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WEEKEND JOURNAL

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Strike mutes Greek business

Getty Images

Police clash with protesters on Thursday in Athens. Tens of thousands of demonstrators took to the streets amid a daylong strike to protest government austerity measures, such as wage cuts.

By Alkman Granitsas

ATHENS—Flights were grounded and trains suspended amid a nationwide general strike Thursday, as Greek police fought running street battles with anarchist youths in fresh and violent signs of anger at the government's austerity plans.

An estimated 50,000 people took to the streets. Unions called a strike to protest wage and benefit cuts being put in place to trim Greece's swollen budget deficit as the country draws closer to a financial reckoning.

Greece must refinance a chunk of its giant debt next month, and Greek leaders are leaning hard on counterparts in richer European states to provide some measure of support that could ease those debt sales. Eyes are on European Union finance ministers' meetings early next week.

In the capital city Thursday, masked and hooded youths went well beyond protest—throwing rocks and bottles, smashing shop windows, setting alight trash cans and burning at least one private car. Police fired tear gas and detained more than a dozen people.

There were also separate clashes outside the Greek parliament, Agence France-Presse reported. Greece has a history of sometimes-violent anarchist protesters, though they are well outside the mainstream.

Greece's two umbrella unions, for private- and public-sector workers, called the strike to protest the €4.8 billion ($6.55 billion) package of spending cuts and tax increases that the government announced March 3, which was voted into law days later. The communist-backed PAME union held a separate protest that drew an estimated 15,000 people.

"There is a big turnout today and that shows people are concerned," said Dimitris Papageorgiou, a 49-year-old worker at the Bank of Greece. "Today's protest is because of the austerity measures. Why do the people always have to pay? Who is at fault? It's the foreign speculators and the useless policies of previous governments."

Recent polls show that the Greek public is divided over the austerity plan. While the public opposes some measures, such as an increase in Greece's fuel and value-added taxes, analysts say there is a broad acceptance that something must be done.

"No one really expects the measures to be withdrawn. They were adopted by the government to avoid even worse consequences," said Lefteris Eleftheriadis, 48, a biologist who works in the agriculture ministry and participated in Thursday's protest.

The strike affected public transport, government ministries and state-owned companies. All flights into and out of the country were grounded and all ferry and rail services suspended.

On the streets of Athens Thursday, normal workday activity was muted. Street lights and road signs were festooned with strike posters. Usual morning news shows on local television were replaced with alternative programming. Many businesses were shut amid fear of violence,

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HSBC: Worker took Swiss data

By Deborah Ball and David Gauthier-Villars

ZURICH—**HSBC Holdings** PLC said a former employee stole data on about 24,000 accounts in its Swiss private bank that wound up in the hands of French authorities, the latest case to highlight the complications that arise when stolen bank information ends up in the custody of governments eager to chase tax cheats.

The HSBC situation involves a former information-technology employee, Hervé Falciani, who is alleged to have stolen the data in 2006 and 2007 and then attempted to sell it to several governments. Confronted with theft allegations by HSBC in December 2008, Mr. Falciani, a dual French-Italian national, fled to France. A month later, French authorities raided his house there and confiscated the data.

French and Swiss lawyers for Mr. Falciani didn't return calls seeking comment.

French authorities have since returned the data to Switzerland and have agreed not to use the information to lodge an official request with Swiss authorities to secure further information that would help pursue French tax dodgers. However, it reserved the right to use the data unilaterally to chase such evaders in France. It may also give the data to other governments looking to use it to pursue their own tax evaders.

The issue is a difficult one for HSBC, which in December said it believed fewer than 10 clients were affected by the theft. HSBC says it only discovered the full extent of the theft March 3, after the data were returned to Switzerland by France. HSBC is pursuing criminal charges against Mr. Falciani in Switzerland, but for the moment he remains free in France.

Alexandre Zeller, chief executive of HSBC's Swiss private bank, apologized Thursday for the breach of client confidentiality and pledged to spend more than 100 million Swiss francs ($107 million) to upgrade security.

Swiss regulator Finma said Thursday it was investigating the theft and whether HSBC has taken adequate measures to prevent such a breach again. The Swiss Finance Ministry had no comment.

The news ratchets up the

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BP goes offshore with $7 billion bet

BP PLC's $7 billion deal with **Devon Energy** Corp. gives it a foothold in the deep waters offshore Brazil, one of the world's most prospective oil regions, and one that could turn into a major source of growth for the company in the coming years.

The U.K. based company unveiled its deal Thursday to pay Devon $7 billion in cash for its assets in Brazil, Azerbaijan and the U.S. deepwater Gulf of Mexico. It will also sell Devon a 50% stake in its Kirby oil sands interests in Alberta, Canada for $500 million. The two will form a joint venture to develop the property.

Andy Inglis, BP's head of exploration and production, said the deal, first reported by The Wall Street Journal, "further underlines our global position as the leading deepwater international oil company."

U.S.-based Devon had announced plans last November to divest all its international and offshore assets so it could concentrate on its onshore oil and gas projects in North America. "The goal line for Devon's repositioning is clearly in sight now," John Richels, president of Devon, said during a conference call.

For BP, the deal helps address doubts about where it would find future growth.

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From EMU to EMF: but will it fly?

[Agenda]

By Bill Jamieson

When historians come to explain the Great Greek Crisis of 2010, the question they will struggle to answer is not just how it erupted, but why it brought searching questions to bear on the workings of European monetary union. No event has more exposed the fundamental weakness at the heart of the single currency construct, from the threadbare auditing of Greece's financial credentials when it first joined the euro to the lack of a will to act collectively when trouble struck.

How could the debt problems of one of the euro zone's smallest economies threaten the stability of the entire region? The problem, of course, is that this crisis is not at all confined to Greece. It has brought turbulence across the euro zone, first on concerns that other euro-zone countries, namely Spain, Portugal and Ireland may be under the shadow of sovereign-debt downgrading by ratings agencies, and second, in opening divisions over proposals for a European Monetary Fund. These came to a head this week, with serious differences of opinion between France and Germany.

That an EMF proposal has surfaced at all is because of near paranoid opposition to the prospect of the International Monetary Fund being brought into this European imbroglio. This might have helped in several ways. It would have brought an outside, independent arbiter to mediate between Greece and her partners in the euro zone. Second, it would have obliged Greece to come up with credible budget and finance numbers in which other members of the euro zone could have confidence. And third, it could have acted as independent financial policeman, sparing Greece the humiliation of having her affairs pored over by other euro members (notably Germany) while making the Greeks accountable to an outside and

European Pressphoto Agency

Dogged resistance from an unusual protester in strike-hit Athens, Thursday.

internationally credible body. So with Greece in need of loan assistance estimated at €25 billion ($34.17 billion), why was this obvious course to spare blushes all round not adopted at the outset?

A disturbing feature of this crisis was a widespread determination within the European Union to avoid the involvement of the IMF at all costs, even though many in Greece held that an IMF-based exit from their country's ills might be no

A disturbing feature of this crisis was a determination to avoid the involvement of the IMF at all costs

less painful than that imposed by euro finance ministers—and the pain would be over with more quickly. But Christine Lagarde, the French finance minister, was ferociously opposed to any resort to the IMF. And Lorenzo Bini Smaghi, a member of the board of the European Central Bank, declared that for Greece to call in the IMF would put the euro under the administration of an "external commissary."

A more blunt explanation would be that IMF loan support to Greece would have made a mockery of existing euro arrangements and caused embarrassment to those who have maintained that the euro is impregnable and that the Stability and Growth Pact was perfectly able to cope. Events have proved to the contrary. It has been unable to guarantee the degree of fiscal discipline in member-states necessary to render the euro a reliable store of value.

That is the background to the emergence of a plan for a European Monetary Fund. Germany's finance minister, Wolfgang Schauble, floated the idea last weekend. The rough proposal—few details have as yet been furnished from the German finance ministry—is that an EMF would be financed out of levies on countries that breached EU fiscal rules, augmented by borrowing in the markets.

Countries facing a budgetary crisis could call on funds up to the amount they had paid in, but on the condition that their fiscal policies passed inspection by other euro-zone members. Had such a fund been in existence since the euro was launched in 1999, it would now have accumulated €120 billion—enough to provide support for a smaller euro-zone country that found itself in trouble.

With such a fund, say its supporters, euro-zone countries themselves would be in control of emergency help procedures and not be beholden to an external agency. At the same time, levying countries in breach of EMU fiscal rules would act as a deterrent to budgetary indiscipline. The interest of other members such as Germany is that it would mitigate the risk of spreading contagion—a consideration arguably more powerful than altruistic concern for the citizens of Greece being put through the austerity ringer.

But the proposal has aroused opposition on several counts. First, it would mark the effective burying of the Maastricht Treaty's "No bail-out" rule. The very existence of such a fund, say critics, would provide countries that overstepped budget deficit limits with an effective safety net.

The second objection is more practical. By funding an EMF in this way it would effectively place a hefty fiscal burden on poorer euro-zone members most likely to have difficulties in keeping within debt and deficit limits. It would be a levy on the poorest—and place enormous strain on the weakest links.

The supreme difficulty of course, is that it would require a substantial legal strengthening of the writ and powers of the EU, with a common regulatory and supervisory authority vetting the applications of countries in need of assistance.

That heavy assurances to the contrary were given to persuade reluctant electorates to give sanction to the new European Constitutional Treaty in the first place completes the circle of deep aggravation that the Greek crisis has exposed.

—Bill Jamieson is executive editor of the Scotsman and contributor to Spectator Business.

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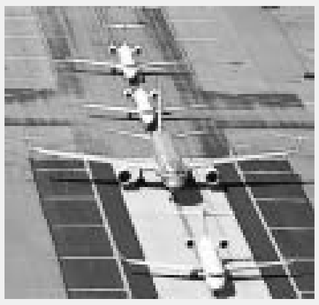

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Mortgage mixup sends parrot on a wild ride

Jeff Swensen for The Wall Street Journal

Bank of America apologized to Angela Iannelli after a firm it hired wrongly padlocked her house and took her parrot.

By James R. Hagerty

PITTSBURGH—**Bank of America** Corp. apologized after its local contractor in this U.S. city entered the home of a mortgage borrower when she was away, cut off utilities, padlocked the door and confiscated her pet parrot, Luke.

Angela Iannelli, 46 years old, alleged in a lawsuit Monday that the October incident—which separated her from her 11-year-old parrot for more than a week—caused so much emotional distress that she needed prescription medication for anxiety.

A Bank of America spokesman said Wednesday a bank employee erroneously believed the house was vacant and sent the contractor there to install a new lock and secure the property. The bank spokesman said those instructions were inappropriate because Ms. Iannelli wasn't in default and the house wasn't vacant.

Mortgage lenders in the U.S. have struggled to hire and train enough people to deal with the biggest wave of foreclosures since the 1930s. Nearly eight million households, or 15% of those with mortgages, are behind on their payments or in the foreclosure process.

Many borrowers complain they get the runaround when they call their lenders for help, receive contradictory information from different employees and are required to repeatedly fax the same documents.

In her civil suit filed in the Allegheny County Court of Common Pleas, Ms. Iannelli said a contractor hired by Bank of America entered her house when she was away.

According to the suit, the contractor stopped utility services, cut water lines and electrical wiring, poured antifreeze into sinks and toilets, and "stole" the parrot.

Ms. Iannelli said Bank of America representatives weren't helpful when she called to protest.

They first denied knowing where the parrot was, then told her she could go to the offices of the contractor, about 130 kilometers away, to retrieve the bird herself. Ms. Iannelli said bank representatives also told her they were "tired" of hearing from her.

Her lawyer, Michael Rosenzweig, a partner at **Edgar Snyder & Associates** in Pittsburgh, said Ms. Iannelli was seeking damages of more than $50,000. The amount of any damages would be decided by a jury if the case goes to trial.

A Bank of America spokesman said the bank would "quickly review the allegations in the lawsuit, the actual events that led to them and the causes of those events, and consider any hardship that resulted."

After she drove two hours to reclaim her parrot in October, the bird initially seemed nervous, Ms. Iannelli said Wednesday. "He's doing very well now," she said.

Real letdown for Real Madrid

By Jonathan Clegg

Agence France-Presse/Getty Images

Cristiano Ronaldo during Real Madrid's football match against Olympique Lyon.

Football's $350 million gamble backfired. Real Madrid, the most expensive team in the history of world football, suffered a humiliating exit from the UEFA Champions League on Wednesday night, beaten 2-1 on aggregate by Olympique Lyon amid a blaze of rancor and recrimination.

The defeat marked the sixth straight year in which Madrid has been eliminated in the first knockout round of the world's most prestigious club tournament, a galling statistic for a team that has won the competition a record nine times and considers the European Cup as its birthright. For club President Florentino Pérez, who sanctioned a €258 million ($351 million) spending spree last summer in the pursuit of success in Europe, the humiliation will be keenly felt. Madrid's Santiago Bernabéu stadium is due to host the Champions League final in May.

Almost inevitably, Madrid's exit was marked by an outbreak of infighting and renewed calls for the dismissal of coach Manuel Pellegrini. The Chilean coach, who has guided Madrid to the top of La Liga and has the club on course for its best season statistically in 50 years, declined to quit after the match and Director General Jorge Valdano told reporters Mr. Pellegrini would still be in charge next season.

"Yes, he has a contract, which is why the club's plans are for Manuel to continue being the coach of Real Madrid," Mr. Valdano said.

Yet Madrid has a history of sacking coaches who fail to fulfill expectations and there is no doubt Mr. Pérez expected better than a last-16 exit when he broke the world transfer record twice in 48 hours last summer, recruiting Brazilian playmaker Kaká and Portuguese forward Cristiano Ronaldo as part of his huge outlay.

Only last week, Mr. Pérez said the Champions League was "in the club's DNA."

Club stalwart and midfielder Guti blamed the team's exit, inflicted by Miralem Panjic's 80th-minute goal, on a lack of teamwork. Mr. Ronaldo, whose early strike appeared to pave the way for Madrid to progress, declined to comment. When Kaká was substituted with time running out, the Brazilian's adviser Diogo Kotscho described Mr. Pellegrini as a "coward" and accused the coach of "trying to take the focus off [his] own incompetence" on his personal Twitter account.

Most damaging for Mr. Pellegrini was a savage reaction in the Spanish news media. Sports daily Marca produced a front page bearing the legend: "Get Out! Adiós Europe; Adiós Pellegrini." AS, another daily sports newspaper, described the result as a "catastrophe."

Swiss data theft hits HSBC

Continued from first page

pressure on Swiss bank secrecy. Over the past two years, foreign governments have fought the Alpine nation's traditional resistance to helping authorities pursue tax dodgers with Swiss bank accounts.

A recent twist in the debate is the potential willingness of governments to pay for or use stolen data as a way of identifying tax cheats. The HSBC situation involves a case in which Mr. Falciani apparently tried and failed to market the stolen data to several governments.

Officials at the French Budget Ministry didn't return calls seeking comment. But Germany recently said it was willing to pay a reward to a bank employee looking to sell stolen Swiss bank data. A German Finance Ministry spokesman said several sets of data have been offered in recent weeks and at least one data set has been purchased.

The Swiss government has denounced the practice of foreign governments' buying or using stolen bank data, saying it wouldn't cooperate with tax-evasion investigations arising from such information.

According to HSBC, Mr. Falciani stole the data between late 2006 and early 2007, absconding with information on 15,000 existing clients who had accounts with the bank in Switzerland before October 2006. He also stole data on a further 9,000 accounts that have subsequently been closed. It isn't known what client information the data contain.

Mr. Falciani, a computer-information technician who had access to large amounts of data, was working on a project to migrate client records to a new system when he began copying records onto his own storage devices, according to HSBC's account. HSBC has about 100,000 private-banking clients globally.

In spring 2008, Mr. Falciani allegedly approached foreign authorities and tried to get them interested in the data, according to HSBC. Swiss police received a tip on his activities that summer. In December that year, the bank fired him, prompting him to flee to a home he owned in the south of France. Once there, he tried to interest French authorities in the data, according to a French official.

After pleas from Swiss judicial authorities, French police raided Mr. Falciani's home in 2009. Last summer, the French government claimed publicly that it held data on Swiss bank accounts of French tax dodgers, without specifying the source. Following reports that the data were stolen, Swiss authorities protested against the French government using the information and demanded the return of the records.

In January, French authorities returned the data to the Swiss federal prosecutor after making copies. Last month, Paris agreed not to use the data to demand official assistance from the Swiss to chase French tax dodgers whose names appear among the records, but didn't exclude using it in France.

—David Crawford contributed to this article.

Going slow | The Spanish government's bailout of small savings banks has stalled.

Spanish Prime Minister, José Luis Rodriguez Zapatero, delivers a speech earlier this month.

June 5, 2009
Spanish Prime Minister José Luis Rodriguez Zapatero publicly states for the first time some unlisted savings banks are in trouble and offers government assistance.

June 26, 2009
The Spanish government approves FROB, a fund to help strong institutions take over weaker ones.

July 21, 2009
Three banks in Spain's northeastern Catalonia province start merger talks.

Jan. 1, 2010
The European Commission approves FROB.

March 11, 2010
Moody's warns Spain that delays in bank bailouts could weigh on debt and deposit ratings.

Source: Dow Jones research
Photo: European Pressphoto Agency

Spain to alter banks

By Jonathan House
And Leire Barrera

MADRID—As a deepening credit crunch threatens to prolong Spain's lengthy recession, the government and central bank are coming under increasing pressure to clean up the country's ailing savings banks.

The main problem: The unlisted savings banks known as *cajas* account for more than half of the €324 billion ($442 billion) in loans to property developers, which are defaulting on their loans and seeking creditor protection in record numbers, according to Spain's National Statistics Institute.

Moreover, in the longer term, there simply won't be enough business to go around for all 44 existing cajas after the collapse of Spain's once-booming housing market, analysts and Spanish authorities say.

Spain's government and central bank have been saying they expect to complete a restructuring of the Spanish financial system in the first half of this year. Bank of Spain Gov. Miguel Ángel Fernández Ordoñez has said he would like to see approximately a third of the 44 banks absorbed by stronger rivals.

Madrid also has said it wants to change caja regulation after restructuring the sector, arguing that regulatory uncertainty now would make the process of consolidating the sector even more difficult.

The government created a bailout fund last year to help cover the costs of consolidation. Administered by the Bank of Spain, the fund has initial capital of €9 billion, expandable to €99 billion, that it can offer to help strong institutions take over weak ones.

But the fund has yet to act because merger talks between cajas keep stalling. Experts warn that without consolidation in the sector, the squeeze on credit could tighten still further, making one of the developed world's deepest recessions even worse.

In a report Thursday, the credit-ratings agency Moody's Investors Service Inc. warned that Spanish banks could face ratings downgrades without action.

"To date, the pace of consolidation and restructuring in the Spanish financial sector has been much slower than we had anticipated, as has been the flow of public funds into Spain's financial sector," Moody's analyst Maria Jos Mori said.

Tuesday's decision by **Caixa Girona** to pull out of merger talks with three local rivals in the northeastern region of Catalonia highlights the challenges Spain faces in encouraging mergers between cajas, which are often controlled by local political bosses.

While Spain's biggest banks are regarded as sound, they face huge losses on property loans. After years of house prices spiraling higher and the construction of too many homes, developers are now stuck with more than a million properties they can't sell.

Other types of loans also are souring fast after six consecutive quarters of economic contraction in Spain, which has sent the unemployment rate surging toward 20%—the highest rate in the developed world.

Banco Bilbao Vizcaya Argentaria SA provided a glimpse of the pain to come for the sector in January, when the blue-chip bank sharply upgraded its estimate of losses on loans to real-estate developers to 17% of the total for all Spanish banks, more than double the reported sector average of 8.7%.

Because BBVA is widely considered one of Spain's strongest banks, that 17% figure has come to be regarded as essentially the best-case scenario for financial institutions, with many in far worse shape.

"BBVA has revived doubts" about real-estate exposure, Banesto Bolsa said in a note to investors.

Before being taken over by the Bank of Spain in March 2009, **Caja Castilla la Mancha** was reporting that its nonperforming loans represented about 3.1% of the total. But the central bank raised its estimate to 17% after the bailout—the first and only since the crisis began.

Executives from savings banks say Caja Castilla la Mancha was an isolated case and that the worst of the deterioration in credit to developers has passed. They also say they have stepped up asset repossessions, which limits their losses.

Twenty-four cajas are in talks either to merge completely or to merge some of their operations. But as Caixa Girona showed this week, the process is full of pitfalls. Half a dozen cajas have started merger talks and then abandoned them. Some of the talks have been going on for more than a year.

Furthermore, most mergers are being discussed between institutions from the same area, which means the deals don't provide diversification of risk or access to new customers. The problem is that regional governments don't want to lose control of institutions in their area and they can veto mergers.

Many caja executives, led by Juan Ramon Quintas, head of the savings bank association, have been pressuring the government to change industry regulations to, among other things, reduce regional authorities' veto power.

—Christopher Bjork contributed to this article.

Portugal says economy shrank

By Jeffrey T. Lewis

LISBON—Portugal's economy contracted in the fourth quarter after two quarters of expansion, just as the government pulls back on economic stimulus spending in an attempt to rein in a towering budget deficit.

Portugal's latest contraction will concern investors, who see the country as the most likely euro-zone member to face a Greek-style debt crisis, although its public-sector debt is smaller and it needs to borrow much less this year.

Gross domestic product shrank 0.2% in the fourth quarter from the third, the National Statistics Institute, or INE, said Thursday, after an expansion of 0.7% in the third quarter.

A recession is generally viewed as two consecutive quarters of economic contraction, but some analysts are calling Portugal's latest GDP drop a double-dip recession. The economy contracted for three consecutive quarters starting in the third quarter of 2008.

"With the economy at least temporarily back in recession, credit rating agencies warning of future downgrades and some 12% of outstanding public debt set to mature by the summer, market confidence in Portugal looks set to remain fairly fragile," said Jonathan Loynes, chief European economist at Capital Economics.

Fitch Ratings said Tuesday the government's gradual approach to reducing its budget deficit is a "concern," and failure to meet its deficit reduction targets could lead to a downgrade.

Portugal's government, which has forecast growth of 0.7% for this year, has frozen public workers' salaries, reduced public works and slowed economic stimulus to help reduce the budget deficit from 9.3% of GDP last year to 8.3% of GDP in 2010.

"The economy needs more help to start growing, and that will be more difficult because of the need to reduce the budget deficit," said Paula Carvalho, an economist at Banco BPI in Lisbon.

On an annual basis, GDP declined 1% in the fourth quarter from the year-earlier period, compared with an annual contraction of 2.5% in the third quarter. For the full year 2009, GDP contracted 2.7%.

Concern in international financial markets about the large deficits in Greece, Spain and Portugal has pushed the yields on their debt higher. The economies in those countries are also contracting, Greece's by 0.8% in the fourth quarter, and Spain's by 0.1%.

The contraction is a concern to those who see the country as most likely to face a Greek-style crisis.

Recessions among Portugal's biggest trading partners last year caused exports to plunge, while rising unemployment and businesses' lack of confidence in the economy hurt spending at home.

Now that many economies in Europe have started to recover, the outlook for Portugal's export-dependent economic recovery is also improving.

Exports declined 1.4% in the fourth quarter from a year earlier, after dropping 9.8% in the third quarter, while imports fell 1.5% in the fourth quarter following a 7% decline in the third quarter. Internal demand shrank 1.1% in the fourth quarter from a year earlier, after falling 2% in the third.

—Paul Hannon in London contributed to this article.

Greece slows amid strike against wage, benefit cuts

Continued from first page

and police blocked main thoroughfares around the city center.

Just off the city's central square, a group of about 200 police and fire officials also staged a sympathy protest, challenging the government to fulfill its pre-election promises to protect workers' salaries.

Under pressure from the EU and financial markets, Greece's socialist government last week presented the latest in a series of austerity packages to trim the budget deficit to 8.7% of gross domestic product this year, from an estimated 12.7% last year.

Among other things, the package raises Greece's top value-added tax rate to 21% from 19%, freezes public-sector pensions, cuts civil-service entitlements and bonus pay, while also raising taxes on fuel, alcohol and cigarettes.

The general strike follows several days of escalating labor actions by a variety of smaller unions including those representing tax collectors, teachers, sanitation workers, court workers and local-government officials.

"The latest measures are unjust and everyone has the right to strike," said Sophia Papadopoulos, a 55-year-old office worker who wasn't participating in the strike. "But I think the economic situation will remain difficult. It's always the people who pay."

"In this country there is no follow-through and no respect from the government," said Antonios Mantalvenos, a 56-year-old former Olympic Airlines pilot. "But this is not new, it has always been that way.

"It's going to get much worse. When the civil servants actually see the cuts showing up in their salaries, there will be chaos."

This week, staff from Greece's interior ministry occupied the premises of the Greek government printing office for several days in an effort to prevent the new measures from being published—and thereby becoming law—in the government gazette.

—Charles Forelle contributed to this article.

EUROPE NEWS

European Pressphoto Agency

French President Nicolas Sarkozy, center, speaks with a cattle breeder at last week's Agriculture Fair in Paris.

French vote resonates

Regional polls could turn into a no-confidence vote on Sarkozy

By David Gauthier-Villars

PARIS—With opinion polls predicting poor results for his ruling conservative party, the two-round regional ballots that start Sunday could turn effectively into a no-confidence vote against French President Nicolas Sarkozy.

Recent opinion polls suggest that Mr. Sarkozy's Union pour un Mouvement Populaire, or UMP, will fail on its main objective of regaining control of some of the regions led by left coalitions since the previous vote in 2004. Some polls also show that UMP could lose control of Corsica, one of its two regional strongholds, with Alsace.

Although it won't affect his majority in Parliament, a regional defeat could hamper Mr. Sarkozy's ability to govern France at a time when the country must make crucial decisions on the fate of its generous, but debt-choked social-welfare model.

Mr. Sarkozy, who is more than halfway through his five-year mandate, has said his priority for 2010 would be to push through an overhaul of France's state-run pension system—a hot issue here that drew massive protests and caused the downfall of some governments in the past.

A poor showing in the regional elections by UMP candidates could also instill doubt in the conservative camp about Mr. Sarkozy's leadership, political analysts say.

So far, whether they liked his hands-on style or not, all UMP members rallied behind Mr. Sarkozy's banner because he led them to electoral victories, says Jérômê Sainte-Marie, head of French polling agency Isama.

"After the regional vote, they may stop believing that their leader is infallible," Mr. Sainte-Marie said. "That could become a serious problem."

French voters will choose 26 regional leaders, including four in France's overseas territories as part of the ballots held this Sunday and in a week. Regional governments have little power in France, commanding over a combined budget of about €30 billion ($41 billion) a year, or less than 3% of the country's overall annual public spending.

Since there isn't much at stake in the regions—most voters are unable to cite the names of their regional leaders—the regional ballot is more like a midterm referendum on the president and his administration.

Mr. Sarkozy was elected in 2007 on the promise that he would take France out of a prolonged economic malaise and cut unemployment in half by diluting state intervention and introducing more free-market recipes. But last year's recession and a sharp rise in joblessness have led Mr. Sarkozy to change tack and call for greater state intervention.

Most opposition parties have tried to give national resonance to their campaigns. "The left must win in all regions to beat UMP and force Mr. Sarkozy to backtrack on all of his projects," Socialist Party leader Martine Aubry said at a recent rally in Orléans.

Mr. Sarkozy has spared no effort to woo voters from all sides. But many of his moves have misfired.

He is asked 19 of his ministers to run under UMP colors in the regional elections. Others were urged to lend support. Finance Minister Christine Lagarde appeared singing and dancing in a promotional video for UMP. But the video, in which U.S. President Barack Obama was also shown talking to Mr. Sarkozy—was mocked by political commentators and parodied on blogs.

A few months ahead of the vote, Mr. Sarkozy pitched a carbon tax, announced more subsidies to farmers and promoted debates on what it means to be French.

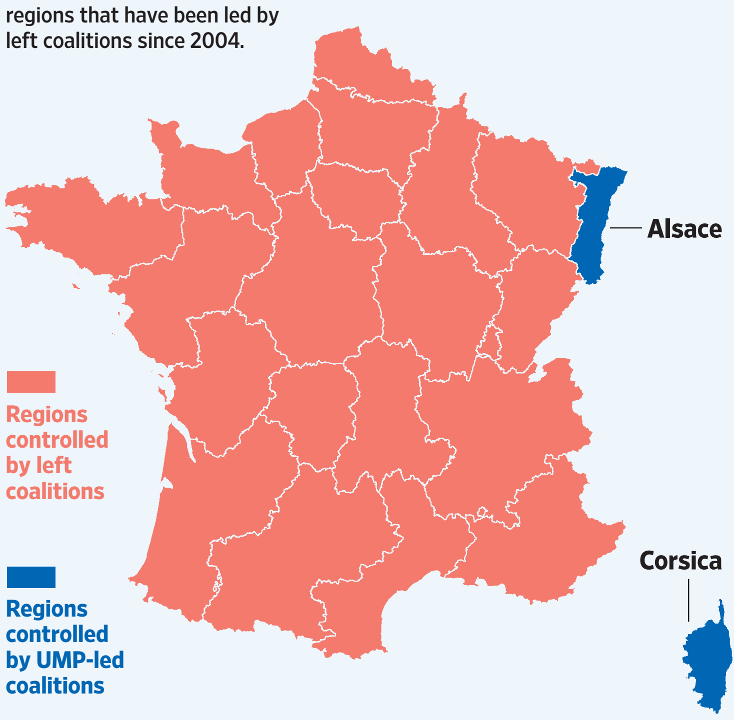
The tax could have appealed to environmentally conscious voters, but it was vetoed by France's Constitutional Council. The agricultural subsidies could have boosted the morale of angry farmers suffering from sharp drops in wholesale food prices, but many said the aid wasn't enough and came too late. The debates on French identity could have pleased far-right voters, but they unleashed a torrent of xenophobic comments the government is now struggling to mute.

On Tuesday, Mr. Sarkozy sought to distance himself from a possible UMP defeat in the regional elections and said the results wouldn't influence the course of his action.

"Regional elections, regional consequences," Mr. Sarkozy said.

Tidal force

Polls conducted ahead of Sunday's regional elections suggest the ruling party of French President Nicolas Sarkozy will fail to regain control of regions that have been led by left coalitions since 2004.



No letup before Russian polling

By Gregory L. White

MOSCOW—Regional elections across Russia on Sunday will test anew the Kremlin's pledges to open up the political system—and so far, opposition leaders and analysts say, there is little sign the ruling party's grip is easing.

The last round of regional voting, in October, spurred a rare public display of anger by usually loyal opposition parties, who walked out of Parliament to protest what they said was widespread falsification in favor of the ruling United Russia party. The conflict cooled quickly, however, after President Dmitry Medvedev met with some opposition-party leaders and pledged to take steps to stimulate more open political competition.

But in the current campaign, allegations of abuses are as numerous as ever. "The pressure has increased," said Maxim Rokhmistrov, a top legislator in the nationalist Liberal Democratic Party. "It's an imitation election," said Sergei Obukhov, a member of the Communist Party's central committee.

Monitoring by Golos, an independent electoral watchdog, found widespread efforts to force opposition candidates off the ballot or limit their ability to campaign. "The situation with political competition in these elections hasn't improved," said Golos chief Lilia Shibanova.

Electoral officials reject these criticisms. On Thursday, Mr. Medvedev proposed another legal change aimed, according to the Kremlin, at leveling the playing field by guaranteeing opposition parties access to regional media.

In his two years in office, Mr. Medvedev has called for strengthening democratic institutions and the rule of law, fueling hopes he might reverse some of the steps taken by his predecessor and patron, Vladimir Putin. But as prime minister and head of United Russia, Mr. Putin remains powerful.

"We need to act ... extremely carefully in this area," Mr. Putin told a top-level Kremlin meeting on political reforms that Mr. Medvedev convened in January. "The political system shouldn't tremble, like liquidy aspic, at every touch."

Kremlin officials say the seemingly different messages are a signal that the highly centralized system built over the past decade needs to be made more flexible, but just enough to ensure that it remains in control. Open political competition such as that seen in Ukraine, where infighting often paralyzes the government, is anathema, officials say.

Polls show United Russia is likely to get 50% or more of the vote in most of the major contests Sunday. Voters will be electing legislatures in eight of Russia's 83 regions, as well as mayors and councils in dozens of cities and towns.

United Russia officials defend their strong results in past votes and high polling for Sunday as a reflection of the popularity of Mr. Putin, despite last year's sharp economic contraction. Rivals' claims that United Russia misuses its dominant position to quash competitors are "largely unfounded," said Tatyana Voronova, a United Russia national Parliament legislator.

Winning seats in regional assemblies is important for United Russia's rivals. Dozens of parties have disappeared as registration rules and Kremlin control have tightened. Only three have managed to keep seats in the national Parliament: the Communists, the nationalist Liberal Democrats and Just Russia, which is led by a Kremlin loyalist and casts itself as supportive of Mr. Putin but opposed to the party he leads.

Sergei Mitrokhin, leader of the pro-market Yabloko party, said some of Mr. Medvedev's electoral reforms have made the environment more difficult for the opposition, such as rules requiring large numbers of voter signatures to get on the ballot.

"It's practically impossible" to meet those requirements, he said, noting that Yabloko candidates were stricken from Sunday's ballots in two regions because of alleged petition violations. "In reality, they're tightening the screws," he said.

Agence France-Presse/Getty Images

Report card

Dmitry Medvedev has pledged broad reforms, but critics say he's short on results.

Promise	Results so far
Boost political competition	Some legal changes to ease pressure on opposition, but rivals to ruling party see little progress
Strengthen rule of law	Limited steps to strengthen judicial independence; fired some police and prisons officials and ordered reforms
Fight corruption	Set up special anti-corruption panels, Increased disclosure of officials' wealth
Ease government pressure on business	Some legal changes enacted, others proposed, but business leaders say climate little changed

EUROPE NEWS

Pope to meet on abuse

Investigation in Germany continues into cases reported since the '70s

By Stacy Meichtry
And David Crawford

ROME—Pope Benedict XVI will meet on Friday with a top German bishop who is expected to update the pontiff about a priestly sex-abuse scandal that has rocked his native land, according to a Vatican spokesman.

More than 100 cases of sexual abuse by priests have been reported in Germany since the 1970s, including at least three cases in the Pope's former diocese, Munich-Freising, according to Roman Catholic Church representatives in Germany.

None of the allegations so far in the Munich-Freising diocese stems from the period from 1977 to 1982, when Pope Benedict served as archbishop in Munich, according to a diocese spokesman.

The allegations have led to public questions about the church's resolve to confront alleged perpetrators and assist victims. A spokeswoman says the church is doing both.

Because some of the alleged abuse cases occurred while Benedict XVI headed one of Germany's biggest dioceses, handling the allegations marks one of the biggest tests of his papacy.

The investigation into possible sex abuse also raises questions about the church's ability to question its highest-ranking officials, according to experts in Catholic canon law.

As "supreme pontiff," Benedict XVI is Roman Catholicism's highest judicial authority, making it very difficult for church investigators to seek information from him about his time in Munich, said Monica Herghelegiu, a canon lawyer and lecturer at the University of Tübingen, in Germany, where the pope was once a professor of theology.

"There is no canon law that would oblige him to give answers," she said.

Over the past decade, cases involving sexual abuse by priests have strained dioceses in the U.S., Ireland, Australia and other countries. Church critics say the abuse cases have cut deep into the church's credibility as a moral authority. Since becoming pope in 2005, Benedict XVI has met with victims in the U.S., apologized for the abuses of Catholic clerics, and in some cases stripped priests of their ministries.

Benedict XVI has been at the forefront of the Vatican's response to sex abuse since the scandal first exploded in 2001. After servicing as archbishop of Munich-Freising, he came to the Vatican as head of the Congregation for the Doctrine of the Faith, the Vatican department in charge of disciplining priests. In 2001, as Cardinal Joseph Ratzinger, he helped to toughen Vatican laws that discipline abusive priests.

Since his election as pope in 2005, Benedict XVI has developed a reputation for "zero tolerance" of abusive priests, said the Rev. Eduardo Baura, a professor of canon law at the Pontifical University of the Holy Cross in Rome.

Three cases have been reported since 1995 in Munich-Freising, said a spokesman for Pope Benedict's former diocese. In one case, a priest is alleged to have raped a 13-year-old girl nine times in 2003. The priest was immediately suspended from youth work after the allegations were made in 2005, although he continued to celebrate Mass until after his conviction in a state court in September of the same year. A second investigation in Munich involving a second person was dropped as unfounded, and a third investigation involving a third person is continuing, the spokesman said.

Munich-Freising is continuing its investigation into past allegations of sexual abuse by asking victims and perpetrators to report past abuse, including during the period under Pope Benedict, the spokesman said.


European Pressphoto Agency

Pope Benedict XVI at his general audience at the Vatican on Wednesday.

The diocese of Munich-Freising is continuing its investigation by asking victims and perpetrators to report past abuse, a spokesman said.

A separate investigation is under way in Regensburg, Germany, where the pope's brother served as a priest and director of the world-famous choir, the Regensburg Cathedral Sparrows.

Msgr. Georg Ratzinger, 86 years old, says he wasn't aware of any sexual abuse, but he was aware of violence against children. In an interview in the Passauer Neue Presse, a local paper, this week, Msgr. Ratzinger said he slapped children as a punishment, but says he stopped when the practice was outlawed in the 1980s.

A spokesman for the Regensburg diocese declined to comment. Msgr. Ratzinger, who is now retired, couldn't be reached to comment.

Under church law, the statute of limitations on abusive priests expires when their victims reach age 28. Canon law gives diocesan investigators the authority to take testimony from potential witnesses and victims, said Father Baura, of the Pontifical University of the Holy Cross. But questions relating to the pope's former role will have to be carefully couched. "What they can't do is put the pope on trial," he said.

The papal spokesman, Rev. Federico Lombardi, declined to comment on whether the pope would undergo questioning with church investigators in Germany.

Investigations are focusing on fewer than 50 alleged perpetrators of sexual abuse in Catholic churches and schools, said a senior church official, who asked not to be named. The German Bishops Conference plans to open a telephone hotline for victims before Easter, the spokeswoman said.

Separately, in recent weeks there have been 153 claims of abuse in Germany at the Society of Jesus, a priestly order, says Ursula Raue, a lawyer handing the cases for the Jesuits. The reported cases date from the 1950s until about 2005, she said, primarily in Jesuit schools. The same alleged perpetrators are repeatedly named in reports, Ms. Raue said.

On Friday, the pope was scheduled to give a private audience to Archbishop Robert Zollitsch, head of the German Bishops Conference. That will follow the annual meeting of German bishops in Rome, where the allegations of priestly abuse are on the agenda.

"It's obvious that they will be talking about" the German sexual abuse cases, said Father Lombardi.

New advocates for tax cuts in Italy: left-wing unions

[Letter From Rome]

By Christopher Emsden

Rome's Piazza del Popolo will blaze with red flags Friday, as members of CGIL, Italy's biggest union, gather to mark a general strike. In a break with tradition, the left-wing union has adopted Prime Minister Silvio Berlusconi's signature policy agenda: tax cuts.

CGIL leader Guglielmo Epifani has offered to call off the strike if the government agrees to increase take-home wage and pension checks by €100 ($137) a month, and to do so by April. CGIL estimates the fiscal shift will cost about €20 billion a year, or 1.5% of gross domestic product. Otherwise, "we won't stop with this action," Mr. Epifani said Tuesday.

Meanwhile, even the prime minister laments how stingy Finance Minister Giulio Tremonti has become, although his rigor has kept Italy's government-bond market stable.

"With €1.7 trillion in public debt, there are no margins for this unless we want to face a Greek tragedy quickly," Fernando Napolitano, chief executive of the Booz Allen consultancy in Italy, said of the strikers' goal.

CGIL does have a point: Average income tax is 13 percentage points higher than the OECD average and accounts for a far higher share of tax receipts in Italy than elsewhere. The tax bite on a gross salary above €50,000 a year can run as high as 60% once payroll taxes are included.

Finance ministry records show only 4.3% of Italians declare more than that, so it may seem not much of a problem. But data collected by national statistics institute Istat show anyone earning less wouldn't be able to fund the average Italian household's spending.

The gap between the two institutions' figures point to hidden cash flow from undeclared income and, of course, an erosion of savings—which in Italy is partly obscured by a low birth rate.

CGIL's call represents a shift. After all, the union approved of Mr. Berlusconi's center-left predecessor, whose fiscal policy was the main reason why taxes rose 19.2% from 2005 through 2007, while wages rose just 13.1%.

Mr. Epifani notes that Italian taxes on wages and pensions are the highest in Europe. That's a "question of social justice to fix this iniquity—seriously and now," he said.

"But now, with the global economy in a delicate place, is certainly not the time for tax cuts," said Giuliano Cazzola, a former senior CGIL official who now sits on Mr. Berlusconi's side of the political fence and is vice president of the parliamentary labor committee.

"A mini tax cut now wouldn't help anybody and would only add to the deficit," said Fabio Pammolli, head of CERM, a local think tank. "The only way forward now is to slash unproductive public spending,"

There's no mention of that in CGIL's platform.


Agence France-Presse/Getty Image

Finance Minister Giulio Tremonti

Mr. Cazzola says calling for tax cuts is a tactical ploy aimed at casting Mr. Tremonti as Scrooge ahead of the March 27 regional elections, and in particular trying to prevent him from overhauling the current tax code, which dates from the 1970s, when most Italians worked in factories.

Mr. Tremonti doesn't want to spend nickels and dimes on tax cuts or temporary stimulus programs to stoke refrigerator sales if that puts fundamental reform at risk. Tax reform remains a "fundamental commitment" before the legislature ends in 2013, but "there hasn't been enough debate yet," he said this week.

He points out once the regional vote is over, Italy's electoral calendar is empty for three years—a postwar record and "an opportunity to do real reform."

But with public debt slated to rise to almost 120% of a gross domestic product that has grown by less than any other in the euro zone in the past decade, high taxation seems here to stay.

Mr. Tremonti has pushed for simplification of the tax code and enraged the Left by reviving the idea of a two-bracket system that would cut the top marginal income rate to 33% from 43%. The goal, he says, should be to "shift the fiscal focus from people to things."

Given that Italy will have to service its public debt and fund the liabilities resulting from an aging population, Mr. Tremonti has to design a tax code that boosts potential economic growth.

That means steering resources away from unproductive uses—not easy in a country known for government-funded industrial cathedrals in the desert and households that put all their eggs in their own real-estate basket—and making the regions more accountable for their own spending.

Mr. Tremonti's "fiscal federalism" could unleash new incentives and prove fruitful. But they would only be a first step and no guarantee that taxes will head down.

As Wilfredo Pareto lamented back in 1880, when Italy's tax receipts came from salt duties and the like, the government still managed to take 24% of all household income, five times the rate in the U.K. at the time.

Ukraine coalition sealed

Yanukovych secures majority in parliament, names prime minister

By Richard Boudreaux

Ukraine President Viktor Yanukovych, moving quickly to end years of political paralysis, secured a majority coalition in parliament Thursday and won its approval for a close ally to serve as prime minister.

The vote gave the former Soviet republic its first unified leadership since the early months of the 2004 Orange Revolution, when triumphant, Western-oriented politicians began quarreling among themselves. The infighting and legislative deadlock blocked promised transformations and hindered recovery from economic crises.

Mykola Azarov, a former finance minister and tax authority chief, was sworn in to lead a 29-member cabinet supportive of Mr. Yanukovych's plans to balance Ukraine's quest for Western alliances with an improvement of its ties with Russia.

Mr. Azarov's first task will be to restore the confidence of the International Monetary Fund, which last year suspended a $16.4 billion bailout program, citing Ukraine's lack of a balanced budget.

Speaking in parliament before it elected him prime minister, Mr. Azarov said his government would draft a "realistic" budget for 2010 and meet other obligations to the IMF, the country's most important lender.

His remarks cast doubt on Mr. Yanukovych's campaign promise to raise wages and pensions for government workers on the heels of a recession that shrank Ukraine's economy by 15% last year.

"The country has been plundered," Mr. Azarov said. "The coffers are empty."

Mr. Azarov, 62 years old, was a campaign strategist in Mr. Yanukovych's Feb. 7 election victory over Prime Minister Yulia Tymoshenko.


European Pressphoto Agency

Ukraine's new Prime Minister Mykola Azarov in parliament jn Kiev, Thursday.

Like most others in the cabinet, he is a long-time loyalist from Mr. Yanukovych's Party of Regions. Critics like to point out the Russian-born politician's poor command of the Ukrainian language, but they regard him as an experienced, albeit conservative, economic manager.

A notable outsider in the cabinet is Serhiy Tihipko, a former central-bank chief who finished third in the presidential race on a platform of far-reaching economic change. Mr. Yanukovych said that Mr. Tihipko, a deputy prime minister, would play a key role in managing the economy.

His appointment, along with that of Iryna Akimova, a respected economist who is first deputy head of the presidential administration, encouraged investors.

"I don't think Tihipko would have taken the job without assurances that he'll be able to implement his views and not have to battle a strong-minded prime minister," said Peter Vanhecke, Renaissance Capital's CEO for Ukraine.

In an interview days before the election, Mr. Tihipko dismissed Mr. Yanukovych's spending promises as "just populism." He predicted that Mr. Yanukovych, if elected, would be "more pragmatic" and comply with IMF spending limitations.

Ms. Tymoshenko, now the opposition leader, told reporters the new government is "made up completely of Ukrainian oligarchs" or their representatives. Rather than carry out reforms, she said, "the first thing they will do is divide the financial spoils among themselves."

The last of the Orange Revolution leaders remaining in high office, Ms. Tymoshenko lost her job as prime minister in a March 3 no-confidence vote by the 450-member parliament after her majority coalition there fell apart.

Mr. Yanukovych's backers then assembled their own majority alliance of 235 parliament members, calling it the Reform and Order coalition. It is made up of the president's party, the Communist Party, a faction led by parliament speaker Volodymyr Lytvyn, and 16 individual defectors from two parties in Ms. Tymoshenko's coalition.

A critical letter from U.S. is rebuffed by EU officials

[Brussels Beat]

By Stephen Fidler

European officials rebuffed criticism from U.S. Treasury Secretary Timothy Geithner suggesting a draft law aimed at regulating hedge funds and other alternative investment vehicles would discriminate against U.S. fund managers and banks.

As they did so, the proposed law to which Mr. Geithner objected took a step further in the European law-making machine.

Although the law remains some way from coming into force, Mr. Geithner this month wrote a letter to Michel Barnier, the Frenchman in charge of financial regulation at the European Commission, the European Union's executive arm. The letter expressed U.S. worries that the proposed law would erect barriers preventing American funds from operating in Europe.

The letter noted that the U.S. approach to regulation maintained full access for EU fund managers to the U.S. market.

European officials denied the proposed law is discriminatory and said it was in keeping with agreements made by the Group of 20 leading economies. "The new hedge fund rules do not discriminate against foreign players and are not protectionist," said Amadeu Altafaj, a spokesman for the commission. Marine de Carné, spokeswoman for the French delegation to the EU, said some EU governments "were quite surprised to hear that accusation of protectionism." (The U.S. letter didn't use the words "protectionist" or "protectionism.")

France has been a strong advocate for the version of the draft law that worries Mr. Geithner. It and other governments have reacted strongly to losses suffered by European investors in funds operated by Bernard Madoff, in particular.

The aim of the proposal was "to protect the investors and the people that suffered from the crisis," Ms. De Carné said. It wasn't discriminatory because once a fund manager had met the European standard, it would have a passport to the whole EU.

The proposed law is meant to do three things: protect investors, reduce risks to the financial system and increase transparency about the operations of hedge funds and other investment vehicles.

At the heart of Mr. Geithner's concerns and those of many people in the European fund-management industry are parts of the proposed law that govern access to the EU for fund managers and custodian banks based in third countries. The proposal would also affect fund managers, even if they are based in Europe, that keep their funds in third countries.

The critics say the version now being discussed by EU governments would raise the bar so high for non-EU fund managers, with respect to disclosure, leverage, the location of depositaries and other requirements, that it would effectively stop them from marketing inside the EU. It would also impose a very high bar for managers just wanting to market in one country, diplomats said.

The American concern is that because U.S. fund managers wouldn't be able to meet EU-wide rules, they would be forced to submit to 27 separate national private-placement regimes if they wanted access to the entire bloc.

On Thursday, EU ambassadors meeting together agreed to send the latest version of the law for consideration by EU finance ministers, who gather Tuesday.

That was a defeat for Britain, where government officials estimate 70% of the European hedge fund industry resides, along with 80% of its private equity funds. Britain regards the proposal as a restraint on trade. By contrast to the French fund-management industry, which is largely focused at home, Britain's is much more global in orientation.

Many fund managers based in London that also keep their funds in locations such as the Cayman Islands would be hit by the law, and it would also constrain London-based funds from marketing services in the U.S. and elsewhere, diplomats say.

U.K. officials are concerned it would in effect force London-based fund managers to choose between the EU market and the rest of the world, encouraging some to leave London altogether.

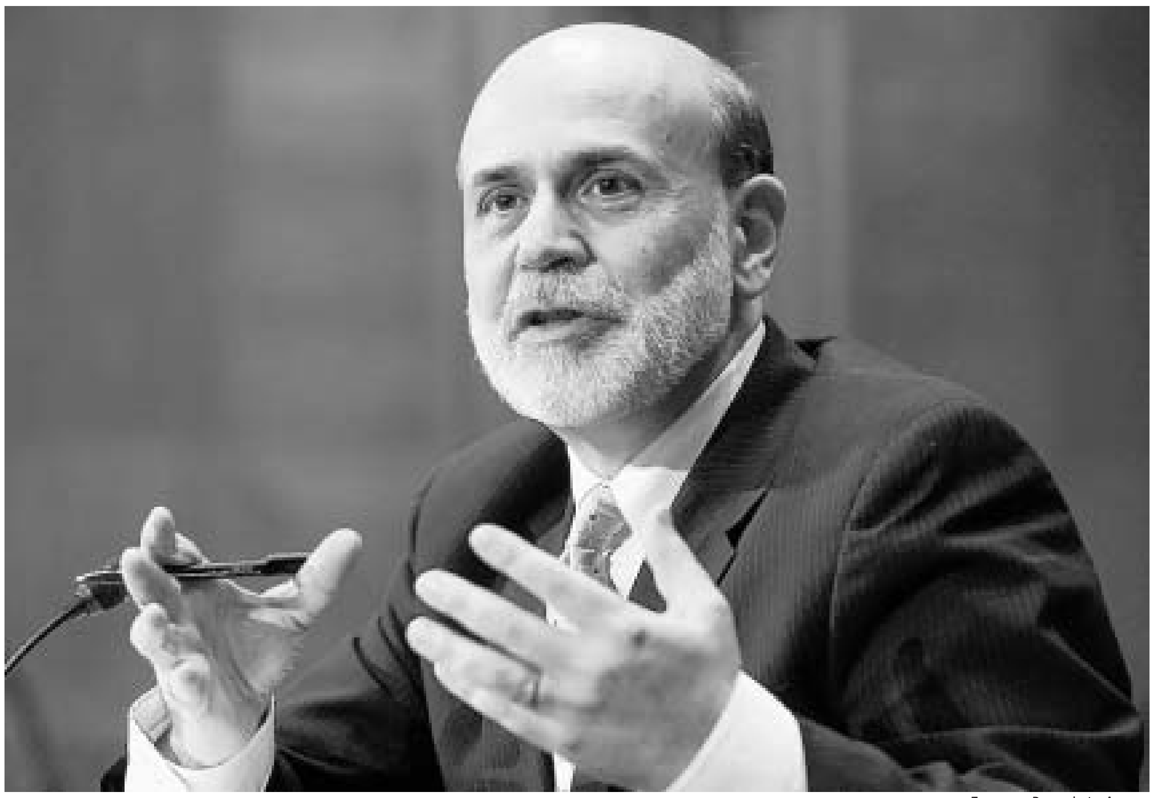
Diplomats in Brussels said Britain doesn't have enough muscle to stop this proposal going forward from Tuesday's meeting as representing the governments' negotiating position.

However, that position will have to be reconciled—in a so-called trialogue among the European Parliament, Commission and the governments—with a different version of the law going through the parliament.

The parliament's version is in flux. Members of parliament have put forward close to 2,000 amendments to another version of the text, which will have to be settled by July. And it is in discussions with the parliament that lobbyists for the financial industry hope to make progress.

That is in part because some members of parliament see the governments' proposal as contradicting the strongly held notion of the single European market. Javier Echarri, secretary-general of the European Private Equity & Venture Capital Association, said his group backed an approach giving EU access to U.S. and other third-country managers, provided it was determined that the third country's regulatory regime was sufficently tough. This approach—called equivalence—is still in the parliament's version of the law.

Mr. Echarri pointed out that because reaching the equivalence determination might take some time, an interim regime could be needed in which third-country funds gained access to European national markets using national regulations.



European Pressphoto Agency

Federal Reserve Chairman Ben Bernanke testifies last month before a Senate panel in Washington.

Fed gets credit for rescue

Economists say stimulus helped but point to central bank's key role

BY PHIL IZZO

The $787 billion stimulus package was a good for the U.S. economy, but the Federal Reserve played the biggest role in rescuing the economy from the financial crisis, according to the majority of economists in the latest Wall Street Journal forecasting survey.

"A much worse result would have occurred if nothing had been done," said survey participant Allen Sinai of Decision Economics, co-author of a paper examining the effects of government intervention with colleague Paul Edelstein. But "the absence of monetary policy easing [by the Fed] would have resulted in a much worse economy than the absence of the fiscal policy stimulus."

Thirty-eight of the 54 surveyed economists, not all of whom answered every question, said the American Recovery and Reinvestment Act boosted growth and mitigated job losses, while six said the legislation had a net negative effect.

On average, economists estimated that the stimulus added one percentage point to growth in 2009; they forecast gross domestic product would expand 3% this year, compared with 2.2% in the absence of stimulus. They estimated that the February unemployment rate, reported at 9.7% last week, would have been 10.4% without the stimulus.

But the Fed's interventions likely played a bigger role in pulling the economy out of its tailspin, economists said. In their paper, Messrs. Sinai and Edelstein estimated that the Fed's actions boosted GDP growth by 1.9 percentage points in 2009 and would add 3.3 points this year.

The survey respondents broadly agreed. When asked which government policies played the biggest role in resuscitating the U.S. economy, 25 respondents chose low interest rates and 13 said it was the central bank's purchases of Treasurys and mortgages. Eight cited the bank stress tests and related capital-raising by banks. Just three said the stimulus played the biggest role.

But even as a recovery materializes and Fed monetary policy begins to normalize (38 of the 54 respondents expect the key federal-funds rate to increase by the end of the year), long-term problems will persist. Economists expect the unemployment rate to remain above 9% throughout 2010.

Managing the crisis

Which of the following government policies played the biggest role in resuscitating the U.S. economy in the past several months?

The $787 billion fiscal stimulus	**3 economists**
The stress tests of the big banks and related capital-raising by the banks	8
The Fed's purchases of U.S. Treasurys and mortgages	13
The Fed's ultra-low interest rates	25

Source: WSJ reporting

Mixed news on U.S. jobs, trade

BY CONOR DOUGHERTY

Only slightly fewer U.S. workers filed first-time claims for jobless benefits last week, a sign that the job market's revival remains tenuous, while a separate report showed the U.S. trade gap narrowed in January as exports and imports fell.

The Labor Department said Thursday that initial claims for unemployment insurance dropped to 462,000 in the week ended March 6, down 6,000 from the week before.

Meanwhile, the number of people collecting unemployment checks rose 37,000 to 4.6 million in the week ended Feb. 27. That number doesn't include those who collected extended-unemployment benefits.

The jobless data portray an American labor market that is slowly improving but still not creating enough jobs to produce a sustained decrease in the country's 9.7% unemployment rate.

A separate Commerce Department report said the U.S.'s seasonally adjusted deficit of goods and services fell to $37.3 billion in January from $39.9 billion in December. Exports slid 0.3% to $142.7 billion and imports fell 1.7% to $180 billion.

The decline in exports was an unwelcome sign for a U.S. economy still on the mend, but doesn't mean a recent run-up in export activity has derailed. Economists said rough winter weather, a swing in volatile aircraft sales and elevated exports in December were likely the main causes of January's drop. Exports had grown for eight consecutive months, underscoring the strength in foreign markets that is boosting business for many big U.S. firms.

The key to the import drop was a fall in oil imports: The U.S. bill for crude-oil imports fell to $18.12 billion from $20.28 billion in December, despite a 69 cent rise in the average price per barrel to $73.89.

—Darrell A. Hughes contributed to this article.

Political cost of compromise adds to gridlock in Congress

[Capital Journal]

BY GERALD F. SEIB

Many Americans, seething at a Congress that seems ever less able to resolve big issues, ask why lawmakers aren't more willing to come together in compromise.

Here's part of the answer: Robert Bennett, John McCain, Blanche Lincoln, Lindsey Graham and Lynn Woolsey.

That isn't a list of people standing in the way of compromise. Rather, it's a list of lawmakers from both parties under attack from within their own camps precisely because they have dared to reach toward the middle—often just barely—in the hopes of getting an agreement on something important.

Their experiences show why, particularly in an election year such as this, the safest tactic in Washington today is to retreat to your respective partisan foxhole and stay crouched down there along with the other foot soldiers from your army. Those who stick their heads out of the foxhole, or actually wander out onto the battlefield in search of a truce with the other side, are the ones who get shot.

So, for example, Utah Republican Sen. Robert Bennett finds that he isn't only facing a primary challenge but is being attacked in TV ads and on a Web site called stopbobbennett.com sponsored by the conservative organization Club for Growth.

His principal transgressions, according to the ads and Web site, are that he voted for the rescue plan for Wall Street—that would be the bipartisan rescue originally proposed by Republican President George W. Bush and subsequently endorsed by the Obama administration—and that he "even joined with liberals supporting big government health care."

That health-care assertion might lead one to conclude that Mr. Bennett has backed the big health-care overhaul being pushed by the Democrats. Actually, he's never favored that bill and voted against it.

Instead, his sin was to sponsor an alternative, more centrist approach with Democratic Sen. Ron Wyden that is less sweeping and costly—and that leaves many liberals cold.

Of course, there's nothing new about intraparty fights, and elections are supposed to be about resolving ideological disagreements. The difference today is that both parties are more determined to seek uniformity and internal discipline than they were when, say, Republican senators cast the crucial votes for Democratic President Lyndon Johnson's civil-rights bill, or House Democrats cast the deciding votes for Republican President Ronald Reagan's tax-cutting budget blueprint.

The other, perhaps more relevant difference is that those who stray from party orthodoxy today know that they risk not just a fight back home, but a fight in which national political organizations, wielding national money, will go after them.

Thus, a conservative Democratic senator, Blanche Lincoln of Arkansas, faces a primary challenge this year from the left, in the form of Arkansas Lt. Gov. Bill Halter. And that challenge is being aided by the national labor movement, and by the liberal group MoveOn.org, which says it has collected more than $1 million in a nationwide fund-raising effort to unseat Ms. Lincoln.

Ms. Lincoln's failings, to those on her left, were opposing a public option—that is, a government-run insurance plan to compete with private insurers—and "card check" legislation that would make it easier for workers to form unions.

It's hard to know just how effective such attackers from the flanks will be. "They're noisy and they're fighting incumbents, but it's not clear yet what result they'll have," says Jim Jordan, a veteran Democratic campaign consultant.

And in fact, lawmakers who survive such criticism in a primary election may find the attacks end up helping them in the general election. When these lawmakers tell independent and swing voters that they stand firmly in the political center, that assertion will have more credibility precisely because they have been attacked from left or right.

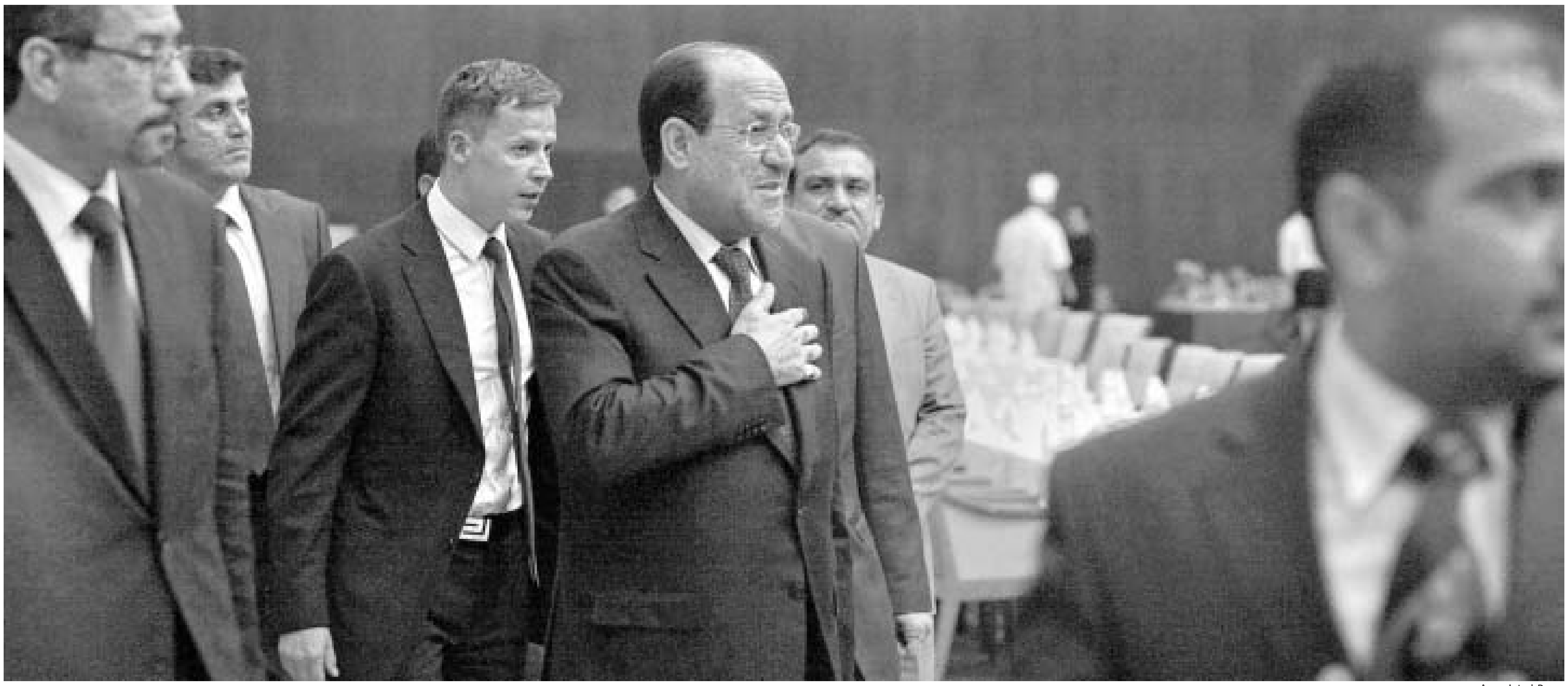
For Ms. Lincoln, notes Mr. Jordan, "it may not be terrible for her to go on TV and say, 'I'm being attacked by organized labor' in the home state of Wal-Mart."

The broader problem lies in the signal sent to everybody else in Congress that breaking ranks brings headaches from those you thought were on your side. Thus, the Republican Party's standard-bearer in 2008, Sen. John McCain, now finds himself challenged from the right by a former Republican congressman, J.D. Hayworth, in no small measure because Mr. McCain has a history of seeking bipartisan compromise on the explosive immigration issue. The challenge already seems to have caused Mr. McCain to pull back on his bipartisan stands.

Similarly, one of Mr. McCain's best friends in the Senate, Lindsey Graham of South Carolina, while not up for re-election this year, has found himself the target of critical ads back home sponsored by national energy interests because he's tried to craft a bipartisan bill on climate change.

And on the other side of the partisan divide, one of the House's leading liberals, California Rep. Lynn Woolsey, is under attack from the left for saying she's willing to accept the Senate's version of health care, even though it doesn't contain a public option.

The upshot: A posting on the liberal Firedoglake Web site last week called on her to resign as head of the House's Progressive Caucus.



Associated Press

Iraqi Prime Minister Nouri al-Maliki, center, arrives for a dinner reception in Baghdad's Green Zone Monday. Preliminary results reveal voting breaking down largely as expected.

Early Iraq count shows a close race

Maliki's party leads in two Shiite-majority provinces, while Allawi's slate leads in two Sunni-majority provinces

By Charles Levinson

BAGHDAD—Preliminary results from Iraq's parliamentary elections released Thursday revealed a tight race that remains too close to call. As Iraqis waited for the first batch of results from Sunday's vote, the top two challengers to incumbent Prime Minister Nouri al-Maliki raised fraud allegations.

The preliminary results, based on about a quarter of votes tallied in five provinces, reveal voting breaking down largely as expected.

Mr. Maliki's State of Law Alliance is leading in the Shiite-majority provinces of Babel and Najaf in the south. The Iran-backed Shiite slate, which includes the Islamic Supreme Council of Iraq, ISCI, and the Sadr Party, is narrowly trailing Mr. Maliki's party in the two southern provinces.

The secular Sunni-backed Shiite Ayad Allawi, meanwhile, is dominating in the two Sunni-majority provinces of Diyala and Salaheddin, north of Baghdad. Iraq's main Kurdish alliance is on pace to finish well, despite a strong challenge from a breakaway party.

Technical glitches at the vote-counting center derailed plans to release preliminary vote totals in all of Iraq's 18 provinces, which are due out in coming days. Final results from Sunday's elections for the country's 325-seat parliament aren't expected until the end of the month.

The early results suggest voters turned out largely along sectarian lines, with few voters in Shiite areas casting ballots for Mr. Allawi and few voters in Sunni areas supporting Mr. Maliki.

The early results show no other Sunni party scoring a significant slice of the vote, whereas the Shiites are almost evenly divided. That means that if the next government seeks to represent both Sunnis and Shiites, it will likely have to include Mr. Allawi's list, or parts of it.

Hours before the first vote totals were announced, Ahmed Chalabi, a member of the Shiite slate that looks set to pose a strong challenge to Mr. Maliki in the predominantly Shiite south, challenged the integrity of the voting process.

Later in the day, Mr. Allawi's campaign alleged scores of voting irregularities. At a news conference, Allawi campaign officials displayed a pile of ballots they said had been cast for Mr. Allawi and then tossed into the garbage by corrupt election officials at polling centers in the contested oil-rich city of Kirkuk.

They said entire boxes of ballots at polling centers in two Baghdad neighborhoods thought to favor Mr. Allawi had been found stashed in a storage closet instead of being sent to the vote-counting center. They accused Iraqi security forces of launching a series of raids in recent days meant to intimidate and provoke Mr. Allawi's supporters. "We think the government put a lot of pressure on the election commission to achieve certain results," said Falah Naqib, a senior Allawi adviser.

Mr. Allawi's campaign leveled the most serious allegations at Haidar al-Abadi, a top lawmaker from Mr. Maliki's Dawa Party. Allawi campaign officials accused Mr. Abadi of directly tampering with the voting process during a visit to the vote-counting center on Wednesday. Mr. Abadi vehemently denied the accusations. Election officials said Mr. Abadi had simply paid a midday visit to learn about the vote-counting procedures, as have members of other parties.

Allawi campaign officials refused to speculate as to the scope of the fraud they allege is occurring. "We don't know if it's 15 votes, or 150,000 votes that have been tampered with," said Allawi supporter Adnan al-Janabi.

U.N. officials working with Iraq's election commission said they were pleased with how the vote-counting process is going so far. A Western diplomat close to the U.N. election team similarly dismissed Mr. Allawi's fraud allegations.

Iraq's Independent High Election Commission, responsible for overseeing the elections, rejected any accusations of wrongdoing. Election officials did, however, say that three vote counters had been fired for making a suspicious number of mistakes in the tally process.

Mideast forecast cloudy

By Joshua Mitnick

TEL AVIV—U.S. Vice President Joe Biden departed Israel Thursday with an apology from Prime Minister Benjamin Netanyahu for the diplomatic uproar that overshadowed his visit, but with a new U.S. peace initiative possibly off the rails.

Palestinian President Mahmoud Abbas withdrew his agreement to join indirect peace talks—the first negotiations in over a year—until Israel abandons a project to build 1,600 homes in east Jerusalem, according to a spokesman.

Israel's Interior Ministry publicized its approval of the plan—to build in territory claimed by Palestinians—midway through Mr. Biden's visit.

A statement from the prime minister's office Thursday "expressed regret over the unfortunate timing" and declared that ground wouldn't be broken on the new project for several years. It also pledged to ensure similar "incidents" wouldn't recur in the future.

A U.S. official sought to tamp down the impression that the outlook for the so-called "proximity talks" had eroded over the course of Mr. Biden's visit.

"As far as the U.S. is concerned, the proximity talks are still on," said U.S. Embassy spokesman Kurt Hoyer.

A spokesman for the Palestinian Authority said publication of the building plan—the second such project announced in two days, following news of a plan to build West Bank settlements—undermined confidence in the renewed peace process.

"If Israel will continue business as usual with settlements, and the Americans are not in a position to do anything in this regard, that's something that the Palestinian leadership has difficulty living with," said government spokesman Ghassan Khatib.

The vice president said in a speech at Tel Aviv University that the unusually harsh condemnation of the construction project that he delivered over the first two days of meetings here had been requested by U.S. President Barack Obama.

Despite that, Mr. Biden thanked Mr. Netanyahu for the note of apology, adding that the clarification on the building plan "gives negotiations the time to resolve this."

During the first year of the Obama administration, the allies sparred publicly over the same issue of settlement building that roiled the visit this week.

Mr. Biden asserted the U.S.'s right to give Israel constructive criticism on its policy.

"Sometimes only a friend can deliver the hardest truth," he said.

Associated Press

Joe Biden and his wife, Jill, board Air Force II as they leave Israel on Thursday.