



Tea-party candidates confronted by brutal realities of top politics

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THE WALL STREET JOURNAL.

VOL. XXVIII NO. 42

EUROPE

Tuesday, March 30, 2010

DOW JONES
A NEWS CORPORATION COMPANY

europa.WSJ.com

Greece's debt costs stay high

Greece continued to pay a stiff premium Monday to raise €5 billion (\$6.71 billion) in its third bond offering of the

By Clare Connaghan
And Mark Brown

year, a demonstration that the announcement last week of a possible European Union rescue package has done little to lower the troubled country's

high cost of borrowing.

Compared with Greece's two previous bond issues in 2010, demand was relatively subdued. The seven-year bond attracted around €7 billion in bids. Greece's two earlier bond offerings this year had seen bids totaling three times what was eventually sold. Greece is paying a coupon of 5.9% on the new bond, more than twice what Germany—Europe's

credit—pays for comparable borrowing.

Greek leaders—and officials in the European Union—had hoped investors would be assuaged by a declaration at a European summit late Thursday that EU nations and the International Monetary Fund would step in with an aid package if Greece needed it. Investors have been charging Greece a high premium to borrow because of

worries about a possible default.

"This will help calm down the markets and also help reduce pressure on the Greek spreads," Greek Prime Minister George Papandreou said in Brussels Friday after the accord was struck.

But the spread, or the gap between Greek government bond yields and the benchmark German government bond yield, hasn't narrowed

as far as the Greek government would like. Greece will be paying 3.34 percentage points above what Germany pays to borrow money in the same maturity on the new bond; earlier this month, Greek officials indicated that ideally they would like to pay no more than two percentage points above Germany.

There remained concern Monday that the EU's rescue plan was too vague. EU lead-

ers agreed Thursday that EU countries would come to Greece's aid if market financing was "insufficient." What that meant wasn't defined, though it was clear Germany—reluctant to agree to a bailout—effectively retained a veto over actually doling out money.

On Monday, Fitch Ratings said "the mechanism through which such support would be Please turn to page 3

Moscow blasts end 6-year calm

By RICHARD BOUDREAU

MOSCOW—Suicide-bomb blasts that killed 38 people in two Moscow subway stations brought the specter of southern Russia's Muslim insurgency back to the capital Monday, exposing flaws in what the Kremlin has often termed a successful antiterrorist strategy.

Officials said preliminary investigation indicated both blasts were set off by women with links to the country's North Caucasus region. Militants there, largely subdued in Chechnya, have spread into neighboring republics in recent years, seeking to turn

them into bases for strikes into the Russian heartland.

Monday morning's rush-hour blasts, in subway cars four stations and 40 minutes apart, confronted Muscovites with images of terror their city hadn't experienced in six years—dazed passengers holding their heads in despair, choking in smoke-filled tunnels, stepping over corpses strewn at their feet.

"They happened at a time when there would be the maximum number of victims," Mayor Yuri Luzhkov said.

The Federal Security Service, successor to the Soviet-era KGB, appeared to be a Please turn to page 6



President Medvedev on the platform of Moscow's Lubyanka subway stop, site of one of two suspected suicide blasts Monday morning.

The Quirk



Tribute band like no other has its roots behind barbed wire. Page 33

World Watch

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

Editorial & Opinion

The Yank lawyers are coming! The Yank lawyers are coming! Page 16

China gives Rio Tinto workers long sentences in bribery case

SHANGHAI—The closely watched trial of four employees of Rio Tinto PLC ended Monday with a 10-year prison sentence for the Australian who spearheaded sales for the Anglo-Australian miner in its biggest market, and sentences of seven to 14 years for three of his colleagues.

The Shanghai No. 1 Intermediate People's Court found Australian national Stern Hu guilty of charges he accepted around \$935,000 in bribes from steelmakers and stole commercial secrets that undermined China's steel industry, the world's largest. Mr. Hu must pay fines of one million yuan, or \$146,000, in addition to serving 10 years in prison, starting with his detention in July 2009.

Stephen Smith, Australia's foreign minister, didn't challenge the verdict but called the sentences "very harsh" following efforts by his government to quietly diffuse charges against a citizen and one of his most important companies.

Lengthy sentences against Mr. Hu, Rio Tinto's general manager for China sales over about the past decade, and his three subordinates—Chinese nationals Wang Yong, Ge Mingqiang and Liu Caikui, sentenced to 14, eight and seven years, respectively—suggested the court was little moved by their admissions of some guilt and explanations.

Rio Tinto—which had previously defended its employees—swiftly fired them, and

said there was "clear evidence" they took bribes.

The dramatic conclusion to the politically charged trial, at a time of heightened concern about the environment for foreign business in China, is likely to further distress companies weighing risks in their China strategies.

Moreover, the Chinese court's decision not to disclose what information the executives were alleged to have stolen means the case has shed little new light on how authorities differentiate corporate fact-finding from espionage.

■ Harsh sentences raises questions for businesses..... 21
■ The court's ruling, and more analysis WSJ.com/China

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Turkey knocks: Will EU let it enter?

[Agenda]

BY PATIENCE WHEATCROFT



Turkey's desire to join the European Union has the virtue of being consistent. It was in 1987 that the country first applied to accede to the EU, and it has been knocking on the door ever since.

The fault lines that have become apparent, both within the euro zone and the broader EU grouping, have done nothing to quell Turkey's enthusiasm for joining the club. The chance to export some more of its jobless may be one of the attractions: Last year, the country's unemployment rate rose to 14%, up three percentage points on the previous year, against an EU average of 9.5%. Yet it isn't clear that the work would be there for Turks keen to take advantage of the freedom of movement that EU membership confers.

And there is a price to EU membership. Today the U.K.-based lobby group Open Europe releases figures showing that EU legislation puts a heavy burden on member states. It calculates that, since 1998, EU regulations have cost the U.K. £124 billion (\$185 billion). The truth is probably not quite so stark. Many of the regulations would have been implemented by national governments whether or not the EU had imposed them. Compliance, however, is costly. Nevertheless, Prime Minister Recep Tayyip Erdogan is taking the opportunity of Angela Merkel's visit to his country to try once more to push Turkey's case for full membership.

He is wasting his time. The German chancellor, having stood her ground so staunchly over bailing out Greece, isn't about to do a U-turn on this matter. She knows that, if her countryfolk were livid at the prospect of their cash being used to bail out profligate Greece, they would be



Germany's Angela Merkel and Turkey's Recep Tayyip Erdogan in Ankara.

positively incandescent were she to soften her stance on Turkey. President Nicolas Sarkozy of France would face a similar uprising of anger.

The reason isn't Turkey's long-running squabble over Cyprus, although its refusal to open its ports and airspace to EU member Cyprus provides useful tactical

Turkey might consider whether it wants to join a club where rules could soon change fairly drastically

cover for those opposed to full EU membership for Turkey. Neither is it the need for Turkey to speed up its political reforms. It is Turkey's overwhelming embrace of Islam which is the real, but unspoken, issue. With a population of 72.5 million, Turkey would be second only to Germany in scale if it were to join the EU. Although the government of the country is secular, estimates put the proportion of the population which is Muslim at around 99%. Although religion is not the driving force it once was in large parts of Europe, there is a widespread belief that including an overwhelmingly Muslim country in the club would

drastically change its character.

There is an opposing school of thought, which argues that there would be positive benefits from having the EU embrace a Muslim country, but opinion polls have shown that to be a minority view. Hence Ms. Merkel on her brief visit to Turkey won't be budged from her view that Turkey can be a "privileged partner" of the EU, enjoying a long-established customs union for instance, but it cannot be the 28th member of the European Union.

Instead of protesting, Mr. Erdogan might anyhow consider whether he really wants to join a club where the rules could soon change fairly drastically. Greece got its bond issue away yesterday but at a punitive interest rate that only exacerbates its problems going forward. Spain looks perilously close to similar difficulties, as does Portugal.

The support arrangements agreed to by the euro-zone countries, incorporating Ms. Merkel's insistence that the International Monetary Fund should be involved, might not hold for long. A retreat to a smaller euro zone is becoming a real possibility. The rejects would then join the slower speed Europe currently outside the single currency. Turkey might find itself slightly more welcome in that grouping.

The duties of ownership

The EU's commissioner for the Internal Market, Michel Barnier, has plans to address the regulatory burden on businesses. However, in his determination to find ways of making owners of businesses think long-term, he deserves support.

In an interview with Financial News, Mr. Barnier said of the financial crisis: "Many shareholders acted with a short-term perspective rather than acting with the long-term viability of the institution they own in mind." This isn't an observation unique to him, but he is well placed to do something to correct the lack of engagement by investors with the businesses they own. He promised to bring forward "initiatives" in this area within the coming months.

One of his aims would be to ensure institutional investors made full use of their voting rights. He is likely to find plenty of support within the G-20 for such a move. Perhaps he should also revisit the issue of short-selling. So-called long-term investors will regularly lend stock to those solely interested in driving down the price. In return for the marginal income they make from stock-lending, they risk jeopardizing the value of their holdings. That doesn't appear to amount to joined up thinking!

At last, a Tory tax cut

National Insurance is a British attempt to disguise what is not insurance but is tax. It is an extra levy charged to workers and their employers geared to salaries. It is not earmarked to fund the National Health Service or provide for state pensions. The latter, frighteningly, are unfunded.

The employer's NI charge is, quite simply, a tax on jobs. The Labour government had legislated to increase it next year. Now the Conservatives have said they will reverse that increase. With just six weeks to go before the election, at last some clear blue water may be opening up between the two main parties.

What's News

■ **Italy's Berlusconi** is likely to claim victory after his center-right party at least doubled the number of regions under its control, early poll results indicated. The strong showing gives the government the support it needs to simplify Italy's tax system. 4

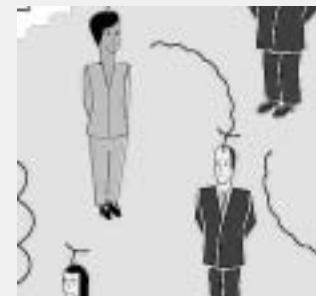
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Iain Martin on Politics

blogs.wsj.com/iainmartin

"At the electoral equivalent of 10 to midnight they seem to be starting to get the hang of it."

Iain Martin on improvements in the Conservatives' election campaign



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Follow developments in the Moscow metro blasts, including news, video and photos, at wsj.com/world

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THE WALL STREET JOURNAL EUROPE
(ISSN 0921-99)
Stapleton House, 29 - 33 Scrutton Street,
London, EC2A 4HU

SUBSCRIPTIONS, inquiries and address changes to:
Telephone: +44 (0) 207 309 7799. Calling time from
8 a.m. to 5 p.m. GMT. E-mail: subs.wsje@dowjones.com.
Website: www.services.wsje.com

ADVERTISING SALES worldwide through Dow Jones
International. Frankfurt: 49 69 9714280; London: 44 207
842 9600; Paris: 33 1 40 17 17 01.

Printed in Belgium by Concentra Media N.V. Printed in
Germany by Dogan Media Group / Hürriyet A.S. Branch
Germany. Printed in Switzerland by Zehnder Print AG WIL.
Printed in the United Kingdom by Newsfax International
Ltd., London. Printed in Italy by Telesampa Centro Italia
s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland
by Midland Web Printing Ltd. Printed in Israel by The
Jerusalem Post Group. Printed in Turkey by GLOBUS
Dünya Basınevi.

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M-17936-2003.

Registered address: Boulevard Brand Whitlock, 87, 1200
Brussels, Belgium

NEWS

Glitz masks woes for Trump SoHo

Neighbors oppose high-rise building they say 'perverts' local regulations, and its condo-hotel sales have stalled

By CRAIG KARMIN

The Trump SoHo hotel and condominium has too many vacancies.

The 46-story building is scheduled to open April 9 in Manhattan. Sales were initially brisk, but only about a third of the 391 units are now in contract. What's more, it isn't clear how many of those will actually close, because that process won't begin until the hotel opens.

The hotel, which was announced on an episode of Donald Trump's hit television show, "The Apprentice," is another of the boom-time projects that looked easy to finance until the recession hit. Recently, Bank of America dumped a mezzanine loan on the project for a fraction of its \$75 million face value, according to people familiar with the matter. Now, the developer is in restructuring talks with lenders who hold roughly \$350 million in debt.

The Trump SoHo's disappointing sales expose a huge fault line in the condo-hotel business model. The developers' strategy was to sell the units—at prices starting at \$1.2 million for a studio—to investors who would be allowed to stay in them no more than 120 days a year. The rest of the time the units would be operated as hotel rooms under the Trump brand with the investors and the developers sharing the profit.

But sales of units in condo-hotel projects throughout the country have ground to a halt because it's so difficult for individuals to get credit. Instead, most investors would have to pay cash, and many are reluctant to do so when the overall hotel market is so weak.

Other condo-hotel projects under the Trump brand have run into trouble. The Trump International Hotel & Tower in Fort Lauderdale, Fla., faces foreclosure after developers defaulted on a \$139 million loan, though the Trump Organization had only a licensing agreement that has since been terminated.

The issues facing the building also provide the latest glimpse into how Mr. Trump has managed to navigate the economic downturn largely intact. As was the case with many of his projects over the past 15 years, he has invested none of his own money in the Trump SoHo. His deal with the developers, a venture of **Sapir Organization** and **Bayrock Group**, is primarily a hotel-management and licensing arrangement.

Meanwhile, the Trump International Hotel & Tower in Las Vegas—in which Mr. Trump was a major equity investor—last year was in restructuring talks with its creditors partly because 70% of the buyers of its units didn't close on their deals. That development recently successfully paid down a large portion of its

construction loan and got an extension on the rest.

Mr. Trump has had a long history with condo-hotels. He helped reinvigorate the business in New York in 1997 when he opened the Trump International Hotel & Tower.

The developers of Trump SoHo chose the condo-hotel model because the building is in a manufacturing zone, which bars them from offering permanent residences. To move forward, they agreed to build a condo-hotel where owners can't stay for more than about four months a year, or for more than 29 straight days during any 36-day period.

But neighbors in SoHo complained about its scale and architectural style. At 454 feet, the boxy glass tower dwarfs the cast-iron buildings in the historical district that surrounds it. The deal the developers cut with Mayor Michael Bloomberg to enable the condo hotel to go forward "perverts the intent of the zoning regulation," said Stuart Klein, an attorney for SoHo Alliance, a local preservation group.

Donald Trump Jr., executive vice president of development and acquisitions for Trump Organization, said that the community attitude has changed. "People who were initial detractors now realize the positive benefits the project will have on the area," he said.

The property took on national prominence in 2006, when Mr. Trump unveiled the new project on his TV show. His children, Ivanka, Eric and Donald Trump, became involved in the building's design decisions and marketing, pitching the project as a five-star hotel for a hipper crowd than those at Manhattan's midtown and uptown luxury spots. Under his marketing and licensing deal, Mr. Trump and his children were given an equity stake of about 18%.

Initial interest was promising. About 1,000 investors submitted "reservations," or nonbinding expressions of interest to buy, according to the people familiar with the matter. But this caused a debate among the partners. Mr. Trump and Bayrock wanted to charge around \$2,200 a square foot for the condo units. They estimated that at that price, they could pay off the \$275 million in senior debt by selling about 50% of the 391 units, these people said.

Given that interest, the other development partner, Alex Sapir, wanted to charge no less than \$3,000 a square foot. The other partners got him down to around \$2,900 a foot for initial buyers. But after the first 100 or so units went to contract in the fall of 2007, buying stalled and there has been scant



The Trump SoHo was met with neighborhood criticism because of its size.

activity since, said the people familiar with the project.

One lender has already bowed out. When Bank of America recently sold mezzanine debt with a \$75 million face value to senior lender iStar Financial for a small fraction of that amount, it suggested that the bank saw its loan as essentially worthless, industry experts say.

iStar is now restructuring that debt. Andrew G. Backman, an investor-relations official for iStar Financial, the senior lender, added: "We

are not currently planning on foreclosing on the project."

Trump SoHo anticipates a boost in interest when guests check in after the hotel opens. But like most condo-hotel buildings, the business model relies on condo sales to provide most of the revenue.

By 2013 or 2014, Trump SoHo should be able to charge more than \$600 a night for a hotel room, said Roland deMilleret of HVS, a global hotel-consulting firm. But for now, he estimates room rates will be in

the low to mid \$400s.

"During that ramp-up period, they need to rely on condo sales, and that will be challenging," he said.

Trump SoHo and its neighborhood antagonists share at least one victory. After the condo-hotel compromise, the city changed its zoning laws so that no other developer is likely to be allowed to build a property as high as Trump SoHo.

"It will never happen again," Mr. Trump said.

Greece sees muted demand for year's third bond offering

Continued from first page provided in a timely fashion remains opaque, adding that the EU's avowed support doesn't "materially lessen the risks associated with the implementation of Greece's fiscal consolidation programme and requirement on the Greek government to raise substantial funds in the coming weeks as well as over the medium-term."

Greece, faced with a budget deficit and debt, is trying to slash spending and raise revenue at a furious pace. That's seen as necessary for it to refinance its maturing obligations. More than €20 billion of debt comes due in April and May.

Petros Christodoulou, head of Greece's Public Debt Management Authority, called Monday's deal a success. "Given the peculiarity of a

seven-year offering, which targets only specific investors, the placement was very successful," he said. Government bonds are more typically issued with five- or 10-year terms—and the unusual length may have dampened demand.

The euro initially rose past \$1.35 Monday, but it slipped later in the day and was roughly flat Monday evening in Europe.

While the successful launch of the new issue was an important step to convince investors that Greece can still refinance itself in the capital markets, the sale extends a perilous problem for Greece: Its cash-strapped treasury is paying huge annual interest bills, which make it hard to pull down the deficit.

"Even after the EU and IMF safety net is in place, funding lev-

els... have not changed dramatically versus previous primary-market activities," said David Schnautz, a strategist at Commerzbank AG.

"The outright yield level [of around 6%] will be a major obstacle in trimming the deficits in the years to come," he said.

—Costas Paris, Emese Bartha and Nick Skrekas contributed to this article.

EUROPE NEWS



Agence France-Presse/Getty Images

George Osborne said an increase in national insurance contributions would be 'a tax rise on almost all jobs.'

Britain debates taxes

Conservatives pledge to cut spending to reverse Labour plan

BY JOE PARKINSON
AND PAUL HANNON

LONDON—U.K. Chancellor of the Exchequer Alistair Darling accused Conservative Treasury spokesman George Osborne of taking irresponsible risks by pledging to shelve planned tax rises, in a televised debate on Monday ahead of national elections.

The Conservative Party had earlier in the day sought to put tax policy at the heart of the national election campaign, pledging to mitigate planned government tax rises on consumers and businesses through immediate cuts to government spending.

The opposition party's Treasury spokesman, George Osborne, said he would reverse part of the Labour government's plan to raise national insurance—a social security contribution paid by employers and workers—by one percentage point from 2011.

In a three-way televised debate that also included Liberal Party finance spokesman Vince Cable, Mr. Darling said to Mr. Osborne, "For the past year you've been saying we need to cut the debt further and

faster and today instead of cutting debt, you are spending £30 billion (\$45 billion) over the course of the Parliament."

"You have not got a single penny in the bank to pay for that," Mr. Darling added.

Mr. Osborne said his pledge to reverse income tax rises for voters earning up to £45,400 along with a relaxation of the burden for businesses would propel economic recovery, and would be funded by £6 billion in cuts to government spending in 2010.

Mr. Osborne said the £6 billion in savings through cuts to back-office government jobs would offset the move to shelve the rise in national insurance, which has been estimated at £5.6 billion by the Institute of Fiscal Studies, a think tank.

"I think it is so wrong that when there is so much waste in government—you want to raise taxes," the Conservative spokesman said to Mr. Darling. Mr. Osborne also reiterated support for a new levy on banks and emphasized that a number of U.K. tax rises would be "unavoidable."

"Unlike Alistair Darling I think we can implement a bank tax now ... I think we have enough interna-

national agreement," Mr. Osborne said.

The government faces a range of warnings from policy makers and rating agencies that its four-year deficit-reduction plan could make the country's AAA credit rating vulnerable.

Ratings company Standard & Poor's said Monday that the U.K. may lose its AAA rating if the new government doesn't act decisively to cut public-sector debt.

The Labour government last week announced a new budget that stuck to its previous goal of halving the budget deficit over the next four years. But that would involve a continued rise in public-sector debt to 75% of gross domestic product in the fiscal year ending March 2015, from 54.1% of GDP in the fiscal year ending Wednesday.

"In the absence of a stronger fiscal consolidation plan, the U.K.'s net general government debt burden may approach a level incompatible with an AAA rating," S&P said. "The rating could be lowered if we conclude that the incoming government's fiscal strategy is unlikely to put the U.K. debt burden on a secure downward trajectory over the medium term."

U.K. consumer loans rise

BY NICHOLAS WINNING

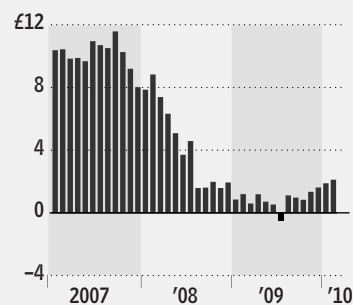
LONDON—U.K. consumer lending posted its strongest rise for 19 months in February, a sign that the Bank of England's efforts to tackle the devastating credit crunch may be gradually paying dividends, BOE data showed Monday.

But the number of loans approved for house purchases slipped to the lowest level in nine months, suggesting the recovery in the residential-property market is losing some momentum because of the fragile economic outlook and the end of a tax break on some home purchases at the end of last year.

The BOE said net lending to individuals totaled £2.1 billion (\$3.1 billion) in February, up from a revised £1.9 billion in January and the largest figure for a single month since July 2008.

Credit recovery

U.K. net lending to individuals, in billions of pounds



Source: Bank of England

Net lending was stronger than the market consensus estimate of £1.4 billion from a Dow Jones News-

wires survey of economists last week. Nevertheless, net lending remains less than a quarter of the figure of £8.8 billion in February 2008.

The BOE's Monetary Policy Committee has long highlighted the lack of bank lending as a big drag on the U.K.'s economic recovery. The figures showed the number of loans approved for house purchases fell to 47,094 from 48,099 in January—below economists' expectations of 48,500 and the lowest level since May last year.

House sales suffered at the start of the year after the government ended its temporary tax break on the purchase of some lower-valued properties at the end of 2009. The threshold for paying stamp duty reverted to £125,000 at the start of 2010, after being raised temporarily to £175,000 in a bid to boost sales during the credit crunch.

Berlusconi expected to claim victories

BY CHRISTOPHER EMSDEN

ROME—Prime Minister Silvio Berlusconi is likely to claim victory after his center-right party at least doubled the number of regions under its control as the result of elections that ended Monday.

Around 41 million Italians were eligible to vote Sunday and Monday as the governorships and legislative assemblies of 13 of the country's 20 regions were up for grabs.

Mr. Berlusconi's coalition's strong showing at the polls gives the government the support it needs to make good on repeated promises that it will simplify Italy's tax system, and push ahead with its plan to give more powers to Italy's regions over the way they raise and spend taxes.

Mr. Berlusconi's finance minister, Giulio Tremonti, has pushed for simplification of Italy's tax code, and wants a two-bracket system that would cut the top marginal income rate to 33% from 43%. But overall tax pressure is likely to remain high, since public debt is slated to rise to almost 120% of gross domestic product.

Voter turnout dropped to 65% from 72% at the previous regional election, according to the Interior Ministry. Meanwhile, turnout at the 460 municipalities that also held local elections fell only half as much, to 75% from 77%.

Final tallies won't be available until Tuesday, but exit polls and partial counts indicated that Mr. Berlusconi's coalition retained power in Lombardy and Veneto, while appearing to poach Campania and Calabria.

Mr. Berlusconi has once again shown himself to be a formidable campaigner, picking up votes despite a weak economy, amid a corruption investigation involving some of his closest aides and dogged by suspicions that the prime minister was

trying to influence state television ahead of the vote.

Italy's regional elections typically come a year before parliamentary votes, and served as a bellwether of change in both 2000 and 2005. This time, opposition politicians were eager to claim the rise in abstention signaled discontent with Mr. Berlusconi, whose government has avoided approving any extra fiscal stimulus during the country's worst recession since World War II.

Italy is granting increasing powers to its regions, which already manage €250 billion (\$336.75 billion) in annual public spending and have amassed €107 billion in net debt.

In that light, the performance of the Northern League is likely to be scrutinized, as the formerly separatist movement's support of the government is conditioned by progress on what Finance Minister Tremonti calls "fiscal federalism." Should the League's share of the vote increase, it will be able to increase its influence in the government coalition.

A strong showing by the League not only bolsters Mr. Tremonti's policy agenda, but it could also sting some of the other factions in Mr. Berlusconi's party, an aide to the minister said.

In the League's heartland around Venice, Luca Zaia, the agriculture minister, won an overwhelming victory, and the league appeared to win more direct votes than Mr. Berlusconi's People of Liberty party.

More surprising was that Roberto Cota managed to take the League's trademark green colors into Piedmont and, with the support of Mr. Berlusconi's party, challenge the incumbent regional President Mercedes Bresso of the center-left coalition. A tally on state television RAI's TGI broadcast with 14% of the vote counted had Mr. Cota ahead of Ms. Bresso, 48.8% to 46%.



Associated Press

A ballot box is emptied for the count at a polling station in Rome.

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EUROPE NEWS

Moscow subway blasts end 6-year calm

Continued from first page
symbolic target. The first bomb exploded in the Lubyanka station below the headquarters of the agency, which has helped lead a harsh crackdown in the Caucasus. The sprawling compound, on Lubyanka Square, also once housed an infamous KGB prison.

Lubyanka and the other targeted station, Park Kultury near Gorky Park, are on the red line that runs near the Kremlin.

Officials said the force of each blast, detonated in the stations with the train doors open, was equivalent to about three kilograms, or 6.6 pounds, of TNT and caused deaths in the subway cars and on the platforms. At least 23 of the fatalities occurred at Lubyanka. Sixty-seven people from both stations were hospitalized for injuries, officials said.

No group claimed responsibility for the attacks.

As Russian officials puzzled over how the bombers had infiltrated the sprawling, well-patrolled subway system, analysts said the blasts raised bigger questions about the Kremlin's heavy-handed approach to an insurgency that began as an ethnic separatist movement but now appears led by Islamists intent on imposing religious rule.

The attacks could be the first of a wave in Russia's capital by an Islamist underground based in the Caucasus, said Sergei Aryutyunov, a specialist on the region at the Russian Academy of Sciences.

"It's a sign that the underground is strengthening," he said. "The authorities think the enemy can be killed with weapons, but it's like Hydra. For every head you cut off, a new one grows back."

Vladimir Putin, who cemented his rise power to the presidency in 2000 by starting a war against a separatist government in Chechnya, returned to Moscow Monday from a Siberian trip to visit hospitalized victims of the blasts.

"I am confident that law-enforcement bodies will spare no effort to track down and punish the criminals," declared Mr. Putin, who is now prime minister. "Terrorists will be destroyed."

Other officials sounded alarmed. "This is a challenge for the country's political leadership," said Mikhail Grishankov, first deputy chairman of the security committee in the Duma, the lower house of parliament.

President Dmitry Medvedev, who visited the Lubyanka station bearing a red bouquet with a black ribbon, ordered security tightened and airports put on alert against what he called an attempt to destabilize the country. "They are simply beasts," he said of those who organized the attacks. "We will find and destroy them all."

U.S. President Barack Obama joined other world leaders in condemning the attacks. "The American people stand united with the people of Russia in opposition to violent extremism and heinous terrorist attacks," Mr. Obama said.

Later he telephoned Mr. Medvedev to express condolences about the loss of lives, the Kremlin said. Critics of the Russian leadership say Monday's attacks demonstrate the failure of its policies in the region, where human-rights groups for years have accused Russian forces of brutality against noncombatants.

Mr. Medvedev has tried to redress this approach. Early this year he named an experienced business-



Russian riot police run near the Lubyanka metro station after an explosion there, one of two blasts in Moscow's metro system during the morning rush hour.

man his envoy to the North Caucasus with a mandate to stimulate economic development.

"This is the right approach, as poverty and very high unemployment levels provide fertile ground for recruiting terrorists," said Carlo Gallo, a senior Russian analyst at Control Risks, a global risk consultancy. "However, it could be questioned whether the new structure has sufficient power to be effective."

The rebellion began in Chechnya as an ethnic nationalist movement in the early 1990s, as the Soviet Union was breaking apart, and led to two Russian invasions of the tiny republic.

The Chechens, led at first by secular leaders, sought to establish an independent mini-state.

Attacks blamed on Chechens shook Moscow and other parts of central Russia for years. Starting in 2002, they included suicide attacks on the subway and the siege of a theater. The next year the Chechens began using female suicide bombers, known as "black widows," in the Russian capital. A February 2004 attack on a Moscow subway train killed more than 40 people.

But by 2004, a harsh Russian crackdown largely subdued the rebels. The conflict and the bombings in and around the Russian capital all but stopped. But the violence spread from Chechnya and intensified in the neighboring Caucasus republics of Dagestan and Ingushetia, where militants focused on attacking policemen and government officials.

By that time, analysts said, the separatist movement had given way

to an Islamic fundamentalist movement. Mr. Gallo said a breakdown of order in Ingushetia enabled an Islamist underground over the past four years to establish a base there for more adventurous attacks.

In November, Chechen Islamists claimed responsibility for a bombing that killed 26 people aboard a high-speed train between Moscow and St. Petersburg. In recent weeks Russian security services have killed several Islamist militant followers of Doku Umarov, a Chechen Islamist who claimed responsibility for organizing that bombing.

In an interview posted last month on a rebel Web site, Mr. Umarov warned: "If Russians think that this war is happening only on television, somewhere far off in the Caucasus and will not touch them, we intend to show them that this war will return to their homes."

With Monday's bombing, Muscovites suddenly felt more vulnerable than they had in years. Moscow's Soviet-era subway system, known as the Metro, is one of the world's busiest, carrying about 7 million passengers on an average workday.

"The terrorists wanted to demonstrate that no one in Russia can feel secure," said Sergei Mironov, the speaker of Russia's upper chamber of parliament.

The first explosion, a few minutes before 8 a.m., tore through the second carriage of a northbound train as it stood in Lubyanka station. "An explosion thundered. People ran, covered in blood," Valery Svirin, a commuter, told Russia's Channel One television. "When I

Bloody history

A string of terrorist incidents have hit Russia since the turn of the century

1999

March: An explosion at the market in Vladikavkaz in North Ossetia near the Georgian border kills 64.

September: A truck bomb explodes near apartment blocks in Dagestan kills 61. An explosion in a Moscow apartment block kills 94, a separate one kills 121.

2002

October: Terrorists take hundreds hostage in Moscow theater; 129 killed after police storm building.

December: Suicide bombers kill 71 at government headquarters in Grozny.

2003

May: Explosions near the office of domestic-security service FSB in Chechnya kill 52.

August: An explosion in the military hospital in North Ossetia kills 50.

Source: WSJ Research

December: A suicide bomber kills 47 people on a train going from Kislovodsk to Mineralniye Vody.

2004

February: Explosions in the Moscow metro kill 40.

June: Chechen militants attack government buildings in Ingushetia.

August: Two airliners crash within minutes of each other. Vladimir Putin calls the crashes terrorist acts after officials say explosive traces were found in the wreckage.

September: Terrorists capture a school in Beslan, North Ossetia. According to official estimates, 330 people were killed.

2009

August: A terrorist attack in Nazran in Ingushetia aimed at offices of Russia's ministry of internal affairs.

November: A bomb explodes on an express train between Moscow and St. Petersburg, killing 27.

went upstairs I saw people lying on the ground. A man was bandaging a woman. She was unconscious. There was one dead body there."

Officials said both bombs were filled with bolts and iron rods and

at least one of them was tied around the waist of a female spotted on a surveillance camera.

—William Mauldin, Ira Iosebashvili and William Bland in Moscow contributed to this article.

WORLD NEWS

Jittery Muscovites recall '04 attack

By WILLIAM MAULDIN
AND WILL BLAND

MOSCOW—Moscow residents, long accustomed to reading about acts of terrorism happening hundreds of miles away in the restive North Caucasus region, on Monday came face to face with twin bombings that killed more than three dozen, the first major terrorist attacks in the capital in six years.

"I was driving this morning at a snail's pace in a traffic jam, and all the faces around me were sad," said Anna Rulevskaya, a 40-year-old Moscow writer. "The mood is much worse today compared with 2004."

Two women with bombs blew themselves up within an hour's time during the start of morning rush hour, officials say, one striking at the Lyubyanka metro station, beneath the building that houses the successor to the Soviet KGB, the other at the Park Kultury metro station, four stops away on the same line.

Announcements on the metro's loudspeakers urged riders to "keep the calm," but that message was dif-

ficult to swallow for many residents of Europe's biggest city.

"My heart almost stopped when I heard. I have children and grandchildren, and they all ride the metro. Thank God everyone is safe," said Svetlana, a 57-year-old woman heading toward the Park Kultury station Monday afternoon.

"Last time this happened I didn't take the train for an entire month, and when I finally did I was shaking all over," she said. "But what can you do? We have to get around somehow."

Some subway riders headed for the roads. Two taxi companies—Prestige, with more than 100 drivers, and Megapolis, which declined to give its size—said they were unable to deal with morning demand.

Another, Angel Taxi, raised its fares by 10% and said its service was delayed by an hour to an hour and a half. Two of the three biggest mobile telephone companies reported outages from excess demand.

The evening rush hour was quieter than usual, with some metro cars holding as few as 10 people in-



A commuter injured in the blast at the Park Kultury station in Moscow.

stead of several dozen. Police alert levels were elevated. President Dmitry Medvedev visited the Lyubyanka station.

In St. Petersburg, Russia's second-biggest city, a bomb threat, later deemed false, shut down the central Vosstaniya Square and Nevsky Prospekt metro stations during the evening commute, Interfax

reported.

Moscow's Lyubyanka station reopened for evening commuters, with some bloodstains, scarred tiles and shattered glass on the tracks. Mourners laid roses, tulips and carnations on the platform, and curious straphangers approached the bomb scars on the station wall and snapped photos.

Inside the Park Kultury station, people hugged each other tearfully, laying flowers at a temporary shrine near bloodstained walls.

Some Russians reacted with anger. The independent radio station Echo Moskvy reported aggression against people from the Caucasus Mountains region.

"I would eliminate the people responsible, I know I shouldn't say that, but they're trying to destroy our future," said Maria Galina, who edits children's programs for a Russian Orthodox television station. "There are evil people in every country. I don't know how to make them better."

Other Muscovites, hardened by the collapse of the Soviet Union, two financial crises and a decade of terrorist attacks, fell back on the traditional national stoicism.

"There's nothing that can be done to solve the situation," said Alexander Nikolayev, 42. "This is what life will be like for a long time, just like in Israel."

—Olga Padorina, Jacob Gronholt-Pedersen and Ira Iosebashvili contributed to this article.



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EUROPE NEWS

Confidence diverges in the euro zone

BY PAUL HANNON

Businesses in the 16 countries that use the euro became more upbeat about their prospects in March, but consumers didn't share their optimism.

The overall Economic Sentiment Indicator, or ESI, for the euro zone rose to 97.7 from 95.9 in February, a monthly survey by the European Commission, the executive branch of the European Union, showed Monday. The increase in the ESI was larger than expected—economists surveyed last week forecast it would rise to 97.4—indicating that the euro zone's recovery is likely to continue.

But the pickup in confidence was driven in large part by manufacturers encountering stronger demand in the rest of the world economy. Consumers said they are less likely to make major purchases than they were last month.

That indicates that the euro zone's recovery is unlikely to become self-sustaining soon. So far, it has relied on exports rather than domestic demand, and that seems likely to continue.

Diverging

In the euro zone, business confidence continued to strengthen as export orders rose, but consumer confidence has stalled.



Source: European Commission

The pickup in confidence was strongest among manufacturing and construction companies. The headline measure of industrial confidence rose to -10 from -13, a stronger outcome than the increase to -11 that was forecast by economists.

A surge in export orders was the main driver behind that improvement, with a decline in inventories also contributing. And manufacturers reported that in the first quarter capacity use rose to 72.9% from 71.6%, the first increase since the start of the financial crisis.

By contrast, the measure of consumer confidence was unchanged at -17, as expected after a flash estimate with the same figure was released by the commission last week. Consumers saw no improvement in the outlook for the economy over the next 12 months, and only a very slight improvement in the job market.

In many of the countries that have been directly affected by the announcement of austerity measures to tackle large budget deficits, confidence weakened notably.

In Greece, the measure of consumer confidence fell to -57 from -51, to reach its lowest ebb since the survey began in 1990. In Portugal it dropped to -22 from -19.

But the ESI for Germany surged to 100.4 from 97.0. The rise was shared by business and consumers, and may reflect satisfaction with Chancellor Angela Merkel's handling of the Greek crisis and a new, tougher stance on the extent of Germany's obligations to help its euro-zone neighbors.

Separately, Germany's federal statistics office said that the country's consumer price index rose more than expected in March, propelled by rising fuel prices.

The European Union-harmonized CPI reading, which the European Central Bank looks at, showed a rise of 0.5% from February and an increase of 1.3% from a year earlier.

—Roman Kessler in Frankfurt contributed to this article.



Nicolas Sarkozy and Carla Bruni use the grand staircase on Columbia University's campus to leave the library.

Merkel pressures Turkey on Iran

Associated Press

German Chancellor Angela Merkel said Monday that in order to progress in European Union entry talks Turkey must open its ports to ships and planes from Cyprus and help press Iran to stop its controversial nuclear program.

Ms. Merkel said Turkey's membership talks are "open-ended," but didn't repeat her longstanding sug-

gestion to give Turkey a "privileged partnership" that falls short of full EU membership. Germany is committed to existing agreements and "we are continuing the membership talks," she stressed at a joint news conference with Turkish Prime Minister Recep Tayyip Erdogan.

She urged the country to side with the U.S. and Europe to try to tamp down Iran's nuclear ambitions ahead of the upcoming nuclear security summit scheduled in Washington in mid-April.

Turkey says neighboring Iran has the right to develop nuclear energy for peaceful use. Western nations are pushing for a new round of United Nations sanctions because they fear Iran's nuclear program is geared toward making weapons.

"From Germany's point of view, we hope that Turkey will vote with the United States and Europe in the meeting in April," Ms. Merkel said.

Mr. Erdogan responded by pointing to the nuclear arsenal of "another country," a clear reference to Israel, which is widely believed to have a secret nuclear-weapons program but which he said escapes sanctions.

Sarkozy lectures in U.S.

French president pushes for finance reforms and an open America

Associated Press

NEW YORK—French President Nicolas Sarkozy urged the U.S. to lead the way in imposing new global financial regulations—and to pay more attention to the rest of the world.

In a speech at New York's Columbia University, Mr. Sarkozy pledged to keep up the fight in Afghanistan and rallied behind Russia after the deadly attacks in Moscow's metro Monday. But his main message was spurring the U.S.—and President Barack Obama, who will host the French leader at the White House Tuesday—to prevent future economic crises.

"You should reflect on what it means to be the world's No. 1 power," he said, repeatedly pointing his finger at the hundreds of students and faculty gathered for his speech.

"The world does not stop at the East Coast, the world does not stop

at the West Coast," Mr. Sarkozy said. "The world needs an open America, a generous America, an America that shows the way, an America that listens."

Mr. Sarkozy wants the U.S. to champion tough regulation of financial systems from tax havens to hedge funds. "We should invent a new global monetary order," he said, insisting that new regulations would "save capitalism."

He stressed that France remains a friend and ally to the U.S., especially in fighting terrorism.

"When New York was attacked, it was all the democracies of the world who were attacked," he said. Then, referring to the deadly bombings in the Moscow metro, he added, "When Moscow is attacked, it is all of us who are attacked."

Mr. Sarkozy told his U.S. audience that in Afghanistan, "We will remain at your side." Mr. Obama, just back from a lightning unannounced Afghan trip, has been push-

ing European allies to send more troops and trainers.

Mr. Sarkozy's capacity to supply additional troops is limited. France has 3,750 troops in Afghanistan, but public support in France for the war is low—as is public support for Mr. Sarkozy. His conservative party lost big in regional elections a week ago, and favorable poll ratings are down as low as 30%.

Mr. Sarkozy's trip to New York and Washington this week provides the French leader relief from his political troubles at home and a chance to burnish his international stature before he takes over the chairmanship of the Group of 20 and Group of Eight leading world economies next year.

A significant amount of stagecraft was invested in the speech. Columbia University organizers said the French flew in a special podium and rug just for him, and procured a special espresso machine at his request, too.

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U.S. NEWS

Senator tries to bridge growing political divide

[Capital Journal]

BY GERALD F. SEIB



As Allied armies marched toward Germany in the closing days of World War II, Adolf Hitler

ordered the bridges crossing the Rhine River blown up to slow the advance. And so they were, until just one was left standing at Remagen.

In Washington today, Republican Sen. Lindsey Graham resembles that span at Remagen: He sometimes looks like the last bridge left standing to connect the two parties in an increasingly polarized capital.

That's either a courageous or a foolhardy position in the wake of the vicious health-care battle. Yet the South Carolina senator stands firm. In recent days he has emerged as the lawmaker trying hardest to find a bipartisan solution to two of the toughest problems on the docket: a policy for terrorism detainees and an energy bill to reduce both dependence on foreign oil and greenhouse-gas emissions.

At a time when lawmakers are more likely to be attacked than lionized for trying to work across party lines, Mr. Graham is quietly, though sometimes grudgingly, respected within his caucus, and admired inside the White House for his bravery.

He is hardly acting out of blind love for President Barack Obama's administration. In an interview, he calls the president "a very polarizing guy," and in a weekend appearance on NBC's "Meet the Press" he excoriated the Democrats' recently passed health bill in terms that would have made the Republican National Committee proud.

Instead, he says, "I have taken the approach that, no matter how upset I am about health care, when it comes to national security, you have to work together." And he regards both terrorism detentions and energy as national-security matters.

His focus on the detentions comes naturally. Mr. Graham once was an active-duty Air Force lawyer who still serves as one part-time in the reserves. Indeed, he will soon be traveling to Afghanistan for another brief stint on duty.

He sees a nation caught between a rock and a hard place on detainees. The courts have thrown roadblocks in front of the Bush administration's strategy of using military tribunals and indefinite detentions to handle terrorism suspects, and even the Bush administration thought the military prison it created at Guantanamo Bay, Cuba, had become a legal and diplomatic problem.

Yet the Obama administration's original plan to close Guantanamo and try its inmates in civilian courts has turned into a political nonstarter.

So Mr. Graham is trying to pull senators and the White House together behind a compromise

plan that would use military commissions for some detainees, civilian courts for others, and establish legal procedures for indefinite detention of several dozen of the most dangerous detainees, who can't be tried or released.

Those being held indefinitely would be given an annual review by a judge to determine whether their continued detention was justified.

Such a plan would allow Mr. Obama to close the prison at Guantanamo Bay and move its remaining occupants to a prison somewhere within the U.S., for which Mr. Graham would agree to help find funding.

"What I've offered the president is a comprehensive solution that includes closing Guantanamo safely, but that's not the whole solution," he says.

Energy is less politically charged, but no less complicated. The bar on energy policy was set last year by the House, which passed a bill establishing a cap-and-trade system for greenhouse gases, which would put a ceiling on such emissions across the economy and allow companies to trade permits for the right to make greenhouse-gas emissions under that ceiling.

In the eyes of Mr. Graham and many of his colleagues, such a big cap-and-trade bill is dead for this year, killed by a lack of enthusiasm for another big social-policy change in the wake of the health-care battle. So Mr. Graham, working with Democratic Sen. John Kerry and independent Sen. Joe Lieberman, is devising a more nimble approach that focuses instead on increasing America's energy independence, which also happens to reduce greenhouse gases.

Their idea is to ditch the big cap-and-trade system, and apply different incentives for utilities, motor fuels and industrial plants to encourage a shift to cleaner alternative fuels. There also would be incentives for oil and gas drilling and nuclear-plant construction.

The best hope for a solution, Mr. Graham says, lies in the business community lobbying to get something passed, both to resolve uncertainty about energy policy and to prevent the Environmental Protection Agency from stepping into a vacuum to control greenhouse gases through regulation.

In the eyes of at least one interested corporate leader, that approach makes sense. Tony Hayward, chief executive of oil and energy giant BP PLC, says in an interview that Mr. Graham and friends are working "incredibly constructively. ... They have almost built a coalition of the willing, and they should be commended for that."

Mr. Graham has no desire to be the lone Republican vote getting the Democrats just across the finish line on either detainee or energy policy.

His goal is loftier: Bring Democrats and numerous Republicans together.

Of course, that still may prove a bridge too far this election year.

Personal spending climbs

Looser purse strings keep recovery on track, but incomes still stagnant

By JUSTIN LAHART

Americans continued to boost their personal spending last month, a further sign that an economic recovery is under way.

Consumer spending accounts for roughly 70% of U.S. economic activity, its revival is crucial to a sustained upturn. But incomes remained stagnant in February, according to the U.S. Commerce Department, underscoring the importance of an uptick in the job market.

The new report showed personal spending increased 0.3% in February compared with the month before, the fifth straight month it advanced. The figures show that through last month, spending was growing at an inflation-adjusted 3.1% annual rate in the first quarter, putting it on track for the fastest pace since the first quarter of 2007.

"The consumption numbers look pretty healthy," said James O'Sullivan, an economist at MF Global. "There's no sign of a double dip in those numbers, that's for sure."

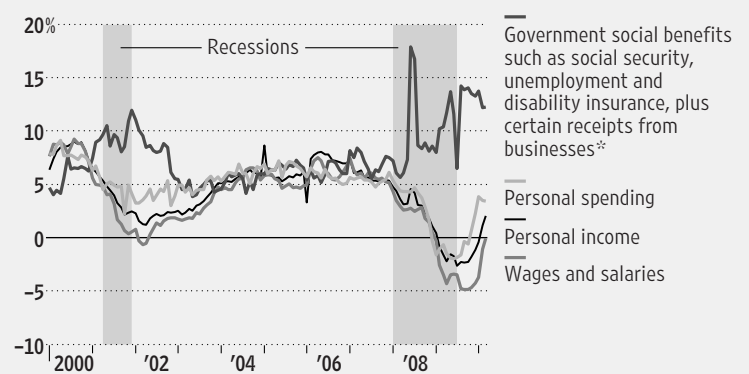
The report's details show a pickup in purchases of big-ticket household items such as furniture.

The report's details show a pickup in purchases of big-ticket household items such as furniture, suggesting that the combination of more confidence in the economy and eased credit constraints is making consumers more willing to spend.

Personal income was flat compared with the prior month, however, which Mr. O'Sullivan said may have been related to harsh winter

U.S. personal income and spending

Americans' spending is still growing faster than their income. And while wages and salaries remain the biggest component of income, they are growing more slowly than government social benefits. Change from a year earlier in:



*Includes deposit insurance premiums, insurance settlements, donations, fees, fines
Source: U.S. Commerce Department

weather keeping workers at home and muting hiring.

Additional jobs and increases in the work week as companies expand hours and move part-time employees to full time should increase incomes.

Mr. O'Sullivan predicted the government's monthly employment report on Friday will show the economy added 275,000 jobs in March, compared to a loss of 36,000 in February. He estimated 100,000 of those jobs will represent a reversal of the effect of February's snowstorms, with another 125,000 linked to hiring for the 2010 Census.

By mid year, Mr. O'Sullivan said, 100,000 jobs will be added to U.S. payrolls monthly and the average work week will rise to 33.9 hours in March from 33.8 hours in February.

In the fall of 2008, as financial markets were roiled by the collapse of Lehman Brothers, households cut back sharply on spending. In the second quarter of last year, con-

sumer spending was 1.9% lower than when the recession started in late 2007, adjusting for inflation. That was the largest drop in spending since the early 1980s.

Household income didn't take nearly as large a hit, largely because social security, unemployment benefits and other government assistance took up the slack from falling wages.

In the fourth quarter, after-tax personal income was 1.2% above its level of two years earlier, adjusting for inflation, while personal-consumption expenditures were still down 0.8%.

With less income being spent, saving as a percentage of after-tax income was 3.9%, up from 1.5% in the fourth quarter of 2007.

Even though the economy may be on the cusp of adding jobs, subdued inflation readings are giving the U.S. Federal Reserve little cause to respond with higher interest rates.

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U.S. NEWS



U.S. President Barack Obama steps off his plane in Maryland upon returning from Afghanistan on Monday.

Obama turns aggressive

President uses more confrontational tone with political opponents

By JONATHAN WEISMAN

WASHINGTON—U.S. President Barack Obama, after a year of fitfully searching for compromise, is taking a new and more aggressive tack with his Republican adversaries, hoping to energize Democratic voters and possibly force Republicans to the negotiating table.

On Thursday, the president traveled to Iowa to taunt Republicans who want to campaign on repealing his health-care bill with, “Go for it.” Two days later, he made 15 senior appointments behind the Senate’s back, including a union lawyer whose nomination had already fallen to a filibuster.

At a bill-signing event Tuesday, he plans to trumpet passage of higher-education legislation that was approved despite Republican objections through a maneuver that neutralized the party’s filibuster threat. On Thursday, Mr. Obama will be in Maine, home state of two moderate Republican senators who opposed his health-care plan, to promote the health law.

Republicans are on the defensive, said a senior Democratic official familiar with the new push, “and as long as they’re not cooperating, we ought to keep them there.”

Republicans say his overtures to them have been for show, whether it was his January meeting with House Republicans in Baltimore or last month’s televised, bipartisan health care summit.

The partisanship “may be more visible, and he may be more resolute about it, but as far as most of us are concerned, this is business as usual,” said Tennessee Sen. Lamar Alexander, a member of the Republican leadership.

The aggressive stance is an example of classic game theory, political scientists say. Two adversaries are almost always better off with cooperation than confrontation. But when one of the adversaries breaks off cooperation—as Democrats assert that Republicans have done—the other must retaliate, or at least show he is “provocable,” said Robert Axelrod, a University of Michigan political scientist and author of the game-theory book, “The Evolution of Cooperation.” He isn’t related to White House senior adviser David Axelrod.

Mr. Obama has been swinging hard. He followed up his “go for it” taunt Thursday with the recess appointment of union lawyer Craig Becker to the National Labor Relations Board.

On Tuesday, Mr. Obama will sign what has been billed as a package of fixes to the health-care bill, approved under rules that required only a simple majority vote to pass in the Senate. That nullified the power of the opposition party to block through filibuster any legislation that lacked 60 votes in the 100-seat chamber. In the final days of the health-care debate, Democrats attached to the bill a major overhaul

of student-lending laws, which eliminated a federal subsidy for private tuition lenders, federalized most student loans and plowed the savings into expanded federal higher education aid. Republicans say the bill will destroy the private student-lending market.

Mr. Alexander, the Tennessee Republican, called the student-loan move “really brazen” and “the most underreported, biggest Washington takeover in history.”

The new tone may be having an impact, flustering Republicans and rallying Democrats, some of whom had soured on what they saw as an electric campaigner who had gone soft.

Robin Moyer, 48, a retired South Carolina school teacher and Obama voter, lamented that the president had been trying to “reach as many people as possible, but sometimes it is overkill.”

After the White House cut off bipartisan Senate negotiations over a financial-regulation bill and pushed it forward without Republican support, Senate Republicans were left in disarray.

Sen. Bob Corker (R, Tenn.) said Republicans had made a “major strategic error” when they gave up trying to shape the bill.

Sen. Judd Gregg (R, N.H.) called it “100%” certain the financial regulatory overhaul would pass the Senate.

—Jean Spencer contributed to this article.

Zoellick sees a shot at yuan revaluation

By BOB DAVIS

China’s efforts to make its economy more consumer-driven could become an opportunity for Beijing to revalue its currency, said World Bank President Robert Zoellick.

The U.S., Europe and international economic institutions have long been pressing China to revalue its currency—and to persuade Beijing that it is in its interest to do so. The efforts have been crescendoing as the U.S. government is due, by April 15, to decide whether China “manipulates” its currency.

An affirmative finding would require the U.S. to negotiate with China on the issue, as it has long been doing. But it could add impetus to congressional efforts to penalize Chinese imports into the U.S.

In an interview, Mr. Zoellick said China increasingly recognizes that its industrial structure is out of whack, with high profits accruing to state-owned enterprises accounting for much of the country’s extraordinarily high savings rate.

Part of the reason for those profits, he said, is that state-owned Chinese banks lend to other state-owned companies at very low rates and pay Chinese depositors very low rates of interest. World Bank chief economist Justin Lin, a Chinese national, also has attributed the profits to wages the companies pay, which he said are “depressed compared to the potential.”

Mr. Zoellick’s remarks weren’t timed to be part of a U.S. offensive; rather he answered questions posed to him by The Wall Street Journal. Nevertheless, they add to the weight of opinion that China can afford to increase the value of the yuan against the dollar. In a March update, the World Bank estimated China’s economy would grow 9.5% this year, after an 8.7% gain last year.

“The real savings outlier is the retained earnings of some of the companies, especially of the state-owned enterprises,” Mr. Zoellick said. “This creates a win-win opportunity for change, which the Chinese recognize as a possibility. But these structures aren’t easy to change.”

To the degree that China revalues its society to depend more on consumer spending, Mr. Zoellick said, that ought to reduce the savings rate—and also could become an

opportunity to revalue the currency. That is because a stronger renminbi—also known as the yuan—would increase the purchasing power of ordinary Chinese. An appreciating currency would also send a signal to companies to focus future investment and capacity more toward domestic demand, whose purchasing power is being boosted, rather than producing for export.

“People who focus on structural explanations say a quick change in currency appreciation is not going to lead to automatic shifts in industrial structure,” he said.

“That’s correct, but it’s also fair to say that a price change—an appreciating currency—would signal the changes you have to make in industrial structure.”

China’s exchange rate appreciated 12.3% from July 2005 to early March 2010, the World Bank said, and is now at roughly the same level as it was in 2000. The bank said that strengthening the exchange rate could help Beijing “reduce inflationary pressures” and head off real-estate bubbles.

As part of an initiative by the Group of 20 industrial and developing nations, China, the U.S. and other countries have agreed to “re-balance” their economies—meaning the U.S. will save more and import less, and China will do the opposite. Making such changes, though, is difficult for political and economic reasons.

“If I would make a bet which country is going to make changes more quickly—China or the U.S.—I’m not sure where I’d come down,” said the 56-year-old Mr. Zoellick, who before taking the World Bank post in 2007, spent decades as a top U.S. official.

On other issues, Mr. Zoellick said the recent recession, where the U.S. and rich countries in Europe stumbled while China and India continued to grow, showed “the world could be moving toward a structure of the international economy that would have multiple poles of growth.”

However, the ebbing of the crisis, he said, can make it more difficult to reach international agreement on a host of issues, including repairing financial institutions, boosting economic growth and dealing with rising government debt.



Robert Zoellick

U.S. sets plan to unload Citigroup bailout stake

By SARAH N. LYNCH

WASHINGTON—The U.S. Treasury Department said that it plans to sell roughly 7.7 billion Citigroup Inc. common shares this year “in an orderly and measured fashion.”

The announcement on Monday spurred heavy activity in Citigroup shares; the stock was down more than 3% at \$4.17 in late-afternoon New York trading. At that price, the sale of the Treasury’s 27% stake in the bank would reap roughly \$32 billion.

The Treasury received the common shares as part of an agreement in 2009, in exchange for Citi preferred stock. It acquired the pre-

ferred shares under the Troubled Asset Relief Program, or TARP, which helped bail out financial firms during the financial crisis.

Morgan Stanley has been retained by the Treasury as a capital-markets adviser in connection with the government’s Citigroup position.

As of March 24, a Treasury report said the U.S. department’s total investment in common stock and warrants in Citigroup was valued at \$25 billion. The sale announced Monday won’t affect the Treasury’s holdings of Citigroup trust preferred securities or warrants for its common stock. A spokesman from Citigroup declined to comment.

The Treasury said it will sell

Citigroup common shares into the market “through various means in an orderly and measured fashion” and

The sale that was announced Monday won’t affect the Treasury’s holdings of Citigroup trust preferred securities or warrants for its common stock

that “the manner, amount and timing of the sale is dependent upon a number of factors.” The Treasury

said it would use a “pre-arranged written trading plan,” but didn’t elaborate.

A Treasury spokeswoman said the government hasn’t made any projections about profits yet and that the sale of the shares will be “an at-the-market” offering. She said she couldn’t share more details now about the sales strategy. The Treasury’s contract with Morgan Stanley should be available within about two days.

Citigroup Chief Executive Vikram Pandit said in recent testimony before the congressional oversight panel, a five-member committee that was formed to oversee the implementation of TARP, that the com-

pany is “well-capitalized” and has no more plans to seek government assistance.

Treasury officials have previously said the government planned to sell its stake of common shares in 2010.

Citigroup was among the last major Wall Street firms to pay back TARP funds in December. It was forced to raise capital, which diluted shareholders’ equity, in order to come up with the \$20 billion repayment. Even with that repayment, the government continues to hold common stock and trust preferred securities. Altogether, Citigroup received a total of \$45 billion in government aid from TARP.