DJIA 10680.77 ▲ 0.50% | Nasdaq 2307.90 ▲ 1.12% | DJ Stoxx 256.96 ▲ 0.23% | FTSE 100 5473.48 ▼ 0.46% | DAX 5963.14 ▲ 0.34% | CAC 40 4000.86 ▲ 0.02% | Euro 1.4508 ▼ 0.20% | Pound 1.6264 ▲ 0.47%

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THE WALL STREET JOURNAL.

VOL. XXVII NO. 242 | EUROPE | Thursday, January 14, 2010

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Devastation spreads in Haiti

International aid groups scrambled to deliver food, medicine and other supplies to Haiti, where the strongest earthquake in more than two centuries has toppled buildings and raised fears that thousands are dead.

U.S. ships and disaster-relief teams prepared to deploy to the Caribbean nation, as a range of governments, including the U.K., France and China pledged relief, officials said.

United Nations workers readied supply planes, and the International Red Cross mobilized emergency stocks kept in the region.

The partial collapse of communications and other infrastructure has hindered efforts to assess the damage of the magnitude-7 earthquake. But terrifying reports, including photos, of collapsed buildings and buried bodies have heightened concern the destruction is extensive.

An estimated 1.8 million people live within the area where the magnitude-7 quake was most intense, John Bellini, a geophysicist at the USGS, told The Wall Street Journal.

"With a strong and shallow earthquake like this in such a populated area, it could really cause substantial damage," he said.

■ Aid workers are confronted with a rising death toll 6-7

Agence France-Presse/Getty Images

Buildings in Port-au-Prince were reduced to rubble. The port itself collapsed, making it hard for large shipping vessels to dock.

The Quirk

For chefs, bringing home the bacon gets tougher in the age of terror. Page 29

World Watch

A comprehensive rundown of news from around the world. Pages 30-31

Editorial & Opinion

Lies, damn lies, and Greek statistics. Page 13.

Google clicks into China crisis

Industry executives and analysts tried to gauge the potential fallout from Google Inc.'s threat to walk away from China.

The U.S. Internet-search giant said Tuesday that it will stop censoring its Chinese search site, Google.cn, and may withdraw from the country altogether.

Google's threat to withdraw from China over censorship and cyberspying is a sign of a growing willingness among foreign companies and governments to overturn the conventional wisdom that has defined decades of engagement by the West: that China is so big that it must be accommodated.

While Google's move isn't likely to be emulated by other big foreign companies, its unexpected defiance is certain to fuel debate over business relations with China.

Associated Press

Google's Beijing headquarters

Google revealed it had discovered massive cyber attacks against itself and numerous other foreign companies that it said emanated from China. The company's statement jolted foreign businesses that operate in the country and prompted quick response from human-rights advocates and from U.S. Secretary of State Hillary Clinton, who expressed concerns over the allegations.

In addition to its search service, which analysts say has an audience of more than 40 million loyal users, Google has a range of other business initiatives and partnerships in China that could be affected by its decision.

The decision also affects local competitors who could benefit from any retreat. Shares of Google's biggest Chinese rival, Baidu Inc., surged after the news.

The Google statement was widely followed on China's Internet, and was initially treated as a major story by local Web sites until news portals were ordered to play down coverage of it.

■ Google's China dispute upends business norms 16

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Well-trod path doesn't lead to reform

[Agenda]

By Patience Wheatcroft

What do Tony Blair and Robert Rubin have in common? Or Arthur Levitt and John Tiner? What links Rachel Lomax and Lord (Terry) Burns?

Banking is the answer, but banking coupled with a prior involvement in government or regulation. Tony Blair—formerly the U.K.'s prime minister and first lord of the Treasury, to give the role its full title—is now a senior adviser to J.P. Morgan. Robert Rubin, a Goldman Sachs man before he was appointed as President Clinton's Treasury secretary, joined the board of Citigroup after leaving the administration.

Arthur Levitt was chairman of the U.S. Securities and Exchange Commission between 1993 and 2001, and, since last year, he has been an adviser to Goldman Sachs. The extraordinary links between Goldman and the various seats of power have been the subject of much comment, but there is no need for us to get bogged down in "great vampire squid" territory here, for Goldman isn't the only bank to foster such links. Rachel Lomax is on the board of HSBC, a role she took on five months after stepping down as deputy governor of the Bank of England. Lord Burns went on from being the top official in the U.K. Treasury to chair Abbey, a bank that was taken over by Santander, where Lord Burns now has a directorship.

These are but a few examples of a common trend: Those who have had powerful positions in the public sector tend to move on to a later, and often more lucrative, role in banking. And it is easy to argue that they should, for their experience may well be beneficial to the bank and thus its shareholders. Yet there is concern in some quarters that this well-trod path may be proving a subtle block to the reforms that many want to see in the banking sector. This is no reflection on those who have made the transition from ruling and regulating to banking but on those who may wish to follow. Might the thought of their own futures lead to a reluctance to alienate banks, and bankers too much, now?

Agence France-Presse

Would 'limited purpose' banking be a step toward a wonderful life?

Appetite for serious debate about how drastic bank reform should be already seems to be diminished

The question is being asked because, despite much pontificating about the need for change, the banks have rapidly returned to business as usual. President Obama has said he would like to collect a little more of the cash that banks are raking in and Alistair Darling, the U.K.'s chancellor of the Exchequer, has made a one-off grab related to bonuses, supposed to encourage banks to shore up their capital rather than their staff's finances but a predictable failure in that regard. It has, nevertheless, had the serendipitous effect of bringing in rather more for the Treasury's very needy offers than had been anticipated.

But, despite the fact we have been through a banking crisis that threatened to decimate economies, the pressure for drastic reform seems to have cooled. In the mind of the general public, bankers remain public enemy No. 1, an indiscriminate condemnation of the entire breed with no concern for the distinction between the solid and sound and those who run gambling houses.

Ordinary people who must now pay for the damage inflicted on their economies will struggle to understand why the banking industry hasn't been subject to the most radical of reforms.

More informed voices suggest reform is best not rushed but carefully thought through: Knee jerks can cause dangerous dislocations. Yet appetite for serious debate about how drastic the reform should be already seems to be diminished. Politicians and regulators opine on capital ratios but seem reluctant to go much further in envisaging potential change. People with the power to drive dramatic change to the sector seem to regard those few souls who venture to mention the Glass Steagall Act, let alone suggest that it was a force for good, as being dinosaurs who don't understand the world has moved on and cannot return to a prehistoric age when investment banks didn't exist.

It may be true, as the investment banks contend, that their corporate clients like them as they are, one stop financial shops, but, if this is the case, the corporates are being rather less than vocal on the subject. They are more vociferous in their moaning about the hefty fees these organizations charge them.

Anyhow, politicians and regulators surely shouldn't take the banks' word for their indispensability. There needs to be a proper examination of the issues and the risks involved. Those who believe the current structure is untenable need to be heard. They include Mervyn King, the governor of the Bank of England. An academic economist, Mr. King's unequivocal espousal of the view that "too big to fail" is simply too big has ensured he won't be showered with invitations to become a banker when he leaves the central bank. That won't worry him, but, as he has made clear, the risk of a repeat of the recent financial disaster does cause him concern. He has proposed "limited purpose" banks to deal with deposits and avoid any contamination by the racier kinds of investment bank.

A book to be published in March goes further. Laurence J Kotlikoff, an economist from Boston University, is the author of "Jimmy Stewart Is Dead." The less punchy subtitle is clearer: "Ending the World's Ongoing Financial Plague with Limited Purpose Banking." His limited purpose banks would operate as mutual funds, which would make them 100% capitalized.

The financial plague hasn't been eradicated. Politicians are nervous about tackling it, because they see tax revenue leaving their country and heading elsewhere: Hence, no country wishes to be first mover in tackling the problem. More independent analysts might produce braver reactions. A British Royal Commission on banking, and perhaps U.S. and European equivalents might ensure cowardice doesn't jeopardize essential reform.

What's News

■ **Germany said its economy** shrank 5% in 2009, a record amount for the postwar era, due in large part to a fall in exports and business investment, and probably stagnated in the fourth quarter, compounding concerns Europe's recovery will be rocky. 4

■ **Greece vowed** that it will remain a member of the euro zone as its overhaul plans came under renewed criticism from the ECB. 5

■ **Top U.S. bank executives** admitted missteps that helped lead to the financial crisis, but warned that policy makers shouldn't limit the size of financial entities. 9

■ **France put pressure** on Renault to make more cars in its home country, amid reports the company may build a subcompact in Turkey. 5

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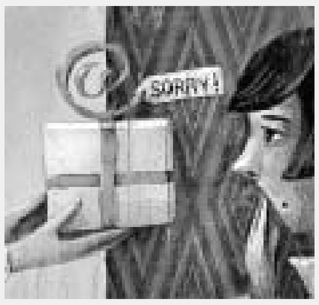

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Iain Martin

blogs.wsj.com/iainmartin

"There is not a charismatic leader in the wings to promote a coherent post-Blair and Brown view of the world."

Continuing coverage

See continuing coverage of the earthquake in Haiti, including video reports, at **wsj.com/world**

Question of the day

Vote and discuss: Should Google withdraw from China over cyber attacks?

Join a discussion with readers and vote online at **wsj.com/dailyquestion** Plus, follow the latest developments in the saga at **wsj.com/technology**

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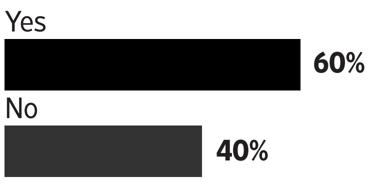
Q: Will Kraft Foods will succeed in its bid for U.K. confectioner Cadbury?



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NEWS

Snowfall almost became a windfall

A U.K. man's wager on a White Christmas nearly netted him $27.5 million, but the accumulator bet was invalid

By Carl Bialik


Associated Press

A boy delivers Christmas presents by sled on Christmas Day following heavy snowfall in Scotland. Snow enveloped much of the U.K. over Christmas.

NUMBERS GUY

For Cliff Bryant, it was very nearly a perfect storm.

As snow enveloped much of the northern U.K. over Christmas, the 52-year-old graphic designer found the weather outside delightful—and profitable. Mr. Bryant wagered that snow would fall in various regions of the country, and he placed what is known as accumulator bets, which can pile up winnings like the wind-driven snow. Mr. Bryant believed his bets had netted him about $27.5 million in winnings.

Yet the winning bets so far have gone mostly unrewarded. **Ladbrokes**, a major British bookmaker, says its employees took Mr. Bryant's so-called accumulator bets in error, and has declined to honor them in full.

Accumulator bets allow gamblers to turn ordinary wagers into a lucrative lottery. They work like this: The bettor places simultaneous bets. If the first comes through, the initial stake plus the winnings are placed on the second bet. If that comes through, the entire pile is placed on the third bet, and so on. If all parts of the wager are won, the winnings accumulate quickly. If even one part of the bet loses, though, there are no winnings.

"I thought this was it, that something had gone right for me this time," says Mr. Bryant, a longtime Christmas-snow bettor who guesses he is slightly in the hock over his years of snow bets. "Apparently not, but it was nice to have that dream."

But a bookmaker that takes such bets on the weather of neighboring regions is asking for a fleecing.

To understand why, it helps to first consider scenarios when accumulator bets make sense for both parties.

For the odds to be fair, each individual wager must cover an independent event. That way, the winnings multiply at the same rate that the cumulative probability of winning all bets declines.

For instance, multiple sports bets are allowed to be bundled when the score of one game shouldn't affect the score of another.

Mr. Bryant hoped that the same mathematical approach would lead to an accumulation of winnings as snow piled up across the U.K. His strategy was to play off of a longstanding yuletide tradition: betting on whether it would snow on Christmas in specific U.K. cities or postcode areas. Mr. Bryant's innovation was to bundle these so-called White Christmas bets and set himself up for big payouts.

As he tells it, he went to a local shop of Ladbrokes and placed nine accumulator bets on a White Christmas, choosing groups of neighboring areas. "In Britain, if you've got a shower coming across, it's going to go across lots of postcodes," Mr. Bryant says.

Ladbrokes spokesman Ciaran O'Brien says the bets shouldn't have been accepted in the first place, because "if it snows in one city, it's likely to snow in another city." In other words, these weren't independent events. Snow in Leeds suggests a greater chance of a dusting over nearby York from the same storm. The probability of neighboring areas both getting snow is particularly high in the densest parts of the country, where postcode areas are so close together—such as in and around London.

As it happened, snow skipped London but fell in at least some part of nearly every northern postcode area. Ladbrokes and its competitor, **William Hill**, knew they had taken a hit from the annual White Christmas bets. But the scope of their potential losses wasn't apparent until three or four days after Christmas, once Ladbrokes had posted the official list of postcodes that saw snow. Mr. Bryant recalls going into his local shop and producing one of his two winning accumulator betting slips. He recalls that the manager "started doing the math, and turned a bit white." Then he placed a phone call to headquarters and reported that the ticket was invalid.

Why? Ladbrokes did indeed have rules against such betting, but they were hard to find. On a Web page Ladbrokes hosts for White Christmas bets, there was no mention of accumulator bets. But deeper in the Ladbrokes Web site, a page of terms and conditions bars accumulator betting on novelty wagers.

Such wagers, on everything from snow to reality-television developments to proof of alien life, are a longstanding fixture of the British bookmaking culture.

"A guy walked into one of our shops in the mid-'60s and said he wanted to bet someone will walk on the moon by the end of the decade," says Rupert Adams, a spokesman for William Hill, which gave the man 1,000-to-1 odds; he won about $24,000. "We realized, Christ, we can bet on anything."

(Not so in the U.S., where only certain forms of gambling are legalized, and only in certain jurisdictions.)

The poor choice of odds on the moon bet wasn't unusual. The probability of such events are hard to quantify. And exposure to obscure events can be meddlesome in other ways. Mr. Adams says William Hill's potential losses of more than $8 million, should Elvis Presley be found alive, was a stumbling block in the ultimately successful acquisition of rival **Stanley Leisure**'s betting shops.

Combine the wide range of bettable events with the possibility of accumulator bets, and what results is a complex system that defies modernization. "There are so many options, it's very, very difficult to computerize it entirely," says Ladbrokes spokesman Mr. O'Brien.

Had Mr. Bryant's bets been entered into a computer, software might have flagged the invalid snow bets. The bets would have been disqualified in any case because each of his two winning tickets stood to yield payouts far greater than the £10,000 maximum set for snow bets.

Instead, Mr. Bryant's proof of winnings is a pair of handwritten betting slips. The odds for York were omitted from one of them, which led to erroneously low estimates of his potential winnings in initial media reports.

If the York odds were 2 to 1, as they were for neighboring regions, then Mr. Bryant stood to win $27.5 million.

Instead Ladbrokes offered to divide the £5 placed on each winning bet into individual bets for each region, and pay each one out individually—which would add up to barely £30, or about $50. Mr. Bryant didn't like the offer and says he has filed a complaint with the **Independent Betting Arbitration Service**.

Ladbrokes's Mr. O'Brien says, "We're happy to continue a dialogue about what we can do to address the error. What's been done to date is not necessarily the final chapter."

More snow hits Britain, grounding flights and shutting schools

A Wall Street Journal Roundup

Fresh snowfall wreaked havoc on the U.K. Wednesday, shutting airports and schools and disrupting rail and road travel across large parts of the country.

As much as 15 centimeters (6 inches) of snow fell in Wales and the southern half of England, areas still recovering from heavy snowfalls last week. Scores of flights were delayed or canceled as Gatwick, Southampton, Birmingham, Cardiff and London City airports shut runways to clear the snow. Hundreds of schools were closed.

The wintry weather in the U.K. added to the challenge of quickly delivering aid to Haiti after a devastating earthquake there, with snow temporarily delaying a British aid flight with 64 firefighters and rescue dogs at Gatwick airport.

The fresh snow showers across the country Wednesday also led to further problems in train services. First Capital Connect said its Thameslink commuter-rail services serving London were being disrupted by "snow and freezing conditions with delays, short notice alterations and cancellations."

Eurostar, the train service linking the U.K. to France and Belgium, said it would be running a "near-normal service" on Wednesday, "with a small number of cancellations"—a relief to passengers after recent problems. Last month Eurostar came to a standstill for days because of train breakdowns that left passengers stranded in the tunnel. The company said the problem was unusually dry, powdery snow that got into the trains' engines.

Britain is experiencing its longest cold spell in 30 years. Wednesday is St. Hilary's Day—according to folklore, the coldest day of the year.

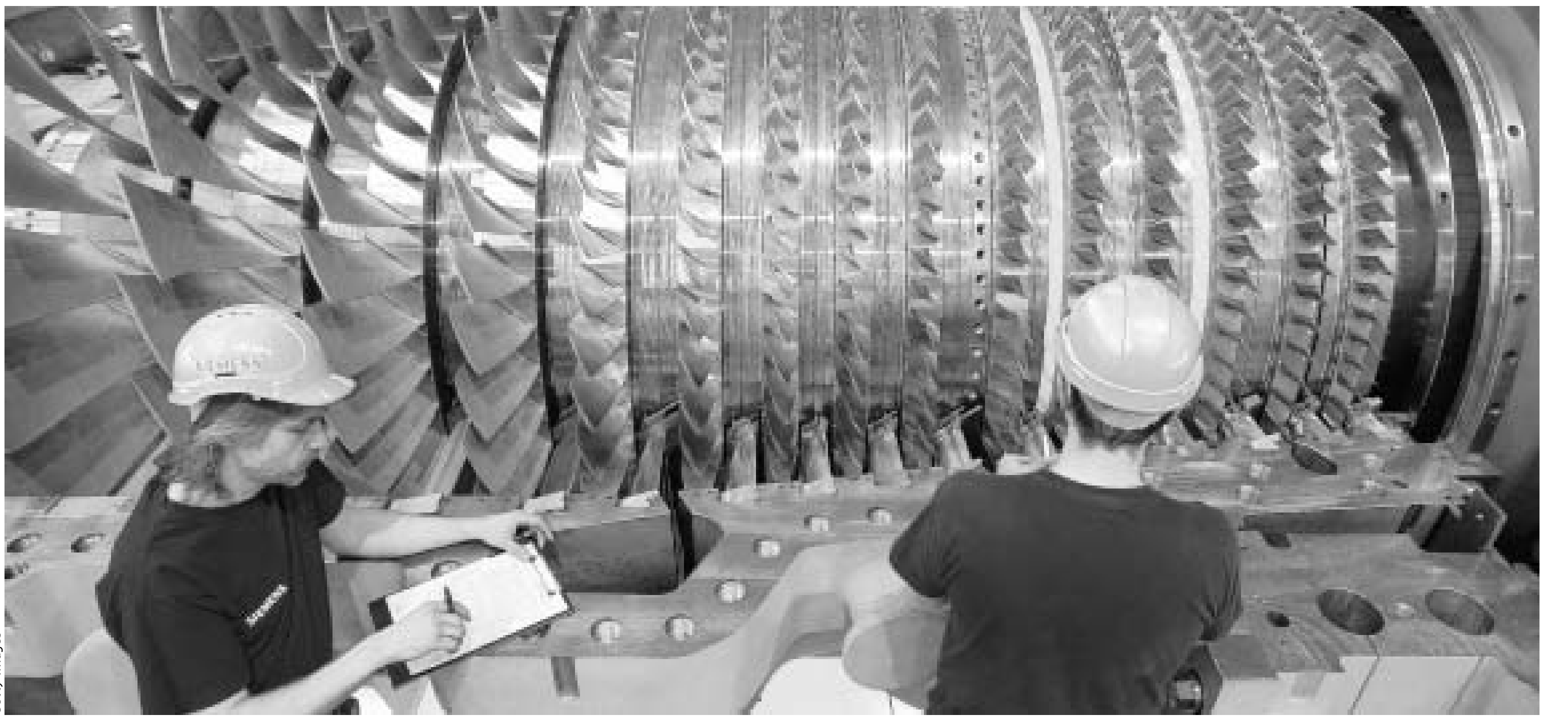
However, forecasters say the freeze is coming to an end. Snow was expected to turn to rain in many areas as temperatures rose above freezing.

EUROPE NEWS

German economy shrank 5% in ’09

Record postwar GDP decline, along with U.K., Italian industrial data, raises concerns about European recovery

By Marcus Walker



Getty Images

Workers assemble a gas turbine at a Siemens factory in Berlin last week..

BERLIN–Germany said its economy shrank 5% in 2009 and probably stagnated in the fourth quarter, compounding concerns that Europe’s recovery will be rocky.

Germany’s federal statistics office said gross domestic product in Europe’s largest economy and the fourth-largest in the world, fell by a record amount for the postwar era, due in large part to a slump in exports and business investment.

The data, coupled with other European indicators released Wednesday, could make the European Central Bank and the Bank of England more cautious about the health of the region’s economies, as they consider when to start reducing their monetary-stimulus measures.

The 5% drop in German GDP was slightly worse than economists expected after Germany’s economy returned to growth in the second and third quarters. Germany won’t release a number for the fourth quarter until Feb. 12, but the annual figure implies little or no growth in the past three months.

The latest growth data are hard to reconcile with monthly indicators, including export figures that suggested Germany’s recovery remained on track, economists said. A weak overall reading for GDP last quarter might largely reflect companies cutting inventories at a faster pace, some analysts believe.

“Inventory changes are leading to volatile quarterly numbers, but we expect the recovery to continue in early 2010,” said Andreas Rees, economist at UniCredit in Munich.

Household spending has slipped since the end of Germany’s car-scrapping incentives last fall, said Jennifer McKeown, European economist at Capital Economics in London.

Other European data published on Wednesday also suggested the region’s recovery slowed in the fourth quarter. Italian industrial output rose by only 0.2% in November, less than expected, leading some economists to predict stagnation for the overall Italian economy last quarter.

U.K. industrial production rose by 0.4% in November, thanks to higher oil and gas extraction, but British manufacturing stagnated for the second straight month.

The ECB is widely expected to leave its key interest rate at a record-low 1% on Thursday, in light of a fragile economic outlook and mounting concerns about high government debt in the euro zone. ECB President Jean-Claude Trichet is expected to stress that the worst of the economic crisis is behind the euro zone, but also to caution against excessive optimism.

A big challenge for Germany could be how to sustain recovery in late 2010, when fiscal- and monetary-stimulus measures around the world fade away. Germany’s export-dependence means its growth tends to correlate strongly with overall demand in the world economy. So far, Germany has done little to rebalance its economy toward stronger domestic demand, as many economists say it needs to.

The deep drop in German economic activity means its industries have ample spare capacity. Employment was surprisingly stable last year–40.2 million Germans had a job, down 0.1% from 2008.

But layoffs could spread this year as companies cut back production capacity, in the expectation that output levels from before the financial crisis won’t be reached for several years.

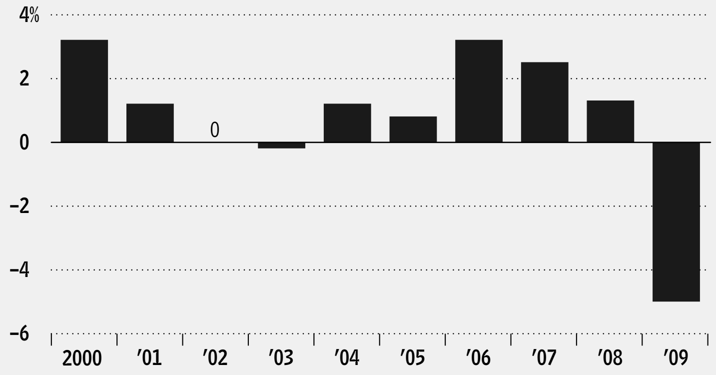
Meanwhile Germany’s government had a budget deficit of 3.2% last year, one of the smaller deficits in Europe despite spending more on fiscal stimulus than other European countries.

Economists expect Germany’s government to face a much bigger fiscal shortfall this year, however, which could limit its ability to cut income taxes as promised.

—Nina Koeppen contributed to this article.

Germany’s slump

Annual change in real gross domestic product



Source: German government

Manufacturing stalls in U.K.

By Nicholas Winning

LONDON—British manufacturing failed to grow for a second straight month in November, damping hopes that the economy staged a strong recovery from recession in the fourth quarter, data from the Office for National Statistics showed.

Industrial production as a whole, which also includes quarrying and mining and output of electricity, gas and water, did rise in the month, but that was because of a pickup in output of oil and gas as that sector ended a period of maintenance.

“Overall industrial production should register a small increase in Q4 overall. ... This should add about 0.2% to gross domestic product growth and hence help the economy to emerge from recession,” said Jonathan Loynes, chief European economist at Capital Economics. He added, though, that “there are few signs that the industrial sector is about to drive the overall economy back to strong and sustained rates of expansion.”

Also Wednesday, the National Institute of Economic and Social Research estimated that U.K. gross domestic product grew 0.3% in the fourth quarter following a record six consecutive quarters of contraction, but the economy still shrank 4.8% over 2009 as a whole.

“This is a bigger [annual] fall than in any year of the great depression and is Britain’s biggest contraction since 1921,” the research institute said in a statement. It estimated the economy grew 0.2% in the three months to the end of November.

The U.K. economy contracted for six straight quarters in the three months to the end of September, marking the longest recession since records began in the mid-1950s.

But many economists expect gross domestic product to have returned to growth in the fourth quarter of 2009.

The government of Prime Minister Gordon Brown, which is trailing in the polls and must call an election by early June, has said it expects the economy to return to growth by the start of this year.

The ONS said manufacturing output, which accounts for about 80% of industrial production, was unchanged from October and was 5.4% weaker than in November 2008—marking the 19th consecutive year-on-year decline.

Economists said they were disappointed to see the lack of manufacturing growth despite support of the weaker pound, the Bank of England’s ultraloose monetary policy, a lack of stock, and signs of stronger overseas demand.

“It is somewhat worrying how output will look six to 12 months down the road when the stimulus has faded and headwinds have started to build,” said Alan Clarke, an economist at BNP Paribas.

Industrial production as a whole rose 0.4% in November from October.

Increases in mining and quarrying output, particularly oil and gas, outweighed a drop in electricity, gas, and water.

Oil and natural-gas output jumped 7.2% in November, the strongest monthly increase since September 2008, as production picked up following a period of maintenance, the ONS said.

BOE’s Posen pushes bank loan competition

By Natasha Brereton

LONDON—The U.K. government must take action to increase competition among banks that lend to businesses, and ensure that small and medium-size companies in need of credit have an alternative to those banks, a Bank of England policy maker said.

Adam Posen, a member of the BOE’s Monetary Policy Committee, expressed support for steps by the U.K. Treasury to address the stranglehold that a small number of banks have over business lending, describing them as an “important recognition” of the need for greater choice in corporate finance.

Mr. Posen said in an interview that such measures, if implemented, wouldn’t solve the U.K.’s problems overnight, but they should stand the economy in good stead over the long term.

The Treasury published a draft consultation document Tuesday, following an initiative announced by chancellor of the Exchequer Alistair Darling in December’s prebudget report, in which the government will explore steps to encourage greater variety in the sources of business finance.

“I am supportive, viewing this both as an important recognition by the chancellor of the need to provide more robust and varied corporate-finance mechanisms here in the U.K. and a good first step in getting the discussion moving,” Mr. Posen said.

Tuesday’s Treasury paper questioned whether the packaging of various services by banks makes it hard for firms to compare the funding costs of banks and nonbank lenders.

It also said authorities should look at ways to reduce the disclosure burden on midsize firms seeking capital-market funding.

The U.K. banking system has become concentrated over the past decade, with a handful of dominant institutions tightening their grip on the consumer- and business-lending market.

EUROPE NEWS

A 'symbolic' slap rather than a serious beating

European Pressphoto Agency

Princess Caroline of Monaco, 52, told a court her husband slapped a hotel owner in Kenya but didn't beat him. Prince Ernst August of Hannover is trying to reduce his 2004 sentence for assault after a noisy disco annoyed him.

France pressures Renault

By David Pearson

PARIS—Alarmed by reports that **Renault** SA may make a new model of the subcompact Clio on a Turkish assembly line, the French government went on the offensive Wednesday, putting pressure on the company to assemble more cars in France and saying it wants a louder voice on Renault's board.

Renault Chief Operating Officer Patrick Pelata, who was summoned to a meeting with Industry Minister Christian Estrosi, told reporters after the meeting that the plan to make some of the next-generation Clio cars at a plant at Bursa, Turkey, starting in 2013 is just one of several options being considered. The present third generation of the hot-selling Clio is made at Renault's plant at Flins, west of Paris, as well as at Bursa and in Spain.

The government fears that Renault will transfer production of the Clio 4 to Turkey to benefit from lower manufacturing costs and improved margins.

Mr. Pelata said Renault may halt Clio 3 production in Spain as well as that of a previous-generation Clio at a plant in Slovenia.

A spokeswoman for Renault said that these are only possibilities. "A decision won't be made for several months," she said.

Mr. Pelata said the company has no plans to stop Clio production at the Flins facility. "Whatever happens, Clios will continue to be made at Flins," he said. Renault plans to make Flins the center for its €4 billion ($5.8 billion) investment in electric-powered vehicles, the first of which, called the Zoe, will start rolling off production lines at the end of 2011. The Flins facility built 140,000 Clios in 2009.

The Spanish facility at Valladolid makes about 25,000 Clio 3s, while the Slovenian plant at Novo Mesto makes 30,000 Clio 2s. Annual production at the Bursa plant is about 180,000 vehicles.

The news that Renault is considering shifting production of the new model outside France after receiving state aid in 2008 and 2009 has provoked protests by several government ministers and parliamentarians. However, some observers say

Reuters

Renault operating chief Patrick Pelata leaves a Paris meeting Wednesday.

the outcry may be electioneering ahead of regional polls in March.

Renault and local rival **PSA Peugeot-Citroën** each received a €3 billion loan a year ago to ease their financial pain amid a global slump in demand for automobiles. In return for the loans, Renault and Peugeot-Citroën agreed not to close any of their French plants and said they wouldn't impose layoffs. Other government measures designed to keep assembly lines moving included a car-scrappage initiative that has cost taxpayers nearly €600 million and has boosted sales of both manufacturers. Renault and Peugeot-Citroën also have benefited from indirect aid measures.

Renault Chief Operating Officer Patrick Pelata says the auto maker is considering a plan to make subcompact cars at a plant at Bursa, Turkey, starting in 2013.

Mr. Estrosi said Mr. Pelata had promised him that there would be no reduction in head count at Flins. President Nicolas Sarkozy has summoned Renault Chief Executive Carlos Ghosn to a meeting in coming days to discuss the company's industrial plans, and Mr. Estrosi said the topic of state representation on Renault's board of directors will be on the agenda.

The French state owns 15% of Renault and, under a decree dating to 1935 that sets out the terms of proportional representation on Renault's board, is allowed to appoint two board members out of a total of 17. Renault was privatized in 1996; the company had been nationalized after World War II.

"The question can be asked whether, with a 15% shareholding, the state shouldn't have more members on Renault's board," Mr. Estrosi said.

The meeting between Messrs. Ghosn and Sarkozy is likely to produce important decisions, Mr. Estrosi said. The government has been instrumental in getting the finance industry and some industrial sectors to reverse their courses of action in 2009, he said.

"We will get the Renault group to reverse a certain number of its courses of action, too," he said, adding: "I told Mr. Pelata courteously but firmly that we do not favor the future Clio 4 being produced abroad, at least as regards vehicles that will be sold in France."

As part of the plan to make electric vehicles at Flins, Renault intends to build a plant nearby to make batteries for the vehicles, as well as a battery-recycling facility. Both units will benefit from government funding.

Barnier pledges EU to toughen its rules

By Matthew Dalton

BRUSSELS—The European Commission will move quickly this year to tighten rules on bank capital, derivatives and possibly on short-selling and raw-materials speculation, as part of the European Union's response to the financial crisis, Michel Barnier, the French politician named as head of financial-services policy making, said Wednesday.

Mr. Barnier will have one of the most closely watched portfolios at the commission, with the responsibility for implementing a financial regime in Europe aimed at softening future financial crises.

His nomination to the post sparked concerns from some in the U.K., who feared that Mr. Barnier's previous positions in the French government, which has called for particularly tough financial reforms, might take actions to jeopardize London's status as the financial capital of Europe. The fears were heightened after French President Nicolas Sarkozy called Mr. Barnier's nomination a victory for France and a loss for Britain.

"I'm not going to be taking orders from Paris or London or anywhere else," Mr. Barnier said in testimony before lawmakers at the European Parliament. "I can give you a cast-iron guarantee."

But he promised to carry out the far-reaching financial reforms already begun, including requirements for banks to keep more capital on their books, rules to reduce risk in the derivatives markets and a new system of financial supervision throughout the EU.

He also condemned speculation in food commodities, calling it scandalous when derivatives trading leads to wild fluctuations in the price of food and hunger in poor countries.

"We have to do something about that," he said.

Mr. Barnier said he would press ahead with legislation that would require hedge funds and private-equity firms to register with the EU, disclose more information to regulators and possibly limit the amount of borrowed money they can use to boost returns. That proposal has drawn heated criticism from the U.K. and elsewhere in the EU, because it would make rules on these investment funds among the toughest in the world.

"Those who manage hedge funds shouldn't be afraid of this legislation," he said. "It's in their interests."

Mr. Barnier also said that "dark pools"—securities markets operated by financial firms without oversight—should face scrutiny.

"We've seen dark pools multiplying. We'll have to look into it."

The commission will largely follow the agreement among the Group of 20 leading economies on financial reforms, Mr. Barnier said, though many of the details are still being worked out.

Mr. Barnier also hinted he might support a new agency to protect consumers from unsound financial products

Greece commits to euro amid growing criticism

By Brian Blackstone

Greek Prime Minister George Papandreou said there was "no chance" Greece would exit the euro zone, as the country's reform plans came under renewed criticism from the European Central Bank.

The prospect that Greece's fiscal crisis could force it to default on its sovereign debt has prompted speculation that it may eventually be pressured to depart the 16-member euro zone. In an effort to end such talk, Mr. Papandreou said in a nationally televised appearance that the country was committed to the common currency.

His comments came as the ECB warned Greece that a proposed law to restructure private-sector debt could do more harm than good, saying key parts of the law were "not consistent with the principle of an open market economy" and might squeeze off the flow of credit.

The rebuke reflects the skeptical eye that European officials are casting on Greece as the troubled country tries to convince the European Union, credit-ratings firms and investors that it will take politically unpopular steps to rein in a deficit that accounts for nearly 13% of its gross domestic product.

The ECB opinion comes just a day after the European Commission castigated Greece for the "lack of quality" in its fiscal statistics and suggested Greece's deficits up to 2008 may need to be revised further. Moody's Investors Service, which last month joined the other two major agencies in cutting Greece's debt rating, warned Wednesday that Greece, along with high-debt Portugal, risk a "slow death" from low competitiveness as a rising share of their countries' wealth goes to debt repayment.

Investors Service, which last month joined the other two major agencies in cutting Greece's debt rating, warned that Greece, along with Portugal, risk a "slow death" from low competitiveness as a rising share of their nations' wealth goes to debt repayment.

The proposed law, which would ease debt repayments by households and small businesses affected by the financial crisis, was one of the key campaign promises of Greece's recently-elected Socialist government.

Greece's hope, the ECB said, is that the "one-off temporary measures" will improve the flow of credit. But warned of unintended consequences on credit availability, especially given Greece's dismal economic condition. The draft bill would allow for the restructuring of certain business and agricultural debts that became overdue starting the beginning of 2008 or, in some cases, 2005. It gives debtors the ability to revise repayment terms of loans that aren't overdue, and makes it easier for entrepreneurs to delete bad credit history data.

—Mark Brown and Alkman Granitsas contributed to this article.

EARTHQUAKE IN HAITI

Governments, relief groups set aid

A dozen EU countries send money and teams, while Commission prepares to do more after evaluating situation

By Cory Dade And Chris Herring

Associated press

USAID search-and-rescue officials and canine units from Fairfax, Va., prepare to board a plane to Haiti on Wednesday at Washington Dulles International Airport.

Governments, international relief organizations and other aid groups mobilized to deliver food, medicine, generators and other supplies to Haiti, amid massive destruction wrought by the powerful earthquake that slowed their efforts.

The U.S. government prepared to send ships and emergency assistance, while France, the U.K., Brazil and other countries also said they would send aid. As they scrambled to assess the scope of the devastation and figure out how to overcome logistics problems to deliver aid quickly, relief workers on the ground reported being overwhelmed. Thousands of people were believed dead, while workers raced to try to free an unknown number of people trapped under mounds of rubble.

A dozen individual European Union countries sent money and aid teams on Wednesday, while the European Commission, the EU's executive office based in Brussels, offered cash, and promised to do more after conducting an evaluation of the situation on the ground.

Spain, which holds the EU's rotating presidency until June 30, is coordinating the effort among individual members of the 27-nation bloc. It sent 15 rescue workers, including a quad of firefighting experts. The U.K. also said it was sending firefighters.

Belgium dispatched 58 aid workers, including nurses, doctors and handymen, as part of an urgent response team carrying medical and water-purification equipment. "They're ready to go anywhere in the world on six hours's notice," said Valentine Delwart, a spokeswoman for the Belgian government.

Sweden said it would send $1 million, as well as family tents, water purifiers and medical units. Iceland offered up a team that specializes in buildings that have collapsed.

Germany gave €1.5 million ($2.2 million). Luxembourg said it was sending a search-and-rescue squad.

The European Commission, the executive bloc for the 27-nation bloc, immediately sent €3 million and promised to speed up €28 million that has already been budgeted as aid for Haiti.

Aid experts from the European Commission flew into Port-au-Prince from the Dominican Republic. They will report back to Brussels immediately before the Commission decides what further steps to take, said Lutz Guellner, a spokesman for the European Commission. "We're also offering political, as well as logistical help, the whole package," he said.

But efforts to deliver aid quickly were hindered by partly downed communications networks that hampered operations Wednesday at the Toussaint Louverture International Airport in Port-au-Prince.

U.S. airlines suspended flights following the earthquake, and limited communications with the airport caused hesitation among some groups to resume flights. On the ground, blocked roads, a lack of supplies and equipment, erratic supplies of water and electricity, and other problems slowed efforts to rescue people who were trapped and treat the wounded.

All three health-care facilities run by the humanitarian group Doctors Without Borders were knocked out of commission by the earthquake.

The group was treating patients in temporary outdoor facilities, but "the best we can offer...is first-aid care and stabilization," said Paul McPhun, the humanitarian group's project manager for Haiti. Many patients had crushed limbs and other severe injuries that "cannot be dealt with" in the temporary facilities, he said.

"Everywhere we go, there is massive demand from people to help them with trapped family members, to help them with people who are suffering major injuries," Mr. McPhun said. "On the streets, you're getting mobbed."

The International Red Cross planned to deliver 40 tons of medical supplies and body bags to Port-au-Prince Thursday morning. Unicef had a supply-filled plane en route to Haiti on Wednesday with 4,600 water containers, more than five million water-purification tablets and 10,000-tent like structures, said spokesman Patrick McCormick. He said he was concerned about potential violence upon the supplies being delivered to the devastated areas.

"I just remember a couple years ago seeing the level of desperation they had in the wake of the storms," he said, referring to the 2008 hurricanes that killed more than 800. "Convoys with supplies had to be escorted by U.N. peacekeepers to ensure things would be distributed in an orderly fashion."

"We need to reach them as soon as possible, so the desperation level doesn't heighten even more. Haiti was desperate enough before this earthquake happened," he said.

The World Health Organization said some of its 90 staff on the ground were busy delivering medicines on foot from local repositories to health facilities that were operating, because roads were blocked. The United Nations agency also said it would deploy a 12-member team of disaster experts.

French Foreign Minister Bernard Kouchner said he hoped France would be in a position to open a makeshift hospital in the garden of the French Embassy in Haiti as early as Friday.

Humanitarian group Oxfam International accounted for all but one of its 100 staffers in Haiti Wednesday after its office in Port-au-Prince collapsed. The organization says the missing worker was in the building during the quake, along with others who escaped.

"They are searching the rubble right now," said Oxfam spokesman Louis Belanger, speaking on a cellphone from the Dominican Republic, where he was planning to drive to Port-au-Prince with Oxfam colleagues. "It's very difficult. We assume that several are injured. People were in the office working."

Oxfam, which focuses on improving Haiti's drinking water and sanitation, said it was awaiting approval from Haitian officials to ship supplies from Panama.

—Jacob Goldstein and Doug Belkin contributed to this article.

Reuters (after); Agence-France Presse/Getty Images (before)

Brazilian soldiers, above, in front of the now-devastated presidential palace, top.

EARTHQUAKE IN HAITI

Reuters (12)

Residents search for survivors and survey the destruction in Port-au-Prince, Haiti, on Wednesday after a devastating earthquake that left untold numbers dead and injured.

Haitians dig through the rubble

Death toll could top 100,000 after magnitude 7.0 earthquake; U.N., countries scramble to send aid

By Pooja Bhatia

PORT-AU-PRINCE, Haiti—Haitians tried digging through rubble with their bare hands on Wednesday to rescue countless people trapped under collapsed buildings in Haiti a day after the impoverished Caribbean nation was hit by its biggest earthquake in two centuries. Countries around the world, meanwhile, scrambled to send in help.

Cries from people trapped under concrete debris could be heard on virtually every street in the crowded capital, where shocked residents carried the injured and dead, tried to find missing loved ones and searched in vain for aid. Telephone service was knocked out, thousands of buildings from shanties to the presidential palace were destroyed, and streets were blocked by debris.

Florence Devereaux, a paraplegic often found sitting outside her house in the Bois Verna neighborhood of Port-au-Prince, pointed out that the house next to hers had collapsed, burying at least four children under the rubble. "We heard them asking for water, asking to get them out. But we can't. We have no tools. Where are the rescue teams?"

A rescue team from China arrived at midday on Wednesday, and two teams from the U.S. were expected in the afternoon, said John Holmes, the United Nations relief coordinator. France, Dominican Republic, Guadeloupe and other nations were also sending help to the Haitian capital, Mr. Holmes said. A U.N. disaster assessment team was to arrive later in the day, he said.

Haitian Prime Minister Jean-Max Bellerive told CNN and Reuters that the death toll could top 100,000.

"I don't think that's an exaggeration," said Alice Blanchet, a special adviser to the Haitian prime minister who lives in Brooklyn. She said Haiti's Justice Minister Paul Denis was unaccounted for. "To give you an idea of the damage, I don't know of a single friend or family member of mine in Haiti who hasn't lost their home. They are all sleeping on the street. I have two cousins who are unaccounted for," she said, pausing for a moment. "I don't think I can understand what a big tragedy this is."

Matthew Marek, country director for the American Red Cross, said he expected a very high death toll. "This will make the hurricanes looks like child's play," he said, referring to a series of storms that swept through Haiti in 2008.

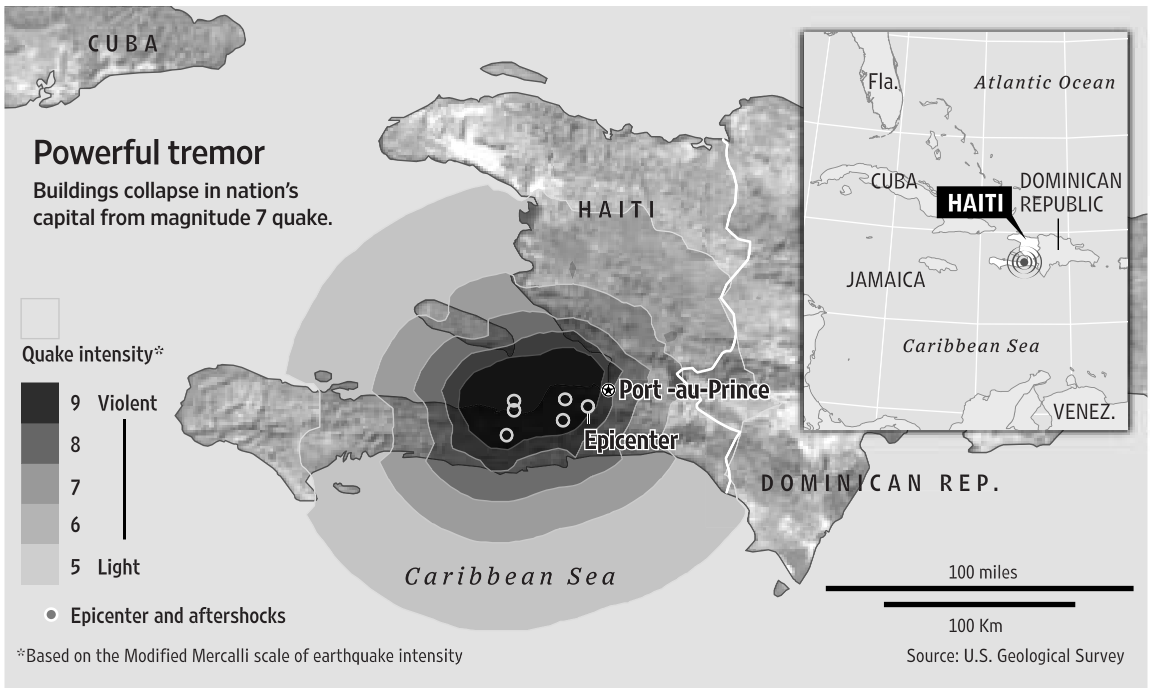
A large Haitian diaspora in the U.S. and elsewhere frantically tried to reach loved ones on Tuesday. Monique Cenecharles, a Haitian expatriate in Montreal, was trying to get in touch with her husband, Nikenson, an engineer in Port-au-Prince. The two last spoke Tuesday evening over an instant-messaging service, just minutes before the earthquake hit. "He said he had to go to his English class," she said. "I said goodbye and I love you."

Ms. Cenecharles hasn't been able to reach him since, either online, by phone or through relatives. She says she is also searching for three aunts and two uncles in the capital city. Early Wednesday, she received a photo of an injured nephew in Port-au-Prince. "I am looking at the picture of my nephew lying down," she said. "He's cut deadly. It looks like he's cut from his chest to his belly and it looks like a big 'V.' " Ms. Cenecharles said she didn't know whether the nephew would receive medical attention.

On a Facebook page, "Earthquake Haiti," hundreds of users searched for loved ones they couldn't reach in Port-au-Prince, posting photos and asking for information. "Looking for Al and Ev Hromek," wrote Julie Thiessen. "They were at 33 Delmas Port-au-Prince."

Photographs posted on the Internet showed jarring scenes, such as dust-covered men and women with horrific red gashes. In one, a woman buried to her chest in rubble pleads desperately; a blood-drenched man, also buried, is by her side.

Throughout the night following the quake and into the early hours of Wednesday, the rolling thunder of building collapses could be heard throughout the city. Aftershocks caused moments of renewed panic.



Even as the bodies of the dead were being piled up on city streets, residents began worrying about how to survive the coming days. Outside the collapsed Twins Market on Avenue Jean Paul II, people were carrying five-gallon water containers, boxes of Cornflakes, Coca-Cola, and other provisions. A minor skirmish ensued as people fought over supplies. A man on the street hollered to this reporter: "Hey, foreigner. We're dying."

From hills around the city, once the proud seat of the world's first black republic, one could see a changed cityscape. The white domes of the National Palace had collapsed on the walls below, the roof of the National Cathedral was gone, and, in the distance, the slum of Bel Air looked flattened.

Citigroup Inc.'s three-story office building in Port-au-Prince was destroyed, and the New York company was trying to account for all of its 40 employees. In a memo to employees, Chief Executive Vikram Pandit wrote "Our top priority is to ensure that our colleagues are safe and accounted for, and we are doing everything we can to do so as quickly as possible."

Six of the seven stories crumbled at the headquarters for the U.N. peacekeeping operation in the country collapsed. Officials at the U.N., which had thousands of peacekeepers and other relief workers stationed in Haiti, reported that more than 150 workers remained missing in Port-au-Prince, including as many as 100 trapped in the rubble of its headquarters at the Christopher Hotel. The mission's head, Hedi Annabi, was feared dead. Brazil's army said at least 11 Brazilian members of the 9,000-strong U.N. peacekeeping mission in Haiti were killed.

In a country deeply divided between rich and poor, people at all socioeconomic levels suffered. Grand houses in bourgeois neighborhoods such as Pacot and Petionville were leveled. The capital's most prominent hotel, the Hotel Montana, was damaged, trapping scores of guests, according to eyewitnesses.

Crucially for the wounded, several hospitals around the capital were badly damaged, limiting options for treatment. Medical aid group Doctors Without Borders said its three hospitals in Haiti were unusable. Mr. Marek and other Red Cross members provided first aid to hundreds of injured residents of the shantytowns built into the hillside behind the Red Cross office, in the Croix de Prez neighborhood.

With only a few bottles of antiseptic, gauze and tape, Mr. Marek and several staff members attempted to treat deep wounds, including people who were missing parts of their heads or limbs.

"People were beginning to feel that if Haiti was going to have a chance, this was it," said Johanna Mendelson Forman, who follows Haiti at the Center for Strategic and International Studies in Washington. "I hope now people will be more determined to do something."

—Nicholas Casey in Mexico City and John Lyons in São Paulo contributed to this article.

Agence France-Presse/Getty Images

Alan Greenspan, right, talks with Ben Bernanke after Mr. Bernanke was sworn in as Federal Reserve chairman in 2006.

Bernanke's view doubted

Many economists disagree with Fed chief on rate's role in bust

By Jon Hilsenrath

U.S. Federal Reserve Chairman Ben Bernanke says low interest rates engineered by the Fed in the early 2000s aren't to blame for the housing boom and bust. But he hasn't convinced fellow economists.

Two surveys conducted by The Wall Street Journal this week found many economists believe low rates did contribute to the bubble.

In a monthly survey of mainly Wall Street and other business economists, 42 said low interest rates were partly to blame for the housing boom while 12 sided with Mr. Bernanke and said they weren't. Academic economists who specialize in monetary policy were split in a separate survey: 13 said low interest rates helped cause the housing bubble; 14 said they didn't.

It is more than an academic argument. Fed officials have been trying to understand what went wrong last decade to avoid repeating it. In addition, lawmakers are weighing whether to give Mr. Bernanke a second term and whether to bolster or restrain the Fed's power as a financial regulator.

The Fed pushed its benchmark federal funds interest rate—at which banks lend to each other overnight—to 1% in 2003 when Alan Greenspan was Fed chairman and Mr. Bernanke was a member of the Fed board. With the economy weak and deflation a concern, the Fed pushed rates up gradually beginning in 2004. Mr. Bernanke became chairman in 2006.

Mr. Bernanke laid out his defense of Fed policy in a speech to the American Economic Association last week, acknowledging that interest rates were very low but adding that policy "does not appear to have been inappropriate."

Other factors—notably an explosion of exotic mortgages and a flood of cash coming into the U.S. from abroad—were the crucial drivers of the housing bubble, he said. "Regulatory and supervisory policies, rather than monetary policies, would have been more effective means of addressing the run-up in house prices," he said.

The "basic problem" was "the mistake" of raising short-term interest rates too slowly from 2004 through 2006, said Miles Kimball of the University of Michigan. "Going up quicker would have been better."

"The appreciation of house prices was but one of many indicators which called for a somewhat more restrictive interest-rate policy" in 2004 and 2005, said Marvin Goodfriend of Carnegie Mellon's Tepper School of Business. He was an economist at the Federal Reserve Bank of Richmond, Va., during much of that time.

Many economists met Mr. Bernanke halfway—arguing that low rates played a role in fueling the housing boom, though they may not have been the key force. Some noted that low rates encouraged banks to write the riskier loans that Mr. Bernanke puts at the center of the crisis.

"There is plenty of blame to go all around," said Martin Eichenbaum of Northwestern University, expressing a commonly expressed view. "Loose monetary policy certainly contributed to easy financing, which was one element of the bubble."

In both surveys, The Wall Street Journal asked economists whether they agreed or disagreed with the following statement used by Mr. Bernanke in his speech to describe the position of Fed critics: "Excessively easy monetary policy by the Federal Reserve in the first part of the decade helped cause a bubble in house prices in the United States, a bubble whose inevitable collapse proved a major source of the financial and economic stresses of the past two years."

Most of the economists in the Wall Street forecasters' survey, which polls Wall Street, corporate and a few academic economists each month, agreed with the statement.

Allen Sinai, chief economist at Decision Economics Inc., included it on a long list of culprits: "Low interest rates, financial innovations in mortgages, lax regulation, and speculative euphoria."

The Wall Street Journal separately sent emails to 68 members of the National Bureau of Economic Research's monetary economics program, a group Mr. Bernanke led from 2000 through 2002. Twenty-seven of them responded. (Seven members of the group are in public office and weren't included in the survey.)

Many academics who responded to the survey were sympathetic to Mr. Bernanke.

"The 'bubble' didn't really get going until 2005-2006, by which time the Fed had raised rates to more or less normal levels," said Kenneth Kuttner of Williams College. "Second, there are lots of instances in which bubbles occurred in the absence of loose monetary policy, and instances in which policy was loose and there was no bubble."

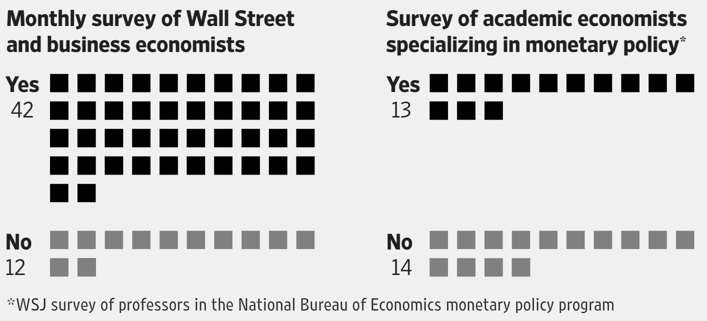
As Mr. Bernanke noted in his speech, monetary policy was tighter than the U.S. in places like Australia and the U.K. last decade, but they still experienced bigger housing booms.

In a separate question, economists in the two surveys agreed—58 to 22—with Mr. Bernanke that stronger regulation—as opposed to higher interest rates—would have been the most effective way to stop the bubble.

"If we could go back in history and make one policy change, I'd go after sub-prime lending," said Mark Gertler of New York University, a former co-author of Mr. Bernanke's.

Doubting Ben

Number of economists who agreed with the following statement in surveys conducted by The Wall Street Journal this week. 'Excessively easy Fed policy in the first half of the decade helped cause a bubble in house prices'



*WSJ survey of professors in the National Bureau of Economics monetary policy program

Bernanke persists in denying interest rates' role in bubble

[Capital]

By David Wessel

Ben Bernanke sounds like a fellow who hasn't learned anything.

In a speech to the American Economic Association, the U.S. Federal Reserve chairman argued that the ultra-low interest rates that he and Alan Greenspan pursued in the 2000s didn't cause the housing bubble that produced what Mr. Bernanke calls "the worst financial crisis in modern history."

Mr. Bernanke isn't arguing the Fed is blameless. He said "regulators" and "supervisors"—that would include the Fed—and "the private sector" screwed up by permitting so many mortgages to be made to people who couldn't afford them and then allowing the banks to build a financial house of cards on the assumption that house prices in the U.S. would never fall.

But even with the luxury of hindsight, Mr. Bernanke insisted that cutting key interest rates from 6% in late 2000 to 1% in 2003, and then lifting them very gradually from 2004 to 2006, was the right prescription amid a jobless recovery and a deflation scare—despite the housing bubble that ensued. "Only a small portion of the increase in house prices earlier this decade can be attributed to stance of U.S. monetary policy," he said.

Mr. Bernanke is politically vulnerable. The U.S. Congress is weighing his future and the Fed's.

This defies common sense. When interest rates are really low, people tend to borrow a lot. When people borrow a lot, they tend to bid up the price of assets such as houses and stocks. If the Fed decides the prices are going up too fast and too far, it could surely restrain that rise by raising interest rates to make borrowing more expensive.

But Mr. Bernanke is a smart guy. He has been thinking about this speech for months, and had a seven-member team of Fed economists laboring on a background paper with 100 references. So what the heck was he thinking?

Mr. Bernanke remains an academic at heart. He studied the Great Depression, concluded that letting the banks collapse made a bad situation worse and vowed the Fed wouldn't make *that* mistake again. That scholarship served the world well. In subsequent work, distilled in a 2002 speech, Mr. Bernanke said: "The Fed should use monetary policy to target the economy, not the asset market," and should "use its regulatory, supervisory, and lender-of-last-resort powers to protect and defend the financial system."

Only data will change his mind, and he doesn't see any convincing data that higher interest rates would have made a huge difference in housing prices. If rates were too low, they weren't off by much, he argued. Had the Fed followed a 1993 rule for setting interest rates devised by Stanford University's John Taylor, monthly payments on an adjustable-rate mortgage would have been only $75 higher. Higher rates wouldn't have prevented the housing bubble, he insisted, and he has the equations to prove it.

But such equations failed to predict what just happened. Mr. Bernanke's most cogent critics argue that by keeping rates low and, importantly, loudly promising to keep them low, the Greenspan-Bernanke strategy triggered a global search for higher yielding investments. Geniuses on Wall Street met that demand by turning subprime mortgages into ersatz safe short-term securities. The global demand was almost insatiable, and the fees irresistible to Wall Street and mortgage originators. When they ran out of worthy borrowers, these outfits made mortgages to anyone who could sign his or her name because Wall Street was eager for product to sell to hungry investors.

"Clearly, no one is saying that monetary policy was the only culprit," said economist Raghuram Rajan of the University of Chicago. "But in an environment where there was a 'savings glut' elsewhere, low returns on safe assets pushed foreign investors into riskier assets. Was this search for yield not part of the problem?"

"Monetary economists will applaud [the speech] because it says everything they have been doing for years is fine," he said. "The rest of us should worry."

Mr. Bernanke is politically vulnerable. The U.S. Congress is weighing his future and the Fed's. So at a time when the public wants contrition, why give a speech so easily caricatured as "It wasn't my fault"? It's not that he is unwilling to be contrite: "We were slow on some aspects of consumer protection...We should have required more capital, more liquidity...tougher risk-management controls," he told a Senate committee last month.

Indeed, Mr. Bernanke's speech was motivated by fears that Congress may dilute the Fed's ability to regulate. He was trying to lay an intellectual foundation for a plea to Congress: We didn't do enough last time, but we've learned the lesson. Don't weaken our authority over big banks. If you do, the *only* weapon the Fed will have to respond to a bubble will be sharply higher interest rates, and that would force us to punish consumers, workers and businesses, not just the bubble. It would be like telling the president his only choices are nuclear weapons or nothing.

But Mr. Bernanke didn't put it that way. As he has occasionally in the past, he spoke as if he were in a Princeton University seminar room instead of in the public arena. He wasn't.

U.S. NEWS

Reuters

From left to right, Goldman Sachs CEO Lloyd Blankfein, J.P. Morgan Chase CEO Jamie Dimon, Morgan Stanley Chairman John Mack, and Bank of America Chief Brian Moynihan are sworn in.

U.S. bank chiefs admit missteps

Goldman's Blankfein spars with Angelides amid tough grilling; 'selling a used car with faulty brakes'

By John D. McKinnon
And Michael R. Crittenden

WASHINGTON—A congressional committee set up to investigate the causes of the financial crisis excoriated a panel of Wall Street bankers Wednesday, a grilling emblematic of how Washington is increasingly targeting the finance industry as the U.S. slogs through a deep recession.

During one contentious exchange, former California state treasurer Phil Angelides, who is chairman of the Financial Crisis Inquiry Commission, compared **Goldman Sachs Group** Inc.'s chief to a used-car salesman. Bank CEOs did their best to acknowledge some culpability for their role in the crisis.

Beyond the theatrics, the hearings could bolster legislation being considered by Congress to rewrite financial regulations. Already, the rules were targeting big banks. Efforts to put new taxes on financial institutions and curb compensation also could get a boost.

President Barack Obama is expected Thursday to propose a new Wall Street tax to compensate the U.S. for its bailout-related losses.

Banks and their allies in Washington worry the hearings could produce evidence that will help plaintiffs in securities litigation. On Wednesday, commissioners asked probing questions about the banks' acts of negligence, their duties to securities buyers and other issues that could be important in such cases.

At Wednesday's dramatic first hearing of the commission, which was created last year with little fanfare, the confrontation between Wall Street and Washington quickly turned personal.

Mr. Angelides noted Goldman's practice of betting that the mortgage securities it sold to investors would drop in value. He accused the firm of "selling a used car with faulty brakes, and then buying an insurance policy" on the driver. Goldman CEO Lloyd Blankfein appeared caught off guard, interrupting Mr. Angelides to clarify Goldman's duties and responsibilities.

Noting that "people are angry" over Wall Street's bailout-boosted profits, Mr. Angelides vowed that the commission would become "a proxy for the American people—their eyes, their ears, and possibly also their voice....If we ignore history, we're doomed to bail it out again."

He also warned CEOs the commission could refer evidence of criminal wrongdoing to law enforcement.

The hearings, which are expected to last the remainder of the year, could raise the profile of its members, in particular Mr. Angelides, a veteran of California's rough-and-tumble politics.

Republicans on the bipartisan panel expressed sympathy for banking-industry leaders. Panel member Keith Hennessey, a former economic adviser to President George W. Bush, said it might be "more interesting" to talk to executives of the firms that didn't survive. He also suggested the government played a role by allowing the largest banks to take on too much risk.

Among banks, the stakes could be highest for Goldman and Mr. Blankfein. Mr. Blankfein has had a rough go of it in recent months acting as the pitchman for Goldman. His bank has been under intense public fire for its decision to pay out billions in bonuses just a year after it and other firms accepted government money.

Top Wall Street executives started Wednesday's testimony on a conciliatory note. But they warned in testimony that policy makers shouldn't limit the size of financial entities.

J.P. Morgan Chase & Co. Chairman and CEO James Dimon said Wall Street and policy makers need to be "brutally honest" about the causes of the financial crisis.

White House to propose tax on bank liabilities

By Damian Paletta
And Deborah Solomon

WASHINGTON—The White House intends to propose taxing a portion of banks' liabilities as a way to recover losses from the taxpayer bailout in 2008, people familiar with the matter said.

The government would likely calculate liabilities by subtracting the total of a bank's equity and insured deposits from its assets, these people said. A more precise calculation couldn't be learned, and some details of the proposal are in flux. President Barack Obama is scheduled to provide more information Thursday.

It was previously known the administration has been considering how to tax financial firms. It wasn't previously clear which route it would pick. The administration considered other avenues, including an additional tax on profits.

A tax on liabilities could also have the effect of making financial institutions more cautious, which is another administration goal.

U.S. NEWS

Quirky judge in gay-marriage case

Walker, known for novel sentences and unpredictable decisions, riles some by allowing wide range of evidence

By Justin Scheck
And Geoffrey A. Fowler

Associated Press

Judge Vaughn Walker, in a 2006 file photo.

Associated Press

Same-sex couple Kris Perry, left, and Sandy Stier in San Francisco Monday.

SAN FRANCISCO—The judge presiding over the first serious challenge in U.S. federal court of a state gay-marriage ban has defined his career with an unconventional approach.

Two days into the trial over the constitutionality of California's Proposition 8 gay-marriage ban, Judge Vaughn Walker had upset some opponents of gay marriage by allowing gay couples to testify on the meaning of marriage.

The 65-year-old judge has tried to breach the longtime ban on TV cameras in federal court by ordering the trial to be posted on YouTube—though the U.S. Supreme Court temporarily stayed that decision.

On Monday, the first day of the trial, he repeatedly asked the lawyers: Why don't states "get out of the marriage business? It would solve the problem."

Judge Walker has been open to testimony that was "totally irrelevant to the issues of the case," said former U.S. Attorney General Edwin Meese III. He wrote in Sunday's New York Times that Judge Walker has tilted the case in favor of gay-marriage proponents.

Judge Walker, through a clerk, declined to comment. He has a mainstream Republic pedigree. He was nominated for a judgeship by President Ronald Reagan in 1987, when Mr. Meese was attorney general.

Democrats assailed the nomination because Judge Walker was member of an all-male private club. (He resigned his membership during the nomination process.) Gay-rights activists protested his appointment because, as a private lawyer, he had represented the U.S. Olympic Committee in a copyright suit against an organization called the Gay Olympics.

But since Judge Walker was appointed to the bench in 1989, he has proved to be "unpredictable, both politically and judicially," said Rory Little, a professor at Hastings College of the Law who has handled cases in front of Judge Walker.

In 1994, for example, the libertarian-leaning judge surprised many conservatives by saying he favored decriminalizing drugs.

Inside the San Francisco federal court, Judge Walker has tried to build camaraderie among jurists and attorneys. At the court's annual conference, he hosts a dinner where he makes a speech in his deep baritone and often invites a magician to perform.

He has shown a quirky side on the bench, too, coming up with novel solutions to legal problems.

The judge tried to auction off lead-counsel status in securities class actions to the plaintiff lawyer demanding the lowest fees (a decision overturned on appeal). In 2003 he ordered a mail thief to wear a sign reading "I have stolen mail. This is my punishment."

He frustrated Republicans in the years after Sept. 11, 2001, by not immediately dismissing lawsuits relating to government wiretaps.

"He's not concerned with political correctness," said Arthur Wachtel, who represented the mail thief, Shawn Gementera. At the time of the case, Mr. Wachtel criticized the judge and unsuccessfully tried to get an appeals court and the U.S. Supreme Court to overturn the sentence, which he compared to Nathaniel Hawthorne's "The Scarlet Letter." But now, he said, he has come to respect Judge Walker's willingness to come up with "innovative" rulings.

In the Proposition 8 case, Judge Walker has ordered the disclosure of private records from the campaigns for and against the gay-marriage ban in an effort to determine the intent of supporters. The order was overturned on appeal. Mr. Meese called the order an "invasion of privacy."

The judge has also allowed gay and nongay experts to discuss the meaning of marriage, and he permitted testimony about how Proposition 8 supporters feel about gay people.

Last year, Judge Walker was skeptical of the argument by supporters of a gay-marriage ban that marriage was for procreation, saying in a pretrial hearing that he had officiated over the recent wedding of a 95-year-old to an 83-year-old. "I did not demand that they prove they intended to engage in procreation," he said.

While many of the judge's decisions to include far-reaching evidence in the case may seem odd, Mr. Little said, they could increase the likelihood that the court's decision stands the long run. By allowing so much testimony, the judge is creating "as big a factual record as possible," therefore minimizing the chances that, once the trial is over, an appeals court will overturn the verdict for a lack of evidence, he said.

Poachers arrive at egg farms

By Lauren Etter

Zuma Press

Chicken farmer David Demler tours Demler Enterprise's ranch in Wasco, Calif.

A year after Californians approved stricter rules on the treatment of farm animals, Idaho and other states are trying to lure away the Golden State's poultry and egg farmers with promises of friendlier regulations and lower costs.

In Idaho, as lawmakers convened Monday, Republican state Sen. Tim Corder said he would introduce legislation designed to attract California chicken farmers who might consider relocating. In Nevada, Pershing County is aggressively recruiting poultry farmers in California, the U.S.'s fifth-largest producer of eggs. Georgia's poultry industry also has reached out to some California farmers in a bid to woo them eastward, California egg-industry officials say.

The movement comes after California voters in November 2008 passed a ballot initiative called Proposition 2 designed to prevent "cruel confinement" of farm animals in cramped conditions, like small "battery cages" for egg-laying chickens, or "gestation crates" for pregnant pigs.

Such measures have grown more popular nationwide as the Humane Society of the United States and other groups have pushed to raise awareness of how animals are treated in the food-production system. Since 2002, similar provisions have passed in Florida, Arizona, Oregon and Colorado.

On Sunday, Bob Stallman, president of the American Farm Bureau Federation, one of the nation's largest farm groups, implored farmers at an annual convention in Seattle to "aggressively respond to extremists who want to drag agriculture back to the day of 40 acres and a mule."

The California initiative prohibits confinement of hogs, veal calves and poultry "in a manner that does not allow them to turn around freely, lie down, stand up, and fully extend their limbs." The law doesn't take effect until Jan. 1, 2015, but farmers already are worried it will drive up costs, because many cages commonly used now probably will have to be scrapped for bigger cages or no cages at all.

"I've got guys saying they're unwilling to make an investment or try to raise capital, because they don't know how to comply" with the measure, said Fiona Hutton, a spokeswoman for the Association of California Egg Farmers.

Of course, moving to another state could be costly, too. Moreover, Wayne Pacelle, president and chief executive of the Humane Society, said farmers who flee California may wind up facing tougher rules anyway, because more retailers are seeking food raised under strict animal-welfare standards.