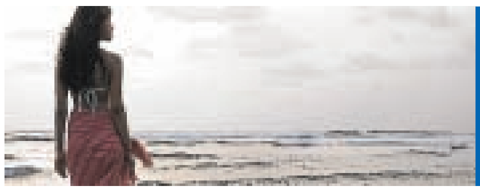
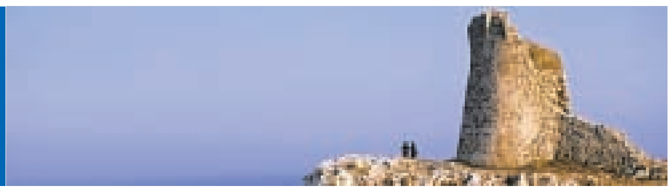


Discreet luxury: special edition on how to enjoy travel in 2010
WEEKEND JOURNAL



THE WALL STREET JOURNAL.

VOL. XXVII NO. 253 | EUROPE | Friday - Sunday, January 29 - 31, 2010

DOW JONES A NEWS CORPORATION COMPANY

europe.WSJ.com

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

THE WALL STREET JOURNAL.

Greeks beg market's support

By Stephen Fidler
And Joe Parkinson

Pressure on Greek debt intensified in the financial markets, and countries across Europe raced to announce budget measures to avoid being submitted to the same skepticism as Greece.

In an interview in Davos, Greek Finance Minister George Papaconstantinou said the key to resolving his country's debt problems was a government austerity package that would cut the budget deficit by 4 percentage points this year alone. Debt would peak at 120% of gross domestic product in 2011, he said.

Despite a successful €8 billion ($11.2 billion) bond auction earlier this week, Greek bonds traded sharply lower Thursday, and the cost to insure against a possible Greek default hit a new record high.

Greek Prime Minister George Papandreou said in an interview with The Wall Street Journal in Davos on Thursday that Greece had made itself vulnerable to market speculation by failing to reform its economy in the past. The markets "are not really sure that we are credible. All I say is: Give us a chance."

European countries with similarly large deficits are rushing to ensure they don't suffer from the same credibility gap. Spain said it will detail on Friday €50 billion in cuts through 2013 to deal with a budget deficit estimated at close to 10% of gross domestic product, more than triple the euro-zone ceiling. Portugal announced plans earlier in the week to reduce its deficit of 9% of GDP. Last month, Ireland released a budget that cut spending more than 6%, the toughest fiscal plan in more than a generation, and includes steep salary cuts for public-sector workers.

European Union countries outside the euro-zone also announced austerity measures. Poland said it will announce budget cuts Friday and the Czech Republic outlined plans to slash its own fiscal deficit to 3% by 2014 from 9% this year. On the EU's eastern flank, Romania announced an austerity budget in January to reduce its deficit by almost 2% of GDP this year, while Bulgaria has slashed spending 15% since a center-right government swept to power in elections in July.

The myriad cost-cutting plans come as Greece grapples with its yawning deficit of more than 12%—a figure that could even be higher, according to economists who doubt the veracity of Greece's data.

European Central Bank executive board member Gertrude Tumpel-Gugerell backed the moves, saying governments must begin to prepare credible and sustainable exits from stimulus programs. "Otherwise public debt in the euro zone could quickly top 100% of GDP," she said. "That

Please turn to page 4

DAVOS 2010
World Economic Forum

Agence France-Presse/Getty Images

Haitian teen survives for 15 days

A 16-year-old girl Wednesday was pulled out of the rubble in the Haitian capital, Port-au-Prince, 15 days after the earthquake struck.

Rescuers say Darlene Etienne had survived by drinking water from a bath. She was said to be happy but dehydrated. Neighbors had been searching in the rubble of their homes when they heard a weak voice and called rescue teams to help.

She is being treated on a French naval hospital ship where she is in a stable condition. Her rescue came five days after Haitian government officially ended the search and rescue operation.

■ Funeral directors find few Haitians can afford burials 13

The Quirk

Dirty secrets: Curing America's laundry-room excesses. Page 33

Editorial & Opinion

Alistair Darling on how to secure the economic recovery. Page 15

Bernanke wins confirmation for second term at Fed

By Sudeep Reddy

The Senate voted to reappoint Ben Bernanke for a second four-year term as chairman of the Federal Reserve.

Earlier, senators voted 77-23 to end debate, clearing the way for a final vote. During more than two hours of debate on the Senate floor, Bernanke backers warned that voting him down risked sparking turmoil in U.S. and foreign markets and thwarting a budding economic recovery. They said the Fed chairman deserved an opportunity to finish what he started.

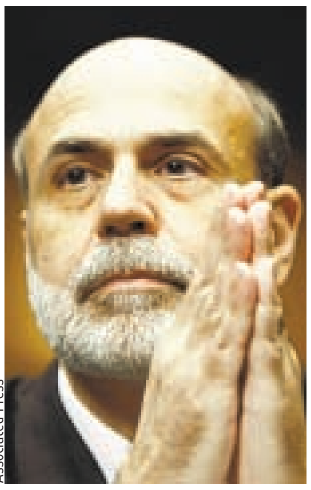
"To vote against confirmation could unnerve investors and exacerbate economic uncertainty in the marketplace, which is exactly what we do not need at this time," said Sen. Robert Menendez (D., N.J.). "We need the wisdom of patience," he said. "Let us not judge the man or the work prematurely."

Critics assailed him for his record ahead of the crisis, from bank supervision to mortgage regulation to the financial rescue. "Bernanke fiddled while our markets burned," said Republican Sen. Richard Shelby of Alabama, the senior Republican on the Senate Banking Committee. "I believe that it is the duty of this body to hold accountable those regulators whose poor oversight of our financial institutions and markets helped produce the greatest economic crisis this country has experienced in 80 years."

Republican Sen. Jim Bunning, one of Mr. Bernanke's fiercest critics, said "a vote for Ben Bernanke is a vote for bailouts."

Mr. Bernanke was nominated for another term as Fed chairman by President Barack Obama last year. He came to Washington from Princeton University in 2002 to serve as member of the Fed's Board of Governors under the chairmanship of Alan Greenspan, left the Fed briefly to serve as chairman of President George W. Bush's Council of Economic Advisers and succeeded Mr. Greenspan in 2006. As Fed chairman, he presided over the response to what he has termed the worst financial crisis in modern history.

The reluctance of many to support Mr. Bernanke suggests more lawmakers could step up to support other provisions that the Fed opposes, such as auditing the central bank's monetary policy or scaling back its authorities.



Associated Press

Fed Chairman Ben Bernanke

PAGE TWO

My plan to rebuild Britain's economy

[Agenda]

By David Cameron

In the modern, globalized world, no country is automatically entitled to economic goodwill. Each nation must work continually to earn a solid reputation, to help attract investment and secure lending on reasonable terms. That has never been more true than today. The economic crisis has created a global atmosphere of caution in which a reliable reputation is crucial. And I believe there are three key steps that nations must take to build their reputation—and so strengthen their recovery.

First, they must demonstrate that they have a credible, responsible fiscal plan for the future, in order to reassure the markets and keep interest rates low. Second, they must ensure that their system of banking regulation is strong, with proper oversight to minimize the risk of future financial crises. Third, they must have a comprehensive plan for balanced growth in the decades ahead, founded not on the sands of debt but on stable, sustainable sources of wealth creation. I have consistently argued for these three things to happen in Britain.

Our first and most urgent task is to show that we have the will to reduce our deficit. According to the latest OECD forecasts, the U.K. will have a budget deficit of 13.3% of GDP this year—the worst in the developed world. There are some who argue that starting to address the deficit now will damage the recovery. Our analysis is that the greater danger lies not in dealing with the problem, but in delaying the start of what everyone knows has to be done. Delay risks losing the confidence of investors, pushing up interest rates and putting a drag anchor on recovery. As former chief economist at the IMF Kenneth Rogoff has warned: "There's no question that the most significant vulnerability as

Getty Images

Put the Bank of England in overall charge of prudential regulation

we emerge from recession is the soaring government debt. It's very likely that will trigger the next crisis as governments have been stretched so wide." This isn't some wild dystopian vision. The people of Greece are already suffering an extra 3% on the interest rates they pay to borrow.

Of course, fiscal policy and monetary policy must be coordinated; the right fiscal policy can help interest rates stay lower for longer. But while the precise pace of consolidation must be determined in coordination with the independent Bank of England, the case for starting early to establish credibility is overwhelming. That is why if the Conservative Party wins the next general election in Britain—which must be held in the next four months—we will make a start on cutting the deficit in 2010. We have set out some examples of where spending needs to be cut, such as reducing government benefits for better-off families. By being clear about the need to eliminate a large part of the structural deficit over a Parliament, and about the need to make an early start, we can reassure the markets and start to restore our reputation on the world stage.

Our second task is to reform Britain's system of banking regulation so that it commands confidence at home and abroad. As Nobel Prize winning economist Joseph Stiglitz observed recently, "the U.K. financial system was even more overblown than that of the United States." To help prevent that happening again, we need a regulator with muscle, authority and proper oversight. In America and Germany—two of the largest financial markets—there are plans to give central banks a far greater role in supervision. We would do the same, by putting the Bank of England in overall charge of prudential regulation. As well as reforming the structures of regulation, we must reform its substance. Right now we have a situation in which banks that have been bailed out by the taxpayer are awarding themselves colossal bonuses and failing to supply credit to all parts of the real economy. We need to take steps to make sure this never happens again. President Obama has taken a bold step in the right direction by calling for limits on the riskiest activities of retail banks. It's a move that chimes with our own ideas and we'll now work for international agreement on this in the G-20. And as we have also set out, we would work for a new international levy on banks—one of the ideas being considered by the IMF—to protect the taxpayer from footing the bill for banking crises.

The third vital step to restoring our reputation is having a comprehensive plan for sustainable growth. I want to turn Britain's discredited model of growth over the last decade upside down, changing from an economy fueled by excessive public spending and consumer debt to one founded on saving and private-sector investment. Getting there means government and individuals playing their part by spending and saving more responsibly. And to compensate for that, it requires more business investment and more exports. In other words, the only sustainable driver of recovery is enterprise. A new Conservative government would be unashamedly pro-enterprise across a range of public policy. We would simplify and cut corporation tax rates, lighten the burden of regulation, start linking British cities with a new high-speed rail network, open up new sources of credit to help small businesses and radically reform schools to educate the skilled work force of the future. Through every single policy area, we will send the clearest signal that Britain is back open for business: ready to trade, ready to sell, ready for investment. I passionately believe that Britain can have an economic future as prosperous as our past. We have always been an open, trading nation. We have a proud history of inventing the goods and services the world wants to buy. We boast world-beating industries not just in finance but in the arts, in media, in pharmaceuticals, in hi-tech engineering. But these strengths alone are not enough. We need to show that we are a sound business prospect now and for the future. If we show discipline in reducing the deficit, if we bring wholesale reform to banking regulation, and if we build a new model of economic growth led by enterprise and exports, I am confident we can achieve that—and I am determined to lead that change.

—David Cameron is leader of the U.K.'s Conservative Party

What's News

■ **France's Villepin** was found not guilty in a high-profile slander case involving the president, a verdict that makes it more likely he will run against Sarkozy in the 2012 presidential election. **3**

■ **Toyota said it is close** to a repair for the sticking gas pedal that caused the company to halt sales of eight models, as the recall spread to Europe and China. **19**

■ **Nokia reported** a jump in quarterly profit and regained market share, while Motorola reversed a loss but lagged behind the competition. **19**

■ **Bankers in the U.K.** might have to wait years longer to cash out their bonuses than their colleagues elsewhere, because of strict FSA guidelines on deferral of pay. **26**

■ **Afghanistan agreed** to timetables for taking control of some military and police functions, and rolled out details of a plan to lure insurgents to mainstream life. **12**

Inside

Business travelers find ways to minimize the effects of jet lag. **31**

Football's stance on goal-line technology is under review. **32**

ONLINE TODAY

Most read in Europe

1. Apple Tablet Portends Rewrite for Publishers
2. Apple Seeks to Avoid Past Tablet Flops
3. Apple Takes Big Gamble
4. Opinion Europe: Stop the Trial of Geert Wilders
5. Oracle's Ellison Sets Course

Most emailed in Europe

1. Apple Tablet Portends Rewrite for Publishers
2. EU Sees Dreams of Power Wane
3. Art Trove Among Haiti's Losses
4. Happy Thoughts at Work
5. Opinion Europe: Stop the Trial of Geert Wilders

Davos Live

blogs.wsj.com/davos

"If shareholders don't like the salaries, don't buy the stock"

Ross Perot Jr.'s message to shareholders angry about any excess pay at major banks.

Continuing coverage

Follow Iain Martin's live analysis of Tony Blair at the Iraq Inquiry, at **wsj.com/iainmartin**

Question of the day

Vote and discuss: Do you think the Apple iPad lives up to the hype?

Vote online and discuss with other readers at **wsj.com/dailyquestion**
Plus, read the latest tech news and analysis at **blogs.wsj.com/digits**

Previous results

Q: Do you plan on buying Apple's iPad tablet?

Yes	57%
No	43%

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

Court clears Villepin

Former prime minister's acquittal is political setback for Sarkozy

By Sebastian Moffett
And David Gauthier-Villars

PARIS—Dominique de Villepin, a former prime minister, was acquitted in a high-profile slander case that could backfire on French President Nicolas Sarkozy.

A Paris court on Thursday found Mr. de Villepin not guilty of complicity in slander or in forgery, the two charges leveled against him.

"After several testing years, my innocence has been recognized," Mr. de Villepin said as he left the court.

The trial has prompted a revival in the public profile of Mr. de Villepin, 56, a longtime rival of Mr. Sarkozy. Though Mr. de Villepin has kept a low profile for much of Mr. Sarkozy's presidency, he has said recently that he would consider running for president in the 2012 election if acquitted.

"From today, Mr. de Villepin represents a danger for Mr. Sarkozy because, within the ruling party, he appears as the only alternative to the president," Stéphane Rozès, head of French political consultancy CAP. "Mr. Sarkozy gave Mr. de Villepin a chance to appear as a victim."

The case followed libel complaints filed in 2006 by dozens of businesspeople, lawyers and politicians, including Mr. Sarkozy, who became president in 2007. The plaintiffs said they wanted to find out who had falsified and disseminated a list of banking records claiming they held secret bank accounts in Luxembourg. Investigators said Mr. de Villepin knew of the existence of a list of bank records pointing to the alleged secret accounts.

The accusations were made while Mr. Sarkozy and Mr. de Villepin were fighting to become the presidential candidate of the center-right Union pour un Mouvement Populaire, or UMP, and succeed Jacques Chirac as president.

The ensuing four-year war of words over the complex case—which involved secret documents, secret agents and allegations of secret bank accounts—could end up hurting Mr. Sarkozy.

His current term ends in 2012, and his traditional left-wing opposition has fragmented into rival groupings. In recent months, Mr. de Villepin has made televised speeches to supporters and visits to housing projects. In November, 8% of respondents to a survey by market-research firm Ifop said they would vote for Mr. de Villepin if he ran in the 2012 presidential election, compared with 28% who said they would vote for Mr. Sarkozy.

Mr. Sarkozy said in a statement that he wouldn't appeal against the verdict, and that Mr. de Villepin had been found not guilty.

Leaving court on Thursday, Mr. de Villepin said: "I have no bitterness, no bitterness. ... I will look to the future and serve the French people."

Mr. de Villepin's posh, intellectual image contrasts with that of the hard-nosed Mr. Sarkozy. Mr. de Villepin started his career as a diplomat before moving into politics. In his spare time he writes books, including works on Napoleon. He sometimes gives poetry readings.

He has never been elected to office, but was directly appointed to cabinet positions. He is known for a speech to the United Nations in 2003, when he was foreign minister, calling on the U.S. not to invade Iraq.

He was named prime minister by President Chirac in 2005, but lost popularity after a bungled proposal aimed at reducing France's high unemployment. The Contrat Première Embauche was supposed to make it easier for employers to hire and fire young workers. Students took to the streets to protest the measure.

After Mr. Sarkozy was elected president, Mr. de Villepin made thinly veiled attacks on his comportment.

Mr. Sarkozy attracted attention early in his tenure for a lifestyle criticized as "bling-bling." He wore an expensive watch, married a former supermodel and partied on yachts and in Michelin-starred restaurants.

"He took liberties with style," Mr. de Villepin said recently. "The French didn't like this much."

Mr. de Villepin was charged with complicity in slander and complicity in forgery. Prosecutors called for a suspended prison sentence and a fine of €45,000 ($63,000). Mr. de Villepin said that only after the case became public did he know that Mr. Sarkozy's name was on the list and that the document was actually a fake.

Three other defendants were found guilty of similar charges, and were made to pay Mr. Sarkozy symbolic compensation of one euro.

Reuters

Former Prime Minister Dominique de Villepin leaves a Paris court Thursday.

DAVOS 2010: WORLD ECONOMIC FORUM

Greece will be make-or-break test for the euro

[Brussels Beat]

By Stephen Fidler

A test of fire for the euro zone and Greece, the common currency's weakest link, is playing out in the financial markets.

Greece is facing a debt crunch: it must raise €54 billion (about $75 billion) this year or face default. Athens says it can cut its giant budget deficit and raise the money. But the markets are testing its claims to destruction.

"These six months are going to be crucial. They will be the test for us and, internationally, for our credibility," Greek Prime Minister George Papandreou said in an interview with The Wall Street Journal Thursday.

His government's race against the clock began the week well. An international bond issue to raise €5 billion was oversubscribed five times, allowing the government to expand the issue to €8 billion. The debt was expensive, but the government got the money in the bag.

Then the government became embroiled in what Greek officials are calling the China syndrome.

Greece was reported to have mandated an approach to China for money, which was interpreted in the markets as a sign of desperation.

Subsequent reports from China, denying any approach from Greece, were then interpreted as a vote of no confidence from Beijing.

In an interview Thursday, finance minister George Papaconstantinou repeated his government's denials of the stories. "We have not talked to China and no investment bank has a mandate from us to talk to China," he said. Nonetheless, prices for Greek bonds have continued to sink.

They fell further Thursday on new reports that France and Germany were preparing a bailout for Greece. Again the government responded with strong denials.

"There is no plan B in terms of bailouts," Mr. Papaconstantinou said, adding that if the government needed to take additional austerity measures, it will.

The bailout reports hit the euro, which fell to a seven-month low against the dollar Thursday. Greek bonds were also hurt, with interest rate spreads over the benchmark German bonds widening at one point beyond four percentage points, a record.

In fact, the markets are sending contradictory signals. If a bailout is being prepared—and many European officials assume that if Greece can't raise enough money in the markets one will be—then the euro's fall in value makes sense. That's because a bailout would send a signal of lower fiscal discipline and would emphasize the critical weakness of the euro as a currency with a single central bank but no unified fiscal authority.

But if there is a bailout in the works, Greek bond spreads should narrow, not widen. With the big economies of the euro zone putting their financial muscle behind Greece, what would justify a four-percentage-point spread?

Faced by such contradictions from the financial markets, Mr. Papandreou let his guard drop Thursday in a public forum in Davos, where the Greek government was out in force. "This is an attack on the euro zone by certain other interests, political or financial, and often countries are being used as the weak link, if you like, of the euro zone."

Later, in his interview, Mr. Papandreou declined to elaborate on his claim, saying he saw no conspiracy. He returned to his central message: The blame for Greece's predicament lies with Greece and the key to emerging from it also lies within the country.

The government is embarking on measures to cut a full four percentage points from the budget deficit, estimated at 12.7% last year, with a raft of changes including cutting two layers out of five layers of government.

"These are major changes. In any other country, this is a small revolution," Mr. Papandreou said.

While the government embarks on efforts to rebuild the country's shattered credibility through action at home, his finance minister must also work on the debt markets. Mr. Papaconstantinou is planning trips to financial centers in Europe, U.S. and Asia, including possibly China, in February and March.

In the absence of a fully-fledged debt crisis, the crunch time comes in April. Half of the €54 billion it needs to raise this year must be raised in the second quarter in order for it to pay off maturing debt. It needs to raise roughly €12 billion in each of April and May. By June, 70% of its fund raising requirements should, if things go according to play, be in place, Greek officials say.

Yet the austerity measures being prepared elsewhere across the 16 euro zone nations, including Spain, show Greece's problems are a symbol of the euro zone's wider difficulties.

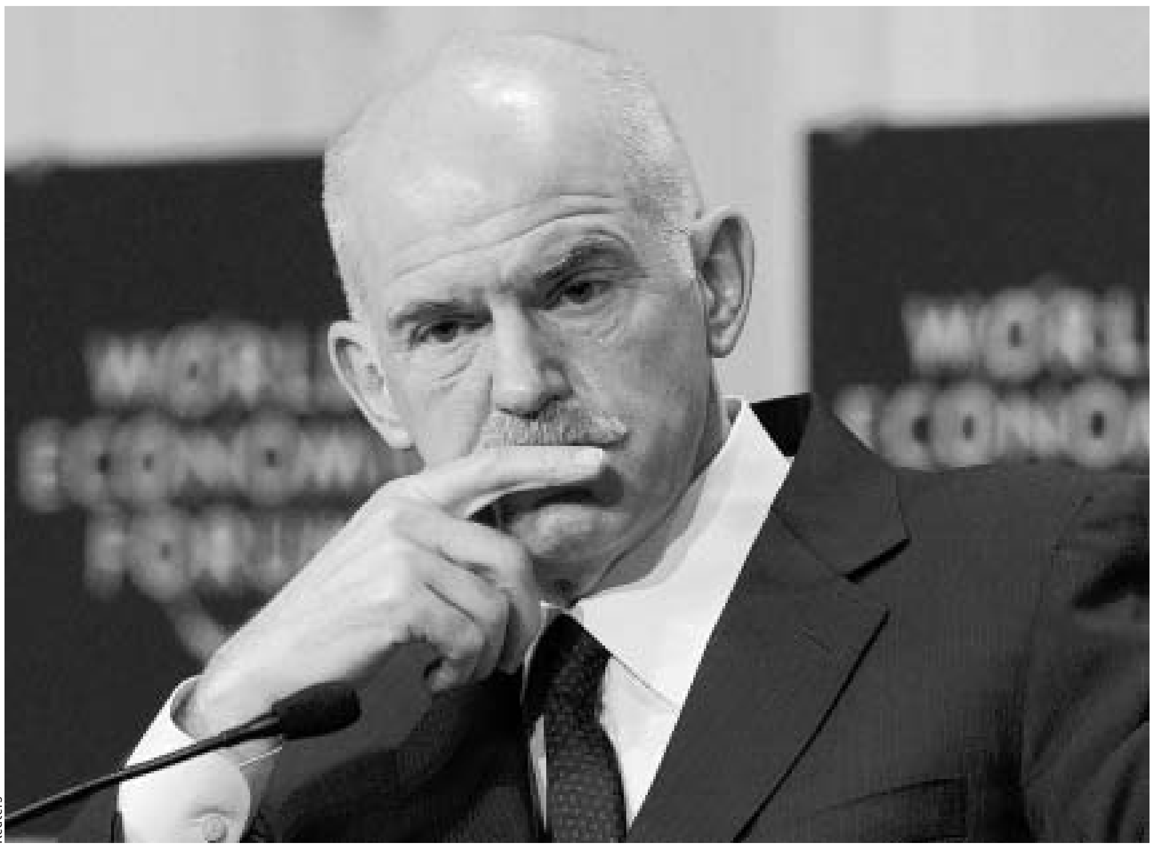
Jean-Claude Trichet, the president of the European Central Bank, insisted in Davos Thursday that the currency union's problems are no worse than those faced by other big economies in the financial crisis.

But the fact remains that much of the cost of the post-crisis adjustment will not be paid equally across the euro zone, and will be felt most harshly in a few countries, such as Greece, Spain and Portugal.

There, in the absence of the option of devaluation, governments must embark on the deeply unpopular task of cutting real wages.

Unsurprisingly, the message from governments in Davos Thursday was that this was a price worth paying for the stability of staying in the euro.

"Nobody is going to leave the euro zone, just as nobody is going to leave the European Union," said Jose Luis Zapatero, Spain's prime minister. But the fact that he felt it necessary to repeat that message led some in his audience to wonder why.



Reuters

Greece's Prime Minister George Papandreou at session at the World Economic Forum.

Greeks beg market support

Continued from first page

could damage public trust in the sustainability of public finances [and] exert upward pressure on interest rates in the area over the medium to longer term."

The austerity moves, however, raise fears that countries are moving prematurely to rein in costs. Going into 2010, the International Monetary Fund advised governments to keep their stimulus plans in place to ensure the global recovery takes root.

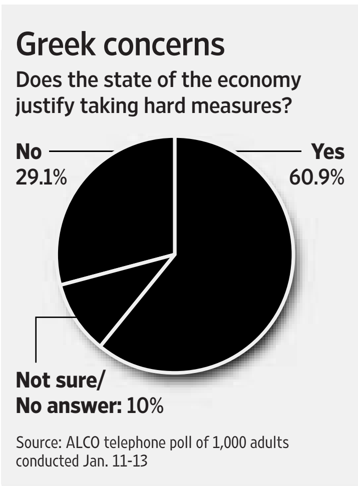
"There's a clear danger that countries are being forced by the markets and ratings agencies into tightening fiscal policy too quickly," said Jonathan Loynes, an economist at **Capital Economics** in London. "They'll have to strike a careful balance between keeping the markets happy, keeping the cost of borrowing down and avoiding aggravating their recessions."

Not all European governments are removing fiscal stimulus.

U.K. Chancellor Alistair Darling insists that bearing down on the U.K.'s budget deficit—predicted to reach 12.6% of GDP in 2010—too early would hinder Britain's economic recovery.

But economists caution that a gulf is likely to widen between countries that can afford to keep stimulus measures in place and those that need to act immediately to counter market perceptions of credit risk.

—Jonathan House contributed to this article.



Osborne reassures bankers

By Ainsley Thomson

DAVOS, Switzerland—The U.K. Conservative Party's shadow Treasury chief, George Osborne, Thursday moved to reassure bankers that his party had no plans to break up universal banks.

In an interview at the World Economic Forum annual meeting in Davos, Mr. Osborne said he didn't advocate a return to the Depression-era Glass-Steagall Act, which separated investment and commercial banking.

"I fully understand that modern universal banks need to offer their customers investment-banking services," he said.

Last week, Mr. Osborne voiced support for U.S. President Barack Obama's plan to place limits on the size and activities of commercial banks, but with the caveat that the plan should be adopted internationally.

Since last summer, Mr. Osborne has said several times that his party would support stopping commercial banks engaging in the riskiest types of activities, such as proprietary trading, in a bid to prevent another financial crisis. But he has made it clear that a Conservative government wouldn't seek to reimpose a strict division between retail and investment banks.

Mr. Obama's proposals, which would prevent banks from owning and investing in hedge funds and private-equity firms and would limit the trading they do for their own accounts, known as proprietary trading, have angered many bankers.

On Wednesday at the World Economic Forum, **Barclays** PLC President Robert Diamond publicly criticized the plan, saying there was no evidence that shrinking banks or narrowing banks' activities would help the global financial system.

At Davos, Mr. Osborne will be rubbing shoulders with Mr. Diamond and a large number of the world's top bankers, most of whom are lobbying hard against the Obama plan.

Mr. Osborne said he had had "good discussions" with "lots of bankers" over the past week and said he was reassuring them he wanted the U.K. to be a leading center for wholesale finance. "But being competitive means being well regulated, where the British taxpayer is protected if things go wrong," he said.

Mr. Osborne, who is joined in Davos by Conservative party leader David Cameron and the party's foreign-policy spokesman William Hague, said the message they were giving the world's business elite who have gathered at the Swiss ski resort, was that "Britain can be open for business."

"There will hopefully be a new government in Britain in the space of two or three months that is pro enterprise, and pro properly regulated financial services," Mr. Osborne said, adding that a Conservative government would "live within its means" and get on top of the budget deficit. The Conservatives are the current favorites to win the election, which must be held by June 3.

—Laurence Norman in London contributed to this article.

DAVOS 2010: WORLD ECONOMIC FORUM

China to keep to economic course

By Shen Hong

DAVOS, Switzerland—Chinese Vice Premier Li Keqiang said China will maintain its existing economic policies this year but will increase policy flexibility to manage inflation expectations.

Speaking Thursday at the World Economic Forum here, Mr. Li said that while China's economy faces a complex environment this year, its long-term upward trajectory remains intact despite the recent global crisis.

The speech marked the highest-profile international appearance for Mr. Li, who is widely considered to be in line to succeed Premier Wen Jiabao. While he addressed issues ranging from domestic economic reforms to global governance, Mr. Li avoided sensitive topics such as the yuan's value and growing trade frictions between China and the U.S.

Mr. Li said that to achieve more sustainable economic growth, his government needs to strike a balance among promoting fast growth, readjusting economic structure and properly managing inflation risks.

Mr. Li noted that China's consumer prices have started rising again but said Beijing will continue its proactive fiscal policy and moderately easy monetary policy, the government's standard language for its efforts to pump the economy with generous lending. Mr. Li said Beijing needs to make such policies "better targeted and more flexible in response to new circumstances."

Mr. Li's comments are mostly a reiteration of Beijing's current assessment of its economy, but the reference to inflation and policy


Agence France-Presse/Getty Images
Vice Premier Li Keqiang in Davos

flexibility highlights the authorities' subtle shift toward a slightly tighter monetary policy.

China's resurgent growth is in part a product of the government's massive stimulus package, mainly supported by record levels of lending by state banks last year that stoked domestic construction and consumption. China's gross domestic product expanded 10.7% in the fourth quarter from a year earlier, bringing full-year growth to 8.7%. That came in above the government's targeted 8% growth and well above many economists' estimates.

Underscoring the inflation risks posed by last year's credit surge, consumer prices in December rose 1.9% from a year earlier, accelerating sharply from the 0.6% rise in November, which followed nine months of declines.

Showing growing concerns over rising inflation pressure, China has in recent weeks moved to withdraw liquidity from the financial system. In recent days, state-owned banks have been instructed to temporarily suspend lending. The moves have sent jitters around international markets since China has become the engine of growth for a still-struggling global economy.

Commenting on China's growth model, Mr. Li suggested the country needs to look inward. "China's domestic market has huge potential," Mr. Li said. "We will strive to expand domestic demand, especially consumer demand."

Addressing a largely Western audience, Mr. Li also said China will remain committed to further opening up its economy and market, describing different nations as "passengers on the same boat." Mr. Li also urged the promotion of a more open global market.

DAVOS 2010: WORLD ECONOMIC FORUM

Central bankers differ on what to do

The emergence of economies from the financial crisis at very different speeds leads to a wide diversity of attitudes

By Brian Blackstone

Central bankers around the world are increasingly at odds over what steps to take next as economies emerge from the financial crisis at vastly different speeds, accentuating differences in attitudes about growth, inflation and the risk of future crises.

The trans-Atlantic divide stands in contrast to the situation in 2009 when policy makers faced the imminent threat of a global depression. The task of returning economies to growth was daunting, but the response was clear: Throw every fiscal and monetary weapon at the problem and clean up later.

At issue for central banks now is when to raise rates and how far to go in dialing back the extraordinary measures taken last year. Some policy makers, particularly in Europe, fear that heavy government spending and the easy money that central banks have put into the banking system—by pushing key rates to near zero, among other steps—could create a new crisis.

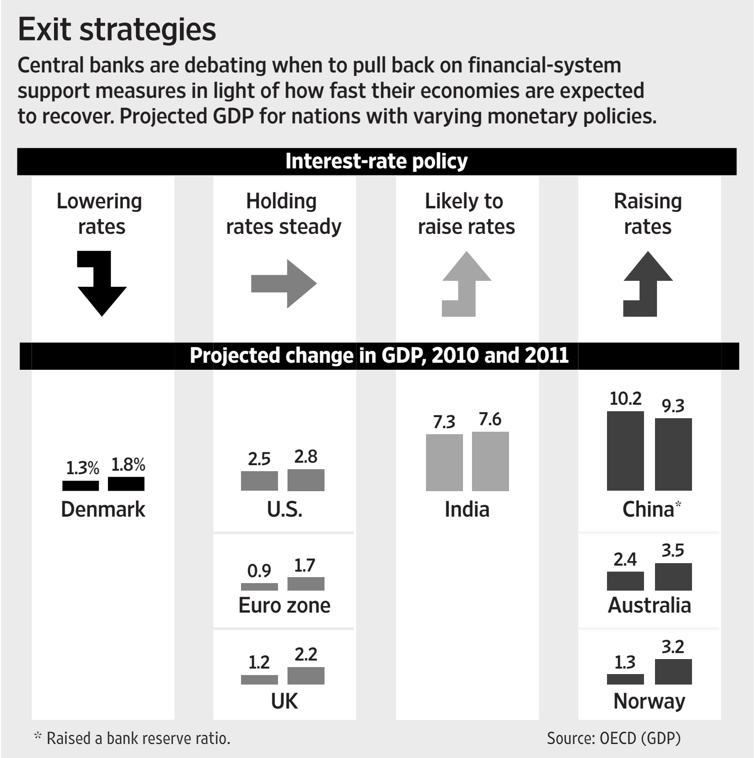
That, and disagreement over how well economies can absorb hundreds of billions of dollars, euros and pounds in stimulus without inflation, could lead to central-bank moves that trigger volatile swings in exchange rates and bond yields in coming months.

Adding to uncertainty is that some central banks face political challenges at home, including intense criticism of U.S. Federal Reserve Chairman Ben Bernanke in the U.S. and the timing of elections in the U.K., which some analysts worry could complicate central-bank decisions.

This year's meeting in Davos provides "a unique occasion to compare notes" on how to make the global economy more resilient, European Central Bank President Jean-Claude Trichet said in a recent interview.

Already, fast-growing China has tightened its monetary policy, while countries buoyed by rising commodity prices have raised interest rates. India is expected to follow in restraining credit soon, thanks to strong growth. At the other extreme, Denmark cut rates this month and is expected to do so again to bring its short-term rates more in line with those in the euro zone. In deflation-saddled Japan, the central-bank governor said last week that the bank would maintain its accommodative monetary stance.

A bigger issue is what central banks will do in the U.S., the U.K. and the euro zone, given the sizes of the economies and their effect on financial markets. Differences among the three over their economies' long-term prospects and the risk of asset bubbles will affect the timing of rate increases and other credit-restraint measures—and serve as a source of instability in financial markets.



Many economists say Europe will act before the U.S. in raising rates and scaling back other support measures. Goldman Sachs sees the U.K. raising interest rates, now at 0.5%, around midyear, with the ECB following to increase its 1% level in late 2010 and the Fed keeping official rates near zero through 2011. Those economists who see a different scenario still expect the ECB's rates to be higher than those in the U.S. and U.K. by year-end.

The U.K. faces a particular dilemma. It recovered from recession later than the U.S. and the euro zone, but inflation has already jumped higher.

ECB officials worry that maintaining easy credit for too long may spur excessive risk-taking and sow the seeds of another crisis. Committing to low rates for a long time "is risky," Lorenzo Bini Smaghi, of the ECB's executive council, said last week, and may create "a bubble." His ECB colleague Ewald Nowotny, of Austria, says excessive risk-taking is a worry, especially in the U.S.

Bundesbank President Axel Weber, a member of the ECB's policy-setting council, said in Davos this week that the central bank would discuss phasing out support measures in an orderly manner and that the policy would be set for the monetary union as a whole and not just for a few troubled members.

Imbalances such as overspending and borrowing in some countries and oversaving in others can lead to asset-market bubbles, especially if they are amplified by easy credit. When those bubbles burst—as they did in tech stocks a decade ago and housing more recently—they can lead to deep downturns.

Bank of England Gov. Mervin King said last week that unless imbalances around the world are addressed, another crisis "is only too likely."

U.S. officials appear more sanguine, for now. Fed officials say they see some signs of froth in Asia.

—John Hilsenrath contributed to this article.

World's beleaguered bankers get some support

[Davos Dispatches]

Reports from blogs.wsj.com/Davos

From Russia with love

They might have left the conference hall with President Nicolas Sarkozy's chastisement ringing in their ears, but Davos's beleaguered banker brigade still has some cheerleaders.

Take Alexander Izosimov, longtime CEO of Russian mobile-phone giant **Vimpelcom**, who is due to take charge of a new, expanded company merging Vimpelcom's operations from Ukraine and Russia to Central Asia and Indochina. It was bankers who got Vimpelcom's shares listed on the New York Stock Exchange, and bankers who enabled it to borrow billions of dollars for continuous upgrades and expansions of its mobile networks across 11 time zones (all serviced from a balance sheet of exemplary strength). Moreover, those independent shareholders and bondholders created an external discipline on Vimpelcom's two warring core shareholders, ultimately pressuring them to reach a settlement that—according to many Russian precedents—could have been far less civil and far more destructive, had there been only private interests at stake.

"I would be petrified by more regulation, I think there's a huge chance of it backfiring," he says. "People have to understand that excessive regulation is going to lead to far higher costs of capital and slower growth. One day the world will return to growth and will need the banking system—and it won't be there."

Now if that's not worth a few basis points for a loyalty bonus when the new Vimpelcom returns to the bond markets, then bankers really do deserve Mr. Sarkozy's fire and brimstone to be visited on them.

—Geoffrey Smith

Down but not out

Spinning through the halls of the Davos conference center there's a persistent question: What's the mood?

Ross Perot Jr. asked the question, then answered it: "Better than last year."

"Everyone has become conditioned to the environment," Mr. Perot says. "They have their game face on."

And any bankers who beg to differ could probably do with some time with Mr. Perot—he readily jumped to the defense (perhaps not so surprisingly) of the world's financiers.

The technology executive and son of former presidential candidate Ross Perot Sr. points out that **J.P. Morgan Chase**'s Jamie Dimon and **Goldman Sachs Group**'s Lloyd Blankfein (both notable absentees this year) did an admirable job of steering their way around the crisis.

"I would not punish the bankers like J.P. Morgan and Goldman," Mr. Perot says. "Both J.P. Morgan and Goldman have paid the government back so they shouldn't be punished."

And there is a simple solution for shareholders angry about any excess. "If shareholders don't like the salaries, don't buy the stock."

—Emma Moody

Reuters

Former U.S. President Bill Clinton

Clinton seeks Haiti help

Addressing the annual meeting, former U.S. President Bill Clinton gave business leaders an update of conditions in earthquake-ravaged Haiti. Serious food, water and shelter needs remain in Haiti, he said.

The airport has become the de facto operations center of the relief effort. About 100 planes land daily, about 10 times as many as before the earthquake. Safe and sanitary shelters are needed, and more food and water has to be distributed, Mr. Clinton said. "We have to get temporary schools opened" and Haitian students back in school, he said.

More food distribution points are needed and the only way to do this is via trucks, Mr. Clinton said. There are only about 15 food distribution sites now in Haiti. Mr. Clinton said more than 100 sites are needed. "If anyone here knows where I can get pickup trucks or slightly bigger [trucks], I need 100 yesterday," Mr. Clinton said.

He expressed confidence that once the severe problems created by the earthquake were successfully dealt with, Haiti could have a brighter economic future than before the earthquake. Mr. Clinton and other leaders were working on plans for Haiti's economy before the earthquake.

—Neal Lipschutz

Watching the watchers

With all the talk of financial regulation at Davos, the name of the Financial Stability Board comes up a lot. This institution, headed by Mario Draghi, Bank of Italy governor, is like a college of regulatory cardinals meant to set guidelines to better avoid crisis in the financial markets.

One item on its agenda is the question of transparency as a way of improving investors' understanding of complex financial instruments and preventing future disasters of the subprime variety.

An international pressure group called Transparency International, which campaigns against global corruption, is calling for a bit of transparency from the FSB itself. Who makes up this body that is charged by the (self-appointed) Group of 20 nations to set guidelines for global financial regulation? How does it arrive at its decisions?

Huguette Labelle, a Canadian who runs TI's board of directors, says the FSB and its fellow international bodies such as the Basel Committee of Banking Supervisors have significant work to do.

"These institutions are very important. Their work has to be transparent so they don't become centers for secret decision-making in a way that's not always publicly accountable," she said.

Asked about this, one member of the FSB said Wednesday night that he didn't think questions had yet been raised the FSB's legitimacy. But he said over time such issues were likely to emerge. The eventual solution, he said, might be to merge the FSB into the existing International Monetary and Financial Committee of the International Monetary Fund, which has similar though not identical membership.

—Stephen Fidler

DAVOS 2010: WORLD ECONOMIC FORUM

Davos security chief took own life

By Goran Mijuk

ZURICH—The security chief of the World Economic Forum, who was found dead in his hotel room on Monday, committed suicide, the prosecutor for the canton of Grison said Thursday.

The prosecutor said Markus Reinhardt, who was also the head of the cantonal police of Grison, killed himself with his own gun.

Successors for Mr. Reinhardt's positions as head of the forum's security and as head of the cantonal police were installed on Monday. The jobs safeguard the security of the more than 2,000 participants of the annual business gathering.

During the World Economic Forum, several hundred Swiss police officers and about 4,000 Swiss army troops protect the Alpine village and its surroundings.

Grison Justice Minister Barbara Janom Steiner said the security for the forum's more than 2,000 participants was intact at all times.

Meanwhile, she rebutted Swiss media reports that linked Mr. Reinhardt's suicide with heavy drinking habits, calling those reports unfounded. However, she confirmed that Mr. Reinhardt had showed up drunk at a security checkpoint before this year's forum started.

Ms. Steiner acknowledged that she was aware the 61-year-old Mr. Reinhardt had an alcohol problem and that she had asked him to take up therapy, which she said she had been closely monitoring ever since she took up her post as justice minister in 2008. Mr. Reinhardt had been head of the cantonal police of Grison since 1984.

The 2010 forum runs through Sunday.


European Pressphoto Agency

A 2002 photo of Marcus Reinhardt, left, who committed suicide this week.

'Peak oil' debate hits the slopes of Davos

By Andrew Critchlow

DAVOS, Switzerland—How quickly is the world running out of oil?

This was the question some of the world's most powerful energy executives failed to agree upon on at a panel here.

Khalid Al Falih, chief executive of Middle East oil giant Saudi Arabia Oil Co., or Saudi Aramco, reassured delegates that fears over dwindling energy supplies are overstated.

"There is too much rhetoric in the public domain about moving away from oil," said Mr. Al Falih, who oversees a company that, when all its spigots are open, can pump in excess of 12 million barrels a day of crude. "There are plenty of resources out there."

Matthew R. Simmons, chairman of Houston-based Simmons & Co. International, stoked concerns of a looming shortfall in the kingdom's oil supplies in his controversial 2005 book: "Twilight in the Desert: The Coming Saudi Oil Shock and the World Economy."

Fears over supply helped send oil prices to a record $147 a barrel in July 2008, only to fall back to $36 a barrel at the beginning of last year as the global financial crisis hit demand. Light, sweet crude futures for March delivery fell three cents Thursday to $73.64 a barrel on the New York Mercantile Exchange, the third consecutive drop.

> Fears over supply helped send oil prices to a record $147 a barrel in July 2008.

Mr. Falih's bullish outlook, backed up by his own country's bountiful oil reserves of about 264 billion barrels underground, wasn't unanimously shared by his counterparts from some of Europe's largest oil majors sitting on the panel, hosted by guru Daniel Yergin.

Total SA Chairman Thierry Desmarest was more sanguine on the prospects of boosting global output of oil. Mr. Desmarest said it will be difficult to increase global output beyond 95 million barrels a day of oil in the near future, up from about 85 million barrels a day currently estimated by the U.S. Energy Information Administration.

Tony Hayward, chief executive of **BP** PLC, said that future world supply could pivot on the ability of international oil companies to tap the vast reserves held in war-torn Iraq. Mr. Hayward said that Baghdad can boost oil output to 10 million barrels a day in a decade, making an "important contribution" to filling gaps in global supply. Iraq exported about 1.9 million barrels a day of oil on average last year.

BP is one of a number of international oil majors signed up by the Baghdad government to develop Iraq's dilapidated oil fields.

But the final word in the debate went to Aramco's Mr. Al Falih. "We don't believe in peak oil, not in the foreseeable future," he said.

DAVOS 2010: WORLD ECONOMIC FORUM

Bloomberg News

The sales are still on around Europe—like this one in Frankfurt, Germany—as economies fight off recession

Euro-zone confidence up

January figures better than expected, but recovery is two-speed

By Ilona Billington And Nina Koeppen

LONDON — Economic confidence in the 16 countries that use the euro rose more than expected in January, but the survey revealed growing divergence in mood between consumers and businesses and a two-speed recovery among member nations.

The euro-zone economy returned to quarterly growth in the three months to the end of September after five quarters of contraction, but the outlook remains uncertain.

Although many economists expect the currency bloc's economy to have grown again in the final quarter of 2009, there is concern about how sustainable the recovery will be, given that it has been fueled by ultra-loose monetary policy and a variety of government stimulus measures.

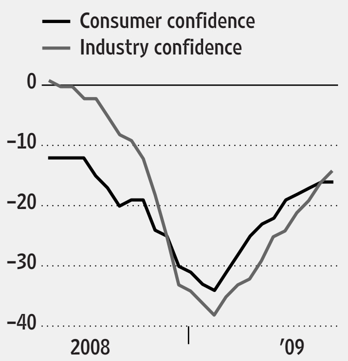
On Thursday, the European Commission reported that the Economic Sentiment Indicator for the euro zone rose for a tenth straight month to 95.7 in January, from an upwardly revised reading of 94.1 for December.

But a breakdown of the confidence data by country showed a divergence. Italy recorded a strong rise of 4.2 points in its ESI to 101.4 from 97.2 in January. France and Germany also saw further improvement with ESI readings climbing closer to their historical averages of 100.

Economic sentiment remained noticeably weaker elsewhere. In Spain, the index rose to 89.0; in Portugal, it was higher at 92.6; in Greece, it was 76.1. All were well below the historical average of 100.

Consumers still cautious

Monthly balance* of euro-zone economic confidence



*The figures are designed to reflect the balance between consumers and industrial companies who say that the economy is getting better and those who say it is getting worse
Source: The European Commission

Consumer confidence across the bloc stagnated in January from December at -16, reflecting concerns about the strength of the economic recovery and the impact on earnings and savings. But industrial confidence strengthened to -14 in January from -16 in December as the global economic recovery improved the outlook for total orders and export orders. "Today's indicators will be an important part of the ECB's briefing files for next week as it delivers two comforting main messages: the recovery continues and inflation expectations remain more than well-anchored," said Carsten Brzeski, European economist for ING Bank.

"However, the two-speeded recovery could give European central bankers a painful headache once they start considering rate hikes."

The European Central Bank is currently considering when and how to increase interest rates from their current level of 1%, though any moves are thought to be far off.

Also Thursday, Germany's jobs market fared better than expected in January as the number of jobless rose by 6,000 people, data from the country's labor office showed.

The increase brought the adjusted jobless rate up to 8.2% from 8.1% in December.

"The financial crisis has had a smaller impact on the jobs market than previously feared," said the head of the office, Frank-Juergen Weise.

But it's too early to give the "all clear" and unemployment may briefly rise above 4 million later this year, or in early 2011, he cautioned.

A total of 3.617 million people were registered as unemployed, up from 3.276 million in December. The increase pushed up the unadjusted jobless rate to 8.6% in January from 7.8% the previous month.

U.K. says university broke law on data

By Guy Chazan

U.K. authorities said the British university at the center of a controversy over hacked emails on climate-change research broke the law by failing to comply with requests for raw data about global warming, but that too much time has elapsed for the institution to be prosecuted.

The U.K.'s Information Commissioner's Office said breaches of the Freedom of Information Act require action by the authorities within six months of an offense taking place.

The requests for information by climate researchers were submitted in 2007 and 2008, and the alleged efforts to thwart them came to light only recently.

The university, not individuals who may have held back information, would have been subject to prosecution.

The university, which hasn't admitted to any wrongdoing, said the ICO's opinion that it had breached the law was a "source of grave concern to the University."

The university's vice chancellor, Edward Acton, said it was scrutinizing its handling of Freedom of Information Act requests as part of the independent review.

The ICO said it was gathering evidence from this and other cases to support efforts to change the law and extend the statute of limitations.

Many of the thousands of hacked email exchanges centered on climate researchers' requests for access to data used by British scientists to reach conclusions about global temperatures.

The exposure of the emails by unidentified hackers led to allegations by scientists who are climate-change skeptics that researchers at the University of East Anglia had manipulated data to bolster the argument for global warming and squelching the views of such skeptics.

The affair blew up just days before the Copenhagen climate-change summit and cast a pall over international efforts to curb carbon-dioxide emissions.

Some messages between researchers discussed ways to decline such requests for data, on the grounds that they were confidential or were intellectual property.

The ICO said the hacked emails show requests made to the university under the Freedom of Information Act were "not dealt with as they should have been under the legislation."

It referred to a section of the act that makes it an offense for public authorities, in this case the university, to deliberately prevent the disclosure of information requested by the public.

Phil Jones, the director of the university's Climatic Research Unit, stepped aside last month pending the outcome of an independent review into the leaked email affair.

Mr. Jones has said he stands by the university's research and said the hacked emails had been taken "completely out of context."

The CRU is one of a number of institutes around the world that have provided data on historical surface temperatures used to bolster the argument that the planet is warming.

The review, led by a former civil servant, Sir Muir Russell, is examining all of the hacked email exchanges to check for evidence that data were handled in ways that are "at odds with acceptable scientific practice and may therefore call into question any of the research outcomes." Separately, local police are also investigating how the emails became public.

Associated Press

The University of East Anglia was implicated for not complying with information requests.

German school reveals sex allegations

Associated Press

BERLIN—Several students at one of Germany's most prestigious high schools were allegedly sexually abused for many years by their teachers, the school's director said Thursday.

Father Klaus Mertes says he has sent out 500 letters to alumni of Berlin's private, Catholic Canisius Kolleg to determine the extent of the case after seven ex-students recently said they were abused in the 1970s and 1980s.

The ex-students first got in touch with the school after discussing the abuse with each other, Father Mertes said. It was unclear whether they planned to take legal action.

Canisius Kolleg is one of Germany's pre-eminent schools, alma mater of many politicians, businesspeople and scientists.

Father Mertes said that the seven, and likely many more, were allegedly abused by two ex-teachers who were members of the Jesuit order.

"I'm deeply shocked and ashamed about these appalling assaults, which are not just single incidents, but took place systematically and over several years," Father Mertes wrote in his letter to the school's alumni.

At a news conference at the local archdiocese's office, Father Mertes said the school had been guilty of looking the other way when the alleged abuse cases happened. He said the letter was an apology and a signal to other possible victims to come forward.

Father Mertes said the two Jesuit fathers taught at the school for eight years before leaving in the late 1980s. They are no longer members of the Jesuit order, but after the allegations surfaced this month, they were contacted by its independent counselor for sexual-abuse victims.

"We are currently communicating with them," counselor Ursula Raue said. She declined to elaborate.

Ms. Raue also said several other alumni responded to the letter and told her they had also been victims of sexual abuse, but she didn't want to specify how many more cases that involved.

All of the victims were male and most were about 13 when the alleged abuse started, Father Mertes said. They are around 40 now.

He added that he had promised the victims not to make public details of the alleged abuse.

Canisius Kolleg was founded as an all-boys school and turned co-ed in the late 1970s.

Germany, unlike the U.S. and Ireland in particular, hasn't seen major abuse scandals in its Roman Catholic church.

U.S. NEWS

In Washington, little hope for change

[Capital Journal]

By Gerald F. Seib

In perhaps the most memorable line from his State of the Union address Wednesday night, President Barack Obama told the assembled members of Congress that Washington suffers from a “deficit of trust” with voters.

He understated the case. “Crisis of confidence” would be closer to the truth.

It’s becoming increasingly clear that one of the results of the economic meltdown has been a parallel meltdown in the public’s confidence that their bickering, partisan leaders in Washington can come together to deal with it, or with much of anything. When Americans were asked in a Wall Street Journal/NBC News poll this week to describe their view of the federal government, a whopping 70% agreed the government is either unhealthy or in need of large reform. That’s up from 43% who felt that way just after the election of President George W. Bush.

Worse yet, there is a real possibility—despite Mr. Obama’s pleas Wednesday night for bipartisanship, his subtle suggestions that Republicans will share the blame if things turn out badly, or his offer to meet Republican leaders regularly—that this year won’t bring a big change in the situation.

Indeed, it’s at least possible that dysfunction will grow, not shrink, in 2010.

The message Americans are sending “is a big one, and the message is we hate what’s going on in Washington,” says Peter Hart, the veteran Democratic pollster who conducts the Journal/NBC News survey with Republican Bill McInturff.

In fact, Mr. Hart thinks that’s how most American interpreted the outcome of the recent Massachusetts special Senate election, in which voters took the late Ted Kennedy’s seat away from Democrats and handed it to Scott Brown, a fresh Republican face. In the new poll, Americans around the country were asked what message that vote sent, and half said they saw it as a message to the capital city.

“To the degree they could send a message out of Massachusetts,” Mr. Hart notes, “it wasn’t a message to Obama. It was a message about what’s going on in Washington.”

Mr. Obama, of course, came to office famously promising to change how Washington works. On Wednesday night, he ruefully acknowledged he’s failed to make that happen.

In finest Washington fashion, it’s possible to spend a lot of time dwelling on who is to blame for this failure—Mr. Obama for not trying hard enough, or House Democrats for pushing policies too far to the left, or Republicans for being the party of no.

The better answer lies in the very culture of the capital, where every problem is seen less as an issue to be resolved than a tool to improve political position; in which every position taken by a political leader of either party is automatically and mindlessly assailed by the other side’s 24-7 political-attack machines; and in which lawmakers willing to negotiate a compromise are assailed by their own party’s activists as spineless or lacking in conviction.

This culture makes a retreat to partisan corners the safest route in any controversy.

Two examples: Last fall, Mr. Obama, in a nod toward a top Republican priority, opened the door to including in the big health-overhaul plan some steps toward stemming the rash of medical-malpractice suits that drive up health costs. His party conspicuously closed the door.

> The culture makes a retreat to partisan corners the safest route in controversy.

Second example: This week the Senate defeated a bill to create a bipartisan commission that would compose a plan to reduce the mammoth budget deficit, which the full Congress would have to accept or reject in a simple vote. Six Republican Senators who actually co-sponsored the bill initially reversed course and actually voted against it on the Senate floor. They were under pressure from party leaders not to support anything that might lead to a tax increase in an election year.

But all that may be less important than the question of whether there’s any chance the arc of Washington’s dysfunction will change this year. On that front, the grounds for optimism are decidedly limited.

The two best routes for getting something done in Washington are power and persuasion: Accumulate enough power to push solutions into place, or be persuasive enough to win over wavering lawmakers and the American public.

On the power front, despite big Democratic majorities in both houses, the party didn’t have enough power to simply push through its highest priority in 2009, which was that big health bill.

Now, the loss of that Massachusetts Senate seat means Democrats have lost their super-majority of 60 Senate seats needed to stop filibusters. The party in power suffers from a power shortage.

Moreover, this erosion of Democratic power may leave Republicans even less motivated to compromise. They will be tempted to simply sit tight until they see whether they can win back control of at least one house of Congress in this fall’s elections.

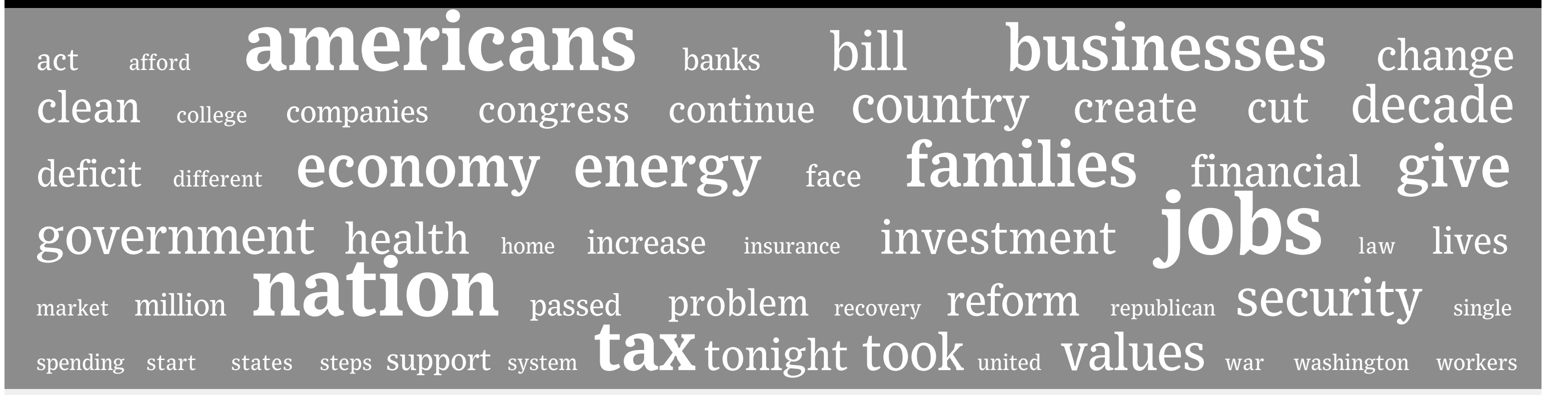
That leaves persuasion. Some thought Mr. Obama was sufficiently eloquent and persuasive to bridge partisan divides and convince each side to make the compromises necessary for progress. And while he is indeed eloquent, that clearly isn’t enough.

Ultimately, voters themselves may need to figure out how to send a stronger message that they do, indeed, want change.

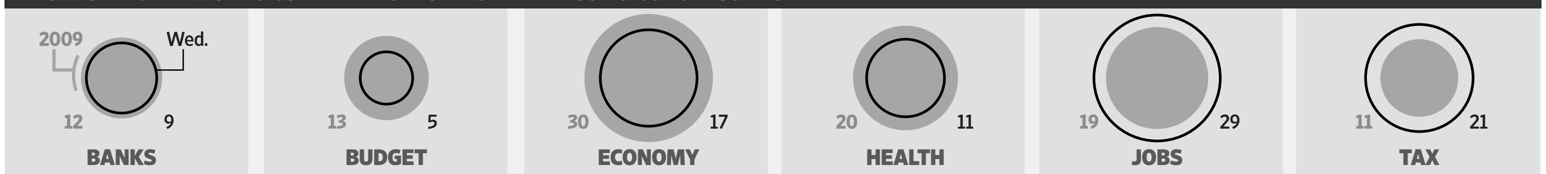
Associated Press

President Obama, greeting members of Congress before delivering the State of the Union address, said in the speech Washington suffers from a “deficit of trust.”

What the president said



HOW SELECTED WORDS COMPARE TO HIS FIRST ADDRESS TO CONGRESS LAST YEAR



Note: Analysis generated using Daniel Steinbock’s tagcrowd.com; certain words were excluded or combined with similar words

Source: White House