Wired up: Wall Street trader was mole for insider-dealing probe

THE BIG READ 16-17

French outmaneuvered Fed in deal to bail out AIG

BUSINESS & FINANCE 19

THE WALL STREET JOURNAL.

VOL. XXVII NO. 245 | EUROPE | Tuesday, January 19, 2010

DOW JONES A NEWS CORPORATION COMPANY | europe.WSJ.com

£1.50 Bahrain BD 1.50 - Egypt $1.75 (C/V) Jordan JD 2 - Kuwait KD 1 - Oman OR 2 Qatar QR14 - Saudi Arabia SR 14

Taliban hits central Kabul

KABUL—The Taliban launched a coordinated attack on the Afghan capital Monday, paralyzing the city for most of the day as militants set off explosions, took over buildings and attempted to disrupt the swearing-in of new cabinet ministers.

By Yaroslav Trofimov, Alan Cullison and Habib Zahori

At least 12 people were killed, including seven militants, said Afghan Defense Minister Abdul Rahim Wardak.

Gun battles, punctuated by bomb and rocket blasts, raged in the usually heavily protected center of the city for more than four hours. Smoke billowed from a shopping center overrun by the insurgents just a few yards from the presidential palace.

The assault, claimed by the Taliban and believed to be carried out by members of an allied militant network led by Sirajuddin Haqqani, was among the most spectacular in Kabul in recent years. The Taliban—though relatively unpopular in Kabul and vastly outnumbered in the city by security forces—have increasingly focused on high-profile attacks on the Afghan capital, aiming to embarrass President Hamid Karzai's administration and to showcase the insurgency's reach.

Reuters

A policeman stands outside Kabul's Ferushgah shopping mall, where Taliban battled Afghan security forces for hours Monday.

Two civilians and three security personnel were killed on Monday, and 71 people injured, many by hand-grenade fragments, Mr. Wardak said. Seven insurgents were shot dead in the fighting, he added, and an unknown number of other militants died in the suicide blasts.

"To be able to infiltrate at such depth, into the inner periphery of power here, is a mind-blowing achievement" for the Taliban, said Afghan parliament member Daud Sultanzoi. "If you look at the pattern, they are steadily escalating in their coordination and their capability."

Afghan and Western officials, however, termed Monday's assault a failure for the insurgents because, unlike in a similar raid on the Ministry of Justice in the same area a year a+go, the militants couldn't seize any government buildings and didn't inflict large casualties.

Also, in contrast to the response to an October assault on a United Nations guest house, Afghan troops Monday were prompt to arrive on the scene, engaging the insurgents and preventing wider bloodshed.

"We did not allow them to spread the catastrophe," said Amrullah Saleh, the head of Afghanistan's intelligence agency, the National Directorate for Security. "The attack was in no way a success for them."

Commanders in the U.S.-led international military coalition, which is aiming to train and develop Afghan se-

Please turn to page 11

U.N. aims to bolster presence in Haiti

By Joe Lauria

UNITED NATIONS—As violence and looting flared across the stricken Haitian capital, United Nations Secretary-General Ban Ki-moon asked the U.N. Security Council Monday to authorize 2,000 more peacekeepers and an additional 1,500 U.N. police for Haiti.

Haiti's struggle

But even as Mr. Ban called for these new blue helmets, tensions heightened over who is coordinating the relief effort, and over how the U.S. is managing Port-au-Prince's small, overwhelmed airport.

"The heartbreaking scenes I saw yesterday [in Haiti] compel us to act quickly," said Mr. Ban, who visited Port-au-Prince on Sunday.

The secretary-general briefed the Security Council in a closed-door session Monday morning, less than 12 hours

Please turn to page 4

The Quirk

Live action in televised NFL matches amounts to only 11 minutes of play. Page 29

World Watch

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

Editorial & Opinion

"HOPE—Das Obama Musical." Page 15

Greece unlikely to get EU help

By Adam Cohen

BRUSSELS—Finance ministers from two euro-zone countries suggested Greece won't receive outside financial help to comply with the European Union's budget rules.

Greece's budget deficit, estimated at close to 13% of gross domestic product last year, has sparked fears that the country could default on its debt. Ratings agencies have downgraded its sovereign bonds and the cost of insuring government debt against a default has hit records.

But two euro-zone finance ministers said the country must solve its debt problems without outside help. Under EU rules, governments must keep their budget deficits below 3% of GDP.

"I think the Greeks are very much aware of how serious the situation is and I think they are aware that they need to solve their problems themselves," Dutch Finance Minister Wouter Bos told journalists as he walked into the regular monthly meeting of euro-zone finance ministers.

Money matters

German Finance Minister Wolfgang Schäuble told journalists that Greece has to take the "necessary measures" to trim its deficit. "A new Greek government has taken office and it must fulfill a difficult task," Mr. Schäuble said.

The ministers from the 16-state currency area are expected to discuss Greece's budget problems and flaws in its statistics. They will also discuss candidates to succeed European Central Bank Vice President Lucas Papademos, whose term expires at the end of May. Luxembourg's Prime Minister Jean-Claude Juncker, who chairs the ministers' meetings, is expected to win unanimous support for another 2½-year term.

Mr. Juncker is among the EU officials who have dismissed talk that Greece could default or be forced to leave the euro zone.

ECB President Jean-Claude Trichet on Thursday said the country quitting the euro was "an absurd hypothesis." Greek Prime Minister George Papandreou says there is "no chance" Greece will exit the euro.

—Andrea Thomas and Gabriele Parussini contributed to this article.

PAGE TWO

Italy is vital to European recovery

[Agenda]

By Corrado Passera

A worker presses a shirt in the factory of Italian designer Brunello Cucinelli.

As we start a new year, the priority for Europe must be to foster a new phase of strong economic growth. As Europe's third-largest economy, Italy could play a central role in promoting that growth—especially if it can resolve the structural challenges that hold it back.

A diversified economy (with low levels of private indebtedness, the absence of a housing bubble and the soundness of its banking system) contributed to Italy's ability to absorb the worst of the financial crisis relatively better than many other countries.

Despite these strengths, there are no simple recipes for a return to sustainable growth. If we look at the current situation in Europe and at specific issues besetting a country such as Italy, it is clear there are neither shortcuts nor panaceas. What is required is a medium-term plan implemented in a consistent and determined way to get the four key engines of growth running efficiently.

The first is business competitiveness: the capacity to innovate and to internationalize. The ability to develop and invest in these two capabilities depends on the strength of a firm and its ability to achieve critical mass, on its capitalization, its financial governance, and on the quality of its management.

The second engine relates to the effectiveness and efficiency of the national system. In this category, I include structural components that affect the functioning of a country and that impact corporates but can't be determined by them. The most important is the infrastructure endowment. By this, I mean physical infrastructure such as transport and logistics, telecoms and energy networks as well as intangible infrastructure such as R&D networks, education and training (key factors to make the most out of a knowledge society), security and justice, the tax system, central and local government services, and the financial and credit industry with its regulatory and supervisory frameworks and institutions.

Third is social cohesion, upon which the competitiveness of firms and of the overall system, the propensity for growth and for investment in the future is heavily dependent. This way of seeing things is very different from social Darwinism and the "*homo homini lupus*" idea underpinning the most extreme liberalist ideologies that have enjoyed much success in recent years. Social cohesion is in turn the end product of multiple mechanisms that mitigate social hardship, provide mutuality insurance against risks and ease fears of the present and future.

The fourth and final engine is dynamism, which is the energy a society expresses and the pace at which it advances. There is a vast array of important "soft" elements that determine overall dynamism: in particular social mobility, both vertical and horizontal, meritocracy, competition and labor-market rules, as well as the effectiveness and efficiency of the decision-making process.

Italy has two of these engines pulling in the right direction, though they could do with revving up: business competitiveness (borne out by resilient Italian exports) and social cohesion (borne out by the achievements of its welfare state). But our two other engines are idling, and perhaps even pulling in the wrong direction: the quality of the national-system (where delays and inefficiencies are mounting in all fields) and in overall dynamism, where Italy can be regarded as one of the worst performers, notably due to the fragmentation and sluggishness of the decision-making process and not withstanding enormous energies that today are wasted but could come from more inclusion of young people and women.

In Italy, the resources needed to guarantee social cohesion, at least in the short term through the mechanisms of social protection, were wisely set aside as soon as the virulence of the financial crisis became apparent.

The key question now is where to concentrate efforts to accelerate the other three drivers and obtain positive effects both in the short and longer term?

Our corporate competitiveness (we have over four million SMEs) could be encouraged by strong fiscal incentives for innovation and internationalization as well as for consolidation.

Meanwhile, the effectiveness and efficiency of the overall national system would benefit from a strong acceleration of the infrastructure-investment program. If we want to fill the gap we have accumulated and to give our economy a positive shock, we have to invest between €200 billion and €250 billion in five to seven years—it is big money but this 2% to 3% of our GDP would be a formidable trigger and would pay for itself. We have to fund this investment without increasing public debt, which remains a top priority across Europe. It wouldn't be easy to fund such investments, and we will have to tap all possible sources: public funds already allocated but not yet spent, EU funding, private finance and capital as well as from efficiencies in public spending, addressing tax evasion, and sales of public assets.

However, there would remain the biggest problem of all, one that certainly isn't unique to Italy but that by itself could make any financial resources useless: the slowness and the inefficiency of the decision-making process, be it political, administrative, institutional or legal.

Italian decision mechanisms need profound reform. It is a reform that costs nothing and could save billions of euros, but would face thousands of obstacles, because it would entail a reshaping of empowerment and accountability at all levels. However, democracies that don't work and that accumulate delays in the economic and social field are those that are more fragile and, in the long run, more at risk.

Without growth, or with inadequate growth, none of the major problems we remain confronted with can be solved. In particular, unemployment, public debt, the stresses on the welfare state, and the productivity gap will continue to trouble Italy. Europe needs more growth and better quality growth and it needs Italy to make its contribution.

The construction, integrated functioning and maintenance of the four engines is an important measure of any nation's leadership and the responsibility of every decision-making member of that society. When the four engines are pulling in the same direction and at the same speed, this creates confidence, an inexhaustible renewable resource that paves the way to sustainable growth.

—Corrado Passera is chief executive of Intesa Sanpaolo

What's News

■ **Berkshire Hathaway** is widely expected to approve a 50-to-1 share split of its Class B shares, which likely will mean higher trading volume. That could attract a new group of bigger and faster-trading investors. 19

■ **France will provide** $2.88 billion to improve its high-speed Internet network, part of a loan program to boost the economy through investment in infrastructure. 7

■ **The LSE tapped** a former Euroclear director to head its post-trade business. The exchange also is close to buying a stake in the European Multilateral Clearing Facility. 22

■ **Ukraine's Yanukovych** and Tymoshenko began a scramble for new support after first-round voting in the presidential election thrust them into a runoff. 8, 32

■ **German and French** officials warned against using Microsoft's Internet Explorer because of a security hole. 20

Inside

The 10 mistakes made by men trying to sell to women. **27**

Media companies go cool on sports-TV spending. **28**

ONLINE TODAY

Most read in Europe

1. Opinion: Backlash Is Coming!
2. Push for Looser Pot Laws Gains Momentum
3. Venezuela Nationalizes Chain
4. Why Investors Fool Themselves
5. Opinion Europe: Christopher Granville: Ukraine Is Headed for National Bankruptcy

Most emailed in Europe

1. Why Investors Fool Themselves
2. Opinion: Is the Euro Headed for a Breakup?
3. The Case of Nordic Detectives
4. Opinion: Backlash Is Coming!
5. Alwaleed, Murdoch Discuss Alliances

The Source

blogs.wsj.com/source

"Who is supposed to tell the Greek parliament that it needs to carry out pension reform?"

German Chancellor **Angela Merkel** on the fiscal problems plaguing Greece

Continuing coverage

See recent developments from Haiti, and follow one man on a search for his family at **wsj.com/haiti**

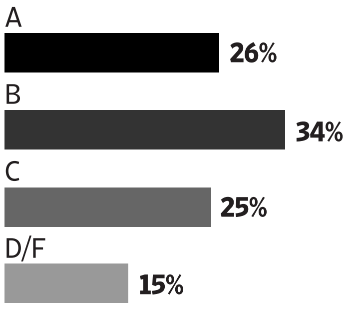
Question of the day

Vote and discuss: Will Greece's woes become a big problem for the euro?

Vote online at **wsj.com/dailyquestion**

Previous results

Q: How would you grade the international response to the quake in Haiti?



THE WALL STREET JOURNAL EUROPE
(ISSN 0921-99)
Stapleton House, 29 - 33 Scrutton Street, London, EC2A 4HU
SUBSCRIPTIONS, inquiries and address changes to: Telephone: +44 (0) 207 309 7799. Calling time from 8 a.m. to 5 p.m. GMT. E-mail: subs.wsje@dowjones.com. Website: www.services.wsje.com
ADVERTISING SALES worldwide through Dow Jones International. Frankfurt: 49 69 9714280; London: 44 207 842 9600; Paris: 331 40 17 17 01.
Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürriyet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Telestampa Centro Italia s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Basînevi.
Registered as a newspaper at the Post Office.

Editeur responsable: Patience Wheatcroft M-17936-2003.
Registered address: Boulevard Brand Whitlock, 87, 1200 Brussels, Belgium

NEWS

Obama, CEOs: an awkward mix

By Elizabeth Williamson

WASHINGTON—President Barack Obama has tongue-lashed business leaders one day and courted them the next. Now, he's looking for their advice.

Mr. Obama last Thursday took time out from the Haiti crisis and health-care negotiations to welcome 50 chief executive officers from an array of companies to discuss how to make the government run more efficiently. It is the first of what the White House hopes will be a series of such brainstorming sessions.

"There may be a little bit of a cultural clash here," Mr. Obama said. The resulting discussions, captured on video, bore out the president's prediction.

Administration officials asked: How could the government get employees to go along with its information-technology overhaul? Indra Nooyi, CEO of **PepsiCo** Inc., said her company did it by offering "performance bonuses on top of regular bonuses."

That produced pained looks from some of the government officials in the room. Just that morning, Mr. Obama had slammed Wall Street bankers for "obscene bonuses at some of the very firms who owe their continued existence to the American people."

Peter Darbee, CEO of power utility **PG&E** Corp., on the topic of change in a big organization, said that "while it starts with what I describe as a white-hot commitment from the CEO, it becomes a revolution among the people at the bottom—almost difficult to control." Department of Transportation Deputy Secretary John Porcari suppressed a laugh.

Office of Management and Budget spokesman Kenneth Baer said the invitees came from a list of CEOs who had used technology well in their companies—as opposed to the government, which processes patent applications manually and takes three years to approve one.

To dig into specific topics, the CEOs broke up into small groups in the Eisenhower Executive Office building. Deputy Veterans' Affairs Secretary Scott Gould and three deputy cabinet secretaries guided the discussion on "streamlining operations."

Mr. Gould said the group would talk about inspiring top performance from government employees. Then he explained that this inspiration would have to be done without much in the way of financial bonuses, threats of firing or promotions that leapfrogged the normal civil-service rules.

Cabinet Affairs Secretary Chris Lu pointed out that government managers worry that if they slash costs, "next year your appropriations go down."

The CEOs gave it a shot. Jeff Fettig of **Whirlpool** Corp. said, "It's about better customer benefit for a lower cost, faster."

Government needs to do what **John Deere** & Co. did, said Sam Allen, its CEO. "Get 32 handoffs down to one handoff."

Ms. Nooyi, the PepsiCo chief, said the government needs "a Project Manhattan type mentality to stop and say we're going to do it and we're going to go all the way."

Department of Energy Secretary Dan Poneman picked up on that. "Do we have a Manhattan Project? Actually we were the Manhattan Project. That was us." Everyone but Mr. Poneman laughed.

After the session wrapped up, Mr. Gould said the findings and ideas from the forum would be live-streamed on the White House Web site so the public could follow along.

The ultimate result, he said: a report. But that would take 30 days.

Bloomberg News

Microsoft Chief Executive Steve Ballmer, one of about 50 CEOs who attended a forum at the White House on Thursday.

DEVASTATION IN HAITI

U.S. churches look for their own

Religious-aid organizations offering help in Haiti now search for information about workers caught in quake

By Suzanne Sataline, Keith Johnson And Thomas M. Burton

While many religious-aid organizations have been scrambling to offer help in Haiti, others are searching for information about their own workers who were caught in last week's devastating earthquake.

Friends and relatives of nuns with the Daughters of Mary, a Catholic religious order, have sought information for days since learning that the nuns' house in Port-au-Prince was destroyed. Julienne Jules of Lawrenceville, Ga., said she has heard that 15 nuns are buried and may be dead, including her 84-year-old aunt. "She's my world," she said.

Sister Bruno Miot, a member of the order who lives in Westbury, N.Y., said the sisters in Haiti had found one corpse, of the convent's leader, while another nun was found alive. Rescue efforts were complicated when thugs showed up, seeking to loot the place and threatening volunteers with machetes.

Catholic religious orders said several schools were hard hit. At least 200 and as many as 500 students and staff at an educational complex run by the Salesians of Don Bosco died in the rubble, said a spokeswoman for Salesian Missions USA, the order's fund-raising arm. The Salesians tried to pull survivors from the debris, and rescued just a few, according to the order.

All the buildings of St. Gerard parish in Port-au-Prince collapsed, including the school, which killed an estimated 300 students and teachers inside, said Liliane Fournier, an assistant to the Congregation of the Most Holy Redeemer, known as the Redemptorists of the Montreal Province, a Catholic religious order affiliated with the parish. "It was a total loss," she said.

Lynn University, a private school in Boca Raton, Fla., is continuing to search for four missing students and two missing faculty members, part of a 12-person team from the university that arrived in Haiti just hours before the earthquake struck, to offer housing and food aid to the poor. The other six have returned safely to Florida. The university has contracted two search-and-rescue teams to look through the ruins of the Hotel Montana in Port-au-Prince, the last known location of university students and faculty. Lynn University students are holding candlelight vigils. Lynn staffers are also scouring hospital and embassy rolls in Haiti and the Dominican Republic, the university said.

Two high-ranking officials with the United Methodist Church died as a result of the quake. The Rev. Sam Dixon, head of the United Methodist Committee on Relief, was caught in the collapse of the Hotel Montana. Also caught in the wreckage was the Rev. Clinton Rabb, a member of the United Methodist Board of Global Ministries and part of the church's mission volunteer unit since 2006. He died Sunday in Florida from injuries sustained after 55 hours trapped in the hotel rubble.

One of 12 missionaries from a Dallas church working at an eye clinic in Haiti died from injuries sustained in the earthquake. Jean Arnwine, who was on her first visit to Haiti to work in the eye clinic that the Highland Park United Methodist Church established in 1985, was rescued from the quake area but died Friday in Guadeloupe, a Caribbean island several hundred miles east of Haiti. Eleven members of the mission have returned home.

Chicago-based charity Friends of the Orphans said a volunteer and a visitor also died in the quake. It said Molly Hightower, 22, of Port Orchard, Wash., and Ryan Kloos, 24, of Phoenix, had perished. Ryan's sister, Erin, was rescued and is in a Florida hospital, the group said. Friends is the Chicago fund-raising arm of Nuestros Pequeños Hermanos, a Catholic-affiliated nonprofit.

Compassion International, a children's relief organization based in Colorado Springs, Colo., says one contractor, David Haynes, is still missing, presumably in the collapsed Hotel Montana.

Spokeswoman Kathy Redmond said the organization has people on the ground trying to pinpoint Mr. Haynes' location, and that voices were still being heard in the ruins as of Sunday afternoon. She said her understanding is that heavy equipment is being used to move large debris at the hotel site, parts of which were just "pancaked."

Associated Press

Bill Clinton, former U.S. president and U.N. special envoy for Haiti (center), visits Romulus Solyvens, a quake victim at the General Hospital in Port-au-Prince

U.N. moves to bolster its presence in Haiti

Continued from first page

after he returned from the Haitian capital. His plane back to New York carried the body of Hedi Annabi, the U.N.'s chief representative in Haiti, who perished when U.N. headquarters crumbled in the earthquake.

"I saw mass destruction and mass need," Mr. Ban said.

Mr. Ban told reporters the extra U.N. police and troops were needed to protect aid convoys and distribution points in the devastated city.

A Western diplomat who was inside the council chamber for the closed Security Council session said the U.S. had already circulated a draft resolution authorizing the increase of blue helmets, and that the Security Council would vote on it at 9 a.m. on Tuesday.

Questions about coordination and command continue to fester. The governments of France, Italy and Brazil, as well as aid agencies such as Doctors Without Borders, have reportedly complained that the U.S. military is giving priority to security over aid as it determines what flights are allowed to arrive at the one-runway airport in Port-au-Prince. Mr. Ban said both were needed. He reiterated that the U.N., and not the U.S., was in charge of the relief effort.

"The international community supports the United Nations to take the leading role as coordinator, there is no doubt about that," he said.

In Haiti on Sunday Mr. Ban said that U.N. troops would be working in tandem with U.S. troops, about 12,000 of which are expected eventually in the country.

Mr. Ban evaded the question of command and control, which is whether U.N. troops would come under U.S. command. On Sunday, Brazil, which has the largest contingent of U.N. troops, said it wouldn't relinquish command of its forces to the U.S.

The U.N. has currently 7,000 troops in Haiti, with 3,000 deployed in Port-au-Prince.

During his six-hour visit to Haiti on Sunday, Mr. Ban met Haitian President René Préval, then visited the wreckage of the Christopher Hotel, the former U.N. headquarters in Haiti.

That was where many U.N. workers died. According to unofficial figures, at least 82 people from the U.N. peacekeeping mission in Haiti died, by far the largest loss of life the international organization has ever suffered in a single incident. An additional 49 U.N. staff members are missing and presumed dead.

At the Christopher Hotel, a woman approached Mr. Ban to complain that a Chinese rescue team looked only for Chinese survivors or bodies and that Americans had only looked for Americans. The woman also told him there weren't enough rescue teams on the ground.

Afterwards, at a news conference in Port-au-Prince, Mr. Ban said, "The situation is just overwhelming and I know that there is no difference between lives, between Haitian, local, national and international."

Mr. Ban added that he would try to better coordinate the 27 search and rescue teams on the ground so that they would be "more balanced" in helping victims of all nationalities and not just their own.

The secretary-general also said, "It seems to be that a number of rescuers are simply too [few] and their reach is too much limited."

Late last week, John Holmes, who is the U.N. undersecretary-general for humanitarian affairs emergency relief coordinator, had appealed to nations across the world not to send additional rescue teams because there were enough in the country.

—Yochi J. Dreazen contributed to this article.

Agence France-Presse/Getty Images

Pakistani U.N. peacekeepers disperse protesters at the airport in Port-au-Prince.

DEVASTATION IN HAITI

Quake derails economic revival

By John Lyons

Haiti's earthquake dashed hopes for an economic revival that had been building credibility among aid workers and businessmen days before the temblor hit.

A scattering of new hotel projects and the return of some garment-manufacturing jobs that had disappeared during a 1990s trade embargo had inspired tentative excitement about sprouts of growth in an economic landscape long marked by violence and political turmoil.

"I was in the car, talking about all of the positive things that were starting to look like they really might happen when the quake hit," said Anton Edmunds, who heads an organization that promotes Caribbean investment, Caribbean-Central American Action, and was on his way to a meeting at the Inter-American Development Bank in Port-au-Prince when the earthquake struck. "After all the destruction, the homelessness, the loss of life I have seen, it's obviously devastating to all the efforts that were taking place."

Even before the earthquake, it was hard to overstate the problems facing the Western hemisphere's poorest nation.

More than half of the country's citizens lived in abject poverty, many in muddy, disease-ridden shanty towns. Haiti's infrastructure was in disrepair.

Nearly all manufacturers fled Haiti during the 1990s trade embargo imposed by the U.S. after a coup. After the embargo ended in 1994, few investors returned.

In 2004, a new United Nations peacekeeping effort got under way after the nation descended into anarchy again. In 2008, deadly storms and food riots destabilized the government.

But things appeared to be changing in the past year or so. U.N. peacekeepers achieved enough stability to make new investment conceivable. A U.S. Congress vote in 2008 to erase tariffs on Haitian garments created incentives for manufacturers to return.

Some did. Experts estimate that at least 10,000 new garment-industry jobs were created in Port-au-Prince last year. **Royal Caribbean Cruises** Ltd. invested $55 million to build a pier and resort destination in Haiti. Investor George Soros announced new ventures.

A luxury hotel complex called the Oasis and an upscale project by **Best Western International** Inc. going up in the Pétionville suburb symbolized the optimism.

Optimism peaked in October, when organizers of a Haiti investment conference attracted U.S. companies such as **Levi-Strauss** & Co. and **Gap** Inc. "Haiti is open for business," then-Prime Minister Michèle Pierre-Louis said.

Already since the quake last week, highly mobile garment manufacturers, such as Canadian T-shirt maker **Gildan Activewear** Inc., have started moving production elsewhere in the region.

The earthquake also has devastated the nation's vast ad hoc economy, the lifeblood for most of the population. Immacule Maxime, a 50-year-old street hawker in Port-au-Prince who made a meager living selling fried snacks and used clothes, says she lost her entire inventory—$40 of ingredients and $80 worth of clothing—and has little hope of replacing them.

If there is any room for optimism, it lies in the massive international rescue effort now under way.

Nations scrambling to save Haitian lives may become more committed to putting the country on sounder economic footing once the relief phase is over, longtime aid workers say.

Agence France-Presse/Getty Images

Earthquake victims line up to get food at a refugee camp in Port-au-Prince.

EUROPE NEWS

Worry over Greece: bonds, not euro

Prices are soaring on credit-default swaps tied to Greece; reform plans haven't soothed financial markets

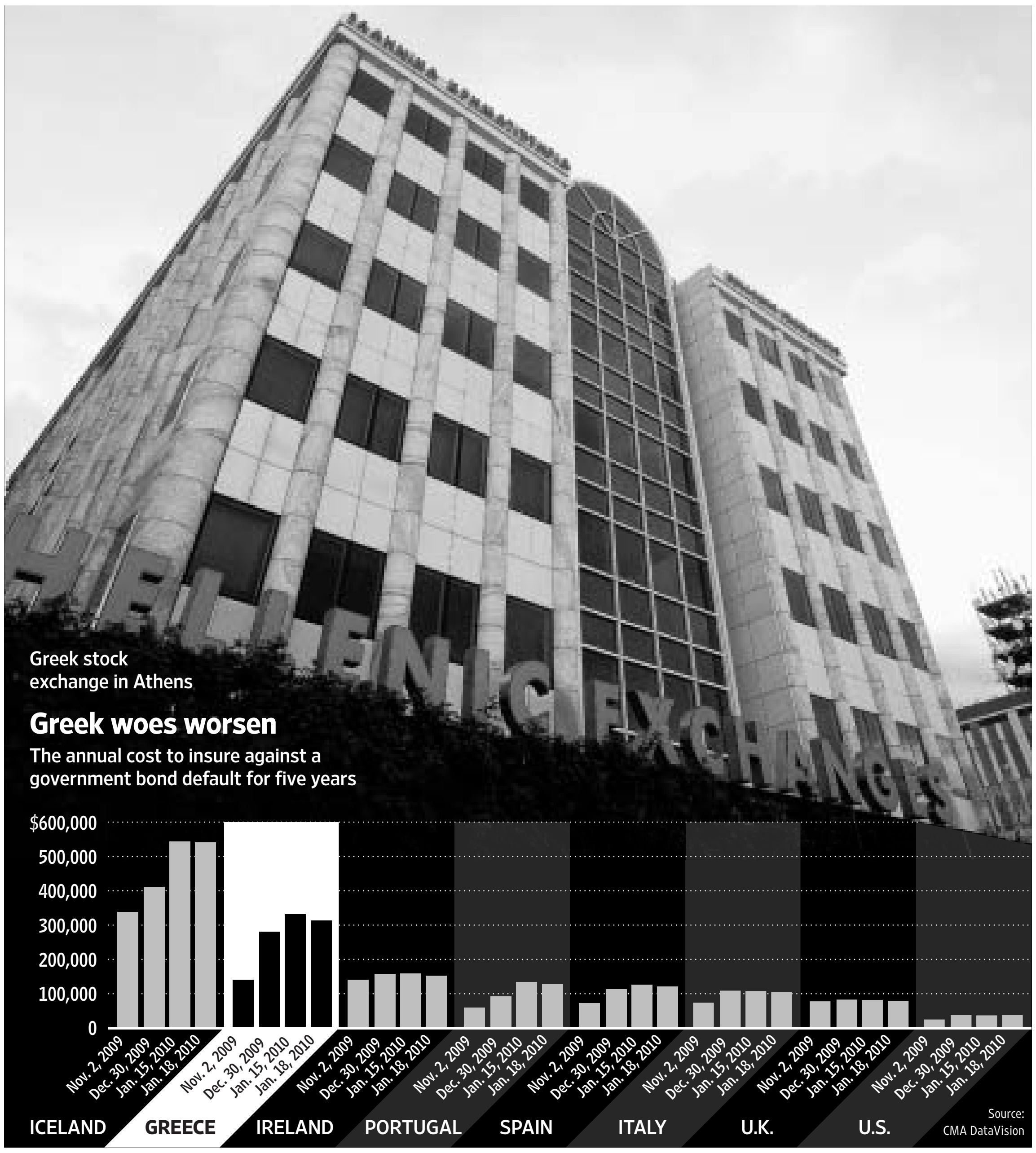
By Neil Shah

There is a battle raging in the financial markets over whether Greece's mounting fiscal woes pose a risk to the European currency union.

On one side: Prices are soaring on credit-default swaps tied to Greece, which has the biggest budget deficit of the 16 countries that share the euro currency. Investors buy these swaps—which pay off in the case of default—as a kind of insurance against government debt. And some fret that a Greek debt crisis could endanger Greece's position within Europe's currency club.

On the other side: The euro itself, which has taken Greece's problems (along with difficulties in other euro-zone countries such as Ireland and Portugal) largely in stride. The 10-year-old euro has lost about 5% of its value against the dollar during the past few weeks, dropping to $1.4389 in late London trade Monday from a high of $1.51 in early December.

Economists have doubts whether Greece is capable of the drastic spending cuts needed.



Greek stock exchange in Athens

Who's right? Some investors think the euro could fall as low as $1.35 over the next few months, a drop of about 11% from the December highs. While that is a good-sized fall, it would hardly be considered calamitous, especially considering the level of fear in the financial markets about Greece's financial situation. Euro stalwarts believe the currency's position as a haven for dollar bears will give it sustained strength even as member countries work through fiscal issues in the wake of the financial crisis.

That sanguine mood hasn't been much in evidence over the past week as the common currency lost ground against just about every currency, including the dollar, yen and British pound. On Monday, the euro was at $1.4384, up from $1.4379 late Friday. U.S. markets were closed for a holiday.

In the credit-default-swaps market, the cost to insure against a Greek debt default hit a record last week before easing modestly. On Monday, it cost about $313,000 annually to insure $10 million of Greek debt against default for five years, compared with $331,000 on Friday and $345,000 midafternoon Thursday, according to CMA DataVision. In September, this same insurance cost $147,000.

Concerns about Greece have unnerved markets for months.

In October, Greece's new Socialist government shocked investors by saying the budget deficit for 2009—now estimated at nearly 13% of its gross domestic product—was much larger than earlier forecasts. Last week, Europe's statistics agency raised doubts about earlier years of data, sparking speculation that Greece's deficits could be even larger.

Economists also have doubts about whether Greece is capable of the drastic spending cuts that will make its economy more competitive in the longer term. In a report last week, credit-ratings firm Moody's Investors Service warned that the economies of Greece and Portugal, another euro-zone member, could face a "slow death" as they struggle with low competitiveness and spend more of their wealth paying off debt.

So far, markets haven't reacted positively to Greek reform plans. The Athens Stock Exchange index is down 4.8% this year, compared with a 2% gain for the pan-European Dow Jones Stoxx 600 Index.

In the bond market, the gap between Greek 10-year government bonds and safer German 10-year government bonds widened Friday to 2.84 percentage points, from 2.80 percentage points a day earlier, before backing off to 2.70 percentage points on Monday. But this gap remains near its highest level ever of 3.00 percentage points, hit in March of last year.

Similar "spreads" for other weak euro-zone economies like Portugal, Ireland and Spain also widened at the end of last week.

For all the hand-wringing, many investors and analysts dismiss speculation about a break-up of the euro zone. European Central Bank President Jean-Claude Trichet called such talk "absurd" last week. Still, the ECB recently studied the possibility of a country trying to withdraw from the common currency.

Many investors believe stronger euro-zone countries would aid Greece (or another ailing country) if a crisis truly required such help. ECB officials, notably its Chief Economist Jürgen Stark, have disputed this idea, saying Greece shouldn't anticipate any sort of bailout.

Axel Merk, president of Merk Investments, a currency-focused firm in Palo Alto, Calif., says the euro may be in for a bumpy ride this year as concerns about Greece and other peripheral European economies intensify. But he is still betting on the euro against the dollar and Japanese yen in the longer term.

For one thing, Mr. Merk says, the ECB is moving faster than the U.S. Federal Reserve in winding down its emergency financial-support measures. The ECB also may face an easier exit than other major central banks like the Fed and the Bank of England, which could support the euro in coming months.

Meanwhile, the U.S. dollar's rebound last month seems to have lost steam, with the latest U.S. employment data disappointing traders who had hoped that a better outlook would persuade the Fed to raise short-term interest rates more quickly. Higher interest rates make a country's currency more attractive to investors.

"I see the euro as a long-term anchor of stability in a world that is increasingly unstable," Mr. Merk says. "The Europeans will be the ones left standing."

Swiss bank ends provisions

By Geoffrey T. Smith
And Nina Koeppen

FRANKFURT—The Swiss National Bank said it would stop its special provisions of Swiss francs to financial institutions in the euro zone, Hungary and Poland because of improving money-market conditions.

The bank had been offering francs to banks needing the Swiss currency through currency swaps with the European Central Bank and the central banks of Poland and Hungary. The announcement highlights improving conditions in the European banking system, where interbank funding rates have eased significantly in the last 12 months.

Many banks with operations in central Europe had borrowed Swiss francs and lent them to finance real-estate purchases by local customers. But those banks made heavy losses when borrowers started to default as their incomes in local currency lost value against 'safe haven' currencies, such as the Swiss franc.

The ECB and other central banks have said they will gradually remove their extraordinary liquidity support to banks that was needed following the 2008 banking crisis. The SNB has halted its purchases of Swiss franc bonds from private-sector borrowers, in an indication that the days of cheap and ample central-bank funding are about to end.

The ECB took its most significant step back toward a more neutral policy stance in December, when the bank said it would withdraw from providing liquidity for longer than three months at a time.

Many analysts expect the liquidity situation to become noticeably tighter in June, when €442 billion ($635.55 billion) in funds from the ECB's first 12-month operation will expire without the chance for banks to 'roll over' the funds automatically. Another potentially more challenging moment is due at the end of the year, when the ECB intends to restore its old credit rating threshold of A- for bonds it accepts as collateral.

Market participants fear that the government debt of Greece may have been downgraded below that level by all the major international ratings agencies by then.

ECB exit

The ECB is unwinding measures to support liquidity in money markets

MARKET-BOOSTING MEASURE	PLANNED DURATION
Adoption of "fixed-rate, full allotment" method at refinancing tenders	Until further notice
Provision of longer-term refinancing	No more 12-month tenders, last six-month tender due in March
Provision of credit in dollars, Swiss francs in cooperation with U.S. Federal Reserve, Swiss National Bank	One-week term auction facility in dollars still offered
Acceptance of bonds with lower credit ratings as collateral	Relaxation of framework due to end Dec. 31, 2010
Purchase of €60 billion of covered bonds to help market liquidity	Due for completion in mid-2010

EUROPE NEWS

U.K. bonuses not yet set, Myners says

BY ILONA BILLINGTON

LONDON—Stringent new bonus rules will affect banks' decisions on bonuses, U.K. City Minister Paul Myners said Monday, but he said he has no clear guidance yet on how much will be spent by major U.K. banks on bonuses this year.

"It isn't possible to estimate accurately how much bonuses will be this year as the decisions haven't been made by the boards of major banks, but we have set new rules here which are far more stringent than anywhere else in the world," Lord Myners said in an interview on BBC Radio.

"Our central expectation was that the bonus tax would have an impact on banks' decisions over the quantum of bonus," he said.

In the pre-budget report announced in December 2009, Chancellor of the Exchequer Alistair Darling announced a new 50% tax on all bonus payments over £25,000 (about $41,000).

Following the U.K. government's multiple bank bailouts and additional supportive measures, the Royal Bank of Scotland and Lloyds Banking Group are already unable to pay a cash bonus to any member of staff earning more than £39,000 a year.

Lord Myners said the U.K. has gone further than any other country in the Group of 20 leading economies to limit bonuses as they expect banks to invest much of their profit in helping to support the recovering U.K. economy in 2010.

"We don't expect to see unwarranted or unjustified bonus payments," Lord Myners said.

"We want to see the banks retain capital to support new lending to provide the much-needed support as we move into economic recovery for British families and business," he said.

Lord Myners said while some investment banks had a very profitable 2009, that was largely due to central bank and government intervention, which should be considered when bonuses are being discussed.

"In those circumstances, we would expect remuneration to be looked at very carefully and how much should be a reward for talent and how much should be spent lending for the future," he said.

Lord Myners also said in the interview that there would be a seminar at No. 11 Downing Street, the office of the Chancellor of the Exchequer, in two weeks to discuss the global banking-bonus culture. Among the attendees will be International Monetary Fund and delegates from the G-20 economies.

The meeting is important in retaining the U.K.'s force as a leader in the global financial-services industry, Lord Myners said.

"We do not want to disadvantage the U.K. in the financial-services sector in which we have global leadership," he said.

Asked about the meeting later Monday, Prime Minister Gordon Brown's spokesman said it would be a chance to discuss the international financial transactions tax proposal made by Mr. Brown at a G-20 meeting in November.

The spokesman echoed Mr. Darling's remarks over the weekend, saying the U.K. wasn't considering a U.S.-style levy on domestic banks.

—Laurence Norman contributed to this article.

France aims to speed up Web

Government will provide $2.88 billion as part of infrastructure program to boost economy

BY MAX COLCHESTER

Agence France-Presse

Employees of French telecom operator Iliad work at a call center in Paris in September.

PARIS—The French government will provide €2 billion ($2.88 billion) to improve the country's high-speed Internet networks, as part of a national loan program to boost the economy through investment in infrastructure.

Prime Minister Francois Fillon said Monday that the government will make a series of low-interest loans to telecommunications groups to encourage them to develop fiber-optic networks outside major cities.

Telecommunications operators are already deploying fiber-optic networks in heavily built-up areas, such as Paris.

But they have been slow to extend these to the provinces, though regular high-speed broadband is available in most of the country.

"We are at the dawn of the era of high-speed Internet and fiber-optic networks," Mr. Fillon said in a speech. "However, 500,000 French people don't have access to high-speed Internet at all. This is not acceptable."

The French government wants high-speed Internet connections in smaller cities and rural areas in order to boost productivity.

Fast connections

France is trying to boost the proportion of households with fiber-optic networks.

	Data collected	Coverage*
U.S.	Mar. '09	13.1%
France	**Apr. '09**	**11.0**
Italy	End '08	8.6
Norway	End '08	8.3

*figures include fiber to the building connections.
Source: OECD

French telecommunications operators have been slow to build the new fiber-optic networks in these areas, as there are fewer potential customers in the provinces.

"We are still working on getting fiber to homes in Paris," said Maxime Lombardini, the chief executive of French telecom operator **Iliad** SA. "Medium-density areas are not where we will make our first investment."

Under the proposed system, telecommunications groups **France Télécom** SA, **Vivendi** SA's SFR and Iliad will be encouraged to invest together to build out local fiber networks. This will ensure that no single operator has a monopoly over a network in a particular area, said Mr. Fillon. Subsidies would be offered on a project-by-project basis, he said.

Currently, the three French operators are carrying out experiments in three towns around Paris to test how they would share access to fiber networks.

In France, 11% of households have access to a fiber connection but relatively few of them have signed up for the service, according to Taylor Reynolds, an economist at the Organization for Economic Cooperation and Development.

Nevertheless, the government is betting its €2 billion of funds will encourage operators to pump between €6 billion and €7 billion into France's fiber networks, according to Nathalie Kosciusko-Morizet, the minister responsible for the development of the digital economy.

For the most remote areas of France, Mr. Fillon said a satellite would be developed over the next four years to allow high-speed Internet access without the need to lay down a network.

He also called for a low-cost Internet connection for poor households at around €20 a month, compared with the current normal rates of around €30.

The announcement is part of a wider national loan program totaling €35 billion, which includes €4.5 billion earmarked for information and communications projects.

Reuters

Karlheinz Schreiber, right, and his lawyer wait for proceedings to begin Monday.

Schreiber trial starts

ASSOCIATED PRESS

AUGSBURG, Germany—A German former arms-industry lobbyist went on trial Monday on charges of tax evasion for his role in a financing scandal dating back to the era of former German Chancellor Helmut Kohl, who served from 1982 to 1998.

Prosecutors accuse Karlheinz Schreiber of failing to declare millions of euros from kickbacks he received for the sale of helicopters to Canada's coast guard, Airbus planes to Thailand, and Canada and tanks to Saudi Arabia in the 1990s.

Mr. Schreiber, 75 years old, also faces charges of breach of trust and accessory to fraud.

Although no formal pleas are entered in the German system, Mr. Schreiber's attorney, Jan Olaf Leisner, told the court his client rejects all charges, insisting that the political context of the deals hasn't been taken into consideration.

"The tone was set by high-ranking politicians," Mr. Leisner said.

If found guilty, Mr. Schreiber faces up to 10 years in prison.

EUROPE NEWS

Ukraine leaders vie for swing voters

Yanukovych leads with two-candidate runoff set, but analysts expect Tymoshenko could make up ground

By James Marson

KIEV—Opposition leader Viktor Yanukovych and Prime Minister Yulia Tymoshenko, bitter foes since Ukraine's 2004 Orange Revolution, began a three-week scramble for new support Monday after first-round voting in the country's presidential election thrust them into a runoff.

Near-complete returns from the Central Election Commission gave 35.3% of Sunday's vote to Mr. Yanukovych, the dour but resilient politician whose tainted victory in the 2004 race was overturned after street protests against alleged fraud.

His margin over Ms. Tymoshenko, who polled 25%, wasn't wide enough to make him the clear favorite for the runoff, political analysts said. Ms. Tymoshenko, a former natural-gas tycoon known for her sharp tongue and crown of braided hair, is considered the more charismatic and aggressive campaigner.

But she shares the burden of the political and economic turmoil that has stymied the country under the pro-Western Orange Revolution and its principal leader, President Viktor Yushchenko, who finished fifth among 18 contenders with 5.5% of Sunday's vote.

With 40% of the first-round vote up for grabs, the question is whether Ms. Tymoshenko can persuade swing voters who are ideologically closer to her to overlook her part in the leadership's failures and support her in the Feb. 7 runoff.

Staking out her battle line, she assailed her opponent, a former prime minister, as a tool of corrupt oligarchs. She called on "democratic forces" to help her keep Ukraine on a path toward integration with Europe.

Associated Press

Viktor Yanukovych said Monday Ukrainians had turned against their leaders.

"To vote for Yanukovych is to choose the Stone Age," she said in televised remarks late Sunday.

Mr. Yanukovych declared Monday that Ukrainians had turned against their leaders. His rival, he said, "has not learned to accept her mistakes and correct them. People sense that, and don't trust her."

Ms. Tymoshenko got most of her support in the nationally minded, pro-European west and center of Ukraine. Mr. Yanukovych polled heavily in the eastern and southern regions culturally close to Russia.

The geopolitical tone of the 2004 race, in which Russia backed Mr. Yanukovych and was humiliated by the outcome, is largely absent this time. Both major candidates have vowed to repair ties with Russia while pursuing membership of the European Union. The economy and corruption mattered more to voters.

Nor did allegations of fraud and voter intimidation weigh on Sunday's results as they did in 2004. Western election observers reported that the voting generally met international standards, despite some confusion over who was eligible to vote from home.

Supporters of banking millionaire Serhiy Tihipko and former parliament speaker Arseniy Yatsenyuk could hold the key to the runoff outcome. They finished third and fourth, respectively, polling about 20% between them on similar reform messages branding Ukraine's traditional politicians as ineffective and corrupt.

> The two finalists will try to woo voters who picked anticorruption candidates.

Messrs. Tihipko and Yatsenyuk said they would support neither candidate in the runoff.

"Tymoshenko needs to convince voters for Tihipko and Yatsenyuk to come out, and she needs to persuade them that the alternative represented by Yanukovych is much worse," said David J. Kramer, a Senior Transatlantic Fellow at the German Marshall Fund in Washington, who observed the election here. "That's going to be hard. ... A lot of Ukrainians voted for those candidates because they are not Tymoshenko."

Mr. Yanukovych hopes to pick up votes from Mr. Tihipko, who scored well in the front-runner's strongholds. But some who voted for Mr. Tihipko said they couldn't abide Mr. Yanukovych, a former factory manager who served jail time for assault and robbery in his youth and gained attention for declaring himself a "proffesor"—misspelling the Ukrainian word—in his 2004 presidential declaration.

"I will never vote for an illiterate leader. I would be embarrassed to have him as president," said Olha Kovalchuk, a Kiev resident who voted for Mr. Tihipko in the first round and now supports Ms. Tymoshenko.

Both runoff candidates sprang into action Monday after an explosion caused by oxygen tanks killed at least seven people at a hospital in the eastern town of Luhansk. Ms. Tymoshenko rushed there in her capacity as prime minister. Mr. Yanukovych promised his Party of Regions would give $3,000 to the families of each victim.

Whoever wins the runoff will inherit an economy that shrank 15% last year, according to the World Bank. The new president will have to persuade the International Monetary Fund to resume a $16.4 billion bailout program, suspended after Mr. Yushchenko signed wage and pension increases into law in October.

■ For investors in Ukraine, the biggest tests remain .... Page 32

Ukraine's contenders

Opposition leader Viktor Yanukovych finished first among 18 first-round candidates in Ukraine's presidential election Sunday but was forced into a Feb. 7 runoff against his nearest rival, Yulia Tymoshenko.

Here are the top finishers in Sunday's voting:

Candidate	Position	Votes
Viktor Yanukovych	Opposition leader and former two-time prime minister	35.33%
Yulia Tymoshenko	Prime minister	25.02
Serhiy Tihipko	Former central bank chief	13.01
Arseniy Yatsenyuk	Former parliament speaker	6.97
Viktor Yushchenko	President	5.49

Note: with 98.36% of the vote counted
Source: Ukraine's Central Election Commission

An ex-Blair adviser denies Iraq deal was 'signed in blood'

Associated Press

LONDON—Former British Prime Minister Tony Blair will give his highly anticipated testimony to an inquiry into the Iraq war next week, the panel said Monday.

When he goes before the inquiry, Mr. Blair is likely to be questioned about accusations that he offered U.S. President George W. Bush support for an invasion as early as April 2002—a year before legislators approved Britain's involvement.

In testimony Monday, Mr. Blair's former chief of staff, Jonathan Powell, denied that Mr. Blair had agreed to invade in 2002. Britain's former ambassador to the U.S., Christopher Meyer, has told the inquiry that Messrs. Bush and Blair used a meeting that April at Mr. Bush's ranch in Crawford, Texas, to "sign in blood" an agreement to take military action in Iraq.

Mr. Powell called Mr. Meyer's account unreliable. "I was at Crawford. ... Christopher Meyer was not at Crawford. He was at Waco, 30 miles away," Mr. Powell said.

"There was not an undertaking in blood to go to war with Iraq. There was no firm decision to go to war," he added.

Mr. Powell insisted Mr. Blair had sought to influence Mr. Bush's approach to Iraq, warning the U.S. leader of "the danger of unintended consequences," if diplomacy failed. Mr. Blair had stressed the importance of winning support from other nations for military action in advance, conscious that diplomacy was precarious and any invasion would likely be swift.

"If we don't and they haven't been bound in beforehand, recriminations will start fast," Mr. Powell said, quoting a note Mr. Blair wrote to Mr. Bush following the Crawford talks.

Mr. Blair, whose popularity suffered because of his decision to back the 2003 U.S.-led invasion of Iraq, will face several hours of questioning at the five-person tribunal Jan. 29.

The inquiry was commissioned by Mr. Blair's successor, Gordon Brown, to examine the case made to Parliament and the public to join the war, along with errors in planning for postwar reconstruction.

The conflict triggered massive protests in the U.K. and left 179 British soldiers dead. British troops withdrew from Iraq in May 2009.

The inquiry won't apportion blame or establish criminal or civil liability, but will offer recommendations on how to prevent errors in future conflicts.

Its findings will be made public by late 2010—after Britain holds a national election, which must take place by June and in which Labour, the party of both Messrs. Blair and Brown, is expected to be voted out after 13 years in office.

On his way out from a Turkish jail

Associated Press

Mehmet Ali Agca, 52, leaves prison 29 years after shooting Pope John Paul II. He said he was a messenger from God and promised a fuller statement soon.

U.S. NEWS

Rapid-fire stock trading worries senator

Kaufman fears high-frequency activity could be increasing risk, sees need for more U.S. regulation, quickly

By Donna Kardos Yesalavich
And Scott Patterson

Sen. Ted Kaufman (D., Del.) can't point to any harm wrought by high-frequency trading. But the activity, he says, needs much greater regulation, and soon.

In an interview with The Wall Street Journal on Friday, Mr. Kaufman said the large amounts of money flowing into high-frequency trading, combined with its rapid growth and what he calls a lack of transparency, together cry out for more government oversight.

"Whenever you have a lot of money, a lot of change, and no regulation, bad things happen," Mr. Kaufman said. Just as the derivatives industry grew rapidly during a period of deregulation, he said, high-frequency trading has taken off with little input from regulators.

Mr. Kaufman, one of the most vocal legislators on the subject, fears a blow up in high-frequency trading, similar to the one seen in recent years in derivatives such as credit-default swaps, could hurt the U.S. financial system at a sensitive time.

High-frequency traders use computer-driven strategies to find tiny discrepancies across markets, enabling them to eke out profits as they move in and out of positions in fractions of a second.

Like derivatives, high-frequency trading has taken off with little input from regulators.

High-frequency trading's proponents maintain that it helps boost liquidity, making markets more efficient.

"The first thing is to figure out, are people being disadvantaged?" he said. "The consequences are pretty broad in terms of what could be happening."

High-frequency trading now accounts for more than 50% of market volume, according to several industry estimates.

Regulators are focusing on high-frequency trading. Last week, the Securities and Exchange Commission proposed to ban a trading arrangement known as "naked access," which enables high-speed traders to rapidly buy and sell stocks on exchanges using a broker's computer code without exchanges or regulators always knowing who is making the trades.

In addition, the SEC has initiated an examination of high-speed trading that seeks to determine whether such firms may enjoy unfair advantages over other investors, and to better understand the strategies they pursue.

For Mr. Kaufman, a freshman senator who replaced current Vice President Joe Biden, regulatory changes can't come soon enough.Stressing that high-frequency trading's rapid growth has put it in a place regulators no longer can ignore.

Bloomberg News

Sen Ted Kaufman, center, worries quickfire trades may inject risk into markets.

Americans shifted parties, not ideology

[Capital Journal]

By Gerald F. Seib

The Democratic Party's problems, crystallized in the last-ditch scramble to save Ted Kennedy's Massachusetts Senate seat in a special election Tuesday, can be traced to a simple mistake: Many in the party misread voters' desire to switch parties in recent years as an ideological shift to the left.

In fact, there is little sign that Americans' ideological tendencies changed much, even as voters gave control of Congress to Democrats in 2006 and handed President Barack Obama and the rest of his party a massive victory in 2008. Ideologically, the country remained throughout this period what it was at the outset: a center to center-right nation.

Getty Images

U.S President Obama, right, attends a rally for U.S. Senate democratic nominee Martha Coakley January 17 in Boston

Throughout this period of Democratic rise, America was instead a centrist nation that simply had become fed up with Republican rule, largely because of concerns about the GOP's competence and its tone deafness. Voters' response was to shift parties more than ideologies.

In retrospect, the problem for Democrats was that some in the party—particularly in the liberal wing—seemed to read this shift away from Republicans as a shift to the left. That became apparent first in the early-2009 construct of an economic-stimulus package, written initially in the House. It went heavy on the kinds of public-spending programs liberals favor, and light on the tax cuts and small-business incentives that even more moderate Democrats like.

That mix subsequently was adjusted somewhat by the Senate and White House, but an impression was set. It then was cemented in the health-care debate, where the preference for larger over smaller, and an insistence on the so-called public option, or government-run insurance alternative, suggested a continued belief that the country had shifted toward these priorities of the left.

Yet the absence of an ideological shift can be seen by looking inside Wall Street Journal/NBC News polling throughout the past four years, the period when political winds were shifting so dramatically. The one constant has been voters' ideological balance, which is virtually unchanged.

In January of 2006, for example, 24% of those surveyed called themselves liberal, 38% called themselves moderate and 34% conservative. Two years later, at the outset of the year that brought Mr. Obama to power and expanded Democratic control of Congress, the numbers were virtually identical: 24% liberal, 37% moderate, 35% conservative. And a year later, amid the euphoria of President Obama's inauguration, and much talk of change, the ideological remained unchanged: 23% liberal, 37% moderate and 35% conservative. Now, one year into the era of Obama, the numbers still are nearly the same.

The only discernible movement, in fact, is the tiniest shift to the right over the last year. The share of Americans calling themselves liberal has gone down by a bit, to 21% this month. And when Journal/NBC pollsters asked independent voters last month whether they have become more conservative in the past couple of years, 48% said they have.

What did happen in recent years was a shift of preference toward the Democratic Party. In mid-2003, for example, 38% of those surveyed called themselves Democrats. By the time Mr. Obama was elected in November 2008, that had risen to 45%.

That shift in preference toward the Democrats can be attributed to, among other things, the declining popularity of President George W. Bush; a combination of ethical problems, drift and overspending by Republicans in Congress; war fatigue; and the genuine and widespread popularity of Mr. Obama.

All those were considerable advantages for Democrats, but they weren't the same as an ideological mandate for a shift to the left. The reality is that Democrats were renting a lot of centrist voters in 2006 and 2008, but didn't reallyown them. And now Democrats seem to be losing their grip on some of those centrist, independent-minded voters.

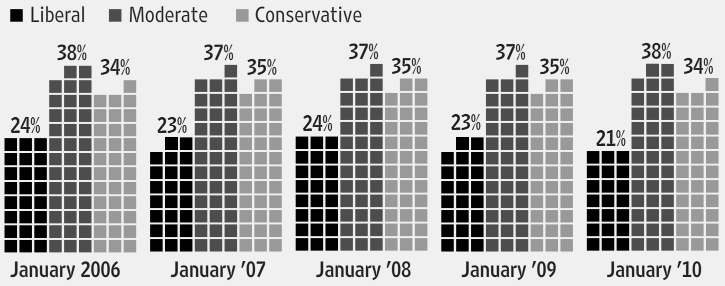
To some extent, Mr. Obama is a victim of circumstances. He inherited problems that all but demanded big government action. Even the most rock-ribbed Republican business leaders saw a need for a big government stimulus package to rev up the economy at the beginning of the Obama term, for instance, and the financial-industry bailout money the Obama administration dispersed in early 2009 was requested and approved under President Bush. Bailing out and then taking control of General Motors was a choice, but a tough one and not necessarily an ideological one. All those emergency moves inevitably widened a federal budget deficit, which has sunk into the public consciousness as a significant problem.

Still, the combination of those moves and a bruising health debate left an impression of an administration and a party moving to the left, while the country stayed in the center. If Democrats had managed to finish that health debate last summer maybe the voters' impression would be different.

But that didn't happen, of course, and now the Senate race is seen as a referendum on health. It also may be the first test of whether Democrats can regain their hold on the political center, where much of their country has always been.

Ideologically consistent

Percentage responding to the question: Do you consider yourself to be liberal, moderate or conservative?



Source: Wall Street Journal/NBC News polls

Democrats mull options

By Janet Adamy and Greg Hitt

WASHINGTON—With the Massachusetts Senate seat unexpectedly in play, Democrats are weighing alternative scenarios for passing a health bill without their filibuster-proof majority.

Congressional Democrats and the White House have rapidly stepped up the pace of negotiations on a final bill in the last 48 hours as polls showed a tightening race in Tuesday's special election.

But Senate leaders need every one of the 60 votes they can call on—including two independents—to pass the bill.

A Republican victory in Tuesday's special Senate election would deprive them of that margin.

It is also possible that vulnerable Democrats could bolt after a defeat, leaving more votes to make up.

Maryland Rep. Chris Van Hollen, a member of the Democratic leadership circle in the House, acknowledged Friday the Massachusetts race would "complicate things if we lose."