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BUSINESS & FINANCE 17

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## Kyrgyz president flees

## Greece deficit fears roil markets

BY MARK BROWN  
AND NICK SKREKAS

Greek 10-year bond yields climbed to their highest point in more than a decade and the country's stock market slumped as Greece said its 2009 deficit would be slightly higher than forecast.

But the government denied a report of a much sharper revision.

Sentiment toward Greece remains poor as the country continues trying to convince investors that it can refinance its borrowings, given its heavy debt load and the latest surge in its bond yields. The country has large financing needs over the next two months and is expected to issue a bond in coming weeks. The country's finance minister said Wednesday that major banks were asking for aid, sending their stocks tumbling.

In a further sign of investors' nerves about the country's outlook, the cost of insuring Greek sovereign debt climbed as well, exceeding that of troubled Iceland for the first time by one measure.

The budget-deficit estimate for 2009 rose because the figure is typically reported

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Reuters

Riot police are attacked by firebombs thrown by anti-government protesters in Bishkek, the capital of Kyrgyzstan, on Wednesday. At least 47 people died in clashes.

BY DEIRDRE TYNAN  
AND KADYR TOKTOGULOV

BISHKEK, Kyrgyzstan—Opposition leaders said a violent popular revolt toppled the government of this strategically important Central Asian nation Wednesday, creating fresh complications for the U.S.-led war effort in Afghanistan, which has a supply base here.

President Kurmanbek Bakiyev fled the capital after protesters stormed government buildings throughout the country and captured several top aides, some of whom they beat severely, opposition leaders said. Kyrgyz news agencies reported that the president had fled to the southern provincial city of Osh, but opposition leaders couldn't confirm this.

By nightfall, opposition leaders declared an interim committee to rule the country. The leader of the opposition, lawmaker and former foreign minister Roza Otunbayeva, said the opposition was taking control of police and military forces in the country.

"The opposition now controls the government," Ms. Otunbayeva said Wednesday

evening.

It isn't clear what, if any, platform unites Kyrgyzstan's new leaders, other than a deep dislike for Mr. Bakiyev, who was swept to power by popular revolt in 2005 and who gradually lost popularity as he shunted aside political foes and democratic freedoms and appointed family and friends to high government posts.

The catalyst for the latest demonstrations was an increase in utility rates that took effect Jan. 1, coupled with allegations of corrupt privatizations and misuse of development funds by the government. Protesters appeared to become more enraged when the government tried to quell disturbances by arresting key opposition figures.

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Obama offers little hope for the Darfuris in Sudan.  
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## Banks ally to fight corruption

BY BOB DAVIS

WASHINGTON—The World Bank and four regional development banks, aiming to crack down on corrupt practices in developing countries, plan to jointly blacklist any company that one of the banks finds guilty of graft or collusion, said officials involved with the deal.

The agreement—to be signed in Luxembourg on Friday by heads of the World Bank, Inter-American Development Bank, European Bank for Reconstruction and Development Bank, Asian Development Bank and African Development Bank—could affect the business practices of tens of thousands of companies that work in developing countries. Most major projects in poorer countries include financing from one of the par-

ticipating banks.

Currently, each bank has its own procedures for investigating and prosecuting corruption. Companies found guilty of such practices by the bank typically are "debarred"—meaning they can't bid on new projects for a given number of years, sometimes permanently. But a firm banned by one institution is free to bid on projects at other development banks. The new policy prohibits a banned company from working for all the development banks.

"This will bring the forces of all the banks together," said Leonard McCarthy, anti-corruption chief of the World Bank, which has been spearheading the initiative. "We will know our investigation and debarments will resonate elsewhere. That will increase pressure" on companies to

follow proper procurement practices. The new policy, which is expected to take effect May 1, will affect new debarments, not current ones, officials said.

Currently 162 companies and individuals from 25 countries are forbidden to bid on World Bank projects for various periods of time. The Inter-American Development Bank blacklist numbers about 100 and the Asia Development Bank lists 566 companies and individuals. The EBRD, which generally invests in private-sector projects, said it rarely bans companies. The African Development Bank is putting debarment procedures in place.

For the most part, banned enterprises aren't prominent multinationals. But occasionally, some of the world's large

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## PAGE TWO

# How best to nurture fragile recovery?

## [ Agenda ]

By PATIENCE WHEATCROFT



As economic recoveries go, this one lacks conviction. Politicians may tell us we are over the

worst but business people remain nervous. Statisticians are doing nothing to lessen their qualms.

Wednesday, revised figures from the European Union wiped out the euro zone's miserable 0.1% of growth that previously had been recorded for the last quarter of 2009 to record that, actually, there had been zero growth during the period.

Almost simultaneously, the Organization for Economic Co-operation and Development was reporting that, with the exception of the euro zone, most major OECD economies did gather speed in the final quarter. However, any comfort to be had from that news was only temporary. For the G-7 group of major industrialized nations, the OECD forecast that the first half of this year would show a distinct slowdown.

"The recovery is set to remain fragile and sluggish," predicted David Kern, the chief economist with the British Chambers of Commerce, an analysis that applies to much of the OECD territory.

How best to nurture such a fragile recovery is now the stuff of fierce debate. Except in Greece. Here problems have escalated to such an extent that the word "recovery" has vanished from the lexicon, replaced by mere survival. With the markets continuing to demonstrate the fear factor attached to the possibility of a government default, it looks increasingly as though the problem must be handed over to the International Monetary Fund. The sense of panic in the country is escalating as Greece's banks beg the government for more support.

Against this background, the IMF team that has just arrived on



Shadow Chancellor George Osborne unveils the Conservatives' campaign poster

a fortnight's mission to try to advise on budgetary improvements looks as though it is being asked to fiddle while Greece burns. The country's euro-zone partners are also choosing to avert their eyes, determinedly avoiding providing emergency aid. So Greece is in a nightmare scenario, being forced to pay ever-increasing prices to get deeper and deeper into debt. The situation is surely unsustainable.

## The sense of panic in Greece is escalating as banks beg the government for more support

The situation in the U.K. isn't quite so perilous, although an organization known as the Taxpayers' Alliance has taken it upon itself to provide graphic illustration of the scale of the country's debt problem. It has constructed a giant lorry-mounted "debt clock" that will tour the country for two weeks during the election campaign.

When the lorry sets off Monday, it will show the national debt at £781,512,328,767. That figure will rise at a rate of £446,575,342 every day so that, when the tour finishes on April 26, the debt will have clocked up to £788,210,958,904. And if that

looks like a terrifying number, it is worth remembering that the Treasury's projections show it almost doubling by 2014-15.

That is why the issue of how to deal with debt is such a major one in the election battle that has this week been formally opened in the U.K. That the debt must be paid down isn't a matter of dispute but the speed and the timing is, with the Conservatives promising to cut public spending faster and deeper than Labour.

Yet it is the promise of a tax cut rather than a spending cut that has won the Conservatives some resounding support from the business world.

Although modern business leaders are often wary of aligning themselves with political parties during elections, judging it wise to be on good terms with governments of whatever political persuasion they might be, a surprise move from the Tories has persuaded a raft of leading business people to throw off any political pragmatism and give the move their support.

Bosses of companies ranging from engineers to retailers, Internet operators and publishers have all applauded a promise to reverse a rise in National Insurance, effectively an extra tax paid by both employers and employees. The employers dub it a tax on jobs and argue that any increase will slow growth in the economy since it will deter

companies from adding staff.

The Labour Party has been taken aback by the popularity of the pledge, which the Conservatives maintain they will fund through cuts in public spending. It accused the business people who had put their names to letters supporting the NI cut as having been "deceived." Not surprisingly, this accusation was not well received by people who value their reputation as hard headed and successful operators rather than gullible fodder for political guile.

The issue has helped the Conservatives edge a little further in the polls in these early days of the monthlong election campaign. But the debate over how a fragile economy can be nurtured back to health will go on long after the election has been decided.

The cuts in public spending will be deep whichever party wins. When the public sector accounts for 52% of the economy, as it does in the U.K., there is plenty of scope to cut.

Yet many of those business people who support the NI cut would argue that tax cuts are the essential other half of the spending-cuts equation. They will be pushing the Conservatives to move fast to bring down the level of income tax, which this week moved to 50% for those earning more than £150,000 in the U.K. While firm commitments on this won't materialize in the next few hectic weeks, the language of low taxes is likely to feature rather more on the Conservative Party's lips as polling day approaches. For, in the end, as the business leaders know, it is low-tax economies that best generate growth.

## A 70% score

Alan Greenspan, the former chairman of the U.S. Federal Reserve, claims to have been right 70% of the time he was in the job. That is probably a fair assessment for the man who identified "irrational exuberance." The pity is that he chose such a dangerous 30% to get wrong.

## What's News

■ **Greenspan urged U.S. policy makers** at a hearing to place much higher capital and collateral requirements on the financial-services industry and warned of the likelihood of future crises if such steps aren't taken. 17

■ **GM posted** a \$4.3 billion loss for the second half of 2009, in the first accounting of the auto maker's balance sheet since it emerged from bankruptcy protection. 18

■ **Daimler will cross-invest** with Nissan and Renault and jointly develop small cars, in a sign of the growing need for economies of scale in the auto industry. 19

■ **Euro-zone private-sector output** grew at its strongest rate in 31 months in March, fueled by a surge in activity in Germany, data showed. 6

■ **Tiger Woods will appear** in a new Nike ad, the first TV ad for the golfer since revelations about his private life emerged last year. 17

## Inside



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Maybe it isn't always so good to share with colleagues. 27

## ONLINE TODAY

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### Iain Martin on Politics

[blogs.wsj.com/iainmartin](http://blogs.wsj.com/iainmartin)

"Clearly this is a new political movement with considerable potential. What will they tackle next?"

Iain Martin on the new Cider Party's success overturning a planned cider tax



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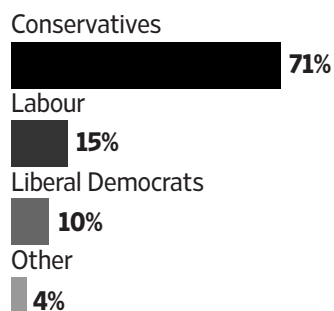
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### Previous results

Q: Who would you vote for in the U.K. election?



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NEWS

# French first lady quells talk of plot

By DAVID GAUTHIER-VILLARS

France's first lady, Carla Bruni-Sarkozy, went on national radio Wednesday evening to quell talk that an international plot was behind recent infidelity rumors within the presidential couple.

"We're not victims of any kind of plots," Ms. Bruni-Sarkozy said in an interview with French radio Europe 1. "I came here to prevent a matter of no importance taking on proportions that I find ridiculous."

Ms. Bruni-Sarkozy and her husband, President Nicolas Sarkozy, have denied rumors that surfaced in some media last month alleging that both had extramarital affairs.

Earlier this week, two people close to Mr. Sarkozy—lawyer Thierry Herzog and communications adviser Pierre Charon, who also manages the presidential hunting grounds—said the rumors could have been the product of a plot, planted to discredit France's president or move financial markets at a time Mr. Sarkozy was promoting new global financial regulations.

Their comments, made in sepa-

rate interviews with French media, created a distraction for the administration of Mr. Sarkozy, who had just pledged to return his focus on reducing unemployment after his ruling party had been thrashed in regional elections last month.

The plot theory also unleashed a political witch hunt, as various allies to Mr. Sarkozy pointed fingers at each other. On Wednesday morning, Rachida Dati, who was Mr. Sarkozy's Justice Minister until last year, went on radio and denied playing any role in spreading rumors about the president. "This must stop," she told French radio RTL.

Mr. Herzog didn't return calls seeking comment. An assistant to Mr. Charon said he would be busy all Wednesday, dealing with the Chambord château, the main presidential hunting ground.

Although the intervention of Ms. Bruni-Sarkozy may help restore calm within Mr. Sarkozy's political family, French prosecutors have launched a preliminary criminal probe to determine whether the infidelity rumors were first spread by someone acting on his own or



Carla Bruni-Sarkozy on her trip to the U.S. last month

Sarkozy and his wife were both having extra-marital affairs.

Although the JDD, which is part of media group Lagardère SCA, removed the post just a few hours later, the rumors made their ways into many mainstream newspapers, in Europe and in the U.S. Most media cited the JDD, not the blog item, as their source. "We called these newspapers to make the distinction clear but it was too late," JDD managing editor Olivier Jay said.

Messrs. Bigot and Jay said the JDD conducted an internal investigation during which a 23-year-old employee working for an in-house content provider said he was behind the litigious post.

In posting his item, the employee breached the blog's rules, which prohibit any contributor from referring to people's private lives, Mr. Bigot said. The employee, who was asked to resign, couldn't be reached.

Last month, when she denied infidelity rumors in an interview with French weekly Le Figaro Magazine, Ms. Bruni-Sarkozy said: "I despise would-be journalists who use blogs as a credible source."

stemmed from a broader conspiracy.

Prosecutors are acting on a complaint filed March 26 by the publishing house of Le Journal du Dimanche, a French weekly newspaper that hosts a blog where the rumors initially surfaced.

"We would like to know whether

the person acted alone or was used—knowingly or not—by third parties," said Christophe Bigot, a lawyer for the JDD weekly.

The case began on March 9 when a man identifying himself as "mikl07" posted a brief story on a JDD-housed blog alleging that Mr.

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## EUROPE NEWS



Adrian Sanders office; Marcus Wood office

Liberal Democrat MP for Torbay Adrian Sanders (left) and Conservative candidate Marcus Wood campaign for the crucial parliamentary seat in the seaside town of Torquay.

# Southwest is election testing ground

*U.K. Conservatives plan to wrest control from Liberal Democrats to unseat Prime Minister Gordon Brown*

BY LAURENCE NORMAN AND JOE PARKINSON

TORQUAY, England—The rural villages and seaside towns of southwest England have become a key battle line between the U.K.'s two main opposition parties: the Conservatives and Liberal Democrats.

The Conservatives are out to raid the Liberal Democrats' 62 seats as they try to oust Labour Prime Minister Gordon Brown from power in the May 6 elections.

The southwest became a Liberal Democrat stronghold following the 1997 election. A divided Conservative party was uprooted in the Southwest as part of a landslide win for Tony Blair's Labour. With Mr. Blair moving Labour firmly to the center, some ex-Conservative voters defected or, less worried about the prospect of a Labour government, didn't vote. As the Conservatives have slipped in the region, the Liberal Democrats have gained.

The Liberal Democrats won 10 of 21 seats in the counties of Cornwall,

Devon and Somerset in 2005; eight of those seats are among the Conservatives' top targets for May. Compared to the 2005 election results, Conservative support is up, while backing for the Liberal Democrats, which gained 22% of the vote in 2005, is down.

What is clear is that in the Southwest, as elsewhere in Britain, voters are skeptical but still up for grabs. The region has a traditional suspicion of London's well-oiled political machines, and a requirement that politicians keep a local focus. Its large rural areas, high proportion of elderly voters and a strong military tradition also make it natural Conservative territory.

Liberal Democrats are confident they can hold on. "We are much more resilient than the Conservatives believe," said Jeremy Browne, the Liberal Democrat lawmaker for Taunton and Deane, which has flipped between the opposition parties in each of the past three elections. "The received wisdom was that if the other two parties were

running close, that would squeeze the Liberal Democrats. But we haven't been squeezed."

In the seaside town of Torquay, the birthplace of crime writer Agatha Christie and the setting for the 1970s TV comedy "Fawlty Towers," Conservative candidate Marcus Wood believes voters are "coming back in droves" to his party amid widespread hostility toward Mr. Brown, who has presided over the deepest recession in decades, and over a lawmakers' expenses scandal.

In the 2005 general election, Mr. Wood almost halved the Liberal Democrats' lead, losing by 42% to 36%. This time, he is focused on turning out voters and hammering home a message echoed by Conservatives throughout the region: if you vote Liberal Democrat, Mr. Brown could stay in power. "We've got to persuade people ... that they should use their vote to change the government," he said.

Mr. Browne, the Liberal Democrat lawmaker, believes David Cameron, the Conservatives' leader, will

struggle to win over voters in the Southwest who are "less entranced by metropolitan fadness and more impressed by authenticity."

Torbay's Liberal Democrats lawmaker Adrian Sanders thinks the same factor means the Southwest gives incumbents an advantage. "The further you get from Westminster, the more people want a local champion—local loyalties and incumbency protection makes Liberal Democrats hard to unseat down here," he said.

The other key factor is Europe. The Southwest has been a breeding ground for the U.K. Independence Party, which wants to pull Britain out of the European Union.

In Torbay, amid the political expenses scandal last June, the UKIP finished first in the European elections, some 2,500 votes ahead of the Conservatives. The party also picked up two of the Southwest's six European Parliament seats.

UKIP's success is thought to come mostly at the Conservatives' expense, although the polls are am-

biguous on that. Mr. Sanders says a strong UKIP showing could boost his cause.

At the Three Bridges farm in Mr. Browne's Taunton Deane constituency, the Sheppy family have been making cider for over 200 years. Louisa Sheppy is angry at the government's recent attempt to raise taxes on cider, the region's preferred alcoholic drink. But she can't make up her mind who to vote for.

"There's more uncertainty than in any previous election I remember and the public are disillusioned."



U.K. Election 2010

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# Don't cut the budget quite yet, says OECD

BY WILLIAM HOROBIN AND ILONA BILLINGTON

PARIS -- The Organization for Economic Cooperation and Development said the U.K. shouldn't start to cut its budget deficit until next year, backing the governing Labour Party in an argument that is at the heart of the election campaign.

In its interim report on the outlook for the Group of Seven leading industrial nations, the Paris-based think tank also estimated that the U.K. economy grew at an annualized rate of 2.0% in the first quarter, and forecast it will grow by 3.1% in the second.

With the economic recovery still fragile, governments should announce their medium-term plans to cut borrowing, but not implement them until 2011, the OECD said.

That's the policy of the British government, which trails the opposition Conservative Party in opinion polls ahead of the May 6 election.

## Drop back

U.K.'s purchasing managers index for the services sector



Note: Seasonally adjusted  
Source: Markit

The program in the U.K., like in other countries, should be announced today but implemented next year," OECD Chief Economist Pier Carlo Padoan said in an inter-

view.

The government says it will post a deficit of £163 billion in the year that began in April, down from £166.5 billion last year, but well above £96.1 billion a year ago.

On Wednesday, Prime Minister Gordon Brown accused the opposition Conservative Party of making a "historical mistake" in promising to reverse the national insurance tax increase by cutting spending.

The Conservative Party has said that if elected, it will cut spending by up to £6.5 billion this year in order to reassure bond investors and avoid a sharp rise in long-term interest rates.

The Conservatives have also said they will find the money for scrapping the national insurance tax rise by cutting more waste from the public sector over the next 12 months. They have not yet provided details of where those efficiency savings would be found.

Separately, the U.K.'s dominant

services sector expanded, but at a slower pace in March than the previous month. Research group Markit Economics and the Chartered Institute of Purchasing & Supply said the services Purchasing Managers Index slipped to 56.5 in March from 58.4 in February. Economists had forecast a smaller decline to 57.9, according to a poll by Dow Jones Newswires last week. A reading above 50.0 indicates the sector is expanding, while a reading below 50.0 indicates it is contracting.

However, the data do little to alter current first-quarter GDP forecasts, a number which could prove crucial to Labour's election campaign. Preliminary first-quarter GDP data are due April 23.

The leaders of the U.K.'s three main political parties clashed on political reorganization, taxes and the economy on the first full day of campaigning for the U.K. election Wednesday.

Messrs. Brown and Cameron

sparred on the economy at their final prime-minister's question-time face-off before the vote.

"There is a clear choice. We can put the national insurance up and therefore protect our schools, our hospitals and our policing or we can do what the Conservatives traditionally do and that is put our hospitals, policing and our health service at risk," Mr. Brown said.

The Conservatives have said they would substitute the increase with some £6 billion in extra efficiency savings in the public sector this year, but haven't set out the details of these savings yet.

"The choice is Labour's decision to go on wasting money and then put up tax on every job in the country," Mr. Cameron said. He said the tax increase "would wreck the recovery by putting a tax on every job, on everyone earning over 20,000 [pounds], a tax on aspiration."

-- Paul Hannon and Laurence Norman contributed to this article.

## EUROPE NEWS

# Erdogan calls Israel 'threat' to peace

Turkish premier's remarks further strain countries' alliance as analysts ponder nation's foreign-policy leanings

BY MARC CHAMPION

Relations between Turkey and Israel, already at a low point, took a further battering Wednesday when Turkish Prime Minister Recep Tayyip Erdogan described Israel as "the principal threat to peace" in the Middle East.

The remarks, made to reporters on a visit to Paris, came after Israel's foreign minister had compared Mr. Erdogan to Venezuela's Hugo Chávez and Moammar Gadhafi of Libya earlier this week.

Israel responded quickly.

"We are interested in good relations with Turkey and regret that Mr. Erdogan chooses time after time to attack Israel," said Prime Minister Benjamin Netanyahu after a news conference in Jerusalem, adding that such remarks would do nothing for Middle Eastern stability.

This promises to be a tough month for Mr. Erdogan's relationships with some of his most important Western allies, as he seeks to balance Turkey's interests in boosting trade and political relations with its immediate neighbors—including Iran, Syria and Azerbaijan—with the conflicting goals of Western policy makers.

Mr. Erdogan's clashes with Israel and rapprochement with Iran and Syria have led some analysts to believe Turkey is making a fundamental foreign-policy shift away from its Cold War partners in the West, in particular the U.S., and toward Middle Eastern powers such as Iran. At a recent meeting of foreign-policy



French President Nicolas Sarkozy, right, greets Turkish Premier Recep Tayyip Erdogan before talks in Paris Wednesday.

analysts in Istanbul held by the Turkish Policy Quarterly, Israeli and Turkish analysts agreed on one point—the alliance those two countries built on shared security concerns in the 1990s is probably unsalvageable.

But a 38-page report by the Brussels-based International Crisis Group think tank on Turkey's new role in the Middle East, released Wednesday, said the belief Turkey is turning away from the West is "in-

correct." The report noted that Turkey's trade with Europe continues to outweigh its trade with the Middle East by a wide margin, and European Union membership remains its core goal. But the report also warned that Mr. Erdogan risks losing the trust of Western allies.

Mr. Erdogan was in Paris on Wednesday to boost a trade relationship that has recovered from a brief setback caused by France's recognition of the 1915 slaughter of Ar-

menians under Ottoman rule as genocide, and to push for Turkey's EU bid, which France opposes.

Next week, he heads to Washington for a conference on nuclear security to be attended by leaders from some 40 nations—including Mr. Netanyahu. There, he is likely to come under pressure to back U.S. and French efforts to secure unanimous support at the United Nations Security Council for further sanctions against Iran. Turkey currently

holds one of 10 rotating seats on the 15-nation Council.

So far, Mr. Erdogan shows no sign of backing down from his opposition to imposing harsher sanctions on Iran, which together with his tough rhetoric on Israel and support for Hamas in the Gaza Strip have brought him popularity in many parts of the Middle East.

"I don't think those [sanctions] being discussed can be effective," Mr. Erdogan told French daily *Le Figaro* in an interview published ahead of his visit. "Sanctions have already been agreed on two occasions. Those who took the decision to apply them were the first to violate them," he said, specifying the French, Germans, English, Americans and Chinese.

Mr. Erdogan also repeated his skepticism on whether Iran intends to use its nuclear-fuel program to build nuclear weapons, saying there is no such uncertainty concerning Israel's undeclared arsenal.

Asked on Wednesday if he wasn't concerned Israel could become the focus of attack for proliferation during next week's nuclear conference in Washington, Mr. Netanyahu said, "I'm not concerned that anyone would think that Israel is a terrorist regime," the Associated Press reported.

Western governments and nuclear analysts say there is ample evidence that Iran's nuclear-fuel program, which can be used to enrich civilian or weapons-grade fuel, is being developed to give Iran a military capability.

## Kyrgyzstan revolt prevails

Continued from first page

ures, most of whom were released late Wednesday.

At least 47 people were killed and 400 injured in clashes between protesters and security forces Wednesday, government officials said, many of them when a crowd of several thousand protesters tried to overwhelm the presidential palace, the White House, which police defended with gunfire.

In the provincial city of Talas, a crowd of several thousand stormed the police station and seized two top deputies to Mr. Bakiyev who had taken refuge there. One of them, First Deputy Prime Minister Akylbek Japarov, was stripped and beaten for more than an hour and lost an eye before he was taken to a hospital, one witness said.

The apparent fall of Mr. Bakiyev creates complications for the U.S., which has tried to accommodate the increasingly isolated Kyrgyz president in return for his support of its air base near the capital.

The U.S. has bridled in its criticism of Mr. Bakiyev's tightening control over the political system, and Thursday was due to host his son, Maksim—who the president was grooming as heir apparent—at an economic forum in Washington.

State Department spokesman P.J. Crowley condemned the violence in Kyrgyzstan and said the situation there was "difficult." Still, he said that Washington believed the Kyrgyz government remained in power and hadn't ceded authority.

"We have no indication that the government has ceased to function," Mr. Crowley said. "To the extent that there are claims that the government has fallen, we don't have that information."

Mr. Bakiyev has also alienated onetime foreign allies by trying to play Russia and the West off one another as they jockey for influence in Central Asia. Russia, whose television stations still hold considerable sway in this former Soviet republic, has lately beamed in programming deeply critical of Mr. Bakiyev and his family, which it has accused of corruption and cronyism.

On Wednesday, Russian Prime Minister Vladimir Putin reacted coolly to Mr. Bakiyev's ouster. Mr. Putin noted at a news conference that when Mr. Bakiyev came to power he criticized his predecessor, Askar Akayev, for populating his government with friends and relatives. "It seems to me that Mr. Bakiyev stepped on the same rake," Mr. Putin said.

But closer ties to the U.S. have angered the Kremlin. Last year Russia announced a \$2.15 billion aid package for Kyrgyzstan, in a deal where Mr. Bakiyev in return promised to close the U.S. air base. Instead, Mr. Bakiyev renegotiated the lease on the air base and allowed the U.S. to stay after renaming it as a transit center.

Russian-language press unleashed a flurry of criticism toward Mr. Bakiyev after it was revealed in early March that the U.S. plans to build a

training center for Kyrgyz Special Forces at a cost of \$5.5 million in the southern province of Batken. Mr. Bakiyev has long warned that Islamist terrorists from the country's southern regions could destabilize the government and feed a regional insurgency.

Demonstrations began Tuesday in two provincial cities where protesters stormed a police headquarters and took a regional governor hostage. Emboldened by their success and angered by opposition leaders' arrests, crowds gathered in the capital of Bishkek on Wednesday near the White House.

Police tried to disperse the crowd with tear gas and rubber bullets, but protesters disarmed some of the police and seized their vehicle carriers. At one point, the protesters tried to ram their way through White House gates with a commandeered armored personnel carrier. At least two people were killed at the White House after being shot through the head by snipers, eyewitnesses said.

American officials said that Kyrgyz Foreign Minister Kadyrbek Sarbaev and the Kyrgyz president's son were en route to Washington Wednesday for a prearranged trip. The two nations postponed the bilateral consultations that had been scheduled for Thursday, but Mr. Crowley said State Department personnel still planned to meet with the two men.

—Yochi J. Dreazen  
contributed to this article.



Soviet leftovers | Some of the ups and downs in the "Stans"

### Kyrgyzstan

Russia and the U.S. have been courting Kyrgyzstan as an ally in a struggle for influence in the region.

In 2005, protesters overthrew the government of then-President Askar Akayev. The ouster was dubbed the "Tulip Revolution."

In 2009, President Kurmanbek Bakiyev announced the closure of a U.S. air base, which he later allowed to remain, but at three times the rent.

### Kazakhstan

The largest of the "Stans" with 2.7 million km<sup>2</sup>. Has closest relations with Western companies due to its large fossil-fuel reserves.

### Uzbekistan

Poor human-rights record, but strategically located close to Afghanistan.

### Turkmenistan

Ruled by totalitarian President Saparmurat Niyazov, also known as Turkmenbashi, until 2006.

Under new President Kurbanguly Berdimukhamedov, the country has become slightly more liberal, but its human-rights record remains poor.

### Tajikistan

With per-capita GDP of \$1,800, the poorest of the "Stans." Fought a bloody civil war from 1992-1997.

## EUROPE NEWS

## Accelerating

Euro-zone private-sector output growth is being fueled by a surge in activity in Germany.

## Purchasing managers index



Note: Seasonally adjusted  
Source: Markit

The BMW factory in Munich, Germany, this March



# Euro-zone output jumps

Surging German private-sector activity keys 31-month index high

BY NICHOLAS WINNING

LONDON—Euro-zone private-sector output grew at its strongest rate in 31 months in March, fueled by a surge in activity in Germany, data from financial-information firm Markit showed Wednesday.

The currency area's composite-output index, a measure of private-sector output based on a monthly survey of about 4,500 companies, rose to 55.9 in March from 53.7 in February—the highest reading since August 2007. It marks the eighth consecutive month that the index has been above the “no change” 50-point level.

The report came alongside news that the euro-zone economy stopped growing in the final quarter of 2009, according to an update issued by the European Union's Eurostat statistics agency.

Eurostat had previously estimated that the euro-zone economy grew 0.1% in the fourth quarter, contracting 2.1% from the fourth quarter of 2008.

But the more recent purchasing managers' index data show growth gathered pace as the first quarter

progressed, though the European Central Bank continues to forecast a gradual and bumpy recovery from the recent recession.

The March rise in the private sector was stronger than both the preliminary reading and the market consensus estimate of an increase to 55.5 forecast by economists surveyed by Dow Jones Newswires last week.

“The final composite euro-zone PMI for March suggests that, despite setbacks due to adverse weather in some parts of the region, [gross domestic product] looks likely to have risen by 0.4% to 0.5% during the first quarter,” said Chris Williamson, chief economist at Markit, which helped compile the data.

A breakdown suggests that the recovery is broad-based. The manufacturing PMI rose to a 40-month high, while activity in the service sector rose at the fastest pace since November 2007.

Germany, the biggest economy in Europe, reported the strongest growth with the rate of expansion also accelerating to its highest level since August 2007, led by a record

increase in manufacturing output, Markit said.

There was strength elsewhere, too, with output in Italy surging to a 31-month high.

Spain, one of the euro-zone economies that was hit hardest by the credit crunch, registered its first increase in economic activity since December 2007, with output rising in both the services and manufacturing sectors.

“The rise in Italy and Spain is particularly welcome and potentially hints at the recovery becoming more broadly based across the euro area,” said James Nixon, an economist at Société Générale.

However, the survey showed euro-zone employment fell for the 21st consecutive month in March, albeit at the slowest rate since September 2008.

Where job cuts were reported, this reflected company restructuring, cost-reduction programs and nonreplacement of people who left, Markit said.

The continued weakness of the labor market suggests there is unlikely to be rapid recovery in consumer demand in the near term.

# Spain charges judge with abusing power

BY SANTIAGO PÉREZ

Baltazar Garzón, the high-profile Spanish judge who led the emergence of cross-border justice by chasing South American dictators and Islamic terrorists, was charged Wednesday with having manipulated the course of justice when investigating atrocities linked to the Spanish Civil War.

Spanish Supreme Court judge Luciano Varela charged Judge Garzón on Wednesday with knowingly overstepping his jurisdiction with his ambitious probe of mass executions and thousands of disappearances during the Spanish Civil War in the 1930s.

Judge Varela, a Supreme Court investigative judge, said Judge Garzón also ignored an amnesty passed by the Spanish Parliament in 1977 that cleared atrocities linked to Gen. Francisco Franco's four-decade-long dictatorship.

The indictment against the investigative judge who chased Chilean dictator Augusto Pinochet could also spark a suspension from his post before standing trial, according to court officials. If found guilty, he could then be formally removed from court for as long as 20 years, said Gonzalo Martínez Fresneda, a lawyer representing Judge Garzón.

Judge Garzón has previously denied any wrongdoing.

Analysts say the case against the judge could dent his reputation and affect his standing within the National Court, a tribunal with national jurisdiction that handles politically high-profile cases linked to terrorism and white-collar and organized crime.

The charges also mirror the deep political divide that remains in Spanish society and its judiciary even decades after Gen. Franco's death.

“This trial can generate confusion with the Spanish public; a judge who prosecuted crimes in Argentina and Chile could now go on trial over jurisdiction formalities in Spain, accused by local far-right groups that were linked to Franco's dictatorship,” said Ignacio Espinoza, spokesman of Judges for Democracy, a Spanish judges' association.

At the National Court, Judge



Judge Baltazar Garzón

Garzón's career gained relevance with the prosecution of senior Argentine army officers linked to that country's “dirty war.” He also sent key leaders of Basque separatist group ETA to jail and dismantled organized crime rings operating in Spain.

The National Court's judges act on their own investigations and are independent from Spain's executive and legislative branches. Over the years they have also handled several high-profile global cases, including against the governments of China and Israel and allegations of U.S. torture at Guantanamo Bay.

Because of the sensitivity of the cases, the National Court judges' probes have often proved a headache for the Spanish government in its relations with other countries. Spanish legislators last year passed a resolution that limited the jurisdiction of crusading judges to cases in which there is a clear Spanish connection and no home-country investigation already under way.

However, Judge Garzón's investigation of atrocities during the Spanish Civil War sparked the mobilization of local groups such as the Clean Hands Union and the Spanish Falange, which filed the charges against him.

“Garzón's investigation violates Spain's rule of law,” said Jaime Alonso, one of the lawyers filing the charges. “This case represented judicial gymnastics and a political platform for his own glory.”

# Greece and its banks can't shake worries over deficit

Continued from first page  
as a percentage of a country's gross domestic product, and Greece's GDP is contracting more than originally forecast. As a result, the deficit in

2009 likely was 12.8% or 12.9% of GDP, compared with an earlier estimate of 12.7%, the government said. The revision is now being looked at by Eurostat, the European Union's statistical agency, which is expected to release its official figures by the end of April.

A government spokeswoman denied financial daily Imerisia's report that the revision could show last year's deficit was as much as 13.5% of gross domestic product as a result of changes in GDP estimates and smaller-than-expected surpluses in Greece's pension funds and local-government coffers.

That came a day after investors were spooked by a separate report—subsequently denied by Greek Finance Minister George Papaconstantinou—that the country wanted to avoid taking aid from the International Monetary Fund because of tough conditions that would be at-

tached.

Since announcing in October that its deficit was more than four times the EU's limit of 3% of GDP, Greece has been rocked by credit-rating downgrades, its borrowing costs have soared, and it has been forced to seek commitments of support from its EU partners and the IMF. Many economists, including those at the Greek central bank, forecast the economy will contract about 2% this year, but some expect a drop of as much as 4%, after a 2% decline in 2009.

Wednesday, Mr. Papaconstantinou said there was no need for the nation to take further austerity measures to meet its budget targets, despite the new figure.

“The [revision] which we are speaking about is such that it absolutely ensures...that we won't require further measures,” he told the privately owned ANT1 television

channel.

Greece's benchmark 10-year bond yielded 7.13%, up from 6.999% late Tuesday. That is the highest closing yield since Oct. 26, 1999, when the country's 10-year debt yielded 7.236%, according to data from Thomson Reuters.

By comparison, the German 10-year bond, considered the euro-zone benchmark, yielded 3.13%, pushing the gap between the two countries to four percentage points. In 1999, the gap was just 1.777 percentage point.

Wednesday, the gap was even wider between the two countries' two-year notes: Greek two-year debt was yielding 6.59%, compared with just 0.97% for Germany.

In the stock market, the benchmark ASE fell 3% to 1987.58, its lowest close since March 1. Financial shares plunged as banks asked the Greek government to tap an extra

€17 billion (\$22.8 billion) in unused liquidity measures from a 2008 support plan as they struggle to cope with rising loan-loss provisions and trading losses on their large portfolios of Greek government bonds. Such loan guarantees aren't counted toward the deficit, according to Eurostat.

EFG Eurobank Ergasias skidded 7.5% and Piraeus Bank lost 5.7%.

The euro traded at \$1.3349 in late New York trading, down from \$1.3405 late Tuesday, but off its intraday low of \$1.3326.

The latest market moves came as a delegation of IMF officials visited Athens on a two-week-long technical-assistance mission. Many market participants think it could be a prelude to an assistance package from the fund.

—Katie Martin, Alkman Granitas and Emese Bartha contributed to this article.

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U.S. NEWS

# The recession was bad, but was it 'great'?

[ Capital ]

BY DAVID WESSEL



Federal Reserve Chairman Ben Bernanke calls it "the worst financial crisis in modern history."

His predecessor, Alan Greenspan, says it was "the most virulent global financial crisis ever." The resulting recession was longer and deeper than any the U.S. has suffered since World War II.

But does it deserve the heavy mantle of "The Great Recession" that it seems to be acquiring? "Great" is a big word, a mark of enormous historical significance. World War I was the Great War until the second world war came along.

Herbert Hoover was an early adopter of "Great Depression," using the phrase in 1931 because he thought it less alarming than "panic" or "crisis." The Great Depression surely deserves the name. Industrial production fell 45% between 1929 and 1932. Unemployment went from 3% to 25%.

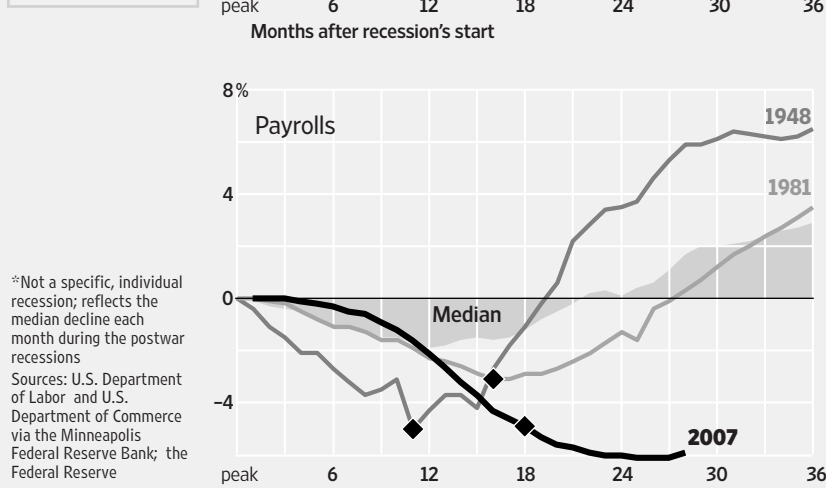
Economists often refer to the Great Inflation of the 1970s, the only time the U.S. saw sustained inflation above 5% in peacetime in the 20th century. For a time, they talked about the Great Moderation, the unusually calm economic seas that stretched from the mid-1980s to the mid-2000s that some saw as a permanent change. Recent events suggest that it might be better described as the Great Mirage.

The recent recession began in December 2007 and probably ended in June or July 2009. (The end to recession isn't the victorious end to a football game. The date marks only the moment where things stop getting worse.) It lasted about 18 months, longer than any post-war recession. Industrial production fell 16%, far more than any recession since the Depression. Payrolls fell 6%, unrivaled by recessions of the past half century. Unemployment went from 4.4% to 10.1%, an increase bigger than the five-percentage-point climb in the early 1980s—though the jobless rate didn't hit the 10.8% peak hit in 1982.

## Recession yardsticks

How the recession that began in 2007 compares with some of the worst recessions since World War II, and with the median trend.\*

◆ Recession's end



\*Not a specific, individual recession; reflects the median decline each month during the postwar recessions  
Sources: U.S. Department of Labor and U.S. Department of Commerce via the Minneapolis Federal Reserve Bank; the Federal Reserve

"It's pretty clear this is the most severe post-war recession," says Mark Watson, a Princeton economist. But "greatness," he adds, implies something more than "severe."

As the New York Times' Catherine Rampell recently noted, with a bit of exaggeration: "Every recession of the last several decades has, at some point or another, received this special designation." Newspaper archives record persistent attempts affix the label to the deep recessions of 1974-75 and the early 1980s.

The Associated Press decided in February to use Great Recession as a proper noun. "It has become common parlance in government and among economists," says David Minthorn, AP's deputy standards editor. "It had tremendous impact. It appears to be a landmark. That's why we're using it." So are President Barack Obama ("All over our country...," he said in December, "Americans who lost their jobs in the Great Recession are looking for work.") and White

House economist Lawrence Summers ("There's a Great Recession everywhere," he said on TV earlier this week. "There's a quiet depression in small business."). The phrase has appeared in print more than 10,000 times in the past year, a Factiva database search finds.

Yet a quick survey of academics who sit on the committee that dates recessions turns up no consensus. "The decline in employment is sufficiently greater than any recorded, apart from the Depression, that the 'great' (i.e. terrible) is merited," says Stanford's Bob Hall. Adds Harvard's James Stock: "This term is appropriate even though it seems to play to a natural tendency for overstatement. If by 'great,' we mean widespread, deep and prolonged, this recession gets at least two of the three." Other economic phenomena dubbed "great" lasted longer, he says.

Princeton's Mr. Watson argues that because the recession led to unprecedented actions by the Fed

and Treasury and is having a bigger impact on economic thinking than previous downturns, it was "the most important recession in the post-war period" and thus can "reasonably be described as great."

But Jeffrey Frankel of Harvard is skeptical. "Was it really qualitatively different than the early 1980s?" he wonders. Northwestern's Robert Gordon makes the same point: "I would not refer to it as The Great Recession," he says emphatically. "No clear call on 1980-82 vs. 2007-09 on which was the 'greatest' post-1930s recession."

That the recession might not be "great" is good news, actually, and reflects the aggressive government response to the onset of the crisis. A few months before Mr. Summers came to Washington, he helped his twin daughters prepare for a high-school history exam. "Things that seemed pretty significant to me—the inflation of the 1970s, the 1982 recession, the 1987 stock market crash—had not been mentioned," he has said. "On

the other hand, they spent six weeks on the 1930s." His goal: "To make sure that this economic fluctuation was not going to be the subject of study in high school history courses a generation from now."

The label on the recession is irrelevant to its victims. It was wrenching and destructive by any name. But labels shape the national narrative and lessons learned. They influence the view of the past in ways that affect attitudes and policies for the future. In my book, what made this recession truly great isn't only its depth and duration, it's the long-lived changes it is provoking in the role of government in the economy, in rules for finance, in the business of banking—and in American attitudes toward spending and thrift, retirement and home-ownership and the nation's institutions of finance and government.

Write to me at [capital@wsj.com](mailto:capital@wsj.com)  
Discuss at [wsj.com/capital](http://wsj.com/capital)

# Fed Chief Says U.S. Must Address Its Debt

BY LUCA DI LEO

DALLAS—The U.S. must prepare for challenges posed by an aging population by crafting a credible plan to gradually reduce a soaring public debt, Federal Reserve Chairman Ben Bernanke said Wednesday.

Health spending is set to increase in the long term as the U.S. population ages, posing challenges to the country's already strained finances, the Fed chief warned.

Meanwhile, Fed Bank of New York President William Dudley said Wednesday the damage caused by financial-market bubbles should bring about a sea change in the way the central bank acts, with the Fed needing to move toward active efforts to reign in market excess.

"There is little doubt that asset bubbles exist and they occur fairly frequently," and when they burst the economy often suffers, Mr. Dudley said. While it can be difficult to discern the existence of a financial-market bubble, "uncertainty is not grounds for inaction" by central bankers, Mr. Dudley said.

Mr. Bernanke, speaking at a Dallas Chamber of Commerce event, said: "Unless we as a nation demonstrate a strong commitment to fiscal responsibility, in the longer run we will have neither financial stability nor healthy economic growth."

To combat the financial crisis, the U.S. government cut taxes and raised spending over the past two years, contributing to sharp budget imbalances. Deficit concerns, by lift-

ing long-term interest rates, could be starting to work against the Fed's own efforts to revive the economy.

Market attention has shifted to how fiscal policy can be returned to a sustainable track after the crisis. U.S. Treasury yields have risen recently amid fears of huge deficits.

The problem also extends to other parts of the world, as highlighted by Greece's growing sovereign-debt woes.

Mr. Bernanke said that while the U.S. economy has started to grow again, it is "far from being out of the woods." The Fed chief said he was particularly concerned by the persistently high unemployment rate, which he expected to fall only gradually.

A credible plan showing a com-

mitment to achieving long-term fiscal sustainability could lead to lower interest rates and more rapid growth in the near term, Mr. Bernanke said, adding the U.S. must make tough decisions.

In recent congressional hearings, Mr. Bernanke has warned lawmakers that U.S. deficits aren't sustainable. After urging them to come up with a credible plan to gradually shrink the soaring U.S. debt over time, he is now taking his message to the public.

U.S. President Barack Obama's 2011 budget proposal forecasts a record deficit of \$1.6 trillion, or 10.6% of gross domestic product, the highest level since World War II. The government plans to slash that to 3.9% of GDP by fiscal 2014, still

above the 3.0% of GDP economists consider sustainable.

Seeking to tackle more entrenched structural issues, Mr. Obama in February appointed a commission to come up with a plan to bring the gap down to 3% of GDP by 2015. A report is expected after the November elections.

If all goes according to plan, the White House still expects the debt to rise above 71% of GDP over the next two years from 53% of GDP in 2009.

Mr. Bernanke said the U.S. will ultimately have to decide between raising taxes, cutting Social Security or Medicare, or spending less on everything from education to defense.

—Michael S. Derby  
contributed to this article.

## U.S. NEWS

# Republican cash issues put pressure on Steele

Chairman's critics say national party is ill-prepared for elections

By Brody Mullins

The Republican National Committee had one of its best fund-raising months ever in March, despite growing internal criticism of its chairman, Michael Steele.

The RNC said it raised \$11.4 million in the month, according to a committee spokesman. That was the most the RNC has raised in March of a congressional-election year. It was also the RNC's best fund-raising month since Mr. Steele took over at the RNC. Subtracting what they spent in March, the RNC added \$2 million to its cash on hand, bring its total to \$11.3 million in the bank.

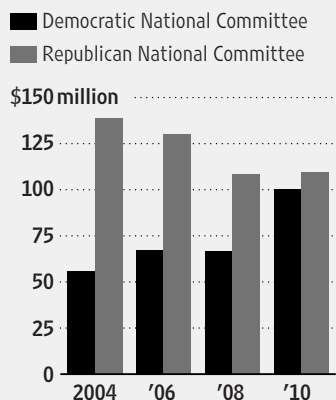
The RNC's finances have sprung to prominence due to recent revelations that Chairman Michael Steele has spent thousands of dollars on private jets, and that a mid-level official approved a \$1,946 charge at a risqué Los Angeles nightclub.

GOP consultant Scott Reed said that "usually, at this phase of the game you are raising and saving a lot of money. But that's not what is happening."

In the last few weeks, three RNC officials have left the organization, including Mr. Steele's chief of staff, in the aftermath of news reports about spending at the Los Angeles

## Campaign cash

Fund raising for each two-year election cycle, through February of each election year



Note: Doesn't include figures for March since detailed data hasn't been released yet  
Source: U.S. Federal Election Commission

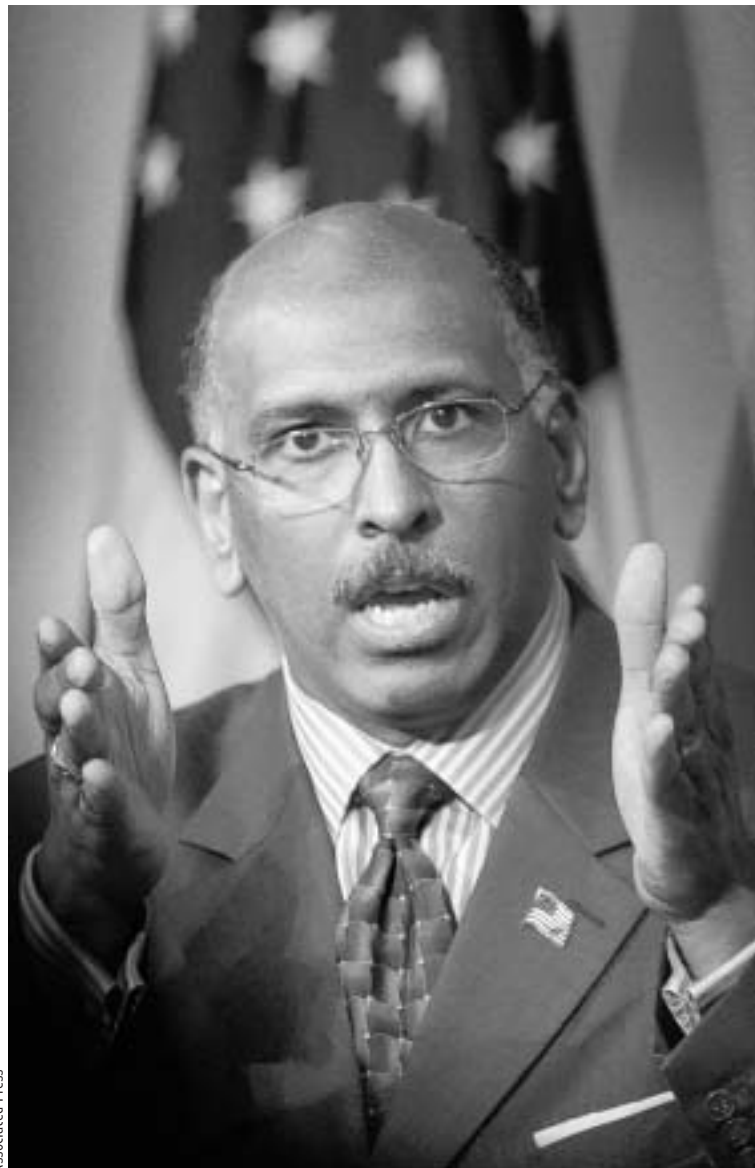
nightclub. On Tuesday, an RNC committeeman from New Hampshire resigned from his volunteer post, accusing Mr. Steele of excessive spending. "I don't care if the \$2,000 was spent in February at a strip club or a family pizza party," Sean Mahoney, the committeeman, wrote in his letter of resignation. "That

\$2,000 could have been spent on radio ads to defeat my Congresswoman ... or any number of vulnerable Democrats across the country."

Many RNC committee members remain supportive of Mr. Steele. The RNC had raised more money than the rival DNC through February of this cycle—\$120 million, compared to the Democrats' \$100 million. The RNC also has raised more money so far this year than it did at this point during the 2007-08 presidential election. But the RNC has also spent more money—\$124 million—than in any other comparable period.

Doug Heye, the RNC's spokesman, said the committee would have more money in the bank had it not spent significantly to help Republican candidates in several elections, including successful 2009 campaigns for governor in Virginia and New Jersey, on which the committee spent a combined \$12 million. The RNC also transferred \$4 million to congressional campaign committees, Mr. Heye said.

Mr. Steele's supporters say that it has become more difficult for the RNC to raise money from large donors since President George W. Bush left the White House, depriving the party of a sitting president to attract those donors.



Associated Press

Republican National Committee Chairman Michael Steele speaks at the John F. Kennedy School of Government in Cambridge, Mass., in February.

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## Mine rescue efforts go on as hopes fade

MONTCOAL, W.Va.—Drilling to help ventilate a mine where an explosion killed 25 West Virginia coal miners was going more quickly than expected, said a safety official, but it still wasn't clear when rescuers could enter the mine to locate four missing miners.

By Kris Maher,  
Keith Johnson  
And Siobhan Hughes

Federal officials started testing the air Wednesday afternoon to see if it was safe, said Mike Snelling, a vice president for Massey Energy Co., which owns the mine.

Hopes remained that the missing miners made it to underground safety chambers equipped with enough food and water for 15 miners for four days. Team members have banged on pipes to see if they could communicate to anyone below the surface but have not received any response, said safety officials.

Two other miners injured in the accident remain hospitalized. Gov. Joe Manchin said one miner remains in intensive care and the other is "doing extremely well."

Some families were skeptical that survivors would be found, saying the odds were against finding the four missing. But Kevin Stricklin, an administrator for the Mine Safety and Health Administration, sought to reassure the families that more was being done to find the miners. "It's still a rescue operation, not a recovery operation," he said.

The exact cause of the explosion,

the deadliest in the U.S. in more than two decades, is under investigation. Mr. Stricklin believes it is related to high methane levels.

MSHA has appointed a special team to look into the blast.

Labor Secretary Hilda Solis said the team will evaluate all aspects of the accident, including possible causes and the operator's compliance with federal health and safety standards. MSHA will issue a formal report summarizing the findings.

The Upper Big Branch mine has a history of citations involving the ventilation of methane, which is found naturally in coal seams.

The MSHA cited the Massey mine for hundreds of violations in recent years, including 10 so far this year related to legal requirements for ventilation systems to control methane and highly explosive coal dust. The company has contested numerous fines.

Mr. Stricklin said violations don't necessarily result in mine closure and that each time a company is cited, it has time to address the safety issue.

Don Blankenship, chief executive of Massey, denied that the mine had a poor safety record that should have prompted different procedures. "The safety record in the past three months had been really, really good," he said. "The last couple of years it had been high by Massey standards and the industry standards."

—Associated Press, Jennifer Levitz and James R. Hagerty contributed to this article.



## WORLD NEWS

# Geithner to meet China vice premier

*Yuan exchange-rate policy is expected to lead agenda of talks between U.S. Treasury Secretary and Wang Qishan*

By J.R. Wu  
AND SUBHADIP SIRCAR

BEIJING—The U.S. said Treasury Secretary Timothy Geithner will meet with Chinese Vice Premier Wang Qishan here Thursday, a surprise announcement that comes amid speculation that China is considering adjusting its exchange-rate policy and could signal that Beijing and Washington are trying to find common ground on the issue.

The meeting, announced Wednesday, follows the Treasury Department's decision over the weekend to delay a decision on whether to brand China a currency manipulator and is the latest indication that strained U.S.-China ties may be on the mend.

It comes ahead of another meeting next week between China President Hu Jintao and U.S. President Barack Obama to be held on the sidelines of a nuclear-security summit in Washington.

Mr. Geithner will meet Mr. Wang, who helps oversee the nation's financial policy, on Mr. Geithner's return from a two-day visit to India, said U.S. Treasury spokesman Andrew Williams. He added that Messrs. Geithner and Wang have been looking for "an opportunity to meet in person for some time."

The meeting, which Treasury said was just finalized on Tuesday, is almost certain to cover the currency issue, which has become one of the central points of contention in U.S.-China relations. Still, it is unlikely it will result in any immediate announcement by Beijing of a change in its currency policy, as Chinese leaders have pledged repeatedly that they won't make any move on currency policy in response to outside pressure.

No agenda has been disclosed for the meeting, which will be closed to the media. China's Foreign Ministry declined to comment on the matter, while the central bank and commerce and finance ministries said they were unaware of the meeting.

China's central bank Wednesday fixed the reference rate referred to as the central-parity rate at 6.8259 yuan for each dollar, representing only a tiny move from Tuesday's level of 6.8260 but hitting the stron-

gest yuan value against the U.S. currency in 10 months. While such moves are closely watched by market observers seeking signs of a policy shift, analysts warn against making too much of a single day's movement.

The U.S. Treasury's decision to delay its semiannual report to Congress, originally due April 15, was lauded by Chinese government-affiliated economists this week as a positive move. The eased pressure from the U.S. has refueled speculation that China might adjust its exchange rate policy in coming months.

A growing number of U.S. lawmakers have called on the Obama administration to label China a currency "manipulator" in the report, saying Beijing undervalues the yuan to give its exports a competitive advantage in global markets. The yuan has been effectively pegged against the dollar since mid-2008, following three years of gradual appreciation. While the "manipulator" designation would be largely symbolic, it would be certain to anger Beijing and could complicate the decision over whether to let the yuan rise.

Chinese officials haven't expressed any concrete plans on the currency and have sent somewhat mixed signals about their intentions. People's Bank of China Gov. Zhou Xiaochuan in March indicated that the de facto peg to the dollar was a response to the global financial crisis that would be exited at some point. But other senior officials have emphasized that China's exporters might suffer unacceptably from a yuan appreciation. In addition, March trade data due Saturday are likely to show China incurred a small trade deficit in March, its first monthly deficit in six years, which could further bolster the argument that an adjustment of the exchange rate could be premature.

Economists following the issue increasingly view a widening of the yuan's daily trading band as a likely compromise solution. Such a shift would allow China to publicly signal it is moving to more exchange-rate flexibility, while allowing it to retain control over the trajectory of the yuan's value. The possibility of larger downward moves in the yuan against the dollar, even if brief,



U.S. Treasury Secretary Timothy Geithner, center, discussed opportunities for job growth with Indian business leaders in Mumbai on Wednesday, and is scheduled to meet on Thursday in Beijing with Chinese Vice Premier Wang Qishan.

could also help deter speculative inflows.

The last time China widened the daily trading band was in May 2007, ahead of the Strategic Economic Dialogue talks with the U.S. That change allowed the yuan's value to move up or down 0.5% each day against the central-parity rate, compared with the previous range of plus or minus 0.3%, though in practice the currency has moved much less. The next iteration of those talks, now called the U.S.-China Strategic and Economic Dialogue, will be held in late May this year.

The White House on Tuesday said the Hu-Obama meeting will touch on China's currency. Chinese Vice Foreign Minister Cui Tiankai said Wednesday without elaborating that the leaders will have an "in-depth exchange of views on bilateral relations and major international issues."

Mr. Hu will also give a speech on nuclear security, the first such address by a Chinese leader in a multilateral forum, Mr. Cui said.

Separately, the World Bank said

## Measuring up to the U.S. dollar

Performance of the yuan vs. the U.S. dollar and selected Asian currencies



Source: Thomson Reuters via WSJ Market Data Group

Wednesday in an economic update for East Asia and the Pacific that China will have to choose either to let the yuan rise or allow inflationary pressure to build domestically.

"With rising inflation and asset prices, and continued strong economic growth, the real exchange rate in China is likely to appreciate," the World Bank said. More than any other country in the region, China needs to adopt a less accommodative macroeconomic policy stance than in 2009 to contain inflation expectations and the risks of a property bubble and strained local government finances, the World Bank said.

"Strengthening the exchange rate can help reduce inflationary pressure and rebalance the economy," the World Bank said.

—Andrew Batson and Joy C. Shaw contributed to this article.

# Iraqi cleric backs Shiite leader for premier

By Ben Lando

BAGHDAD—Popular Iraqi cleric Moqtada al-Sadr's political party said it is backing a controversial Shiite leader—rather than either of the country's leading politicians—to become the country's next prime minister, a development that further complicates the intense political negotiations under way to form a new coalition government.

The Sadrist Movement finished third in the March 7 elections and is being heavily wooed by the winning alliance led by Ayad Allawi and Prime Minister Nouri al-Maliki, who leads the alliance that placed second, in the battle to secure the seats needed to form a government.

In Iraqi politics, all government positions, including prime minister, are considered up for grabs during the coalition formation.

Sadrist politicians have made it clear to both Mr. Allawi's and Mr. Maliki's representatives that they expect veto power over who leads the country next as part of the price for their votes, said officials involved in the discussions.

Historic animosities between Mr. Sadr and the two political leaders have raised doubts about whether Mr. Allawi or Mr. Maliki would be able to take power themselves.

Underscoring their displeasure with the country's two leading politicians, the Sadrists on Wednesday declared that Ibrahim al-Jaafari, a Shiite and former rival of Mr. Maliki and Mr. Allawi, would be their top candidate for the job.

Mr. Jaafari won an internal referendum among Sadrist supporters, handily beating Messrs. Allawi and Maliki, whose names were also included in the list filled out by more

than one million Sadrist supporters.

It is unclear, however, how far Mr. Jaafari's political fortunes will actually rise.

Allies of Mr. Maliki and Mr. Allawi dismissed the Sadrist move as another gambit in the group's strategy to maximize leverage in the negotiations.

Meanwhile, the spokesman for the Sadrists, Salah al-Obeidi, also said it is too early to consider Mr. Jaafari as a shoo-in for the nation's top job.

Mr. Obeidi said he expects negotiations with possible coalition partners will include debates on Cabinet portfolios and other issues.

So far, the two most popular parties have had trouble securing the Sadrists' loyalty due to the two leaders' bad blood with the fiery cleric, whose party militia, the Mehdi Army, was responsible for

much of the sectarian bloodshed spilled in Iraq's recent past.

Mr. Allawi's Iraqiya bloc has found it difficult overcoming the distrust among Sadrist followers toward his largely secular and Sunni-led coalition.

Also, Mr. Sadr has had tense relations with Mr. Allawi since his decision, when serving as interim prime minister in 2004 and 2005, to lay siege to Mahdi Army strongholds in Najaf and Basra.

The Sadrists also have mixed views of Mr. Maliki, who as prime minister played a role in finishing off the Mahdi Army factions in 2008.

But Mr. Sadr's followers remain close to supporters of Mr. Maliki's Shiite party, Dawa.

A faction within the Sadrist movement and others within Shiite politics have pushed for a grand alli-

ance of Shiite parties to form a new coalition government to keep the group's grip on power, which Shiites have held since the 2003 overthrow of Saddam Hussein.

In the battle for the premiership, Mr. Jaafari has his own baggage to contend with, and his standing within the Saadrist bloc doesn't translate into national appeal.

A former member of Mr. Maliki's Dawa Party, Mr. Jaafari ran Iraq for 13 months after Mr. Allawi's brief tenure in 2005.

He lost support of his own party, however, amid a rise in sectarian violence that brought Iraq to the brink of civil war in 2006, a situation many Iraqis blame on his ineffective governance.

Mr. Jaafari broke from Dawa when the party dismissed him as prime minister and gave the reins of government to Mr. Maliki.

## WORLD NEWS



Red-shirt protesters try to break through police lines to enter Parliament. They managed to occupy the building briefly Wednesday.

Reuters

# Thailand's red shirts gain traction

*Government imposes a state of emergency after protesters storm the parliament; fears of a military crackdown*

BY PATRICK BARTA  
AND WILAWAN WATCHARASAKWET

BANGKOK—Fears are rising that Thailand's embattled prime minister will have to launch a military crackdown—or call new elections sooner than anticipated—after antigovernment protesters temporarily stormed the nation's Parliament and the government responded by declaring a state of emergency.

The declaration—ordered for the city and surrounding areas late Wednesday—gives the government wider leeway to ban mass gatherings and detain protesters, who are consolidating their control over key areas of the Thai capital.

But it was unclear what, if any, steps the government would take to enforce the rules after previously allowing protesters to roam the city more or less at will, blocking traffic

and leaving some businesses shuttered for days.

On Tuesday, protesters easily pushed past lines of police and soldiers deployed to prevent them from clogging 11 key thoroughfares across the city. They followed that move by swarming Thailand's Parliament on Wednesday, forcing besieged lawmakers to escape over walls while others were evacuated by Black Hawk helicopter.

The protesters also tightened their control over one of Bangkok's main shopping districts, near the U.S. and British embassies and several of Bangkok's top five-star hotels, leaving several malls closed for the fifth straight day.

Red-shirt sentries searched pedestrians and manned their own security barricades into the shopping district Wednesday. They held rallies during the day and into the eve-

ning, while police officers at times sat around reading newspapers or eating snacks.

"The momentum has shifted in favor of the red shirts," says Somchai Phagaphasvivat, a political scientist at Thailand's Thammasat University. "They have the upper hand because law enforcement could not be used against them."

The protesters are mainly backers of former Prime Minister Thaksin Shinawatra, who was ousted in a military coup four years ago. He now spends most of his time in self-imposed exile in Dubai evading imprisonment on a corruption conviction back home. Thailand's voters have elected either Mr. Thaksin or his supporters in every election since late 2000, and political analysts generally agree that pattern would continue if new elections were held today.

Backers of the current government, established by parliamentary vote in 2008 after a previous bout of political instability, regard Mr. Thaksin as a divisive populist who circumvented Thailand's system of democratic checks and balances to expand his power and business interests. Many of them wear yellow shirts to signal their allegiance to the country's royalist and military establishment, which settled on the Oxford-educated Mr. Abhisit as a compromise figure.

There are signs, however, that support for Mr. Abhisit may be eroding. In a front-page editorial analysis Wednesday, *The Nation*, an English-language newspaper in Bangkok, said the prime minister's "gentlemanly strategy" of avoiding a crackdown was "on the verge of backfiring, if it has not backfired already."

Business leaders are calling on Mr. Abhisit to take more-decisive action to end the protests, which began March 12. But analysts say it is unclear whether he has full control over the police and armed forces, factions of which are believed to be sympathetic to the red shirts' demands for new elections.

In announcing the state of emergency Wednesday, Mr. Abhisit called the protesters' activities "unlawful" but said it would "not mean an imminent crackdown on people." A day earlier, he said the situation required "careful maneuvering" and that he wanted to be sure the standoff didn't "spiral out of control." A crackdown in the shopping district controlled by the red shirts could ensnare many of the city's Western tourists and expatriates, some of whom continued to venture in and out of the area.

## World Bank gets deal on punishing corrupt companies

*Continued from first page*  
est companies are affected. Last year, the World Bank debarred a Russian subsidiary of Siemens AG of Germany for four years because before 2007 it allegedly paid bribes to gain a finance contract on a Moscow bridge and highway project.

The parent company agreed to refrain from bidding on World Bank projects for two years and said it would pay \$100 million over 15 years to global anticorruption efforts. A spokesman for Siemens declined to comment.

**China State Construction Corp.**, a state-owned firm, was debarred by the World Bank in 2009 for six years for allegedly rigging bids on

road-building projects in the Philippines. China State Construction couldn't be reached to comment.

The agreement to collectively ban companies has been under discussion for at least four years, but took time to ensure that banks' policies were aligned and to overcome rivalries among the institutions.

The banks "view themselves almost like sovereign states," said one official involved in the agreement. "It's like getting the U.S. to automatically accept decisions made by France."

A number of procedures remain to be clarified. Only prohibitions that a bank publicly announces will be enforced by the other four

banks—as a way to encourage accountability by all of the participating institutions, said officials involved in the negotiations.

However, the Asian Development Bank only publicly blacklists firms and individuals that have "breached an earlier sanction" or those that couldn't be notified of the sanction "after reasonable efforts," an ADB official said. The names of other debarred firms "are not publicized but shared with other multilateral banks," he said.

The latter firms may not be covered by the agreement and debarred by the other four banks, said an official involved in the negotiations, who said the agreement could

prompt the ADB to disclose more debarments.

Peter Pedersen, the Asian Development Bank's anticorruption chief, said in an email that the agreement "will provide multilateral development banks with additional muscle in their battle against fraud and corruption."

Development banks have focused on corruption over the past 10 years or so. Before that, corruption was largely seen as an inevitable cost of doing business in some of the poorest countries.

Some developing countries known for corruption, including China and Indonesia, also have been among the world's fastest-growing

nations.

But over the past decade, development officials have started to view the quality of a country's institutions as important to a country's ability to prosper.

Multinational companies and developing countries also have come under pressure by the U.S., European Union and United Nations to make sure government contracting isn't marred by bribery or price collusion.

A World Bank official said that if the new procedures work well, the banks will encourage regional development banks, including the Andean Development Corp. and Islamic Development Bank, to join.