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U.K.'s Darling mulls extra tax on bank bonuses

Mark Bourdillon for The Wall Street Journal

U.K. Chancellor of the Exchequer Alistair Darling, entering The Wall Street Journal Future of Finance Initiative, is due to present his pre-budget report Wednesday. Among the measures currently under consideration by the U.K. Treasury is a one-off tax on large bonuses for bankers.

By Alistair MacDonald And Laurence Norman

HORSHAM, England—U.K. Treasury chief Alistair Darling signaled that bankers should expect short-term pressure on large bonuses in this week's budget report to Parliament, but stressed the importance of the financial-services industry to the U.K.

Two days before he will deliver an important "pre-budget report" of tax and spending plans, however, Mr. Darling—speaking at the Wall Street Journal Future of Finance Initiative—also hinted that he won't be looking to levy a large number of taxes or spending cuts this time.

The chancellor is due to present his pre-budget report Wednesday. Among measures the U.K. Treasury is mulling are a one-time tax on large bonuses for bankers, though people familiar with the matter say the Treasury has abandoned harsher measures such as a windfall tax for banks.

"People do need to be sensitive to the views of people who are not in the same wage bracket," he said.

The issue of bankers' bonuses is particularly incendiary in the U.K., where the public is angry because, after having bailed out banks with taxpayer funds, they believe they are now seeing these banks making lots of money.

"The industry as a whole does need to show some degree of restraint, some sort of acknowledgment" that things cannot return to pre-crisis ways, he said. Mr. Darling added that bankers need to be able to "look their neighbors in the face" and justify the work they do.

Worries of a levy on bonuses drew criticism from some banks Monday.

A spokeswoman for the British Bankers' Association said, "A tax regime should encourage, not discourage, businesses to stay in the U.K., and overseas business to relocate into the U.K."

Mr. Darling said, however, that he doesn't want to hurt the financial-services industry in Britain, which employs about a million people and at its peak was responsible for around a quarter of the country's corporate-tax revenue.

"It is a big industry for us and I am determined that we do not do any thing that undermines that position," Mr. Darling said.

Mr. Darling will be delivering one of the trickiest spending reviews in postwar British history. He must balance the need to cut the U.K.'s large deficit without taking too much money out of the economy as it returns to growth or fostering unpopular job and funding cuts ahead of an election that is expected next May.

On Monday, he gave notice that he won't complete a detailed review because there is still "too much economic uncertainty" and that taking too much money out of the economy too early could hurt the return to growth.

Rather, the British public "understand that in the me-

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World Watch

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

Editorial & Opinion

How President Obama could give meaning to his Nobel Peace Prize. Page 14

German stance on troops falters

By Marcus Walker

BERLIN—A row over a deadly airstrike in Afghanistan threatens to rob German Chancellor Angela Merkel's government of the political backing it needs to meet a U.S. request for more troops.

Ms. Merkel's government

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is being pressured by German media and opposition politicians following fresh revelations about the Sept. 4 airstrike in Kunduz, northern Afghanistan, which is thought to have killed dozens of civilians.

Meanwhile, the Christian Social Union, a coalition partner, has come out against sending more troops to Afghanistan. The CSU's leader Horst Seehofer said at the weekend he has "little sympathy" for adding to Germany's nearly 4,500 soldiers in the country.

Leaks from a classified North Atlantic Treaty Organization report on the airstrike raised questions on why Defense Minister Karl-Theodor zu Guttenberg, a rising star of German conservatism, justified the attack until last week.

The airstrike, ordered by a German colonel and carried out by U.S. planes on two fuel trucks hijacked by Taliban insurgents, killed roughly 100 people including 30 to 40 civilians, according to NATO investigators.

Mr. zu Guttenberg endorsed the bombing as "militarily appropriate" when he became defense minister in November, but changed his view last week after it emerged that the German military had known of numerous civilian casualties, but had hidden the information.

The resulting uproar led to the resignation of Germany's most senior soldier, a deputy defense minister, and a cabinet member who was defense minister at the time of the bombing.

Germany is the third-largest source of foreign troops in Afghanistan after the U.S. and U.K. The public in Germany, as in many other NATO countries, is mostly opposed to the deployment. Around 69% of Germans want their troops to come home from Afghanistan as soon as possible, while only 27% say the troops should remain in the country, according to a survey last week by opinion-polling institute Infratest Dimap.

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PAGE TWO

Awaiting assurances on banks' future

[Agenda]

By Patience Wheatcroft

Tomorrow, Alistair Darling will deliver his latest plans for running the U.K.'s economy. The chancellor of the Exchequer now has to go through this ritual twice a year, since his predecessor in the role, Gordon Brown, instituted a Pre-Budget Report to complement the annual Budget.

Yet Mr. Brown has already stolen some of Mr. Darling's material. Yesterday, the prime minister laid out plans to cut an extra £3 billion out of government costs and said some public-sector pay had "lost touch" with political reality.

"This culture of excess must change and will change," he thundered, as if it had come about without the connivance of the government, which has been writing the checks.

The chancellor might rightly feel aggrieved that the PM chose to pluck this low-hanging fruit, leaving him to address the rather pricklier issues such as bankers' bonuses and the outlook for the economy. The pitfalls entailed in the latter have been demonstrated amply by Mr. Brown himself, as a quick glance at his final budget speech in 2007 reveals.

It was a paean to the success of his decade as chancellor, boasting that, "The British economy is today growing faster than all the other G-7 economies....And that after 10 years of sustained growth, Britain's growth will continue into its 59th quarter...and then into its 60th and 61st quarter and beyond." He favorably contrasted Britain's borrowing position with that of the U.S., Japan and the euro area, rattling off that debt as a percentage of national income would grow from 38.2% in 2007-08 to 38.5% the following year and 38.8% in 2009-10. His crystal ball even enabled him to

Reuters

Gordon Brown said some public-sector pay had 'lost touch' with political reality

see a couple of years further ahead, but we need not go that far to see just how mistaken the speech was, both in tone and content. For it was delivered just six months before the U.K.'s banking crisis hit, with the collapse of Northern Rock.

Now, those forecasts look ridiculous, with debt running at close to 60% of GDP, and that without taking into account the

Political reality points to a strong risk of the current British government delaying the action that is needed

huge off-balance-sheet borrowings that have been amassed by his government.

Mr. Darling's main task tomorrow will be to try and give some reassurance that there is a plan for bringing down this debt. The same problem confronts many of the world's finance ministers although not, for most, on the same scale. The OECD has been vociferously warning that the level of debt, and cost of servicing it, threatens to be the biggest damper on restoring growth in the world's economies.

But the risk in the U.K. is that, whatever lip service the government may pay to the need to bring the public finances under control, there may be a lack of incentive to take action. Despite some minor wavering in the opinion polls, the odds still point toward a Conservative victory at the next election. What incentive is there for a departing administration to leave behind it anything other than the most difficult of situations for its successors to confront?

The political reality points toward a strong risk of the current British government delaying the action that is needed. There may be loud rhetoric about spending cuts and the need for efficiencies in public services but don't expect the axe to fall hard in the months before the election, which must be held before the summer. Instead, what is inevitable is a slate of measures that are deemed likely to win plaudits from those who might still be persuaded to vote Labour. There is, after all, a streak of optimism, or self-delusion, which besets most politicians and is currently persuading some members of the government that total defeat might be avoided at the polls.

Top of the list here comes a move against banks and bonuses. This wasn't so much leaked over the weekend as poured out in the direction of any available media. Yet what was also clear was that the mechanism to be employed wasn't close to being established.

Today, assembled in Sussex, is a collection of experts with the ability to offer the chancellor some sound advice on the matter. At the Future of Finance Initative conference, being hosted by The Wall Street Journal Europe, the industry's finest will be joining politicians, regulators and international business leaders to try and map out a route by which the financial markets may avoid precipitating a crisis on the scale of that which has wreaked such havoc on economies.

They will be unable to avoid the issue of remuneration, although restrictions drafted by the G-20 go a long way toward righting the worst failings that had undoubtedly contributed to the recent debacle.

Yet their combined talents may struggle to come up with a way of giving Mr. Darling what he wants: a way of combining his wish to appease public anger against the banks, no matter how undiscriminating that reaction may be, with a desire not to damage the financial-services industry in Britain, still a crucial part of the economy and any prospects for its recovery.

There have been windfall taxes on the banks before, the last instituted by a Conservative chancellor, Sir Geoffrey Howe, in 1981. It raised just £400 million, which doesn't today make much of a dent in either the banks' coffers or the national debt.

But now isn't the time to take money away from the banks. They need to build up their capital and be in a position to provide the lending that still isn't flowing freely. It is important to the shareholders, the pension funds and now the taxpayer, that the banks make sizeable profits. Bonuses, however, are another matter. It is not merely the man in the street who is angry about the swift return to bumper payments, business leaders in other sectors can be heard echoing that view.

A one-off claw-back might cause yelps from the City and would be very hard to construct but it would win votes without doing any real permanent damage.

What's News

■ **Rusal faced a setback** in its recovery plans as stock-exchange officials in Hong Kong delayed approval of its IPO, seeking reassurance about the aluminum giant's debt burden. The IPO now is likely to take place in the first half of next year. 25

■ **The U.S. EPA said** greenhouse gases are a danger to public health, setting the stage for new regulations for cars and large emitters. 7

■ **UBS said** its private bankers can visit foreign-based clients again, months after the bank reached a deal to resolve legal troubles with the U.S. tax authority. 21

■ **S&P warned** that issues with government finances could lead to downgrades on Greek and Portuguese sovereign-debt ratings. 4

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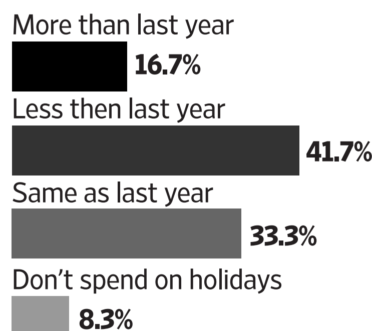

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FUTURE OF FINANCE

Policy makers are facing a dilemma

By Dave Kansas

HORSHAM, England—Alistair Darling's assurances at the opening of the Future of Finance Initiative that he won't let financial reforms hurt the British economy highlights a dilemma facing many of those gathered at The Wall Street Journal Future of Finance Initiative.

Policy makers are having to weigh the future benefits of a more stable financial system against the immediate costs to financial firms. An impact assessment by the European Parliament's directorate general for internal policies estimated that tighter regulations on hedge funds and private-equity firms could slow economic growth in the EU by up to 0.2 percentage points a year. (See page 6.) Meanwhile, many banks have returned to profitability with plans to pay big bonuses, provoking a political outcry.

Opposition Conservative Party leader David Cameron will also address the select group of financial industry executives and global policymakers meeting Monday and Tuesday to debate financial industry reform. Along with U.K. politicians, the conference will also hear from Mario Draghi, Governor of the Bank of Italy and Chairman of the Financial Stability Board and Paul Volcker, former head of the Federal Reserve and current Chairman of President Barack Obama's Economic Recovery Advisory Board.

The Future of Finance Initiative is a conference hosted by The Wall Street Journal, publisher of this newspaper. The Journal hosted a similar conference in Washington last Spring. At that meeting, Treasury Secretary Geithner defended the Obama administration's handling of the financial crisis and discussed the Public-Private Investment Program aimed at getting toxic assets off of bank's balance sheets. Participants greeted the PPIP with some skepticism which proved prescient.

Since last Spring, the financial system has steadied—something Mr. Geithner anticipated—but it still remains fragile. Governments are still deeply involved in the sector, owning banks, providing guarantees and actively trying to sort out how to prevent a future financial crisis. During the conference, participants will debate new regulatory frameworks, examine the success—or lack of it—of various efforts to rescue the global banking system and discuss various financial stability proposals. Barclays President Robert E. Diamond and hedge fund manager George Soros will also address participants.

Mark Bourdillon for The Wall Street Journal

Chancellor of the Exchequer Alistair Darling, left, with Editor in Chief Robert Thomson at The Wall Street Journal Future of Finance Initiative in Horsham, England. Mr. Darling said the U.K. economy is in a better position than it was six months ago

Darling weighs bonus tax

Continued from first page

dium term you have to take some tough decisions," he said.

Mr. Darling also hit out at proposed European regulation on hedge funds and other alternative asset managers, saying that the European Commission did "not understand hedge funds." He has invited the commission's new financial-markets commissioner Michel Barnier to discuss regulation in London.

Mr. Darling also played down calls from some emerging nations for some kind of new global reserve currency. He said that isn't something likely to happen for a long time, and what must first happen is that countries, especially large emerging economies, start tackling the factors that led to large global imbalances.

"I don't think it's immediate, no," Mr. Darling said. "I think trying to create a new reserve currency out of nothing is something which would take some thought. Before you get there you have to get some acceptance that you've got a problem in the first place. You've got a problem in relation to these imbalances and I think that needs to be dealt with."

Mr. Darling said the U.K. economy is in a much better position than it was just six months ago, and he said the global economy had made much better progress over the last 12 months than many had expected. However, he said there there was no room for complacency and added there is "still a lot of uncertainty around."

Ahead of the pre-budget report, he said the government's priority is first to "get the recovery firmly established and then of course to take action to reduce the amount of borrowing."

U.K. will insure loans from RBS

By Patricia Kowsmann

LONDON —The U.K. government Monday disclosed that almost a third of assets it will insure from 70%-owned **Royal Bank of Scotland Group** PLC are loans, including a "significant portion" that used real estate as collateral.

RBS shareholders will vote next week on the bank's participation in the so-called Asset Protection Scheme, under which the government will insure £282 billion ($464 billion) of loans and investments against any losses over an initial £60 billion that would be borne by RBS. The plan, in principle agreed on in February to ring-fence assets that were turning sour amid the global recession, originally covered £325 billion of assets. Since then, however, market conditions improved, and that amount was lowered.

According to plan details published by the Treasury, among the £282 billion in assets being protected, £80 billion are loans, while £55 billion are related to consumer finance, and £40 billion commercial real estate finance.

RBS is the largest bank recipient of government aid in the world, having received £45.5 billion from the U.K.

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Mixed views on U.K. economy

Businesses are optimistic about outlook and their prospects, but many consumers aren't buying

By Paul Hannon

LONDON—British businesses are becoming more optimistic about the economic outlook and their own prospects, but consumers are growing more cautious as they anticipate the tax increases and spending cuts needed to bring soaring government debt under control, surveys showed.

A mixed bag of news awaits Chancellor of the Exchequer Alistair Darling as he prepares to deliver his prebudget report Wednesday. Mr. Darling is expected to stick to his March prediction that the economy will grow by 1% to 1.5% in 2010, and not take any dramatic steps to cut the government's huge budget deficit, for fear of prolonging the recession.

In a speech Monday, Prime Minister Gordon Brown laid out a string of savings that he said would help save £12 billion ($20 billion) a year over the next four years and help pare down the U.K.'s soaring budget deficits, that is up from an initial £9 billion a year in savings identified in April. He said the government would slash the pay bill for senior civil servants by 20% for the next three years.

Getty Images

Prime Minister Gordon Brown on Monday laid out a string of savings he said would help pare the U.K.'s soaring budget deficits.

Other efficiencies outlined by Mr. Brown include slashing the public-sector consultancy and marketing budget—saving £650 million—increased use of technology and the joining-up of government back offices to allow for cost savings.

A monthly survey commissioned by lender Lloyds TSB found that 67% of businesses were more upbeat about the outlook for the economy in November than in August, while 16% were more downbeat. That 51-point balance was the highest in the survey's seven years.

However, businesses were significantly less bullish about their own prospects, indicating that they are likely to remain cautious about new investments.

Business investment in the U.K. fell for a fifth successive quarter in the third quarter, dropping 3% from the previous three months and sinking 21.7% from a year earlier.

The Lloyds survey found that 47% of businesses expect a higher level of activity over the coming 12 months, while only 9% expect activity to decrease. The balance of 38 percentage points compared with a 27-point spread in October, and was the highest since April 2008.

However, Lloyds said that measure of confidence remained weak by historic standards. The U.K. economy contracted in the third quarter, and it will therefore be the last of the Group of 20 leading economies to emerge from recession.

A survey by the British Retail Consortium found that retail sales rose for the third straight month in November, but at a much slower rate, raising doubts about the strength of consumer spending during the crucial holiday shopping season.

Sales in stores that have been open for at least a year were 1.8% higher than in November 2008. The increase in sales was smaller than the 3.8% rise recorded in October, and also below the 2.8% forecast by economists surveyed by Dow Jones Newswires last week.

The slowdown in retail sales reflects a surprise weakening of consumer confidence last month as households counted the cost of the recession, and looked forward to paying more tax.

"Consumer confidence is fragile and has taken a turn for the worse," said Stephen Robertson, the BRC's director-general. "We're the only major economy still in recession. Uncertainty over jobs and future tax increases and government spending cuts is making customers more cautious."

In his speech, Mr. Brown also announced a review of senior civil-servants pay and said pay will be increasingly linked to performance.

Mr. Brown said that the cut in pay will save £100 million a year and that the package of reforms to senior officials' compensation will save £500 million over three years. He also said the government will seek to shift some 15,000 civil servants out of London to less expensive parts of the country in coming years.

Philip Hammond, a senior member of the opposition Conservatives' Treasury team said the government's record in previous cost-cutting campaigns had been poor.

"Labour have had repeated efficiency drives over the last 12 years which have identified billions of pounds of potential savings. Yet they have only achieved a fraction of the savings claimed," he said. "Waste and inefficiency remain endemic."

—Laurence Norman contributed to this article.

Hung-parliament scenario weighs on U.K.

By Laurence Norman

LONDON—Concern that neither Prime Minister Gordon Brown's Labour Party nor the opposition Conservatives will be able to win a clear majority in the next election, set to take place by next June, risks overshadowing Chancellor of the Exchequer Alistair Darling's Wednesday report that will set out government spending and borrowing plans.

That concern is based on a shift in opinion polls recording the likely national vote share, which have seen Labour's support edge up, narrowing the lead of David Cameron's center-right Conservative Party.

Long convinced the Conservatives were headed for a comfortable win, some investors have now started to take seriously the possibility of a hung Parliament that would be unable to pass key legislative changes. In the U.K. political system, a government generally resigns when it is unable to pass major legislation.

The concern is that a minority or coalition government would have a much harder time making the tough calls on tax and spending plans needed to pare deficits expected to top 12% of gross domestic product this year.

> A minority or coalition government would have a harder time making calls on taxes and spending.

"I think with a hung Parliament, the U.K. would probably not get its fiscal position sorted out before a market crisis hits, sparking a weak pound, higher gilt yields and a possible ratings downgrade. That would be ugly for sterling assets," said Michael Saunders, U.K. economist at Citigroup.

Yet some believe worries about a hung Parliament are premature.

In just one of the U.K.'s 16 post-war elections—in February 1974—did an election fail to produce a majority. Also, under the U.K. voting system, it isn't the overall national result that counts but the outcome in each district. And polls continue to show a well-financed Conservative Party is performing well in the swing seats that will hold the key to victory.

Moreover, with the smaller Liberal Democrat Party saying it would be prepared to make "savage" cuts to tackle the deficit, a coalition government would probably still be able to design a credible fiscal-consolidation plan.

The stakes are high for the government. Standard & Poor's in May placed the U.K.'s triple-A sovereign credit rating on negative outlook and said the fiscal plans of the next government would be critical to whether an actual downgrade followed. Fitch has warned the U.K. is the major economy "potentially most at risk" of a downgrade.

A downgrade could lead to large-scale selling of sterling and a sharp rise in borrowing costs as domestic and foreign investors dump U.K. assets.

Gemma Tetlow, senior research economist at the Institute for Fiscal Studies, said a politically fragile government would struggle to grapple with the U.K.'s soaring debt, which is currently projected to reach 80% of GDP by the middle of the next decade.

"Even if you have a very strong government, it is still going to face some very tough choices on the public finances," she said.

She warned that, as in 1974, a minority government could well look to hold an early election to win a clear mandate. In that scenario, tough decisions on tax increases or spending cuts could be put off, she warned.

S&P warns on Portugal, Greece ratings

By Michael Wilson And Mark Brown

Standard & Poor's Corp. on Monday warned on Greek and Portuguese sovereign-debt ratings, pointing to issues with government finances that could lead to downgrades.

Debt markets have been watching for news on Greek debt ratings as both the European Union and the European Central Bank try to raise the pressure on Greece to reduce its deficit. ECB President Jean-Claude Trichet, speaking at the European Parliament on Monday, again urged governments to rein in ballooning budget deficits in a "timely manner." He described Greece's budget situation as "very difficult," but added that the Greek government is expected to take courageous steps to trim the deficit.

S&P put Greece's single-A-minus rating on negative credit watch, saying the government's fiscal consolidation plans are "unlikely to secure a sustained reduction in fiscal deficits and the public debt burden." The move follows rival ratings firm Moody's Investors Service's decision Oct. 29 to put Greece's A1 currency ratings on review for possible downgrade.

S&P also revised its outlook on Portugal's sovereign-credit rating to "negative" from "stable," blaming a deterioration in public finances. There is now increased potential for a downgrade next year for Portugal, which has a long-term rating of single-A-plus at S&P, if deficits remain wide, growth stays weak, and the debt burden continues to climb, the agency said.

Without economic growth, the agency thinks Portugal's government will be reluctant to tackle the problem before 2011, and its stated aim of cutting the deficit to 3% of GDP by 2013 is "a considerable challenge."

There was no official response from the Greek finance ministry on Standard & Poor's decision, but it doesn't usually comment on any moves by credit-rating firms.

Economists at Greek banks said that the move by S&P didn't come as a surprise as it reflects growing investor concerns over Greece's fiscal outlook at a time when this year's budget deficit is forecast to reach 12.7% of GDP, more than four times the 3% limit for euro-zone members, and ballooning public debt, and follows similar moves by other leading international credit-rating firms.

Platon Monokroussos, head of financial markets research at Eurobank EFG, said the negative watch from S&P was "a net negative for the domestic equity and government bond markets, reflecting rising investor worries over the country's fiscal outlook."

S&P said that while Greece's new government, led by Prime Minister Georgios Papandreou, has acknowledged a large 2009 budget shortfall and announced reforms that could bring greater transparency to the public finances, the ratings firm considers the plans for fiscal consolidation to be tentative.

—Philip Pangalos contributed to this article.

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Incumbent is likely Romanian victor

With most of the vote counted, Basescu appears to have retained the presidency, but opposition will contest outcome

By Joe Parkinson

BUCHAREST—Romanian voters appear to have handed center-right President Traian Basescu a second term by a razor-thin margin, but the opposition was quick to allege improprieties and contest the outcome.

Election authorities said that with 99.95% of the vote counted, Mr. Basescu, 58 years old, had won 50.33% of the vote, while opposition Socialist Democratic Party leader Mircea Geoana, a 51-year-old former Romanian ambassador to Washington, received 49.66%.

Analysts, however, said they expect the results to hold. Alina Mungiu-Pippidi, Democracy Studies Chair at Berlin-based Hertie School of Governance, said there is no mechanism that gives recourse to losing candidates to contest the official results.

"Stronger claims have been made before, but the electoral office has never accepted any," she said.

The narrow margin followed a bitter campaign and raised questions about whether the next president will have a strong-enough mandate to push through tough changes needed for one of the European Union's newest members.

The president's most pressing task will be to clear away a political vacuum and lead negotiations with the International Monetary Fund and the European Union over restarting a €20 billion ($29.7 billion) loan.

The financial markets fell on the election results, with Romania's BET stock index closing down 4.5%.

Analysts said that while Mr. Basescu isn't against the IMF, he will likely struggle to appoint a negotiating team to meet with the fund, thus delaying a new agreement until well into the new year.

"If Basescu struggles to form a government, it is the worst-case scenario because we won't have an IMF loan ... and that money is really, really important just to keep the economy alive," said Alina Inayeh, director of the Black Sea Trust, a policy institute.

Romania's economy has swung from posting the fastest growth in the European Union last year to a 7% contraction in 2009.

Mr. Basescu, a plain-speaking former ship's captain, may struggle to find the 48 seats he needs from other major parties to form a parliamentary majority. He has repeatedly clashed with opposition lawmakers during his five-year term.

Initial exit polls broadcast Sunday pointed to an opposition victory, but late votes from Romanians abroad overwhelmingly backed the president, according to the official election authority.

Mr. Basescu insisted he was the winner, telling his supporters: "I assure you that the correct polls show that I have beaten Mircea Geoana."

But the Socialist Democratic Party said it will contest the result, with an official spokesman alleging that the Basescu campaign had committed widespread irregularities.

The party, also called the PSD, said the number of voided ballots was higher than the margin of victory.

The Vienna-based Organization for Security and Cooperation in Europe, responsible for supervising the poll, said its assessment of the election was "positive" but cautioned that "remaining shortcomings and renewed allegations of irregularities need to be addressed."

Analysts said the outlook for the economy and markets was grim.

"This is not what the markets were looking for—they wanted a clear result and they got the opposite," said Nicolaie Alexandru-Chidesciuc, chief economist at ING in Bucharest.

"But for the IMF deal the result is a net positive, as Basescu has said he won't seek to renegotiate the terms, which the Socialists would have," he added.

—Christopher Emsden in Milan contributed to this article.

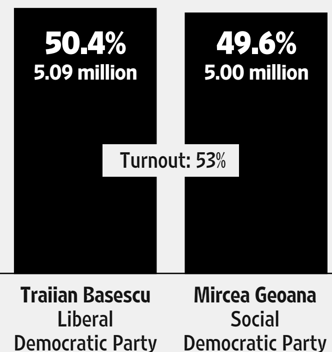
Romania's President Traian Basescu waves as he leaves his electoral campaign headquarters in Bucharest on Monday.

Reuters

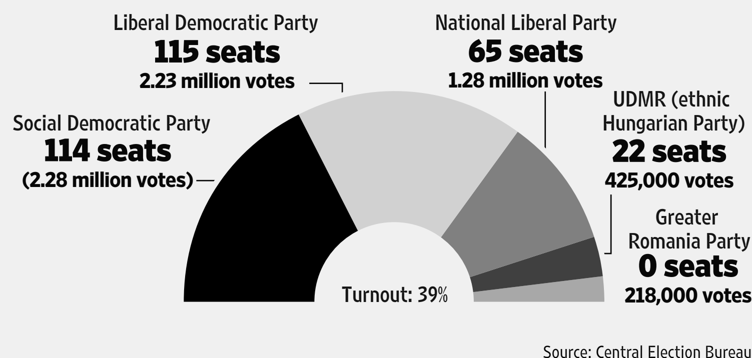
On edge

The tight presidential election echoes last year's general election, which handed the two main parties almost the same number of seats

2009 presidential vote, second-round runoff, 99.1% of votes counted



Nov. 30, 2008 vote for 334 seats in lower house, 5% cutoff, Votes for Chamber of Deputies:



Source: Central Election Bureau

Hedge-fund rules to raise costs

By William Hutchings And Matthew Dalton

The European Commission's proposal to tighten regulation on hedge funds and private-equity funds could cost asset managers €22 billion ($32.7 billion) in one-time charges and almost €4 billion in annual charges, according to an impact assessment published Monday by the European Parliament's directorate general for internal policies. It could slow economic growth in the European Union by as much as 0.2 percentage point a year.

However, the impact assessment offered a wide range for the one-time costs of complying with the proposed rules—from €1.1 billion to €22 billion—but said it believed the €1.1 billion figure was "likely to represent an underestimate." It said the charges would be driven principally by the requirement to make more information available to outsiders, changes to internal processes and revised capital requirements.

The directorate also warned that any benefits of the proposed directive might disappear as the industry finds ways around the rules. It estimated that the regulations would increase transaction costs in the industry—which it estimated at 3% of the total value of the transactions—by as much as 0.3 percentage point in the short term and between 0.3 percentage point and 0.75 percentage point in the longer term.

The report said that the lower average growth rate it predicted for the EU "would come with the side benefit of lower volatility. We estimate that the worst recessions might involve up to 0.8% less contraction in gross domestic product, with peak unemployment about 1.3% less as a consequence of busts being smaller."

"Not only will Europe's economic growth rate and employment be affected but there will be long-term consequences for Europe's pensions too," said Andrew Baker, chief executive of the Alternative Investment Management Association, a trade association representing the hedge-fund industry globally. "We believe the directive should be substantially revised so that new regulation of the sector is proportionate."

Jean-Paul Gauzes, the Frenchman who is leading debate in the parliament, already has proposed major changes to the commission's directive. The parliament and European national governments must approve the proposal before it can become law.

The commission's proposal would subject most funds managing more than €100 million to registration requirements. The commission would have the authority to set limits on the amount of borrowed money, or leverage, these funds can use to boost their returns.

Both the council and parliament are likely to oppose giving the commission the power to set leverage levels, opting instead for national governments and a new EU regulator to have that authority. Mr. Gauzes has proposed requiring investment funds of any size to register.

The European Commission is the European Union's executive arm.

"The Impact Assessment from the Parliament shows there is much work still to do, and we are hopeful that the incoming Spanish Presidency will continue discussions at Council in the same constructive manner [as the departing Swedish Presidency]," said Javier Echarri, secretary-general of the European Private Equity and Venture Capital Association, a trade association representing the private-equity industry.

Iceland GDP fell 8% in the third quarter

By Anna Molin

Iceland's economy shrank further in the third quarter on lower domestic demand and government consumption as the island still suffers the effects of the collapse of its banking sector late last year.

Iceland's gross domestic product fell 5.7% on a seasonally adjusted quarterly basis and plunged 8% from a year ago, Statistics Iceland said Monday.

Iceland nearly suffered a meltdown last year when its three biggest banks, representing 85% of the banking sector, were toppled by $80 billion of debt, several times the country's GDP.

Iceland has since been propped up by a $4.6 billion International Monetary Fund-led loan aimed to support its economy and help stabilize the currency as the central bank gradually eases capital restrictions.

Iceland has also sought to restore normal financial relations with foreign markets by applying for European Union membership, reimbursing overseas depositors for money lost in a failed online bank, and partly reprivatizing two of its three failed banks.

The national statistics agency said total domestic expenditure decreased 2.1% in real terms in the third quarter, while gross fixed capital formation fell 7.3% and government final consumption was down 4.5%.

"The effect of this decline in domestic expenditure was exacerbated by a decrease in the trade surplus compared with the last quarter, causing a larger decline in GDP than in domestic expenditure," the statistics agency said. Exports rose 1.3% in the third quarter, while imports increased 12.9% on a quarterly basis. Household final consumption grew 2.8% on the quarter.

Iceland's central bank said Nov. 5 that it expects the economy to shrink 8.5% this year owing to weaker consumer spending and investments.

The statistics agency also said Monday that the government's financial deficit shrunk to 33 billion Icelandic kronur ($270 million) in the third quarter from 41 billion kronur in the second quarter. It was 13 billion kronur in the first quarter.

COPENHAGEN SUMMIT

EPA rules greenhouse gases pose danger

BY IAN TALLEY

WASHINGTON—The U.S. Environmental Protection Agency said greenhouse gases are a danger to public health and welfare, in a decision that sets the stage for new regulations for cars and large emitters.

EPA Administrator Lisa Jackson said large emitters, such as power plants, crude-oil refineries and chemical plants, would come under new regulations next spring to limit their output of carbon dioxide and other gases. The so-called "endangerment finding" that Ms. Jackson announced Monday also is necessary to move ahead on new emission standards for cars.

The findings "cement 2009's place in history as the year when the U.S. government began addressing the challenge of greenhouse-gas pollution and seizing the opportunity of clean-energy reform," Ms. Jackson said in a prepared statement.

The controversial public-health decision, which the Obama administration indicated it would make earlier this year, coincided with the opening of the global climate summit in Copenhagen.

The decision has been opposed by many business groups and lawmakers who fear it will place a burden on the economy.

The new regulations for large emitters will require companies that are building or modifying power plants, refineries and other industrial emitters to install the "best available" technology. The EPA will soon begin determining what technology will be required.

Ms. Jackson said at a news conference that she didn't believe that the agency should establish national air-quality standards for greenhouse gases, as at least one environmental organization has petitioned.

Such a standard would set a total greenhouse-gas level at, for instance, 350 parts per million in the atmosphere across the U.S., requiring regions and states to meet those levels.

Currently, the carbon dioxide in the Earth's atmosphere is about 390 parts per million, according to the U.S. government.

But, experts say, because greenhouse gases such as carbon dioxide aren't localized like other air pollutants, and travel across borders and countries, it would be nearly impossible to meet such a standard if other emitting nations didn't also set and meet such a target.

Reuters

Delegates attend the U.N. climate-change conference in Copenhagen Monday.

Who wants what in Copenhagen

This week, officials from 192 countries will meet in Copenhagen to tackle global climate change, seeking a successor to the 1997 Kyoto Protocol. Even if they can't negotiate a binding agreement, many countries hope at least to work out commitments to reduce their greenhouse-gas emissions and provide assistance to poorer countries likely to be hardest hit by the effects of global warming.

Each country, of course, has its own particular priorites and concerns, which is why an agreement is so difficult to reach. Here's a look at some of their agendas for Copenhagen.

EUROPEAN UNION

The 27-member European Union aims to speak with one voice in Copenhagen. Its goal: taking action that would limit global warming to two degrees Celsius (3.6 degrees Fahrenheit). The EU intends to cut CO_2 emissions 20% by 2020 from 1990 levels and is willing to raise that target to 30% if other countries commit to do their part. It is also ready to help developing countries financially, but it hasn't committed to specific figures. Some Western European countries advocate generosity, but some newer members from Eastern Europe are much less willing to pay.

POLAND

Poland and other Eastern European nations want a deal that isn't too economically burdensome. The issue is how financial support for developing countries should be shared by EU members. Wealthy members propose making contributions proportional to a country's emissions. But because Eastern members' energy sectors rely heavily on coal, they would pay disproportionately more than if shares were based on their economic output. Poland also wants to be able to continue selling certain carbon credits after the Kyoto protocol expires in 2012. Because Poland has reduced CO_2 emissions by 30% over the past 20 years, it can sell credits worth billions of euros.

RUSSIA

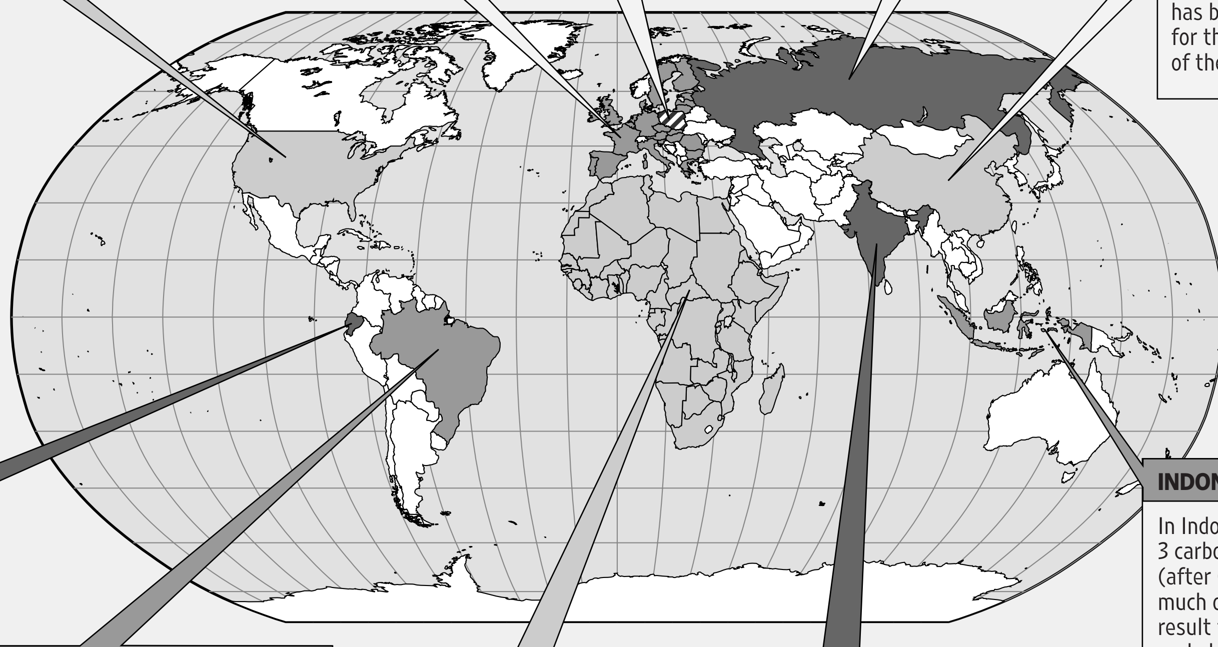
Climate change isn't high on Russia's agenda; its attention is on the massive investments it needs to make its aging Soviet-era industrial infrastructure more energy-efficient—with a goal of a 40% improvement in energy efficiency by 2020. Diplomats say the country is willing to reduce emissions between 20% and 25% from 1990 levels. Prime Minister Vladimir Putin says Russia will join a post-Kyoto agreement only if other countries sign up for it and if Russian forests' contribution to reducing global carbon dioxide is taken into account.

CHINA

China has pledged to curb carbon emissions as a percentage of gross domestic product by 40% to 45% by 2020. These would be voluntary cuts and therefore unlikely to be part of a binding climate-change pact. But it signals China's interest in an agreement at Copenhagen. Such a deal could bring the country benefits: more funding and technology transfers from developed nations, and as an exporter of solar-power and wind-power equipment, increased demand for its products. What China dreads most is the end of Kyoto provisions that grant tradable credits for reducing emissions; China has been the top receiver for the credits, getting 59% of the total.

UNITED STATES

The U.S.'s failure to pass climate-change legislation has meant a delay in a deal at Copenhagen. But pending bills in Congress and the Obama administration's authority to regulate emissions give the country credibility—and negotiating leverage toward an eventual agreement. The U.S. may still pledge to cut emissions about 17% by 2020, while offering funding of low-carbon initiatives for poorer countries to draw them to an agreement. The U.S. also wants other countries, mainly China and India, to commit on when their greenhouse-gas emissions will peak, and will demand stringent standards for reporting, monitoring and verification of emissions and reductions.



ECUADOR

Ecuador, an oil producer, will come to Copenhagen with a novel idea: get rich countries to pay $3.5 billion to keep 850 million barrels of its crude in the ground. The oil is located in a natural reserve of the Amazonian forest whose protection will be a cornerstone of the talks. A delegation of the Organization of Petroleum Exporting Countries (Ecuador gets the group's presidency next year) recently visited to look at the project. The government, which has renamed its oil ministry the "ministry of non-renewable resources," has pitched the idea to some European governments.

BRAZIL

Brazil's government will aim to cut greenhouse-gas emissions between 36% and 39% by reducing deforestation in the Amazon rain forest and increasing the use of fuel-efficient cars and trucks that use biofuels as well as gasoline. But the emissions target is voluntary and depends on the government obtaining financing for the aggressive goals, indicating that Brazil isn't willing to stifle industrial output in Latin America's largest economy. And efforts to reduce deforestation in the Amazon could be stymied by lawlessness in the poverty-stricken region.

AFRICA

African countries blame developed countries for greenhouse-gas emissions and want to be compensated for the impact of global warming. But they disagree on priorities. The African Union wants billions of dollars (leaders won't say exactly how much) to adapt to climate change, which is blamed for record droughts in East Africa and flooding in other regions. Oil-producing nations, such as Nigeria, want compensation for the lost revenues that could result from expected declines in oil consumption by industrialized nations.

INDIA

India, which has long resisted the imposition of carbon-emission caps, says it is ready to cut emissions intensity 20% to 25% by 2020, but won't accept legally binding targets. It argues that it needs development and economic growth before it should consider fixed emission caps and that the developed world has a historic responsibility to take more restrictive measures because it caused decades of atmospheric damage. India also favors financing and technology transfer to boost green energy solutions.

INDONESIA

In Indonesia, the world's No. 3 carbon-dioxide emitter (after China and the U.S.), much of the emissions result from deforestation. It probably will ask for international technology and funds for forest conservation. Also, it favors self-monitoring in future programs that give credits for reducing emissions from deforestation, and hints it will oppose efforts to create an international monitoring body. The nation pledges to cut emissions 26% by 2020 from "business-as-usual" levels, but officials say Indonesia will raise its target to 41% if it receives the international funding and technology support it needs.

Compiled by Ian Talley, Jing Yang, Paul Beckett, Alexander Kolyandr, Jeff Fick, Alessandro Torello, Marek Strzelecki, Benoit Faucon and Max Lin. They can be reached at reports@wsj.com.

Reuters

Afghan President Karzai has sparked concern by meeting with warlords. Above, a U.S. Army soldier meets with a village elder.

U.S. awaits Karzai's picks

Afghan leader's cabinet choices seen as test of corruption-cleanup effort

BY ANAND GOPAL

KABUL—The U.S. will get an early litmus test of Afghan President Hamid Karzai's commitment to improving governance in his corruption-riddled country when he is scheduled to announce a new cabinet Tuesday.

There are signs that Mr. Karzai will replace the majority of the cabinet, jettisoning some ministers who have been accused by U.S. and Afghan officials of corruption. But it is unclear if he will keep away a group of influential warlords that could undermine the cleanup effort.

With a number of current ministers having been accused of graft and inefficiency, U.S. officials view Mr. Karzai's government as one of the factors that fueled popular disillusionment and helped pave the way for the Taliban's resurgence in recent years. In recent months, U.S. officials have been pressuring Mr. Karzai to clean up the government at all levels.

In his speech last week outlining the new U.S. Afghan strategy, President Barack Obama said the Afghan government would no longer be given a "blank check," and implied that U.S. support for Mr. Karzai's government would be tied to its performance.

A U.S. Embassy representative in Kabul refrained from speaking about the cabinet appointments until an official announcement was made by the Afghan government.

Afghan officials close to Mr. Karzai said the cabinet is being "revamped." Of the 26 current ministers, only at most eight will be returning for the new term, they said.

These include Omar Zakhilwal, the finance minister and prominent economist, and Hanif Atmar, the interior minister. U.S. officials have praised these figures as competent and effective.

The majority will be new figures or former government officials with good records, including a number of Afghans with a Western background.

"It's an overhaul of the current administration," said Sarwar Ahmadzai, a former presidential candidate who has been offered a cabinet post. "The president is moving in the right direction and trying to bring in new faces. This is a positive step."

Officials said Ali Ahmad Jalali, the former interior minister and currently a professor at the National Defense University in Washington, has been offered a post. Mr. Jalali's office in Kabul said he had accepted the offer but it hasn't been decided which portfolio he will receive. Mr. Jalali is highly regarded in Washington.

Officials said Ashraf Ghani, a former presidential candidate and a highly regarded technocrat, is also under consideration. Mr. Ghani couldn't be reached to comment.

At the same time, many of the ministers that are under suspicion of corruption won't be part of the new government, officials said. These include the minister of information and culture, the minister of hajj and pilgrimage and the minister of mines, according to senior Karzai advisers and officials from those ministries.

"We are serious about turning things around here, and I think the Americans will applaud that," said a senior Karzai adviser.

However, questions linger over Mr. Karzai's dalliances with warlords who have been widely accused of corruption and human-rights violations. In recent weeks, Mr. Karzai has met with a number of controversial strongmen, including Muhammad Mohaqeq and Burhanuddin Rabbani. While these men won't get a position, they are negotiating a place in government for relatives and representatives.

For instance, Mr. Karzai has met with representatives of Rashid Dostum, a strongman with a history of human-rights violations, Afghan authorities said. U.S. officials are concerned that such figures could be a source of instability and hamper efforts to improve governance. But Mr. Karzai courted many of these men during his presidential bid, offering government posts in return for their support. Messrs. Mohaqeq, Rabbani and Dostum were unavailable to comment.

"He is under a lot of pressure. On the one hand, he has all of these promises, but on the other hand he has to meet the demands of the U.S.," said Nasrullah Stanakzai, a Kabul University professor of law and a political analyst. "He won't be able to ignore these men."

Bernanke sees U.S. rates staying low

BY LUCA DI LEO

WASHINGTON—U.S. Federal Reserve Chairman Ben Bernanke on Monday reaffirmed plans to keep interest rates at a record low for "an extended period" despite a better-than-expected jobs report last week.

The U.S. central bank chief said in response to questions following a speech that slack in the economy and low inflation should keep the federal-funds rate, at which banks lend to each other, close to zero for some time.

Investors had seen higher odds that the Fed would move to raise U.S. interest rates following Friday's unemployment report, which showed that job losses in November dropped to their lowest level since the recession began in the U.S.

But Mr. Bernanke offered little evidence Monday that the Fed was likely to move earlier than previously anticipated. "Right now, we're still looking at the extended period," Mr. Bernanke said. A month ago, central-bank officials said they expected to keep rates close to zero for some time because of low inflation and high unemployment.

Also on Monday, the Fed said borrowing by U.S. consumers fell a ninth straight month in October. Reduced borrowing is a worry because consumer spending is such a big part of the U.S. economy. But October's decline was smaller than analysts had expected. And there have been other recent signs U.S. consumers might be ready to relax their thrift; the latest U.S. retail sales report, for instance, showed demand in October rose higher than expected.

—Jeff Bater contributed to this article.

Obama views foreign policy much like the elder Bush did

[Capital Journal]

BY GERALD F. SEIB

U.S. President Barack Obama and his aides talk a lot about how his approach to the world is different from George W. Bush's. What they say less often is that his approach has a fair amount in common with that of another Bush—the first president by that name, George H.W. Bush.

Slowly but surely, in fact, Mr. Obama is molding a foreign policy that harkens back more to the President Bush who managed the end of the Cold War than to his son, the President Bush who managed the aftermath of a deadly terrorist strike on the U.S.

For the elder President Bush, the hallmarks of foreign policy were a preference for pragmatism and stability over idealism and risk; an emphasis on multilateralism over unilateralism; and a willingness to work with leaders the world provides rather than the ones America might prefer.

Many of those hallmarks can be seen in President Obama's decision to send 30,000 additional troops to Afghanistan. Mr. Obama's announcement had none of the lofty rhetoric about spreading democracy or transforming Afghanistan that might have come from the younger President Bush. Instead, the emphasis was on stabilizing Afghanistan rather than really fixing it—a less-idealistic approach that might have been expected of Bush the elder.

There also was heavy emphasis on making the Afghan surge international rather than unilateral—hence, the hard push for allies to simultaneously add to their troop levels—another hallmark of the first Bush's approach. And there was a quick-in, quick-out, limited-goals formula to his Afghanistan strategy. That mirrors the first President Bush's decision to drive Iraqi troops out of Kuwait in 1991 and stop the operation there, rather than moving on to Baghdad to oust Saddam Hussein.

It's striking that while Mr. Obama is often criticized for an over-emphasis on soaring rhetoric and an excess of ambition in his domestic agenda, his Afghanistan announcement was marked by the opposite—also mirroring foreign-policy pronouncements by the elder President Bush.

In sum, the younger President Bush, particularly after the 9/11 terrorist attacks, aimed to use American power to change the world, and was reluctant to compromise in pursuit of that goal. His father sought more to use American power to stabilize the world, and was prepared to compromise to achieve that end. Both approaches came in for criticism. The younger Bush's approach was faulted for being too idealistic and bombastic, the older Bush's for being insufficiently idealistic and overly cautious.

In any case, President Obama is leaning more toward the elder Bush's category.

"The emphasis on foreign policy is once again about foreign policy rather than transformation," says Richard Haass, president of the Council on Foreign Relations, who worked for both Presidents Bush. "It's more a throwback to Bush 41 than Bush 43," he adds, using the numbers of their presidencies often employed to distinguish father from son. It was no accident that Mr. Obama said during last year's campaign that he admired the elder President Bush's approach to foreign affairs, even as he roundly criticized that of his son.

It's common to view the elder Bush's approach to foreign policy through the lens of the first Persian Gulf War, yet the better way to see his approach is to recall his masterful handling of the decline and fall of the Soviet empire. On that front, the Bush emphasis was consistently on stability amid change rather than speed in change, and a calculation that the risks of reaching too far to bring down the Soviets outstripped the risks of not reaching far enough.

Thus, the first President Bush maintained his loyalty to Soviet leader Mikhail Gorbachev long after critics clamored for him to shift it to the rambunctious, self-proclaimed Russian reformer Boris Yeltsin. In a profoundly dangerous situation, he preferred dealing as long as possible with the stable, known leader rather than the less stable, virtually unknown rebel.

The elder President Bush also took great pains to work with allies to ensure that the strategy for ending the Soviet Union and reunifying Germany was a united Western one. He operated in virtually nonstop consultation with, in particular, British Prime Minister Margaret Thatcher and German Chancellor Helmut Kohl.

That put the U.S. in the awkward position of sometimes appearing to be seeking to slow down the disintegration of its principal enemy. "Wouldn't be prudent," in fact, became such a widespread description of the Bush approach that the phrase became the butt of jokes on the "Saturday Night Live" television program.

President Obama hasn't adopted the elder Bush's approach in its entirety, of course. When the first Bush administration decided to go to war against Iraqi forces in Kuwait, it did so with overwhelming force, which is hardly the approach the current president has chosen in Afghanistan.

And to some extent, the current economic weakness of America may simply demand a less ambitious approach than George W. Bush attempted. It's harder to confront China over human rights, for instance, when relying on China to finance America's ballooning debt, or to face down Iran alone when the American military already is stretched thin. The elder Bush's approach may have been a matter of prudence, while Mr. Obama's may be rooted more in necessity.

U.S. NEWS

Big banks lose in financial overhaul

Fueled by populist anger at Wall Street, House is likely to add fees and restrictions this week not sought by Obama

By Damian Paletta

WASHINGTON—Despite a furious lobbying effort in the past six months, the U.S.'s largest banks will likely emerge from a House of Representatives vote later this week as the biggest losers in the continuing effort to overhaul financial market rules.

Lawmakers have voted repeatedly during dozens of hours of committee debate to add amendments punishing large financial companies with fees and new restrictions that weren't originally envisioned by a White House proposal in June, pushing the plan further to the left as politicians have deliberated.

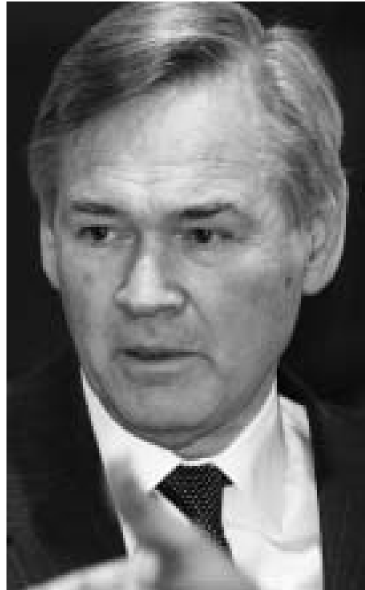
The changes reflect the growing chasm between Washington and Wall Street, as voters continue to be angry about last year's financial crisis, pushing lawmakers to act tough.

"We want to be able to go home and tell the people who sent us here that we are never going to let what happened last year happen again," said Rep. Brad Miller (D., N.C.), a co-author of several amendments.

The shift could have major implications for larger financial companies, particularly if the public mood crystallizes around the notion that too big to fail means too big at all. The cost for large financial companies could reach well in excess of $150 billion, industry experts said.

The White House and Treasury Department have publicly applauded Democrats' efforts to move the bill through Congress, but privately some government officials have worried certain amendments could have major unintended consequences. A Treasury Department spokesman declined to comment.

The House bill still contains several features pushed by the White House in June—namely, new powers to take over and break up large companies, new rules for consumer protection, tougher regulation of derivatives, and more limits on executive pay. But in the six months since then, there has been a distinct shift in the House away from a more market-friendly focus to an intensely anti-Wall Street bias.



Bloomberg News (Miller, Moore); Associated Press (Kanjorski)

Democratic Reps. Brad Miller, left, Paul Kanjorski and Dennis Moore have added amendments punishing financial firms.

The House plan would slap large firms with higher fees for supervision, require them to hold more money in reserves, give the government much more power to seize them if they are faltering, or even break them up if they are healthy but pose a risk to the broader economy.

Financial companies with more than $10 billion in assets would have to collectively finance a $150 billion government fund, set aside to pay for a future failure of a big financial company. Large banks would have to face examinations by both their primary federal regulator and the new consumer agency, subjecting them to multiple layers of scrutiny.

The Business Roundtable, an organization of top chief executives, sent a letter to Capitol Hill last week complaining that giving the government the power to pre-emptively break up healthy firms "could prove extremely harmful to large, globally active firms and the U.S. economy as a whole and, at a minimum, would create a level of uncertainty that would adversely impact the ability of these firms to operate effectively in a challenging economic climate."

Scott Talbott, a senior vice president at the Financial Services Roundtable, said the proposals would be "ironically counterproductive."

"We're talking hundreds of millions of dollars per institution of increased regulatory costs," he said. "Those are costs that have to be borne by the companies, and they will unfortunately be part of the pricing for the goods and services they sell."

A flurry of amendments in November appeared to overwhelm the lobbying power of large financial institutions, and many of the amendments were easily adopted.

For example, Rep. Paul Kanjorski (D., Pa.) pushed through an amendment by a 38-29 vote allowing a council of regulators to determine whether factors such as the size and interconnectedness of a firm pose "a grave threat to the United States." If such a threat exists, the government can prevent the company from merging, order it to stop certain business practices or even break it up into smaller pieces. Large banks lobbied aggressively to beat back the proposal but found little traction.

Another amendment, written by Reps. Miller and Ed Perlmutter (D., Colo.), would give the government the power to force specific companies to split apart their commercial bank and their investment bank if regulators felt such a divestiture were warranted.

One amendment that has elicited the most concern from the Obama administration is a plan pushed by the Federal Deposit Insurance Corp. and advanced by Reps. Miller and Dennis Moore (D., Kan.) that would force any secured creditor to take a 20% loss on any claim if their counterparty failed.

For example, if a company offered a loan backed by collateral to a bank, and then the bank failed, the company would still have to take a 20% loss on the collateral. Wall Street and Treasury officials have argued to lawmakers this could completely distort the way banks fund themselves, pushing up the cost of credit because lenders would have to set aside more money for potential losses.

Supporters of the measure have said the provision would help limit the government's cost of cleaning up failed banks and would also exact more market discipline on lenders, who would look more closely at the health of their counterparties.

House Financial Services Committee Chairman Barney Frank (D., Mass.) said the provision was "contentious," and there would likely be an effort during the House debate to strip it out. But Rep. Miller plans to fight it, and said he was trying to mobilize support.

Republicans have mostly opposed the Democrats' plan to rewrite policies. Rep. Jeb Hensarling (R., Texas) said the legislation would create a "job-crushing, credit-rationing agency married with a bailout fund." Rep. Frank said his package would put an end to government bailouts of failing companies.

Despite their opposition, Republicans have successfully influenced debate. Rep. Ron Paul (R., Texas) attached an amendment giving Congress the ability to more closely review the Federal Reserve's monetary policy decisions. This amendment has outraged Fed officials, and Fed and Treasury officials have so far been unable to get lawmakers to remove it.

Abortion curbs proposed

By Janet Adamy And Greg Hitt

WASHINGTON—Antiabortion lawmakers in the Senate introduced an amendment Monday to restrict insurance coverage of abortion in the health bill, setting up a showdown that has no clear path to resolution.

Both sides agree the amendment likely doesn't have enough votes to pass, but antiabortion groups and Sen. Ben Nelson (D., Neb.) say they will continue insisting on tough language as a condition for supporting the overall bill.

The lack of a clear meeting point makes abortion somewhat different from the other top obstacle to the bill's passage, the publicly run insurance plan that some Democrats oppose. There, both sides are weighing a handful of compromises.

On abortion, said Sen. Nelson, "it's certainly not a lock that there's language in the middle."

Without the amendment, the Senate health bill would include abortion coverage in the new public plan and would allow women who receive government tax credits for insurance to enroll in a plan that covers the procedure. The tax credit would be segregated so none of it could go toward funding abortion.

Antiabortion advocates say that's too lenient and want to prevent any insurance plan that receives federal funding from covering the procedure, except in the case of rape, incest or danger to the life of the mother.

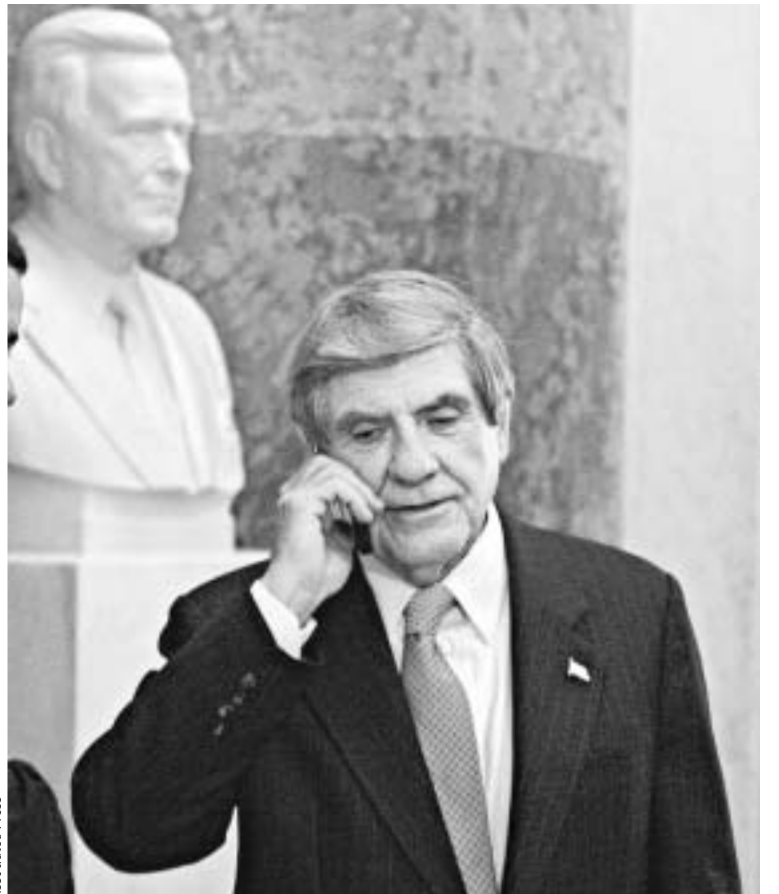
The amendment made public Monday bars any private insurance company that gets federal money from covering abortions, the Associated Press reported. A new government insurance plan would also be barred from covering abortion except in limited cases.

With no signs the measure would pass, Sen. Nelson said Friday that "we're going to keep talking" to reach a compromise on the issue. But his antiabortion allies said they won't accept anything less than the language on abortion restrictions in the House bill.

"That's not a negotiation we're prepared to have," said Richard Doerflinger, associate director of the secretariat of pro-life activities for the U.S. Conference of Catholic Bishops, which pushed for the abortion restrictions in the House bill. "I really don't know how you compromise further."

Abortion-rights advocates are taking a similarly rigid line, saying that such a change would represent the biggest setback for them in decades. "As far as I'm concerned, this bill is a compromise," said Cecile Richards, president of Planned Parenthood Federation of America, which supports the bill in its current form. "People are really ready to move on on this issue and not have a protracted debate about legal abortion in this country."

Both sides see the Senate bill as a turning point in the abortion debate and are making a big push to rally supporters. Abortion-rights advocates brought hundreds of supporters to the Capitol last week to meet lawmakers and have been running television advertisements calling the amendment an attempt to roll back women's rights. The Catholic bishops on Friday sent an alert to parishes urging their members to contact their lawmakers in support of Sen. Nelson's amendment, and plan to oppose the bill if they don't win the change.



Associated Press

Sen. Ben Nelson introduced an amendment to tighten rules on funding for abortion.

Chávez ally quits as leader scrambles

Venezuelan president, playing damage control, tries to spin growing banking crisis into an anticorruption campaign

By Darcy Crowe
And José de Córdoba

CARACAS, Venezuela—President Hugo Chávez scrambled to distance his government from a brewing banking and corruption scandal that claimed one of his closest collaborators on Sunday and could claim other top officials.

Speaking on his weekly television show, Mr. Chávez announced the resignation of Jesse Chacón, one of the government's most powerful officials, who was serving as science and technology minister. The announcement came a day after the arrest of Mr. Chacón's brother, Arné Chacón, president of **Banco Real** and **Baninvest**, two of seven small banks taken over by the Venezuelan government last week.

"I respect and love Jesse very much, and I know he understands," said Mr. Chávez. He said Mr. Chacón's resignation freed the official from suspicion in the banking scandal. Arné Chacón and Jesse Chacón couldn't be reached to comment.

Mr. Chávez said he had spoken directly to the government's top prosecutor, Luisa Ortega, and requested that she move quickly to punish the people responsible for the failed banks. Mr. Chávez also said he told the Venezuelan secret police to swiftly imprison Arné Chacón.

"I'm very sorry that he is the brother of a minister, but we're showing that no one here is untouchable," Mr. Chávez said.

The scandal, which broke last week when the government took over the banks and Mr. Chávez threatened to nationalize all of Venezuela's private banks, has sparked fears of a financial meltdown.

Venezuela was on a banking holiday Monday, with financial markets closed ahead of this week's celebration of the Immaculate Conception.

Many analysts say the bank takeovers aren't a reflection of a larger banking crisis, since most of the financial system's assets are held by a handful of big banks that are seen as sound. Pointing to Friday's recovery in Venezuela's dollar-denominated bonds and the bolivar, these analysts say investors appear to believe Mr. Chávez is targeting a limited group of banks.

Mr. Chávez took control of between 8% and 12% of the banking system last week, according to Royal Bank of Scotland economist Boris Segura. Analysts say Mr. Chávez could likely target as many as a dozen banks that together represent around 20% of the banking system.

Many Venezuelans are jittery about the state of their financial system. Last week, Mr. Chávez said he would closely examine brokerage houses as well as insurance companies. Reacting to the uncertainty, Moody's downgraded the ratings of two big Venezuelan banks, privately owned **Banco Mercantil** CA, and state-owned Banco de Venezuela, which the Venezuelan government acquired for $1.05 billion this year from Spain's **Banco Santander**. The two banks are among Venezuela's top five by size of deposits, and are considered to be among the most solid financial institutions in the country. Officials at Mercantil and Banco de Venezuela weren't available for comment.

Mr. Chávez's attempts to turn the banking crisis into a get-tough-on-corruption campaign might help him politically as recession, inflation and crime threaten to derail support.

Mr. Chávez's early handling of the banking-sector shake-up, which one of his ministers admitted ran the risk of setting off a financial "tsunami," certainly didn't garner him praise.

But since then, Mr. Chávez has demonstrated the political deftness that has allowed him to maintain a generally favorable rating among voters during his 11 years in office.

Patrick Esteruelas, an analyst with Eurasia Group, a political-risk consulting group, said "Chávez is now engaging in damage control, spinning this as an anticorruption drive, and that could sell politically."

The president needs political points as legislative elections are nine months from now, and he wants his socialist party to secure a two-thirds majority. That won't be easy, given that the economy recently fell into recession as oil income—the government's main source of revenue—retreated on lower global crude prices.

Also hurting the president's popularity has been a sharp rise in electricity blackouts across the nation. Mr. Chávez says it is the fault of a drought that has reduced reservoir levels at hydroelectric plants, but critics say it was his nationalization of the sector that left the grid vulnerable.

Annual inflation above 30% and sky-high crime rates don't help, either.

With all those problems, the most recent polls—taken before the banking problems erupted—showed Mr. Chávez's approval rating had slipped slightly below the crucial 50% mark.

Mr. Chávez's support base has long believed that he is nowhere near as corrupt as most politicians. But many of those same backers say they hardly think high officials and businessmen close to him are paradigms of probity.

The banking crisis has given Mr. Chávez the perfect opportunity to clean house, although it remains to be seen just how effective it will be.

"He's used the event as a demonstration that there are no untouchables, that the government is ready and willing to send to jail the brother of a cabinet member," said Luis Vicente Leon, director of polling firm Datanalisis.

—Dan Molinski contributed to this article.

Bolivia's Morales promises more controls

By Paulo Prada

Bolivians appeared to re-elect President Evo Morales by an overwhelming majority on Sunday, bucking a recent trend away from the left in much of Latin America and giving Bolivia's first indigenous president further authority to dismantle the country's existing government framework.

Mr. Morales said Monday he would increase state control over the economy and strengthen political power for indigenous groups, according to Reuters. "Bolivians have given us an enormous responsibility to deepen this transformation" he said. "Bolivians have punished the people who are traitors of this process."

Official results aren't expected until late Monday, but according to exit polls cited by Bolivia's government news agency Sunday, Mr. Morales was expected to win a second five-year term with support from more than 60% of the ballots cast during a peaceful day of voting across the country, historically South America's poorest.

More significantly, the president's Movement Toward Socialism party appeared likely to take over the country's Senate, giving it a crucial advantage to further an agenda that vows to reverse a history of economic and political exclusion for Bolivia's peasant, indigenous majority.

The victory comes as voters elsewhere in South America, worried about recovery from the global downturn, are beginning to cool on many of the leftists who rose to power over the past decade.

Left-leaning candidates for top offices in Uruguay and Chile recently campaigned as centrists, and approval ratings for Presidents Hugo Chávez of Venezuela and Rafael Correa of Ecuador, two key allies of Mr. Morales, are slumping. Polls in those two countries reflect unease over economic and financial woes and anger because of infrastructure problems, from water shortages to electricity blackouts.

Mr. Morales, a native Aymara Indian and the son of a llama shepherd, was buoyed by his popularity with Bolivia's poor and working classes. After a series of presidents were toppled through popular protests that the former coca-grower helped orchestrate, the new president had an explicit mandate to accomplish two goals: convoke a constitutional assembly that would empower rural Bolivians, and overhaul the country's hydrocarbon laws to wrest a bigger cut of energy royalties from foreign companies.

He did both, first by nationalizing the natural-gas industry and second by pushing through a new constitution that envisions a "plurinational" state, granting greater regional autonomy and self-government to dozens of native communities.

"He is seen as having fulfilled his mandate," said Sinclair Thomson, professor of Latin American history at New York University and author of several books on native Andean politics.

Now, with even broader support, many expect a second Morales term to be more ambitious on economic changes. In addition to the natural-gas industry, which is responsible for nearly half of Bolivia's export income, Mr. Morales nationalized the telecommunications sector and has promised to assert more government control over others, including the country's mining industry, another key source of export revenue.

The plans worry opponents in Bolivia's business community, many of whom believe the government should focus on improving the country's infrastructure and diversifying an economy that historically has relied on minerals, natural gas and other commodities.

"A second term will define our economic future," said Gonzalo Chávez, an economist at the Catholic University of Bolivia, in La Paz, the capital. "Will the government invest in the economy and develop other productive sectors, or continue to depend on natural resources?"

Bolivia has weathered the slump better than many of its neighbors. Prices for key metals, including zinc, gold and silver, have proved more resilient than those of other major commodities in the region. In an October report, the International Monetary Fund said Bolivia's economy would likely grow by about 3% this year, faster than any other country in Latin America, and lauded the government's decision to build up monetary reserves of about $8 billion.

Still, the hoarding has come at the expense of government investments, most notably in the very sectors, like natural gas, in which Mr. Morales has sought to displace foreign partners.

With future demand for natural gas and other key exports still uncertain—and investments from abroad slowing to a trickle—the administration will likely need to tap the war chest to keep financing popular social programs. Mr. Morale may have to make major compromises as rival interests tug at the government.

"The very people you empower are going to come knocking," said Carlos Toranzo, an economist in La Paz. "The government will have to be more pragmatic than ideological."

Reuters

Supporters of Bolivia's President Evo Morales celebrate his re-election victory Sunday in Santa Cruz.

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