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Markets force Greek promise to slash deficit

By Marcus Walker And Alkman Granitsas

Greece's government promised to cut its budget deficit radically over the next four years, reacting to pressure from financial markets as well as concerns about unsustainable public debts among the euro zone's weaker economies.

Prime Minister George Papandreou said late Monday that his country would bring its ballooning deficit down from nearly 13% of gross domestic product this year to 3% in 2013, the maximum allowed under European Union rules, in a much-awaited speech to business and labor leaders.

"Greece faces the risk of sinking under its debt," Mr. Papandreou said, pledging that his government will launch major overhauls of the country's tax system and bloated public sector.

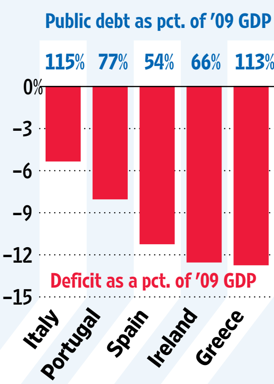
Credit markets have become increasingly nervous about Greece's public finances following the revelation in November that the country's budget deficit is heading toward 13% of GDP this year—twice the official projection just weeks earlier.

Fears that Greece might not be able to finance its debts have led to speculation that the country might need a loan from the EU or the International Monetary Fund. EU officials are worried that financial-market jitters could spread to other highly indebted countries around the euro zone's periphery, including Ireland, Spain and Portugal.

Last week, credit-ratings company Fitch downgraded Greece's debt to BBB-plus, the lowest level of any euro-zone government, while rival ratings agency Standard & Poor's warned it might downgrade Greece over the next few weeks.

In his remarks, Mr. Papandreou reaffirmed that his government aims to reduce the budget deficit to 9.1% of GDP in 2010, through a combination of €8 billion ($11.69 billion) in spending cuts and new taxes.

The speech was short on details of how Greece plans to cut spending or raise more revenue beyond 2010. Mr. Papandreou said all government ministries have been charged with formulating three-year budget plans by January that include annual spending cuts and measures to drastically reduce the number of government departments.



On a quest to address climate change

Former U.S. Vice President Al Gore at the Bella center in Copenhagen. World leaders are gathering in Copenhagen to try to seal an agreement on greenhouse-gas emissions. **See related articles, pages 8-9.**

Agence France-Presse/Getty Images

The Quirk

Bernie Madoff, the $19 billion con, makes new friends behind bars. Page 33

World Watch

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

Editorial & Opinion

Tiger Woods and the future of news. Page 15

Citigroup unveils repayment plan

By Matthias Rieker And Nathan Becker

Citigroup Inc. will repay $20 billion in government assistance and exit from a program under which the U.S. would cover losses on billions of dollars in loans, bringing an end to months of wrestling with its regulators and the Treasury Department.

Citigroup will raise $20.5 billion mainly by issuing common stock to repay the Treasury. The bank also has decided to replace some of the cash it had agreed to pay employees with $1.7 billion in stock.

The Treasury, meanwhile, will begin the process of unwinding its 34% stake in Citigroup by selling as much as $5 billion of its common stock. It will sell the rest of the stake over the next six to 12 months.

The deal brings to an end months of haggling over whether Citigroup was healthy enough to emerge from government protection and exactly how that should be accomplished. It is a victory for Chief Executive Vikram Pandit, who took over Citigroup in the midst of the financial crisis and faced the prospect of being the last major Wall Street bank still deeply entangled with the government, a status that could have left the bank at a competitive disadvantage.

Citigroup said the repayment ends its status as a recipient of "exceptional financial assistance," which should free it from the most onerous government restrictions on pay.

Separately, President Barack Obama pressed executives from the country's biggest banks Monday to stop lobbying against his proposed financial regulatory overhaul and help get the U.S. economy back on its feet by boosting lending.

"If they wish to fight common-sense consumer protections, that's a fight I'm more than willing to have," Mr. Obama said after meeting for more than one hour with the leaders of 12 banks.

Amid increasing tension between the administration and the financial sector, Mr. Obama called the session, which was designed to remind banks of the taxpayer assistance they received during the depths of the financial crisis and talk about ways to boost lending to small businesses, candid and productive. He said the banks' plans for so-called second-look loan programs, more hiring, and increased

Please turn to page 4

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PAGE TWO

Failure becomes a means of success

[Agenda]

By Patience Wheatcroft

Wind Hellas is the third-largest mobile-telecom company in Greece. It also has the distinction of being the subject of the largest-ever "prepack administration" ever to take place in the U.K.

Since the company's operations are conducted from Kifisias Avenue in the northern Athens suburb of Marousi and the owner was until recently incorporated under the laws of the Grand Duchy of Luxembourg, one might wonder why the firm's fate was decided last month by a U.K. court. The answer is straightforward: The owners, faced with crippling debts, decided that the U.K.'s insolvency laws offered them the most attractive route for easing the situation.

Wind is now in the happy position of being in the same ultimate ownership of the Egyptian entrepreneur, Naguib Sawiris, and his family, while being minus more than €1 billion of debt. But not everyone is rejoicing over this outcome. Subordinated-bond holders, who are seeing their loans effectively written off, are livid. They had tried to take over the business themselves but had been rebuffed. Now they are demanding a review of the insolvency law that made this outcome possible.

They are part of a growing band of aggrieved losers from a system that was devised as a means of enabling businesses to go bankrupt with the minimum of job losses or damage to suppliers. Although the Enterprise Act came into force in the U.K. in 2002, it is only relatively recently that the "prepack administration" that it created has become relatively commonplace. However worthy the original intentions, there is a growing suspicion that the legislation is often being used to

Agence France-Presse

Chairman of Wind Helias, Naguib Sawiris, of Egypt

allow owners to shed obligations then continue jollily about their business.

Mr. Sawiris certainly thought it was worth moving his corporate headquarters from Luxembourg to London to take advantage of the process, which allows a deal to be agreed to whereby an administrator will be appointed but will then immediately sell the business to an agreed party, often not very far removed from the original owner.

> **When companies are allowed to shrug off their obligations, there are inevitably losers.**

When companies are allowed to shrug off obligations, there are inevitably losers. Many retailers, for instance, have opted for the prepack solution as a means, in part, of walking away from some rental commitments. In July, one of the U.K.'s biggest flooring suppliers, Allied Carpets, folded and was instantly brought back to life by its chief executive, whose newly created Allied Carpets Retail (spot the difference) cherry picked his favorite 51 stores but left almost three times as many with the administrator.

A few months earlier, Sir Tom Hunter oversaw the refashioning of his fashion chain USC, putting it through the prepack process and buying it back, losing 15 of its 58 outlets and attached obligations on the way.

A disappointing Christmas season for retailers could see many more of them preparing for a January prepack slimming diet. As banks try to straighten out the more adventurous elements in their loan portfolios, they too are seeing the attractions of the system. Only last week, Lloyds Banking Group opted to restructure Ashwell Property Group, which had been the beneficiary of generous lending by Peter Cummings, the former head of the HBOS corporate division that is now causing its new owner, Lloyds, such pain.

Under the deal, the bank will swap much of its debt in Ashwell for equity in a new venture, Brookgate, which will take on just the two choicest projects in the Ashwell portfolio.

In this case, the founder of the business, Paul Thwaites, is likely to see his interest wiped out, but the chief executive, Sven Topel, will have a stake in the new business and a nice clean company to run.

The Association of British Insurers has criticized the lack of transparency over prepacks, arguing that suppliers can be doing business in good faith with companies that are simultaneously finalizing their plans to go bust, avoid debt and be resurrected in a new, healthier shape.

Supporters of the system say it makes the best of an unpleasant situation. If jobs are to be preserved, a speedy solution to an ailing company's predicament is crucial. The normal form of administration in which the administrator takes over running the business while seeking a sale, either of the company or its assets, can be damagingly long-winded.

Nevertheless, when a business judges that is worth relocating in order to declare its insolvency because the U.K., not Luxembourg, offers the most preferable escape from legitimately acquired financial obligations, it does raise qualms about the system. The legal firm Denton Wilde Sapte proudly boasted of its role in the Hellas affair, saying: "The group had been massively overleveraged with debts of some €3 billion. As a result of the restructuring, Wind Hellas has been sold with a debt of some €1.8 billion remaining in place and some €1.2 billion of subordinated debt being left with Hellas."

Oddly, there was no mention in the news release about the fact that the new owner is ... the old owner.

The anger of those who were left behind in this transaction is understandable.

The U.K.'s Office of Fair Trading has acknowledged there are concerns about how the insolvency process works and has initiated an inquiry. While that winds on, though, there may be many more cases of bankruptcy tourism. Is this really an area in which Britain wants to be seen to be one of the most forgiving regimes in the world?

What's News

■ **Greece promised to cut** its budget deficit radically over the next four years, reacting to pressure from financial markets as well as concerns about unsustainable public debts among the euro zone's weaker economies. **1**

■ **Michael Kemmer**, CEO of BayernLB, resigned after Austria nationalized the German public-sector bank's Hypo Group Alpe Adria unit in an $8 billion bailout. **4**

■ **Exxon agreed to buy** XTO Energy for $31 billion in stock, betting natural gas will play a critical role in meeting the world's energy needs. **21**

■ **British Airways'** cabin crew voted to strike, threatening massive disruption for travelers over the Christmas holiday period. **21**

■ **Poor nations staged** a walkout at the U.N. climate conference in Copenhagen to protest what they called inadequate aid offers from wealthy countries. **8**

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Liverpool may get an assist from Middle East investors. **32**

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"It's not unlike the problem faced by all-you-can-eat restaurants"

Paul Sharma on the dilemma faced by mobile-phone networks with lots of data-hungry smartphone users: how do you discourage gorging?

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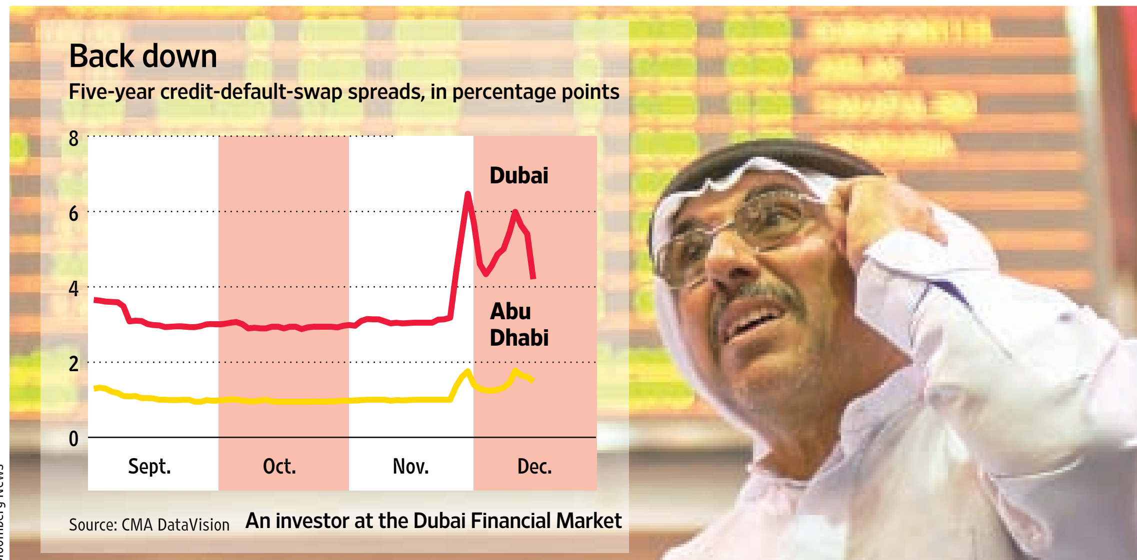
NEWS

Abu Dhabi lends Dubai $10 billion

By Margaret Coker

ABU DHABI—After enduring weeks of its own bond-market pain, this city-state came to the rescue of its cash-strapped neighbor Dubai on Monday, a move that could be as good for Abu Dhabi in global markets as it is for Dubai.

By underwriting **Dubai World**, the parent of Dubai's port operator and the conglomerate at the heart of Dubai's debt woes, Abu Dhabi triggered an immediate bout of investor optimism that promises to ease its own borrowing costs. The move also appeared aimed at protecting the United Arab Emirate's reputation as a global transportation hub, according to one person familiar with the situation.



An investor at the Dubai Financial Market

Bloomberg News

On Monday, Dubai said the government of Abu Dhabi would provide $10 billion to meet the debt obligations of Dubai World, which previously said it would restructure $26 billion in debt. Monday's funding brings Abu Dhabi's direct and indirect support for Dubai to $25 billion. That sent stock markets in both emirates soaring.

The timing of the bailout coincided with a deadline for a $4.1 billion payment related to an Islamic bond, or *sukuk*, issued by Dubai World's real-estate subsidiary **Nakheel**, which matured Monday. But it also raised fresh questions about the opaque and complicated relationship between Abu Dhabi, the capital of the U.A.E., and Dubai, its financial and trade hub.

The two city-states are the biggest and richest of the seven emirates that make up the U.A.E. Abu Dhabi, one of the world's largest oil producers, provides the bulk of federation funding.

The economic heft translates into outsized influence running the country. The hereditary ruler of Abu Dhabi serves as the U.A.E.'s president, while Dubai's ruler serves as deputy president and prime minister.

Officials from both emirates emphasize unity, but their semi-autonomous nature has sparked speculation over the years of behind-the-scenes rivalry. Abu Dhabi is viewed as the quieter, more conservative emirate, a foil to Dubai's brash, international ambitions.

Dubai's debt restructuring appeared to open a rare public rift. Just hours before Dubai announced a six-month debt standstill in late November, two Abu Dhabi-controlled banks said they would lend Dubai $5 billion. That followed a $10 billion credit line extended by the federal government's central bank in February.

Abu Dhabi officials were taken by surprise by the debt-standstill announcement and its global market repercussions, according to officials familiar with the situation.

Abu Dhabi and its corporate entities had recently launched a push to improve government transparency and raise money overseas. To help fund a 20-year development program, Abu Dhabi has raised roughly $8 billion this year on international credit markets.

But in the wake of Dubai's announcement, worry over the implied support Abu Dhabi would give its own companies hit hard. After the Dubai announcement in late November, the cost of insuring Abu Dhabi debt against default soared from just under $100,000 per $10 million to over $177,000 earlier this month, according to market tracker CMA. Late Monday in London, that had eased back to about $151,500.

Middle Eastern stock markets surged on Monday's announcement. The Dubai Financial Market's benchmark index rallied 10% to 1871.20, its biggest single-day gain in more than a year. The gauge has now added about 20% over the past there sessions, although it remains well below its level before the Dubai World standstill announcement. Abu Dhabi's stock market soared 7.9% Monday to 2821.11.

Last week, Moody's Investors Service placed the credit rating of several Abu Dhabi companies, including Mubadala Development Co., a vehicle that has financed much of the capital's infrastructure projects, on review for a possible downgrade, citing the uncertainty over government support.

Mubadala said last week that it was confident that its strategic importance and "sound business model" put it in a strong position with credit agencies.

The rising cost of its own borrowing appears to have outweighed any hesitancy in Abu Dhabi about providing more cash to Dubai, analysts said.

"Abu Dhabi's actions show that what is good for the country is good for everyone," said Manoj Madnani, the managing director of Kulczyk Investments SA in Dubai. "They put the "U" back in the U.A.E."

Another motivation for Abu Dhabi stepping in to help Dubai World appears to be the importance of the company's key asset, the Dubai port operations. A person close to the federal government said protecting the country's reputation as a dependable global transport hub was a national priority.

Dubai had specifically said its port operations wouldn't be affected by the debt restructuring. But Abu Dhabi wanted to ensure those operations wouldn't become embroiled in any creditor action related to Dubai World, this person said.

Abu Dhabi officials denied that the latest cash injection was a targeted bailout of Dubai World, and instead characterized the money as a loan.

"This is not a company bailout," said one Abu Dhabi official. "This is a government-to-government lending facility, and in times like these, it is not unusual for governments to borrow money."

Framework for debt talks may not reassure holders

Investors cheered Dubai's announcement Monday that its flagship conglomerate Dubai World will pay the debt of its struggling property unit Nakheel, thanks to 11th-hour funding from Abu Dhabi.

*By **Cassell Bryan-Low** in London and **Andrew Critchlow** in Dubai*

But the payment promise and a separate move by the emirate on Monday to set out a legal framework for future debt talks may not be enough to quickly repair the reputational damage Dubai has suffered among international investors over the handling of its debt restructuring, investors and observers said.

Sheik Ahmed bin Saaed Al Maktoum, chairman of the Dubai Supreme Fiscal Committee, said in a statement that Monday's actions were taken to reassure investors and others that "our government will act at all times in accordance with market principles and internationally accepted business practices."

On Monday, Abu Dhabi agreed to provide Dubai with $10 billion to settle some of Dubai's obligations, including a $4.1 billion debt payment related to an Islamic bond, or sukuk, that matured Monday. Monday's bailout is expected also to meet Dubai World's interest-payment and working-capital obligations through April 2010, the government said, contingent on a successful debt standstill with creditors. Dubai World said previously it would seek to restructure $26 billion in debt.

Dubai surprised markets last month by announcing a six-month debt standstill for Dubai World. The value of the Nakheel bond plunged, falling as low as about 40 cents on the dollar, from about 110 cents before the Nov. 25 announcement.

Dubai World officials are due to meet bank lenders later this month to hammer out the details of the standstill. In the event a deal with creditors can't be reached, the new law promulgated Monday could provide a legal system of arbitration, in which lenders could in theory pursue asset sales or other efforts at getting money back. The law establishes a panel of judges to preside over debt and corporate restructuring disputes, Dubai said.

The new law is untested, and isn't likely to dramatically reassure other bond holders immediately. Still, it may provide some comfort to lenders, who have worried about legal recourse in Dubai in the case of default.

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Austria makes deal to bail out bank

European Central Bank's Trichet plays a role in $8 billion nationalization of Hypo Group Alpe Adria unit

By Geoffrey T. Smith
And Eyk Henning

Michael Kemmer, chief executive of **BayernLB**, resigned Monday after the Austrian government nationalized the German public-sector bank's Hypo Group Alpe Adria unit in a €5.5 billion ($8 billion) bailout.

Mr. Kemmer will be followed by Chief Financial Officer and Deputy Chief Executive Stefan Ermisch as of Tuesday, BayernLB said.

The deal to bail out the lender required the intervention of European Central Bank President Jean-Claude Trichet, who called both Austrian Chancellor Werner Faymann and Horst Seehofer, governor of the German state of Bavaria, to ensure that the bank was rescued.

Mr. Trichet's involvement in the nationalization of the lender, which with only €43 billion in assets is relatively small, underscores enduring concerns about the stability of Europe's banking system. HGAA operates mainly in southeastern Europe, outside the euro zone and even the European Union.

Before an emergency shareholder meeting over the weekend, neither Bavaria, nor the Austrian federal government, nor HGAA's minority Austrian shareholders had been willing to inject extra funds to keep HGAA alive.

"In the end, ECB President Trichet called Chancellor Faymann, to make clear the seriousness of the situation," said a person familiar with the matter.

Mr. Trichet and Deutsche Bundesbank President Axel Weber also called Mr. Seehofer, Bavaria's state governor, to agree to a deal, said people in the banking world. The Bundesbank confirmed only that it "had participated in the background" to finding a solution. The state of Bavaria is the majority owner of BayernLB, which in turn held a 67% stake in HGAA.

Under terms of the deal, the Austrian federal government will assume 100% of HGAA's equity and underwrite €450 million in new equity, while the former shareholders will waive claims of just over €1 billion, and continue to extend €3.4 billion of liquidity support to the bank in place. BayernLB agreed to sell its stake in HGAA for the nominal sum of €1 and write off €825 million in claims. Austria's largest banks, including **UniCredit** SpA, **Raiffeisen Zentralbank** and **Erste Bank** AG, also agreed to provide an additional €500 million in contingency liquidity support.

BayernLB had created a bank that had its head office and regulator in Austria, its majority owners in Germany and its customers largely in the former Yugoslavia.

BayernLB had bought a 67% stake in HGAA at the height of the credit boom that preceded the 2007-08 financial crisis. In doing so, it created a bank that had its head office and regulator in Austria, its majority owners in Germany and its customers largely in the former Yugoslavia. Such cross-border entanglements have made the job of bailing out banks such as HGAA acutely sensitive in regional and national politics.

BayernLB had already used €1.14 billion of a €10 billion bailout from Bavarian taxpayers to keep HGAA alive earlier this year. So when the latter announced last month that it would need an additional €1.5 billion in fresh equity to cover more unexpected losses, it tried to persuade Austria to shoulder more of the burden, even if that meant giving away its stake for €1. The Austrian government, meanwhile, was also reluctant to get involved, after already bailing out the country's banks with €90 billion of taxpayers' money.

Political rivals criticized the concessions made by Bavarian chief negotiator and finance minister Georg Fahrenschon. "This is a total failure all along the line," said Eike Hallitzky, a Green Party member of the Bavarian commission that oversees BayernLB. "Bavaria had a very strong negotiating position and has allowed itself to be ripped off."

BayernLB is one of four regional Landesbanken that have needed extensive state bailouts after spectacular losses in U.S. securities and in other, mainly foreign operations.

The HGAA's nationalization averts an insolvency that would have strained Austria's domestic banking market and dealt a possibly damaging blow to the standing of other Austrian banks. They expanded rapidly in Central and Eastern Europe over the past decade, and are now suffering from heavy loan and foreign-exchange losses in those markets.

The risk of contagion spreading from either the Austrian or the Balkan banking market appears to have been considered too large to ignore. "The whole Austrian economy has been able to avert a massive threat at a critical moment in time," the Austrian National Bank said in a statement welcoming the agreement.

The ECB's intervention "suggests that the banking situation is still fragile," said Jürgen Michels, an analyst with Citigroup in London.

"We've [already] seen a significant increase in impairments on bank balance sheets across the region," said Mark Young, a managing director with Fitch Ratings. "Our assessment is that a lot more are still due." Mr. Young said he expects banks' nonperforming loans in the region to peak in 2010 but to continue to be a burden on balance sheets well into 2011.

—William Launder contributed to this article.

Agence France-Presse/Getty Images

Jean-Claude Trichet, above, called Austrian Chancellor Werner Faymann and Horst Seehofer, governor of the German state of Bavaria, to ensure a rescue happened.

U.K. softens bank rhetoric

By Laurence Norman

LONDON—U.K. City Minister Paul Myners said Monday that it is time for the U.K. to move beyond anger over banks' mistakes to a "more constructive" relationship.

Just days after the Treasury imposed a tax on bankers' bonuses, Lord Myners said, "We make no apology for the tough action we've taken... but it is time for discussions to focus on the future of finance."

Lord Myners, a former chief executive of fund manager Gartmore Group, has been one of the government's more aggressive critics of the banks, recently attacking bank chiefs for having "tin ears" over calls for change, and accusing **Goldman Sachs** Group Inc. CEO Lloyd Blankfein of living "on a different planet to the rest of humanity."

On Monday, Lord Myners said to the New Statesman's banking conference that the government had been "frustrated with the level of resistance to reform" from the financial sector, while people remained angry over excess compensation for bankers. Nevertheless, he stressed that the government and the industry can successfully address emerging challenges, including on the bonus issue, "with common sense and a regard for fairness and equity."

"This anger and this frustration is not surprising. But we should not underestimate ability to distract us from the task at hand," he said.

Following last week's prebudget report, which outlined the bonus tax, Lord Muners spoke with bank chiefs to go through the details of what was being done and to offer them reassurance that the government is committed to seeing London retain its status as the world's leading financial center. The Treasury has also been seeking to reassure the industry that the bonus measure, which lasts through April 2010, isn't the first of a string of moves to penalize the sector.The British Bankers' Association didn't comment on Lord Myners' remarks.

Lord Myners' comments Monday build on remarks a week ago by Treasury chief Alistair Darling at The Wall Street Journal's Future of Finance meeting. Mr. Darling said that he would "dearly" like to get politics out of banking and that he didn't wish to do anything to undermine the U.K.'s financial sector. The government has had to walk a tightrope between public anger over the taxpayer bailout of leading U.K. banks and the need to shore up deteriorating public finances by preventing the financial crisis doing permanent damage to the City of London.

Uncertainty over the bonus tax has led brokerage **Tullett Prebon** PLC to offered its London-based traders the opportunity to relocate outside of the U.K., it was revealed Monday.

Nigel Szembel, a company spokesman, said Tullett's board has decided it is in the best interests of shareholders to respond to requests from its trading desks to relocate out of the U.K. as it looks to retain its revenue-generating traders. "[The board] will seek to facilitate, where possible and appropriate, relocation to the company's other offices around the world which have more certain taxation regimes," he said.

Citigroup's TARP exit

Continued from first page

lending targets "sounded positive," but said the executives should "go back and take a third and fourth look" and their small and medium-sized business lending.

Citigroup's shares were down 2.8% in late-morning trading to $3.75. While cutting back the government's role could give Citigroup more freedom of action, investors have been concerned about dilution of their holdings, and Citigroup will issue more new stock than some had anticipated.

The Treasury Department will continue to hold warrants for about 464 million Citigroup shares. Some banks, like Goldman Sachs Group Inc., have bought those warrants back, while Treasury auctioned its warrants for J.P. Morgan Chase & Co.

The issue "never came up" in Citigroup's negotiations with regulators and the government, a person with knowledge of the negotiations said. The warrants don't give the government the sort of say over compensation at Citigroup the way the government's extraordinary bail-out of the company did.

Citigroup will sell at least $17 billion in new stock, with the potential of as much as $2.55 billion more, and sell $3.5 billion of so-called equity units to repurchase the $20 billion in trust preferred securities held by the government. It will also issue $1.7 billion in "common stock equivalents" to employees in lieu of cash. The new shares are expected to be priced Wednesday.

The $20 billion repayment will result in an approximate $8 billion pretax loss for the bank. Citigroup will also see a pretax loss of about $2.1 billion related to ending the $301 billion government loss-sharing agreement. On the other hand, exiting the programs will cut interest expense by about $1.7 billion a year.

"We owe the American taxpayers and the government a debt of gratitude for their extraordinary assistance," Mr. Pandit said in a note to employees. Citigroup said that by Dec. 31, it will have paid or accrued $3.1 billion in dividends and interest to the government on TARP investment.

—Joe Bel Bruno contributed to this article.

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credit-suisse.com

Reuters

French President Nicolas Sarkozy at the Elysee Palace in Paris on Monday after announcing plans to fund major strategic investments, with a focus on education.

France to invest in research

Sarkozy says the country will borrow billions for major projects aimed at long-term benefits

By Gabriele Parussini

PARIS—France will borrow billions of euros next year to invest in projects ranging from advanced electric-car batteries to modern university campuses, in the hope of propping up the country's competitiveness and of lifting economic prosperity in the long run.

French President Nicolas Sarkozy told reporters on Monday that all the money, €35 billion ($56.8 billion), would go toward research and development projects, not for day-to-day expenditures.

"This isn't another stimulus plan," Mr. Sarkozy said. "This loan won't finance current spending, but only investment that will make the country richer."

France's monumental public spending—which, at 52% of gross domestic product, is the highest in the Organization for Economic Cooperation and Development—mainly finances current expenses, including civil-servant salaries and interest on the debt. Little is left to finance large-scale projects, such as high-speed trains and nuclear-power reactors, which in the past have depended heavily on government financing, but have ultimately strengthened private companies.

Investing in France

French President Nicholas Sarkozy's detailed plan to spend €35 billion to boost economic growth:

€19 billion
Education and research and development

€6.5 billion
Aid to small and midsize companies, industrial projects

€4.5 billion
Digital technology

€5 billion
Sustainable development

The government will channel €11 billion into higher education, in part to refurbish France's aging university campuses. About €8 billion will go to research laboratories, including €2.5 billion toward health-care and biotechnology projects. An additional €6.5 billion is destined to a variety of industrial projects, including energy-efficient ships, planes and cars. The government will plow €2 billion into a national fiber-optic cable network for ultrafast data transmission. About €2.5 billion will be used to digitize books, films and other cultural contents.

The French president said the government will raise €22 billion on financial markets. The remaining €13 billion will come from public aid reimbursed by the country's banks.

The government will encourage private investors to match public investment, Mr. Sarkozy said. As a result, overall investment could reach €60 billion, provided private investors bring an expected €25 billion.

Mr. Sarkozy said the plan won't be a drag on the country's public finances because he has asked ministers to save amounts equivalent to annual interest that will have to be paid on the loan. Accounting of the overall investment plan will be managed by an ad hoc commission, separately from the country's budget.

France's budget has been strained by the economic crisis, with spending rising to boost the economy and tax income falling thanks to lagging activity.

The country's deficit is projected to climb from 77.1% of GDP this year to a record 91% in 2013, and next year the OECD expects a budget shortfall of 8.6% of GDP.

In January, the government will set up a new commission to discuss proposals to better manage public debt, Mr. Sarkozy said.

Euro-zone industrial output drops

By Ilona Billington

LONDON—Euro-zone industrial production fell in October from September, the first such drop since March, highlighting the fragility of the economic recovery and suggesting a tough final quarter for the sector, data showed Monday.

According to Eurostat, the European Union's statistics agency, industrial production in the 16 countries that use the euro declined 0.6% in October from September and was down 11.1% from the year-earlier month. The annual fall was the 18th straight year-to-year decline.

The monthly fall may undermine expectations for the euro zone's gross domestic product to grow for a second consecutive quarter in the current quarter, particularly after a 2.1% decline in German manufacturing orders for October. Manufacturing orders are a good forward-looking indicator of output and suggest that the expected economic pickup in the fourth quarter could depend more heavily on increased consumer spending in the holiday period. Euro-zone GDP grew 0.4% in the third quarter from the second.

The report "is a reminder that the euro zone still faces a difficult economic environment and a tough job to develop a healthy, sustainable recovery," said Howard Archer, an economist at IHS Global Insight, a consulting firm.

The largest production drop, of 1.6%, came in nondurable consumer goods, according to Eurostat, followed by a 1.4% decline in durable goods. Output in only one sector—intermediate goods—rose in October, by 1.2%, while output of capital goods was unchanged from September.

German output slid 1.8% in October from September, while production fell 0.9% in France. In Italy, output of goods rose 0.5%, but followed a 5.1% fall in September.

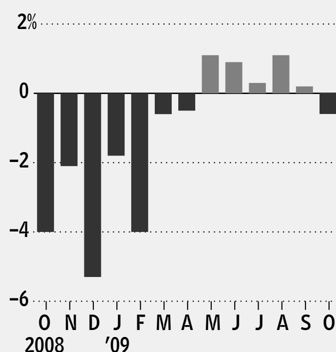
Separately, the statistics agency said the number of people with jobs in the euro zone fell 712,000 in the third quarter, compared with a 702,000 decline in the second quarter.

Eurostat said the number of people with jobs fell 0.5% from the second quarter, unchanged from the prior quarter and the fifth straight drop.

—Paul Hannon contributed to this article.

Momentum stalls

Euro-zone industrial production, change from the previous month



Source: Eurostat

Report says G-20 remains protectionist

By Paul Hannon

LONDON—The Group of 20 industrialized and developing nations haven't kept their pledge to abstain from protectionist measures and instead continue to enact policies that help domestic over foreign producers, according to a report by Global Trade Alert.

GTA, which monitors government actions that affect trade, said the flow of measures that discriminate against foreign producers was undiminished in the second half of 2009, even though most leading economies emerged from recession.

According to GTA, some 297 "beggar-thy-neighbor" policies were pursued in the 12 months after G-20 leaders made their pledge in November 2008.

GTA said that when adjusted for the time it takes for protectionist measures to take effect, the number of new measures announced in July through September "is not far short" of the average for the two previous quarters, while there were no signs of a slowdown in the fourth quarter.

Protectionism so far has not been as vicious as in the 1930s. Average tariffs on goods are still low.

"Prior experience suggests that information about many recent protectionist measures taken by governments is not yet in the public domain," the GTA report said. "The very recent falloff in the number of discriminatory measures is more apparent than real."

GTA said the "pipeline" of protectionist measures "could limit the contribution of exports to economic recovery."

Although the threat of a sustained period of deglobalization remains high, protectionism so far has not been as vicious as in the 1930s. Average tariffs on goods are still low, around 10%, thanks to World Trade Organization treaties. And the world's richest economic blocs—the U.S. and EU—remain relatively open to trade and investment.

GTA said Russia has taken the broadest range of actions that impede free trade, while China and Indonesia have also taken a number of protectionist measures. But it said China is also the leading victim of protectionist measures, followed by the U.S. and Germany.

Some of the actions taken by G-20 members were straightforward tariff increases, such as Indonesia's decision in February to raise duties on a number of items that compete with locally manufactured products.

But higher tariffs account for only one in seven of the measures identified by the GTA. Government bailouts of particular sectors are also defined as protectionist, such as France's decision in October to provide €1.65 billion ($2.41 billion) as a rescue package for its farmers.

"Bailouts and trade defense measures account for the overwhelming majority of new discriminatory state measures," the GTA said. "Recently, the action is in these two policy instruments, with tariff increases running a distant third."

Italy's premier recovering from attack

Berlusconi won't need surgery, doctor says; for many Italians, the assault reflects country's vitriolic political climate

BY GILLES CASTONGUAY
AND STACY MEICHTRY

SEGRATE, Italy—Italian Prime Minister Silvio Berlusconi was recovering Monday in the hospital from a violent assault that many Italians blamed on the nation's increasingly vitriolic political climate.

The 73-year-old conservative premier continued to receive treatment for two broken teeth and a fractured nose, Alberto Zangrillo, his personal physician, told reporters at San Raffaele hospital in the northern Italian town of Segrate, near Milan.

The premier was taking medication to ease the pain from injuries that caused him to lose half a liter of blood, Dr. Zangrillo said, adding that Mr. Berlusconi wouldn't require any surgery.

The assault on Mr. Berlusconi sparked a wave of national soul-searching over what prompted Massimo Tartaglia, a 42 year-old graphic designer, to throw a miniature replica of Milan's Gothic cathedral at Mr. Berlusconi's face. Mr. Tartaglia, who has no criminal record, remained in police custody, being questioned by Milan prosecutors.

Mr. Tartaglia's attorney didn't respond to email requests for comment sent to her law firm.

The attack stunned many Italians accustomed to seeing the media-tycoon-turned-politician face down critics with a smile. Despite months of scrutiny of his personal life and the recent resumption of two of his criminal trials for tax fraud and corruption, Mr. Berlusconi has denied the charges and sustained an upbeat and combative public image.

On Monday, images of Mr. Berlusconi's bloodied face appeared in news reports across the nation. A front-page editorial in Milan's Corriere della Sera bore the headline, "A Poisoned Climate."

Many analysts and lawmakers said in recent months that public debate had come under the sway of ill will felt toward Mr. Berlusconi. "The aggression against ... Berlusconi is the result of a climate of hate and tension, fed by those who identify him as the embodiment of all evil," said Domenico Nania, vice president of the Italian Senate and a member of Mr. Berlusconi's People of Freedom party.

San Raffaele's chairman, Rev. Luigi Verze, said Mr. Berlusconi expressed disbelief over the attack when the priest visited him Monday morning. Fr. Verze quoted the premier saying, "I don't understand why people hate me to this degree."

Interior Minister Roberto Maroni told a news conference that groups praising Mr. Tartaglia had sprouted overnight on Facebook. One Facebook page dedicated to Mr. Tartaglia supporters listed more than 65,000 fans. Such groups, Mr. Maroni said, were "inciting criminal activity."

"This crime needs to be prosecuted," Mr. Maroni said.

Pierluigi Bersani, leader of the left-wing Democratic Party, visited Mr. Berlusconi in the hospital on Monday. Mr. Berlusconi also received phone calls and telegrams from world leaders, including Pope Benedict XVI, French President Nicolas Sarkozy and European Commission President José Manuel Barroso, who wished the Italian premier a "rapid recovery," according to Mr. Berlusconi's office.

Agence France-Presse/Getty Images

Mr. Berlusconi was hit with a miniature of Milan's cathedral, like the one seen here.

New pipeline gives Asia gas without Russia

China's President Hu Jintao opened a pipeline to transport natural gas from Central Asia to China, state-run Xinhua news agency reported Monday.

The new pipeline is Central Asia's first major gas export route that completely bypasses Russia, and will play a key role in getting former Soviet republics in the region out of Moscow's exclusive economic sphere of influence. Construction on the pipeline, which runs through Uzbekistan, Kazakhstan and China's Xinjiang province, began in July 2008. China is scheduled to receive five billion cubic meters of natural gas next year through the pipeline.

Mr. Hu, together with other presidents of countries in the area, in a ceremony at a gas plant near the Turkmen-Uzbek border, described the pipeline project as a successful example of cooperation among countries in the region, Xinhua reported.

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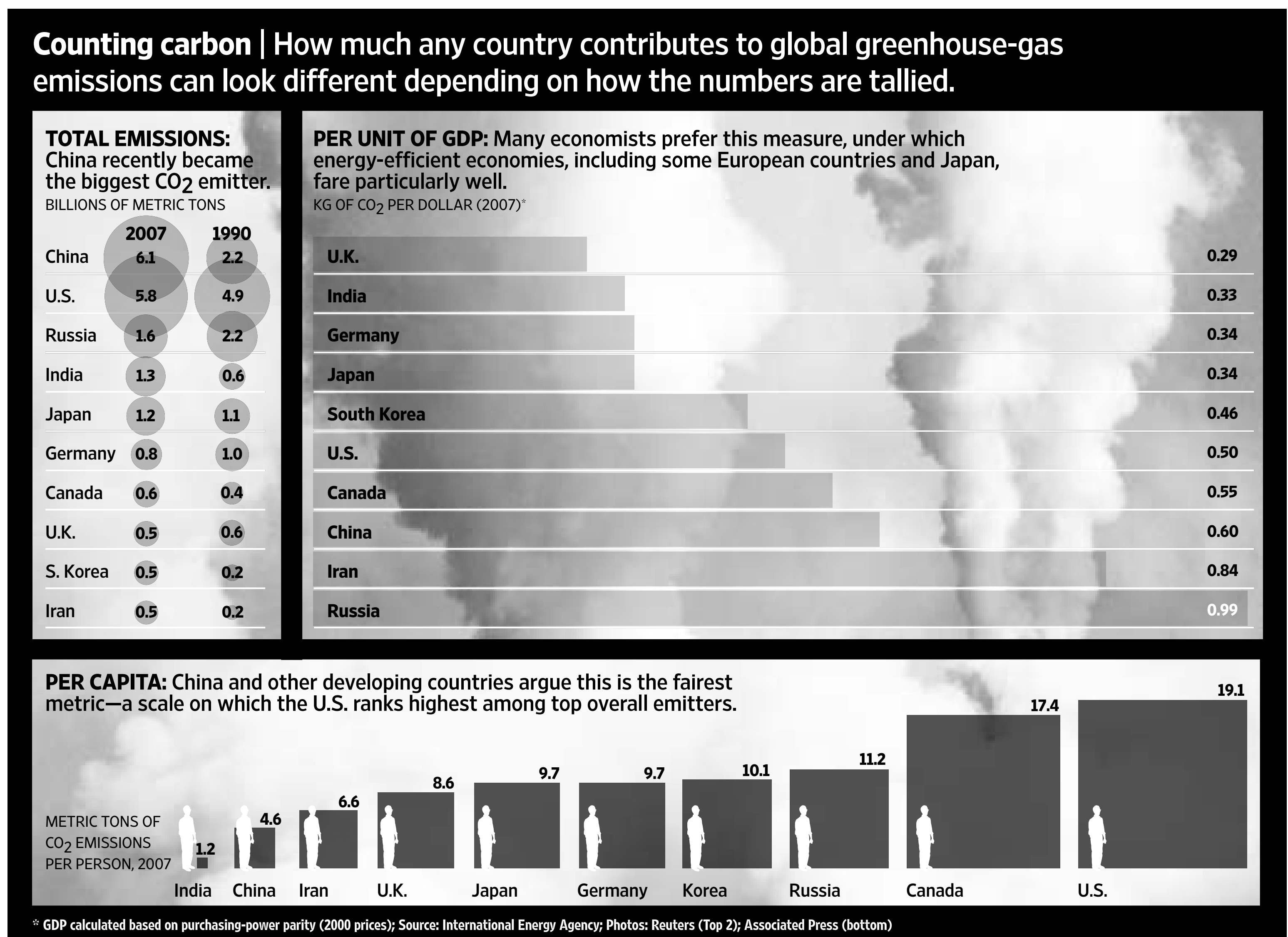
COPENHAGEN SUMMIT

Tensions boil over at climate talks

Poorer nations walk out, calling aid offers inadequate, while China says developed world should honor commitments

COPENHAGEN—Tempers flared Monday at the United Nations climate summit, as poor nations staged a walkout to protest what they called inadequate aid offers from rich countries, and the U.S. and China jockeyed for position.

By Jeffrey Ball, Alessandro Torello and Stephen Power



World leaders, including U.S. President Barack Obama, are expected to arrive in Copenhagen this week, ostensibly to try to seal an international pact to curb greenhouse-gas emissions and subsidize efforts by developing countries to adopt low-carbon energy technology and adapt to shifts in weather patterns or rising sea levels.

But the talk in Copenhagen is increasingly about scaled-back expectations. One possibility is a very general agreement in which developed countries promise to try to reduce their collective emissions by a specific percentage and to provide a pot of money to help pay for a cleanup in the developing world. The agreement might list specific emission-reduction promises already made by some of the world's biggest emitters, though those promises don't add up to cuts as deep as many scientists say would be necessary to avert potentially dangerous consequences from climate change. And the toughest questions—which countries would pay how much—would remain up in the air.

"Maybe the result you get from here is going to be less ambitious than we would like. But it would be better than nothing," said Sergio Serra, Brazil's ambassador for climate change.

The divide between rich and poor boiled over Monday, as negotiators for the Group of 77, which represents developing countries as well as large emerging economies such as Brazil, India and China, walked out of the negotiations in the morning.

They returned to the conference later in the day, but the underlying issues remained unsolved, Swedish Minister Andreas Carlgren said. This prompted a suspension in the official negotiation, and the chairman of the conference appointed two ministers to pursue consultation on how to solve the problem.

China, the world's largest greenhouse-gas emitter, is casting the talks as a referendum on what it calls the developed world's failure to clean up its act. Rich countries should "honor the commitments they have made" in the past, said Li Ganjie, China's vice minister of environmental protection.

At the heart of the disputes in Copenhagen are sharp disagreements over money. An existing treaty intended to curb global warming requires emission cuts from developed countries that ratified it but not from developing countries. That treaty, the Kyoto Protocol, doesn't demand emission cuts from the U.S. or China, which together produce 40% of global greenhouse-gas emissions, because the U.S. didn't ratify it and because China is classified as a developing country.

China is arguing that any new international agreement should continue to make more demands on developed countries than on developing ones. But most studies project that essentially all of the increase in global greenhouse-gas emissions in the next few decades will come from developing countries, with China topping the list, and so the fight is over how to ensure environmental action there.

Speaking to reporters late Monday, U.S. climate envoy Todd Stern said governments have "a long way to go if we're going to produce the kind of agreement we need."

"We don't have very much time. The clock is definitely ticking," he said, adding that the walkout hadn't helped. "Any time that's lost is not helpful."

The European Union has pledged a total of €7.2 billion ($10.52 billion) between next year and 2012 to jump-start efforts to curb emissions in developing countries. Officials from developing countries have called that offer inadequate.

"We need to see developed nations give us a plan of what [financial] transfers will come in five years, 10 years and how much over the years ahead, and we aren't seeing that," said Mamadou Honadia, who is part of the negotiating team for Burkina Faso.

A Nigerian delegation official said the EU offer of short-term funding was "pathetic."

That criticism drew indignation from European officials. "We are the only part of the world that has put money on the table, and we're criticized for it," said Stavros Dimas, the EU environment commissioner.

Jo Leinen, a member of the European Parliament from Germany, called on the U.S. and China to set more-aggressive targets for controlling their emissions.

The turbulence inside the Copenhagen conference was matched by disturbances and disorganization outside, as hundreds of people waited in line for hours in chilly weather to enter the conference center.

Over the weekend, Danish police arrested and detained more than 1,000 protesters. Danish lawmakers had passed legislation ahead of the conference allowing preventive detention, under which people can be held by police for up to 12 hours.

—Noah Buhayar and Spencer Swartz contributed to this article.

World's mayors gather for their own climate summit

Associated Press

COPENHAGEN—It isn't easy getting Italy's city dwellers out of their Fiats, off their Vespa scooters and onto bicycles to ride to work.

"It isn't a matter of painting a right lane and saying, 'This is a bike lane,' " explained Emanuele Burgin, a Bologna provincial councilor. "We realize we're far away from this."

But Copenhagen's lord mayor has her problems, too. Finding enough parking space for all those bikes is just the beginning when it comes to improving the city's environmental credentials."First, we must get rid of our coal plants, and we need to get that subway expansion built," Ritt Bjerregaard said. She also wants even more Copenhageners cycling than the one-third who pedal each day to the office or school.

Ms. Bjerregaard and some 80 other mayors and local officials, including New York's Michael Bloomberg and representatives of Tokyo, Jakarta, Toronto and Hong Kong, have converged on the Danish capital in their own climate and energy summit.

They will compare notes on how to combat climate change, and save money on energy and other costs.

This five-day "cities summit," which opened Monday, will parallel the second week of the U.N. climate conference, intended to boost international efforts to reduce emissions of carbon dioxide and other gases blamed for global warming.

Today's cities and towns consume two-thirds of the world's total primary energy and produce more than 70% of its energy-related carbon-dioxide emissions, the International Energy Agency reports. Most comes from providing electricity and heating to private, commercial and municipal buildings.

In a report last week, the IEA's executive director, Nabuo Tanaka, said local authorities "have significant potential to reduce greenhouse-gas emissions" through renewable energy and other means. "Yet relatively few are taking up the challenge," he said.

Cities face many obstacles—from extensive old infrastructure that would cost too much to replace, to political hurdles. The New York example is illustrative.

New York City last week approved legislation requiring owners of large buildings to conduct energy audits, replace insulation and take other steps toward energy efficiency. But under pressure from developers and real-estate interests, the measures were stripped of requirements for more costly improvements, such as total overhauls of heating systems and replacing windows.

Similarly, Mr. Bloomberg's efforts to cut traffic in Manhattan by charging fees to drive cars in certain neighborhoods was blocked by New York state politicians.

London succeeded where New York failed. In 2003, then-Mayor Ken Livingstone introduced a daily "congestion charge"—the equivalent of $16—on cars and trucks entering the central city during business hours.

Other big cities are also trying to lead on climate. São Paulo, Brazil, for example, has by law set as a goal a 30% reduction in emissions from 2005's level by 2013. It has already achieved a 20% cut, chiefly through its new system of generating biogas for energy at landfills.

Rome's environmental chief, Paolo Giuntarelli, said his city intends to be the "first capital in Europe with an ambitious plan for energy self-sustainability." The Romans have a motivation beyond care for the environment.

"We are bidding to host the 2020 Olympics," Mr. Giuntarelli said, and Rome believes only a green city can snare that prize.

China blasts U.N. rejection of wind farms

By Shai Oster

BEIJING—China lashed out at the United Nations and warned clean-energy investment could be hurt after the U.N. denied 10 Chinese wind farms carbon credits this month, and accused China of fudging the numbers to make the projects eligible for international subsidies.

China has been the chief beneficiary of the U.N.'s Clean Development Mechanism, or CDM, under which rich countries can invest in carbon-abatement projects in poor countries and get carbon credits that can be traded. But China has been accused by critics of gaming the system and the U.N. The CDM board this month said that China deliberately set electricity tariffs so that the 10 wind farms, with a combined investment of some six billion yuan (about $879 million), couldn't be profitable without the subsidies.

The rejection of the 10 projects has sparked an unusually public response from China's biggest wind-power developers, who banded together to issue a public letter Monday protesting the U.N. decision. The Chinese government and the companies called the U.N.'s decision-making process arbitrary, opaque and unfair.

The fight over a handful of projects illustrates the much bigger battle being waged in Copenhagen.

"If you reject wind power, what else is there?" said Sun Cuihua, an official at the National Reform and Development Commission, which oversees CDM projects in China.

"They say that we made up the electricity prices; that is an irresponsible thing to say," Ms. Sun told reporters.

The rejection "is sending a strongly wrong signal which will seriously damage the enthusiasm and confidence of investors to continue their investment in wind-power industry," said a statement by nine companies representing the projects, including the wind-power units of some of China's biggest state-owned companies such as utility China Datang Corp., and coal miner Shenhua Group Corp. The companies said they plan to present their letter at the climate-change summit in Copenhagen.

The fight over a handful of projects illustrates the much bigger battle being waged in Copenhagen over how and who will pay for reducing global warming, and which countries will benefit from the developments of new technologies.

The spat has called into question the legitimacy of the entire U.N. process, created as a way to help poor countries pay for the costly upgrades needed to reduce greenhouse-gas emissions. In theory, the credits are a way for rich countries to meet their domestic greenhouse-gas commitment by paying for a carbon-abatement project in a poor country that wouldn't have been built otherwise. But critics say the system has been distorted and abused, saying that China has sought to unfairly get investments for projects that fail to meet the U.N.'s standards because they would have been profitable to build anyway.

Associated Press

Chinese workers installed a wind turbine at the Dabancheng Wind Farm in China's Xinjiang region in November. The U.N. has denied carbon credits to 10 such projects.

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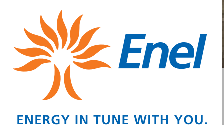

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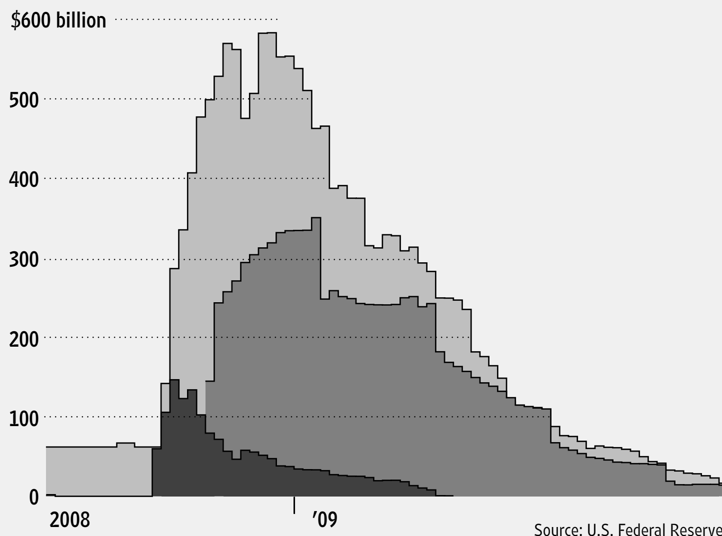

Fed exit plan emerges

Central bank deploys fewer emergency tools as economic picture brightens

A succession of encouraging economic reports has sparked intensified debate about when the Federal Reserve will rein in its substantial support to the U.S. economy.

But in fact, an exit by the Fed from its role as economic-rescuer-in-chief has already begun.

THE OUTLOOK

As Fed officials prepare to gather in Washington on Tuesday and Wednesday to discuss interest rates and other issues, it helps to see how this exit is unfolding to understand where it will go next.

Outsiders tend to look at Fed Chairman Ben Bernanke's choices in just one dimension: Will rates be increased, lowered or stay the same? Currently, investors are wondering when the Fed will stop saying short-term interest rates will remain low for an "extended period." When those words get dropped, the Fed, within a few months, is likely to start trying to push up overnight bank lending rates from near zero. Thus, when Mr. Bernanke used the phrase last week, the market breathed a sigh of relief.

"He is still in an 'extended period' mindset," Joseph LaVorgna, chief U.S. economist for Deutsche Bank, assured clients in a note Friday.

Mr. Bernanke, however, sees himself moving in a slow and deliberate way along a continuum of several different dimensions. Early this year, he would do anything it took to revive the economy. Now, he's inching gradually toward a "normalization of monetary policy," as he has described it.

The market sees the Fed controlling an on-off switch. Mr. Bernanke is eyeing a dashboard with many different dials.

Emergency short-term bank borrowing from the Fed's discount window has fallen from more than $100 billion last year to $19 billion in early December. Fed purchases of short-term business loans in the commercial-paper market have fallen from $350 billion in January to $15 billion. Loans to foreign financial institutions through overseas central banks have fallen from more than $500 billion to $17 billion.

Several programs—such as loans to Wall Street investment banks and commercial-paper loans—expire altogether in February, and another program, credit pumped into the consumer-loan market, will follow in March.

Though cautious about the outlook, rhetorically, the Fed has become steadily more upbeat in its assessment of the economy. In August, after a regular meeting of the Federal Open Market Committee, officials said the economy was leveling out and the Fed would use "all available tools" to promote a recovery. By November, they said the economy had "continued to pick up" and they would use just "a wide range of tools."

"We have a number of programs to try to keep down interest rates, to improve functioning in key credit markets," Mr. Bernanke told the Senate Banking Committee this month. "We'll have to unwind those programs, and we have a set of ways of doing that."

The latest round of data—better-than-expected jobs numbers, firmer consumer spending and confidence, improving trade and business inventories rising—is almost sure to move the Fed further along the continuum at this week's meeting.

Officials could upgrade their assessment of how the economy is performing. With emergency programs expiring, they could note they are narrowing how many tools they will use to promote recovery. At some point, they could also make it more expensive for banks to take out emergency short-term loans directly from the central bank at its discount window.

They have several reasons to wait on the bigger question about when to start raising short-term lending rates more broadly. They need more evidence that a recovery will be sustainable without so much government support. With the U.S. unemployment rate still so high at 10%, they also believe they can afford to wait because there is a lot of slack in the economy that drives down inflation.

The timing of rate increases, says Alan Blinder, a Princeton professor and former Fed vice chairman, "depends completely on the progress of the economy."

He sees the economy growing at a robust pace in the coming months, pushing the Fed to start raising rates in June or August 2010. Doves at the Fed, who focus heavily on the high jobless rate, will push to wait even longer. Mr. Bernanke has made clear he's looking at more than just the jobless rate and inflation—in recent weeks he has pointed to inflation expectations, asset prices and the value of the dollar as other factors in his thinking.

While officials wait on the question of "when" to raise rates, they are likely to strategize in greater detail at coming meetings a complicated question of "how."

In the old days, when the Fed wanted to tighten financial conditions, the task was easy. It pulled a few billion dollars out of short-term lending markets by selling Treasury bonds and taking cash in return. That pushed up an interest rate called the Fed funds rate, which banks charge each other on overnight loans, and in turn it pushed up other short-term borrowing rates.

Because the Fed has flooded the financial system with so much money, raising the Fed funds rate won't be so simple this time. The Fed could try to shrink its $2 trillion balance sheet by reducing its large portfolio of mortgage-backed securities and Treasury bonds. It could also borrow money against that portfolio. Either step would drain cash from the financial system and, if done in large amounts, could help push up short-term rates. The Fed could also bid up the cost of borrowing by paying a higher interest rate on the reserves banks leave parked unused at the central bank.

Officials are reluctant to sell down mortgage-backed securities, as it could hurt the part of the economy most in need of help: housing.

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Health-care vote creates tough choice for Democrats

[Capital Journal]

By Gerald F. Seib

The fate of pending U.S. health-care legislation—and its political impact next year—likely hangs on one simple question: Will Democrats conclude they are better off passing a highly controversial bill than passing nothing at all?

Most likely, the answer to that question is yes.

At this stage in the sausage-making process that is writing legislation, nobody is under the illusion he or she is working on anything like the perfect health bill, or one that is growing in popularity. A series of recent polls shows the opposite—that support is eroding the longer the bill hangs in the balance.

Which presents Democrats, broadly speaking, with a gut-level decision: to push across the finish line, or, alternately, to take advantage of multiple opportunities that will be made available in the next two weeks to pull the plug instead.

The legislation's fate in the Senate now essentially comes down to the decisions of three wavering Senators: Democrat Ben Nelson of Nebraska, Democrat-turned-independent Joe Lieberman of Connecticut, and Republican Olympia Snowe of Maine. If any two of those three Senators support the bill, it will get the 60 votes needed to break a Republican filibuster and pass the Senate. If they don't, it won't.

Joe Lieberman

To get to this point, Senate Democrats already have had to nearly ditch the "public option," the idea of a government-run health-insurance plan as one of the options offered to uninsured Americans. To get across the finish line, they may have to compromise further, on one of the ideas that has become part of the alternative to the public option: allowing uninsured Americans approaching retirement age to get insurance by buying into the government's Medicare program.

Senate Majority Leader Harry Reid, not exactly a bundle of charisma, is proving himself exceptionally deft at shooting such gaps, so don't count him out on this gambit either. Still, herein lies Democrats' first chance to pull the plug: refuse to make the compromises necessary to get that 60th Senate vote.

If the bill does pass the Senate, the question will be whether a much broader group of Democrats in the House will decide to swallow hard and accept a bill with parts they don't love, and may even hate. Liberals will have to accept the dilution—some call it the elimination—of the public option they crave. Moderates and conservatives will have to accept a watering-down of the language they injected in the House version blocking coverage of abortion services in insurance policies bought with government assistance.

The decision will be based in large part on substantive judgments made by individual lawmakers, of course: Is the bill good enough despite the parts I don't like? Does the positive I see outweigh the negative I fear?

But, let's face it, part of the decision also will be based on a political calculation about whether Democrats are better off with something that doesn't totally please anybody, or with nothing at all.

And most Democratic leaders have concluded that, as a political matter, something beats nothing. "No bill at all is worse than having a bill," says Mark Mellman, a pollster who works regularly for Democratic leaders in Congress. "And I think a lot of Democrats believe that a public display of failure to govern will be very costly politically, and even more costly than their concerns about the specifics of the legislation."

Mr. Mellman is a veteran of the Democrats' long and ultimately failed death march through health-reform legislation in 1993 and 1994. And in that case, the party ended up with the worst of all worlds: It failed to pass a health-care overhaul, so it had nothing to show its troops for the effort, and mobilized its enemies by proposing a plan they could unite in despising.

What followed: In 1994, Democrats suffered a rout at the polls, losing 54 House seats and 10 Senate seats, and relinquishing control of both chambers.

Thus, many Democrats have concluded from that experience that there's now little to be gained politically from trying really, really hard to change the health-care system and failing at the end of the process. Their friends will be mad, and their enemies will still be their enemies. Just as important, voters in the middle, who can't decide what they think about health care, may well decide they do think Democrats can't get things done.

"The bill right now is unpopular," says political scientist William Galston of the Brookings Institution, who worked in the Clinton White House. "There's no question about that, and you might reason therefore that the political fruits of passing an unpopular bill will be increased unpopularity."

But, Mr. Galston says, the fear of unpopularity is trumped by another concern: "The crisis of confidence the American people are now experiencing is in part a crisis of competence. They're losing confidence government can do much of anything. For better or worse, the Democratic party has wagered its competence on a single number on the roulette wheel: health-care reform."

If a bill passes, Democrats will have to hope, not implausibly, that a health-care overhaul looks to voters like more of an achievement once it's signed into law than it did while being assembled on the factory floor.