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Iranian defector in Norway details government crackdown

THE BIG READ 16-17

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BUSINESS & FINANCE 19

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Saudis crack al Qaeda ring

By Summer Said

DUBAI—Saudi Arabia, the world's top oil exporter, arrested 113 alleged al Qaeda-linked militants accused of plotting attacks on oil facilities and security sites in the kingdom, the Interior Ministry said Wednesday.

The kingdom said it arrested members of an alleged terror network that, authorities said, planned attacks on national facilities and security forces.

This network included 47 Saudis and 51 Yemenis, and three from Bangladesh, Eritrea and Somalia, according to the Interior Ministry statement.

Separately, the kingdom detained members of two other cells that were working independently from each other, officials said.

They allege these two cells were in the early stages of plotting attacks against oil and security sites in Saudi Arabia's eastern province. Those arrested included 11 Saudis and a Yemeni, all allegedly linked to al Qaeda's Yemen-based affiliate.

Most of the militants were arrested in the southern province of Jazan, near the border with Yemen. Belts of explosives, weapons, cameras, documents and computers were also seized, the ministry said. The dates of the arrests and other details weren't disclosed.

The Interior Ministry said the arrests resulted from an investigation into an incident in October, in which two suspected al Qaeda militants were killed in a gunfight after entering the kingdom from Yemen.

Earlier this year, al Qaeda's affiliate in Yemen, which shares a 1,500-kilometer-long border with Saudi Arabia, issued fresh threats against the U.S. and its Mideast allies. It promised to retaliate against a surge of strikes launched by the U.S.-backed Yemeni government, specifically threatening international shipping and foreign embassies.

Over the past year, Yemen has re-emerged as one of the West's biggest terrorism worries. U.S. and Arab allies fret that extremists driven from Pakistan and Afghanistan have been relocating to Yemen, rebuilding a significant and well-organized terror group in the country.

Washington has also worried that the Yemeni government's recent fighting with Houthi rebels in the north was distracting it from tackling al Qaeda's threat, a

Please turn to page 3

Budget plan aims to lure U.K. voters

U.K. Chancellor of the Exchequer Alistair Darling unveiled a calculated budget aimed at taxing the wealthiest to stave off cuts in public services until after the forthcoming general election.

With just weeks before a National poll, widely expected to be held on May 6, Mr. Darling said borrowing would be £11 billion lower than previously forecast at £167 billion as he pledged to halve the U.K.'s deficit during the next four years.

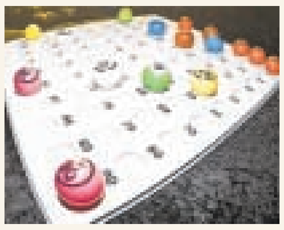
The markets were barely affected by the speech.

Full coverage on page 7

Agence France-Presse/Getty Images

U.K. Chancellor Alistair Darling with the Dispatch Box containing his 2010 budget report. The Labour government's budget looks to cut public debt in a bid to woo voters.

The Quirk



Rebel Bingo: Forget grandma; this is the new way for youngsters to party.

World Watch

A comprehensive rundown of news from around the world.

Editorial & Opinion

France kills the carbon tax.

U.S. praises Pakistani 'courage'

By Peter Spiegel

WASHINGTON—The top U.S. foreign-policy officials gave their Pakistani counterparts a full public embrace Wednesday, even as some senior Obama administration officials say they still need to be convinced that Islamabad is fully committed to eradicating Islamic militants based in the tribal regions bordering Afghanistan.

The public praise from the U.S., made as part of high-level bilateral talks at the State Department and in Capitol Hill testimony, acknowledged some continuing differences. But the praise was otherwise almost unreserved—highlighting how central gaining Pakistani cooperation has become to the administration's highest-risk foreign policy challenges: dismantling international terrorist networks and stabilizing Afghanistan.

Secretary of State Hillary Clinton, who for the first time headed the high-level Strategic Dialogue talks with her Pakistani counterpart Shah Mehmood Qureshi, declared

> The U.S. may be more willing to agree to requests for economic and military aid.

"a new day" for bilateral relations and praised the Pakistani government for showing "courage and resolve" in its fight against militants.

"For the past year, the Obama administration has shown in our words and our deeds a different approach and a different attitude toward Pakistan," Mrs. Clinton said, in an address opening the talks and timed to be broadcast back to Pakistan.

Similarly, Defense Secretary Robert Gates and Adm. Mike Mullen, chairman of the Joint Chiefs of Staff, testifying together on Capitol Hill, gave Pakistan plaudits for its army offensive against militants in the tribal regions, saying it's a sign of a shift in Pakistani thinking. "It has really been extraordinary, in my view, seeing what Pakistan has done over the last, really, more than a year," Mr. Gates said.

The public praise has raised expectations that the U.S. will be willing to accede to new Pakistani requests for economic and military aid, contained in a 56-page document

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PAGE TWO

A budget without serious economics

[Agenda]

By Patience Wheatcroft

To fully appreciate the truly farcical nature of Wednesday's proceedings in the British Parliament, it is worth considering that Chancellor Alistair Darling dwelt as long on the £100 million he is going to spend on road repairs as he did on the fact that the U.K.'s borrowing is going to be £167 billion in the current year.

In one brief sentence, he admitted that in 2014-15, public-sector net debt will have increased to a massive 75% of national earnings. But there was no time to spell out that this will amount to a staggering £1.4 trillion, because he had more important things to talk about, such as a £35 million "university enterprise capital fund."

Even when the nation's finances are in relatively good health, the annual budget statement isn't about serious economics. With the economy in tatters and an election imminent, it was almost inevitable that it would degenerate into an exercise in statistical charlatanism and attempted vote buying. But coming on a day when Portugal saw its debt downgraded because of its adjudged fiscal incontinence, Mr. Darling's performance smacked of thinking that really didn't stretch much beyond polling day.

Not accidentally, it gave the clear impression that the Labour government was on the side of low-earners and pensioners and ready to pile the tax onto high earners (anyone earning over £100,000 a year) in order to benefit the "deserving poor." A tax concession for entrepreneurs didn't dispel this impression. The ground was being clearly laid out for an election campaign that Labour will try to pitch itself (now very much "Old Labour" rather than "New") as the party of the people against a Tory Party led by the wealthy for the wealthy.

Agence France-Presse/Getty Images

David Cameron pointed out flaws and turnarounds in the chancellor's speech.

Mr. Darling was sufficiently restrained in his giveaways not to panic the markets beyond their existing nervousness over the state of the British economy. But he made no progress in addressing the concerns of those, including the European Commission, who fervently believe more must be done to reduce the massive deficit.

Labour is sticking to its line that the economy is still too fragile to risk any cuts just yet

"Our plans reduce borrowing by £78 billion in cash terms over the next four years," the chancellor told Parliament, explaining that a combination of tax, spending cuts and growth would enable this to be achieved. No matter that he had just reduced his growth forecast for next year: Cutting deficits is easy when it is just a matter of reciting numbers. Mr. Darling's recitation rapidly, and painlessly, reduced the deficit from 11.8% of GDP to 5.2% over the four years to 2014-15, and he managed in just minutes. Quite how it would really be achieved in the months ahead remained unclear. But Mr. Darling can afford to be cavalier with his forecasts, for his boss is hardly in a position to complain. Prime Minister Gordon Brown was famously still proclaiming that he had "put an end to boom and bust" just as the economy was heading into its worst recession in a century.

Nevertheless, the route that might take Mr. Darling to some of his targets seems paved with heroic assumptions. Among the documentation that was published alongside his speech, there is an eloquent chart showing Total Managed Expenditure (the bulk of public-sector spending) as a proportion of gross domestic product. From a peak of almost 50% in the mid-'70s, it falls to 36% in 1999. Then, as the Brown government got into its stride, it began its upward trajectory. Within a few years, it had broken back above 40% and then it really started to motor. Now it tops 48%. But charts are as easily drawn as numbers are recited and, voila, this one shows that after a dramatic slowdown in growth for a year or so, it plunges down faster than a luge racer, to just above 42% in 2014-15.

In reality, that sort of turnaround requires painful actions, actions that the opposition Conservative Party insists it would begin to instigate immediately if it were to succeed in winning the next election. Labour is sticking to its line that the economy is still too fragile to risk any cuts just yet. But never mind cuts, the recent fall in unemployment that Mr. Darling was crowing about occurred only because of an increase in public-sector employment. The private sector isn't yet in a position to take up the slack.

Mr. Darling had few new ideas to offer but plenty of very familiar refrains. Successive chancellors promise to unlock savings by making government a more efficient procurer, moving government jobs out of expensive central London office space and, a more recent addition to the chorus, using the Internet to deliver services more efficiently. All sound perfectly reasonably, but somehow never seem to deliver very much.

Equally, reforming the welfare system is a noble ambition common in budget statements. Mr. Darling had the good grace to say Wednesday that: "It has always been our goal to reform the benefits system so that it makes work pay." Thirteen years later, this remains an ambition.

David Cameron fulfilled his part of the budget ritual by vigorously pointing out the flaws and turnarounds in the chancellor's speech. He pointed out that the sum that the government would borrow this year was more than every single Labour government in history had borrowed in total.

Yet the jousting all seemed a bit pointless. While Britain's economy is in a dire state, the country is in limbo because the government is delaying until the last possible moment calling the election.

If Mr. Darling's efforts on Wednesday were supposed to amount to a manifesto, they would be of limited appeal to those who really want to see the country tackle its problems.

If they were just a phony budget, destined to be rewritten in the event of a Labour victory, then they were little short of shameful.

What's News

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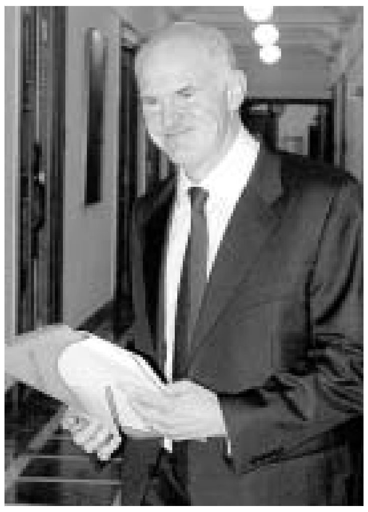
Iain Martin on Politics

blogs.wsj.com/iainmartin

"If you expected Darling to make a bold bid to earn the plaudits of posterity, then you'll have been disappointed."

Continuing coverage



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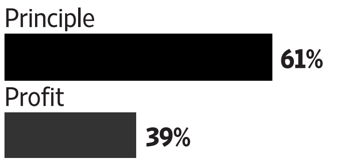

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NEWS

Brin was moved by Soviet memories

Google co-founder says Beijing's increasingly heavy hand influenced company's decision to retreat from China

By Jessica E. Vascellaro

Behind **Google** Inc.'s decision to close its China-based search engine this week was co-founder Sergey Brin's change of heart about the compromises needed to do business in a land that increasingly reminded him of his native Soviet Union.

The beginning of that change came just after the 2008 Summer Olympics in Beijing, he said in an interview about the China decision.

As the glow of the Olympics faded, he said, the Chinese government began ratcheting up its Web censoring and interfering more with Google's business. Murky rules of doing business in China grew even murkier, he said.

"China was ever-present," he said. "One out of five meetings I attended had some component that applied to China in a different way than other countries."

The 36-year-old co-founder said he also was moved by growing evidence in China of repressive behavior he remembered from the Soviet Union, which he and his parents fled when he was six years old.

Mr. Brin said memories of that time—having his home visited by Russian police, the anti-Semitic discrimination against his father—emboldened his view that it was time to abandon Google's policy.

China has "made great strides against poverty and whatnot," Mr. Brin said. "But nevertheless, in some aspects of their policy—particularly with respect to censorship, with respect to surveillance of dissidents—I see the same earmarks of totalitarianism. And I find that personally quite troubling."

On Jan.12, Google said it would stop self-censoring its search engine in China, citing cyberattacks it believes were motivated by an attempt to spy on Chinese activists' emails. Google on Monday implemented that policy, routing mainland users of its search engine to a site in Hong Kong that the company isn't censoring.

The cyberattacks were the "straw that broke the camel's back," Mr. Brin said.

A heated debate in the company about whether to cease censoring ensued, people familiar with the matter said. Mr. Brin and other executives prevailed over Chief Executive Eric Schmidt and others who felt that Google ought to stay the course in China to continue to push its principles from the inside, the people said.

"We did have a long conversation about it, several long conversations," Mr. Brin said. "We heard all the arguments."

Asked if Mr. Schmidt and co-founder Larry Page were available for comment, a Google spokeswoman said Mr. Brin was speaking on behalf of the company.

Reuters

Google's Sergey Brin says China reminded him of his native Soviet Union. 'We...crossed that threshold of discomfort.'

What's next for Google in China is uncertain. Its business is in jeopardy. Some partners—such as **China Unicom (Hong Kong)** Ltd., the country's second-largest mobile carrier—discontinued search agreements with Google, citing the need to abide by Chinese law. Employees are considering defecting to rivals like **Microsoft** Corp., recruiters said.

Tianya, an Internet company which runs one of China's most popular online forums, said Wednesday it would discontinue working with Google on several projects in light of the company's decision to snub Chinese authorities.

Beijing has called Google's move "totally wrong." Internet experts are skeptical that China will let Google continue to route traffic from its China site to Hong Kong. While Google isn't censoring that site, China's Internet filters are blocking some results for users in China.

Mr. Brin's doubts over Google's early agreement to censor in China hark back to his childhood in the Soviet Union, which he and his family left in 1979 to escape anti-Semitism.

Mr. Brin was six, but he said he is reminded of the constant fear of surveillance, through memories such as police visiting his family's apartment to question his parents after they made the decision to emigrate.

To this day, Mr. Brin said, he and his family often reflect on the significance of the move. His father, he said, wanted to be an astrophysicist, but because of ethnic discrimination became a mathematician. Mr. Brin's father relished the freedom to pursue "his own entrepreneurial dreams," the Google founder said. His father became a professor of mathematics at the University of Maryland.

China was a big test. Google was eager to be a player, hopeful that it could increase access to information and sensing business opportunities.

Google set up a Chinese research-and-development center in 2005, and executives began to debate whether they should open up a search engine on Chinese soil—a move that would require them to filter content ahead of time that they thought the Chinese government would deem objectionable.

Messrs. Brin, Page and Schmidt agreed that launching a search engine—and putting a disclosure on the site saying that some information had been removed—would generate awareness among Chinese Internet users that information was being restricted.

In late 2008, just after the Summer Games, the censoring stiffened Mr. Brin said. Chinese authorities also began to tell Google it needed a number of additional licenses to operate its business, according to people familiar with the requests.

Last year, Google was further hamstrung when Beijing accused it of having too much pornography on its site and forced Google to disable some features. Google's YouTube video service, which China had blocked periodically over the years, became inaccessible in the country.

Mr. Brin said Google was still evaluating its options when it discovered it was struck by a highly sophisticated cyberattack late last year.

After Google discovered evidence that the motivation of the attacks was to peek at the emails of Chinese activists, Mr. Brin said, he had had enough.

"Ultimately I guess it is where your threshold of discomfort is," Mr. Brin said. "So we obviously, as a company, crossed that threshold of discomfort."

As for China, Mr. Brin said Google is reviewing its businesses, including the ones it still hosts in China like maps and its music search service. "We have stepped into a new world and will be looking at all the services," he said.

And he is still holding out hope for the endgame.

"I certainly hope that the long-term solution is the liberalization of the Internet in mainland China."

Saudis arrest alleged militants accused in oil attacks

Continued from first page

charge that San'a has denied. The two sides have since enacted a cease-fire.

Late last year, Yemen-based extremists were linked to two alleged terror attacks in the U.S., including the Fort Hood, Texas, shooting and the attempted Christmas Day bombing of a Detroit-bound jet.

In recent years, Saudi Arabia has won praise from international security officials for what appeared to be an effective crackdown on homegrown terrorists. It has announced a series of roundups of suspected terrorists and claimed credit for thwarting several attacks.

In August, Saudi officials announced the arrests of 44 suspected militants allegedly linked to al Qaeda. In July, officials said they convicted 330 al Qaeda militants. Some human-rights groups have criticized the crackdown for being heavy-handed and lacking transparency, a charge that Saudi officials have disputed.

The recent terror threat from adjacent Yemen has been especially worrisome for Saudi officials. In August, a suicide bomber slightly injured a member of the Saudi royal family, who was in charge of antiterrorism efforts. The bomber was identified as a Saudi, who had recently been sheltered in a safe house in Yemen.

In November, Saudi Arabia launched a rare military operation targeting the same Yemeni rebels that the Yemeni central government was battling. Saudi Arabia said it was acting to secure its border.

One of the alleged targets of some of the detainees most recently rounded up was the Abqaiq petroleum complex, according to a Saudi intelligence official.

Abqaiq is one of the world's largest oil-loading installations and the site of a thwarted attack in 2006. That attack didn't disrupt oil supply but pushed crude prices temporarily higher when news of the failed attack surfaced.

The official said Abqaiq security later was upgraded.

—Spencer Swartz in London contributed to this article.

EUROPE NEWS

Greece, Portugal woes punish euro

Downgrade of Lisbon's sovereign debt and uncertainty over EU aid package for Athens batter common currency

By Charles Forelle

BRUSSELS—A sovereign-debt downgrade in Portugal and weak expectations for European Union agreement on helping Greece knocked the euro to a 10-month low Wednesday, showing again how troubles in the common currency's small members have an outsize effect on the wider bloc.

The euro slipped more than 1% against the dollar after Fitch Ratings cut Portugal's credit rating one notch to AA-minus. Late Wednesday, one euro fetched $1.3325.

EU governments struggled to negotiate positions on Greece before a summit of EU leaders beginning Thursday. Germany, the bloc's paymaster and the country most opposed to putting aid on the table, has signaled it may support the possibility of a bailout—but only if the International Monetary Fund plays a substantial role.

That notion, painful to some in Europe as a sign of weakness in the euro, appeared to be gaining acceptance as the price of German backing, officials said.

France and Spain have proposed an emergency meeting Thursday of the 16 leaders of euro-zone countries to work out the Greek issue, but prospects for that gathering were uncertain late Wednesday, EU diplomats said, with German Chancellor Angela Merkel reluctant to commit.

The Dutch prime minister also was cool to a special meeting, telling his parliament that a meeting was "too risky," according to Reuters, citing Dutch news agency ANP.

Portugal's downgrade—along with Fitch's warning that another could come—and Greece's debt troubles show that even the small economies on the fringe of the euro area can have a big effect on confidence in the common currency.

Angela Merkel's wariness of offering Greece full support has investors questioning the German foundations to the euro's strength

Greece's fundamental problem is that the capital markets from which it has heavily borrowed for years are reluctant to lend it more, at least at low rates. Many in Europe fear that lending slump could spread to other, larger countries with big budget deficits, such as Spain or even Italy. Containing that could be an expensive endeavor.

Portugal is relatively less indebted than Greece, but it too is struggling with large budget deficits against a background of anemic growth. Like Greece, but to a lesser extent, markets are charging Portugal higher rates to borrow than in past years.

Fitch rates Greek debt BBB-plus, the lowest in the euro zone. Portugal's deficit was equivalent to 9.3% of gross domestic product last year.

The government intends to lower it to 2.8% by 2013. The EU's limit is 3%. But Fitch warned that the deficit reduction isn't coming soon enough. "The planned deficit adjustment is back-loaded and the risk of macroeconomic disappointment ... is significant," it said.

After the downgrade, Portugal's finance ministry said in a statement that "it is fundamental for Portugal to demonstrate a firm political commitment to carrying out" its austerity plans.

Portugal "faces a long period of weak growth or even recession as public borrowing is reduced and it goes through a long and painful period of competitive adjustment," said Jennifer McKeown of Capital Economics in London.

Once Europe's low-cost producer of labor-intensive products, such as textiles, that propelled exports, Portugal was hit hard in the past decade by the emergence of new competitors in Eastern Europe and China. It has grown just 0.5% on average since 2001, after averaging closer to 3% for much of the 1990s.

Meantime, despite a raft of calls for firm action on Greece at the summit, there appeared little prospect that the country would actually be offered aid. Germany is willing, at most, to discuss a potential aid mechanism—without a commitment to actually use it.

France is concerned that the EU's announcements after past meetings--vague pledges of support with little concrete action--haven't reassured markets enough to bring down Greece's cost of borrowing, and that putting off a meeting of euro-zone leaders could exacerbate investors' concerns, a person familiar with the matter said.

Greece isn't officially on the summit agenda, though it is widely expected to dominate Thursday's talks. Leaders will also debate climate change, long-term plans and shorter-term economic coordination. One touchy subject is "divergences in competitiveness," code for the rift between Germany, which is running surpluses and improving its relative productivity, and countries in Southern Europe and elsewhere that have been moving in the other direction.

EU leaders will also try to forge some agreement on the role of the IMF in any Greek bailout, though France and others favor a far less prominent position for the fund than Germany does.

French President Nicolas Sarkozy and Luxembourg Premier Jean-Claude Juncker, head of the council of euro-zone finance ministers, have insisted that European countries play a lead role in any bailout if the IMF is involved.

The IMF is also limited by terms governing how much a country could borrow. Jeff Anderson, director of the European department of the Institute of International Finance, a trade group of global banks that closely follows the IMF, figures the IMF and the EU countries together could come up with €28 billion ($37.84 billion), of which €21 billion could be available this year.

That would be enough to cover Greece's refinancing needs through May.

—Clare Connaghan, Jeffrey T. Lewis, Bob Davis and Brian Blackstone contributed to this article.

Exports boost euro-zone manufacturing

By Ilona Billington

LONDON—The euro zone's economic recovery accelerated in March, boosted by soaring export orders in Germany, data showed Wednesday.

A strong rise in German business confidence also suggested the economic resurgence could continue over the coming months.

The pickup in output, orders and expectations is good news for the European Central Bank, which has so far been able to keep interest rates at a record low level of 1% while reducing the amount of additional unconventional measures needed to support the economy.

The export-led boost from the weaker euro and more buoyant global economic recovery, however, needs to be balanced by a rebound in domestic demand to convince the central bank that the recovery is sustainable, market-watchers said.

The flash euro-zone March composite purchasing managers index rose to almost a three-year high of 55.5, as the manufacturing sector grew beyond expectations because of a record surge in output and orders. The services sector, which has lagged behind industries, also grew more strongly than expected, rising to the highest level since late 2007, PMI survey compilers Markit said.

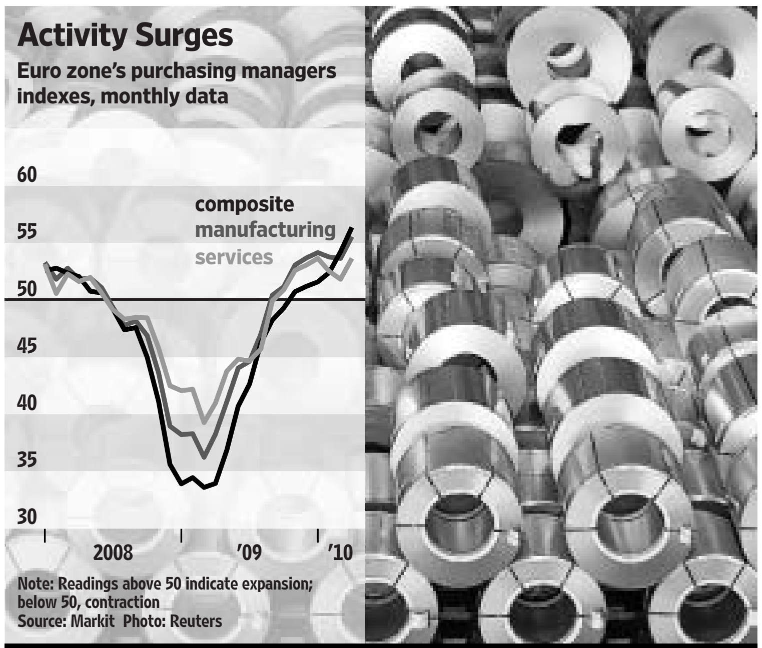
Germany's Ifo business sentiment survey rose to 98.1 in March—the highest level for almost two years—as industry and retailers reported a significant improvement from conditions in February.

"There is encouraging evidence here that underlying activity continued to pick up in the early part of this year," said Jennifer McKeown, senior European economist for Capital Economics.

Markit's chief euro-zone economist, Chris Williamson, said the rise in the euro zone composite PMI in March implies 0.5% growth in first-quarter gross domestic product.

"The combination of rising demand in key export markets and a competitive exchange rate has helped to boost manufacturing growth pace seen only once before in the past 10 years," Mr. Williamson said. "The service sector also showed some welcome signs of renewed life."

The gains show that the recovery in demand—in part the result of a weaker euro—has also stoked confidence in the largest of the 16 economies that share the single currency.



Steel coils at German steel manufacturer Salzgitter AG, Wednesday.

"Today's confidence indicators show that the pause of the German recovery around the turn of the year was nothing more than a temporary break," said Carsten Brzeski, an economist with ING in Brussels.

"The underlying trend of the German recovery remains healthy: business confidence is high, order-books are filling, recruitment plans are increasing and even investment prospects are improving."

This may take a little longer to emerge, though, as service-sector job losses continued in March, according to the PMI. Markit also reported that the prices euro-zone companies charge fell, but by the smallest amount since they began falling in November 2008.

"The continued low readings of the employment sub-indices of the PMIs, in both sectors, suggest that consumer demand will remain subdued, preventing a fully fledged, domestic demand-driven expansion," said Ken Wattret, chief euro-zone economist for BNP Paribas.

A separate euro-zone economic release also sounded a note of caution to the more upbeat outlook. Industrial orders in the currency area were below expectations, falling 2% in January from December while the year-on-year rise was slower than in December.

Economists said the January slowdown was largely a reflection of bad weather and an end to the car-scrappage program in France, but it serves as a reminder that survey data are often more buoyant than official data.

—- Nicholas Winning in London and Geoffrey T. Smith in Frankfurt contributed to this article.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EUROPE NEWS

Reuters

Pope Benedict XVI arrives to lead his weekly Wednesday general audience in St. Peter's square at the Vatican

Pope lets Irish bishop resign

Prelate steps down as new sexual-abuse allegations emerge in Benedict's former diocese

By Stacy Meichtry
And Vanessa Fuhrmans

VATICAN CITY—Pope Benedict XVI accepted the resignation of an Irish bishop, in one of the pontiff's first efforts to address how bishops handled a sexual-abuse scandal that has affected a swath of Europe.

In a one-line statement Wednesday, the Vatican announced the removal of Bishop John Magee, 73, from heading the Cloyne Diocese in the south of Ireland. Bishop Magee submitted his resignation to the pope this month, nearly two years after a government-ordered investigation documented the bishop's failure to promptly report abusive priests to police.

"To those whom I have failed in any way, or through any omission of mine have made suffer, I beg forgiveness and pardon," Bishop Magee said in a statement Wednesday. "I welcome the fact that my offer of resignation has been accepted."

Bishop Magee is one of Ireland's first bishops to step down amid a scandal that has involved thousands of victims. Many adults across Europe have come forward recently with reports of alleged abuse that happened when they were minors.

The pope's recent letter of apology to Irish Catholics was criticized by some victims and a number of Irish lawmakers for not announcing new measures to discipline the abusers and also for not cooperating more fully with civil authorities. Pope Benedict rebuked Irish bishops for failing to exercise proper oversight and apply church laws to abuse cases, but he didn't use the letter to dismiss Irish bishops.

Since his election in 2005, Pope Benedict has met with victims and pledged to fight abuse, stripping sexually abusive clerics of their ministries. He hasn't yet accepted the resignations of some of the other Irish bishops who offered to step down because of the scandal. The pontiff's decision to accept Bishop Magee's resignation within weeks is notable because popes traditionally take months, and sometimes years, to accept bishops' resignations.

The decision comes as new and more-recent sexual-abuse allegations emerged in Germany against a priest who was transferred to the archdiocese led by the pope 30 years ago and later returned to active ministry. The accusations, which stem from 1998, are the latest against Rev. Peter Hullermann, who was allowed for years to work with children after being convicted of sexual abuse in 1986.

Father Hullermann, who was suspended from his duties last week, couldn't be reached to comment. The latest allegations possibly open him to new criminal charges because they don't exceed the German statute of limitations for criminal prosecution of abuse cases, according to the archdiocese.

On Wednesday, diocese officials in the northwestern German city of Essen said they, too, had received credible tips on two other possible instances of abuse by Father Hullermann during the 1970s, a few years before other, already known allegations triggered his transfer to the future pope's archdiocese in Munich.

Earlier this month, church officials said that the pope—who at that time was Archbishop Joseph Ratzinger—signed off on a decision to house Father Hullermann at the archdiocese in 1980 for therapy. But they added that the decision to allow Father Hullermann to return to pastoral duty a month later was the full responsibility of a subordinate and that Pope Benedict was never made aware of the move. The archbishop left for the Vatican in 1982.

In 1986, fresh allegations led to Father Hullermann's conviction for sexually abusing minors. After a suspended sentence and a stint ministering in a nursing home, he was sent to the parish in Garching, a southern Bavarian town, where he worked for 21 years. The new, 1998 allegations come from someone who was a child in Garching at the time and who contacted church officials on Tuesday. The archdiocese said it passed the information to state prosecutors.

"The case has not exceeded the statute of limitations, and the potential victim was a minor at the time," the archdiocese said in a statement. Regional prosecutors couldn't be reached to comment.

Cardinal Friedrich Wetter, the archbishop at the time of Father Hullermann's transfer to Garching, apologized on Tuesday for allowing him to work there. "I overestimated the potential of a person's ability to change and I underestimated the difficulties of treating pedophilic tendencies with therapy," he said in a statement. "I am now painfully aware that I should have reached another decision at the time."

In Ireland, the nation's highest-ranking prelate, Cardinal Sean Brady, recently apologized for his role in investigating cases of sex abuse by priests in the 1970s but not reporting his findings to police. Victims' groups have called for the resignation of the cardinal, who has said he won't step down unless requested to do so by the pope.

In 2008, Ireland's National Board for Safeguarding Children, an investigative committee ordered up by the government and funded by the Irish Catholic Church, documented Bishop Magee's handling of two separate abuse reports. In one, a priest came forward in December 2004 and May 2005 alleging he had been abused as a boy by a priest in the diocese. Bishop Magee confronted the priest who subsequently resigned, according to the NBSC report on Cloyne. Bishop Magee reported the abuse to police for the first time in November 2005 without disclosing the name of the alleged abuser, the report said.

Other allegations against the cleric followed, prompting Bishop Magee to instruct him to stay away from schools and young people, the NBSC report said. The bishop later restricted the priest's ministry but allowed him to continue wearing the Roman collar and dark clothing of his work, the report said. In January 2003, the diocese reported the priest to police for the first time.

In March 2009, Bishop Magee announced he was handing over his duties at the Cloyne Diocese to a Vatican-appointed administrator, so that he could spend more time cooperating with government investigators. In his statement Wednesday, Bishop Magee reiterated an earlier statement that he had taken "full responsibility" for the NBSC's findings. He added that he will "continue to be available" to an Irish government commission investigating the diocese's handling of sexual abuse by priests.

No charges have been filed against the two priests following the publication of the NBSC report. The diocese has declined to disclose the priests' names. The Rev. Jim Killeen, a spokesman for the Cloyne diocese, declined to comment on the investigation.

EU mulls new rules on clearing houses

By Matthew Dalton

BRUSSELS—The European Commission is considering legislation that would require securities clearing houses to share data and cooperate with each other, in an effort to encourage competition in a sector that is now highly concentrated and confined to national markets, according to a document obtained Wednesday.

The commission, the European Union's executive arm, is weighing several forms of cooperation rules for clearing houses, which are entities that stand between buyers and sellers of securities and cover their obligations if either side defaults.

The commission is moving to propose legislation this year that will push most derivatives trading through clearing houses, and it wants to improve competition and create an EU-wide market for clearing as part of that legislation, EU officials said.

The commission and the clearing industry in 2006 developed a non-binding "code of conduct" for companies to share data and increase cooperation in equities clearing, but that agreement hasn't significantly boosted competition in the sector, EU officials said. The industry remains highly concentrated within national borders, as most stock exchanges in Europe are served by just one clearing house.

"Experience with the code has amply illustrated the pervasiveness of commercial and regulatory barriers," the document written by the commission says. "Therefore, doing nothing would mean status quo. That is not an option."

The document, which was discussed at a meeting of EU experts Monday, says "nationally fragmented market infrastructures make cross-border trades more costly. As a consequence they do not adequately serve the internal market."

The London Stock Exchange Group PLC is one of the few in Europe that has two clearing houses, LCH.Clearnet Group and Six x-clear AG, a unit of SIX Group.

The ideas under discussion include giving clearing houses the right to participate as members in other clearing houses, requiring clearing houses to open up their data streams to potential competitors and even forcing them to enter into operating agreements when asked by a competitor. These requirements would first apply to clearing of stock and bond trades but could then be expanded to derivatives, the document says.

But requiring clearing houses to cooperate could create new risks, such as the possibility of contagion if one clearing house runs into trouble. The legislation may need to address this issue by, for example, requiring clearing houses that enter into operating agreements to assess the risks created by the potential that their partner might default, the document says. The agreements might then need to be approved by national regulators or the European Securities and Markets Authority—the new EU-wide agency being established to regulate securities firms, the document says.

EUROPE NEWS

Darling balances voters, markets

Labour expects the U.K. to add less debt than forecast, but its budget contains few new cuts

By Alistair MacDonald

U.K. Treasury chief Alistair Darling delivered a budget that included a modest spending package and a projection that Britain will add less to its record debt than forecast, as he attempted to strike a tricky balance between pleasing voters and pleasing international markets ahead of a spring election.

The budget held few surprises or new measures to tackle debt reduction, and mainly acted to set out the Labour government's campaign approach to an election expected on May 6. Labour wants to nurture the fragile British economy through a still-uncertain recovery, cutting spending much more slowly than the opposition Conservatives, who say quicker, more aggressive budget-cutting is needed to tackle the big budget deficit.

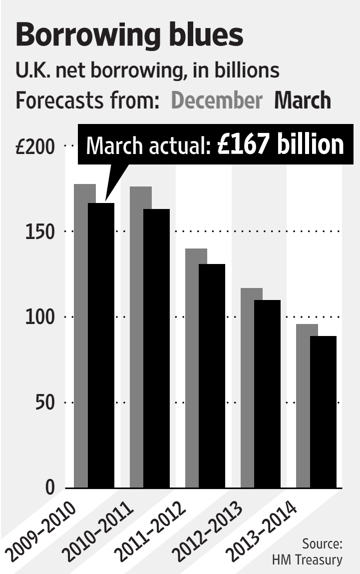
That sets up an election battle in which the Tories will need to persuade voters that the U.K.'s worst postwar recession was caused by Labour policies. The Conservatives also need to show that servicing the massive resulting debt will drain the economy and frighten investors if it isn't dealt with swiftly.

Reaction in financial markets was only moderately negative: Government debt prices edged down and stocks were largely unmoved. But the pound slipped more than 1% against the dollar, and is down nearly 8% for the year against the U.S. currency.

"It was long on politics and short on economics, so most of us are waiting for the next budget or the spending review for clarity" on public finances, said Neville Hill, an economist at Credit Suisse.

Conservative leader David Cameron dismissed the budget as doing little to tackle debt. "The chancellor spoke for an hour, he could have done it all in a sentence: Labour have made a complete mess of the British economy and they are doing nothing to clean it up," he said.

Economists gave Mr. Darling credit for avoiding the British pre-election budget tradition of giveaways. The marquee announcement was the elimination, for two years, of a sales tax for first-time home buyers on properties costing up to £250,000 ($376,000)—to be financed by doubling the tax to 5% of all properties costing more than £1 million. The move will appeal to the more likely Labour supporters and sets a trap for the Conservatives, who could open themselves to accusations of favoring the rich if they reverse the policy—something they hinted Wednesday they wouldn't do.



Mr. Darling said that at the heart of his budget plans is a £2.5 billion "one-off growth package—to help small business, promote innovation, invest in national infrastructure and key skills." That will be paid for by reallocating current spending and from £2 billion in additional revenue generated by a tax on bankers' bonuses.

Wednesday's tax changes join a host of increases announced in last year's spending reviews, including an increase of five percentage points in the highest rate of income tax.

"Those who have benefited the most from the strong growth in incomes in past years should now pay their fair share of tax," Mr. Darling told Parliament.

Mr. Darling had some moderately good news for markets, saying that borrowing would be less than previously forecast in every financial year from 2009 forward. The U.K. fiscal year starts in April. In the 2009-10 budget, for example, projected borrowings will be £167 billion rather than £178 billion. By 2013-14, the total borrowing will be £100 billion lower than projected last year, he said.

The Treasury's borrowing projections are based on what some economists say are overoptimistic predictions for U.K. growth of 3.25% from 2012-13 through 2014-15—above an economists' consensus forecast of around 2.5% a year.

Agence France-Presse/Getty Images

Demonstrators at Parliament in London on Wednesday protested job cuts.

After a decade of high public spending and a bill from the recession of billions of pounds, the U.K. faces one of the largest budget deficits in the world, projected at 11.8% this year.

Many economists brushed aside new details on efficiency savings and complained about the budget's lack of news on debt reduction, saying the lower projections will need to be met by harsh spending cuts or tax increases. Ratings agencies made it clear that the U.K. has more work to do to safeguard its AAA sovereign rating.

Mr. Darling acknowledged the next spending round this year would be the "toughest in decades."

The Tories say they will start cutting spending right away if they win the election and have promised an emergency budget within 50 days. Mr. Cameron, highlighting the damage done by excessive debt, said the U.K. will pay more in interest charges than it spends on schools.

Mr. Cameron has so far failed to persuade the electorate to back his economic policy. An Ipsos-MORI poll in the Daily Mirror newspaper Wednesday showed the Conservative's lead, which peaked at 28 percentage points in September 2008, has fallen to just five points. Asked whether a government should cut spending this year or next, 56% were in favor of the Labour position of slower budget cuts against 32% for the Conservatives.

—Laurence Norman contributed to this article.

Some notable measures from the budget

By Joe Parkinson

U.K. Chancellor of the Exchequer Alistair Darling used his pre-election budget statement to cut his borrowing forecasts, even while he trimmed his economic growth forecast for 2011. Here are some of the key measures from the budget.

GILTS

The U.K. Debt Management Office, an agency of the U.K. Treasury, said Wednesday it plans to sell £187.3 billion of government bonds, known as gilts, in the 2010-11 financial year.

STAMP DUTY

Mr. Darling said he was raising the threshold for payment of the housing transactions levy to £250,000 from £125,000 for first-time buyers. That is to be paid for by an increase to 5% in the stamp duty rate for houses over £1 million.

FUEL

The chancellor said that a duty on fuel that was due in April will be introduced later than planned.

JOBS

The government will roll over a program to guarantee work or training for workers under 24 years of age who have been unemployed for more than six months.

ALCOHOL

The government will raise duty on alcohol by 2% above inflation for each of the next five years. However, the duty on cider will rise by 10% from midnight Sunday in order to close the gap between the duty on cider and the duty on beer.

BANKS

Royal Bank of Scotland Group PLC and **Lloyds Banking Group** PLC will together make £94 billion in gross loans available to businesses in the U.K. over the next 12 months.

REITS

The government said it will finally allow real-estate investment trusts to count stock dividends toward the 90% income distribution requirement.

GREEN BANK

A £2 billion Green Investment Bank will serve as the centerpiece of a package of measures to unlock private-sector investment in low-carbon infrastructure such as nuclear power and wind energy.

Press Association

Duty on cider will rise 10%

A big deal to make over pretty small change

[Commentariat]

Best of the blogs

Peter Hoskin, Coffee House

Was that a Budget sufficient to the fiscal nightmare that we face? Well, I think we all could have answered that question before Alistair Darling stood up at the dispatch box, but now we can at least be sure: no, it wasn't. The government's overall spending plans remain roughly the same as they were in the [pre-budget report], there aren't many tax increases to raise much money for the Treasury, and we're meant to be all excited that borrowing is £11 billion lower this year than previously forecast—at £167 billion. It's a shame that Darling increased alcohol duty, or we'd all be out celebrating that particular success, I'm sure.
(www.spectator.co.uk/coffeehouse)

David Smith, EconomicsUK.com:

Seldom has so much of a budget speech been given over to announcements that, in Treasury terms, amount to no more than small change. Small businesses, however, liked quite a lot of it, including cuts in business rates, more generous investment allowances and an increase in the ceiling for entrepreneurs' relief. That was quite astute. Most people in Britain work for small firms. Any swing in the small business vote back to Labour from his £2.5 billion "growth package," represents more bang for the buck than more obvious pre-election sweeteners would have done.
(http://www.economicsuk.com)

Neal Todd, senior tax partner at Berwin Leighton Paisner:

There was a disappointing absence of any measures to say the U.K. is a friendly place to do business. There was tinkering around the edges, with entrepreneurs' relief to be doubled. None of that will help big multinationals teetering on the edge of relocating some or all of their operations out of the U.K. Businesses will continue to avoid having their holding company in the U.K. They will try to structure their operations to have a minimum U.K. presence, taking more to tax-friendly jurisdictions.
(http://blogs.wsj.com/source/)

—Compiled by David Marcelis

EUROPE NEWS

French President Nicolas Sarkozy delivers a speech in Paris Wednesday.

Sarkozy refocuses

French president drops carbon-tax plan after regional vote defeat

By David Gauthier-Villars

PARIS—France's President Nicolas Sarkozy, trying to bounce back from a regional election setback, said he would focus once again on the economy.

But his only concrete announcements in a brief address to the nation Wednesday were the shelving of plans for a national carbon tax and pressing ahead with a bill to ban the head-to-toe burqa worn by some Muslim women.

Mr. Sarkozy's speech came three days after his conservative party, the Union pour un Mouvement Populaire, was thrashed in regional elections.

Critics in the president's camp say he has pursued too wide an agenda during his first three years in office, and that he needs to return his focus to his main 2007 electoral pledge: putting France back to work.

To jump-start France's economy, Mr. Sarkozy pledged to reduce regulation and state interference in the economy. He has cut some taxes, slashed thousands of civil-servant jobs and loosened Sunday-opening rules for shops and restaurants.

But the measures have had little impact on job creation, partly because of the negative impact of the crisis.

On Wednesday, Mr. Sarkozy said his "absolute priority" was to reduce unemployment, which rose fast after last year's recession and now exceeds 10%.

Opposition politicians said the president was merely "parroting" his own promises. "Politics doesn't amount to accumulating promises," Jean-Marc Ayrault, head of Socialist lawmakers at the National Assembly, said on French television. "The French have lost confidence in Mr. Sarkozy."

The public isn't impressed either. The president's approval rating fell to 36% in March from 40% in February, according to a survey conducted by French polling agency Ifop. The low approval rating and the UMP's defeat in the regional elections highlight a growing divide between Mr. Sarkozy and French people, pollsters say.

In an apparent attempt to regain support among his conservative family and attract other right-wingers, Mr. Sarkozy said he will press ahead with a previously floated plan to ban the burqa. French police estimate that fewer than 2,000 women wear the one-piece veil in France, and most Muslim clerics say it isn't part of Islam. But many French people see the garment as a threat to modern France's secular values.

"The one-piece veil goes against dignity of women," Mr. Sarkozy said. "The answer is banning the one-piece veil."

The president also urged other European Union countries to consider a carbon tax aimed at promoting fuel-efficient products, effectively dumping plans to introduce such a tax in France alone.

The proposed carbon tax had upset French businessmen, who said it would put them at a competitive disadvantage, and workers, who said it would dent their spending power.

In his speech, Mr. Sarkozy also said he will use the last two years of his mandate to overhaul the state-run pension and health-care systems and eradicate crime from transport and schools.

The president said he will help to restore the competitiveness of French farmers, who have been hit by a drop in food prices, and lobby to preserve Europe's farm-aid system, which directs a large chunk of the EU's budget toward French farmers. "I am ready to face a crisis in Europe rather than accept a dismantling of the Common Agricultural Policy," he said.

U.S., Russia are set to sign nuclear pact

By Jonathan Weisman


Associated Press
Barack Obama and Dmitry Medvedev will sign an arms treaty next month.

WASHINGTON — A major new nuclear-weapons reduction treaty is expected to be signed early next month in Prague, the city where U.S. President Barack Obama launched his nuclear-weapons control initiative almost a year ago, individuals with the White House and Kremlin said Wednesday.

The Czech government has agreed to host an early-April signing ceremony for the new treaty, which would sharply reduce the number of nuclear weapons and nuclear launchers deployed by the world's two nuclear superpowers, the U.S. and Russia.

The agreement on a signing ceremony indicates a final deal on the successor to the now-lapsed Strategic Arms Reduction Treaty, or Start, is imminent.

A senior White House official confirmed talks with Russian and Czech leaders are under way for a signing ceremony likely for April 8. Russian President Dmitry Medvedev is already scheduled to be in neighboring Slovakia on April 5 through April 7, according to an official familiar with the negotiations.

This treaty is the first step in an Obama arms-control effort aimed at isolating Iran and North Korea with a good-faith effort by the U.S. and Russia to reduce weapons.

The ceremony would come almost a year after Mr. Obama pledged to work for "a world without nuclear weapons." The Start follow-on treaty would still leave thousands of such weapons in the U.S. and Russian arsenals. But both countries have vowed to pursue much broader reduction talks—targeting smaller battlefield atomic weapons and the remaining strategic arsenal—once the Start follow-on is signed.

"We are still working to finalize a new Start treaty but we have talked to our Czech allies and the Russians about a signing in Prague when the treaty is finished," a White House official said. "Prague is where the president delivered a speech outlining his arms control and non-proliferation vision last spring and where we always wanted to do a signing."

Mr. Obama met at the White House Wednesday morning with Senate Foreign Relations Committee Chairman John Kerry, a Massachusetts Democrat, and Sen. Richard Lugar, a Republican from Indiana, to plot strategy on passage of the new accord, which will require two-thirds of the 100 senators. Some conservatives, such as Senate Minority Whip Jon Kyl, an Arizona Republican, have vowed to oppose the treaty, but Mr. Lugar, a critical Republican voice on arms control, has been inclined to support it.

The treaty is the first step in a broad Obama arms-control effort aimed in large part at isolating Iran and North Korea. Next month, the president will convene a nuclear-proliferation summit in Washington, which will be the largest Washington gathering of heads of state in years. In May, the United Nations will hold a conference to review the nuclear Non-Proliferation Treaty, which has been battered by North Korea's withdrawal and Iran's nuclear efforts, which the U.S. maintains are in flagrant disregard to Tehran's treaty obligations.

The president believes a good-faith effort at U.S.-Russian nuclear arms control will bolster his position when he pushes to strengthen the Non-Proliferation Treaty and press for stronger international sanctions against Iran.

U.S. praises Pakistan's cooperation on counterterrorism

Continued from first page

ment presented to Obama administration officials ahead of the two-day summit.

According to U.S. and Pakistani officials, the requests range from assistance in alleviating Pakistan's chronic water and power shortages to military surveillance aircraft, including drones.

"They are getting the type of treatment they know they don't usually get," said a U.S. official involved in Pakistan issues. "They know there is an appetite in Washington to listen to them."

At a press conference at the end of the day's meetings, Mrs. Clinton said there was progress on development fronts, including an agreement to upgrade roads, rehabilitate power plants and improve agricultural infrastructure. Mr. Qureshi said the two sides had also agreed to speed up the processing of Pakistani requests for military equipment. Mrs. Clinton said the U.S. expressed its desire to seek a multiyear security assistance package, which would regularize military aid.

But several of the Pakistani requests—particularly a desire for a formal pact on civilian nuclear assistance, akin to a deal reached in 2008 between the U.S. and India—are seen as nonstarters.

And despite a spate of recent captures of Afghan Taliban leaders by Pakistani security forces, and the upbeat tone of Wednesday's talks, some senior U.S. officials said they are still watching to see if Islamabad has truly changed course.

In his morning remarks, Mr. Qureshi appeared to address that skepticism, saying he expected "doubt from within" as talks between the two countries continued. But standing next to Mrs. Clinton at the afternoon press conference, Mr. Qureshi said he was "a happy man and a satisfied man," adding his reception this week was a "180-degree difference" from previous trips to Washington. "We've turned the corner," Mr. Qureshi said. "Today, there was confidence. There were no question marks. There was no suspicion. There was no 'Do more.' There was recognition of what we already had done."

Behind closed doors, U.S. officials said the administration will continue to press for a crackdown on militant groups based in Pakistan that are active inside Afghanistan: the Afghan Taliban, headquartered in the city of Quetta, and the Haqqani network, which operates out of North Waziristan. Thus far, Pakistani offensives have largely focused on the Pakistan Taliban.

At the same time, U.S. officials said there isn't universal agreement within the administration over how to assess Pakistan's recent actions. "Our wish list depends on who you ask," said the U.S. official involved in Pakistan issues.

According to officials, the Pentagon, particularly senior military leaders, has been the most assertive in arguing that Pakistan has made a major change in its strategic calculus, while other agencies, particularly the Central Intelligence Agency and some within the State Department, remain skeptical.

—Jay Solomon in Washington contributed to this article.

U.S. NEWS

White House to clarify bill's benefits

Officials to instruct insurers on requirement to cover sick children; GOP proposes a flurry of changes to health package

By Laura Meckler
And Janet Adamy

Associated Press

Senate Majority Leader Harry Reid, center, with Sen. Robert Menendez, left, and Sen. Max Baucus in Washington Wednesday. Republicans have proposed a dozens of amendments to Democrats' health-care legislation.

WASHINGTON—The White House said Wednesday it would issue regulations to clarify that insurers must cover children even if they are already sick, one of the highest-profile provisions of the new health-overhaul law.

President Barack Obama has repeatedly touted the provision as one of the law's most important benefits—and one that will take effect this year. But officials suggested it wasn't precisely written and said the Department of Health and Human Services would issue regulations to make its intent clear.

"We will seek to ensure that...nobody feels that there is any ambiguity," White House spokesman Robert Gibbs said Wednesday.

He added that Mr. Obama will continue to mention the benefit as he promotes the law, including on a trip Thursday to Iowa City, Iowa.

Under current law, insurers may reject applications from children or adults who are already sick. The legislation bans that practice starting in 2014, and the ban is supposed to take effect this year for children.

Some have read the bill's language differently, including the insurance industry's main lobby group. Under their interpretation, insurers must pay the cost of treating children's illnesses once they are already customers, but needn't necessarily accept sick children as new customers.

Mr. Obama also signed an executive order Wednesday making clear that no taxpayer dollars will pay for abortion coverage under the new health program.

Unlike the rollicking public celebration a day earlier when he signed the health bill, this event was held outside public view, reflecting the sensitivity of the issue.

The White House didn't let reporters or photographers witness Mr. Obama's gathering with anti-abortion lawmakers who had agreed to support the health bill only after he agreed to sign the order.

Mr. Obama supports abortion rights and said as a candidate that he opposed long-time restrictions that bar abortion coverage in Medicaid and other federal programs. But a majority of lawmakers support the restrictions and he was forced to accept them to win passage of his health legislation.

In the Senate, Majority Leader Harry Reid (D., Nev.) expressed confidence that Democrats would be able to push through legislation making changes to the core health bill.

Republicans have proposed dozens of amendments. The adoption of any of them would require sending the bill back to the House for what could be another contentious vote, but Mr. Reid said the Democratic majority in the Senate would reject them all.

Mr. Reid criticized Republicans for seeking changes to the bill that have little relation to its goal of expanding health-insurance coverage. He called attention to an amendment offered by Sen. Tom Coburn (R., Okla.) that would prohibit insurance plans from offering erectile-dysfunction drugs to sex offenders.

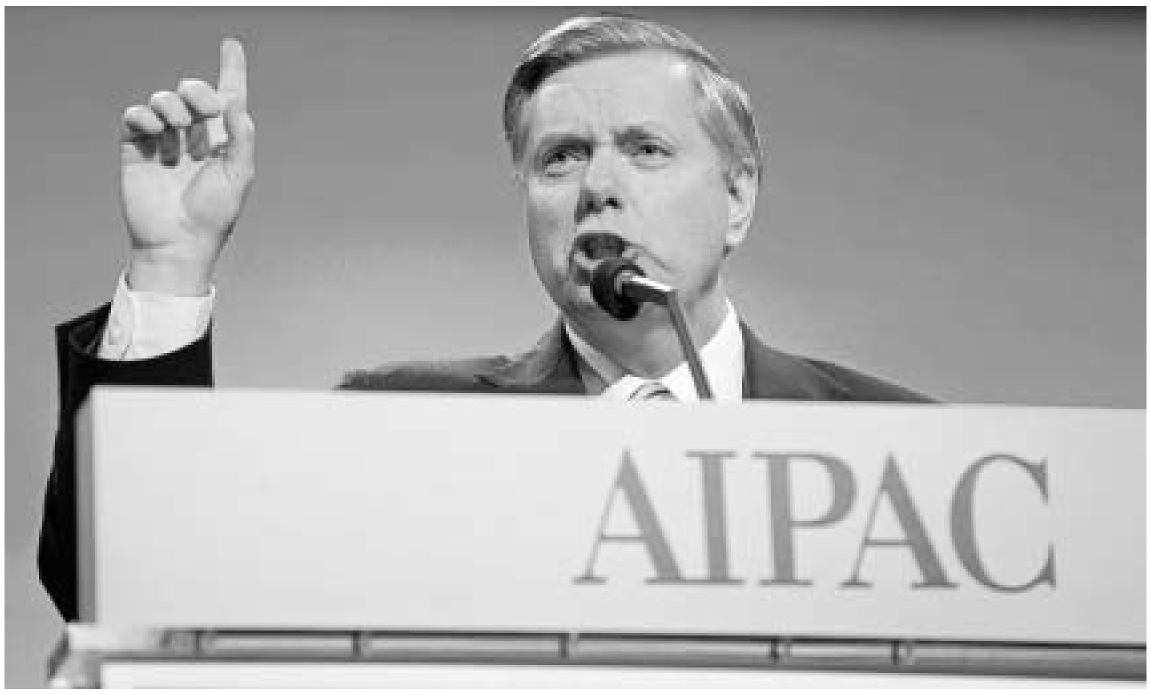
"How serious could they be offering an amendment on Viagra for rapists?" Mr. Reid said at a news conference.

Mr. Coburn, in a speech on the Senate floor, said voting against the amendment would be "an active aid to help those who would hurt our children."

—Patrick Yoest contributed to this article.

After loss, Republicans rethink their stance

By Naftali Bendavid
And Damian Paletta



Associated Press

Republican Sen. Lindsey Graham of South Carolina speaks to a lobbying group Monday in Washington.

The Obama administration's passage of a sweeping health-care revamp has scrambled Republicans' calculations on Capitol Hill, forcing the GOP to decide whether to maintain its largely unified opposition to Democratic proposals.

On key pieces of legislation, including a revamp of financial rules and a rewrite of the No Child Left Behind education law, some Republicans are either explicitly on board or could soon be so. For most of the Obama presidency, the party has moved in lock-step opposition, which has helped coalesce a revitalized conservative movement in recent months.

But some Republicans feel these two issues in particular—education and financial regulation—are harder to oppose for political reasons.

Education Secretary Arne Duncan, who has consulted closely with Republicans, has produced a plan to maintain most of the standards in former President George W. Bush's education law, while giving school boards and the nation's nearly 100,000 public schools more flexibility in achieving them.

Rep. John Kline of Minnesota, the top Republican on the House Education and Labor Committee, said that while he has some concerns about Mr. Obama's plan, "I'm still very supportive."

On an overhaul of financial regulations, which is currently before the Senate, Democrats and even some senior Senate Republican aides think a handful of Republicans will vote for legislation, which could pass the Senate by Memorial Day. Republicans have faced challenges in trying to present a unified position on the bill, given the dicey political prospect of appearing to side with big Wall Street banks.

Following the enactment of the health-care revamp, some Republicans have said the party should have sought to negotiate, instead of offering blanket opposition, to win concessions. Others say Democrats made a mistake in forcing through the health bill, and that the backlash against it will ultimately help the GOP in the November elections.

"If they want to drive these bills to the far left, the ideological left, then there will be less cooperation and more confrontation," said Sen. John Thune (R., S.D.). "If they come to the middle on some of this stuff, then I think there is obviously room for cooperation."

Some Democrats disputed the idea that the health-care battle would prompt a backlash among Senate Republicans. "I think the tone is getting a little better, because we're at the endgame" of the health debate, said Sen. Max Baucus (D., Mont.).

Republican Sen. Lindsey Graham of South Carolina, one of the Democrats' most likely potential allies on a range of legislation, said in an interview he would no longer work with the majority party on an immigration overhaul. He said because of the Democrats' tactics in passing the health-care bill, the "well has been poisoned."

Mr. Graham also has been working with Democrats on climate change, and that cooperation, too, appears in doubt. "Climate and energy are another heavy lift. We'll see," Mr. Graham said. "The consequences of health care being done this way are enormous to the body." Mr. Graham's initiatives would probably not have received significant Congressional attention this year in any case, but his posture signals one potential route for the party.

The revamp of financial rules is perhaps the key area where Republicans could splinter over their approach. Sen. Richard Shelby (R., Ala.) and Bob Corker (R., Tenn.) have separately negotiated with Senate Banking Committee Chairman Christopher Dodd (D., Conn.), sending mixed signals to other Republicans.

Efforts by GOP leaders to make a unified statement with amendments or an alternative bill collapsed over the weekend. Republicans had discussed for weeks offering an alternative bill, but they couldn't agree what should be in it, people familiar with the matter said.

Mr. Shelby had tried to win a commitment from the other nine Republicans on the Banking Committee not to offer amendments, but he couldn't secure an agreement from all the members, the people familiar said. That led to a flurry of Republican amendments right at the deadline Friday. Democrats seized on contradictions between the Republican amendments; some, for example, added power to the Federal Reserve and others stripped it away. On Sunday, Mr. Corker, the final holdout, agreed not to introduce any of his nearly 100 amendments.

Mr. Dodd, trying to take advantage of the breaks within the party, is expected to court centrist Republicans such as Senators Olympia Snowe and Susan Collins of Maine and George Voinovich of Ohio.

—Jonathan Weisman contributed to this article.

U.S. NEWS

The Sun Belt region loses its shine

Census data show recession has altered longtime north-to-south migration pattern; profound shift in Las Vegas

By Conor Dougherty

The recession has halted the dominant U.S. migration trend of recent decades, turning once-hot destinations such as Las Vegas and Orlando, Fla., into some of the country's losers.

Census data released Tuesday portray a sharp shift in migration during the depths of the recession, from July 2008 to July 2009. With home prices slammed and few jobs available in any state, people from Massachusetts to California decided to stay put or go back where they came from.

The Las Vegas metropolitan area lost about 1,300 residents to other areas. That compares with an annual inflow of 54,000 people during the height of the real-estate boom, and marks the first year of out-migration the city has seen in at least a century. The Orlando area swung to an outflow of about 4,300 from an inflow of 52,000 in 2004-2005.

The shifts represent a radical departure from the migration patterns that had made cities such as Las Vegas and Orlando some of the country's fastest-growing. For decades, people have been leaving colder Northeastern and Midwestern states, either to retire or to chase better weather and jobs in the South and West.

"It's unprecedented to see areas like Las Vegas and Orlando, just blue-chip destinations for anybody who wanted to move, to stop and stay stopped over a couple of years," said William Frey, a demographer with the Brookings Institution, a Washington think tank.

Meanwhile, some cities accustomed to losing people are showing net gains. The government's growing role in the economy has benefited the Washington, D.C., area, which drew 18,200 residents from elsewhere, its first net gain since 2002.

In many cases, cities in the Midwest and Northeast are gaining because residents are locked in place. With depressed home prices and a dearth of out-of-state job offers preventing departures, even a modest number of people moving in can drive gains. The Boston area, for example, swung to an inflow of about 6,800 in 2008-2009 from an outflow of about 46,000 in 2004-05. The Chicago area's outflow narrowed to about 40,400 from about 77,400.

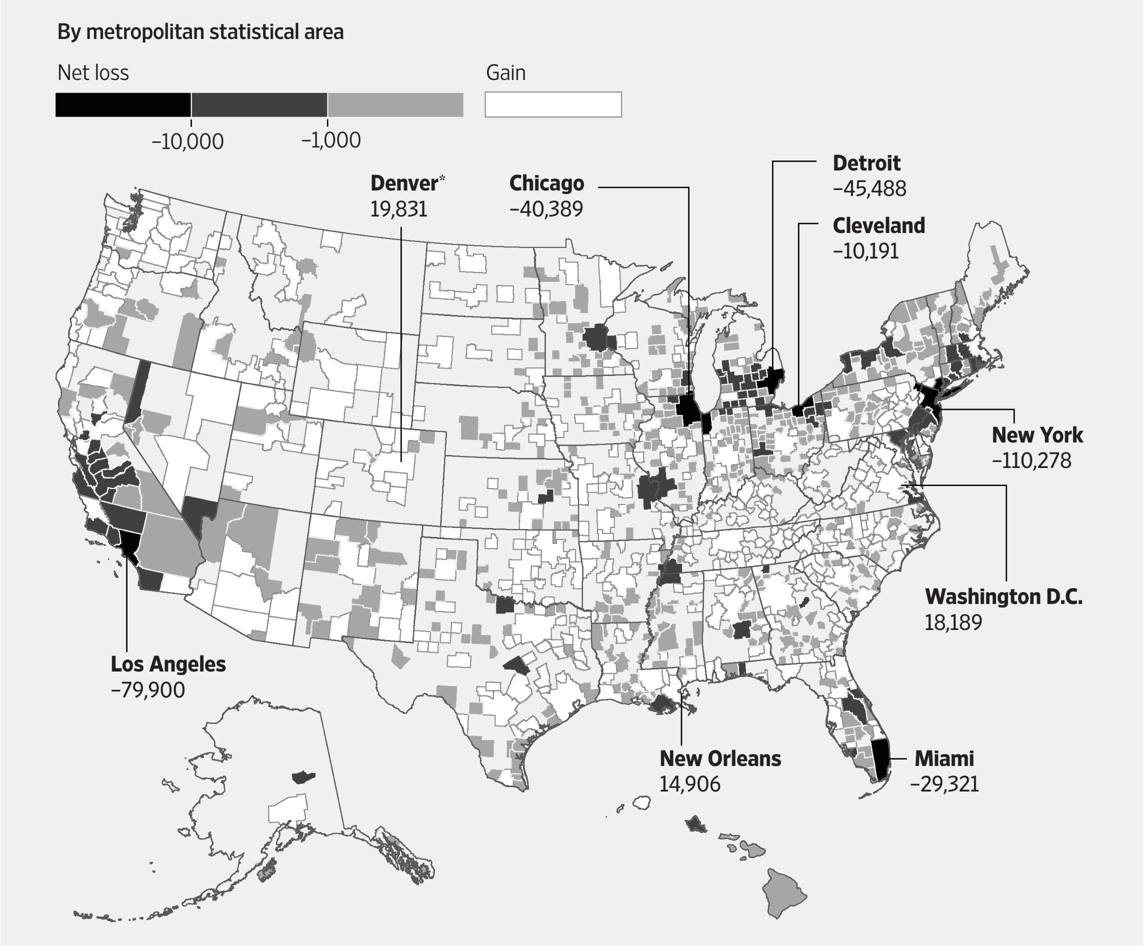
Winners and losers

Select metropolitan areas that have seen large swings in net migration during the recession

Net migration, in thousands*	2005–2006	2008–2009
WINNERS		
New York	–288	–110
Washington, D.C.	–51	18
Boston	–31	7
Chicago	–73	–40
Pittsburgh	–9	1
LOSERS		
Orlando	34	–4
Las Vegas	45	–1
Riverside, Calif.	60	–1
Atlanta	99	17
Phoenix	100	12

*Some winners lost fewer people, some losers gained fewer.

Moving on | Net domestic migration, 2008-2009



*Labels refer to metropolitan statistical area, which includes areas surrounding the city

Source: Census Bureau

Tim Jones, a 30-year-old satellite-television installer, has been on both ends of the migration. Late last year, he moved back to Plano, Ill., in the Chicago area after losing an installation job in the Phoenix area. He said he tried hard to find another job in Phoenix, applying everywhere from auto-repair shops to Wal-Mart, but to no avail.

"It was a pain moving and moving again, but we have to go where the work is," said Mr. Jones, who managed to get his old job back.

Mr. Jones's former home county—Arizona's Maricopa County—is emblematic of the turnaround. A stream of new housing-related jobs attracted people to the area, but that halted once the real-estate market tanked. The county's domestic-migration gain dropped to just 4,600 in 2008-09 from 69,400 in 2005-06, according to an analysis of Census data by Kenneth M. Johnson, senior demographer at the Carsey Institute at the University of New Hampshire.

Overall, migration within the U.S. has declined sharply—a phenomenon that could present yet another hurdle for an economy still limping to recovery. Past recessions have seen regional shifts where people left the hardest-hit areas in hopes of finding better prospects a few states away. In the 1980s recession, for instance, many people moved from depressed manufacturing hubs in the upper Midwest to Southern oil states, where the economy was booming. If depressed house prices prevent enough people from moving to seek work, that labor flexibility could be lost.

Beyond that, the reversal of migration in former housing-boom cities could aggravate their real-estate downturns. A separate report released by the National Association of Realtors on Tuesday showed that February real-estate sales and prices were hit harder in the West and South—areas that have seen big reductions in migration.

Perhaps the most profound shift has been in Las Vegas, the desert gambling Mecca that has become a national symbol of the housing boom and bust. Between December 2007 and the beginning of this year, the city has lost more than 130,000 jobs.

Dave Tina moved to Las Vegas 13 years ago after two decades as a New York City fireman, lured by warm weather and low tax rates on his pension. Now, in a second career selling real estate, Mr. Tina said he found himself brokering deals for people who wanted to sell their homes at a loss, leave Las Vegas and go back where they came from.

"For the last 12 years of my business, no one ever said they were leaving to go home," he said. "Now all of a sudden, they lost their job and a house they bought for $400,000 is $150,000. They're short-selling their house and going home."

Tuesday's Census release covered a range of data on metropolitan areas and counties, including immigration, births, deaths and state-to-state movements. While the recession appeared to have little impact on births and deaths, it did make the U.S. a less attractive destination for foreigners: Immigration fell to about 855,000 in 2009, from just over a million in 2006.

U.S. durables gain in sign of confidence

By Darrell A. Hughes
And Jeff Bater

U.S. durable-goods orders rose a third straight month in February, while a sign of capital spending climbed, indicating U.S. businesses have confidence in the recovery.

Separately, sales of new homes in the U.S. fell in February primarily because of snowstorms and layoffs.

Manufacturers' orders for goods designed to last at least three years increased 0.5%, to a seasonally adjusted $178.12 billion, the Commerce Department said Wednesday.

If not for the defense sector, durables would have risen higher. Defense-related capital-goods orders fell 4.5%. Excluding defense, all other durables rose 1.6% in February, after gaining 1.7% in January.

Overall January durables surged ahead 3.9%, revised from a previously reported 2.6% increase. Economists surveyed by Dow Jones Newswires had forecast durables would climb 0.7% in February.

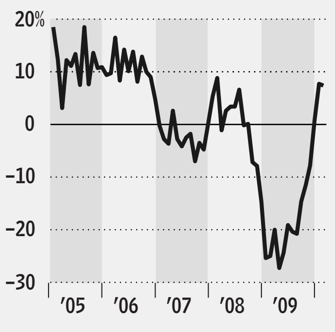
Orders for nondefense capital goods excluding aircraft rose by 1.1% last month. The orders are seen as a barometer of capital spending by businesses. Business spending on equipment and software has risen significantly, Federal Reserve policy makers said last week in a statement on their latest meeting over interest rates and the economy.

Nondefense capital goods excluding aircraft shipments, used in calculating gross domestic product, increased 0.8%, a positive sign for the economy in the first quarter.

The 0.5% increase in overall durables last month marked the third climb in a row. Unlike some sectors, such as housing, factories are doing well. Manufacturing payrolls grew last month, while overall employment and construction jobs each fell, according to Labor Department data. The Institute for Supply Management says manufacturing has grown seven months in a row.

Capital spending

Change from a year earlier in U.S. nondefense capital goods orders, excluding aircraft



Source: U.S. Commerce Department

A sign of future demand in the factory sector, unfilled manufacturers' orders, rose 0.4% in February, the second increase after a record 15 straight declines, Wednesday's durables data showed.

Manufacturers' inventories of durable goods rose 0.3%. Overall durable-goods shipments of manufacturers fell 0.6% last month.

Orders for transportation-related goods fell 0.7%, brought down by cars and military airplanes. All other durable-goods orders, excluding transportation, climbed 0.9%.

Demand for single-family homes fell 2.2% from the previous month to a seasonally adjusted annual rate of 308,000, setting a new record low, the Commerce Department said Wednesday. Records began in 1963. Economists surveyed by Dow Jones Newswires had estimated sales would rise 1.9%, to 315,000.

Though it is closely watched by economists, the new-home sales report is volatile at this time of year because it is based on a particularly small sample during housing's slow winter season. The government said it was 90% confident that the true change in new-home sales in January was between minus 17.5% and plus 13.1%.

Year-over-year, sales were lower by 13% from February 2009—despite a big government tax credit. Buyers are passing up on new homes in favor of cheaper used homes. Some economists are projecting an extended $8,000 incentive for first-time buyers could lead to increased activity in the spring.

Wednesday's new-home sales data showed inventories picking up slightly again. There were an estimated 236,000 homes for sale at the end of February, a 1.3% increase from 233,000 in January.