



## Where can Prudential turn now after \$35.5 billion takeover flop?

BUSINESS & FINANCE 19

## Netanyahu lashes out at critics after botched raid

WORLD NEWS 11

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## Shooting rampage in U.K. kills 12

A taxi driver drove his vehicle across a tranquil stretch of northwest England on Wednesday, methodically killing 12 people and wounding 25 others before turning a gun on himself, officials said.

The rampage in the county of Cumbria was Britain's deadliest mass shooting since 1996.

The body of the suspected gunman, 52-year-old Derrick Bird, was found in woods near Boot, a hamlet popular with hikers in England's scenic Lake District. Police said two weapons were recovered from the scene. According to a chronology from the U.K. Press Association, emergency services were called at 10:35 local time to the town of Whitehaven. Police urged people living in Whitehaven and nearby towns to stay indoors. Just after noon, police confirmed "a number of people" had been injured in a series of shootings. At 1:40 p.m., the body of Mr. Bird was found in a wooded area near Boot.

At 5:25 p.m., a police official said 12 people were killed and 25 injured, and said they were examining 30 separate crime scenes.

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Taxi driver Derrick Bird, on holiday in Tenerife. At least 12 people were killed after the divorced father of two went on the rampage in England's Lake District before shooting himself.

## Europe spars over best way to curb banks

BY MATTHEW DALTON AND ANDREA THOMAS

As the European Union's executive arm introduced a raft of policy ideas aimed at improving management of banks, European governments weighed in with proposals that illustrate ongoing tensions between national and international efforts at financial regulation.

The swirl of sometimes contradictory proposals to stave off future financial crises came ahead of a meeting this week of finance ministers of the Group of 20 leading economies to discuss financial regulation in Busan, South Korea.

The European Commission proposed a series of measures aimed at banks and insurance companies, including limits on the number of boards a person can sit on, a prohibition on one person being both chief executive and chairman of the board, restrictions on large pay packages for executives leaving a firm, and elevating the importance of risk-management committees to board level.

It also proposed legislation

to consolidate oversight of credit-rating companies in a new European authority with the power to demand information, impose penalties and levy fees on the companies. The legislation would adjust a law passed last year that tightened regulation of the ratings companies but left the responsibility for oversight with national regulators.

Germany, meanwhile, moved ahead with its unilateral ban on short selling of all stocks and euro-currency derivatives unless the sales are for hedging, not speculative purposes. The German cabinet Wednesday approved a bill banning such "naked" short selling, and the government is seeking fast approval, hoping that it passes the upper house of Parliament on July 9.

The bill extends Germany's earlier ban on naked short-selling of shares in 10 leading German financial institutions and credit-default swaps on euro-zone government bonds from May 19. The surprise move was criticized by the U.S., and there is little to suggest that the European Union will follow Germany's example

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Flip side: Pancake Man and Waffleman in battle for food supremacy. Page 33

### World Watch

A comprehensive rundown of news from around the world. Pages 34-35

### Editorial & Opinion

Germany's a big-boy nation now, and it's time to grow up. Page 14

## BP hits new oil-well snag

BP PLC, under pressure to contain a massive oil spill that is affecting a wide swath of U.S. Gulf Coast shoreline, has hit a snag while trying to sever a pipe connected to the mile-deep well as a nearly two meter oil sheen was found along Florida's Panhandle shoreline Wednesday.

By Susan Daker, Stephen Wisniewski And Mike Esterl

Overnight, the response team was able to "successfully" make the first shear cut of the pipe, said U.S. Coast Guard Adm. Thad Allen, the national incident commander for the spill, said at a news conference in Houma, La. However, a specialized saw got stuck while making a second fine cut that's needed be-



BP CEO Tony Hayward

fore a containment device can be placed.

"They are working that problem right now. The goal later on today is to finish that cut and to be able to put a containment device on top of the wellhead," he said.

The containment device is designed to channel oil up to a ship on the surface. BP is pursuing this option after announcing over the weekend that a procedure known as a top kill, which appeared promising at first, had failed to plug the leak.

Despite the apparent setback with the new strategy, BP's shares were up nearly 3% at \$37.71 late in New York. The company's shares fell 15% on Tuesday alone, wiping away \$20 billion in market value as investors considered the likelihood that the company won't be able to contain the leak until relief wells are completed in August, as well as the prospect of huge costs related to cleanup and lawsuits. The U.S. said Tuesday it has opened a criminal investigation into the

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## PAGE TWO

# Focus on red-letter days is unhealthy

## [ Agenda ]

BY RICHARD BARLEY

The bond markets have gone mainstream. Friends and relatives who are usually unconcerned with such matters are aware of Spain's recent ratings downgrade by Fitch. Conversations at parties range over whether the U.K. will lose its triple-A rating, and what it will mean if it does. Nonfinancial newspapers have given ever greater prominence to the euro-zone debt crisis. Comment boards online are full of discussion about whether governments need to cut their deficits, and how that should be achieved.

This is a problem. Having the bond markets—which, let's not forget, dwarf the equity markets—on the front pages is a measure of how bad the situation has become. That's particularly the case for Europe.

A good rule of thumb for defining a risky sovereign borrower, one investor says, is a country where you need to count the dollars going in, and the dollars going out. Much attention is paid to precisely what access the country has to funding, the price it has to pay, and how much of its upcoming bond redemptions are covered.

In deciding whether or not to invest in the debt of such a country, investors are unambiguously taking a decision about creditworthiness. This is something all emerging-market investors have known and thought about.

Investors are now asking these questions of some big chunks of the euro-zone government bond market. As Greece's debt crisis deepened, investors and analysts alike latched onto the significance of May 19 as a flashpoint: an €8.5 billion (\$10.4 billion) bond was due to be repaid on that day. In the end, the euro zone came to the rescue in the nick of time and the Greek government received €14.5 billion on May 18. But there



The giant euro symbol at the ECB headquarters in Frankfurt.

is already a new red-letter day in the market's calendar: July 30, when a Spanish bond totaling €16 billion falls due.

Of course, maturity dates matter to investors. They are vital for managing cash flows in portfolios and play a key part in investment strategies. Bond issuers, too, are well aware of the market dynamics and can use the natural flows in the market to smooth the sale of new securities. But the market's focus on dates like May 19 and July 30 is far from healthy.

## Having the bond markets on the front pages is a measure of how bad the situation has become.

The underlying problem is one that has been seen many times before in financial crises. Investors who thought they were taking one type of risk find out that in reality they are taking another risk, which they haven't thought about.

With some euro-zone

government bonds, investors thought they were taking interest-rate risk; their strategies were tailored to deal with the relative price shifts in government bonds of differing maturities based on what was happening to inflation and official interest rates.

The much-proclaimed vanquishing of inflation over the past 10 to 15 years and the benign economic environment for much of that time allowed euro-zone interest rates to converge, providing further cohesion for the euro, a largely political construct. But, particularly in Greece, it now turns out that investors had been taking credit risk all along.

To some extent this is a rerun of the subprime securitization crisis. Then, investors in triple-A asset-backed securities discovered that they were exposed to market and funding risks that they hadn't taken account of. In addition, the structural features that were supposed to protect them from losses simply evaporated.

The result was investors fleeing the asset class, dumping both good and bad securities indiscriminately.

With government bonds, there is a wrinkle: flows out of one

sector of the market tend to be recycled into other parts of the market. Hence the apparent enthusiasm for U.S. Treasuries, U.K. gilts and German bunds, all of which face their own problems, including double-digit budget deficits in the U.S. and U.K. In Germany's case, the shift simply underlines the strains on the euro zone: investors in German bunds have earned 6.5% year-to-date, according to Merrill Lynch; holders of Spanish bonds have lost 1.5% while Portuguese bonds are down 2.1%.

But even this doesn't make too much sense. Rescue efforts such as the €750 billion package announced by the euro zone and International Monetary Fund—initially trumpeted as the trillion-dollar bailout, but now, because of the soggy euro, reduced to a less neat \$915 billion—will have to be funded by the strong nations if they are called upon.

Contingent liabilities have a nasty habit of turning out to be real: just ask the banks that moved their structured investment vehicles back on balance sheet.

In the midst of all this, politicians have made rhetorical statements that they may come to regret, speaking of the wolf-pack behavior of investors and vowing to stamp out speculation.

Germany's unilateral and hasty ban on some forms of speculation has backfired spectacularly. Investors who are being asked to stump up billions of euros take a dim view of being labeled as the villains of the piece. That's particularly the case when these investors are no longer sure that what they are buying is all it promised to be.

The euro zone thus ends up having a big problem: The widespread awe over its vast "shock and awe" bailout has dissipated. But there is still the risk of a costly shock, unless the bond markets can regain their poise. Those in the mainstream are right to be very interested, and concerned.

## What's News

■ **Germany is set to outline billions of dollars in budget cuts in coming days to reduce its deficit, despite hopes in the euro zone and the U.S. that the country will keep the fiscal spigot open to support Europe's weak recovery. 8**

■ **Spain's job market improved in May but consumer confidence fell, highlighting a threat to growth and jobs from budget-cutting measures imposed by the EU. 6**

■ **Prudential's failed bid to buy AIG's Asian life-insurance business leaves the firm with a less glamorous task: finding a convincing new strategy. 19**

■ **Swiss politicians complicated the handling of a U.S. settlement to hand over account details on UBS clients by recommending a possible referendum on the issue. 21**

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'Will threatening BP with criminal charges prevent this disaster from becoming a catastrophe?'

Jack Davis on the U.S.'s criminal investigations into the Gulf oil spill



### Continuing coverage



Follow reaction to Israel's raid of a Gaza-bound fleet at [wsj.com/mideast](http://wsj.com/mideast)

### Question of the day

Vote and discuss: Will Tidjane Thiam, the chief executive of Prudential, be able to survive after the collapse of the AIA deal?

Vote online and discuss with other readers at [wsj.com/dailyquestion](http://wsj.com/dailyquestion)

### Previous results

Q: Will anything short of a relief well work to stop the flow of oil in the Gulf?

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No

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NEWS

# Using Earth to map hidden cosmos

By Robert Lee Hotz

**THE SOUTH POLE**—At the bottom of the world here, astronomers are building an observatory that uses the ice cap of Antarctica as a lens and the planet Earth as a filter.

They are after an elusive subatomic particle called a neutrino. By embedding sensors in a billion tons of the world's purest frozen water, the Antarctic ice sheet, they hope to capture the telltale blue spark from a rare collision in the ice between a neutrino from outer space and an ordinary atom. They have pointed the sensors downward, away from the sky, using the planet to screen out cosmic rays.

Each fleeting blue spark will offer a clue to hidden cosmos. By plotting these sparks, like points on a graph, to reconstruct the neutrino's path through the ice, the researchers expect to trace that path directly back to its source. If all works as planned, later this year the scientists expect to be probing stellar cataclysms across the reaches of time and space.

Funded primarily by the U.S. National Science Foundation, this neutrino observatory is the largest astronomy project undertaken on the isolated continent. The array of sensors taking shape deep within the ice here—a telescope like no other—will cost \$271 million. Thirty-five laboratories in seven countries will share the data.

"We are basically making a map of the universe with neutrinos," said senior project physicist Mark Krasberg from the University of Wisconsin in Madison.

Neutrinos are well suited to the purpose. Lacking an electrical charge and almost without mass, these particles usually pass through ordinary matter undisturbed. That makes them almost impossible to detect. But it also means that neutrinos, unaffected by normal matter, radiation or gravity, offer a way to penetrate recesses that light and the electromagnetic spectrum cannot reach.

Scientists believe that neutrinos have been produced steadily since the birth of the universe, especially during the life and death of stars. If they can detect neutrinos passing through Earth, astronomers think they can track the particles back to the nuclear fires that created them and gain new insights into exploding supernovas, neutron stars and gamma-ray bursts.

"It is a totally new way of looking at the sky," said project chief scientist Francis Halzen at the University of Wisconsin.

Called Ice Cube, the new South Pole facility is the latest attempt to broaden human perceptions of the universe with sensors attuned to

wavelengths invisible to the eye. Telescopes sensitive to infrared, microwave, gamma ray, x-ray and ultraviolet frequencies led to the discovery of pulsars, quasars, black holes and radiation lingering from the Big Bang itself. No one knows just what neutrino astronomy may reveal. The researchers who first detected neutrinos from the sun and a distant supernova won the 2002 Nobel Prize in Physics.

"It is an unproven field," said physicist Thomas J. Weiler at Vanderbilt University in Nashville, who is part of a 12-nation consortium developing the Extreme Universe Space Observatory, a separate project. "We are right at the edge now where optimism turns into realism."

The observatory is set almost entirely beneath the snow-drifted surface of the polar plateau, with 5,000 sensors arrayed in a quarter of a cubic mile of ice. Since 2005, crews have been lowering the glass-globed sensors wired together in strings of 60, like Christmas lights, into holes melted by hot-water drills deep into the polar ice sheet. There, they freeze in place.

"We are hoping to find something that no one could have predicted," said Mr. Krasberg, the project's senior physicist.

To gather enough data for practical astronomy, researchers needed an enormous detector, because interactions between neutrinos and ordinary matter are so rare, said astrophysicist Graciela Gelmini at the University of California in Los Angeles.

As a natural formation much larger than any man-made detector, the ice cap of Antarctica seemed made to order. Unusually pure, the ice is so transparent that optical sensors can pick up the spark of neutrino light from hundreds of yards away.

At this remote South Pole outpost, the engineering challenges are formidable. Every tool and gallon of fuel must be ferried thousands of miles. The drilling equipment filled 40 cargo flights, totaling a million pounds of gear. At the height of the polar research season earlier this year, 50 scientists in hard hats and red parkas manhandled cables, hoses and glass electro-optical sensors atop an ice cap two miles thick. The air holds only 60% of the oxygen found at sea level. Frostbite, snow-blindness and altitude sickness are occupational hazards: Even breathing here is hard labor.

The observatory should become fully operational by January. Dr. Weiler, from the separate project, has high hopes for its success. "I honestly think that Ice Cube will make a significant discovery within the year," he said.

## Ice-fishing for neutrinos

Under the ice of the South Pole, researchers are constructing a \$271 million observatory to map the universe using neutrinos. These unusual subatomic particles are almost impossible to detect because they usually are unaffected by normal matter, radiation or gravity.

**IceCube lab**

**In-ice sensor network**

Engineers use hot-water drills to melt 86 holes, a mile deep or more, into the ice. There they are lowering 5,000 electric-optical sensors into the holes, then allowing them to freeze in place.

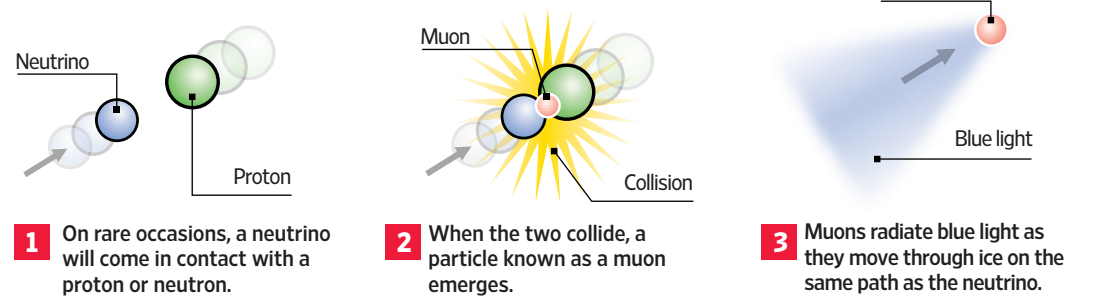
**Deep core**

The sensors detect the flare from the rare collision of a neutrino and a normal atom as the particle speeds through the array and relay the signal to the surface, accurate to within five-billionths of a second.

**Bedrock**

**Neutrino astronomy**

By plotting the direction of a neutrino through the ice, researchers expect to reconstruct its route back across the universe to its origin in a supernova or other cosmic cataclysm.



Source: IceCube Project, University of Wisconsin at Madison.

# In poker, better to be lucky than good, Swiss court rules

Associated Press

**GENEVA**—Texas hold 'em is a game of luck.

That's the opinion of at least of Switzerland's highest court, which banned tournaments of the high-stakes poker game outside of casinos.

Had the Swiss Supreme Court ruled Wednesday that Texas hold 'em was a game of skill, it would have permitted private competitions to continue. But it said simple math,

tactics and psychology played smaller roles than luck in determining the winner.

The decision will anger fans of the popular card game, which has enjoyed a flourishing of events in Swiss restaurants, bars and hotels. Tournaments also have a growing following on TV and the Internet.

"The horror," railed the website SwissPokerTour.ch, which brings together players and organizers around the country. "Today is a black day for all amateur poker

players in Switzerland."

The game, played in the World Series of Poker in the U.S. each year, starts with each player on the table receiving two cards face down. After a round of optional betting, three cards are "flop" face up and more money can be waged. Then, two more community cards are drawn and bets can be placed after each.

The Supreme Court ruling came after Swiss casinos appealed a lower court decision that Texas hold 'em

was a game of skill and could therefore be played anywhere. It said smaller poker matches could continue among friends, even if money is involved.

In Switzerland, games of luck such as roulette and slot machines are restricted to licensed casinos, which pay a hefty 50% tax on profits. Private organizers of poker games weren't paying those taxes, argued Marc Friedrich, head of the Swiss Federation of Casinos. He estimated that about 100 unlicensed

poker championships were taking place each weekend. Casinos must identify participants, prevent money laundering and fight gambling addiction, but private Texas hold 'em events were avoiding these requirements, according to Mr. Friedrich.

He said the differences amounted to unfair competition, and said a number of players already banned from casinos for racking up excessive debts were continuing to play freely in outside events. The Swiss court's decision cannot be appealed.

## GULF OIL SPILL

# Gov. Jindal takes lead role as critic

*Louisiana Republican faults BP and federal government in cleanup, but remains a supporter of offshore drilling*

BY COREY DADE

PORT FOURCHON, La.—In the gathering frustration over failures to stop the oil leak in the Gulf of Mexico, Louisiana Gov. Bobby Jindal has emerged as one of the staunchest critics of the response by the federal government and BP PLC.

Nearly every day, the Republican policy wonk pulls on his brown cowboy boots and traipses across a newly oiled shore, or takes a boat through fouled waters. Along the way, he often lambastes BP's and the federal government's efforts as "too little, too late" for communities scrambling to protect their fragile wetlands from encroaching crude—comments that have drawn sharp criticism from the White House and some Democratic lawmakers.

Louisiana has jurisdiction over its coastline, but none in the federal waters of the Gulf.

Mr. Jindal accuses the federal government of poorly coordinating cleanup efforts between its agencies and BP, leading to delays in cleaning oiled beaches and marshes, laying protective boom and delivering resources to critical areas.

Pledging that Louisiana will "take matters into our own hands" if the Obama administration doesn't speed up its pace, he has begun coastal patrols for oil and relays new sightings to the Coast Guard and BP. He dispatched the Louisiana National Guard and state personnel to build shore barriers, lay sandbags and monitor the shores.

In turn, Democrats in Louisiana and in Washington—including some in the White House—have grown frustrated with Mr. Jindal, whom they say has received a pass to criticize the Obama administration even as some of his own efforts raise questions.

On a recent morning, Mr. Jindal led a group of local officials, news media and others in boats to the mouth of the Mississippi River, where oil has enveloped the Pass a



Louisiana Gov. Bobby Jindal, above, speaks about the oil spill last week. Right, he flopped in his rebuttal of a speech by Barack Obama in 2009.

Loutre wetlands. Thick swirls of reddish-brown oil slicked the water's surface in all directions, and heavy black crude coated the bases of Roseau cane.

"This is one of the most important nurseries for the Gulf, and we have to fight this oil at the barrier islands instead of in our interior wetlands," he said.

Mr. Jindal's aggressive stance has helped ratchet up pressure on the federal government, and puts the 38-year-old governor, a graduate of Brown University, back on the national stage. In 2009, he delivered the Republican Party's rebuttal speech to President Barack Obama's State of the Union address. Mr. Jindal's performance was roundly ridiculed—both in political circles and among the general public—as wooden and cartoonish.

Now, Mr. Jindal, an ardent conservative who attacked big government in his rebuttal speech, is demanding greater federal aid.



Associated Press

Mr. Jindal supports offshore drilling, like most Republicans, but has irked some in his party by excoriating BP and pledging to recoup from it the cost of coastline cleanup and protection. Republicans generally have focused their wrath on Mr. Obama.

Mississippi Republican Gov. Haley Barbour, who said Tuesday that oil has been spotted on Petit Bois Island near the Alabama border, has maintained a lower profile. He has said the Gulf spill shouldn't bring an end to offshore drilling.

Mr. Jindal is also bent on avoid-

ing the mistakes of his predecessor, Democrat Kathleen Blanco, who was widely blamed for the state's stagnant initial recovery from Hurricane Katrina and who was tainted by the Bush administration's storm response.

Local officials said Mr. Jindal and his administration have done well filling gaps in the federal response to the spill. "He's stepping outside the box and doing what we need done since we can't get any help out of the Coast Guard and BP. It's an embarrassment," Plaquemines Parish President Billy Nungesser, a Republican, said last week.

Mr. Jindal wants the federal government to approve construction of offshore sand berms to protect Louisiana's coastline. Approval by the Coast Guard would enable the project to be folded into the federal government's response to the spill, triggering BP's legal obligation to pay for it.

BP hasn't said how it might respond if ordered by the Coast Guard to pay for the entire project. Company officials, like federal authorities, have expressed doubts about the berms, from their effectiveness to the construction time to the risk of legal liability if the barriers cause problems.

The Coast Guard last Thursday approved a berm two miles long to be built off Plaquemines Parish as a "prototype" for officials to evaluate.

Senior White House officials said Mr. Jindal's proposed sand berms would take too long to construct, the proper sand quantity wasn't readily available and the barriers could erode before stopping the oil flow.

Yet on Tuesday in New Orleans, the Coast Guard, at the president's direction, met with Mr. Jindal and local officials and discussed the governor's plan. Mr. Nungesser left early, fuming at the federal government, and later called the talks a farce.

—Valerie Bauerlein  
contributed to this article.

## BP hits snag in attempts to contain well; oil sheen is found near Florida's coast

Continued from first page  
spill, but Attorney General Eric Holder didn't specify who exactly was under investigation.

If the response team is unable to dislodge the saw, another saw would have to be used, Adm. Allen said. He added there was no question a second cut could be made, but it remained uncertain how precise the cut would be. The smoother the cut is, the better the chance will be that the containment device will be able to capture a greater quantity of oil.

"As soon as the cut is made that separates the remainder of the riser pipe from the lower marine riser package, they will assess the quality of the cut and either move to install the top cap, which is the tighter device, with actually a rubber seal around it, or the top hat, which is a little wider and has less of a seal," he said.

The procedure, which has never been attempted at these depths, could increase the flow of oil spewing into the water by 20%, at least

temporarily, government officials have said in recent days. Adm. Allen reiterated that projection, but said the increase in the flow rate wouldn't occur until the second cut was finished.

**The procedure, which has never been attempted at these depths, could increase the flow of oil spewing into the water by 20%, at least temporarily.**

Last week, a group of scientists led by the U.S. Geological Survey estimated that about 12,000 to 19,000 barrels of oil a day were spewing into the Gulf.

Adm. Allen said that oil has now made landfall on parts of Mississippi and that tar balls and sheening were apparent in Alabama. He said oil

hasn't yet hit the coast of Florida's Panhandle, but a spokeswoman at the Mobile, Ala., spill command center, confirmed that the oil sheen was found along Florida's Panhandle and said it was "close to the beach if not right on the beach."

The oil sheen appeared to be a small breakaway piece from a larger sheen measuring off the coast of Pensacola on Tuesday afternoon, according to the spokeswoman.

The Florida Panhandle is in the northwestern part of Florida, a long stretch of white sandy beaches popular with tourists. Pensacola is located in the western-most part of the Panhandle, bordering Alabama.

It is the first time authorities have reported an oil sheen along Florida's coast following the April explosion.

The Coast Guard was expected to decide soon whether or not to approve a sand-berm project that state and local officials in Louisiana have been requesting to protect the shore, Adm. Allen said.

## Lawsuits, too, may surpass Exxon spill

BY DIONNE SEARCEY

NEW ORLEANS—Just as the Deepwater Horizon oil spill has surpassed the scope of the 1989 Exxon Valdez spill, it appears the torrent of related litigation has, too.

Lawyers here are busy trying to increase the size and scope of the lawsuits they have filed on behalf of people who contend they were harmed in some way by the disaster spreading along the Gulf of Mexico coast.

Families of employees killed in the April 20 explosion aboard the Deepwater Horizon rig, leased by BP PLC, have filed suits, as have many of the 115 survivors of the incident and some of the rescuers who plucked people from the burning waters.

There are suits from those who say they have been hurt economically, including shrimpers, oystermen and fishermen, seafood pro-

cessing plants, deep-sea fishing operations and businesses and municipalities that rely on tourism. Environmental groups have filed litigation of their own. The opening of criminal and civil investigations by the U.S. government, announced Tuesday, will likely fuel efforts by plaintiffs' attorneys.

Hoping to reel in more clients, attorneys have snapped up domain names such as bigoilspills.com and put up billboards along highways saying "Oil spill hurt your business?" and advertising their services.

BP won't discuss its legal strategy, but that hasn't kept attorneys from trying to predict its moves. Based on Exxon's maneuvers during litigation over the Exxon Valdez incident, they anticipate that BP will emphasize the importance of offshore drilling as part of U.S. policy, how much BP has spent on cleanup and how sorry it is for the spill.

## GULF OIL SPILL

# Hayward's fate in the balance

By GUY CHAZAN  
AND BENOIT FAUCON

BP PLC has lost a third of its market value since its well started spewing oil into the Gulf of Mexico, triggering an intensifying backlash in Washington. That has some investors speculating on just how long CEO Tony Hayward will keep his job.

BP's board says it is behind him and he has support within the company. "The board is 100% aligned with and supportive of Tony Hayward and his executive team in what they are doing to deal with this disaster," said BP spokesman Andrew Gowers.

In the long term, however, some investors say Mr. Hayward's prospects look hazy.

"After this incident there'll be a need for a more independent executive to undertake a root-and-branch review of the company's safety processes," said one BP investor.

It makes little sense for the company's board to oust him at the moment. Some shareholders say privately they doubt the company would remove him before the well is finally plugged—which might not be for another two months at least.

The reason: With the crisis still escalating, it may be better to keep Mr. Hayward strapped in the hot seat—rather than bring in a successor who could be tarnished just as quickly as Mr. Hayward has been.

Much depends on what happens in the efforts to contain the well and in the investigations into the disaster.

**With the crisis still escalating, it may be better to keep Mr. Hayward in the hot seat—rather than bring in a successor who could be tarnished just as quickly.**

If the various investigations under way end up spreading blame for the spill across a number of companies—such as **Transocean Ltd.**, which owned and operated the Deepwater Horizon rig that was drilling the well, and **Halliburton Co.**, which was contracted to cement the well when it blew up—that could take the pressure off Mr. Hayward and allow him to ride out the storm.

"We still don't know whether any of this was BP's fault, and if it is whether there could be a criminal case to answer," said Jason Kenney, an oil analyst at **ING Bank**, who retains a "buy" rating on BP's stock.

But if BP ends up as the only guilty party, and if criminal negligence is proved, "I can't see how Hayward can survive," said one investor.

Criticism of Mr. Hayward mounted this week after the company failed to plug the well through a highly anticipated "top kill" operation, pumping in thousands of barrels of heavy drilling mud.

U.S. authorities also stepped up the pressure Tuesday by announcing a criminal investigation into the oil spill, although they didn't name any specific people or companies as targets.

A plain-speaking geologist unused to the media spotlight, Mr. Hayward has also made some gaffes. In an interview Sunday, he said he "wanted [his] life back" after five weeks of dealing with the crisis, leading to accusations of insensitivity toward the 11 men killed when the rig leased by BP blew up April 20. On Wednesday, Mr. Hayward backpedaled, saying he was "appalled" by the comment, which he said was "hurtful and thoughtless."

Mr. Hayward continues to have support within the company, where some midlevel executives say they were impressed by his decision to move permanently to the U.S. and personally oversee the clean-up.

"He is a general," said one BP manager, asking what a successor would do better to solve the crisis.

But with each failed attempt by BP to stem the spill one mile underwater, political pressure on the company and on Mr. Hayward himself has risen. That pressure looked set to grow Wednesday as oil appeared on beaches of tourism-dependent Florida.

BP now says the crude will continue to flow until a relief well is completed in August.

It has switched to trying to reduce the amount of oil polluting the Gulf by capping the well and channeling much of the flow to a ship on the surface. But even that effort suffered a temporary setback Wednesday when a saw being used by an underwater robot to cut through a damaged pipe got briefly stuck.

Meanwhile the bill for the clean-up has already topped \$1 billion and could go much higher. BP faces a wave of compensation claims from the thousands of Gulf Coast residents whose livelihoods have been hit by the spill.

Investors worry that the escalating costs could force BP to cut its dividend—an event that hasn't happened since August 1992.

The company spent \$10 billion on dividends last year and the payout is a key source of revenue for U.K. pension funds.

BP will be seeking to reassure shareholders in the coming days that the dividend is safe, even as BP's potential liability from the oil spill disaster continues to rise, according to a person familiar with the matter.

Two U.S. senators, Democrats Charles Schumer of New York and Ron Wyden of Oregon, wrote to Mr. Hayward on Wednesday saying it was "unfathomable" that BP would pay out a dividend to shareholders before the total cost of the clean-up was estimated. They said moving "money off the company's books and into investors' pockets" would make it harder for BP to repay the U.S. government and communities hurt by the spill.

Some BP shareholders hope the company—and its beleaguered CEO—will weather the crisis.

"If the new cap is successful and controls the leak, you can cross off some of the extreme negative scenarios," said Ivor Pether, a fund manager at **Royal London Asset Management** and a BP shareholder. "Then you get back to a range of cost estimates that are containable for BP and more than discounted by the recent fall in its share price."



BP CEO Tony Hayward at the company's command center in Houston last week.

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## EUROPE NEWS



Reuters

People wait in line to enter a government job center in Madrid on Wednesday. Last month's drop in registered jobless claims was the biggest in five years.

# Spanish job market improved in May

By JONATHAN HOUSE

MADRID—Spain's ailing job market showed signs of improvement in May but consumer confidence plunged, highlighting a threat to growth and jobs from radical budget-cutting measures imposed by the European Union.

In an effort to shore up confidence, Prime Minister José Luis Rodríguez Zapatero said Wednesday that his government will approve an overhaul of the country's labor market on June 16. Mr. Zapatero said the change will go ahead with or without the agreement of unions and business groups. The International Monetary Fund says the measure is key to spurring growth and employment.

Data from the labor ministry released on Wednesday showed registered jobless claims fell by 76,223, or 1.8%, to just over four million. May jobless claims were up 12% from a year earlier. Though May is traditionally a good month for employment as Spain's large tourism industry takes on workers ahead of the summer, the ministry said May's

monthly drop was the biggest in five years.

"The May jobless data are truly positive because this is the second consecutive month that jobless claims fell," said Francisco Aranda, head of AGETT, an association of employment agencies.

Spain's ministry doesn't provide an unemployment rate, but Eurostat reported Monday that Spanish unemployment stood at 19.7% in April, nearly twice the 10.1% average for the 16 members of the euro zone.

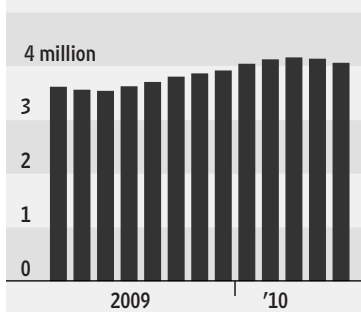
Spain is grappling with the collapse of a decade-long construction boom that has pushed its economy into a prolonged downturn and punched a hole in its public sector accounts.

It is facing additional challenges since the Greek financial crisis raised concerns about other fiscally strained countries, resulting in a selloff of Spanish and Portuguese financial assets as well as the euro. Last month, the EU approved a giant financial backstop designed to ease concerns toward Spain and other countries, but asked for new spending cuts in return.

## Signs of improvement

Spain's job market has improved, but cutting back government spending, a key support of growth, could be risky.

Spanish jobless claims fell in May and April.



Sources: Spain's Labor ministry, Spain's Statistics institute

Drivers of first-quarter GDP growth, change from previous quarter

Consumer spending	0.5%
Non govt./non consumer	-1.1
Government spending	1.4
Capital goods investment	-1.2
Construction investment	-3.4
Other investment	-2.8
Exports	2.0
Imports	1.1
Overall GDP	0.1

Spain last week approved €15 billion (\$18.35 billion) in new cuts—including a 5% reduction in public-sector wages this year, a freezing of pensions next year, and deep cuts in investment—and acknowledged they would have a neg-

ative impact on economic growth and on unemployment.

Last week, the government raised its forecast for average unemployment this year to 19.4% from 19% previously and to 18.9% next year from 18.4% previously. It main-

tained its forecast for a 0.3% contraction in 2010 gross domestic product in 2010, but lowered its forecast of 2011 GDP growth to 1.3% from 1.8%.

Unions have called a public-sector workers strike against the measures for June 8. Comisiones Obreras leader Ignacio Fernandez Toxo last week called the cuts "socially unjust" and said they are "counterproductive as they go against economic recovery, and as result, a recovery in employment."

Maria Jesus Fernandez, economist at the think tank Funcas, said there is already evidence the austerity measures are having an economic impact, like the 10-point drop in May from April in the consumer confidence measure published by the government's credit arm ICO. Falling confidence could translate into a decline in consumer spending.

"Probably people were frightened" by the severity of the government's measures, Ms. Fernandez said.

—Jeffrey T. Lewis and Daniel de la Puente contributed to this article.

## Euro-zone producer prices rise

By NICHOLAS WINNING

LONDON—Euro-zone producer prices posted their sharpest monthly gain for 21 months in April, fueled by higher prices for energy and intermediate goods, data from the European Union's Eurostat statistics office showed Wednesday.

The figures back recent surveys that suggest a pickup in pricing pressures as the currency block emerges from recession. But economists say inflation remains muted and the European Central Bank

won't need to tighten monetary policy for some time.

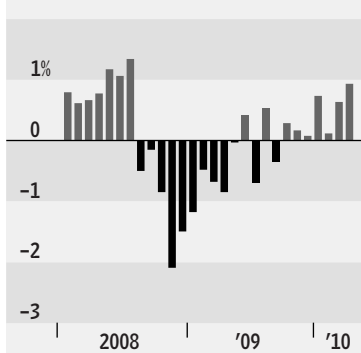
Eurostat said industrial producer prices excluding construction rose 0.9% from March, the biggest monthly gain since July 2008. Producer prices rose 2.8% from a year earlier, the sharpest year-to-year gain since November 2008.

Economists were expecting producer prices to rise 0.7% from March and 2.6% from a year earlier, according to a Dow Jones Newswires survey last week. In March, factory-gate prices rose 0.6% from February and 0.9% from a year earlier. "While the ECB will note the rise in intermediate producer prices in April, the data overall is unlikely to fundamentally alter the bank's view that euro-zone consumer-price inflation will remain subdued over the two-year policy horizon," Howard Archer, chief U.K. and European economist at IHS Global Insight, said in a note.

The data showed producer prices for energy jumped 1.9% in April, while prices for intermediate goods gained 1.3%, the strongest monthly rise since January 1995. On the year, producer prices for intermediate goods gained 2.7% and energy prices jumped 7.7%, both the strongest annual increases since October 2008.

## Wholesale inflation

Euro zone's industrial producer prices, change from previous month



Source: Eurostat

Recent surveys of euro-zone manufacturing companies by Markit have indicated that input costs are rising because of higher prices for commodities and energy and stronger demand for raw materials. The depreciation of the euro has also raised the cost of imported goods.

However, the Eurostat data showed that producer prices of capital goods, durable consumer goods, and nondurable consumer goods remained subdued in April.

## Greece outlines plans to privatize state firms

By ALKMAN GRANITSAS

ATHENS—The Greek government announced long-delayed plans Wednesday to privatize state-owned companies as part of its attempt to fix the country's public finances.

Greece is struggling to cut its budget deficit from a record 13.6% of gross domestic product last year to 8.1% in 2010, while it also faces a rising debt burden. Last month, Greece agreed to a three-year austerity program in an exchange for a €110 billion (\$135 billion) loan from the European Union and the International Monetary Fund.

In a news conference, Finance Minister George Papaconstantinou said the government would move to privatize 49% of the operations division of unprofitable state-owned railways company Hellenic Railways Organization, or OSE.

Under the terms of the deal, Greece must move ahead with the restructuring of OSE by the end of this month. The company is carrying more than €10 billion in debt, and loses €1 billion a year, Mr. Papaconstantinou said.

It will also privatize state holdings in casinos, sell a 39% stake in

the Greek post office, and dispose of stakes in some state-owned services, including waterworks companies in two major cities.

"The memorandum [with the EU and IMF] foresees revenue of €1 billion a year for the period 2011-13," Mr. Papaconstantinou said. "But our estimates are definitely higher than those foreseen in the projections."

But the finance minister gave few details and said the privatizations would take place over three years. He said the government is also looking at other opportunities to privatize state assets, either through stake sales or through privatized management contracts, including the country's ports, airports and state property holdings.

Mr. Papaconstantinou said the government is also restructuring Greece's natural-gas monopoly to prepare it for privatization.

He said there would be no change in the government's holdings of leading state companies OPAP SA, the Greek gambling monopoly, or Hellenic Telecommunications Organization SA, the incumbent telephone operator that is 30% controlled by Germany's Deutsche Telekom AG.

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EUROPE NEWS

# U.K. gunman kills 12 in deadly spree

Taxi driver's shooting rampage across England's Cumbria County is one of U.K.'s worst acts of firearm violence

BY PAUL SONNE

A British man killed 12 people and injured many more before killing himself in England's northwest region of Cumbria on Wednesday, police said, in one of the worst acts of gun violence in the U.K., where firearm controls are tight and fatal shootings infrequent.

A 52-year-old taxi driver, Derrick Bird, is suspected of opening fire in the town of Whitehaven on Wednesday morning and then traveling across the county in a gray Citroën Picasso to shoot victims in other towns, according to the Cumbria Constabulary.

Mr. Bird was found dead, with two guns, in a wooded area of Cumbria on Wednesday afternoon.

"This has shocked the people of Cumbria—and around the country—to the core," Deputy Chief Constable Stuart Hyde said in a statement early Wednesday evening.

"We are still at a very early stage in our investigation and we are not able to really understand the motivation behind it or establish whether this was a premeditated or random attack," Mr. Hyde said.

News of the shooting in the picturesque region reverberated across the U.K., with Prime Minister David Cameron noting in a speech to Parliament that lawmakers were "alarmed and shocked."

**'This has shocked the people of Cumbria—and around the country—to the core,' Deputy Chief Constable Stuart Hyde said in a statement.**

He said a full report on the shooting would be made in Parliament on Thursday.

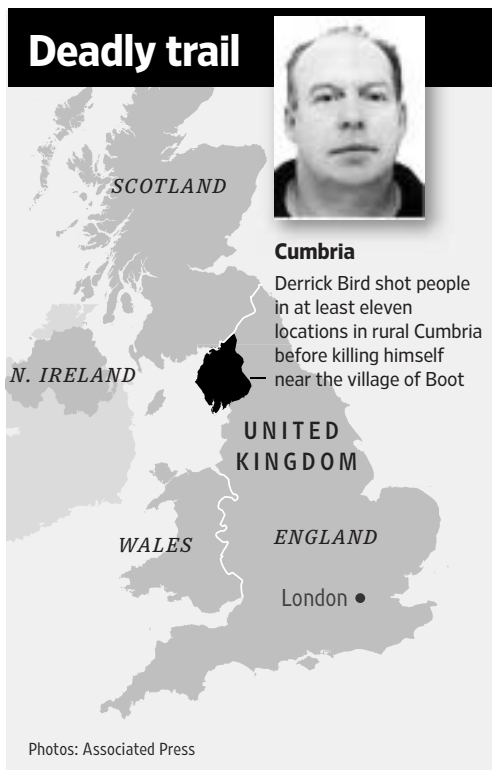
The attack is the third mass shooting in recent British history. In 1987, a 27-year-old man killed 16 people and wounded many more during a shooting in the English town of Hungerford.

## Cumbria ranks with Europe's worst shooting massacres

Multiple shooting deaths are rare in Europe, but traumatic incidents in recent years include:

**Aug. 19, 1987:** Michael Ryan went on a shooting rampage in Hungerford, England. Armed with an automatic rifle, a pistol and at least one hand grenade he shot 16 people dead, including his mother, before killing himself. The incident led to tighter restrictions on gun ownership in the U.K.

**March 13, 1996:** Former Scout leader Thomas Hamilton entered the gymnasium at Dunblane Primary School in Scotland and opened fire on a class of five- and six-year-olds, killing 16 children and their teacher. In a shooting spree that lasted less than three minutes, Mr. Hamilton, who was armed with two pistols and two revolvers, fired 109 rounds. A public inquiry into the massacre found that Mr. Hamilton had been investigated by



Photos: Associated Press



Police stand next to a body in the town of Whitehaven one of the sites of an apparently random trail of shootings

Nine years later, a 43-year-old former Scout leader opened fire at a primary school in the Scottish town of Dunblane, killing 16 children and their teacher. Both assailants committed suicide on the scene.

The shootings led to 1997 legislation that banned handguns for private use in the U.K. and an earlier regulation that clamped down on the use of rifles.

Gun violence is relatively rare in Britain. In 2008-09, firearms were used in just 0.3% of recorded crimes in England and Wales, according to the U.K. Home Office, and there were only 39 fatal shootings.

Peter Squires, a professor of criminology at the University of Brighton, said the shooting could lead to another round of gun-control legislation in the U.K.

While handguns are banned and rifles are highly restricted, it isn't too difficult to obtain a shotgun, Mr. Squires said, and some British gun-control advocates are pushing for tighter regulation.

The Cumbria Constabulary didn't say what type of firearm the suspect used.

Witnesses told British news organizations that Mr. Bird was carrying a shotgun.

Mr. Squires said the shooting

could reinvigorate the drive to develop a central registry across the 43 police forces in England and Wales of all legal guns.

"For 10 years since Dunblane, there has been a promise of a civilian firearm inventory, so the police

know where the licensed firearms are," he said. "That problem became rather sidelined when we began to get more preoccupied with the problem of gangs and guns."

He said this incident could bring the issue back to the fore.

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## EUROPE NEWS

# German government to cut spending

Merkel says almost all areas are under review as coalition aims for \$12.22 billion in savings, new revenue in 2011

By Marcus Walker

BERLIN—Germany's government is set to outline billions of euros in budget cuts in coming days to reduce its deficit, despite hopes in the euro zone and the U.S. that Europe's biggest economy will keep the fiscal spigot open to support the region's weak economic recovery.

Chancellor Angela Merkel's ruling center-right coalition is weighing steps ranging from defense cuts to higher tobacco duties to find roughly €10 billion (\$12.22 billion) in savings and extra revenue next year—the first step in a multiyear effort to all but eliminate Germany's budget deficit.

**Germany's budget deficit, at 3.1% of GDP last year, is one of the smallest in the euro zone.**

Ms. Merkel has warned that nearly all areas of government spending are under review, including tax perks and benefits that Germans have long held dear. Her cabinet is seeking to agree on the list of cuts on Sunday and Monday. "We must make sure we don't constantly live beyond our means," Ms. Merkel said in a recent speech.

Berlin's growing focus on frugality comes as other countries and many economists are calling on Germany to do the opposite: To stimulate domestic demand a little longer, in order to prop up a euro-zone recovery that is in danger of stalling amid a debt crisis on the bloc's Southern fringe, where countries such as Spain, Portugal and Greece are cutting spending under pressure from creditors.

The German government says it has no choice but to trim its deficit, in order to obey the country's so-called debt brake: a constitutional amendment passed last year that requires virtually balanced budgets

from 2016. The motivation behind that goal was to prevent rising public debt from undermining the German welfare state as the country's population ages and shrinks.

The government is tight-lipped about where the cuts will fall, with ministries saying decisions haven't been made yet. German media have speculated that measures could include drastic cuts in the German army, new taxes on air travel and nuclear energy, lower housing benefits for the long-term jobless, a new flat-rate levy for public health care, and an end to many tax breaks. Finance Minister Wolfgang Schäuble has said only pensions are safe from cuts, reassuring Germany's powerful and growing lobby of retirees.

The debt brake requires Germany to cut its so-called structural budget deficit (ironing out swings in the economic cycle) to only 0.35% of gross domestic product from 2016 onward, compared with about 3% of GDP now. The government says that requires savings of €67 billion from 2011 to 2016, meaning that Germany must shave more than €10 billion from its deficit every year.

The euro-zone debt crisis that began in Greece has raised domestic political pressure on Ms. Merkel to rein in public debt, forcing her coalition to give up its aim of cutting income taxes, a key pledge of its election victory in October. The public mood has turned sharply against tax cuts since then, with Germans widely viewing them as unrealistic. A survey by polling institute Forsa last week showed 76% of voters are now worried that the country's public finances are out of control, up from 62% in February.

Germany's budget deficit, at 3.1% of GDP last year, is one of the lowest in the euro zone. But the shortfall is set to rise to around 5% this year, thanks largely to fiscal-stimulus measures passed after the collapse of Lehman Brothers. The stimulus spending, valued at nearly 2% of GDP this year, means German fiscal policy will still support the economic recovery in coming months,



German Chancellor Angela Merkel and Vice Chancellor and Foreign Minister Guido Westerwelle, in Berlin, Wednesday.

says Eckart Tuchtfeld, an economist at Commerzbank in Frankfurt. But the cuts now being prepared mean German fiscal policy will be less and less supportive from 2011, he says.

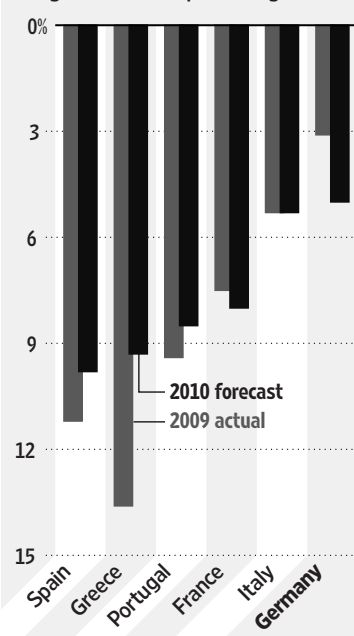
Some analysts say the drag will be modest. "Ten billion in savings won't undermine domestic demand" in Germany's €2.4 trillion economy, says Alexander Koch, economist at UniCredit in Munich. German household spending tends to depend mainly on the labor market, which is strengthening slowly, he says. Data released on Tuesday show German unemployment fell to 7.7% of the labor force in May, down from 7.8%.

The worry driving Germany's budget cuts is that even moderate deficits could drive up total public debt, expected to reach about 77% this year, to unsustainable levels in the next decade and beyond, threatening the viability of Germany's cherished pension system and social safety net. Applying the debt brake will eventually reduce public debt to 60% of GDP, says Mr. Koch.

—Laura Stevens  
contributed to this article.

## Better than most

Budget deficit as a percentage of GDP



German deficit as a pct. of GDP



Sources: Unicredit; EU Commission; German Government

## Finance bills show tensions

Continued from first page  
anytime soon.

German Finance Minister Wolfgang Schäuble said Germany decided "to go ahead...to accelerate the European approach." The European Commission is expected to present its plan on naked short-selling in October.

However, the government watered down earlier plans slightly. A proposed ban on all euro-currency derivatives is now an option that the government "can implement per decree if crisis situations require it," a final draft of the legislation stated.

French Finance Minister Christine Lagarde Wednesday urged the commission to accelerate work on short-selling rules and to find a coordinated position. She said Germany's naked short-selling ban had only a very narrow application and isn't a general principle.

Meanwhile, in a speech for delivery in Brussels late Wednesday, new British Treasury minister Mark Hoban said the U.K. would go it alone and impose a levy on its banks—even if there were no inter-

national agreement to put one in place.

The commission proposed a Europe-wide bank levy last week, aimed at ensuring that banks—rather than taxpayers—bear the cost of resolving bank failures.

U.K. officials believe the money raised should go to the general budget, rather than a bank rescue fund, saying the latter could result in "moral hazard," encouraging banks to behave recklessly.

Mr. Schäuble said Germany will continue to push for another tax: one on financial-market transactions. If one isn't implemented globally, Germany would lobby for a European solution, he said, adding that if there is no agreement on a transaction tax, Germany would instead support a more general tax on financial activities.

Jose Manuel Barroso, president of the European Commission, said he backed a financial-transaction tax, too—with the proceeds of that tax going into government budgets.

—William Horobin and Stephen Fidler contributed to this article.

## EU still courts Balkans

By Gordon Fairclough

The European Union pledged Wednesday to keep its doors open to membership for the poorer states of the western Balkans, despite mounting worries about expanding the group in the wake of the Greek financial crisis.

At a summit meeting in Sarajevo, the capital of Bosnia-Herzegovina, senior EU officials sought to reassure government ministers from the Balkan states that once their nations meet the bloc's criteria for joining, they will be admitted.

"We came here to firmly say that despite the fact that you might hear different noises" from some in Western Europe, Balkan countries still would be welcomed into the union, said Carl Bildt, the Swedish foreign minister.

Still, serious hurdles remain a decade after the EU first held out the promise of membership.

Of the countries that emerged from the violent collapse of Yugoslavia beginning in the 1990s, only Slo-

venia so far has succeeded in joining the group.

Croatia, Macedonia and Montenegro are at different stages of seeking inclusion, as is neighboring Albania.

Bosnia, whose politics remain fractured along ethnic lines, and Kosovo, whose independence isn't recognized by some EU states, have yet to apply.

"Integrating the western Balkans into the European family of nations remains one of the last challenges to building a democratic and unified Europe," said Catherine Ashton, the EU's foreign-affairs chief, in a statement issued ahead of the one-day meeting.

But some diplomats and analysts fear the prospect of EU membership—which offers few concrete payoffs as countries pass through the intermediate stages of the lengthy joining process—is losing its allure as an incentive for reconciliation and improved national governance.

"There needs to be something

tangible" to encourage continued progress on fighting corruption, strengthening institutions and overcoming mutual suspicions in the Balkans, said Heather Gabbe, director of the nonprofit Open Society Institute's Brussels operations.

Stepped-up engagement between the EU and Balkan governments "could avoid a lot of trouble down the road," she said.

Ms. Gabbe and two co-authors wrote a paper last month calling on Brussels to pursue an "intensified" application process to take Balkan candidates through the initial steps toward membership, and early on laying out a detailed map of what each needs to do in order to join.

Balkan states have come a long way since armed conflict tore the region apart in the 1990s.

But tensions remain. On Sunday, riot police in Kosovo used tear gas in an effort to prevent clashes between thousands of ethnic Albanian protesters and ethnic Serb demonstrators in the divided town of Mitrovica.



U.S. NEWS

## New rules for Wall Street, and for its regulators, too

[ Capital ]

By DAVID WESSEL



Beneath disputes over details of the financial regulatory bill now moving through Congress, each worth billions to someone, lurks a fundamental tension: How much should Congress write strict rules to reduce risks of another global financial crisis? And how much should it leave to regulators who failed to prevent the crisis in the first place?

This tension isn't unique to financial regulation, but is particularly acute there. Regulators blew it, but they weren't alone. Every blowout preventer on the financial system failed. Yet Congress tolerated a regulatory structure with gaps big enough for American International Group to drive through, and regulators—appointed by presidents, confirmed and overseen by Congress—failed to use powers and pulpits they had.

The fix, embodied in the bill likely to emerge in a few weeks, gives regulators less discretion than they had in the past. The legislation, for instance, will set rules for coping with another Lehman Brothers or AIG. It demands that originators of mortgages hold 5% of the risk of default so they can't blithely sell lousy loans to investors and walk away.

But there is still lively debate about what Congress should decide and what it should delegate. The House, for instance gives the Fed the power to bar big firms from trading for their own profit; the Senate orders regulators to write rules banning it.

The left says Congress is counting too much on the wisdom of discredited regulators. It presses for laws limiting how much banks can leverage their balance sheets, for instance. "We should follow in the footsteps of our forebears from the 1930s who made the tough decisions and wrote bright-line laws which lasted for over 60 years—until they were repealed," said Sen. Ted Kaufman (D., Del.).

The right counters with an attack on big government. Sen. Richard Shelby (R., Ala.) blasts the new consumer-finance regulator as "the Democrats' new bureaucracy" and "a massive expansion of government influence in our daily financial lives."

Business is flexible; it wants whatever suits its interests. Companies that use derivatives to hedge want Congress to tie the hands of the Commodity Futures Trading Commission because they fear its current chairman will be too aggressive. But big banks much prefer that the friendlier Federal Reserve, not Congress, make rules for what businesses they can and can't enter.

The prudent principle is easy to state: "It's a good idea for Congress to set the broad

parameters and for the regulators to fill in the details," says Robert Litan, vice president of the Kauffman Foundation, a nonprofit research group that promotes entrepreneurship, and a former Clinton regulator. But the balance is hard to get right—especially in advance.

When a crisis hits, regulators are blamed. When everything goes well, regulators are often accused of being too tough. The Food and Drug Administration is routinely bashed too for approving new drugs too readily and too cautiously.

At least two countervailing forces are evident.

One, when Congress writes too many specific, rigid rules, it often fails to get them right. It lacks expertise, and clear rules give the brains on Wall Street a clear obstacle to steer around. "Congress gets into trouble when it tries to be too precise," says Lawrence Baxter, a Duke University law professor, a former Wachovia executive and Republican Senate Banking Committee staffer. "Markets are evolving all the time."

A clear lesson from the past decade is that Congress doesn't revisit the rules of finance frequently enough to cope with that evolution; it moves only after a crisis. "Statutes," says Mr. Litan, "are like concrete. We tend to enact banking laws post-crisis. You're stuck with them for 10 or 20 years."

So the financial regulatory bill wisely gives regulators broad new power to restrain financial institutions no matter what their legal form, a sharp change from the past.

But, two, both Congress and regulators are susceptible to pressure from business—particularly on technical issues on which only business focuses, such as the details of derivatives. When Congress caves, though, the public and press are far more likely to notice than when regulators do in the much-studied phenomenon of regulatory capture. Despite the costly savings-and-loan debacle, the Office of Thrift Supervision, which was supposed to be watching AIG, got little scrutiny. Few paid attention to the shortcomings of the Minerals Management Service until the Gulf of Mexico catastrophe.

So the bill wisely gives regulators more direction than they had previously.

In the end, we will have to depend on the sagacity and integrity of financial regulators, no matter how many rules Congress legislates. That requires hiring good people for the jobs—making the posts prestigious if not as well-paid as industry jobs, ending confirmation proceedings that resemble tests for admission to heaven, and avoiding making regulators scapegoats for everything.

But it also means maintaining persistent scrutiny of regulators, forcing them to regularly and publicly measure their performance, identify risks and justify their actions or inaction.

No one said this stuff is easy.

# California Democrat lacks money, but not manpower

By STU WOO AND JOHN R. EMSWILLER

California's presumptive Democratic nominee for governor, Jerry Brown, badly trails the leading Republican candidates on the fundraising front. Nonetheless, he appears well-situated for the general election.

On paper, the matchup looks uneven. While GOP rivals Meg Whitman and Steve Poizner have raised \$110 million between them since early 2009, mostly by tapping into their personal fortunes, Mr. Brown has raised \$21 million in that period, according to state campaign-finance data.

Yet some political analysts said Mr. Brown is in good shape for the November showdown because the GOP candidates have spent much of their cash in the brutal primary that will conclude next week. Mr. Brown, who faces no serious Democratic challenger, has spent next to nothing.

Campaign-finance reports filed last week show Ms. Whitman, eBay Inc.'s former chief executive and the front-runner for the GOP nomination, has spent \$81 million since the beginning of 2009. Mr. Poizner, California's insurance commissioner, tallied \$24 million. Mr. Brown, who is currently the state's attorney general and was its governor from

1975-83, has spent \$540,000 in the same period.

"The report should've been filed with a thank-you note to Gavin Newsom," said Stanford University political scientist Thad Kousser, referring to the San Francisco mayor who dropped his bid for the Democratic nomination last year.

Mr. Brown still needs to bolster his war chest, said Garry South, a Democratic consultant who ran former Gov. Gray Davis's campaigns. Mr. Brown "is between a rock and a hard place because he hasn't raised enough money," Mr. South said, noting Mr. Davis spent \$78 million in his 2002 re-election bid.

Mr. South said the Brown campaign will need tens of millions of dollars more than it has, because either GOP candidate could pour \$150 million or more into their campaigns. The consultant said Mr. Brown's widespread name recognition didn't mean he would need less money than other candidates.

"You're just deluding yourself if you think that there is a Jerry Brown way to run for governor and another way for all other mortals," Mr. South said.

A spokesman for Ms. Whitman said voters are "very smart" and will choose the best candidate. "Our campaign budget is designed for one purpose: victory on election day," said spokesman Tucker

Bounds.

Mr. Poizner didn't respond to requests for comment.

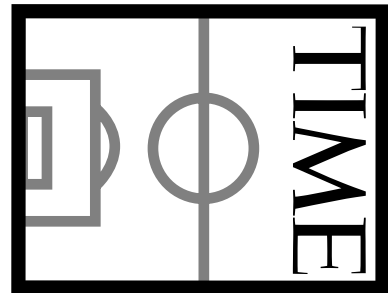
"We're on track to have the resources we need to get Jerry's message out," said Brown spokesman Sterling Clifford. He criticized the Republican candidates' spending. "There's some obvious disconnect between two candidates claiming the mantle of fiscal conservatism who have not yet met a dollar that they wouldn't spend," he said.

Still, Mr. Brown benefits from advantages money can't buy, political scientists said. Apart from being well-known, the Democrat also has the support of labor unions, which will provide his campaign with manpower.

The \$21 million Mr. Brown has is enough to run a strong campaign from Labor Day to election day, said Democratic consultant Kam Kuwata, who has advised the campaigns of U.S. Democratic Sen. Dianne Feinstein.

Statewide ads cost \$3 million a week, Mr. Kuwata said, and Mr. Brown's war chest should be enough if his campaign has a clear message.

Also aiding Mr. Brown are independent expenditures. One union-supported group, California Working Families 2010, has received \$12 million in pledges and aims to raise \$26 million altogether, said a person involved with the group.



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## WORLD NEWS

# Race begins for Japan's top spot

Finance minister Kan is first to announce candidacy; a big job will be to ease voter ire

BY YUKA HAYASHI

TOKYO—After Prime Minister Yukio Hatoyama's sudden resignation on Wednesday, the ruling Democratic Party of Japan launched the process of selecting its new leader, racing to prepare for an uphill battle in next month's national elections.

Finance minister Naoto Kan was the first to announce his intention to run for the top job. His victory, which is widely expected, would make him the second leader since the DPJ swept to power in August's historic elections—and Japan's fifth prime minister in less than four years.

Mr. Kan, a 63-year-old party veteran with more than three decades in parliament, is seen by many as the safest bet to steer the DPJ out of its rut.

The new leader's first task will be to calm voter anger over a broken campaign promise to reduce the U.S. military presence in Okinawa, as well as ire over political-funding scandals that claimed the jobs of Mr. Hatoyama and Ichiro Ozawa, a powerful secretary-general who also announced his resignation Wednesday.

"During the short time under Prime Minister Hatoyama, we were unable to fulfill the expectations presented to us from the voters last fall," Mr. Kan told reporters. "I would like to take over the job and make sure it gets done."

Other candidates are likely to emerge. Increasingly frustrated with top party leaders' old-fashioned governing style, some DPJ members are likely to push for candidates from younger generations. Among potential candidates are Seiji Maehara, a 48-year-old transport minister



People watch a broadcast about Japanese Prime Minister Yukio Hatoyama at an electronics store in Tokyo Wednesday.

ter known for his practical economic-policy views, and Katsuya Okada, a 56-year-old foreign minister.

DPJ lawmakers will vote in a party election Friday and announce a leader, who will assume the premiership.

On Monday, the winner will appoint a new cabinet and make a policy speech.

A huge challenge for Japan's new prime minister: regaining the trust of voters.

Amid sinking popular support and following the loss of a coalition partner over Okinawa, Mr. Hatoyama gave up his job only eight

months after gaining a mandate to bring about a sea change in Japan's stagnant political scene and its lackluster economy.

The new leader also will need a clear vision for rebuilding Japan's economy and convincing global investors of the country's political leadership.

"We have had four prime ministers stepping down one after another with less than a year in the job," said Hideo Kumano, an economist for Dai-Ichi Life Research Institute. "The government can talk great policies but if they don't even last for a year, Japan's weakened economy will never get a chance for getting rebuilt."

Some question whether Mr. Kan is the right man to usher in such changes and whether he can halt the recent vicious cycle in which the country's prime minister has changed nearly every year.

The Liberal Democratic Party, a long-serving conservative organization ousted by the DPJ, named three prime ministers in its final three years in power in an attempt to appeal to voters.

Mr. Kan's background as a civil-rights activist in the 1970s may be unique among Japan's political leaders.

He sprang to popularity in the mid-1990s when, as health minister, he exposed the bureaucracy's responsibility for infecting thousands of hemophiliacs with HIV-tainted blood.

At one point, Mr. Kan stepped

down from the helm of the DPJ after he admitted failing to make contributions to a national pension plan.

In atonement, he shaved his head, donned traditional Buddhist garb, and went on a pilgrimage to 88 rural temples.

But Mr. Kan is also viewed as belonging to the older generation of Japanese politicians who rely on behind-the-scenes negotiations to drive policy and personnel decisions.

Mr. Kan, after all, has led the DPJ since its founding in 2003 as part of the "troika" that included Messrs. Hatoyama and Ozawa. Mr. Hatoyama said Wednesday they were stepping down to pave the way for a "new DPJ."

"Hatoyama and Kan could both be just transitional characters," said Norihiko Narita, a political scientist and president of Surugadai University. "In the post-Kan-and-Hatoyama era, we will see a completely different culture in the DPJ and new ways of conducting politics."

In an informal online survey conducted by the Nihon Keizai Shimbun (Nikkei) daily Wednesday, 1,442 respondents named Mr. Maehara as their favorite candidate for next prime minister. Mr. Kan followed with 1,096 votes and Mr. Okada with 878.

Mr. Maehara said nothing has been decided on his possible candidacy and Mr. Okada hasn't made any remarks on the subject.

—Takeshi Takeuchi  
contributed to this article.

## Revolving door

Two decades of Japanese prime ministers

Name	Period in Office	Days in Office	
Toshiki Kaifu	Aug. 10, 1989 - Nov. 5, 1991		818
Kiichi Miyazawa	Nov. 5, 1991 - Aug. 9, 1993		644
Morihiro Hosokawa	Aug. 9, 1993 - April 28, 1994		263
Tsutomu Hata	April 28, 1994 - June 30, 1994		64
Tomiiichi Murayama	June 30, 1994 - Jan. 11, 1996		561
Ryutaro Hashimoto	Jan. 11, 1996 - July 30, 1998		932
Keizo Obuchi	July 30, 1998 - April 5, 2000		616
Yoshiro Mori	April 5, 2000 - April 26, 2001		387
Junichiro Koizumi	April 26, 2001 - Sept. 26, 2006		1,980
Shinzo Abe	Sept. 26, 2006 - Sept. 26, 2007		366
Yasuo Fukuda	Sept. 26, 2007 - Sept. 24, 2008		365
Taro Aso	Sept. 24, 2008 - Sept. 16, 2009		358
<b>Yukio Hatoyama</b>	<b>Sept. 16, 2009 - June 4, 2010*</b>		<b>262</b>

\* Expected

Source: Prime minister's office

# Investors seek hints of policy on the yen

BY ANDREW MONAHAN

A new administration in Japan could orchestrate a weaker currency and bring about greater fiscal discipline at a time when the country's economic recovery remains vulnerable to a strong yen and sovereign-debt jitters.

During Yukio Hatoyama's short and turbulent tenure, the prime minister's labor policies and strict emission-target goals were viewed by some as unfriendly to business.

Mr. Hatoyama also had little success staving off a stronger yen.

And he resigned before offering a plan to cut Japan's massive debt even as his administration proposed large spending measures to revive consumer demand.

Finance Minister Naoto Kan, who is seen as the front-runner to assume the premiership, diverges from Mr. Hatoyama on two key points: He prefers a weak yen, and he is receptive toward an increase in the consumption tax.

Mr. Kan has also been one of the leading voices warning of the dangers of deflation and has pushed the Bank of Japan to take more aggressive measures against falling prices.

Since becoming finance minister in January, Mr. Kan said repeatedly he wants the Japanese currency to become weaker, because that would bolster exporters' profits and help to fight deflation.

A weaker yen helps support the overseas earnings of Japanese exporters such as **Sony Corp.** and **Toy-**

**ota Motor Corp.**, as well as a host of smaller manufacturers.

Rebounding exports were the main driver in the 4.9% annualized expansion in Japan's gross domestic product in the January-March quarter.

While a Kan-led government probably won't resume currency-market intervention, which the government hasn't done since 2004, it could more aggressively try to talk down the yen if it strengthens too much, analysts say.

## Market shrugs at another prime minister stepping down

In early responses to Yukio Hatoyama's decision, business leaders expressed the exasperation that has characterized their attitude toward the Democratic Party of Japan-led administration in its nearly nine months in power.

While Tokyo's stock market fell a modest 1.1%, the head of the country's chamber of commerce said the timing was bad.

"Mr. Hatoyama's resignation statement comes as a surprise in a time when there are loads of important challenges left to be solved," said Tadashi Okamura, Japan Chamber of Commerce and Industry chairman.

Mr. Okamura urged a new government be formed quickly, calling on the next administration to keep momentum going in Japan's still fragile economic recovery.

Stimulus measures maintained under his government have lessened the likelihood that the country will slide into a double-dip recession. Still national debt is untamed, and uncertainty prevails about the DPJ's position on the strong yen, which hurts Japan's exporters.

Hiromasa Yonekura, chairman of the Japan National Business Federation, or Keidanren, expressed some compassion for the departing prime minister. "Considering the historic elections last year and [Mr. Hatoyama's] efforts to make a new Japan, making the decision [to quit] must have been a very bitter one," he said in a statement.

But like Mr. Okamura at the chamber of commerce, he was sure about one other thing: Japan needs a new government, and fast.

—Tomomichi Amano

## Business rues timing

Ichiro Ozawa, the power behind the throne in Japan's ruling Democratic Party of Japan, surprised Japanese voters by agreeing to step down along with departing prime minister Yukio Hatoyama. But don't expect his shadow or influence to vanish anytime soon.

At a press conference, Mr. Ozawa declined to comment about the selection of the new leader or the prospects for the coming elections, saying he is no longer in a position to discuss those issues. "This is the last time I see you folks," Mr. Ozawa told reporters at parliament before walking away. "Please save all your questions for the new people."

Mr. Ozawa, one of the most influential figures in Japanese politics in recent decades, has had an enormous role in turning the DPJ into a big ruling party with more than 400 lawmakers in parliament. As the party's secretary-general, he was the main strategist for the DPJ's historic electoral victory in August. He has a hand in choosing its leaders, including Mr. Hatoyama himself.

The biggest task for the party's new leader is to score as many wins as possible in coming interim elections expected in July for the upper house of parliament.

Until now, Mr. Ozawa has been busy preparing for the elections, hand-picking candidates, coaching them and talking to support bases. Last month, for example, he appeared on a televised news conference to introduce the candidacy of Ryoko Tani, a Olympic gold medalist in judo and mother of two.

—Yuka Hayashi