will be hit by an increase on income tax. Those who earn above £150,000 are already set to see their tax rate rise to 50% from 40% in April. In Asian financial center Singapore, the top rate of income tax is 20%.

"Sending out a message that the U.K. does not welcome high earners will be music to the ears of rival global financial centers," said Stuart Fraser, the policy chairman at the **City of London** Corp., the local authority that runs the traditional heart of London's financial center.

The U.K. last leveled a windfall tax on banks under a Conservative government in 1981 under Margaret Thatcher. "Naturally, the banks strongly opposed this; but the fact remained that they had made their large profits as a result of our policy," Mrs. Thatcher recalled in her biography.

But even some rivals for business are resisting the urge to predict the demise of the City.

This year, the Channel island of Jersey has been pitching to financial-services professionals through its office in London. "I suspect we will get some bankers but I can't see a flood," said Robert Kirby, technical director at Jersey Finance, which promotes Jersey as a financial center. "London has bars, culture and theater that many other places just can't compete with," he said.

—Dana Cimilluca, David Gauthier-Villars, Damian Paletta, David Enrich and Susanne Craig contributed to this article.

EUROPE NEWS

U.K.'s planned budget cuts fall short

By Natasha Brereton

LONDON—The U.K. government's latest plans to cut its budget deficit fall short of what is needed if it is to hold on to its AAA rating, making further spending cuts and tax increases almost inevitable after an election that must be held by June.

That means Bank of England policy is likely to stay loose for longer than many analysts had expected.

Since the credit crisis began two years ago, the authorities have injected stimulus valued at around 1.9% of gross domestic product into the economy. That spending, on top of the cost of bailing out banks and a drop in tax revenue, means the budget deficit is set to hit 12% of GDP this financial year.

In a prebudget report on Wednesday, Chancellor of the Exchequer Alistair Darling stuck by his gradual approach to withdrawing economic support. He said government borrowing would rise marginally over the coming four years, and that the government would put into law a commitment to halve the budget deficit by March 2014.

But whichever party wins the general election, it will have to lay out far more ambitious fiscal consolidation plans if it is to protect the U.K.'s cherished triple-A credit rating. That means it will be left to the central bank to do the bulk of the economic heavy lifting.

"With the general election only six months away, this was always likely to be largely a holding operation," said Jonathan Loynes, U.K. economist at Capital Economics. "A much bigger fiscal tightening is still likely to be unveiled after the election, " whoever is elected.

In credit markets, the cost of insuring U.K. sovereign debt against default continued rising Wednesday, reaching its highest level since June. According to CMA DataVision, the U.K.'s five-year credit-default-swap spreads—a key measure of credit risk—widened nearly seven basis points, or hundredths of a percentage point, to 83.8 basis points.

That means it now costs nearly £84,000 ($137,000) a year to insure £10 million of U.K. sovereign debt against default for five years, up from £77,000 Tuesday. A month ago it cost less than £60,000.

The lack of certainty surrounding the fiscal outlook poses a big hurdle for policy makers at the central bank as they attempt to calibrate policy amid an unusually muddy economic outlook.

Since the intensification of the financial crisis in September 2008, the BOE has taken unprecedented action to cushion the blow. It slashed its key interest rate to a record low of 0.5% in March, and embarked on a program of quantitative easing under which it will pump a total of £200 billion in newly created money into the economy.

The central bank could yet decide to further expand quantitative easing, most likely in February. But even if it doesn't, the Monetary Policy Committee probably won't be in a position to quickly start tightening, since it will need to keep playing a supportive role to the economy as the government drastically cuts back.

That was clear from the prebudget report, in which Mr. Darling set out unpopular cost-cutting measures, including a two-year pay-increase cap of 1% for public-sector workers, to 2011, or well after the election. The Conservative Party has also made clear that, should it form the next government, it would assume the central bank was the major player in supporting the economy.

"Even though the budget deficit is set to remain broadly unchanged next year, that will provide little extra impetus to growth," said Colin Ellis, an economist at Daiwa Securities SMBC. "With that in mind, the burden of heavy lifting is still set to fall on the MPC going forward."

International ratings firms have threatened to downgrade the U.K. from its triple-A rating if the next government doesn't move more aggressively to cut spending, raise taxes, or both.

A strong rating is needed to attract buyer interest to a country's bonds. If the U.K. were to lose its triple-A rating, some investors would be forced to sell their existing holdings, which would push up the U.K.'s cost of borrowing and make it tougher to cut borrowing without even bigger tax increases or spending cuts.

Mr. Darling kept his forecasts for growth unchanged Wednesday, saying that the economy is likely to expand 1% to 1.5% in 2010 and 3.5% in 2011 and 2012, somewhat more cautious than BOE projections.

—Laurence Norman and Mark Brown in London contributed to this article.

Getty Images

Gordon Brown and Alistair Darling arrive for a cabinet meeting at 10 Downing Street ahead of Mr. Darling's prebudget report.

The main points of the U.K.'s prebudget report.

Taxes

- Banks have to pay a 50% tax on bonuses above £25,000 ($41,000) awarded until April 5.
- Value Added Tax will return to 17.5% in January, from 15% currently.
- National-insurance contributions will increase by 0.5% from 2011, on top of a previously announced 0.5% increase for next year.(National insurance covers health care, pensions and unemployment benefits.)

Borrowing and Growth

- Net borrowing will fall from £178 billion for 2009 to £82 billion by 2014.
- Overall borrowing will reach £707 billion by 2013-14.
- The budget deficit will be cut by over 50% over the next four years.
- A new fiscal-responsibility bill obliges governments to cut the deficit through 2015-2016.

Public services

- Free meals for primary-school children from families with a household income below £16,190.
- The basic state pension for single pensioners will rise 2.5% to £97.65 per week.
- NHS front-line spending will rise in line with inflation.

Savings

- Public-sector pay rise will be capped at 1% for two years from 2011.
- Changes to public-service pensions will save £1 billion a year from 2012-13.

Green growth

- Up to 125,000 households will be offered £400 to upgrade old boilers.
- 75,000 of the most vulnerable households will get help paying for heating and insulation.
- Tax incentives for electric cars and electric vans.

'This is a good budget for bingo and boilers:' some reactions

Reactions from the financial world and bloggers to Alistair Darling's budget report

Sean Drury

International mobility partner at PricewaterhouseCoopers

"High-earning mobile executives decide where to live and work based on three main factors - personal wealth, the infrastructure available to practice their trade and their family's overall quality of life so, when the already-announced income tax rate changes hit pay packets in April next year, those at the upper end of the spectrum may start to vote with their feet and look more urgently at the impact of moving to other established and growing business hubs. Some individuals will be assessing their medium to long-term connection to the U.K.—how this pans out will depend on future changes that impact U.K. attractiveness."

Vince Cable

Financial spokesman for the Liberal Democrat party

"The bankers' payroll tax is the worst type of gesture politics and a gift wrapped invitation to tax avoidance. The hidden costs of this budget will be borne by low paid workers who face a cut in real wages because of the 1% pay rise—which is lower than inflation. This is a good budget for bingo and boilers but not much else."

Angela Knight

British Bankers' Association Chief Executive Angela Knight

"This new tax has to be set in the context of commitments already made. The UK's banks have already agreed to observe pay restraints where bonuses are mostly deferred and paid in shares. We are already well ahead of the other G20 countries in doing this. Viewed from abroad, London may well look now like a significantly less attractive place to build a business. We must repeat that only concerted international agreements will succeed in reforming remuneration in the financial sector."

Stephen Herring

Senior tax partner, BDO LLP

"It may well be the case that the threat of stiff penalties for only a short period will not adversely affect the London financial services industry irrespective of what the other leading countries do but the counter argument is that this may well scare off new entrants and encourage new activities to be located in, for example, Geneva. The tax attractiveness of the U.K. has already been eroded by the aggressive attack on U.K. tax residents who are non-U.K. domiciled enacted in the Finance Act 2008. Hopefully, as announced, it will indeed be only a one-off measure as, otherwise, it would be a real impediment to a flourishing financial services industry in the U.K."

Felix Salmon

Reuters blogs

"The government hopes the move will encourage banks to use additional cash to shore up their capital bases, rather than pay high salaries. But banking groups have warned that penalizing high earners in the financial sector will lead to an exodus of talent overseas. But of course this is the genius of a one-off, nationwide supertax: while any individual banker might be able to move overseas, they can't all do that en masse. And in any case moving overseas doesn't alter the tax status of this year's bonus, while next year's bonus will go back to normal taxation levels."

Giles Wilkes

Freethinking Economist blog

"In principle, I like the tax on bankers' bonuses: the enormous profits are almost entirely a result of the state underwriting abnormally cheap liquidity, implicitly insuring risks, and boosting asset markets. A particularly thick chimp could have made money. And if this encourages the banks to keep the cash as capital, the rebuilding process is further down the road."

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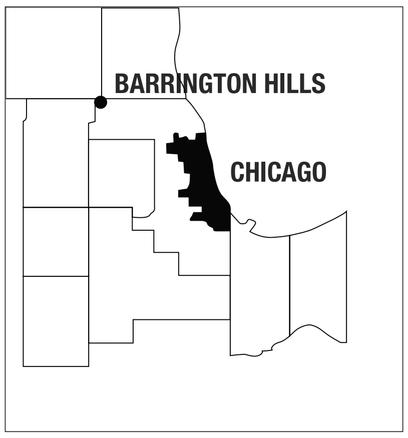

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RETAIL BROKERS NETWORK

U.S. NEWS

Getty Images

Westerners have largely played supporting roles in terror activities, but David Headley's ability to travel on a U.S. passport, above, to Pakistan, India and Denmark gave him a key role in the 2008 Mumbai attacks, a U.S. law enforcement official said.

From Chicago to Pakistan

David Headley's U.S. citizenship made him an invaluable terror tool

By Cam Simpson And Siobhan Gorman

Terror suspect David Headley was questioned by an airport inspector in August, and deceptive answers about his travels abroad helped officials begin to unravel Mr. Headley's alleged double life.

The 49-year-old Chicago man was charged this week for helping plot the terror attack in Mumbai a year ago that killed 166 people. He pleaded not guilty to the charges Wednesday in federal court in Chicago.

Federal authorities, already suspicious of him, used his return to the U.S. this summer as an opportunity, according to officials. A border inspector asked Mr. Headley about his overseas travel, according to court records and people familiar with the case.

Mr. Headley said he was working for a company called First World Immigration Service. First World is a business that allegedly provided Mr. Headley with cover as he traveled to scout terrorist targets for Lashkar-e-Taiba, the group responsible for the November 2008 assault in Mumbai, according to the federal charges.

Agents searched Mr. Headley's luggage and found it "contained no papers or other documents relating to such a business," according to court documents. They also searched tax records and found no record of income paid to Mr. Headley by the company, court records show.

U.S. officials said Tuesday the questioning at the airport gave a significant boost to the investigation.

Mr. Headley was returning to the U.S. from a trip to Denmark in which he was scouting potential targets, authorities alleged. He is also being charged with planning an armed assault on a Danish newspaper that published cartoons of the Muslim Prophet Muhammad.

Authorities said little more about the airport interview, including where it happened or why they had become suspicious of Mr. Headley. But court records showed that federal surveillance of Mr. Headley, who is an American, accelerated afterward.

Mr. Headley's case is the most potent example of a U.S.-born radical. Law enforcement and terrorism specialists said Lashkar's alleged deployment of Mr. Headley underscored the usefulness of recruits with U.S. passports in terror plots.

Mr. Headley traveled to India and Pakistan over nearly two years to videotape targets and brief his co-conspirators in the Mumbai attacks, according to the federal charges.

Westerners have largely played supporting roles in terror activities, but Mr. Headley's ability to travel freely on a U.S. passport to Pakistan, India and Denmark gave him high value, a U.S. law enforcement official said.

"It's exactly the way you'd think al Qaeda would want to use operatives," said Evan Kohlmann, who has testified on Lashkar as an expert witness in U.S. and British courts.

Under direction from the Pakistani terror group, Mr. Headley appears to have been a skilled operative leading a carefully cultivated double life. Mr. Headley's cellphone was registered to a dead man, as was his Chicago apartment, according to the Federal Bureau of Investigation. He changed his name from Daood Gilani in 2006 to further his cover, according to the FBI.

Pakistan-based Lashkar has traditionally been focused on the Kashmir region, which Pakistan and India have fought over for decades. But U.S. counterterrorism officials now believe the group's ambitions are global. Mr. Headley's alleged role in the Mumbai attack represents a significant expansion of Lashkar's use of Westerners, Mr. Kohlmann said.

There are pockets of Lashkar supporters in the U.S., say current and former counterterrorism officials.

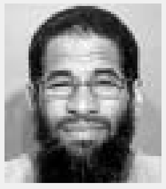
Two Georgia men were convicted earlier this year of providing material support to Lashkar and plotting terror attacks in the U.S., as well as meeting with members of a Canadian terrorist cell. Christopher Paul, a bomb-making expert who pleaded guilty last year to conspiring to bomb U.S. and other targets, discussed attending camps in Pakistan with a senior Lashkar recruiter, and later wrote to a fellow American about the ease of training with the group.

The largest known U.S. case involving Lashkar is the Virginia Jihad cell uncovered in 2003, which included Yong Ki Kwon, who converted to Islam as a student at Virginia Tech.

Lashkar-e-Taiba in America

Syed Haris Ahmed, Georgia

The 24-year-old Georgia Tech student and his friend Ehsanul Islam Sadequee, were convicted of plotting to support terrorists by sending videos of U.S. landmarks to suspected supporters overseas. The two are scheduled to be sentenced Dec. 14.



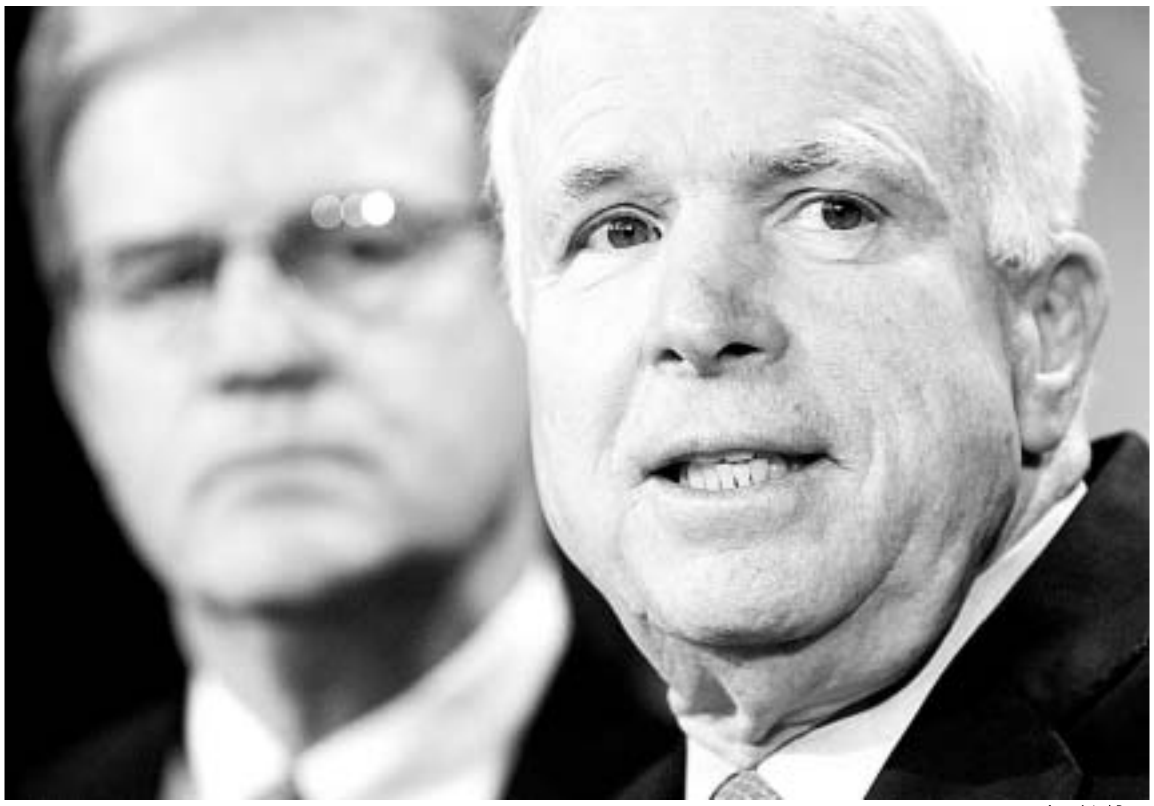
Christopher Paul, Ohio

The American-born 44-year-old, who grew up in a Columbus suburb, was sentenced to 20 years in prison in February over allegations he helped plot terrorist bombings in the U.S. and overseas. The Federal Bureau of Investigation said Paul also tried to recruit others to his cause.

Yong Ki Kwon, Virginia (no photo available)

An ethnic Korean born in Indonesia, 27-year-old Kwon converted from Christianity to Islam while a student at Virginia Tech University. In 2003 he was sentenced to 11 1/2 years in prison after pleading guilty to conspiracy and gun charges. He and 10 others were part of what the government described as a 'Virginia jihad network' that used paintball games as training support for Lashkar.

Sources: wire reports Photos: Associated Press



Associated Press

Republican Sens. John McCain, right, and Tom Coburn, shown Tuesday, sought tougher abortion restrictions in the health-care bill.

Senate has health deal

Democrats drop government-run plan in compromise; Medicare expanded

By Greg Hitt
And Janet Adamy

WASHINGTON—Senior Senate Democrats reached tentative agreement Tuesday night to abandon the U.S. government-run insurance plan in their health-overhaul bill and to expand Medicare coverage to some people ages 55 to 64, clearing the most significant hurdle so far in getting a bill that can pass Congress.

Liberals dropped the public insurance plan that was a central plank of the Democrats' health bill in favor of a more limited alternative, following intense pressure from a small group of Democrats who had insisted for months that it was a deal-breaker. While disputes over abortion coverage and other issues remain, Democrats appeared a whisker away from having enough votes to overcome Republican opposition and pass a sweeping health overhaul in the Senate.

The Senate bill—including the lack of a public plan—is likely to form the core of any final legislation, though it will have to be reconciled with a health bill passed by the House last month.

The agreement capped several days of high-stakes negotiations by a group of 10 Democratic senators—five moderates and five liberals. Senate Majority Leader Harry Reid (D., Nev.) had advanced a bill that would have had the government directly operate a health-insurance plan, while giving states the right to opt out.

In place of that, the senators embraced a more limited proposal that would empower the government's Office of Personnel Management to put in place a new low-cost national health plan, congressional aides said. The office already administers plans offered to federal employees and members of Congress. The new national plan would be run by nonprofit entities set up by the private sector, and would be available to the public on the new insurance exchanges that would be created under the bill.

If no private insurers sign up with the Office of Personnel Management to offer a national plan, the office would be authorized to implement a direct government-run plan, an unlikely prospect, aides said.

The plan must still be analyzed by the nonpartisan Congressional Budget Office and vetted by the full Democratic caucus. But the proposal is aimed at reconciling divisions among Democrats and ensuring that Mr. Reid has 60 votes needed for final passage.

"I believe this moves us way down the road," Mr. Reid said in announcing what he called a "broad agreement."

The arrangement is attractive to Democratic centrists who worry about the government's growing footprint in the private market.

In a nod to Democratic liberals still intent on expanding coverage, the group agreed to a proposal that would open Medicare, the health-insurance program for older Americans, to those ages 55 to 64. The proposal would benefit an estimated two million to three million Americans who have difficulty obtaining coverage elsewhere, including those who have lost their jobs. People in the 55-to-64 group who already get health insurance through their employers would continue to do so under the proposal.

Those eligible under the expanded Medicare program would be allowed to buy into it at subsidized rates, but would likely pay more than retirees age 65 and over.

Although the public option generated significant dissension among Democrats, the CBO projected that a relatively small number of Americans would use it. It said total enrollment after a decade would be only three million to four million people, in part because the CBO predicted the public option would attract less-healthy employees and charge higher premiums.

Republicans criticized the Democratic negotiations. "What's becoming abundantly clear is that the majority will make any deal, agree to any terms, sign any dotted line that brings them closer to final passage of this terrible bill," said Senate Minority Leader Mitch McConnell (R., Ky.).

Sen. John Barrasso (R., Wyo.) said expanding Medicare "is putting more people in a boat that's already sinking."

The American Medical Association said it opposes expanding Medicare because doctors face steep pay cuts under the program and many Medicare patients are struggling to find a doctor.

Sen. Joseph Lieberman, the Connecticut independent, was among the most vocal in opposing the public option. On Tuesday he praised the proposal to empower the Office of Personnel Management to work with private insurers to implement a new national plan. "That's an interesting idea," he said. The senator also said he was willing to consider supporting the Medicare expansion, saying the proposal is designed to help those who "have a tough time getting affordable insurance."

The legislation is designed to extend insurance coverage to tens of millions of Americans. It would create new tax subsidies to help low- and middle-income people comply with a mandate to purchase coverage. It would also bar insurers from engaging in a range of practices, such as denying coverage because of pre-existing conditions.

Under discussion among Senate Democrats was a proposal that would require insurance companies to spend no less than 90% of the insurance premiums they take in on health services, effectively limiting how much they can reap in profit. The health bill the House passed last month contains a similar provision, though it sets the minimum at 85%.

Bankers can't keep ignoring the public's fear of finance

[Capital]

By David Wessel

Too many of the leaders of the world's largest banks, brokerage houses and other financial powerhouses don't get it.

They don't understand why the public is so angry at them and their paychecks. They cannot comprehend why elected politicians who used to court them are now so hostile. They don't see that they are widely seen as the ones who drove the world economy frighteningly close to the abyss of a second Great Depression.

Oh, they know they have a problem. They are, slowly, learning to sound grateful in public that taxpayer money was used, for good reason, to arrest the collapse of the financial system. "All banks are benefiting," says Robert Diamond, president of Barclays PLC, which didn't take government capital. They decry "excesses." But some act as if the past 18 months were a bad dream from which they have awakened; now they can go back to making money much as they did before.

"You have not come anywhere close to responding with necessary vigor to the crisis we have had," Paul Volcker, the former U.S. Federal Reserve chairman, told financiers this week at The Wall Street Journal's Future of Finance conference outside London.

Politicians, exquisitely sensitive to public sentiment, are warning them: "You have to pass the next-door neighbor test," Alistair Darling, Britain's finance minister, told some of the City of London's best-paid financiers at the conference. "You have to be able to look at your next-door neighbor and justify what you are doing."

And many of them cannot. They cannot even explain what they do. They promise better "risk management," but to many of their neighbors the past few years were all risk, no management. Some veteran bankers agree. "There is something wrong with the huge proprietary trading risks being taken [by banks] at taxpayer risk," says Deryck Maughan, formerly of Salomon Brothers and Citigroup.

Bankers admit that the world proved far more complicated and dangerous than they imagined. Many acknowledge the need for better guardrails on the superhighway of finance. The thoughtful among them offer reasonable suggestions for improving the management of their businesses and reorganizing and strengthening global financial regulation.

What they don't see is the new fear of finance.

For a decade or more, many people resented, or envied, the money winners on Wall Street and in the City of London made. But they weren't fixated on it. They had complaints, but they had jobs. They had bills, but their houses were worth more every year.

Then came the bursting of the bubble, lower house prices and foreclosures, furloughs and unemployment, and new impediments to borrowing. And the public was told that spending hundreds of billions of dollars of taxpayer money to bail out the banks was the only way to prevent catastrophe. Ben Bernanke, the Fed chairman, tried to explain: I didn't set out to save Wall Street. I set out to save Main Street. But to save Main Street, I had to save Wall Street.

Many Americans see simpler logic: Wall Street got bailed out, and Main Street didn't. They are looking for someone to blame. The truth is that the list of checks on the financial system that failed is long; it is hard to identify any one that worked. But the public wants a culprit, and they have found a couple of candidates. One is big finance itself. (Another is the Fed, but that is another column.)

That is what the bankers don't seem to get. Promises to strengthen risk management, pay bonuses in shares instead of cash, promote transparency and coherent accounting, and acquiesce to demands that banks hold bigger capital cushions to absorb future losses are well-intended and prudent—but insufficient.

To many people, the question is more fundamental: Is big finance about making the economy more productive and improving prospects for our children? Or is it just enriching those who work in the casino in which banks place ever bigger bets, pocketing the profits in good times and sticking the taxpayers with losses in bad times?

Finance is essential to economic prosperity. Allowing people to borrow today to buy a house, pay for college or build a business is crucial to economic growth; giving them ways to safely save for retirement is essential.

Some financial innovation proved more dangerous than useful, yes. But financial innovation also made possible, among other things, loans to credit-worthy borrowers once deemed too risky, by allowing lenders to lay off some of the risks. Now, outrage over bonuses and bailouts risks doing away with both the good and the bad parts of that innovation.

Bankers need to be more candid and self-critical about what they got wrong and what they are going to do differently as a result—not small steps, but big ones. They need to distinguish clearly between financial innovations that enrich only bankers and those that enrich the entire society, and then convince the rest of us that the result of this crisis is that they are going to do less of the first and more of the second.

There are signs that some bankers understand the world in which they now live. The assembly at the Journal conference was asked if bankers "do God's work," a reference to an unfortunate phrase Goldman Sachs's chief executive, Lloyd Blankfein, used in an interview with the Times of London. Only 29% said yes.