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WEEKEND JOURNAL

Greece seeks aid talks, as it moves near bailout
EUROPE NEWS 4

THE WALL STREET JOURNAL.

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Volcano ash grounds Europe

LONDON—Thousands of flights across Europe and the Atlantic were grounded Thursday after grey ash clouds spouting from an Icelandic volcano drifted across the continent, the result of an eruption that could further choke air travel in coming days and pose problems for months.

By Paul Sonne, Daniel Michaels And Kaveri Niththyananthan

The volcano, which is under a glacier known as Eyjafjallajokull, began erupting several weeks ago after being quiet since the 1820s. It exploded more violently early Wednesday, spewing ash high in the air that drifted southeast.

That quickly posed serious concerns for air traffic and escalated into a major problem throughout Thursday. Because volcanic ash can cause engine failure in airplanes, civil aviation authorities in Britain, France, Germany, Ireland, Belgium, the Netherlands and Scandinavia shut down airports as the cloud drifted eastward across the continent. Cancellations scrambled flight plans as far south as Italy and Spain.

Eurocontrol, the 38-country agency in Brussels that coordinates European flights, said that 5,000 to 6,000 of the continent's 28,000 daily flights had been grounded, thwarting hundreds of thousands of travelers and dealing a blow to an ailing airline industry. "It's unprecedented to have so much airspace closed," said a Eurocontrol spokeswoman.

Airports affected included two of the world's busiest hubs, Heathrow in London and Charles de Gaulle in Paris. Heathrow shut down early Thursday, and authorities said all BAA Ltd. airports in England would be closed until until at least 1 p.m. Friday.

Poland closed its airspace late Thursday, possibly blocking international leaders from attending the funeral Saturday of President Lech Kaczynski, who was killed with a delegation of Polish leaders in a plane crash last week.

The location of the volcano and resulting cloud also disrupted trans-Atlantic flights, which typically pass near Iceland. U.S. carriers had canceled more than 100 flights between the U.S. and the U.K as of noon Thursday, according to the International Transport Association, an umbrella group for U.S. airlines. Many of those cancellations involved flights that had been scheduled to leave the U.S. later Thursday.

Experts say it is impossible to predict how long the volcano will continue to erupt or at what intensity. An expedition team that returned from the volcano on Thursday found that the eruption was

Please turn to page 6

Reuters

Smoke rises from a volcano under Iceland's Eyjafjallajokull glacier Wednesday. The eruption has grounded thousands of flights.

U.K. leaders face off in first TV debate

Reuters

The leaders sought to win over wary voters in their first debate.

By Laurence Norman And Joe Parkinson

LONDON—The leaders of Britain's three main political parties debated on the economy and immigration policy Thursday in the first televised election debate in British history, as they sought to win over wary voters in the tightest election race in almost twenty years.

The debate could prove a turning point in an election race so far dominated by arguments on taxes and how to handle the U.K.'s large huge budget deficit.

Labour Prime Minister Gordon Brown said he had the experience to safeguard the U.K. recovery. "Everything depends on a strong economy...

U.K. Election 2010

Get the decisions wrong now and we could have a double dip recession," Mr. Brown said. "I know what this job involves and I look forward to putting my plan to you this evening."

In his opening statement, Conservative Party leader David Cameron delivered his message that after 13 years of Labour government, change is needed.

"We can go on as we are or we can say no, Britain can do much better," he said. "They've done some good things and I would keep those but we need change and it's that change I want to lead."

Meanwhile, Liberal Democrats leader Nick Clegg said his smaller opposition party offered the only real alternative at the election.

The debate, in Manchester in northern England, is the first of three encounters ahead of polling day. Heading into the debate, the Conservative Party remained ahead in the opinion polls, although its lead is too small for Mr. Cameron to be confident of winning a parliamentary majority when voters go to the polls on May 6.

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Greece provides wake-up call to Spain

[Agenda]

By Simon Nixon

At the height of the Dubai debt crisis last year, the finance director of one of the major Greek banks tried to persuade me that the emirates woes were actually good for Greece, whose own debt problems were just coming under the spotlight. This would act as a wake-up call to the Greek government, which had been woefully slow so far to react to the crisis, he said.

Last week, I talked to the finance director of one of Spain's biggest banks. The Greek crisis was good news for Spain, he assured me, since it would serve as a wake-up call for the Spanish government, which had so far been slow to react to the crisis.

True, Spain is not Greece. The European Union's fourth-largest economy has achieved a remarkable transformation over the past 20 years, which is why its persistent lumping together with Portugal, Ireland, Italy and Greece as the so-called PIIGS causes much resentment. Spain's banks have almost uniquely in Europe so far survived the crisis without the need for government support, despite the collapse of the property market.

The country has produced a clutch of world-class companies spanning almost every sector, from banking to retail to construction and energy, led by a respected cadre of managers trained in the country's first-rate business schools.

What's more, the government has credibility, having run a budget surplus during the boom. Even now, government debt to GDP is just 55%, well below Greece at over 100%. Plus the economy is adjusting more rapidly than other countries. The savings rate is over 20%, indicating rapid private sector deleveraging. And Spanish companies have been quick to shed jobs, reflected in an official unemployment rate that has doubled to 20%, while the economy has contracted only by 5%, boosting productivity.

Bloomberg News

Spain's economic woes have pressured the country's savings banks, or cajas

Even so, Spain's government, led by Prime Minister José Luis Zapatero, cannot afford to ignore its Greek wake-up call. Its austerity budget earlier this year was only partially convincing, relying heavily on expenditure measures to reduce a 2009 budget deficit of 11.2% to 3% by 2013, rather than the politically tougher spending cuts that the market regards as more credible. Plus the government's fiscal consolidation plans rely on growth forecasts that look optimistic without help from the previously booming construction sector. Property prices, so far down 11% peak-to-trough, seem sure to fall further. Santander is currently selling repossessed properties at 20%-to-30% discounts to market prices.

While politicians drag their heels, Spain's listed banks are trying to force the pace of restructuring

Mr. Zapatero says the government will do whatever is necessary to retain the support of the markets. But his first task must be to bang heads together to drive restructuring of the country's 46 *cajas*, or savings banks. This is shaping up to be a key test of his credibility. Many of these municipally controlled institutions, which constitute 50% of the Spanish banking market, were major lenders to the country's real-estate developers during the housing bubble with €175 billion in loans to the sector and are now sitting on billions of euros of bad debts. So far, they have been cushioned by the substantial buffers of generic provisions they were forced to set aside by the Bank of Spain during the good times. But those buffers are rapidly eroding—44% of cajas had a loss during the fourth quarter of 2009.

The last thing Spain needs is a financial system gummed up by zombie banks in an overcrowded and uncompetitive market unable to extend credit in a recovery. The country needs a profitable, well-capitalized financial sector. Uncertainty over the amount of government funding that might ultimately be needed to recapitalize the cajas also has the potential to unsettle the bond markets. Morgan Stanley this week estimated the bill might come to €43 billion. That may be equivalent to only 5% of GDP, but it would increase government debt issuance this year by 30%, adding to funding worries.

Restructuring of the savings banks was supposed to be completed by June when the government's Fund for Orderly Bank Restructuring (FROB), established last year, is due to expire. But the FROB funds come with strict conditions to comply with European Union state aid rules, which means weak cajas need to merge with stronger banks before the funds can be drawn upon. Yet so far there have been just 11 mergers; only one caja has drawn on the FROB.

The chances of this restructuring being completed by June look slim. After June, any new recapitalization proposal would need separate EU approval.

While politicians drag their heels, Spain's listed banks are trying to force the pace of restructuring. Santander has launched a price war for deposits, offering customers 4% on savings in an aggressive move designed to put pressure on the cajas, which cannot afford the margin squeeze and may struggle to access wholesale markets. The sector already relies on the wholesale market for nearly a third of its funding. Other listed banks have followed Santander's move, including BBVA and Bankinter.

Sure, the listed banks have good selfish reasons to want to speed up restructuring since they stand to gain market share in any consolidation. Up to 10,000 of Spain's 45,000 bank branches could ultimately disappear. The prospect of so many job losses at a time of such high unemployment only adds to the political sensitivities. But the markets are watching to see whether Mr. Zapatero does indeed have the courage to take on the powerful political and trade union interests that are holding up reform. Taking tough action to restructure the cajas would go a long way to shoring up Spain's credibility and prevent a Greek-style spiral. It would suggest its politicians really have woken up.

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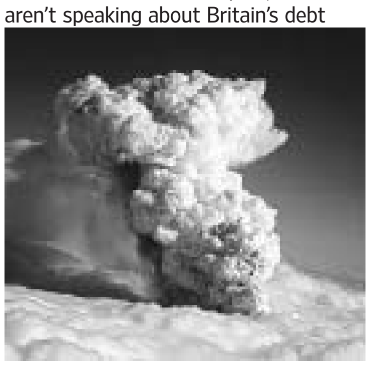
Iain Martin on Politics

blogs.wsj.com/iainmartin

"Getting much less attention in this election campaign is the giant cloud of debt over Britain."

Iain Martin on how U.K. party leaders aren't speaking about Britain's debt



Continuing coverage

Follow the latest updates on Greece as the nation moves closer to a bailout at **wsj.com/greekdebt**

Question of the day

Vote and discuss: Who do you think won the first U.K. party leaders debate?

Vote online and discuss with other readers at **wsj.com/dailyquestion**

Previous results

Q: Does Bernanke's testimony alter the outlook for Fed policy?

Yes **41%**

No **59%**

What's News

■ **Greece edged closer** to a bailout, asking the EU and IMF to begin "discussions" on aid, as the country's cost of borrowing from private markets continued to rise and the euro tumbled. The IMF and the EU's executive arm said they will send missions to Athens on Monday. **4**

■ **Manufacturing output** in the U.S. jumped in March, but overall production was held back by a sharp drop in utilities output. Separately, jobless claims surged last week on technical factors. **8**

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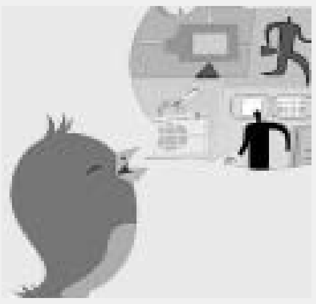

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NEWS

Goldman Sachs opens new palace

The Wall Street firm's opulent building is fit for a king, but also has some workers feeling like serfs

By Susanne Craig

NEW YORK—**Goldman Sachs Group** Inc.'s new headquarters in lower Manhattan has the kind of amenities befitting masters of Wall Street. The $2.1 billion steel-and-glass building has giant murals, opera-house ceiling heights, and a gym with overachiever fitness classes, like "Awesome Abs."

But a new class of haves and have-nots has emerged—even at Goldman where the notion of have-nots is relative. Outside offices are now reserved only for the firm's more than 300 elite partners. Managing directors, next down in the Goldman hierarchy, almost always get windowless inside offices.

And vice presidents, many of whom had offices before the move, now sit at open-space workbenches that in an earlier era would have been called a typing pool. They aren't thrilled.

"I haven't had a desk like this since high school," said one employee who asked not to be named.

Even some managing directors are grousing. Vice presidents, they note, often get a window seat at their bullpen desks, a sort of consolation prize for having lost an office. "I used to have an office with a view," explained one managing director. "Now I need binoculars to see sunlight."

In many other ways, though, Goldman employees aren't feeling let down by the upgrade. Unlike their old digs on 85 Broad St., which was cramped and had an obstructed view of New Jersey, Goldman's new space at nearby 200 West St. is steps away from the Hudson River, offering a panorama that includes New York Harbor.

The company has been secretive about its new headquarters, especially as it tries to counter criticism that has hurt the company's sterling image. So far, 6,500 of the 7,500 employees that will work in the 43-story building have moved in. Chairman and Chief Executive Lloyd Blankfein arrived a few weeks ago.

Founded in 1869, Goldman has always been based in downtown New York. In 2004, Goldman decided it was time to trade up from its Broad Street headquarters. At the time, financial companies rattled by the 2001 terrorist attacks on the World Trade Center were threatening to leave downtown Manhattan. In 2005, Goldman received tax breaks and grants valued at more than $200 million toward the new building, which stands just across the street from Ground Zero.

Goldman broke ground in 2005. The construction was plagued with problems. In 2007, seven tons of steel fell off the 740-foot-tall building, paralyzing an architect on the ground. Then a sheet of steel plummeted from the 18th floor, landing in a baseball field where a Little League game was being played. There were no injuries.

The first employees arrived by November 2009. The building occupies 2.1 million square feet and features six massive trading floors, each larger than a football field and equipped with enough flat-screen monitors to stock a Best Buy. The basement houses 92 storage tanks that hold 1.7 million pounds of ice made each night when electricity rates are lower than during daytime hours. Air cooled by the melting ice circulates throughout the building.

The Wall Street Journal/Bloomberg News

Goldman Sachs's new building at 200 West St., New York City, and its famous old headquarters, about a 15-minute walk away, at 85 Broad St.

One of the building's most notable features is the Sky Lobby on the 11th floor. Flooded with light from a glass ceiling, the area resembles a massive auditorium-like space that houses banks of conference rooms, a cafeteria and employee gym. Henry Cobb, a partner at Pei Cobb Freed & Partners, the building's lead architect, calls the Sky Lobby the "living room" of the building.

Baristas serve French Toast Baba pastries and lattes in the cafe, not to be confused with the Sky Lobby cafeteria that offers a deep panini lineup and deadly cupcakes. Considering the old building's cafeteria was windowless, a welcome feature of the new eatery is the light of day.

The 54,000-square-foot gym, called the GS Wellness Exchange, has classes from 5:45 a.m. to 7:50 p.m. The new steam rooms for men and women are drawing mixed reviews. Some employees find the idea of "steaming" with co-workers objectionable. Others, not so much. "Once you have seen your colleagues naked in the locker room, steaming with them isn't that weird," says one employee.

The employee reading lounge features Goldman-approved books, including "On the Brink," the bestseller by former Goldman Chairman and CEO turned Treasury Secretary Henry Paulson Jr. Employees also can thumb through "The Psychology of Persuasion: How to Persuade Others to Your Way of Thinking" by Kevin Hogan, and Mitch Albom's "Have a Little Faith: A True Story."

The reading room is too hushed and open for vice presidents evicted from their old offices to use for confidential phone calls. If they have sensitive issues to discuss, they can slip into private offices now reserved for visitors. "If I had been at a bench my whole life, it would be fine," said one vice president, "but I used to have an office."

EUROPE NEWS

Greece seeks aid talks as bailout looms

As its borrowing costs continue to climb, Athens asks International Monetary Fund and EU to begin 'discussions' on help

By Charles Forelle, Costas Paris And Alkman Granitsas

BRUSSELS—Greece edged closer to a bailout, asking the European Union and the International Monetary Fund to begin "discussions" on aid, as the country's cost of borrowing from private markets continued to rise and the euro tumbled.

The IMF and the EU's executive arm, the European Commission, said they would send missions on Monday to Athens, after Greece's finance minister sent a letter to them and the European Central Bank requesting talks. Those meetings could set

Athens has been pinning its hopes on the proposed U.S.-dollar bond to gather much of the funding it needs

the stage for a momentous bailout, the first ever for a nation using the euro and a humbling demonstration of the currency union's inability to enforce fiscal rectitude within its borders.

Financial markets have shunned Greek debt in recent weeks, despite escalating promises from the EU that the bloc would step in to prevent a default. Greek officials on Thursday said a scheduled trip to the U.S. next week to drum up buyers for its bonds would be less fruitful than expected.

One official said Athens now hopes to raise $1 billion to $4 billion from U.S. investors and could cancel the sale if demand continued to sink. Greece previously hoped to sell as much as $10 billion of bonds.

Donald Quigley, a manager of the $1.7 billion Artio Total Return Bond Fund in New York, says he wouldn't be surprised if Greece decides to abandon the U.S. bond offering.

"They may think 'Why go over there and borrow at a lot higher costs?'" says Mr. Quigley, whose fund counts Greek 10-year bonds among its top holdings. In its place, Greece could raise money from its traditional European investor base through a short-term debt offering which would enable it to meet its pressing cash needs.

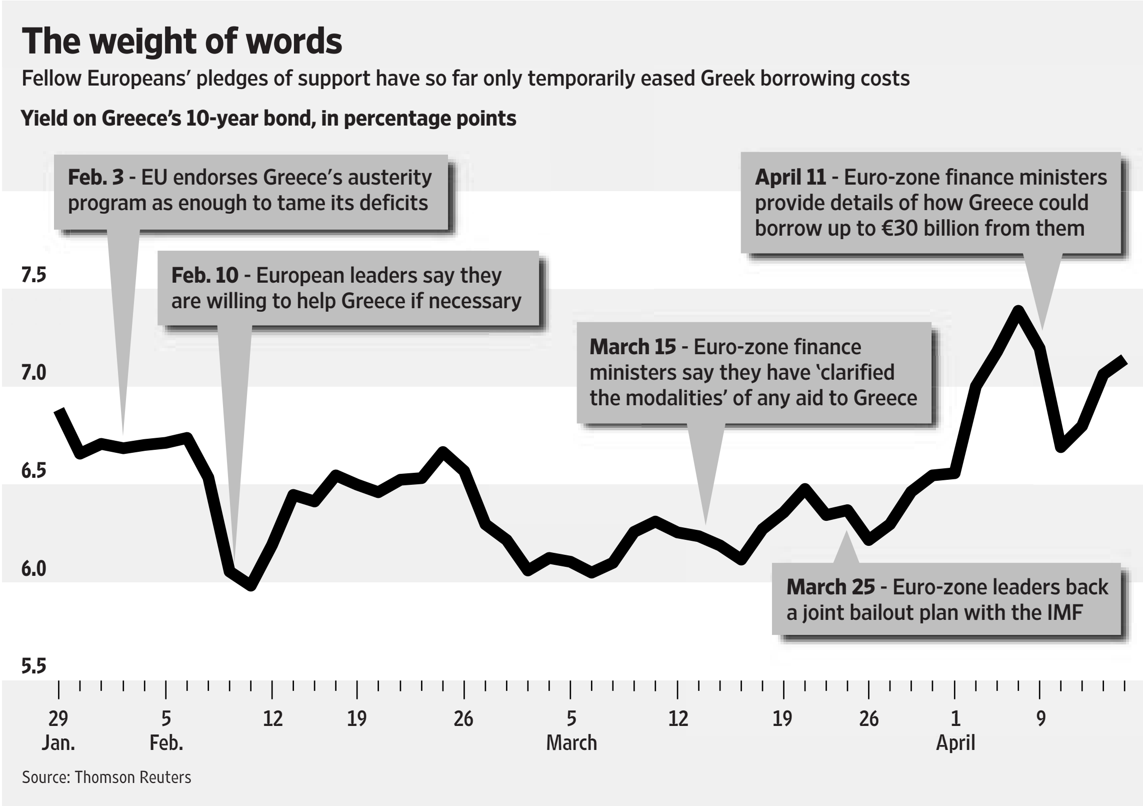
That strategy would allow Greek officials to focus on nailing down IMF and EU support. "I would say their focus would be better served to focus on that," Mr. Quigley says.

Euro-zone countries on Sunday made an effort to persuade investors that the pledge was for real, saying they could make as much as €30 billion ($40.1 billion) in loans this year and even detailing the formula for the interest rate charged.

That relieved markets—but only for a few days. As investors fretted about the procedural difficulties of putting the bailout in place and about Greece's longer-term prospects, Greek borrowing costs climbed back up.

By midday Thursday, investors were demanding 4.20 percentage points more in interest than ultrasafe Germany pays for a 10-year loan.

That spread was practically as high as the levels of last week, before the unveiling of the €30 billion package, all but dashing the hopes of those who thought Greece could skate through a spring of heavy



debt repayments without a bailout.

The finance minister's letter requesting the opening of aid talks helped pull down Greek interest rates. Markets in Athens also rallied; the benchmark index rose 2%.

Greece must repay about €20 billion of debt in the next six weeks. In April it has raised €1.92 billion through auctions of short-term treasury bills, paying yields approaching 5%.

Greek officials have said they have enough cash to repay an €8.2 billion bond coming due April 20. But Greece will have to borrow to pay back an €8.5 billion bond due May 19.

Athens has been pinning its hopes on the proposed U.S.-dollar bond to gather much of the funding it needs to meet the May redemptions. Parallel plans to seek investors in Asia fizzled earlier, and weak signals are coming from America.

Without money from private markets, Greece will have to ask fellow euro-zone countries for help. Analysts have said the IMF could add €10 billion to €15 billion to the EU's €30 billion pledge. The IMF would charge 2.7% on a €10 billion loan of less than three years; the EU's rate is about 5%.

The IMF's managing director, Dominique Strauss-Kahn, said the fund is working "hand in hand" with the EU, a needed touch given the sensitivity in Europe to the IMF's involvement.

—Bob Davis in Washington contributed to this article.

A bailout would buy Athens time, but maybe not enough

[Brussels Beat]

By Stephen Fidler

A Greece bailout nears. But a growing body of opinion maintains that it will not be enough to see Greece through its debt crisis. That would mean a debt restructuring or default will sooner or later follow.

Even optimists recognize that large as it is—€30 billion ($41 billion) with perhaps an additional €15 billion from the International Monetary Fund—the bailout is only buying time for Greece. The reason there are so many pessimists is because of the scale of the task that Greece faces in the time that the bailout has bought.

According to Greece's 2010 economic plan, Greece needs to wipe four percentage points from last year's budget deficit that neared 13% of gross domestic product. That kind of budget pruning has been tough to achieve wherever in the world it has been tried.

But as Peter Boone of the London School of Economics and Simon Johnson, a former IMF chief economist, point out in their Baseline Scenario blog, even a cutback of this magnitude leaves Greece seeking to raise more than €50 billion this year, money that will finance interest payments and expand its borrowing by a further 4%. So its debt is still growing: the economists' think Greece's debt could, even under relatively benign assumptions, expand from 114% of GDP today to 150% of GDP by 2012.

Servicing that would absorb 9% of Greek incomes in 2012, most of which would be transferred to German, Swiss and French bondholders abroad. This will happen as the Greek economy is shrinking dramatically as real incomes fall.

Many Latin American economies struggled during the debt crisis of the 1980s to transfer a fraction of those resources overseas. The worst year for the region, 1984, saw net resource transfers of 4.6% of GDP.

Carl Weinberg, chief economist at High Frequency Economics in New York, is one of those arguing that the bailout won't be enough. Athens needs to raise €240 billion in the next five years, €150 billion to pay back maturing bonds. This shows, he wrote this week in an opinion piece in The Wall Street Journal, that the bailout represents "just a drop in the bucket."

His proposed solution harks back to Latin America in the 1980s. What's needed, he argues, is a multiyear restructuring arrangement like those that Mexico and others put together to ease their debt burdens. That would consolidate loans maturing over several years into a single

The Brady Plan found a way for the Latin American governments to undertake an orderly default and impose explicit losses—haircuts—on the bank lenders.

loan with a maturity of, say, 25 years. With the terms he proposes, it would cut Greece's debt by 60%, or €140 billion, over the next 5½ years.

What Mr. Weinberg doesn't mention is that these multiyear restructuring arrangements, negotiated between government borrowers and banks with the IMF holding the ring, weren't enough to overcome Latin American governments' debt problems.

In fact, they were devices that helped battered international bank lenders to preserve the fiction that they would still be repaid in full while they bought time to rebuild their battered balance sheets.

Once the banks had recapitalized, by the late 1980s, the Brady Plan found a way for the Latin American governments to undertake an orderly default and impose explicit losses—haircuts—on the bank lenders.

By some measures, Greece has a heavier debt load than Latin America. Developing country borrowers—Argentina, Ecuador, Mexico, Turkey—have defaulted with debt burdens as a proportion of GDP of a fraction of that now being carried by Greece. (Unlike most of the European Union, many would have met the EU's debt and deficit limits even as they defaulted.)

This heavy burden is one reason why pessimists think a Greek default is likely. Messrs. Boone and Johnson have three scenarios.

The first, the non-default option would require a brutal economic contraction, difficult for any government to preside over, and even then it requires at least two more €30 billion bailout packages to guarantee its financing needs for the next three years.

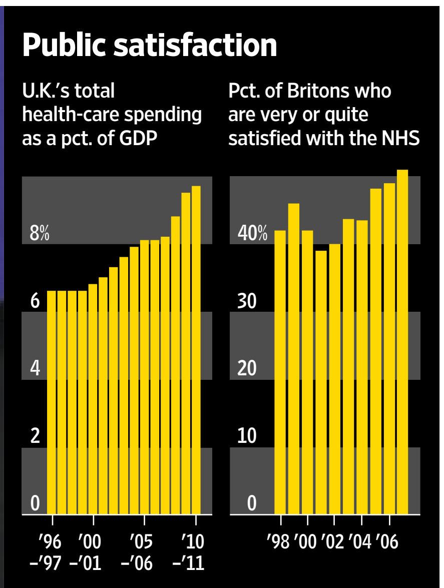
A second option would be to default and stay in the euro, requiring an estimated debt write-down of perhaps 65% of face value and a lot of austerity.

Or Greece could default and give up the euro, which they say will result in a sharp devaluation but potentially, as when Argentina abandoned its link with the dollar in 2001, a quick move to a budget surplus (because its debt-servicing burden falls), current-account surplus (because its goods and services become very cheap to foreigners), and a fairly quick pickup in growth.

Many people aren't ready to accept that the choices are as stark as this. Bond investors may decide the risks aren't what they thought they were and give Greece more breathing space than it currently appears to have.

Uri Dadush, a former senior World Bank official now at the Carnegie Endowment in Washington, says: "I suspect they do need a rescheduling." But he adds it is not just a matter of arithmetic. "There's a lot of psychology in this," he says.


Agence France-Presse/Getty Images
Swine-flu vaccination at the University College London Hospital as the mass immunization program begins last fall.



Sources: Organization for Economic Cooperation and Development; the King's Fund; British Social Attitudes Survey

U.K. parties focus on NHS

Labour, Conservatives prescribe plans to sustain health service's vigor amid crippling deficits

By Jeanne Whalen

Britain's major political parties are battling over the future of the country's national health-care system ahead of next month's election. But the fight isn't over how to cut the National Health Service against the backdrop of a massive national deficit.

Instead, the ruling Labour and opposition Conservative parties are dueling to persuade voters that they are best guardians of spending at the NHS, which the public sees as a sacred cow that must be preserved no matter how bad the economy is.

As the parties court voters, however, some economists are putting out a more dire view: that Britain can't bypass the generously funded NHS in tackling its large deficit.

Nick Bosanquet, a professor of health policy at Imperial College London, says political rhetoric ignores the fact that the NHS is "heading for the funding equivalent of the cardiac arrest." He adds: "There is an underestimation of the financial pressures that are looming."

Spending on the NHS has boomed during nearly 13 years of Labour rule, and while opinion is far from united on the results, some big improvements have proved popular with voters: Waiting times for doctor visits and operations have fallen, hundreds of new hospitals and primary-care centers have been built to replace aging infrastructure, and tens of thousands of new doctors and nurses have been hired.

The NHS budget has grown by nearly 7% a year in real terms over the past decade, boosting the U.K.'s total health-care spending as a percentage of GDP by nearly three percentage points, to 9.7% in 2010-11, according to a report published by the King's Fund and the Institute for Fiscal Studies, two think tanks.

Labour and the Conservatives have promised to broadly protect NHS spending. Prime Minister Gordon Brown says his government will ensure that spending on "frontline" services—the vast bulk of the budget, which supports patient care—will rise in line with inflation through 2013. The Conservatives vow to protect "health spending in real terms."

The battle plays to voters' emotions. The Labour Party recently mailed leaflets to voters claiming the Conservatives would scrap a guarantee that cancer patients can see a specialist within two weeks of being referred by a general practitioner. The Conservatives said cancer patients who had received the leaflets had been offended by the "scaremongering" and called on Labour to apologize.

The Conservatives—who in other areas are campaigning strongly against the size of government—also produced a three-minute video for the Web in which a young father extols the virtues of the health service and vows to vote for the Conservatives because they have "pledged to protect funding for the NHS." In a campaign poster, Conservative leader David Cameron promises, "I'll cut the deficit, not the NHS."

But some economists wonder whether Britain can afford this. The country's finances are in their worst shape in decades, with the U.K.'s budget deficit likely to hit 11.8% of GDP this year—one of the highest of the major economies. Economists and politicians differ on how soon spending cuts should begin, but they all agree steep cuts are needed.

Some think the NHS should be included. "The NHS should not be immune from the drive to reduce public spending. The structural deficit in the public sector is due to sustained over-spending and the largest part of that spending was targeted on the NHS," a group of health-care experts and economists wrote in a paper published this month by Reform, a think tank that believes public services can be improved by applying more free-market principles.

Alone among the biggest political parties, the Liberal Democrats argue that NHS spending shouldn't be ring-fenced. "I don't think you would be able to even keep up with demand in the NHS and protect frontline services ... unless you take a very, very hard look at some of the massive administrative overheads in the NHS," Nick Clegg, leader of the party, said in an interview. But even the Liberal Democrats say there should be no cuts in the number of doctors and nurses.

Attempts to trim services typically spark anger. When health officials considered closing the Whittingdon Hospital emergency room in north London, local residents mounted an aggressive campaign to try to keep it open, collecting signatures online and staging protests.

Shirley Franklin, founder of Defend the Whittington Hospital Coalition, says she knows tight U.K. finances mean tougher times ahead. "If we win, it's going to be at somebody else's expense," she said in a phone interview.

The closure of the hospital's emergency room is one of many steps health officials in London are considering to try to cut costs and improve health-care delivery. They are aiming to centralize some hospital care at a smaller number of specialized units, and are opening new polyclinics that combine general-practitioner services with routine tests and procedures that would normally be performed at greater cost at a hospital, such as X-rays and blood tests.

Even if NHS spending isn't cut, an ageing population and rising obesity rates mean the health service will have to do more with its money in coming years. NHS Chief Executive David Nicholson last year told health-service managers to find £15 billion to £20 billion ($23.16 billion to $30.88 billion) of "efficiency savings" by 2014, money he said would be reinvested in the service.

The British Medical Association—the main professional body for doctors—says it "understands the need for efficiency," but warns against any cuts to "frontline services." Instead, the NHS should cut its use of management consultants, the BMA says. The Royal College of Nursing agrees, estimating that the NHS in England spent £350 million on management consultants in the latest fiscal year.

—Alistair MacDonald contributed to this article.

ECB worries about U.S. debt

By Brian Blackstone

The European Central Bank widened its focus beyond Greece, warning that major economies such as the U.S. and Japan which recently emerged from a severe financial crisis already face a new one in government debt markets.

Officials also warned that imbalances between trade deficits and surpluses in key regions such as the US and Asia haven't been sufficiently addressed, posing another threat to the global economic recovery. "We may already have entered into the next phase of the crisis: a sovereign-debt crisis following on the financial and economic crisis," ECB executive board member Jürgen Stark, from Germany, said Thursday.

Mr. Stark noted that many European countries didn't take advantage of strong economic growth over the past decade to get their finances in order. That charge has been made frequently with regard to Greece—where the deficit last year was nearly 13% of gross domestic product—as well as Ireland, Spain and Portugal. All four countries have to slash their deficits in the face of feeble economic growth.

In a speech in the U.S., Mr. Stark extended those concerns beyond Europe to include the U.S. and Japan. While debt-to-GDP ratios in the euro zone and U.K. will approach 90% next year, they will hit 100% in the U.S. and 200% in Japan, he said.

"High levels of government budget deficits and debt may push up inflation expectations and place an additional burden on the monetary policy of central banks and their task of maintaining price stability," he added.

ECB officials have repeatedly said that despite the attention paid to high-deficit countries in the south and Ireland, budget deficit for the euro zone as a whole, at about 6% of GDP, is well below those of the U.S., U.K. and Japan.

Separately, the ECB noted that, unlike the U.S. and Asia, the euro zone was "very close to external balance" from the mid-1990s through the financial crisis.

Science writer wins libel case brought by chiropracters

Associated Press

LONDON—A British science writer has won his battle against a chiropractic organization that sued him for libel.

The case highlighted loopholes in British libel laws that critics say have allowed big companies to sue scientists and journalists on spurious grounds. Scientists, in particular, say the laws stifle debate and discourage experts from raising concern about potentially dangerous treatments or devices.

In 2008, Simon Singh wrote a column in the Guardian newspaper challenging the British Chiropractic Association's claim that chiropractic treatment could cure a wide range of childhood medical problems, including colic and asthma. The ensuing case revolved on a technical point as to whether Mr. Singh was reporting a fact or expressing an opinion.

The group sued Mr. Singh, and a lower court ruled last year that he couldn't claim his views were fairly held opinions, but would have to prove in court that his assertions were factually accurate.

Earlier this month, an appeals court ruled the decision was wrong, allowing Mr. Singh to argue that his words were opinion and that it would be unfair to require him to prove their accuracy in court. On Thursday, the chiropractic group dropped the case.

Mr. Singh called for major libel reforms and said British laws discourage scientists and journalists from speaking out. "Unless our libel laws change urgently and radically, I will not be the last journalist hauled through the libel courts," he said in a statement. "We still lack a robust public interest defense and we still have an unfair burden of proof on writers."

All three of Britain's main political parties have said they will consider reforming Britain's libel laws to limit their impact on journalism and free speech.

In a continuing case, a British cardiologist is facing libel charges in the U.K. for criticizing a new heart device made by an American company. Last year, more than 19,000 scientists and supporters signed a petition to keep libel laws out of science.

British media organizations have long complained that excessive fees mean they often can't afford to defend themselves in defamation cases, diminishing free expression and curtailing investigative journalism. Some say they are unwilling to run potentially contentious stories because of the risk they could be sued.

Mr. Singh's lawyers will argue next week whether the British Chiropractic Association should cover his legal bill, estimated at £200,000 ($309,400).

"This case should never have happened," said Robert Dougans, Mr. Singh's lawyer. Mr. Dougans said case should set a precedent making it more difficult for to sue scientists and writers for supposedly libelous claims.

"Hopefully, this will bring the U.K. more in line with the freedoms that journalists in other countries like Australia and the United States take for granted," he said.

EUROPE NEWS

Eruption in Iceland spews ash, halts European flights

Continued from first page
still going strong, with a lot of ash being propelled into the air, said Oli Aranson, a meteorologist at Iceland's national meteorological office.

"We are most likely going to have an ash cloud for the next couple of days at least," Mr. Aranson said on Thursday. He said the wind would continue blowing in the direction of the British Isles until the middle of next week. Ash coming from the volcano could begin traveling in a different direction if the winds were to change.

The more dramatic activity emanating from Eyjafjallajokul came when a new vent under the central crater opened around midnight Tuesday night and began spewing ash, according to the Nordic Volcanological Center in Reykjavík, which monitors volcanic activity in the region. As of late Thursday, the volcano was still pumping out new ash.

Agence France-Presse/Getty Images

Travelers awaited information about cancellations at Heathrow Airport in the U.K. on Thursday. British authorities grounded flights in England into Friday.

After the last major event began, in 1821, at Eyjafjallajokull (pronounced ay-yah-FYAH'-plah-yer-kuh-duhl), disturbances continued on and off for about a year. It is located under a glacier and has erupted four times in the last 1,100 years.

The volcanic eruption and resulting disruption comes as the global airline industry has showed signs of recovery after its worst crisis in decades. Traffic volumes and passenger fares have been rising this year as the global economy has come back to life.

Europe's airline sector has been a global laggard, so the current disruption, if it continues, could be particularly painful to carriers such as **British Airways** PLC and **Scandinavian Airlines System**, which are already facing heavy financial losses.

Airlines frequently cope with weather-related grounding for reasons such as snow and thunderstorms, but such disturbances rarely last more than a day. An extended grounding due to the volcanic ash could prove painful to several of Europe's troubled carriers. One mitigating factor, however, is that the disturbance could save carriers some money on fuel and other operating costs, although not enough to offset the loss of revenue and the cost of putting passengers up in hotels and feeding them, if necessary.

A number of dangerous incidents involving volcanic ash interfering with airplane engines caused the United Nations' International Civil Aviation Organization to establish the Volcanic Ash Warning System, a global system of nine centers which uses computer modeling to forecast the path of ash clouds and alerts aviation services if necessary. The VAWS alerted civil aviation authorities in Europe after Eyjafjallajokull's eruption.

Volcanic ash presents a serious threat to jetliners flying at high altitude. The ash, which has a consistency similar to talcum powder, is generally invisible and doesn't show up on either ground-based radar or the weather radar systems onboard jetliners, according to Paul Hayes, director of safety at Ascend Ltd., an aviation consulting firm in London.

The first warning a flight crew would have of volcanic dust is a sulfurous smell from the plane's air conditioning system and possibly electrical discharges, known as "St. Elmo's fire," on some external surfaces of the plane, Mr. Hayes said.

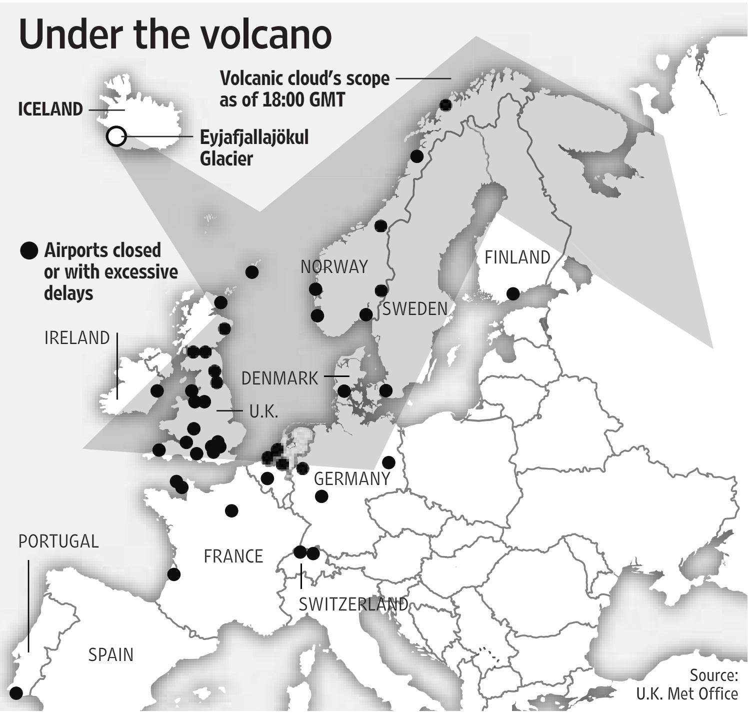
As of Thursday night, civil aviation authorities across Europe were waiting for word that the volcano's cloud had passed and it was safe to fly, but many worried that the volcano would continue disturbing air traffic for months.

"Volcanoes are notoriously irregular in their behavior," said Pall Einarsson, professor of geophysics at the University of Iceland. "If there is any rule about them it is: There is no rule."

Some past eruptions have caused difficulties for people with respiratory problems, but that isn't an immediate concern as a result of the Icelandic eruption. If the eruptions continue, and the ash has a high proportion of sulphur, it can mix with the water vapor in the air, form a weak broth of sulphuric acid, and come down as acid rain.

"But it's hard to say whether that's a problem right now," said Robert Trombley, a former air force pilot and now director and of the International Volcano Research Centre, a private organization in Apache Junction, Ariz., which monitors the activity of more than 500 volcanoes every day.

Under the volcano



Source: U.K. Met Office

—Gautam Naik, Mike Esterl and Doug Cameron contributed to this article.

Pope ends silence on sexual-abuse crisis

By Stacy Meichtry And Ashby Jones

ROME—Pope Benedict XVI addressed the Catholic Church's recent sex-abuse crisis on Thursday for the first time, saying the Church should "do penance" in response to recent public attention to its "sins."

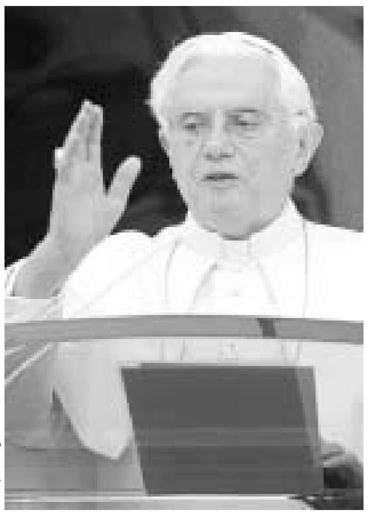
With the remarks, Benedict XVI broke his silence over the recent wave of sexual-abuse allegations that has spread across Europe this year. In particular, the allegations have ignited scrutiny over how the pope handled cases of sexually abusive priests in the past.

The crisis risks undercutting the pope's long-held goal of reviving the Roman Catholic Church in a region where its membership has long been in decline.

In the U.S., the latest allegations have revived scrutiny over how the Vatican handled cases decades ago. Also on Thursday, a lawyer representing many victims of abuse, disclosed documentation showing that an Indian priest had remained in active ministry in Italy after having pleaded no contest in 2007 to charges of sexually assaulting a 15-year-old girl in Bonifay, Fla.

The pope spoke during a Mass in the Pauline Chapel of the papal palace. Excerpts of his homily were broadcast over Vatican radio and reported by the Vatican's official newspaper L'Osservatore Romano.

"I must say that we Christians, even lately, have often avoided the word 'penance,' which seemed too tough," he said. "Now, under the attacks of the world that speak of our sins, we see that doing penance is grace, and we see how penance is necessary," he added in an apparent reference to the sex-abuse crisis.



Getty Images

Pope Benedict XVI

The excerpts of the pope's homily didn't specifically mention sex-abuse by priests. However, the comments' meaning was clear, coming in the wake of abuse allegations that have emerged across Europe this year. Vatican spokesman Federico Lombardi said the pope's comments were open to interpretation.

Benedict XVI has come under particular scrutiny for his handling of abusive priests when he was Archbishop of Munich-Freising in the late 1970 and early 1980s, and subsequently as head of the Congregation for the Doctrine of the Faith, a Vatican office that at the time reviewed some cases of sexual abuse. In early March, the Archdiocese of Munich-Freising disclosed one case in which a priest known to church officials as a sex abuser had been transferred to the archdiocese with the future pope's approval.

Like past popes, Benedict XVI has been reluctant to engage his critics in a public war of words. During Holy Week earlier this month, the pope didn't mention the sex-abuse crisis, leaving his lieutenants in the Vatican to do the talking.

Instead, the Vatican has defended Benedict XVI for over a month now. Its officials have described the pope as the target of a widespread media campaign. On Good Friday, the pope's preacher likened media scrutiny of the pope to the persecution of Jews, prompting a Vatican spokesman to disassociate the Holy See from the comments.

In his homily on Thursday, the pope quoted St. Peter on the "need to obey God instead of men," according to the excerpts of his homily. Dictatorships such as Nazism, Benedict XVI said, "cannot accept a God above ideological power."

The Vatican is preparing to take measures aimed at curbing criticism of the pope by showing his willingness to tackle sexual abuse, according to a senior Vatican official. "The Holy See must make some very precise gestures," the official said.

Thursday's Mass, which was closed to the public, was attended by members of the Vatican's Bible commission including Cardinal William J. Levada, head of the Congregation for the Doctrine of the Faith, the Vatican office in charge of defrocking sexually abusive priests.

—Margherita Stancati contributed to this article.

For Jerusalem

It was inevitable: Jerusalem once again is at the center of political debates and international storms. New and old tensions surface at a disturbing pace. Seventeen times destroyed and eighteen times rebuilt, it is still in the middle of diplomatic confrontations that could lead to armed conflict. Neither Athens nor Rome has aroused that many passions.

For me, the Jew that I am, **Jerusalem is above politics.** It is mentioned more than six hundred times in Scripture—and not a single time in the Koran. **Its presence in Jewish history is overwhelming.** There is no more moving prayer in Jewish history than the one expressing our yearning to return to Jerusalem. To many theologians, it IS Jewish history, to many poets, a source of inspiration. It belongs to the Jewish people and is much more than a city, it is what binds one Jew to another in a way that remains hard to explain. When a Jew visits Jerusalem for the first time, it is not the first time; it is a homecoming. The first song I heard was my mother's lullaby about and for Jerusalem. Its sadness and its joy are part of our collective memory.

Since King David took Jerusalem as his capital, Jews have dwelled inside its walls with only two interruptions; when Roman invaders forbade them access to the city and again, when under Jordanian occupation, Jews, regardless of nationality, were refused entry into the old Jewish quarter to meditate and pray at the Wall, the last vestige of Solomon's temple. **It is important to remember: had Jordan not joined Egypt and Syria in the 1967 war against Israel, the old city of Jerusalem would still be Arab. Clearly, while Jews were ready to die for Jerusalem they would not kill for Jerusalem.**

Today, for the first time in history, Jews, Christians and Muslims all may freely worship at their shrines. And, contrary to certain media reports, Jews, Christians and Muslims ARE allowed to build their homes anywhere in the city. The anguish over Jerusalem is not about real estate but about memory.

What is the solution? Pressure will not produce a solution. Is there a solution? There must be, there will be. Why tackle the most complex and sensitive problem prematurely? Why not first take steps which will allow the Israeli and Palestinian communities to find ways to live together in an atmosphere of security. Why not leave the most difficult, the most sensitive issue, for such a time?

Jerusalem must remain the world's Jewish spiritual capital, not a symbol of anguish and bitterness, but a symbol of trust and hope. As the Hasidic master Rebbe Nahman of Bratslav said, "Everything in this world has a heart; the heart itself has its own heart."

Jerusalem is the heart of our heart, the soul of our soul.

Elie Wiesel

U.S. NEWS

Economists split on inflation

Survey shows divided outlook mirrors Federal Reserve; rate move not seen until November

By Phil Izzo

Economists were evenly divided between those who fear inflation will accelerate over the next year and those who see a bigger risk that the inflation rate will slow from already low levels, according to the latest Wall Street Journal forecasting survey.

On average, the 56 surveyed economists, not all of whom answer every question, expect tame inflation, forecasting consumer prices in December will be just 1.8% above year-earlier levels.

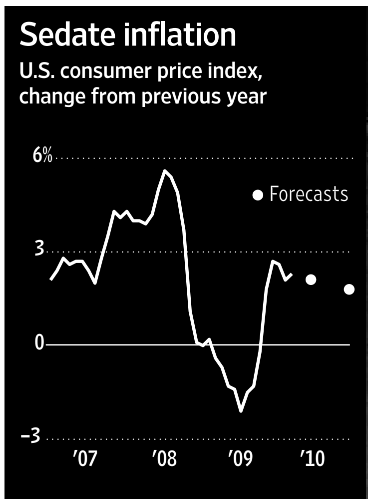
But there was a wide variance in the estimates, which ranged from predictions of no increase in prices at all to a 4.4% increase. Consumer prices barely rose in March from February, and increased 2.3% over the previous year.

When asked what presents a bigger risk over the next year, 23 economists said accelerating inflation and 23 said slowing inflation. That mirrors a divide inside the Federal Reserve. At their March policy meeting, some officials argued the downturn in house prices is causing key measures to understate prices increases; others focused on the decline in inflation measures that exclude food and energy. Chairman Ben Bernanke appears to be in the latter camp.

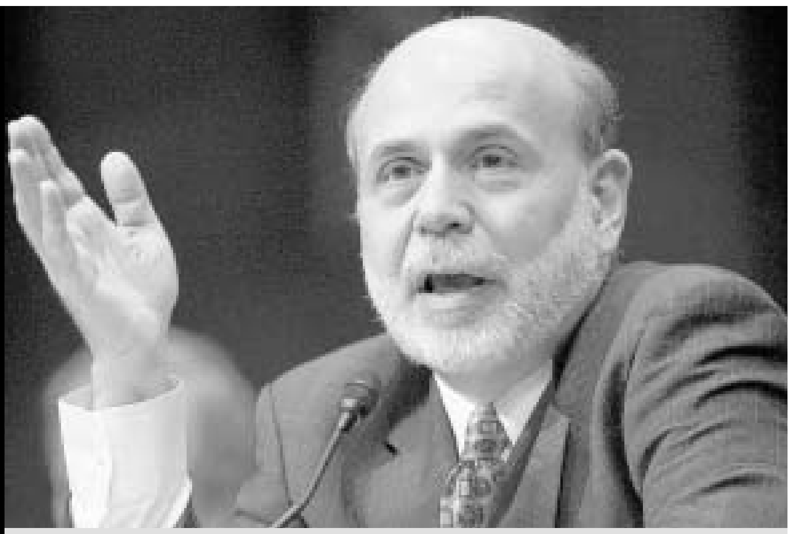
"The moderation in inflation has been broadly based, affecting most categories of goods and services with the principal exception of some globally traded commodities and materials, including crude oil," he said Wednesday.

The inflation issue is a key consideration for Fed officials debating when to signal markets that they are preparing to raise their target for short-term interest rates, now being held near zero.

"The Fed doesn't want to start raising rates when you haven't got really solid employment momentum," said economist Kurt Karl of Swiss Re, who doesn't see much risk of inflation amid widespread unemployment.



Sources: U.S. Labor Deptartment; The Wall Street Journal survey of economists
Photo: Bloomberg News



A divide among economists over the future direction of inflation mirrors a debate among U.S. Federal Reserve officials, including Chairman Ben Bernanke.

On average, the economists expect the unemployment rate, currently at 9.7%, to fall to just 9.3% by December while the economy adds around 1.9 million jobs over the next 12 months. The survey found that, on average, the economists expect the U.S. economy to expand at about a 3% annual rate in each of the four quarters of this year, although three-quarters said growth is more likely to be stronger than weaker than their forecast.

Economists continued to push back their expectations for when the Fed will begin raising rates. On average, the economists don't expect the central bank to move until November; two months earlier they were predicting September. But predictions ranged widely from June 2010 to January 2012.

Some respondents worry that Fed officials are too focused on today's measures of consumer inflation. "Pipeline price pressures are there," said Conrad DeQuadros of RDQ Economics. He noted signs of increased prices of imports, commodities and at the wholesale level. "Commodity prices are increasing very rapidly, which suggests markets are sniffing out an inflation problem down the road."

Most of the respondents—45 of 52 who answered the question—think that over the next five years, the risks of accelerating inflation are bigger than the risks of slowing inflation. Some say near-term inflation debate shouldn't be the key to Fed policy.

"A move on interest rates shouldn't even be tied to inflation," said Joseph Carson of AllianceBernstein. "The Fed dropped the funds rate to near zero due to a fast and sharp decline in the economy. Having avoided a 1930s-type scenario, is a 0% policy rate still justified? We criticize banks for offering teaser rates to buy homes, but the Fed is offering a teaser rate for the entire economy."

Among other findings of the survey:

• On average, economists said that if allowed to trade freely China's yuan would be valued at around 5.56 yuan to the dollar compared with the rate of 6.83 yuan at which the Chinese government is holding it. They said there is just a 35% probability that China will be able to maintain growth rates over 10% over the next decade.

• Twenty-six economists said the recently enacted health-care overhaul will do more harm than good while 15 said it will do more good than harm. Asked how the new law will affect the growth in medical costs, 24 said it will accelerate growth, seven said it will slow growth somewhat and 15 said it will have little-to-no effect.

• Economists were split down the middle on whether the U.S. will impose a value-added tax in the next decade. Many of the skeptical economists said such a policy is politically untenable. Others said the government will need it to raise revenue.

Obama calls for a review of mine safety after accident

By Kris Maher

Massey Energy Co. officials called President Barack Obama's remarks Thursday about the April 5 accident that killed 29 miners in Montcoal, W.Va., "regrettable."

The president made his remarks in the White House rose garden after being briefed on the investigation into the accident by Labor Department Secretary Hilda Solis and the head of the Mine Safety and Health Administration, Joe Main.

Mr. Obama announced a broad program to inspect mines across the U.S. with troubling safety records. Federal inspectors will begin examining mines immediately in order to ensure that a similar accident doesn't occur somewhere else, he said. The president also said he was directing Ms. Solis and Mr. Main to strengthen enforcement of existing laws "and close loopholes that permit companies to shirk their responsibilities."

Mr. Obama said it appears that the massive explosion at the Upper Big Branch mine was triggered by "a failure first and foremost of management, but also a failure of oversight and a failure of laws so riddled with loopholes that they allow unsafe conditions to continue."

Massey officials responded in a statement that said in part, "We fear that the President has been misinformed about our record and the mining industry in general." It noted that MSHA had awarded Massey with three safety awards in 2009 under the current administration. It also defended its record of appealing violations at the Upper Big Branch mine that it didn't agree with and said its rate of appeals was similar to the industry.

Massey's board also issued a statement in which it cautioned against a "rush to judgment."

Manufacturing sector notches strong gain

By Darrell A. Hughes

U.S. manufacturing output climbed 0.9% in March after severe weather damped results in previous months, but overall production was held back by a sharp drop in utilities output.

Separately, the number of workers filing new claims for jobless benefits surged last week despite expectations of a drop, but a Labor Department economist blamed the increase on technical factors and not on rising layoffs.

Industrial production last month increased by 0.1%, the Federal Reserve said Thursday. Economists surveyed by Dow Jones expected a 0.8% increase. February's industrial production was revised up, to an increase of 0.3% from 0.1%.

Widespread gains in durable goods gave manufacturing output its 0.9% increase, from a revised 0.2% increase in February. However, overall output was constrained by a 6.4% drop in utilities output. Utilities' capacity use slipped to 78.6% from 84.1%.

The rate at which industries used their capacity rose slightly in March to 73.2%. Economists had expected an increase to 73.3%. February's capacity utilization was revised up to 73.0% from 72.7%. The 1972-2009 average was 80.6%.

Still, a 3.0% increase in petroleum and coal products helped lift manufacturing output. Car and parts output posted a 2.2% gain. Excluding autos, production in all other industries increased 0.7%.

Machinery production also increased 1.2% in March, the Fed reported. Business equipment rose 1.4%. Construction supplies were up 2.3%.

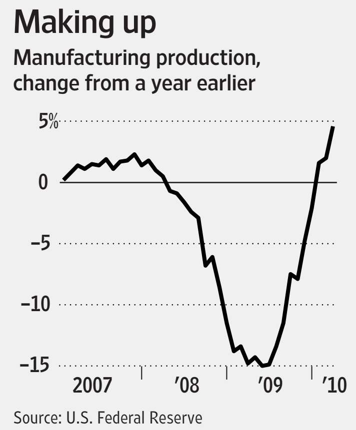
Home electronics saw a 0.7% gain, while appliances and furniture increased 2.9%.

Output by the service sector, which makes up most of the U.S. economy, isn't reflected in the industrial production data.

The Labor Department said in its weekly report Thursday that initial claims for jobless benefits rose by 24,000 to 484,000 in the week ended April 10.

The previous week's level was left unrevised at 460,000.

Economists surveyed by Dow Jones Newswires expected initial claims to decrease by 15,000. This marks the second straight week of increases in initial claims. Last time the increase was blamed largely on the Easter holiday and other seasonal factors.



Source: U.S. Federal Reserve

A Labor Department economist said Thursday that this latest rise can also be pegged to lag effects from the spring holidays including Easter and Cesar Chavez Day, which is celebrated in worker-heavy California.

"Volatility is always higher in the weeks surrounding the Easter holiday," the economist said. "I think that the increase you're seeing is much more attributable to administrative factors than economic factors."

The four-week moving average, which aims to smooth volatility in the data to help paint a better picture of the underlying trend, also rose for the week ended April 10. The Labor Department said the four-week moving average went up by 7,500 to 457,750 from the previous week's unrevised average of 450,250.

Total claims lasting more than one week, meanwhile, also saw an increase.

The job market is still taking a long time to recover, and while U.S. economic data show the economy is growing again, initial jobless claims remain stubbornly high. The Labor Department's March unemployment report did show some improvement after nonfarm payrolls rose by 162,000, but the report also found that unemployment remained at 9.7%.

Federal Reserve Chairman Ben Bernanke said in testimony on Wednesday that he expects the economy to recover at a moderate pace this year, but that it will take time to restore all of the jobs lost during the recession.

"I am particularly concerned about the fact that, in March, 44% of the unemployed had been without a job for six months or more," Mr. Bernanke told a congressional panel.

In the Labor Department's Thursday report, the number of continuing claims—those drawn by workers for more than one week in the week ended April 3—increased by 73,000 to 4,639,000 from the preceding week's revised level of 4,566,000.

The unemployment rate for workers with unemployment insurance for the week ended April 3 was 3.6%, an increase of a 0.1 percentage point from the prior week's unrevised rate of 3.5%.

The largest increase in initial claims for the week ended April 3 occurred in Pennsylvania due to layoffs in construction, service, food and transportation sectors.

New Jersey, Illinois, Ohio, and Washington also saw increases in claims. The largest decreases occurred in Texas, California, Florida, North Carolina and Puerto Rico.

—Sarah N. Lynch and Jeff Bater contributed to this article.

Associated Press

House Republican leader John Boehner, left, Speaker Nancy Pelosi and President Barack Obama discuss financial overhaul.

GOP works to unify ranks

Republicans strive to stop members from backing financial-rules bill

By Damian Paletta And Victoria McGrane

Republican leaders are struggling to maintain a unified opposition to the White House's financial-regulation revamp, which is emerging as the next big test of the GOP's ability to counter the administration's agenda.

Democrats, assuming they can maintain discipline among the 59 Senate votes they control, need only one Republican to surmount any filibuster. At least one, Maine Sen. Susan Collins, is resisting pressure to sign a letter committing all 41 GOP senators to back such a delaying move, according to a person familiar with the deliberations. Such a strategy would block action on the legislation and push the White House to bend to GOP demands.

The Obama administration is betting that widespread public resentment of Wall Street will make it harder for Republicans to oppose the bill. Administration officials are trying to splinter Republican opposition by courting individual senators, including Scott Brown of Massachusetts, Olympia Snowe of Maine and Christopher Bond of Missouri.

Senate Minority Leader Mitch McConnell of Kentucky and four other lawmakers met with President Barack Obama Wednesday about the proposal, and both sides staked out increasingly entrenched positions. After the meeting, Mr. McConnell told reporters the bill was "fatally flawed." Mr. McConnell has painted the Democrats' plan as one that would strangle credit markets and allow the government to fund future bank bailouts with taxpayer money.

Mr. Obama, putting the issue at the forefront of his agenda, said Wednesday the bill would end taxpayer bailouts of banks. White House aides also criticized Republicans for rushing to side with Wall Street against tighter reins on banking activities.

The measure would tighten consumer-protection rules, give the Federal Reserve more oversight of big banks and give the government power to break up failing firms.

Party leaders have negotiated for months, but so far no Republican has publicly shown willingness to support the bill. Senate Republicans met privately Wednesday evening to try to unify their base.

Texas Sen. John Cornyn said Republicans had to stick together because "that represents the best negotiating position we have. Otherwise, there's no incentive for the majority to talk to us."

Ms. Collins, a financial regulator in Maine before arriving in the Senate, has declined in recent days to go along with a unified position, in part because she had not seen details of the proposed letter. But the senator also has more fundamental concerns about standing in the way on the financial bill, the person familiar with the deliberations said.

A spokesman for Sen. Collins did not return calls seeking comment.

In an earlier interview, Ms. Collins said there were "provisions in the bill that I support," such as consolidation of bank supervisors and a new council of regulators.

Treasury Secretary Timothy Geithner planned Thursday to meet with Mr. Brown. Democrats think Mr. Brown might be willing to support their legislation because the newly minted senator—he was sworn into office in February—has already broken with Republican leadership to support a jobs bill pushed by Democrats.

Mr. Brown told reporters he hadn't made a decision whether to support the financial-overhaul bill. He chided the White House for using the debate as "political fodder," but appeared to leave the door open to a deal, saying, "where there's problems, we should fix them."

Lawrence Summers, director of the White House's National Economic Council, is expected to meet soon with Ms. Snowe, who administration officials believe could ultimately support the measure. Ms. Snowe co-signed a letter with several liberal Democrats in February calling for tougher curbs on trading in derivatives, the complex financial instruments that played a role in the financial markets' meltdown.

Democrats moved earlier this week to tailor the derivatives portion of the legislation toward that position, but Ms. Snowe said Wednesday she still hadn't made up her mind.

—Greg Hitt contributed to this article.

Frank predicts passage soon

By David Wessel

WASHINGTON—Barney Frank, the Massachusetts Democrat who heads up the House Financial Services Committee, predicted that Congress will send President Barack Obama a financial-regulatory bill by Memorial Day.

Mr. Frank gave the optimistic forecast Wednesday night to a dinner of the Transatlantic Economic Dialogue sponsored by the Paul N. Nitze School of Advanced International Studies.

He said he expects the Senate to act by the end of May. "The House-Senate conference shouldn't take too long," Mr. Frank said. He argued that the details of the financial–regulatory bill the Senate eventually passes are likely to be closer to those in the House bill than the provisions of the health-care bills that the two chambers enacted.

Mr. Frank ridiculed the accusations of "permanent bailout" that Republicans are leveling at the Democrats' proposals. The House bill requires that shareholders be wiped out, and gives regulators the power to pay creditors less than 100 cents on the dollar.

Coming issues make 'no' a riskier strategy for GOP

[Capital Journal]

By Gerald F. Seib

Being "the party of no" has worked out quite nicely for Republicans, but that position is about to undergo its own stress test.

By linking arms to oppose the recently passed health-care overhaul and the economic-stimulus package before that, Republicans have been rewarded with higher approval ratings and enhanced midterm-election prospects.

In fact, Sarah Palin last week declared that, rather than shrink from the party-of-no label that Democrats have slapped on them, Republicans should wear it as a badge of honor: "We're the party of hell no," she declared to a gathering of Southern Republicans, who roared their agreement.

But just ahead on the road to the 2010 midterm elections lie three big issues—financial regulatory reform, a Supreme Court pick and an arms-reduction treaty—where it's much less clear that presenting a solid wall of opposition to President Barack Obama and his Democrats makes similarly good political sense. The risk for Republicans is that the image they have cultivated as a party taking principled stands can morph—or, more precisely, be morphed by Democrats—into an image of a party of obstructionists.

"The people who still decide elections in this country expect progress and don't expect obstruction," says Jim Jordan, a leading Democratic strategist. "This sort of monolithic obstruction to everything just doesn't work with swing voters."

Republicans insist they can avoid that trap. "It depends how it's defined," says Republican strategist Frank Luntz. He wrote a memo in January to Republican leaders on the language to use in opposing Democratic bills rewriting the rules of Wall Street regulation that has gone a long way toward framing the party's public posture.

On financial regulation, Mr. Luntz argues, the key is to remember that Washington is more loathed than is Wall Street: "The danger for Republicans is to be seen as defending Wall Street," he says. "The danger for Democrats is to be seen as expanding Washington. Right now Democrats are losing their battle."

In any case, it's clear the two parties have reached an important inflection point. One way of looking at U.S. politics is to see it as an endless cycle of the two parties taking turns overplaying their hands. It's pretty clear Democrats overplayed their hand after the 2008 election, reading into the results a bigger mandate than they got and paying a price.

Now the question is whether Republicans are about to make a similar mistake. The question arises in large measure because two of the issues ahead—ratification of an arms-reduction agreement with Russia and confirmation of a Supreme Court nomination—have traditionally produced shows of bipartisanship.

On the nuclear-arms pact, it's too early to tell exactly what posture Republicans will adopt. The deal was signed by the president just a week ago, and Senate aides say it may be the fall before a ratification vote can be held. Some Republicans have questioned whether the treaty's provisions might erode American nuclear security, or hobble development of missile-defense systems, but they've been cautious in their assessments.

Meantime, though, Secretary of State Hillary Clinton has made a point of reminding Republicans—and, by extension, voters—that partisanship often is put aside in arms-control votes. On the day the treaty was completed, she noted that the last three major nuclear-arms treaties were approved in the Senate by votes of 95-0, 93-6 and 93-5.

Mr. Obama's Supreme Court nomination to fill the seat of retiring Justice John Paul Stevens hasn't been made yet, but it promises to be the central Washington topic in early summer. To be sure, the traditional bipartisan approach to court nominations is steadily eroding, and the temptation for both parties will be to use an election-year fight to excite their ideological bases. The question is whether that will backfire with centrist voters.

But the most immediate issue is Wall Street regulation, a topic that once seemed more likely to produce consensus rather than the big fight that is developing. Republicans' stated opposition to the Democrats' Senate proposal is that it amounts to a "bailout bill" because a provision allowing the government to oversee the shutdown of big financial firms that hit the rocks will only provide a new safety net for companies making risky investments.

Their quieter objection—one harder to sell politically—is that provisions restricting trading in derivatives and establishing a consumer protection agency will handcuff financial markets.

That has, as you'd expect, opened the way for Democrats to charge that Republicans are merely shielding Wall Street from tighter regulation, a position nobody wants these days. "They are very plainly on the wrong side" of this issue, says Democratic pollster Geoff Garin.

To which Republicans counter that Democrats are the ones who have shut down negotiations over a compromise and forced the opposition to unite.

GOP consultant Whit Ayres argues that "any open-minded person who's willing to evaluate the evidence" will see that "there are any number of Republicans who are open and willing to work on this."

The path of the Wall Street regulation debate in the next few days will determine whether Republicans will have to make that case to voters in the fall.

WORLD NEWS

Chinese avoid rate increases

Economists warn of 'dangerous' figures as leaders stick with traditional controls

By Aaron Back

BEIJING—China on Thursday again showed its preference for using administrative controls to manage its surging economy, raising down-payment requirements for certain home buyers after announcing that economic growth in the first quarter surged to 11.9% from a year earlier.

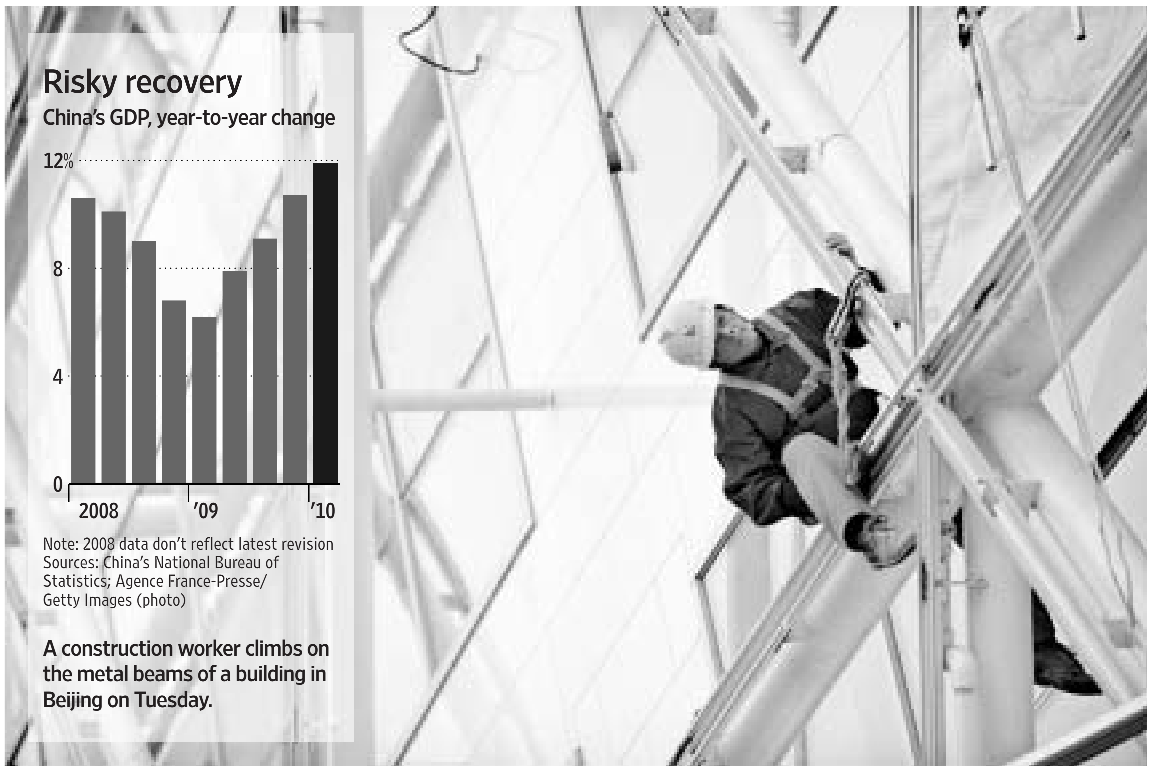
In any other major economy where growth has accelerated as quickly as China's, higher interest rates would seem inevitable. But in China, authorities have been reluctant to raise rates, which economists worry is putting them behind the curve in tackling the risks of inflation and possible asset bubbles.

The latest quarter's gross domestic product growth compares with a 10.7% rise in the fourth quarter of 2009, and just 6.2% in last year's first quarter, the slowest quarterly expansion in almost two decades.

"It is a dangerous set of figures," Royal Bank of Scotland economist Ben Simpfendorfer said of Thursday's data. He said he worries that a lower-than-expected inflation reading in March will delay a needed increase in interest rates.

"This is an economy that is running too hot," he added. "Policy tightening is needed."

Though consumer-price inflation in March was a relatively subdued 2.4%, housing prices surged 11.7% from a year earlier, China said on Wednesday. The State Council has repeatedly highlighted its concern over the rapidly rising prices. The latest move set a 30% minimum down-payment for purchases of first homes larger than 90 square meters, and raised the down-payment requirement for second homes for the second time this year, to 50% from 40%. Relatively few buyers now qualify for the minimum 20%.



Note: 2008 data don't reflect latest revision
Sources: China's National Bureau of Statistics; Agence France-Presse/Getty Images (photo)

A construction worker climbs on the metal beams of a building in Beijing on Tuesday.

Many economists think a more effective way to cool the property market would be to simply increase interest rates, which would raise financing costs for developers and home buyers. "It seems like they are trying to put out a fire with buckets instead of using the hose," said Royal Bank of Canada economist Brian Jackson.

The government already has taken several steps to cool down the overall economy, mainly by reducing the quantity of lending by China's banks, almost all of which are government controlled. Authorities have set a lower target for loan growth this year, and have required banks to keep more money in reserve. But two powerful levers that could control inflation by influencing the price of money—higher interest rates and a stronger currency—have remained untouched, although many analysts expect China to start gradually revaluing the yuan in the coming weeks.

"The Western world thinks change in interest rates is the most important monetary-policy tool. However, it is absolutely not the case in China," Li Yang, a former adviser to the People's Bank of China, said in an interview Wednesday.

"While interest rate is a price tool, quantitative tools are the most important in China, such as loans and money supply," added Mr. Li, who is vice president of the Chinese Academy of Social Sciences.

"Policy makers are reluctant to move more aggressively on interest rates because they see rising risks from the external global environment and worry about the sustainability of the recovery," said Standard Chartered economist Jinny Yan, who also noted that the final decision on rates lies not with central bank, as in most major economies, but rather with China's top political leaders.

The Ministry of Commerce on Thursday continued to make a case against the need for yuan appreciation, pointing to China's $7.2 trillion trade deficit in March.

Goldman Sachs economist Yu Song said in a note "it is critical for the government to tighten policy more decisively than they have been doing in order to prevent overheating." He added that stricter tightening measures are unlikely until inflation rises to 3% to 4%.

—Liu Li and Yajun Zhang contributed to this article.

Quake-zone schools face scrutiny

By Gordon Fairclough

SHANGHAI—Dozens of students and teachers were killed when dormitories and classrooms collapsed in Wednesday's earthquake in western China, authorities said—focusing attention on the safety of China's school buildings, which came under scrutiny after thousands of children were crushed in a massive 2008 temblor in Sichuan.

Wang Yubo, provincial education chief in Qinghai where the quake hit, said Thursday at least 11 schools had been destroyed and dozens of children were believed to be trapped inside the collapsed buildings.

Authorities said 66 students and 10 teachers were among the more than 600 people confirmed dead. An additional 313 people were listed as missing. Thousands were injured.

At the badly damaged No. 3 Wanquan Primary School in the hard-hit town of Jiegu, rescuers were trying to reach a large number of students thought by school officials to be buried in the rubble.

As of Wednesday night, emergency workers had found 27 children alive beneath the wreckage of the elementary school and recovered 34 bodies, the state-run Xinhua news agency reported.


Agence France-Presse/Getty Images

A Tibetan Buddhist monk walks amid the rubble of flattened homes in Jiegu, Yushu county in northwest China's Qinghai province .

Soldiers, firemen, volunteers and red-robed Tibetan Buddhist monks continued to struggle to save people buried in the rubble of schools, homes and other buildings in Jiegu and elsewhere in Qinghai's Yushu prefecture.

"Our task is to find survivors and dig them out," said Zhu Mingyu, a local government official helping with emergency operations in the region, which is inhabited predominantly by ethnic Tibetans. "The top priority is to save people."

Rescuers battled altitude sickness—Jiegu sits on the Tibetan plateau at an elevation of about 4,000 meters, or 13,200 feet—cold weather and frequent aftershocks as they used shovels, picks and their bare hands to dig through the wreckage.

Officials said hundreds of people had been found alive, and footage of successful rescues was broadcast nationwide on television.

In a sign of the political importance of the rescue and relief efforts, Chinese Premier Wen Jiabao visited Jiegu on Thursday evening. Standing atop a pile of rubble, he told a large group of townspeople: "Your disaster is our disaster. Your suffering is our suffering." Mr. Wen delayed a trip to Southeast Asia and President Hu Jintao decided to cut short a visit to Latin America to focus on the earthquake recovery.

Additional troops and medical teams began arriving in remote Yushu Thursday, and Mr. Zhu said heavy lifting equipment had been brought in to move slabs of steel-reinforced concrete and other debris. But he said more was needed.

Chinese seismologists said the quake was magnitude 7.1. The U.S. Geological Survey recorded it at magnitude 6.9.

—Bai Lin in Shanghai and Kersten Zhang and Sue Feng in Beijing contributed to this article.

Chinese eulogy bares traces of party shift

By Jason Dean

BEIJING—A published eulogy by China's premier for the reformist Communist Party chief whose death in 1989 led to pro-democracy protests at Tiananmen Square has prompted speculation about political maneuvering ahead of a looming transition of power in Beijing.

Premier Wen Jiabao's article memorializing Hu Yaobang, on the 21st anniversary of his death, ran across the top of page two in Thursday's People's Daily newspaper, the party's official mouthpiece.

The article was striking because Mr. Hu is a sensitive figure in China: he was ousted from his post for perceived lenience toward demonstrations in 1986; after the protests that followed his death, Beijing responded with a brutal crackdown on student demonstrators.

In the essay, Mr. Wen fondly recounts his experiences working under Mr. Hu, especially a lengthy inspection tour they took to southwestern China in 1986, and avoids discussion of anything overtly sensitive.

But in the opaque and symbolism-heavy world of Chinese politics, where anniversaries and historical figures often serve as proxies for current issues, Mr. Wen's public embrace of Mr. Hu was widely seen as significant—even if there were differences in defining the significance.

Jing Huang, a professor at the National University of Singapore's Lee Kuan Yew School of Public Policy, said the article signals that Mr. Wen and Chinese President Hu Jintao, who is also Communist Party chief, have "prevailed in a struggle over conservative forces and reached a new consensus" on political reform—albeit gradual change under the party's guidance.

Mr. Huang said, for example, that the two leaders want to institutionalize the transition of power to the next generation of top party officials in late 2012, and to carve out a more substantive role for the country's legislature, which is now largely ceremonial.

"Hu Yaobang is the perfect person to highlight the importance of political reform as well as the Party's leadership in the reform," Mr. Huang said.

Others saw a different motive. "This has nothing to do with political reform," said an editor at a government-run newspaper. "It's about Wen's reputation." The editor argued that the eulogy was intended to demonstrate Mr. Wen's loyalty to an old mentor—one still viewed positively by many in China—and to suggest the premier's status as heir to a populist mantle.

Analysts say Thursday's article would have required consensus among China's most senior leaders before being published. Yet it comes at a time when the leadership has moved backward on key areas of political liberalization in recent years, with a series of harsh sentences for political dissidents and a major crackdown on Internet expression.

Mr. Wen has cultivated a populist image as premier, and is known for his visits to China's hinterland and his public commiseration with the downtrodden. He flew on Thursday to the site of the earthquake Wednesday in remote Qinghai province, as he had done soon after a far more devastating earthquake in southwestern China two years ago.