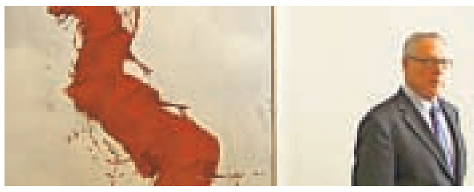

**Gordon Gekko is back: This time Asher Edelman raids art world**
WEEKEND JOURNAL

**Terry is no Tiger: England captain breaks last taboo**
THE BIG READ 16-17

# THE WALL STREET JOURNAL.

VOL. XXVIII NO. 5 | EUROPE | Friday - Sunday, February 5 - 7, 2010

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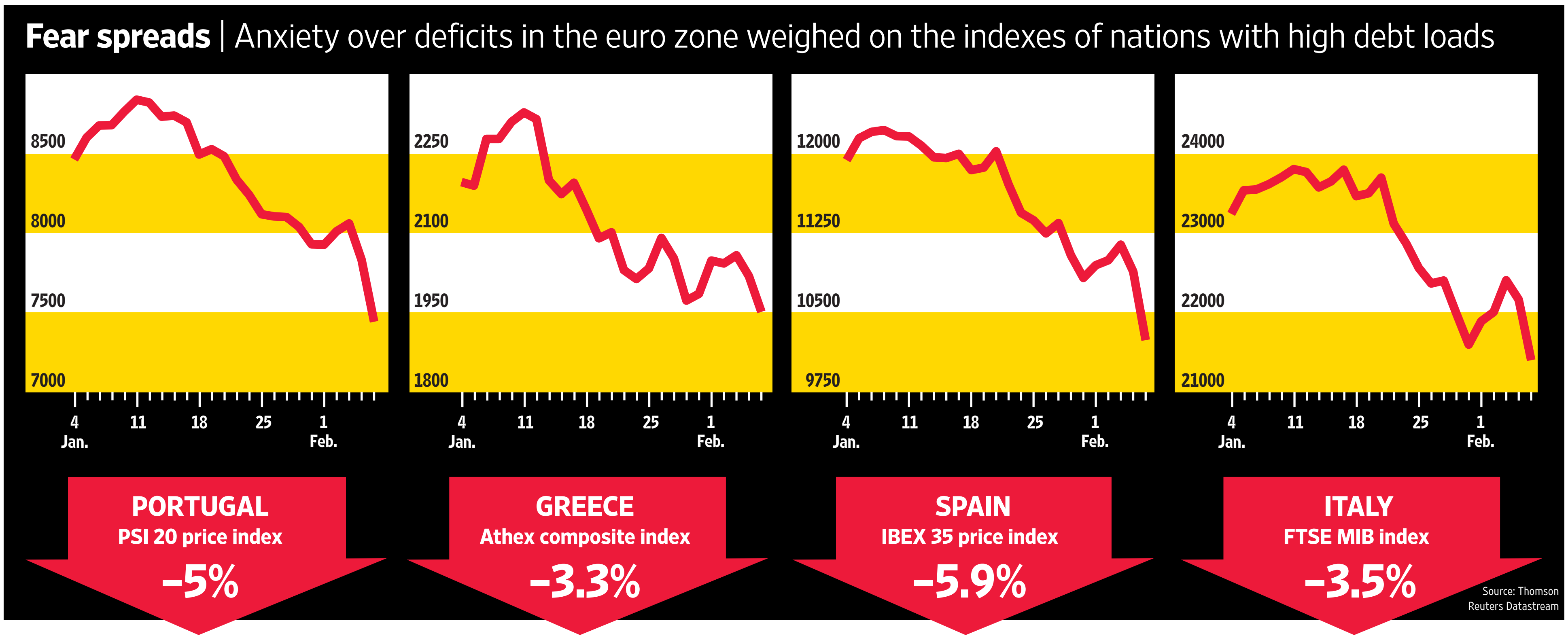
# Ailing Greece infects market




By Neil Shah

Financial markets swooned Thursday amid rising fears of a government debt default in Europe, highlighting the seriousness of the challenges facing the euro currency as fiscally challenged countries like Greece, Portugal and Spain dig themselves out of debt.

While Greece and Portugal have felt investors' fire in recent days, now even larger economies like Spain are starting to come under pressure from worries about their weakened public finances.

Blue-chip stock indexes in Spain and Portugal slumped nearly 6% and 5%, respectively, while an index of Europe's 600 biggest companies dropped 2.7%. The euro sank more than 1% to an eight-month low of $1.3727 and lost 3% of its value against the Japanese yen.

The global economic downturn, and extensive government spending to fight it, have led to major fiscal problems in Europe, especially for less-dynamic economies like Greece, Portugal, Ireland and Spain. Such countries took advantage of their membership in the 16-nation euro bloc during the boom by borrowing at unusually low interest rates. But now, investors are worried about how they will reduce yawning budget deficits that exceed 12% of their economic output in the case of Greece and Ireland.

**The debt markets are in no mood to forgive politicians who fail to grasp their concerns.**

Heard on the Street, page 32

The debt troubles of Europe's weaker economies are raising questions about the nature of the euro zone, where countries share a currency but not financial policies. Some have speculated that a weaker country, like Greece, might end up falling out of the union or, worse, require a bailout by European policy makers or the International Monetary Fund. Such concerns are prompting investors to take a more careful look at the health of individual euro economies.

Such concerns have weighed on Europe's single currency for many weeks, pushing its value down from a recent high of about $1.51 in December.

Investors' worries were particularly sharp on Thursday. Prices of government bonds issued by Spain and Portugal sank along with their stock markets, while the cost to insure these bonds against default using insurance-like contracts known as credit-default swaps soared.

In a worrisome sign, concerns about the fiscal woes of European governments are starting to infect the credit markets that European banks and companies rely on to raise money.

Prices of credit-default swaps tied to European companies with stronger credit ratings, including banks, rose.



## The Quirk

Where has all the candy gone? A tribute to those lost treats of the past. Page 29

## Editorial & Opinion

Obama gives Brussels the brush-off. Page 14

# Deutsche Telekom weighs IPO for T-Mobile USA

By Jeffrey McCracken And Dana Cimilluca

**Deutsche Telekom** AG is preparing for a possible initial public offering or spinoff of its U.S. T-Mobile arm, in an effort to assuage shareholders disenchanted with the company's share performance, according to people familiar with the matter.

The German telecommunications giant recently has held discussions with a number of banks, including **Deutsche Bank** AG, about underwriting an IPO, which could help fund the unit's network buildout, or a spinoff, the people said. The company expects to make a final decision in the coming months. A spokesman for Deutsche Telekom declined to comment.

Deutsche Telekom is historically risk averse and the people familiar with the matter cautioned that the company may ultimately decide against an offering. Several years ago, the company began preparing an IPO for the entire T-Mobile unit, which includes wireless operators across Europe. It ultimately quashed the plan.

Still, there is a feeling that "the status quo isn't working for T-Mobile," said a person familiar with the matter. Deutsche Telekom has told outsiders it will spend the next few weeks holding internal meetings about the fate of T-Mobile USA and come to a conclusion in the next two months

Deutsche Telekom has struggled with T-Mobile USA ever since it acquired the former VoiceStream Wireless for $35 billion in 2001 at the height of the telecom boom. With about 33 million customers and annual revenues of around $19 billion, it has a 14% market share, making it the fourth-largest U.S. carrier. In the third quarter, 77,000 U.S. users walked away from T-Mobile.

Other options under consideration include a partial separation of the business, which would carve it into an entity with its own balance sheet. A merger with a U.S. rival also is on the table, though less likely, the people said.

Should Deutsche Telekom go forward, the most likely scenario would be to sell about 20% of the division to investors and retain the rest, the people said. A spinoff, on the other hand, would enable Deutsche Telekom to wash its hands of an underperforming division and offload some of its hefty debt. But one of the people said that option could have negative tax implications in Germany.

T-Mobile's merger options are limited. As a seller, T-Mobile would find regulators an obstacle to an acquisition by **AT&T** Inc. or Verizon Wireless. A combination with **Sprint Nextel** Corp. would bring together three separate network technologies, which Sprint has had trouble integrating two.

*—Matthew Karnitschnig and Roger Cheng contributed to this article.*

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## PAGE TWO

# The strength of the nuclear family within the Anglo-Saxon economy

[ Agenda ]

By David Willetts

There is a lively debate across Europe about what is happening to our families. And there is the endless argument about the relative strengths and weaknesses of the Anglo-Saxon economic model. In my new book I try to show the links between the structure of our families and the structure of our economies.

Here is an account of England in the flat language of modern sociology: "The majority of ordinary people in England...are rampant individuals, highly mobile both geographically and socially, economically 'rational,' market-oriented and acquisitive, ego-centered in kinship and social life." But the quotation is from a description of England in 1250 by Alan Macfarlane, the historian who together with the great French thinker Emmanuel Todd has revealed the significance of family structures.

England has had unusually small families, unusually weak local magnates, and unusually free peasants. It is not just different from Papua New Guinea or Pakistan, it is also quite different from France and Italy and most of continental Europe. This difference was recognized by Montesquieu that shrewd 18th-century French observer of human cultures, who observed: "I too have been a traveller, and have seen the country in the world which is most worth of our curiosity—I mean England."

Just as aerial photography can reveal the outlines of some long-lost medieval village so, if we know how to look, we can discern deep features of English society that endure to this day. So for example, we attribute the long-standing weaknesses in the productivity of the British economy to our lack of a "Mittelstand," the strong medium-sized family businesses of the sort they have in Germany or France. We appear to be good at starting small businesses, and some of our big companies are very strong indeed. It is the high performance, solid, long-term, high-investment medium-sized companies in the middle that we seem to lack. It is not that we have fewer family owned firms—about 30% of mid-sized British firms are owned by a family, very similar to France and Germany. But we run them differently. England's family structure helps to explain this.


Press Association

Small nuclear families are open and market-facing

**There is no single right family structure. But the Anglo-Saxon model has its advantages**

In France, unlike in England, land or a firm are not the freehold property of the individual; instead, they belong to the family's bloodline with an automatic right of inheritance within the family for all the children. In England, family firms are more likely to be run as the personal property of an individual who often manages the business himself or herself. In France and Germany, family firms are more likely to be held in common by whole family and seen as long-term property of a dynasty across several generations. As a result, they are more willing to bring in professional managers to run the business on behalf of the family. In France, 31% of family owned firms are run by an external manager as against only 23% in the U.K. (It is 60% in Germany.) Of firms still owned by the founder, 44% in France are externally managed whereas it is only 14% in the U.K. (Again, it is 60% in Germany.) This has a big effect on economic performance: If an inherited family firm brings in an outside manager it raises returns by six percentage points, a significant improvement in return on capital.

There is no single right family structure. But the Anglo-Saxon model has its advantages, too. Small families need civil society more. But it was not just voluntary societies that provided mutual support. You need markets and commercial services as well. Instead of the mutual exchanges of the extended family, small families must buy services. If we need something we turn to yellow pages, not to an uncle. For example, insurance schemes, annuities, and savings help protect you when there is no wider family with any such obligation—one reason why England has a long history in financial services.

Small nuclear families are open and market-facing, and that drives a particularly dynamic model of capitalism. Even now, when you control for country-level effects, areas of Europe with Anglosphere-style families have GDP per capita of around €5,000 a year higher than regions with extended and egalitarian families. Indeed, they are higher than all other family forms. Over the past 30 years, they have also outgrown them. These Anglosphere economies are outward-looking and flexible so they are good early adopters of new technologies. But they may not be so good at steady incremental improvements in performance with a given technology. And sometimes, as we have seen with new financial instruments, their sheer restless innovativeness can do catastrophic damage.

Nevertheless, their flexibility can sustain them in the long run: It is very possible that in this coming decade, for the first time, more than half of the economic output of the developed world will be in English-speaking countries.

We cannot easily change these fundamentals of our national identities. Indeed we specialize in different activities and structure our economies differently because of them.

Vive la difference!

*—David Willetts is Member of Parliament for Havant. His book, "The Pinch: How the baby boomers took their children's future and why they should give it back" is published by Atlantic.*

## What's News

■ **Financial markets took** a collective dive as mounting concerns about high U.S. unemployment and the stability of deficit-heavy euro-zone economies drove investors out of riskier assets. The DJIA closed near 10000. **23**

■ **Toyota said it knew** previously about complaints related to the brakes of its Prius hybrid car and expanded its safety probe. **4, 32**

■ **Over half of the members** of Britain's Parliament have been forced to pay back a total of more than $1.59 million for dubious expense claims, a new report says. **3**

■ **Bank of America** and two former executives face civil charges that they failed to disclose losses at Merrill before getting shareholders' approval to acquire the firm. **19**

■ **China filed a complaint** against EU shoe tariffs at the WTO, as it continued its legal assault on what it says is unfair Western protectionism. **8**

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Moving abroad to beat taxes is more than just a business trip. **27**

England vs. Wales: why rugby tie-breaker means so much. **28**

## ONLINE TODAY

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1. Sotheby's Sells Giacometti for Record $104.3 Million
2. The Deficit: Protect Yourself
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"This week may represent the nadir of Voser's tenure as CEO of Royal Dutch Shell"

**James Herron** on differing situations of oil giants BP and Royal Dutch Shell

### Continuing coverage

Follow the markets' reactions to Greece and Portugal's debt issues, at **wsj.com/markets**

### Question of the day

**Vote and discuss:** Should John Terry be sacked as England captain?

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

**Q:** Do you think Greece can escape its problems without a euro-zone bailout?

Yes **45%**

No **55%**

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NEWS

# U.K. MPs forced to repay expenses

*Scathing report on claims scandal finds 'culture of deference' allowed many in Parliament to abuse system*

BY ALISTAIR MACDONALD

Over half of the members of Britain's Parliament have been forced to pay back a total of more than £1 million ($1.59 million) for dubious expense claims, according to a new report that is meant to issue a final verdict on one of the worst political scandals in modern British history.

The report stems from revelations this past spring that the legislative body's expense system had been used to reimburse politicians for everything from toilet seats and dog food to large claims on furniture.

In the wake of the scandal, Parliament asked a former civil servant, Sir Thomas Legg, to audit all expenses in 2004 to 2009.

The scandal effectively ended the political careers of about 20 lawmakers who either resigned or said they wouldn't seek re-election. It also prompted a shake-up of how the once self-regulating body polices itself.

Underscoring how the controversy is set to rumble on, prosecutors will announce on Friday whether they will charge a number of members of the House of Commons and the House of Lords whose alleged abuses police looked into. Final decisions on changes to the expenses system and other aspects of Parliamentary governance have yet to be made.

Sir Thomas's report details a "culture of deference" created by MPs, in which they expected Parliament's fees office to rubber-stamp their claims.

A total of just over £1.3 million has been recommended for repayment by 390 members of Parliament, including Prime Minister Gordon Brown, for excessive claims on items including mortgages, rent and services such as house-cleaning. The report addresses expense claims made only on second homes, and not claims for other matters such as food or travel.

Sir Thomas described the scandal as "traumatic and painful."

"Public confidence has been damaged, and the scars will no doubt take time to heal," he said in the report's introduction.

A number of MPs said the report wasn't fair. They said the audit didn't judge them on whether they followed the law, but rather retrospectively imposed new criteria, devised by Sir Thomas, for what constituted reasonable limits for matters such as house-cleaning costs. Mr. Brown has paid back £12,888 in claims submitted for such costs.

On Thursday, Sir Paul Kennedy, a former judge who was asked to consider appeals from members of Parliament, released his own review detailing the cases of 75 MPs who protested the demand for repayment. A total of 44 appeals against repayment were successful, in whole or in part, leading to a reduction of about £180,000 in the overall amount recommended to be repaid. That would reduce overall repayments to £1.12 million.

Still, Sir Paul in part sided with MPs who complained about the process, saying it was unfair to say that MPs who had breached limits imposed by Sir Thomas on house-cleaning and gardening claims were lacking in propriety.

Among lawmakers, Labour MP Barbara Follett looks to have the highest tab to repay: £42,481. Ms. Follett, the wife of bestselling author Ken Follett, was asked to pay back money for security patrols at her second home that went beyond the provisions of "basic security measures" allowed to lawmakers, £8,908.36 to install six telephone lines in one house, and for insurance premiums on art.

> A number of members of Parliament complained that the report was unfair because it judged them not on following the law but on adhering to new criteria.

Ms. Follett didn't respond to requests to comment.

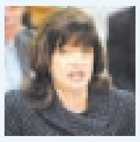
Four of the top five tallies appear to be for repayment by lawmakers in the opposition Conservative Party. With an election expected in early May, political parties will be mindful of potential damage to their reputations.

Almost £800,000 has been repaid since April 1, 2009. MPs have until Feb. 22 to make repayments or face having the amounts automatically taken out of their wages.

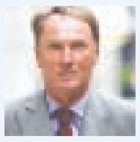
For those who thought that repayments by MPs would help Britain's debt-ridden Treasury, the cost of Sir Thomas's report—£1.16 million—was around as much as the money to be paid back by members of Parliament.

## Expensive expenses

The members of parliament who were recommended to pay the most in the report:


**Barbara Follett**
Labour
£42,458
Hired security guards


**Bernard Jenkin**
Conservative
£36,909
Rented second home from his sister-in-law.


**Andrew Mackay**
Conservative
£31,193
Was living in two homes with his wife


**John Gummer**
Conservative
£29,398
Moat maintenance and lawnmower repair


**Julie Kirkbride**
Conservative
£29,243
Mr. Mackay's spouse.

Source: The House of Commons

Associated Press (Follett, Gummer, Kirkbride); Reuters (Jenkin, Mackay)

NEWS

# A rare market with reason for hope

*A week of high prices at art auctions, including the record price, could signal a revival, as well as fear of inflation*

By Kelly Crow

Sotheby's stunned the art world Wednesday when it sold a single Alberto Giacometti sculpture for $104.3 million in London. That's more than the auction house got last year for its four priciest artworks combined.

Midway through a major round of art auctions in London, the art world is hailing a handful of unexpectedly high prices that suggest a revival in the recession-battered art market. Collectors who pulled back a year ago are back, dealers say, though most are seeking safe bets in established masterworks.

Art-market observers said some collectors are turning to masterpieces as a hedge against inflation in uncertain financial times. "People don't have confidence in banks, so they want gold and artworks that aren't going anywhere," said longtime dealer David Nahmad.

Giacometti's "Walking Man I" from 1960 met several recession-era criteria as a work likely to hold its value. The bronze sculpture of a lanky man is considered to be the artist's most iconic work, a life-sized version of the pencil-thin figures that earned Giacometti a place in modern-art textbooks. It has been off the market for three decades as part of Dresdner Bank's art collection—a plus for many collectors, who prefer works that haven't changed hands often. Several other versions of the same piece belong to museums, including Pittsburgh's Carnegie Institute Museum of Art. The anonymous telephone bidder who got the bank's "Walking Man I" on Wednesday paid four times Sotheby's asking price.

Collectors also bid up Gustav Klimt, the Austrian artist whose berry-colored "Portrait of Adele Bloch-Bauer II" sold for $87 million at Christie's four years ago. On Wednesday, Sotheby's sold Klimt's leafy view of an Italian church, "Church in Cassone (Landscape with Cypresses)," for $43.2 million. It was priced to sell for up to $29 million. Other classic pieces by Paul Cézanne, Henri Matisse and Egon Schiele helped bring Sotheby's sales total for the week to $236 million, over its high estimate of roughly $186 million.

Getty Images

An auctioneer sells Gustav Klimt's 'Church in Cassone' at Sotheby's earlier this week

Christie's brought in $150.4 million from its set of Impressionist and modern art sales, just under its $153 million high estimate. Its priciest piece was Pablo Picasso's blue portrait of his second wife, "Téte de femme (Jacqueline)," which sold for $12.8 million. At Christie's evening sale on Tuesday, four bidders chased Kees van Dongen's 1911 portrait "La Gitane," and a telephone bidder got it for $11.2 million.

Bidders hailed from around the world, but collectors from Eastern Europe caught most of the art world's attention. Russian bidders vied for multiple works at the week's sales and took home a few, including Christie's $9.6 million Picasso, "Homme assis sur une chaise."

Another strong seller of the week was a less familiar name: Natalia Goncharova, a Russian avant-garde artist. For the last three years, Ms. Goncharova has held the record for the highest price commanded at auction by a female artist. Ms. Goncharova was a key member of Russia's avant-garde who gained fame in Paris in the early 20th century for paintings blending the iconography of Russian folklore with Cubist and Futurist theories involving the interplay of line.

Russian collectors pushed up her prices during the boom but now Europeans are joining in, a broader base of support that has kept Ms. Goncharova's price levels steady despite the recession. Her jewel-toned "Espagnole" from 1916 sold on Tuesday for $10.2 million, more than the $9.8 million Christie's got for her milestone piece, "Picking Apples," at the market's peak in 2007.

It remains to be seen whether the latest round of heady prices will translate to next week's sales in London, when the auction houses move from Impressionist and modern works to contemporary art. Prices for contemporary art, which soared to record highs in 2007 fell sharply last year. Christie's will kick off its sales on Tuesday with Yves Klein's 1961 relief "RE 47 II," a golden lunar scape that is priced to sell for at least $8.1 million. It's also offering Peter Doig's woodsy view of the architect Le Corbusier's Unit d'Habitation de Briey-en-Foret, "Concrete Cabin II," for at least $3.2 million.

Sotheby's is anchoring its Wednesday sale of contemporary art with Lucian Freud's wincing "Self-Portrait with a Black Eye," a 1978 work the artist created shortly after getting punched by a cab driver. The work is being sold by a European friend of the artist and is estimated to sell for at least $4.8 million.

Buzz is building for Sotheby's suite of 49 artworks consigned by Gerhard and Anna Lenz, a German couple raising funds for their art foundation. Sotheby's aims to bring in at least $18.6 million from their consignment of artworks created by the Zero group, an art movement that sprang up in Dusseldorf after World War II. Zero artists like Lucio Fontana and Gunther Uecker were known for using aluminum sheeting, nails, eggshells, and door locks to make ethereal pieces that equally evoked the Atomic Age and the local hardware store. One of the top examples in the sale is Klein's 1961 "F 88," a salmon-colored panel created when the artist used a blowtorch to outline a pair of women's nude silhouettes. It's expected to sell for at least $4.6 million.

Smaller boutique Phillips de Pury & Co. rounds out the sales next week on Friday with its contemporary sale that's expected to bring in around $7 million, led by a multicolored Donald Judd sculpture priced to sell for at least $971,240.

# U.S. launches formal probe of Prius brakes

By Melannie Trottman
And Josh Mitchell

WASHINGTON—The National Highway Traffic Safety Administration opened a formal investigation Thursday into brake problems on the 2010 Prius from **Toyota Motor** Corp., but the Japanese auto maker's U.S. sales arm said it had no information about reports that the auto maker planned to recall 270,000 of the cars in the U.S. and Japan.

Separately, Toyota forecast a surprise net profit for the current fiscal year, reversing a year-ago loss, despite a global recall of move than six million of vehicles that could cost the company about 180 billion yen ($1.97 billion) this year.

Toyota posted a net profit of 153.22 billion yen in the three months ended Dec. 31, compared with a net loss of 164.64 billion yen in the same quarter of 2008. It attributed the turnaround to cost-cutting and sales recovery in Asia and North America, which canceled out the effects of a strong yen. The result beat the 87.7 billion yen mean profit analyst forecast.

But increasing fears about the debilitating effects of the massive recall for sudden-acceleration reports have put pressure on the company's shares. On the Tokyo Stock Exchange Thursday, Toyota shares ended 3.5% lower at 3,280 yen.

NHTSA's announcement followed the disclosure earlier in the day by Toyota officials in Japan that the company had found and corrected problems with the software that controls the electronic braking system in the 2010 Prius, and was expanding its own safety probe to include all its hybrid models.

Toyota said it didn't try to cover up the glitch and said that after it received complaints about the new, third-generation Prius models, it rewrote the braking system software in late January. Cars built since then have carried the new code but the company hasn't decided yet whether or how to reprogram cars already on the road, mainly in the U.S. and Japan, a Toyota official said.

Toyota's U.S. sales arm said it was aware of a "preliminary evaluation" by the NHTSA of Prius brakes, but had no knowledge of a plan to recall the cars.

NHTSA said it has received 124 complaints from Prius owners about braking problems, including four accidents. They come amid a controversy over Toyota's handling of the sudden-acceleration reports linked to faulty gas pedals and floor mats.

European Pressphoto Agency

Toyota said it found a problem with the software controlling the Prius's brakes.

The U.S. agency's decision to escalate its Prius probe is a sign of its sensitivity in the wake of the sudden-acceleration recall, which has prompted questions from two congressional committees about Toyota's handling of the safety issues and NHTSA's response.

Investigations of consumer complaints can take months to resolve. NHTSA gets 30,000 complaints a year about a range of vehicles, and it opens 100 investigations annually. It currently has 40 defect investigations underway, three of which involve Toyota, as it continues to deal with a flood of complaints linked to sudden acceleration.

In a chronology released Wednesday, the Transportation Department, of which the NHTSA is a part, said officials pressed in a meeting on Sept. 25 for Toyota to conduct a recall to address potential defects in gas pedals in millions of U.S. Toyota and Lexus models that could lead the pedals to stick, as well as concerns that floor mats could get entangled in the accelerators. Toyota recalled 3.8 million vehicles for the floor-mat issue but didn't issue an accelerator recall.

NHTSA officials flew to Japan in December to meet with Toyota executives to express concerns about Toyota's response to the sticky accelerators. More than five weeks later, Toyota recalled 2.3 million vehicles to fix possibly sticky pedals.

Toyota said it would cost it 100 billion yen to fix and replace defective gas pedals and floor mats that can get caught on the pedals. It expects its suspension of production and sales of eight affected models in the U.S. to result in a sales loss of 100,000 vehicles globally in the current fiscal year. But Toyota said the impact from brake problems related to its newest Prius model hadn't been factored into these estimates

Despite these concerns, Toyota now projects a net profit of 80 billion yen for the full fiscal year, compared with a loss of 200 billion yen previously forecast and a dramatic improvement from a loss of 437 billion yen it suffered last year.

*—Juro Osawa, Kate Linebaugh and Sharon Terlep contributed to this article*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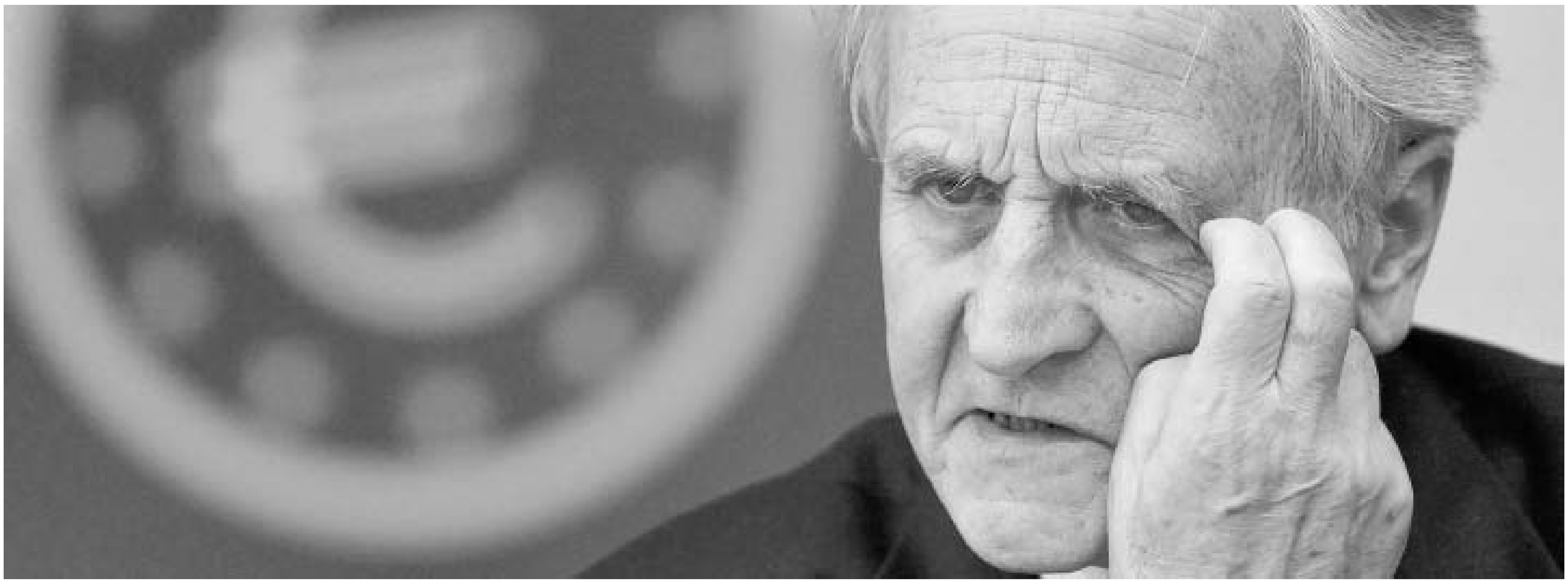


European Pressphoto Agency

'We expect and are confident that the Greek government will take all the decisions that permit to meet this goal,' said Jean-Claude Trichet. He called Greece's planned cuts 'steps in the right direction.'

# Trichet defends euro's viability

By Brian Blackstone

FRANKFURT—European Central Bank President Jean-Claude Trichet delivered an impassioned defense of Europe's common currency as the market continued to cast doubt on the ability of Greece and other debt-ridden euro-zone countries to get their deficits under control.

Mr. Trichet's remarks came as worries spread through financial markets that Greece's fiscal woes will extend to other countries including Portugal and Spain. The cost of insuring the sovereign debt of those countries against default soared Thursday, putting downward pressure on the euro. Leading stock indexes in those countries also tumbled.

Throughout the day, investors fled currencies and markets that are seen as taking the biggest hit should debt troubles in Greece or elsewhere lead to a full-blown crisis.

The ECB president, in an uncharacteristically feisty appearance at the bank's monthly news conference, emphasized that despite the fiscal woes in some member states, the average budget deficit for the euro zone as a whole, at 6% of gross domestic product, is well below the double-digit gaps in the U.S. and Japan.

"It is not necessarily very well-known the kind of solidity" that the euro zone has, Mr. Trichet said.

The problems in Greece and other euro-zone countries with large deficits have prompted some economists to question the long-term viability of Europe's common currency. Mr. Trichet, who in the past has called similar speculation "absurd," nonetheless sought to counter doubts about the euro by highlighting the advantages of membership.

Mr. Trichet also reiterated warnings to Greece and other large-deficit countries in Europe that they will get no leeway when it comes to meeting their ambitious deficit-reduction promises.

"We always have been inflexible in our support of the stability and growth pact," said Mr. Trichet, referring to the agreement that regulates euro-zone membership.

The stability and growth pact requires euro-zone members to keep budget deficits below 3% of their gross domestic product. However, a number of the region's once fast-growing economies in Southern Europe and Ireland are running double-digit deficits as a share of GDP. The most troubled country in the eyes of investors and rating agencies, Greece, has pledged to bring its deficit of almost 13% of GDP to less than 3% by just 2012.

"I haven't heard any other leaders be so strongly pro-European, calling on member states to stick to rules but more or less promoting the European idea," said Carsten Brzeski, economist at ING Bank in Brussels.

In doing so, Mr. Trichet "strengthened the ECB's position as the guardian of the euro and monetary union," Mr. Brzeski said.

The European Commission accepted Greece's fiscal plans Wednesday, but warned more spending cuts and tax increases may be needed.

The ECB's economic and inflation assessment was little changed from January, suggesting that interest rates will remain at current levels until the end of the year or even into 2011. The central bank left its key lending rate unchanged at 1%, as expected.

Inflation is expected to "remain moderate," Mr. Trichet said, and though the economy should continue on a moderate recovery path this year, it "could be uneven" as the stimulus from inventory replenishing and government support wears off.

The euro zone exited recession in the third quarter, though it expanded by just 1.5%, at an annualized rate.

It is expected to have grown again in the fourth quarter—GDP figures are released next week. But the pace of expansion will be quite modest, economists warn, as the region's largest economy, Germany, appears to have stalled in the final three months of the year.

German manufacturing orders unexpectedly plunged 2.3% in December from November, the economics ministry said Thursday.

# *What counts now is how governable a nation is*

[ Analysis ]

By Paul Hannon

The Greek government has promised to cut its budget deficit to 3% of gross domestic product in 2012. But the cost of insuring Greek debt against default continues to rise. To many, that means the Greek government has a credibility problem.

But at the root of that problem is a deeper, more fundamental question: is Greece governable?

The citizens of any nation always retain the right to disagree with their government. Even so, most of the time they obey the laws made by that government, in spirit as well as in letter. Among those nations that have a track record of confronting and overcoming existential crises, that obedience and sense of common purpose is strongest when the threat is greatest.

As of yet, for bond investors the jury is out on whether Greece is governable—in particular whether its government is capable of delivering the budget cuts it has promised. Investors welcomed the European Commission's qualified endorsement of the Greek government's budget plan, but sold bonds again when the country's largest union announced it would call a general strike on Feb 24 to protest against the austerity measures. Having questioned the governability of Greece, bond investors are now having the same doubts about some other countries.

When Spanish Finance Minister Elena Salgado said Thursday that her country's situation isn't like that of Greece, her words seem to have prompted investors to wonder why she might think the comparison could be made.

The problem is once again governability. Spain's central government—excluding the state's social-security administration —directly controls less than a third of public-sector spending. The government can only set guidelines for the regional and municipal administrations that

Agence France-Presse/Getty Images

Greek farmers block an agricultural fair Thursday, demanding financial help

control the rest, making it more difficult to implement fiscal policy.

In Portugal, the government may have good intentions, but it doesn't have a majority in the country's parliament. It must therefore negotiate support for its measures on a case-by case basis.

In its avowedly "bleak" assessment of Portugal's economic prospects last month, the International Monetary Fund said a broad consensus needs to be reached on the need for reform–essentially, the government will have to persuade its opponents to support its efforts to control the budget deficit, rather than exploit their likely unpopularity.

By contrast, bond investors seem to believe that Ireland's government can deliver on its pledges, a view largely based on the fact that Irish governments have overcome very major fiscal problems as recently as the late 1980s and early 1990s.

And even though the U.K. has a budget deficit as large as that of Greece, investors appear willing to believe that any new government that emerges from elections due by June 3 will pursue a substantial deficit reduction program, and be able to implement it. Fundamentally, they believe that the U.K. is governable, and that faced with a serious crisis, its people will grumble, but mostly go along with what's needed.

DEBT AND THE EURO

# Credit-default swaps fuel anxiety

*It's much easier to make money insuring against a nation's debt, but suddenly the costs have soared*

By Gregory Zuckerman

Countries have dealt with debt woes before.

But the latest fears about government debt now riling some European markets are being fueled by a relatively new trading tool that lets investors bet against nations' bonds.

Credit-default swaps, or CDS, enable investors to protect themselves from a default of the debt of a range of nations or wager on the likelihood of such a scenario.

In recent weeks, prices for CDS contracts have soared as investors snapped them up on worries about the bulging debt of nations including Spain, Portugal, Greece and Latvia. The CDS moves—highly visible and widely watched—have compounded the angst of stock and bond investors, analysts say, helping to pressure global markets.

On Thursday, the cost of CDS contracts that insure the debt of a number of euro-zone members with large budget deficits rose again. The annual cost of insuring €10 million ($13.9 million) of Greek government debt against default for five years rose €26,000 to €423,000. Stocks fell sharply in Europe and the U.S.

CDS are contracts that serve as insurance on all kinds of debt. With sovereign debt, if a nation defaults the CDS buyer would get paid by the seller of the CDS insurance. Though government defaults are rare, the value of CDS contracts rise and fall to reflect investors' outlook on the bonds they are designed to insure.

The market for CDS has boomed in recent years. Seven years ago, there was less than $3 trillion of CDS contracts outstanding; today there are more than $25 trillion, according to the International Swaps and Derivatives Association.

When prices for CDS on the debt of firms like American International Group Inc. and Lehman Brothers Holdings Inc. soared in 2008, investors interpreted the moves as signals of troubles ahead.

Now the same is happening with nations, marking one of the first potential government-debt crises in which CDS contracts are helping to spread unease. That is creating another real-time measure of investor worries—a barometer that itself can generate more anxiety.

"It's easier to buy protection and transact a 'short' position, that's half the reason CDS were developed, so people can hedge risk," says Tim Backshall, chief strategist at Credit Derivatives Research, an independent research firm in New York. "You can move [other markets] with those trades."

It has always been possible to sell short—or bet against—government bonds directly. But investors say buying CDS can be an easier way for them to quickly enter a wager.

For one thing, CDS can be purchased by investors who don't own the underlying debt, meaning they can be bought not only by people hedging other bets but also by investors making straight wagers.

And a CDS buyer usually doesn't have to produce as much collateral to make a bearish trade as the investor would to make a similar wager in the government-bond market.

For example, some dealers allow an investor to bet against $10 million of Greece's debt by putting up as little as $2 million and then make quarterly payments of about $105,000. If the same investor wanted to short Greece's government debt, or borrow and sell it hoping for a drop in price, the investor might have to place as much as $10 million into an account with a brokerage firm.

Some have criticized CDS as a sentiment indicator, noting the swaps sometimes suggest that countries are headed for a default though yields on bonds issued by those countries don't indicate such a dire outcome. The contracts also don't always see heavy trading, opening the door to potentially sharp price moves.

"The CDS market is reflecting where dealers are willing to make a market," says Matt Luckett, a partner at Balestra Capital, a hedge fund that has purchased CDS contracts that protect a range of government debt. "When dealers run out of sellers" of CDS, prices can move sharply simply for lack of supply.

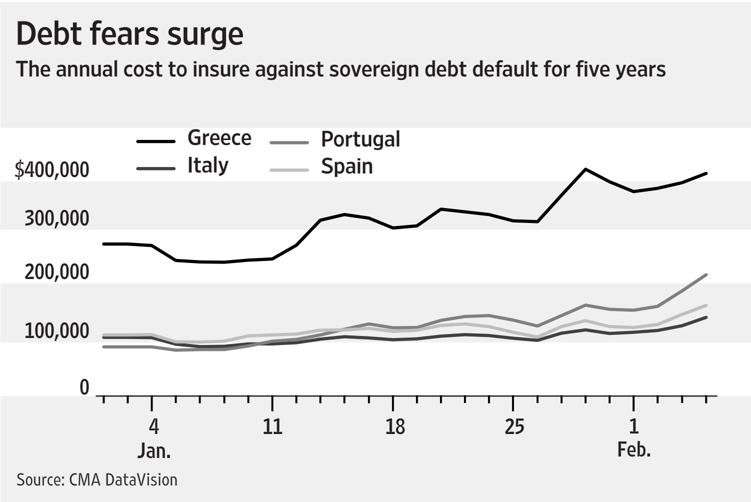
Some analysts say the CDS market shouldn't shoulder blame for the market turbulence. Just as some financial companies attracted short sellers in 2008 as they faced serious problems, nations such as Greece, Spain and Portugal have yet to convince investors that they will put their fiscal houses in order. That is the underlying reason for the troubles, not the trading in CDS, some say.

And for some nations, such as Greece, government bonds actually moved more than CDS prices in recent months, suggesting that CDS trading provided reassurance to the market, rather than concern. In recent days, though, the trend has reversed.

"Blaming the problems on the CDS market appeals to the populist in everyone, but in this case it's hard to argue with the deteriorating fundamentals," says Mr. Backshall.

Aris Messinis/AFP/Getty Images

The European Union flag flies proudly at the Parthenon in Athens, but Greece's ills are troubling the whole euro zone.




# BOE to halt bond buying

By Natasha Brereton

The Bank of England's Monetary Policy Committee on Thursday voted against extending its bond-buying program and left its benchmark interest rate unchanged as the U.K. economy has resumed growing after its deepest recession in more than half a century.

Analysts had widely expected the Bank of England to vote for a pause in its £200 billion ($317.96 billion) quantitative-easing program.

A poll by Dow Jones Newswires found that 17 of 19 economists surveyed forecast that the committee wouldn't extend the policy at the meeting, but they remained wary about the prospect of further easing.

It is far from certain that Thursday's decision marks an end to the stimulus effort, and the committee could reopen the program if the U.K.'s weak economic recovery is threatened by a lack of credit availability, the need for aggressive fiscal consolidation, or a renewed pickup in unemployment.

"The committee will continue to monitor the appropriate scale of the asset-purchase program, and further purchases would be made should the outlook warrant them," the committee said.

It added that it expects existing purchases and low interest rates to provide "substantial" monetary stimulus for "some time to come."

The BOE launched the program in March 2009, in a dramatic attempt to prevent the fallout from the financial crisis leading the U.K. economy into a downward spiral of deflation and output declines.

The central bank had already slashed its benchmark interest rate to 0.5% from 5% within a six-month period.

The bank said that while the weakness of sterling and a recovery in exports are likely to support activity, the need for the private and public sectors to clean up their finances is likely to weigh on demand. As such, output is likely to recover only gradually, it said.

"The recession has probably impaired the supply capacity of the economy, but the scale and persistence of the fall in output means that a substantial margin of underutilized resources is likely to remain for some time to come," the committee said. "That is likely to mean that inflation will fall below the target for a period."

Consumer-price inflation probably accelerated further in January after increasing to 2.9% in December, in response to the reversal of a sales-tax reduction, the committee added.

The BOE targets annual inflation at 2%. The bank kept its benchmark interest rate at a record low of 0.5% for the 12th consecutive month, and said it will continue to buy high-quality private-sector debt.

Existing arrangements allow the bank to buy as much as £50 billion of assets financed by treasury bills, rather than freshly created central bank money, with the aim of improving liquidity in those markets.

But analysts noted that the size of those purchases has so far been tiny relative to purchases of U.K. government bonds.

# U.S. jobless claims rise unexpectedly

By Luca Di Leo
And Sarah N. Lynch

The number of U.S. workers filing new claims for jobless benefits unexpectedly rose last week, indicating the labor market remained sluggish even as the economic recovery gained steam.

Labor Department data out Thursday also showed that U.S. productivity continued to surge in the fourth quarter of 2009 as a growing economy didn't stop many employers from cutting labor costs.

Initial claims for jobless benefits rose by 8,000 to 480,000 in the week ended Jan. 30, the department said. Economists surveyed by Dow Jones Newswires expected initial claims to decrease by 10,000. The previous week's level was revised upward to 472,000 from 470,000.

"The latest figures are clearly concerning, as they raise the possibility that claims are stabilizing at a high level," said Abiel Reinhart, economist at J.P. Morgan Chase.

Companies appear to be reluctant to hire even as the recovery takes hold, preferring to keep labor costs contained as they wait for further signs of the economy's strength. The January jobs report due Friday will be closely watched for evidence that employers started to hire at the beginning of 2010.

The strong productivity gains should help prevent an outbreak of inflation, making the Federal Reserve more comfortable with keeping short-term interest near zero to support the economy.

Big productivity gains are common at the end of recessions and the beginning of recoveries. The usual pattern is productivity grows first, then employment rises and finally wages increase. This recovery is yet to see employment gains.

*—Jeff Bater contributed to this article.*

Reuters

Laborers at a shoe factory in China's Anhui province late last year. Beijing is challenging the EU's duties on footwear.

# China hits EU on tariffs

*Beijing files World Trade Organization complaint over shoe duties*

By John W. Miller

China filed a complaint against European Union shoe tariffs at the World Trade Organization on Thursday, as Beijing continued its legal assault on what it says is unfair Western protectionism.

China's exports have been growing since the 1990s, particularly after the country joined the WTO in 2001. Eight years later, China passed Germany to become the world's top exporter. That status comes with a price: China is now the leading target for protectionist measures, according to Global Trade Alert, an independent monitor.

As the fitful economic recovery has put some domestic jobs and profits at risk, the EU and the U.S. have sought to stem the flow of Chinese imports with special duties. Added to existing tariffs, the duties are meant to make Chinese goods too expensive for consumers to afford.

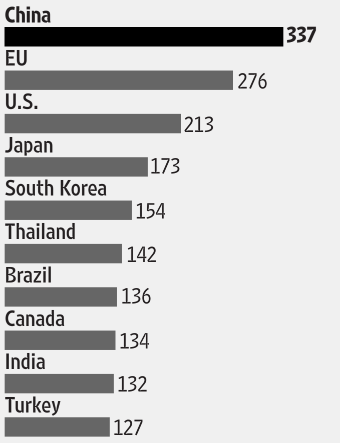
China isn't taking the restrictions lying down. From a new office near WTO headquarters in Geneva, Beijing is playing hardball. It is paying top dollar to engage premium counsel, some trade lawyers say. In September, China reacted to President Barack Obama's tariffs on tire imports with a complaint against the U.S. China has also put restrictions on imports of U.S. poultry and auto parts.

In this case, China is taking on one of the most important tariff increases ever levied, which has taken a bite out of its expansive shoe industry. The 16.5% tariffs are antidumping duties, meant to punish goods that are sold below cost and hurt sales of domestic producers.

The EU duties were inaugurated in 2006 and extended for 15 months this past December.

**Exporters under fire**

China, now the world's number one exporter, is also the top target for measures against imports from a specific country




Note: Measures include tariff hikes, export subsidies, licensing requirements, import bans and 19 other types of restrictions.
Source: Global Trade Alert

The duties "violate WTO rules and undermine the legitimate rights and interests of Chinese businesses," Commerce Ministry spokesman Yao Jian said.

The EU dismissed the complaint. "Antidumping duties are not about protectionism," said spokesman John Clancy. "They are about fighting unfair trade." The measures, he said, were imposed only on "evidence that dumping of Chinese products has taken place and that this is harming the otherwise competitive EU industry."

After threatening in December to take the tariffs to the WTO, China filed the formal papers Thursday. The EU now has 60 days to offer a compromise. If none can be found, a three-judge panel will rule on the complaint's merits.

The EU will be asked to prove that companies making shoes in China—many of them European—benefited from tax breaks, low-interest loans and other subsidies that allowed them to sell shoes in Europe below cost, and that the low price of those shoes hurt EU manufacturers.

China has a good chance of prevailing in the case, a number of trade lawyers and analysts say. The EU tariffs were passed after fierce lobbying by Italy on behalf of its domestic shoemakers.

If China wins, the EU would have to suspend the duties or face retaliatory trade restrictions against EU exports to China, such as pharmaceuticals, automobiles and wine.

# EU-U.S. pact is rejected

By Peppi Kiviniemi

BRUSSELS—A European Parliamentary committee rejected an anti-terrorism data-sharing deal between the European Union and the U.S. Thursday, a decision that will have considerable sway when Parliament votes on the agreement Tuesday.

The agreement allows the U.S. to access information gathered by the Society for Worldwide Interbank Financial Telecommunication, or Swift, about bank transfers within Europe if there is a legitimate concern the money might be transferred to fund terrorist activity.

The agreement is meant to serve as a stopgap until the EU and U.S. can agree on a more comprehensive policy. Members of the panel said the agreement needs more robust privacy safeguards and a better redress mechanism for violations.



# *Obama won't bother to attend the EU summit*

[ Brussels Beat ]

By Stephen Fidler

Months after the European Union ratifies a treaty aimed at increasing its clout in the world, President Barack Obama decides not to travel to a summit with EU leaders in Spain because he has more important things to do.

Predictably, the decision is interpreted in Europe as a snub for the Spanish government of José Luis Zapatero and also for the EU, still recovering from the failure of its efforts to lead by example at the Copenhagen climate talks.

Indeed, the decision reinforced a developing narrative within Europe that was one of the themes of last week's meeting in Davos. With the rise of China, and to a lesser extent economies such as India and Brazil, Europe is less of a player than it was on the world stage.

Add this to Europe's current economic travails—sovereign-debt problems within the euro zone, feeble economic growth and badly wounded banking systems—and the outlook is a testing one for Euro-optimists.

Unsurprisingly, Washington did its best to protest that Europe was still at the top of its agenda. Philip Gordon, the senior State Department official responsible for European affairs, said in an interview that the decision of the president not to come is "not a slight; nor is it a cancellation."

Mr. Gordon, who was in Spain talking to Spanish officials a couple of weeks ago, said he made it clear then that Mr. Obama hadn't made his mind up about coming to Madrid in May. "We were very specific that we were not in a position to commit to an EU summit in the spring."

He said the decision was no reflection on the U.S.'s bilateral relationship with Spain, which had improved significantly since Mr. Zapatero, directly after he was elected in 2004, withdrew all Spanish troops from Iraq and earned the enmity of President George W. Bush. "I think we have really turned the corner on a problematic relationship during the Bush administration," Mr. Gordon said.

Neither was it a commentary on the importance of the U.S. relationship to Europe. He echoed comments from his boss Hillary Clinton, who addressed head-on in a speech last week "concern that the Obama administration is so focused on foreign-policy challenges elsewhere in the world that Europe has receded in our list of priorities."

"European security remains an anchor of U.S. foreign and security policy," she said.

Mr. Gordon denied suggestions in Europe that the administration had been disappointed by the support given to Mr. Obama's plan to pour 30,000 more troops in Afghanistan—to which European governments have added a further 9,000. "I think we were quite pleased with the response to the president's speech on Afghanistan," he said.

Despite these protestations, many Europeans think the EU and its member governments would be unwise to ignore the message from Mr. Obama's non-cancellation.

Charles Grant, director of the Centre for European Reform, a London-based think tank, said this president doesn't have the attachment to the old Continent of many of his predecessors. "Obama is very unemotional about the EU," he said.

The key to getting him to attend EU summits is to provide practical solutions to problems. "He's not going to take the EU seriously unless the EU delivers," he said.

Mr. Grant's point is reinforced by what, according to many European press reports, was European squabbling ahead of the Madrid meeting over transcendental questions such as who was going to sit next to Mr. and Mrs. Obama at the summit dinner, who would shake Mr. Obama's hand first (Mr. Zapatero) and who would sit to his right (Herman Van Rompuy, new president of the European Council).

Indeed, the whole episode raises the question of what are summits for, a question that U.S. officials also seem implicitly to be asking themselves.

Antonio Missiroli, director of studies at the European Policy Centre in Brussels, says Europeans have a tendency to call for summits at the drop of a hat, the latest example being after the Haiti earthquake disaster.

"There is a paradox," he said. "It's certainly true that Europeans have too many summits. Whenever there's a problem, the Europeans say we need a summit."

Annual European summits might be a sensible idea with countries with which, for example, the Europeans have an underdeveloped relationship and are seeking a closer one, he said. "But if there is one country where we don't need an annual summit it is with the U.S.," he said.

The sheer magnitude of trans-Atlantic contacts over every conceivable topic, from airline security to financial regulation to Afghanistan, means that leaders don't need to get together annually. And if they do want to chat, there is always the regular summits of the North Atlantic Treaty Organization, the Group of Eight and the Group of 20.

Despite the frequency of these contacts, the episode does show that trans-Atlantic communication isn't always exemplary. Many hours after The Wall Street Journal first broke the story that the president didn't have Madrid in his spring travel plans, the Spanish government was still planning for his visit.

However, intra-European communication might also need work. Baroness Ashton, the new EU foreign minister, reportedly said afterward she had known President Obama might not come all along.

EUROPE NEWS


Agence France-Presse/Getty Images

A supporter of presidential candidate Viktor Yanukovych, decorates himself with campaign flags in front of St. Sophia Cathedral in Kiev last month. Ukraine holds its presidential runoff vote on Sunday.

# Rent-a-crowd is bustling in Ukraine

*Ahead of country's runoff election Sunday, Easy Work aims to cash in, offering to do business with any party*

By Richard Boudreaux

KIEV, Ukraine—Want to ensure a bigger draw for your lackluster candidate? In Ukraine, just contact Vladimir Boyko and he'll rent you a crowd.

Mr. Boyko says his company, Easy Work, has assembled a database of several thousand students and can mobilize them on a day's notice to turn up at demonstrations anywhere in Kiev, stand for hours at a time, and cheer or jeer on cue.

"We'll do business with any political party. Ideology doesn't matter to us," says the 21-year-old Web-design major at Kiev Polytechnic Institute. "It matters even less to most students," he adds, grinning. "They have become tired of politicians. They will rally only for money."

Easy Work's emergence last summer, described by Mr. Boyko and co-owner Matvey Dyadkov, casts light on a secretive industry of crowd brokers in this former Soviet republic. Those apolitical operatives take cash from candidates' parties and hire students, pensioners and others at roughly $4 an hour to bulk up the candidates' rallies.

The rent-a-crowd business, though not illegal, is taboo in Ukraine. Politicians deny using it, and many practitioners prefer the benign Russian term *sobrat tolpu*, which means to gather a crowd. But it has prospered amid disillusionment with the Orange Revolution, the massive peaceful uprising that overturned a tainted 2004 election result and ushered in the country's pro-Western leadership.

Dimmed by economic malaise and legislative deadlock, Orange fervor has given way to a mercenary form of activism. Mr. Boyko, a gangly snowboarding techie who took part in the 2004 protests as a high-school senior, has keenly observed the shift and, as Ukraine holds a presidential runoff vote Sunday, is moving to cash in on it.

"If you place an order for a rally, you can have it the next day," he says.

The demand for crowds could soon surge. Prime Minister Yulia Tymoshenko vowed Thursday to "rally the people" in a replay of the Orange Revolution if runoff rival Viktor Yanukovych steals the vote. She spoke after his party pushed through an election-law change to allow vote counting at polling places without the supervision of both candidates' delegates.

Mr. Yanukovych, who dismissed Ms. Tymoshenko's statement as a "sign of weakness," is readying to gather demonstrators to back him in any dispute over Sunday's returns.

Orange protest veterans decry the business, saying it undermines the country's young democracy. Leaders of independent civic groups, which had begun to blossom in 2004, say they find it harder now to attract volunteers for their causes.

"This is part of a more complex problem of corruption at all levels in Ukraine," says Oleksandr Chernenko, chairman of the independent Committee of Voters of Ukraine, an election-monitoring group. "As long as the politicians offer money, people will take it."

Ukraine seemed different half a decade ago when Mr. Boyko and other Orange protesters stood in Kiev's snowy streets night and day, for no compensation, and prevailed.

By the time Mr. Boyko was a freshman in college, however, the country's new leaders were feuding, breaking promises and losing respect. Notices popped up on campus bulletin boards, a marketplace for the city's 600,000 university and trade-school students: Candidates for Parliament, desperate for crowds that would play well on TV, were offering 100 hrivnya, about $12, to attend a three-hour rally.

Easy Work

Vladimir Boyko says he can mobilize thousands of students on a day's notice.

Messrs. Boyko and Dyadkov, classmates at Kiev Polytechnic, watched the market develop as Ukraine lurched through a series of political crises and elections. Mr. Dyadkov, who had been in high school in the Black Sea port of Sevastopol and missed the Orange Revolution, was drawn into its messy aftermath.

The market, the two men say, came to resemble a pyramid that's supposed to work roughly like this: A political party contacts several crowd brokers capable of mobilizing and paying 1,000 students apiece. Each of those brokers, said to number 15 in Kiev, has a network; he or she contacts 10 acquaintances who, in turn, contact 10 each of their own, and so on.

Each broker in the pyramid, many of them students, is supposed to pay off those below, typically after taking a 10% cut. Lapses and thievery abound. After one rally, Mr. Dyadkov recalls, a classmate was besieged after failing to secure and deliver payoffs for several hundred angry residents of his dorm. "I knew there must be a better way," Mr. Dyadkov says.

A plan came together last summer: Easy Work was formed to compete with the chains of brokers, pitching itself as a reliable one-stop intermediary. Instead of phone calls and text messages, traditional means of pyramid recruiting, the tech students used In Contact, a Russian-language social-networking site, to build a students-for-hire membership list.

With Mr. Boyko working from his parents' home and Mr. Dyadkov from his crowded dorm room, they created a Web site, EasyWork.com.ua, where members can log in with 15-digit codes, view a list of coming rallies and click to take part. Only members can bring in newcomers after judging them to be reliable.

Easy Work instructs its hired activists to follow rules: If you register for a rally, show up on time and don't leave until it's over. No boozing. No fighting. Smile for the cameras and applaud the candidate. Don't talk to reporters; they might figure out you came for the money.

The co-founders tested their system with two modest political rallies late in the year and concluded that it works. "Students know they can come to us and we'll pay them," Mr. Boyko says. "And the parties know we can deliver a crowd. Everyone goes away happy."

His claim is hard to judge. He won't disclose Easy Work's membership list, payment records, profit, or details of past and pending operations. Two students who signed up for a rally through Easy Work last year confirmed they took part, along with a few hundred others, and were well paid.

Mr. Boyko says the secrecy is necessary to shield members and clients from embarrassment. But he insists his aims are altruistic.

"In principle, we have nothing to hide," he says. "We don't sell votes. We don't get involved in the darker side of politics. Mainly what we do is run an honest, responsible business and give people work."

Mr. Dyadkov added: "As entrepreneurs, we want to earn money. On the other hand, as citizens, we hope this business will fade away. For now, people see the same old politicians and hear the same old ideas. If someone fresh brings a new idea, people will come out and listen for free."

U.S. NEWS

# Republicans chase Wall Street cash

*Data show fund-raisers begin capitalizing on bankers' regret over backing Obama; 'buyer's remorse'*

By Brody Mullins
And Neil King Jr.

Republicans are stepping up their campaign to win donations from Wall Street, trying to capitalize on an increasing sense of regret among executives at big financial institutions for backing Democrats in 2008.

In discussions with Wall Street executives, Republicans are striving to make the case that they are banks' best hope of preventing President Barack Obama and congressional Democrats from cracking down on Wall Street.

GOP strategists hope to benefit from the reaction to the White House's populist rhetoric and proposals, which range from sharp critiques of bonuses to a tax on big Wall Street banks, caps on executive pay and curbs on business practices deemed too risky.

Democrats have dominated Wall Street's fund-raising circles in recent elections. Mr. Obama himself raised millions of dollars from employees of **Goldman Sachs Group** Inc., **Citigroup** Inc., **J.P. Morgan Chase** & Co. and other Wall Street firms.

Now, at least some Wall Street executives have reduced their political contributions to the Democratic Party and its candidates, according to fund-raising reports and interviews with executives at financial-services firms. Last week, House Minority Leader John Boehner of Ohio made a pitch to Democratic contributor James Dimon, the chairman and chief executive of J.P. Morgan, over drinks at a Capitol Hill restaurant, according to people familiar with the matter.

Mr. Boehner told Mr. Dimon congressional Republicans had stood up to Mr. Obama's efforts to curb pay and impose new regulations. The Republican leader also said he was disappointed many on Wall Street continue to donate their money to Democrats, according to the people familiar with the matter.

A spokeswoman for J.P. Morgan declined to comment Wednesday.

"I sense a lot of dissatisfaction and a lot of buyer's remorse on Wall Street," said Rep. Eric Cantor (R., Va.), the second-ranking House Republican and a top Wall Street fundraiser for his party.

A complete picture of Wall Street's 2009 campaign donations won't be available for a few weeks. Through the third quarter, campaign-finance reports show that some major Wall Street players began sending an increasing share of their donations to Republicans. Many of those donations came toward the end of this period, because many banks had essentially shut down their political giving at the height of the financial crisis.

Through the first nine months of 2009, about 54% of donations from **Bank of America** Corp.'s political action committee and employees went to Republicans, according to campaign-finance data compiled by the nonpartisan Center for Responsive Politics. That was a switch from the 2008 campaign, when 56% of the company's donations went to Democrats.

Shirley Norton, a BofA spokeswoman, said it doesn't base PAC donations on party affiliation.

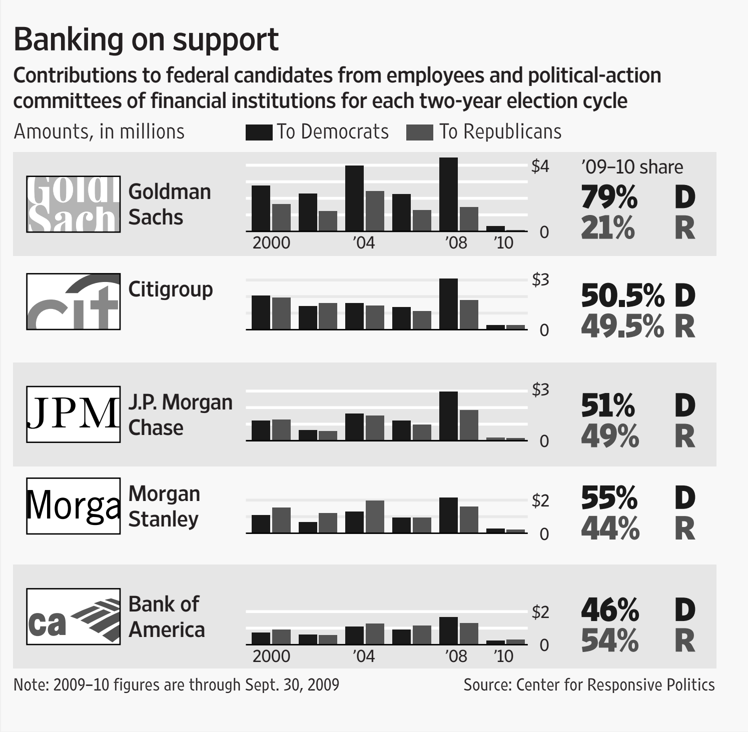
Donations from the PACs and employees of J.P. Morgan and Citigroup also trended toward Republicans during the same period, according to the data. Spokeswomen for the banks declined to comment.

During the 2008 campaign, Mr. Obama received almost $15 million in donations from people who worked in the securities and investment industry, according to the CRP data. Employees of Goldman Sachs donated nearly $1 million to his campaign.

By contrast, Mr. Obama's Republican opponent, Arizona Sen. John McCain, received $8.7 million from the securities and investment sector, according to the data.

Wall Street executives who supported Mr. Obama during the presidential campaign said there had been growing signs of discontent.

These Democrats predicted that the unease would depress fund raising as the 2010 election heats up.




One major Democratic fund-raiser on Wall Street said that some people who raised money for Mr. Obama's campaign felt burned. "They put themselves on the line internally with their companies for Obama, and now they look stupid," this person said.

The White House referred calls seeking comment to the Democratic National Committee.

A DNC spokesman said: "It's not surprising that Republicans are seeking money from the same banking industry they are the champions of. The relationship between Wall Street and Republicans is symbiotic."



# Illinois governor's race still an issue

By Douglas Belkin

CHICAGO—Voters in the Illinois primaries Tuesday picked the contestants in the race to fill the U.S. Senate seat formerly held by President Barack Obama, but left uncertain who would take up the Democratic and Republican banners in the race for governor.

Preliminary vote totals showed that Gov. Pat Quinn beat his Democratic rival by 8,100 votes with more than 910,000 cast, according to the Associated Press.

Mr. Quinn said it was only a matter of time before state Comptroller Dan Hynes recognized he had lost.

"Reality sets in as the hours go along," Mr Quinn said. "The primary is over and we're moving to the fall election now. I'm confident everything will come together shortly."

Addressing supporters Tuesday, Mr. Hynes didn't concede, and his campaign said he was leaving his options open. Recounts aren't automatic in Illinois, but can be called if the margin of victory is within five percentage points.

The process has two phases. A discovery recount would retabulate votes in up to 25% of the precincts. If that shows evidence of missed votes or disenfranchisement, the candidate can sue in circuit court for a full recount, which could take months. The deadline is March 1.

The Republican race also ended in a virtual dead heat. At a breakfast Wednesday morning, state Sens. Bill Brady and Kirk Dillard, the top vote-getters, were at the main table, separated by a podium. With more than 300,000 votes cast, Mr. Brady had a lead of 400 votes over Mr. Dillard, the Associated Press said.

Mr. Brady said he was confident his lead would hold. Asked whether he would seek a recount, Mr. Dillard said: "I think we're going to win."

For the U.S. Senate seat, Democrat Alexi Giannoulias, the 33-year-old state Treasurer, won a close race and will face five-term Republican Congressman Mark Kirk in November. Mr. Kirk had a 38-point victory.

The GOP thinks its chances are good to gain the seat formerly held by Mr. Obama. The state's economy is in free-fall, former Gov. Rod Blagojevich, a Democrat, faces trial on corruption charges, and Republicans are riding an anti-establishment wave across the country.

A sign at the Republican breakfast read "Illinois is Next!" referring to recent GOP victories in Massachusetts, Virginia and New Jersey. Messrs. Kirk and Giannoulias were both favored to win their primaries.

Mr. Giannoulias was an executive at the bank owned by his family in 2006 when he was backed by Mr. Obama, then a U.S. senator, to run for the treasurer's post. But the White House courted Illinois Attorney General Lisa Madigan in the Senate primary; Ms. Madigan didn't end up running.

Mr. Kirk, a moderate who represents a wealthy district that encompasses the suburbs north of Chicago, said Wednesday that he would spend time campaigning downstate, where he isn't well known.