Manchester United's CEO speaks out on proposed bid
SPORT 32

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THE BIG READ 18-19

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South Africa's Zuma visits the Queen in London

Reuters

Britain's Queen Elizabeth with South African President Jacob Zuma, who visited London Wednesday. Behind are British Prime Minister Gordon Brown, left, and Foreign Secretary David Miliband.

Greek action lifts markets and the euro

By Costas Paris And Alkman Granitsas

The Greek government took new steps to try to resolve its debt crisis Wednesday, announcing a new range of budget cuts and tax increases intended to chop €4.8 billion ($6.53 billion) off its ballooning budget deficit.

The news drew praise from Greece's European neighbors and buoyed European financial markets, where the cost of insuring Greek debt against default fell and the euro regained ground that it has lost in recent weeks against the dollar.

"We are now justly awaiting EU support," Prime Minister George Papandreou said in announcing the measures. "The decisions were necessary to be taken. Necessary for the survival of our country, of our economy. For Greece to emerge from the vortex, from the speculators, from the negative publicity."

The government may soon face a key test of its credibility if it decides that the response of investors to the austerity package has been positive enough to launch an offering of 10-year bonds. If it can sell those bonds without paying a big premium, it may be able to raise the €54 billion in financing it needs this year without paying so much interest that it can't meet its deficit reduction targets.

The measures announced Wednesday include an increase of two percentage points in the value-added tax rate, levies on tobacco and fuel, a one-year freeze on civil servants' pensions and a 30% reduction in the bonuses traditionally enjoyed by Greece's public-sector workers.

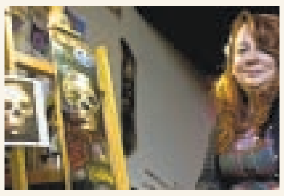
Moody's Investors Service said the plan is "consistent" with Greece's current A2 credit rating. "These new measures are a clear manifestation of the government's resolve to regain control of public finances," said Sarah Carlson, vice president and senior analyst in Moody's Sovereign Risk Group and the ratings agency's lead analyst for Greece. "The onus is on the government to demonstrate that it does not merely announce ambitious plans, but is also able to deliver on these commitments," Ms. Carlson said. She added that the Athens government needs to be given time to implement the program and warned that a failure to do so could result in a further downgrade to Greece's credit rating. Moody's last downgraded Greece on Dec. 22.

Mr. Papandreou said in a cabinet meeting at which the measures were agreed upon that the government "did what it had to do" and that it

Please turn to page 7

■ Germany and Greece don't see eye to eye 6
■ Cost of insuring Greek sovereign debt falls 7

The Quirk



Skate boards are displayed in galleries, but are they wheelie art? Page 33

World Watch

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

Editorial & Opinion

Axel Weber and Philipp Hildebrand say IMF is wrong about inflation. Page 16

Arab nations back peace talks

By Joshua Mitnick

TEL AVIV—Arab League foreign ministers endorsed a U.S.-backed plan for indirect peace talks between Palestinians and Israel, providing the most hopeful opening yet for the resumption of official talks between the two sides since they broke down more than a year ago.

The Arab League's endorsement doesn't necessarily mean the Palestinian leadership will agree to the talks, though it is now likely. The vote gives Palestinian President Mahmoud Abbas political backing from friendly, regional Arab states to agree to resume talks.

Mr. Abbas has steadfastly refused to enter into direct negotiations until Israel stops West Bank settlement construction. Without Arab backing, agreeing to even indirect talks may have looked like a concession.

Palestinian officials signaled they would take the U.S. up on its recent offer of hosting the indirect negotiations, or "proximity talks," between the two sides.

"This is a last chance because the Arabs are really fed up with the process," said Palestinian negotiator Saeb Erekat, speaking by telephone from Cairo. He described the decision as a good-faith gesture to American mediators, who have been pressing hard for some sort of resumption.

Mr. Erekat said final decisions on the talks will be made this weekend by the Palestine Liberation Organization's Executive Committee and the Fatah Party's Central Committee. The Palestinians will then deliver a formal answer to the U.S. next week, he said.

U.S. President Barack Obama has made re-energizing Palestinian-Israeli talks a key foreign-policy platform, but he has made little progress after a year of shuttle diplomacy by his Mideast envoy, former Sen. George Mitchell.

The vote comes just days before Vice President Joe Biden is scheduled to arrive in the region for meetings in Israel and the West Bank. A spokesman for the U.S. Embassy in Israel declined to comment.

The Arab endorsement could boost U.S. hopes for an eventual return to full, direct talks. The Arab League signaled it was less optimistic. It recommended a four-month deadline to show progress, reflecting Palestinian and Arab

Please turn to page 12

PAGE TWO

Greece will sway how euro zone is run

[Agenda]

By Patience Wheatcroft

Whatever it says on the label, one size rarely fits all. This is as true for clothing as it is for economic policies. The wrong size will swamp or constrict and rarely be comfortable.

The 16 countries shoe-horned into Europe's single currency were a disparate bunch at the start and have become more so. The single interest rate dictated by a single central bank is a limit on the flexibility of individual countries to manage their economies.

Yet pressure to strap the euro zone even more tightly into a single straightjacket is growing stronger. A single currency was inevitably going to lead in that direction, but the crises erupting in the region are speeding the process.

European Commission President José Manuel Barroso was unequivocal on the matter yesterday. "We need economic coordination now more than ever," he said.

But how, for instance, should a relatively strong economy such as Germany be coordinated with a weak one such as Spain? In Germany, the deficit last year was 3.3%, while in Spain it hit a whopping 11.4%. In Germany, unemployment is running at 8.7%, whereas in Spain the level is twice as high.

While Mr. Barroso from Portugal—one of those countries designated PIGS, in part because of their parlous state—may see the advantage in coordinating the less successful economies more with Germany's, Germans are becoming nervous about the potential implications.

In particular, they are hostile to any plan that would entail their assets being used to help Greece out of its current predicament.

The austerity package Greece announced will undoubtedly hurt

Associated Press

José Manuel Barroso has flagged the need for economic coordination.

many of its citizens. Civil servants who have been used to receiving 14 monthly salary payments in the course of every year are going to find it difficult to accept a stricter approach to the calendar; older workers will have to wait longer for their pensions. Yet painful as this all will be, it won't be enough and Greece will still need the rest of the EU to support it. Hence Prime Minister George

Pressure to strap the euro zone even more tightly into a single straightjacket is growing stronger

Papandreou will shortly be on his way to interviews with German Chancellor Angela Merkel and French President Nicolas Sarkozy.

These are unlikely to be forgiving occasions, but Mr. Papandreou has reason to feel that it is the EU as well as the previous Greek regime that has landed him in this mess. He came into office last October, and, as he said yesterday with some feeling: "Each day we discover new holes, new land mines, in the budget deficit."

This is a sentiment that the U.K.'s Conservative party will no doubt be planning to echo, should it win the imminent election and have to confront the ballooning deficit that has been accumulated by the Labour government. There are deep suspicions that there will prove to be some debts that somehow haven't been included on the balance sheet.

They won't, however, be on the scale of the land mines that have blown up in front of Mr. Papandreou. What is astonishing is that, as this newspaper has chronicled, so many of those land mines appear to have been laid while the EU turned a blind eye to what was happening.

So eager were the politicians who were driving for a single currency that, having set rules that would dictate eligibility for membership, they effectively waived them.

Greece was the most egregious offender but by no means the only one. In order to make its deficit look acceptable, it resorted to numerous accounting subterfuges, of which failing to take note of military spending was but one.

That approach allowed the EU to welcome Greece as a late entrant to the single currency, but it also paved the way for the crisis that now engulfs the region and its currency. Inevitably, the response is for the commission now to want to take a firmer grip. As Mr. Barroso pointed out yesterday: "Divergences between member states have a direct impact on everyone else."

So, he argued, as he launched "Europe 2020"—the EU's new economic strategy—co-ordination would be all-important. What he didn't add, but is all too evident, is this co-ordination will be two speeds, because when countries share a common currency, they are much more closely tied, and if one trips, it can endanger the stability of the others.

While "Europe 2020" has plenty of platitudes about alleviating poverty and creating "an agenda for new skills and jobs," it also provides for the commission to be empowered to provide stronger economic governance, making country-specific recommendations and issuing policy warnings in the event of "inadequate response."

What isn't yet clear is what the sanctions will be if those warnings aren't heeded. But there can be no doubt that the toxicity of Greece's crisis has opened the way to a step change in the way Europe, or at least the euro zone, is run.

For the U.K., this should at least mean that the issue of whether the country should join the single currency is now firmly closed to debate. Voters wouldn't willingly subject the country to the euro straightjacket.

Smart timing

Newly installed as chairman of television company ITV, Archie Norman must be wondering whether the good news has begun to flow just a little too quickly.

Mr. Norman became something of a corporate hero in the U.K. when he turned around Asda, the supermarket operator, and made it, eventually, so attractive that the mighty Wal-Mart found it irresistible.

Like most incoming bosses, Mr. Norman demonstrated horror at the mess he found and made some hefty write-downs. Thus he started his turnaround from a very low base. But the news from ITV yesterday was of a return to profit, previous boss Michael Grade having taken the pain. ITV still faces big challenges, with the advertising market tough, but it seems the groundwork has been well laid for the new team.

What's News

■ **Peugeot and Mitsubishi** are dropping capital-alliance talks that would have deepened the ties between the auto makers. The announcement ended speculation over the possibility of another European-Japanese tie-up in an industry still in recovery. **22**

■ **Standard Chartered said** its net profit increased 4.7% last year, helped by strength in its wholesale-banking operations. **25, 36**

■ **Euro-zone retail sales** slipped in January, raising fresh concerns about the strength of the currency area's economic recovery. **4**

■ **Pfizer said** an experimental Alzheimer's treatment failed to work in a pivotal study, in a blow to its efforts to revive its drug pipeline. **21**

■ **RBS put London's** landmark Grosvenor House Hotel up for sale. The five-star establishment could be the most expensive hotel ever to come to market in Europe. **26**

Inside

British Airways sets up plan to deal with possible strike. **21**

Teaching older workers to network in the 21st century. **31**

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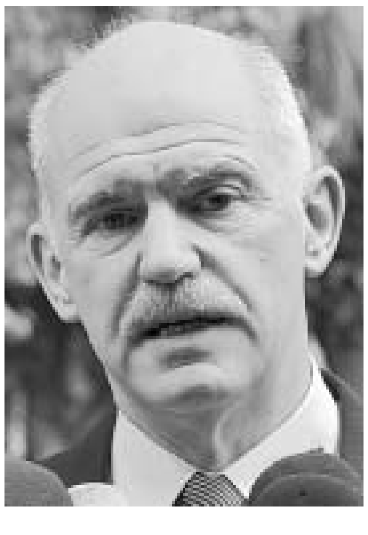
"Funding the U.K.'s debt is going to be a challenge greater even than the ones they face in Athens."

David Cottle on whether investors should worry about the sterling's state

Continuing coverage



See an in-depth video report on Greece's debt crisis and follow the latest news at **europe.wsj.com**

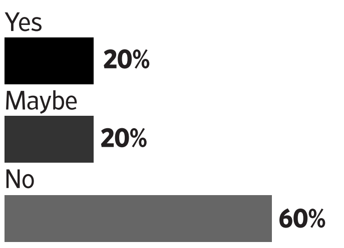
Question of the day

Vote and discuss: Do you think the new austerity measures are a turning point for Greece?

Vote online at **wsj.com/dailyquestion**

Previous results

Q: Do you think the U.K. election will results in a hung Parliament?



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NEWS

No shots here, please

The U.S. 'open carry' gun debate targets stores and Starbucks

By Vanessa O'Connell
And Julie Jargon

Starbucks and some other chain stores in the U.S. are finding themselves caught in the middle of a firearms debate, as gun-control advocates go up against a burgeoning campaign by gun owners to carry holstered handguns in public places.

The "open carry" movement, in which gun owners carry unconcealed handguns as they go about their everyday business, is loosely organized around the country but has been gaining traction in recent months. Gun-control advocates have been pushing to quash the movement, including by petitioning the Starbucks coffee chain to ban guns on its premises.

Businesses have the final say on their property. But the ones that don't opt to ban—such as Starbucks—have become parade grounds of sorts for open-carry advocates.

Starbucks Corp. on Wednesday, while bemoaning being thrust into the debate, defended its long-standing policy of complying with state open-carry weapons laws, in part by stating that its baristas, or "partners," could be harmed if the stores were to ban guns.

The chain, which has annual revenue of $9.8 billion, said that in the 43 states where open carry is legal, it has roughly 4,970 company-operated stores.

"Were we to adopt a policy different from local laws allowing open carry, we would be forced to require our partners to ask law-abiding customers to leave our stores, putting our partners in an unfair and potentially unsafe position," Starbucks stated. "The political, policy and legal debates around these issues belong in the legislatures and courts, not in our stores."

The Brady Campaign to Prevent Gun Violence, which partnered with Credo Action, an activist group that uses mobile phones to affect social change, says it has collected more than 28,000 signatures on a petition to get Starbucks to change its policy.

Allowing customers who are armed with unconcealed guns on the premises "can't be good for business—it galvanizes people, and some of them won't patronize Starbucks after this," said Joshua Horwitz, executive director of the Educational Fund to Stop Gun Violence, a gun-control organization in Washington, D.C. "They are private property owners. They set the rules on their premises."

Not all baristas agree that the Starbucks policy protects them.

"I think the policy shows complete disregard for the safety and sentiments of their workers. The only thing worse than a yuppie upset with how their frappuccino turned out is a yuppie with a gun who's unhappy with how their frappuccino turned out," says Erik Forman, a Starbucks barista and union member in Minneapolis.

Some chains have banned guns from their restaurants, even in open-carry states.

"We are concerned that the open display of firearms would be particularly disturbing to children and their parents," said a representative for **California Pizza Kitchen**.

A representative for Peet's Coffee & Tea said that while the company "respects and values all individuals' rights under the law, like many other private retail establishments, our policy is not to allow customers carrying firearms in our stores or on our outdoor-seating premises unless they are uniformed or identified law-enforcement officers."

In 29 states, it is legal to openly carry a loaded handgun, without any form of government permission. Another 13 allow an unconcealed loaded handgun with a carry permit, according to opencarry.org, which is a loosely organized Web forum for the movement.

Wal-Mart Stores Inc. confirmed that it allows open-carry of guns in the states where it's legal and declined further comment.

Likewise, Ron Defeo, a spokesman for **Home Depot** Inc. said, "We do not prohibit anyone who is legally permitted to carry firearms from entering our stores, provided the firearms are carried in compliance with applicable laws and regulations."

Associated Press

Shannon Dunne, with a gun and a coffee, at a rally Wednesday in Seattle

EUROPE NEWS

Euro-zone retail sales slip

By Nicholas Winning
And Paul Hannon

Retail sales in the 16 countries that use the euro fell in January, raising fresh concerns about the strength of the currency area's economic recovery.

A survey of companies across currency bloc, also released Wednesday, showed private-sector output grew in February, but with marked differences in performance between countries.

The European Union's statistics agency Eurostat said sales volume in the euro zone fell 0.3% from December and was 1.3% lower than in January 2009. Sales of food and drink fell 0.1% in January, while sales of nonfood products fell 0.6% from December.

Economists said sales were hit by harsh winter weather conditions, but warned that sales could fall further in February and the outlook beyond that was far from rosy.

"With many people remaining concerned about the possibility of losing their job, and increasingly worried about the income implications of future fiscal tightening, consumers are certainly not about to go on a spending spree anytime soon," said Martin van Vliet, an economist at ING.

The monthly drop in retail sales was weaker than the market consensus estimate of a 0.5% fall from a Dow Jones Newswires survey of economists last week. December data were also revised up to show they rose 0.5% on the month, having previously shown they were stagnant.

European Pressphoto Agency

European Commission President José Manuel Barroso sells EU economic goals.

But the January data confirmed sales have been weaker on an annual basis for 20 consecutive months.

"There are obvious reasons for this, including in particular the weakness in the labor market which we suspect has further to go given the lack of adjustment in some sectors and countries to much lower levels of activity subsequent to the financial crisis," said Ken Wattret, an economist at BNP Paribas.

The weakness of the data cemented expectations that the European Central Bank's Governing Council will leave its key interest rate unchanged at a record low of 1% after its policy meeting Thursday.

A survey by financial information firm Markit showed the euro zone's composite output index, a measure of private-sector output based on a monthly survey of about 4,500 manufacturing and services firms, was unchanged at 53.7—in line with market expectations.

Chris Williamson, Markit's chief economist, said the data suggest the currency bloc will grow about 0.4% in the first quarter, but highlighted disparities between sectors and countries.

"Robust growth in France and Germany contrasts with a deepening downturn in Spain," he said.

Weak demand

Euro-zone retail sales, change from a year earlier

Source: Eurostat

EU outlines economic goals for new decade

Associated Press

BRUSSELS — The European Union's executive commission promised Wednesday it will eventually have concrete measures in place to safeguard the stability of the 16 nations that share the euro and stem problems such as Greece's debt crisis, which is threatening the currency union.

In setting out the EU's economic strategy for the next 10 years, EU Commission President José Manuel Barroso said that there is a need to rebalance demand across EU countries—a prod for Germany and the Netherlands to stoke spending at home.

"The European Union appears ready for stronger economic coordination and stronger economic governance," he told reporters.

He wants to set five overall targets for EU countries:

- ■ to boost employment to 75% of the work force from an average of 69%;
- ■ to increase how many people who leave school gain a college degree to 40% from 30%;
- ■ to increase research spending from governments and companies to 3% of gross domestic product;
- ■ to reduce the number of people living in poverty to 60 million from 80 million;
- ■ to generate more renewable power and reduce energy consumption as part of the EU's ambition to slash greenhouse-gas emissions by 2020.

U.K.'s key service sector expands sharply

By Ilona Billington

LONDON—The U.K.'s dominant services sector expanded sharply to a more-than-three-year high in February, boosted by strong new orders and business activity, data showed Wednesday, adding to evidence that first-quarter gross domestic product grew at a faster pace than in the final three months of 2009.

Research group Markit Economics and the Chartered Institute of Purchasing & Supply said the services purchasing managers index rose to 58.4 in February from 54.5 in January—the highest level since January 2007. A reading above 50.0 indicates the sector is expanding.

"February's CIPS/Markit report on service-sector activity indicated a marked rebound from the snow-related slowdown in January," said Paul Smith, senior economist at Markit. "The latest data confirm that the underlying trend in the private service sector remains positive, and is on course to deliver a quarterly expansion above 1% in the first quarter."

Markit also said its all-sector PMI output index, which combines the manufacturing, services and construction PMIs, rose to a 2½-year high of 57.7 in February. "This puts the survey data for the first quarter at a level consistent with GDP rising by approximately 0.5%," Markit said.

The surge in the U.K. services PMI prompted the pound to regain some of the losses made earlier in the week. The pound rose almost 50 cents against the dollar and euro after the data were released.

The detail of the services PMI show that new orders picked up sharply as firms grew more confident about underlying business conditions.

"February's CIPS/Markit report on services suggests that the recovery in the biggest part of the economy is firmly back on track after the weather/VAT induced setback at the start of the year," said Vicky Redwood, senior U.K. economist for Capital Economics.

She cautioned, however, that while the weighted average of the three surveys implies quarterly GDP growth of around 1%, the surveys don't always serve as a perfect guide to actual hard macroeconomic data. "But at the very least the survey will ease concerns that the economy may have fallen back into recession this quarter," she said.

Job losses in the service sector did continue in February, but at a more modest pace than in 2009 and "were largely the result of natural wastage and the non-replacement of leavers," the survey said.

In line with the manufacturing PMI, firms reported rising input price costs, reflecting higher fuel prices and continuing price adjustments after the sales tax increased Jan. 1. Firms were able to pass some of these costs on to consumers, however, and sales rose despite price rises.

— Gary Stride contributed to this article.

Michael Foot, Labour's last hardline leader, dies

Associated Press

Michael Foot's wit earned him admiration in Parliament and in literary circles.

By William Lyons

LONDON—Michael Foot, the former leader of Britain's Labour Party and one of the U.K.'s most popular but controversial socialists, died Wednesday at the age of 96.

A left-wing intellectual and antinuclear campaigner who led his party to its worst electoral defeat in 50 years, Mr. Foot passed away at his home in north London following a long illness, according to the Press Association news agency.

His 50 years in politics epitomized a hard-left socialist tendency that characterized the Labour Party until Tony Blair moved the party to center ground following his election as Labour leader in 1994. Mr. Blair remembered his colleague's "outstanding commitment" in a statement Wednesday, saying that Mr. Foot "took over the leadership at the most difficult time in Labour's history and conducted himself with huge dignity."

U.K. Prime Minister and Labour Party leader Gordon Brown, who served under Mr. Foot in the party, described him as a man of deep principle and passionate idealism, calling him one of the most eloquent speakers Britain has ever heard.

"He was an indomitable figure who always stood up for his beliefs and whether people agreed with him or not they admired his character and his steadfastness," Mr. Brown said in a statement. Opposition Conservative Party leader David Cameron also paid tribute, describing Mr. Foot as "the last link to a more heroic age in politics."

Industrial unrest spread in Britain in the late 1970s. As Labour lurched to the left, Mr. Foot was elected as a compromise candidate with the party's moderates. The 1983 party manifesto argued for nuclear disarmament, state takeover of banks, abolition of the House of Lords, and the departure from the European Economic Community. Labour registered just 27.6% of the votes in the 1983 election and Mr. Foot immediately resigned the leadership.

Margaret Thatcher, who defeated Mr. Foot in the 1983 election, said in her memoirs that Mr. Foot was "a highly principled and cultivated man, invariably courteous in our dealings. In debate and on the (campaign) platform he has a kind of genius."


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EUROPE NEWS

Athens to make case for EU Aid

As Greece outlines more measures to fix its finances, Merkel sees less urgency to risk taxpayer money on a bailout

By Marcus Walker

ATHENS—Greece showed Europe on Wednesday that it is willing to tighten its belt. Now Athens wants Europe to show it the money. It's unlikely to get any—yet.

When Greek Prime Minister George Papandreou visits German Chancellor Angela Merkel in Berlin on Friday, he will argue that he has done his part, aides say—now it is Europe's turn to prove that it won't leave Greece at the mercy of financial markets.

"We are now justifiably expecting EU solidarity," Mr. Papandreou said on Greek television Wednesday.

But Ms. Merkel sees less urgency, and is only starting to prepare German lawmakers and public opinion for the possibility that Germany might have to risk taxpayers' money to save profligate Greece.

A Greek default could lead to capital flight from other indebted European countries, including Spain, crippling vital German export markets. But the calculation in Berlin is that the euro zone's crisis isn't severe enough yet.

Ms. Merkel views Friday's meeting with Mr. Papandreou as a way to soothe recent tensions between the two countries over the crisis.

There are few signs Greece's woes are hurting other euro-zone countries' ability to borrow. In addition, Germany doesn't believe that Greece's present financing needs are acute.

That means Berlin is unlikely to intervene in the immediate term, even if a debt offering that Athens plans to undertake in coming days fails, according to people familiar with the matter. Greece hopes to raise up to €5 billion ($6.77 billion) through the sale.

"We can only justify a bailout if it's about protecting Germany, not Greece," says an aide to Ms. Merkel.

Berlin's hope appears to be that Greece's austerity measures, among the most severe proposed by a euro-zone country, will be enough to reassure markets of its long-term prospects, just as Ireland recently did with a similar package of reforms.

Irish markets came under severe pressure late last year amid concerns about the country's ballooning budget deficit. The Irish government responded quickly with deep spending cuts, calming markets.

Greece needs to raise about €23 billion in April and May to pay debts coming due. Greek officials say that either is impossible, or would require punitive interest rates—making it harder to bring the budget under control—unless Europe helps out.

German approval is crucial for euro-zone aid because Germany is the bloc's biggest and financially strongest country. France, which at times has sounded more open to helping Greece quickly, has said it won't support any aid unless Germany agrees.

Germany and France are still prepared to rescue Greece, likely through state-owned banks, according to people familiar with the matter, but view such a move only as a last resort.

Ms. Merkel views the meeting with Mr. Papandreou as a way to soothe recent tensions between the two countries over the crisis and compliment Greece for the progress it has made with its austerity program.

The planned meeting of the two countries' leaders "is not about aid measures for Greece ... but about good relations between Germany and Greece," Ms. Merkel said on Wednesday.

Associated Press

Greece's prime minister, George Papandreou, enters a cabinet meeting at parliament in Athenson on Wednesday.

In Berlin, "Papandreou will say: 'Help us to borrow at normal interest rates. Don't leave us so exposed to speculators,'" an aide to the Greek leader said.

Greece isn't seeking a handout, but it would like credit guarantees from Germany and other euro-zone peers, so that it can tap capital markets more easily, the aide to Mr. Papandreou says.

That argument is unlikely to sway the German leader, say people familiar with Ms. Merkel's thinking. "We aren't interested in bailing out Greece's interest-rate spreads—only in preventing Greek insolvency," says a senior German official.

In addition, credit guarantees would also be perceived in Germany as a bailout, because—like direct lending—they would leave German taxpayers holding the risk of a Greek default down the road.

Greek insolvency isn't a threat just yet, German officials say, because Greece doesn't have any debt payments to meet until April 20.

Before then, Greece must make more progress in enacting its many promises of budget cuts and must try to tap bond markets, rather than fretting that it can't, the German officials say.

Greek analysts warn that mere verbal encouragement from Ms. Merkel on Friday would be dangerous for Greece and for Europe.

"The Greek government is taking all the necessary fiscal measures now. If Papandreou leaves Berlin empty-handed, it will be bad for the euro zone, because it will show there is no crisis-management mechanism," says Yannis Stournaras, an Athens economist and former government adviser.

German opinion polls reveal public disinclination to risk money on Greece, which is seen as entirely to blame for its budget crisis.

In a poll of 73,000 readers in mass-circulation tabloid Bild published Monday, four out of five opposed aid for Greece.

Most lawmakers in Ms. Merkel's center-right coalition also oppose a bailout of Greece, fearing other stragglers in the euro zone would come knocking.

"We must make it very clear that Germany can't step in ... because where would we begin and where would we end?" says Hans Michelbach, a conservative member of the German parliament's finance committee.

—Andrea Thomas contributed to this article.

Greece's latest recipe for budget austerity

By Alkman Granitsas

The Greek government announced further austerity measures to cut Greece's budget deficit from an estimated 12.7% of gross domestic product last year, to 8.7% this year. Here is a look at the highlights of the new measures: a combined €4.8 billion ($6.5 billion), or 2% of gross domestic product, of spending cuts and tax increases, with half coming from spending cuts and half from new revenues.

SPENDING CUTS

Wages and pensions: Civil-service entitlements for all workers in the public sector—including at ministries, local governments, state-chartered organizations and the parliament—will be cut 12% on average, compared with a 10% cut previously announced by the government. This includes a 30% cut in Christmas, Easter and holiday bonuses. In addition, court officials will see their special entitlement for accelerated processing of court cases cut 20%. Also, a 7% across-the-board cut in entitlements at employees of state-owned companies that receive transfers from the budget. No increase in pensions for civil-service retirees. In addition, select state-backed pension funds will see a 10% cut in government transfers, which will be passed on to retirees of those funds.

Savings: €1.7 billion, or 0.7% of GDP.

European Pressphoto Agency

A man protests plans to reduce pension entitlements

Investment cuts: A 5% reduction in government spending on public-works projects, and a €200 million cut in spending on education.

Savings: €700 million, or 0.3% of GDP.

TAX INCREASES

Value-added tax: The sales tax on printed products such as newspapers and books will increase to 5% from 4.5%, while the tax rate on items such as food and medicine will increase to 10% from 9%. VAT on items such as clothing and footwear will also increase to 21% from 19%.

Revenue: €1.3 billion, or 0.55%.

Fuel taxes: Greece will further raise tax rates on fuel products, its second increase this year. Gasoline prices will rise by a further eight euro cents a liter, but home heating oil will not increase.

Revenue: €1.1 billion, or 0.45%.

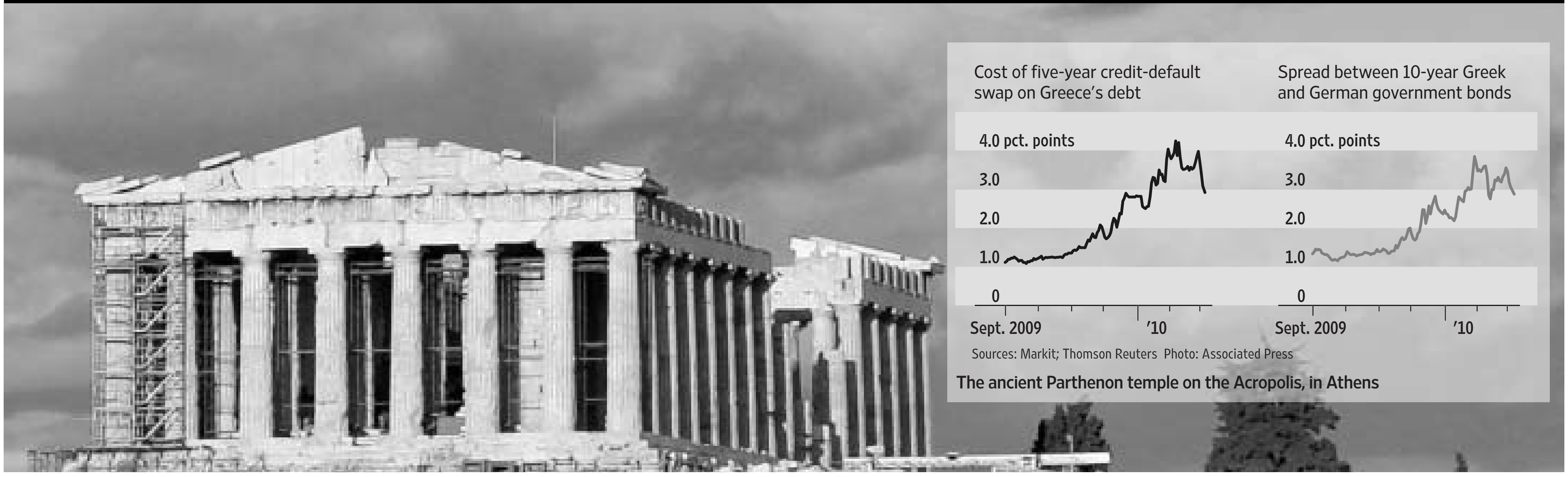
Sin taxes: Taxes on cigarettes will increase to 65% from 63% on average, with expensive brands seeing more of an increase than less-expensive brands. Alcohol taxes will increase by 20%.

Revenue: Between €200 million and €400 million, or 0.1% of GDP (unofficial estimate).

Luxury taxes: Introduction of a luxury tax on automobiles of over €35,000, recreational boats and helicopters for personal use, and luxury consumer items such as jewelry.

Revenue: No estimate given.

Exhale | The cost of insuring Greek debt and the spread of Greek bonds over German bonds



Sources: Markit; Thomson Reuters Photo: Associated Press

The ancient Parthenon temple on the Acropolis, in Athens

Athens eases credit, currency fears

CDS rates fall and euro recovers some ground against the dollar, as markets react positively to $5.4 billion in cuts

By Ainsley Thomson
And Emese Bartha

LONDON—The Greek government's new austerity measures drew a positive response from European credit and currency markets, further allaying fears that Greece might default on its debt obligations.

The measures, which will yield the Greek state more than €4 billion ($5.4 billion) a year, include steep cuts in civil-service salaries and staff entitlements, as well as a rise in Greece's sales tax by two percentage points.

In the credit-default-swap market, the cost of insuring Greek sovereign debt against default continued to fall Wednesday.

The annual cost to insure €10 million of Greek government debt for five years was €301,000 in late-afternoon trading, compared with €320,100 Tuesday, according to CMA DataVision.

The cost hit a peak of €425,000 on Feb. 4.

Still, the cost of Greek sovereign-default insurance remains the highest of any euro-zone member. For comparison, the annual cost of protection against a default by Germany was €35,000 Wednesday, according to CMA DataVision.

Credit-default swaps are derivatives that function like an insurance contract against defaults on debt. If a borrower defaults, the protection buyer is paid compensation by the protection seller. Swap buyers may be protecting investments they own or simply making bearish bets against companies or countries.

The cost of insuring Greek debt had already fallen this week ahead of Wednesday's announcement, on the expectation that it could pave the way for support measures for Greece from France and Germany.

The differential in yields on 10-year Greek government bonds and euro-zone benchmark German bunds narrowed to 2.89 percentage points. The spread is 0.22 percentage point down from Tuesday's closing level of 3.11 percentage points.

The current gap means that investors in Greek debt demand a yield of 2.89 percentage points more than what is available on German bunds to compensate them for the greater risk involved. Greek 10-year bonds yield 6.07%.

Like the cost of credit-default swaps protecting against a default by Greece, the yield spread on Greek debt relative to bunds has been narrowing in the past few days in anticipation of further Greek austerity measures.

Meanwhile, the euro was stronger against the dollar, rising to $1.3697 late in New York, compared with $1.3609 late Tuesday.

Gary Jenkins, head of fixed-income research at Evolution Securities, said Wednesday's announcement by Greek leaders would give European Union governments more political capital in the event that they do eventually need to provide liquidity to Greece.

If this did happen, they would be able to tell their own taxpayers that Greece has taken further measures as requested by the European Union.

"In fact today is just about facing the reality that the original targets [for deficit reduction] would not be reached without further cuts," he said.

—Mark Brown and Gary Stride contributed to this article.

Greece outlines additional austerity measures

Continued from first page

was time for the European Union to step in to support Greece, a cabinet member told Dow Jones Newswires. The cabinet member said Greece needs EU support now if it is to face this crisis with success.

"If the EU doesn't come to our aid, the [International Monetary Fund] is the next step," said the cabinet member, who spoke on condition of anonymity.

The government of Germany, the largest EU member state, welcomed the austerity package, calling it a "clear signal" of the Papandreou government's determination to bring its budget under control. But German officials said a financial-aid package for Greece wouldn't be discussed when Mr. Papandreou meets with Chancellor Angela Merkel in Berlin on Friday.

"The German government trusts that Greece will follow through, strengthen the country's credibility and thereby support the stability of the euro," said Christoph Steegmans, a spokesman for the German government.

The new measures also earned praise from top EU officials including European Commission President Jose Manuel Barroso, who said the Greek budget cuts were "now on track."

Greece is under intense pressure from markets and its EU partners to slash its budget deficit, which hit 12.7% of gross domestic product in 2009. The measures announced Wednesday, as well as spending cuts unveiled earlier in the year, come as the Papandreou government attempts to bring the budget gap down by four percentage points this year and to within the EU's 3%-of-GDP limit by 2012.

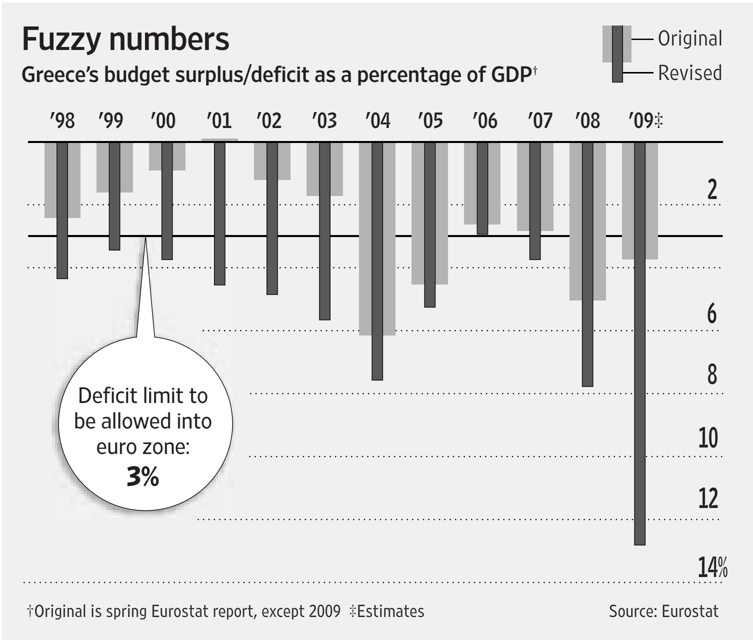
"The announcement will dramatically enhance the credibility of the Greek commitment to comply with the announced fiscal targets," said Luigi Speranza, an economist at BNP Paribas in London in a note.

While the EU has pledged in principle to stand by its sickliest member state, EU leaders have been leaning heavily on Mr. Papandreou and his government to take further action to cut the deficit before any explicit promises of financial help are made.

Support from its EU partners "may buy Greece breathing space to implement its plans, while in the short term alleviating potential funding problems and market disruption" BNP's Mr. Speranza said.

The government's new austerity plan "also reinforces the credibility of the whole EU framework, for which the Greek case is probably the first significant test," he added. "The message to other countries with potential fiscal problems is crystal clear: help comes eventually at the cost of a significant reduction in sovereignty."

"These measures represent an effort to meet the requests from the EU inspectors, and in this respect they are a welcome step," said UniCredit economist Tullia Bucco, who cautioned that the €2.4 billion in new revenue targeted may be difficult to achieve and said structural reform on pensions would have been preferable to the freeze announced Tuesday.



"This is what the cabinet has decided. They are painful but necessary measures that will appease our European Union partners and hopefully the markets. The prime minister described it as a state of war," the cabinet member added.

The austerity package drew a sharp response from labor unions. "The new measures will be the fatal blow for the average income earner," said Spyros Papaspyros, president of the civil servants umbrella union ADEDY.

"We will fight back with all means. Those who have money must pay, but those who don't must be supported. But those measures only hurt the poor." ADEDY has already called for a 24-hour general strike on March 16.

The next key events in the Greek crisis will be Mr. Papandreou's meetings with Chancellor Merkel Friday and French President Nicolas Sarkozy Sunday.

The two leaders are likely to state that the new efforts by the Greek government go in the right direction, which could be read as an indication that Germany and France are ready to step in to help Greece, if needed.

The annual cost of insuring €10 million of Greek government debt against default for five years fell immediately after the measures became known, dropping by €4,500 to €315,600, while the premium investors demand for Greek government bonds against their German counterparts went to 2.91 percentage points from 3.11 percentage points.

The euro also benefited from the news, rising as high as $1.3664 against the dollar compared with $1.3607 late Tuesday in New York.

Still, Greek officials cautioned that tough times lay ahead. "The days, weeks and months we have ahead of us are very critical," said Greek government spokesman George Patalotis, "not only to convince or prove to our creditors and our international partners that this economy can succeed to emerge from the dead-end in which it finds itself today, but mainly and first of all, to show to the citizens that the effort is worth it."

—Ainsley Thompson, Mark Brown, Gary Stride, Emese Bartha, Patrick McGroarty and Adam Cohen contributed to this article.

EUROPE NEWS

Turkey watches U.S. vote

Washington's shift on Armenian genocide debate angers Ankara

By Marc Champion

ISTANBUL—A U.S. congressional vote on how to define the 1915 slaughter of Armenians in the Ottoman Empire is turning into a game of brinksmanship between the White House and Ankara.

In previous years, Congress has attempted to pass a resolution to recognize the Armenian events as genocide. Such a resolution would inflame Turkey and has brought vows from past U.S. administrations that they would block the bill, a nod to Turkey's role as a key ally of Washington in the Middle East.

This year, in a shift of U.S. position, the Obama administration isn't lobbying to block the resolution, say officials and lobbyists involved in the issue. That fact has triggered hopes among Armenians who have long lobbied foreign governments to recognize what they call genocide—and raised alarm in Turkey at the prospect that the country's ally might rule against it on a neuralgic issue of history and identity.

On Thursday, at least one Turkish national TV channel, NTV, plans to air the U.S. vote live; others are expected to do likewise. Two delegations of Turkish lawmakers have been in Washington lobbying the committee to block the move.

"There would be consequences," if the vote passes, said Suat Kiniklioglu, a legislator and deputy chairman of external affairs for the ruling Justice and Development party. "Turks find it very offensive to be equated with Nazis."

"We are working well with the U.S. in a number of areas—in Iraq, in Pakistan, Afghanistan, on the Middle East peace process, Iran and Syria. In all these areas, if this passes through the Congress there would be an impact," said Mr. Kiniklioglu, speaking by phone from Washington. Turkey has the second-largest armed forces in the North Atlantic Treaty Organization and is a key U.S. ally in the region.

Thursday's vote in the House Foreign Affairs Committee would come less than two months before President Barack Obama is due to make an annual White House statement on April 24 commemorating the killings. The committee vote would not be binding, but it would open the floor to a vote on the floor of Congress, something Turkey is anxious to avoid.

If the vote passes, 'there would be consequences,' a Turkish legislator said.

Up to 1.5 million ethnic Armenians are estimated to have died through executions, mass deportations, starvation and other means in 1915. Armenians, and many historians, say the killings were an attempt to erase Armenians from Eastern Anatolia and were therefore genocide.

Turkey argues that the events, while tragic, can't be compared to the Jewish holocaust and don't amount to genocide. Turkish officials note that the killings took place during World War I, as the Ottoman Empire was disintegrating and under attack from all sides, including Russia. Armenians, traditional allies of Russia, were seen as a fifth column. Even the historical record, they say, was warped by the wartime propaganda needs.

"Turks feel the way these events happened is not well known abroad and only in a one-sided way," said Ilter Turan, a professor of political science at Bilgi University in Istanbul. He said a vote to recognize genocide would likely trigger anti-American demonstrations and retaliation by the government.

Last year, Mr. Obama avoided using the term genocide in his April 24 statement. He made it clear he was doing so because he did not want to destroy efforts under way between Ankara and Yerevan to reopen their border and establish relations, together with a joint historical commission.

A year later, efforts have stalled to ratify the border-opening protocols each government has signed. Turkey has made it clear it sees ratification as linked to progress in settling a territorial dispute between Armenia and its other Turkic neighbor, Azerbaijan, in the enclave of Nagorno Karabakh—and there is little sign of progress on that dispute,.

Analysts say the U.S. administration's silence looks like an attempt to increase pressure on Turkey to ratify the reconciliation protocols. Secretary of State Hillary Clinton's focused on promoting the protocols in testimony on Capitol Hill last month, rather than warning directly against a vote to recognize genocide. The performance was welcomed by the Armenian National Committee of America, a lobby, which noted that "for the first time in a generation" a sitting secretary of state hasn't lobbied against the genocide classification. But just as the U.S. is likely to ignore Turkish threats, Ankara is unlikely to buckle to pressure on the protocols, analysts say.

"I don't think it will work," said Bulent Aliriza, Director of the Turkey project at the Center for Strategic and International Studies, a Washington think tank that hosted one of the Turkish delegations this week. "The movement on Capitol Hill doesn't seem to be making the Turks reconsider—instead we have the Turks saying we have a whole range of issues the U.S. needs us to cooperate on and well use these to respond. This has the potential to spin out of control," he said

Dutch anti-immigration party gains

By Maarten Van Tartwijk

Dutch voters turned out in slightly higher-than-usual numbers for local elections Wednesday that many are using to gauge the popularity of the right-leaning Party for Freedom and its outspoken leader, Geert Wilders, ahead of this summer's national elections.

In the past few years, the PVV, as the party is known, has made headlines with its tough stance on immigrants, and Muslims in particular. Mr. Wilders has made dramatic but vague proposals that would restrict Muslim activities, such as taxing Muslim women wearing a headscarf. He has also pledged to ban the Quran from mosques and homes and would only allow it in universities as a part of academic studies. He is currently awaiting trial for alleged hate speech against Muslims.

The local elections are held in nearly 400 municipalities, but the PVV is running for the city council in just two major cities: The Hague, the seat of government, and Almere, a midsize city close to Amsterdam.

After a strong showing in the European Parliament elections last summer, the party is expected to record landslide victories in its first-ever municipal elections.

European Pressphoto Agency

PVV leader Geert Wilders votes in local elections in The Hague on Wednesday.

The government collapsed last week after Deputy Prime Minister Wouter Bos, leader of the Labor Party, pulled out of the ruling coalition to force the government to pull its troops out of Afghanistan. The PVV controls nine seats in the national parliament, but is forecast to at least double that, according to a recent poll of Synovate, a research agency. A victory for the PVV on a local level will indicate how the party will do nationally, said André Krouwel, a political scientist at the Free University in Amsterdam.

Recent polls of research agency TNS NIPO showed that the PVV might become the second-largest party in The Hague and the biggest one in Almere.

Reuters

Ukraine's parliament dismissed Yulia Tymoshenko and her coalition government.

Tymoshenko is ousted

Move clears way for new Ukraine coalition

By James Marson

KIEV, Ukraine—Parliament dismissed Ukrainian Prime Minister Yulia Tymoshenko and her coalition government Wednesday, clearing the way for President Viktor Yanukovych to try to form a new legislative majority and consolidate his power to govern.

The parliament's no-confidence motion passed with 243 of the chamber's 450 votes. The parliamentary party loyal to Mr. Yanukovych, who defeated Ms. Tymoshenko in the Feb. 7 presidential election, will now seek to gain enough allies to form its own government, or the country will face early parliamentary elections.

Ten legislators voted against the motion and two abstained. Most of Ms. Tymoshenko's supporters, the core of an Orange coalition of Western-leaning parties that first came to power in 2004, were among the 195 who didn't vote.

The vote followed a declaration Tuesday by parliament speaker Volodymyr Lytvyn that Ms. Tymoshenko's dysfunctional coalition had fallen apart, depriving the prime minister of her majority.

Given the limited powers of the presidency, Mr. Yanukovych needs his own parliamentary majority to govern effectively, including pushing through measures needed to revive Ukraine's crisis-battered economy. His Party of Regions holds 172 seats in parliament and must negotiate for support from smaller blocs.

Political analysts said the Our Ukraine bloc of former President Viktor Yushchenko and a bloc led by Mr. Lytvyn, both previously aligned with Ms. Tymoshenko's party, were likely to join Mr. Yanukovych's party in a new formation. Both smaller blocs want to avoid an election in which they would likely lose seats in parliament.

Senior aides to Mr. Yanukovych said a coalition could be formed within the next few days. But they acknowledged that negotiations won't be easy.

Mr. Yanukovych met Wednesday with the leaders of the parliamentary fractions and called on them to form a new coalition and propose a prime minister and a government.

If a new coalition isn't formed within 30 days, Mr. Yanukovych can call early elections. But that would plunge the country into prolonged uncertainty, and the president's aides say he wants to avoid that.

Ms. Tymoshenko would normally be expected to continue as prime minister in a caretaker capacity until a new government is formed. In a combative speech to parliament before the vote, however, she said she would resign if the motion passed and would lead her "democratic team" in resisting what she called the threat of autocratic rule.

"We will defend Ukraine from this new disaster that has befallen her," she declared.

Ms. Tymoshenko was expected to name one of her deputies to take over as acting prime minister.

Mykola Azarov, a close ally of Mr. Yanukovych and a leading contender to be prime minister in a new coalition, told the parliament session that Ms. Tymoshenko's government had caused "a very deep social and economic crisis."

Ukraine needs political stability to help revive its economy after it contracted by 15% last year. A key task will be to pass austerity measures required by the International Monetary Fund before it resumes a $16.4 billion bailout program for Ukraine.

The IMF has called on Ukraine's leaders to achieve political consensus and adopt a budget for 2010.

U.S. NEWS

Rangel steps aside from House post

With support slipping in his own party over ethics probes, lawmaker temporarily gives up gavel of key committee

WASHINGTON—Rep. Charles Rangel said Wednesday that he was temporarily stepping aside as chairman of the powerful House Ways and Means Committee.

By Naftali Bendavid, Greg Hitt And Brody Mullins

In a brief, televised statement, Mr. Rangel said he asked House Speaker Nancy Pelosi for a leave of absence as chairman of the tax-writing panel until the House Ethics Committee completes its investigation into his tax and financial dealings. "From the very, very beginning, I have offered this to Speaker Pelosi," he said. He declined to answer questions.

The ethics panel recently admonished Mr. Rangel, a New York Democrat, for accepting an overseas trip that was sponsored by several corporations, a lapse he blamed on his staff. He also faces inquiries regarding the payment of taxes on rental income from a house he owns in the Dominican Republic and on the use of rent-controlled apartments in New York, among other allegations.

Rep. Pete Stark (D., Calif.) will assume the duties of chairman of the Ways and Means Committee, at least temporarily. Mr. Stark, the next most senior Democrat on the panel, chairs the panel's health subcommittee and has been a key player for Democrats on Medicare policy.

Speaking from Capitol Hill, Mr. Rangel said he was temporarily leaving the post "to avoid my colleagues having to defend me" during the campaign season.

Democrats ascended to power in 2006 in part based on a message that Republicans had become engulfed in a "culture of corruption" and ethical lapses can pose a political danger to the party in power, especially in an anti-Washington climate.

Ms. Pelosi (D., Calif.) issued a statement Wednesday acknowledging Mr. Rangel's request for a leave. "I commend Chairman Rangel for his decades of leadership on jobs, health care, and the most significant economic issues of the day," she said.

The development came as Republicans were planning to bring to the House floor a resolution condemning Mr. Rangel for alleged ethical breaches. Past attempts have failed as Democrats closed ranks around Mr. Rangel.

House Republican aides said GOP leaders were still discussing whether to press forward with some form of the resolution, despite his announcement.

Mr. Rangel met late Tuesday with senior House Democrats, including Ms. Pelosi. The party leaders told Mr. Rangel they didn't think he had enough votes to survive a vote on the House floor, according to an aide. The Democratic defections stem from the party's fear that it can't continue to defend even a powerful lawmaker in such a volatile political climate without paying a price. Democrats are facing the prospect of losses in the year's midterms, and even loss of control of one or both chambers.


Associated Press

Rep. Charles Rangel said Wednesday that he would step aside from a key post.

"I think we're in a zero-tolerance atmosphere, and I think....Washington should be held to the highest ethical standards," said Rep. Paul Hodes, (D., N.H.), who is running for the Senate. "I have the greatest admiration for Mr. Rangel's service to this country. He's been a great public servant. This is very, very unfortunate, but I think it's necessary."

In the Tuesday meeting, Mr. Rangel, 79 years old, refused to quit as chairman of the panel and instead said he would think overnight about the matter.

After the one-hour meeting broke, Mr. Rangel told reporters he would stay on. "You bet your life," he said. Pressed further, Mr. Rangel, raising his voice, said emphatically: "Yes, and I don't lie to the press."

The Ways and Means Committee is one of the most influential panels on Capitol Hill with jurisdiction over tax policy, international trade and entitlements including Social Security, Medicare and welfare programs. The committee played a central role in the debate over President Barack Obama's health-care proposals and will take the lead in crafting tax policy as many of former President George W. Bush's tax cuts expire.

It has lost some of its luster under Mr. Rangel, who has been distracted by ethics issues, and the Democratic leadership has exercised strong control of the committee jurisdiction during his tenure as chairman.

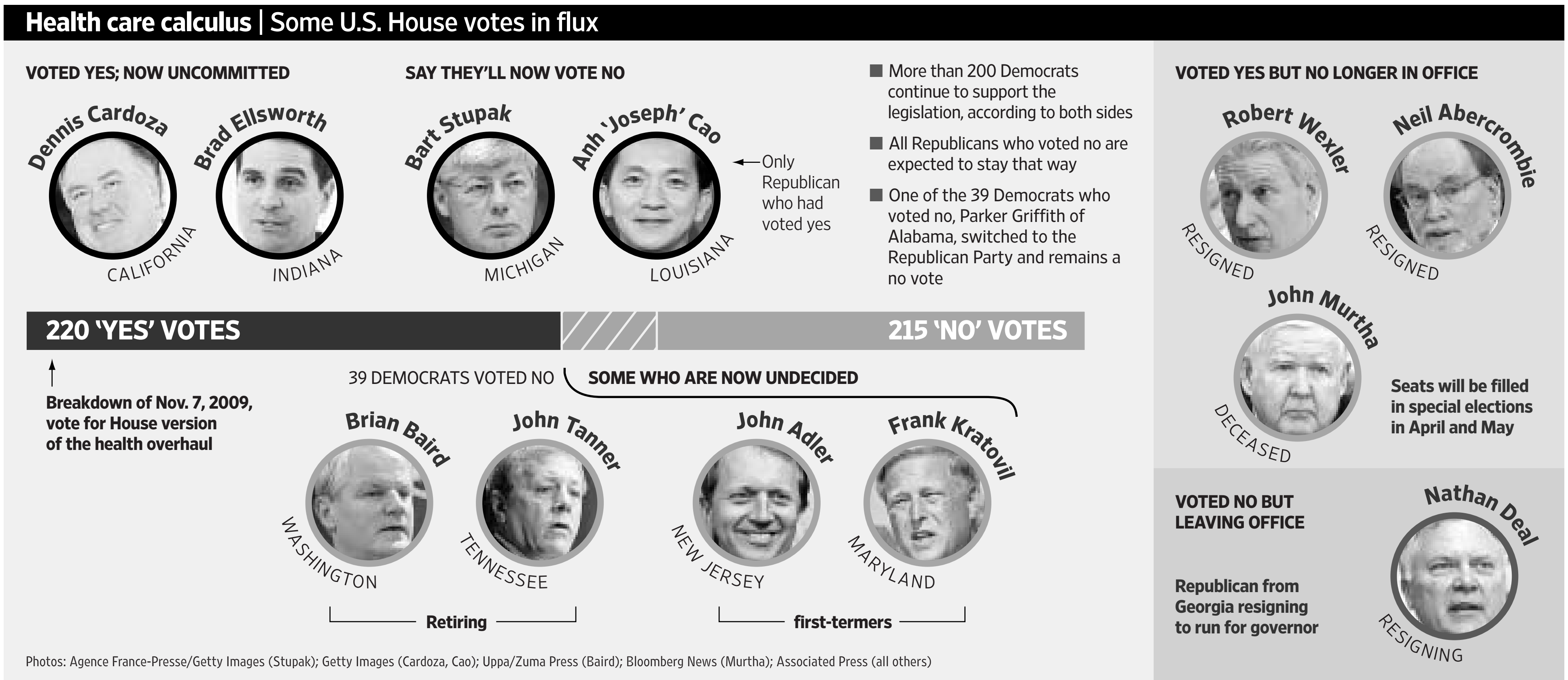
A change in the gavel wouldn't likely provoke an immediate change in the panel's agenda.

Michael Steel, a spokesman for House Minority Leader John Boehner of Ohio, said that Mr. Boehner has said "repeatedly that Chairman Rangel should do the right thing and step aside, given the array of ethics issues he faces."

One senior Democratic aide said "a lot of members" had begun speaking out privately against Mr. Rangel, making it difficult for the leadership to continue supporting him. Unease was also growing within Mr. Rangel's committee, with some members, including Rep. Artur Davis of Alabama, pressing for a change in leadership, aides said.

Republicans have introduced several resolutions in the past year calling for Mr. Rangel's removal from the chairmanship. Only two Democrats have voted against him.

—Patrick Yoest and Martin Vaughan contributed to this article.



Obama calls for 'up or down' vote on health in next few weeks

By Henry J. Pulizzi And Laura Meckler

WASHINGTON—Looking to push the "long and wrenching debate" over health care into its final stages, President Barack Obama asked lawmakers Wednesday to schedule a vote "in the next few weeks."

"No matter which approach you favor, I believe the United States Congress owes the American people a final vote on health-care reform," Mr. Obama said in remarks at the White House. "We have debated this issue thoroughly, not just for a year, but for decades."

The president called for an "up-or-down vote," likely opening the way for Democrats to use the budget-reconciliation process to pass the legislation without Republican support. Though he didn't mention reconciliation specifically, Mr. Obama said health-care overhaul should be allowed to pass with a simple majority.

The Democrats' likely strategy would see the House pass the legislation approved by the Senate in December. The House would then vote on a companion bill with changes to the Senate version.

As expected, Mr. Obama rejected calls from GOP lawmakers to scrap the legislation and start over. "For us to start over now could simply lead to delay that could last for another decade or even more," Mr. Obama said. He challenged Republicans who favor less oversight of the insurance sector to vote against his proposal.

Mr. Obama will take his health-care pitch on the road next week, discussing the issue in Philadelphia and St. Louis.

Mr. Obama, who repeated his pledge to incorporate some Republican ideas in the health package, urged lawmakers to put aside politics, saying they need to show an ability to tackle tough issues.

Initial reaction from Republicans was negative. Rep. Dave Camp (R., Mich.), the ranking Republican on the House Ways and Means Committee, said the proposal has neither the support of the public nor GOP lawmakers.

Associated Press

New York Gov. David Paterson Tuesday at the state capitol in Albany, N.Y. A new ethics case surfaced Wednesday.

Governor gets ultimatum

Party leader tells Paterson to defend his actions in scandal or quit

By Jacob Gershman

New York Gov. David A. Paterson is facing intensifying pressure from state Democratic Party leaders to either defend his conduct or resign from office as he battles an ethics scandal that has thrown the statehouse into upheaval.

Mr. Paterson denied committing any ethical breach, said Jay Jacobs, the state party's chairman, who met with the governor Tuesday in Albany. Mr. Jacobs said the governor was preparing a public response to a growing outcry over allegations that he may have used his authority and the state police to influence a domestic-violence case involving a high-ranking administration official.

While Mr. Paterson stood his ground, the fallout of the scandal has brought down the superintendent of the State Police, Harry J. Corbitt, a 27-year veteran of the force. Mr. Corbitt announced on Tuesday evening that he was resigning from the agency, effective Wednesday.

Mr. Corbitt, who was nominated by Mr. Paterson shortly after the governor took office nearly two years ago, had publicly acknowledged that a member of the governor's security detail had reached out to a woman, Sherr-una Booker, seeking a protection order in family court against David Johnson, a senior administration aide the governor has since suspended without pay. A lawyer for Ms. Booker couldn't be reached for comment.

In a separate matter Wednesday, New York's Public Integrity Commission charged Mr. Paterson with an ethics violation involving a gift of Yankees baseball tickets for the 2009 World Series that could cost him nearly $100,000 in penalties, the Associated Press reported.

The commission said Mr. Paterson may also have given false testimony in the case, the AP said.

The commission found Mr. Paterson didn't intend to reimburse the Yankees. There was no immediate comment from the governor's office, according to the AP.

Regarding the matter concerning Mr. Paterson's senior aide, party leader Mr. Jacobs on Tuesday told Mr. Paterson that short of an immediate and persuasive defense of his actions, his governorship would be untenable. He said he told Mr. Paterson that time was running out before Democrats demanded that he resign and transfer power to his hand-picked lieutenant governor, Richard Ravitch.

Ms. Booker, who accused Mr. Johnson of assaulting her at a Bronx apartment on Oct. 31, failed to appear for a February court appearance the day after speaking with the governor, and as a result, the protection order was never finalized. She hasn't spoken publicly on the matter.

Mr. Jacobs said Mr. Paterson seemed determined to stay in office for the remaining 10 months of his term. The governor, according to Mr. Jacobs, insisted that he had spoken with Ms. Booker about the difficulty she was having with reporters looking into her relationship with Mr. Johnson. "The stories, as they stand now, left alone, are hard to endure," Mr. Jacobs said, following the 45-minute meeting.

The fate of the Paterson administration has become an urgent issue for New York Democrats, who worry it could hurt the party during the campaign season.

Also, negotiations between the governor and legislative leaders have ground to a halt, with a budget due in less than a month. Doubts about Mr. Paterson's effectiveness in office have grown as more allegations have emerged.

The governor has asked New York's attorney general, Andrew Cuomo, a likely Democratic candidate for governor, to conduct an investigation.

Left unclear is the extent and timing of Mr. Paterson's knowledge of the woman's allegations and the intent behind his efforts to contact her. It also isn't known whether the governor directed the state police to speak with Ms. Booker hours after the alleged violent episode had occurred or was aware that the conversations between the woman and the governor's security team had taken place.

'Volcker Rule' details emerge

By Damian Paletta

WASHINGTON—The White House's push to limit, or in some cases ban, certain risky trading activities at financial companies also would affect companies that don't own bank subsidiaries, according to a summary of proposed legislative language by the administration.

President Barack Obama proposed the "Volcker Rule," named after former Federal Reserve Chairman Paul Volcker, in January as the administration sought new ways to crack down on risk and size at financial companies.

Senate lawmakers, locked in discussions about how to rewrite financial rules, are expected to water down the Volcker Rule by giving more discretion to regulators. This would stop short of the White House's outright ban on certain activities. The White House's detailed proposal, which is expected Wednesday, suggests the administration is likely to push for tougher rules as negotiations intensify.

A summary of the White House's language details for the first time plans to bring more federal scrutiny to any "major" financial firm, even those that aren't banks, which engage in proprietary trading.

These companies would face tougher capital and liquidity rules and also be forced to "provide more information to the market about their risks."

This is significant because it means even if companies such as Goldman Sachs Group Inc. shed their commercial banking subsidiaries, they will likely face more regulatory scrutiny.

California's dysfunction creeps into Washington

[Capital]

By David Wessel

California's economy is large, rich and vibrant. It accounts for more than $1 of every $7 of goods and services produced in the U.S. and is bigger than all but seven countries. California has less taxpayer-backed state debt per person than Massachusetts and less as a percentage of its economy than New York, according to rating agency Standard & Poor's.

By such measures, California, though hit hard by the recession and housing bust, would seem an unlikely candidate for a government that might not pay its debts. But it is, the result of a dysfunctional political system that combines well-financed referendums, super-majorities in the legislature and politicians unable to grapple with fundamental issues. Talk, now fading, is that only a constitutional convention can fix things.

The future, it's often said, arrives in California first. Is Washington next? The stalemate over health-care legislation, despite widespread acknowledgment that the status quo is unsustainable, underscores the inability of the political system to cope with complex, long-term fiscal issues. Call it the Californization of America.

Today's big budget deficit is not the problem. It is swollen by following the textbook prescription in a deep recession in which the Federal Reserve has cut interest rates to zero. The government-borrowing surge has been matched by a decline in private borrowing.

But this won't last. The recent past is reassuring, falsely so. Over the past 40 years, the U.S. government has expanded benefits and avoided massive tax increases by cutting defense spending and borrowing heavily with ease. That is no longer feasible. When deficits grew uncomfortably large, congressional and White House deal makers emerged to alter course. They always muddle through, the markets and the public concluded.

Today, the deficits projected are bigger than ever, baby boomers are retiring, health-care costs keep rising and, surely, we're closer to the day when Asian governments grow reluctant to lend ever-greater sums to the U.S. Treasury at low rates.

The Congressional Budget Office projects current policies would take the deficit from today's 10% of gross domestic product to over 20% by 2020 and over 40% by 2080. Yet today's politics appear more toxic, and the ranks of congressional leaders with the skill and desire to fashion compromises instead of talking points are depleted.

So what happens? One possibility is a political miracle: A sudden attack of leadership or bipartisanship, perhaps the rise of another Ross Perot to galvanize public angst about deficits. Another is a plunge in the U.S. dollar or spike in bond-market interest rates that spurs government belt-tightening, perhaps forcing spending cuts and tax increases before the economy is strong enough to take them.

It could be worse. "A far worse situation would be for interest rates to stay low while we accumulated unprecedented amounts of debt only to respond very suddenly when financial markets or foreign lenders decide that the U.S. is not a good credit risk," Leonard Burman of Syracuse University and economists from the Urban Institute told a recent conference at the University of Southern California. "That could produce a catastrophic financial meltdown, similar to the one triggered by the bursting of the housing market boom, but with one important difference....The [U.S.] government will not be able to borrow to deal with its effects."

Imagine this plausible scenario: Public confidence in government continues to decline. Unemployment remains high. Americans demand more government services, more benefits and lower taxes. Politicians, seeking re-election, go along. Exhibit A: John McCain, the Arizona Republican who called for cutting Medicare as a presidential candidate last year and now, fighting for re-election to the Senate, proposes to erect new parliamentary obstacles to Medicare cuts.

In this scenario, even deficit-fearing politicians avoid taking on the long-term deficit. Mr. Burman imagines a White House political adviser saying: "Mr. President, if you raise taxes or cut popular programs, you or your party will be defeated in the polls and the bad guys will take over. The bad guys do not share your priorities and they do not care about the deficit. Therefore, you cannot effectively deal with the deficit?"

The challenge isn't coming up with options. The CBO has a book full of them, ranging from raising the retirement age to taxing carbon. It's arithmetically possible to eliminate the deficit exclusively by cutting spending. Wisconsin Republican Rep. Paul Ryan's Roadmap does. But there's no political majority for those proposals. It's arithmetically possible to eliminate the deficit by raising taxes, but the resulting tax rates would be politically and economically devastating. The challenge is fashioning a compromise that both solves the problem and is politically viable.

In August 1982, President Ronald Reagan went on TV to defend a package of spending cuts and tax increases that undid some of his earlier tax cuts: "Do we tell...Americans to give up hope, that their ship of state lies dead in the water because those entrusted with manning that ship can't agree on which sail to raise? We're within sight of the safe port of economic recovery. Do we make port or go aground on the shoals of selfishness, partisanship, and just plain bullheadedness?"

Good question.