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Greece leaps crucial hurdle with debt sale

By CARRICK MOLLENKAMP AND CASSELL BRYAN-LOW

Greece survived a key test by raising €5 billion (\$6.85 billion) in a bond sale, but key investors warned that a looming wave of debt auctions by other European countries could make it difficult for Athens to raise the rest of the money it needs.

Greece's offer to pay 6.3% on its 10-year notes drew investors quickly on Thursday, and within an hour order books were full.

By lunchtime in London, the offering had attracted €14.5 billion in bids, a sign that Greece could have sold nearly three times what it advertised.

The successful sale suggests that the European Union's strategy for dealing with the Greek crisis by relying on rhetoric instead of direct intervention is working so far. What most concerns European officials is that

Greece's woes could spread to other vulnerable countries and banks on the euro zone's periphery, endangering the common currency.

Yet policy makers are also concerned that rescuing Greece too soon would damage the euro in the long term by encouraging other countries to flout the area's deficit rules. Though the EU has signaled that it would step in to save Greece from default if necessary and has drawn up plans to do so, officials insist that such a step will only be taken as a last resort.

Instead, Germany, France and other EU countries have encouraged Greece to focus on making painful spending cuts.

The bond offering came after Athens, under intense pressure from Germany and other euro-zone countries, agreed Wednesday to implement severe fiscal austerity measures, including tax increases and benefit cuts, to

taling €4.8 billion.

Greece, which faces a 12.7% budget deficit this year, needs to raise €23 billion in the coming weeks to meet its obligations through May. Despite the strong demand for Greece's Thursday offering, many investors continued to question Athens's ability to raise the massive sums it still requires.

All told, Greece must borrow €54 billion this year to cover maturing debt and interest payments. That demand will crowd a euro bond market that is scheduled to raise nearly €1 trillion this year, according to Citigroup Inc.

"The capacity of the market is going to be tested as a result," said Christopher Iggo, fixed-income chief investment officer at the investment unit of French insurer AXA SA.

In the throes of the financial crisis, European countries from giant Germany to tiny Slovenia pumped money into

Please turn to page 5



Iraqi police officers, some holding Iraqi flags, raise inked fingers after casting their votes in Najaf.

Bombs target Iraq early voters

By CHARLES LEVINSON

BAGHDAD—Hundreds of thousands of Iraqis cast early ballots in parliamentary elections Thursday, but a series of attacks targeting polling centers cast a pall over the day.

Iraq's second post-war general election will determine who leads the country for the next four years, during which time the U.S. is expected to withdraw the bulk of its forces. A successful vote could help cement the country's fledgling democracy. U.S. and Iraqi commanders have warned that insurgent groups are intent on launching attacks to undermine the vote.

At least 12 people were killed in three attacks Thursday, a police official in Baghdad told Iraqi television. In two of the blasts, suicide bombers tried to enter polling

stations, were turned away and detonated their explosive vests in the street among voters, the official said. A Katyusha rocket struck near a closed polling station in northern Baghdad, killing five people, he added.

There were early warning signs of irregularities which, if widespread on Sunday, could sap the vote's legitimacy. In predominantly Sunni Anbar province and in certain areas of Baghdad, complaints from voters and party officials filtered in throughout the day of names not showing up on voter rolls in the station where they were slated to cast their ballot.

Election officials extended voting hours at some polling centers to address the concerns and said those whose names didn't appear on rolls could cast provisional ballots

that would be counted later.

Many of Iraq's predominantly Sunni parties have accused the Iraqi High Election Commission, which is overseeing the election, of bias. They have accused the government of arresting their candidates, harassment, and using government institutions for campaign purposes.

The vast majority of Iraqis voting early are members of the country's security forces. That will free them up for duty on election day, when 100% of Iraqi security forces will be on duty.

Election officials expected 600,000 to 700,000 people to cast votes Thursday.

The rest of the Iraqi electorate will cast their ballots on Sunday.

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Will Turkey stay secular and democratic or turn illiberal and anti-Western? Page 13

Sony mobile lineup to take aim at Apple

By DAISUKE WAKABAYASHI AND YUKARI IWATANI KANE

Threatened by Apple Inc.'s growing stable of portable devices, Sony Corp. is developing a new lineup of handheld products, including a smart phone capable of downloading and playing PlayStation games, according to people familiar with the matter.

The Japanese electronics giant also is developing a portable device that blurs distinctions among a netbook, an e-reader and a PlayStation Portable, or PSP. The device is designed to compete against multifunction products such as Apple's coming iPad tablet, these people said.

Both the new smart phone and the multifunction device

are expected to work with Sony's online media platform, due to launch later this month in the U.S. as the company's answer to Apple's iTunes.

The new products are targeted for launch in 2010, although details such as price and certain specifications have yet to be finalized, these people said. A Sony spokeswoman declined to comment.

Sony has struggled with portable devices. Its cellphone venture, Sony Ericsson, saw global shipments decline 41% in 2009, and last month Sony slashed forecasts for PSP shipments.

Sony's media platform, temporarily named Sony Online Service, will offer many of the same movies, television

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Bahrain BD 150 - Egypt \$175 (CIV)
Jordan JD 2 - Kuwait KD 1 - Oman OR 2
Qatar QR14 - Saudi Arabia SR 14

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PAGE TWO

Encouraging signs in Afghanistan

[Agenda]

BY IAIN MARTIN



What if the West's war in Afghanistan is in the process of being won? It has become standard practice to presume that this isn't possible and that immersion in a quagmire followed by ignominious retreat is guaranteed.

Much of the discussion among policy makers and commentators has priced in a debilitating stalemate or defeat. But what if these presumptions turn out to be plain wrong?

There are some encouraging signs of progress becoming visible on the horizon in Afghanistan. Operation Moshtarak in Helmand province got under way in mid-February, with a combined force in the region of 15,000 taking on the Taliban.

It has had some success with various insurgent strongholds taken. Under the direction of ISAF (the International Security Assistance Force) the force is around 60% Afghan.

In Pakistan, the renewed focus on cooperation and assistance from American drones appears to be producing a dividend. One of the most experienced Pakistani commanders in the frontier war with the Taliban, Major Gen. Tariq Khan, told the Times of London that his force of 45,000 has inflicted significant casualties, killed the Taliban leadership and captured bases. Earlier this week, Gen. Khan showed off to journalists the recently captured network of caves on the Afghan border reported to have sheltered Osama bin Laden's deputy Ayman al-Zawahiri.

A British defense official said: "The kill rate is right up. Pakistan remains a problem as it is profoundly unstable, and we do need to keep improving our support for what its government is doing. But there's much to be positive about."



A U.S. soldier returns fire as others seek cover in a battle in Helmand province

This is all quite different from the unmitigated gloom of a few years ago.

Of course, there are plenty of respected voices prepared to say that apparent progress on both sides of the Afghan-Pakistan border is a mirage. Adam Holloway, a British MP and former soldier who served in Iraq, Bosnia and Afghanistan, has spent time on his own in the country and

There are some encouraging signs of progress becoming visible on the horizon in Afghanistan.

thinks the die is already cast.

He fears that previous mistakes mean it is too late to defeat an insurgency with deep roots in hatred of outside influence and any central government. What we think of as the Taliban in Afghanistan, but which is actually hundreds of small interrelated groups fighting in their locality, he claims has just opted to melt back into the population for the duration of Operation Moshtarak.

And there are also those who have had enough of the war, full-stop. Following the collapse of the Netherlands' government last month over its attempt to continue a deployment of 2,000 troops it is likely that the Dutch

will withdraw this summer. NATO's secretary-general, Anders Fogh Rasmussen, felt compelled earlier this week to try to calm Afghan nerves. It wouldn't trigger a rush for the exits: "I can assure you that the alliance will stay committed."

But there has been such widespread fatalism for so long about the prospects in Afghanistan, that there is a danger any progress goes unrecognized. That electorates continue to believe the dual myths of Western impotence and incompetence and cannot compute any kind of victory.

Gen. Stanley McChrystal has been central in this regard in lifting morale. His appointment as head of ISAF and commander of U.S. forces in Afghanistan signaled a newly ambitious approach. He demanded extra troops but emphasized that winning is a possibility. A realistically optimistic commander can make a big difference in battle and over the course of a war.

In this way, improvements in the Afghan military situation can and have been made, particularly since Iraq is no longer the focus for American forces. When that might is brought to bear and combined with better use of intelligence, improved cooperation with Pakistan and the painstaking work of training the Afghan army, it has an impact.

I accept that the prospect of a

little success carries dangers, too. There may be progress, but it doesn't mean the Americans or their partners should delude themselves into thinking about leaving anytime soon.

Forces will be required for decades to hold territory and create the space for Afghan civil society and institutions to develop (they haven't had much success on that front to date). But it isn't preordained to be a disaster: Victory of a kind is possible.

Sarkozy's intervention

Never let it be said that French President Nicolas Sarkozy lacks ambition. On a visit to a Eurocopter plant near Marseilles on Thursday, he confided in workers that he has had it up to here with currency fluctuations, foreign-exchange imbalances and their impact on competitiveness. Earlier this year he called monetary disorder "unacceptable."

Now, he says he has plans to sort it out, by proposing an overhaul of the international monetary system. Precise details, at the time of writing, are thin on the ground.

"If the U.S. dollar loses 50% of its value to the euro, how can it be possible to make up the loss of competitiveness?" Mr. Sarkozy asked.

"At the G-20 by the end of the year, I will try to organize a new international monetary system. We can't go on like this," he said.

On hearing the phrase "I will try to organize a new international monetary system," it is tempting to think dismissively: very best of luck with that, let's see how far you get.

But his latest intervention is a reminder that Mr. Sarkozy is a politician with imagination, utterly unafraid to express himself with vivid directness. He's restless, mercurial, driven and doesn't see his time in office in managerial terms.

Still, if you are expecting the birth of his new international monetary system anytime soon, I suggest that you don't hold your breath.

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ONLINE TODAY

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Reader comment

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"If you don't like the traffic, take the tube! At least in London you have that option, not all big cities do."

Reader Pam J comments on the post "Gridlocked London in Roadwork Hell"



Continuing coverage



See in-depth coverage of the problems in Greece, including a video report, at wsj.com/greekdebt

Question of the day

Vote and discuss: Will the fiscal situation in Greece lead to tighter economic coordination between euro-zone countries?

Vote online at wsj.com/dailyquestion

Previous results

Q: Are the new austerity measures a turning point for Greece?

Yes

39%

No

61%

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NEWS



Nicolas Ghesquiere/BALenciAGA (3); Associated Press

First three models from the left: Nicolas Ghesquiere got a futuristic look for Balenciaga out of domestic materials; right, Balmain has kept its rock'n'roll edge while employing decadent, glitzy fabrics

Paris adds flair to a wearable season

[Heard on the Runway]

FROM WSJ.COM/RUNWAY

The sun is out, the daffodils are sprouting in the parks and Paris is overrun with dressed-to-the-death fashion editors. It's the final week of Fashion Month, this one taking place in Paris ...and lasting nine days.

Paris is where the giants of fashion show their clothes. Lanvin, Chanel, Jean Paul Gaultier, and Hermès are just a few of the most famous. It's also the showplace for many of fashion's most artistic creators as well as new emerging designers.

Following the elegantly wearable clothes that have been shown in New York and Milan, we're watching to see what trends emerge here. Paris is known for its highly creative shows. With LVMH and Gucci Group paying the tab, brands like Celine, Dior, Balenciaga and Louis Vuitton spare few expenses in creating expensive—and sometimes outlandish—collections.

Two highlights of the week: Viktor & Rolf, because you just never know what those two will come up with. (One season, it was models who carried their own lighting and sound systems.) And the Chanel show, which always takes place at the most dramatic (and biggest) of venues, the Grand Palais. Last season, designer Karl Lagerfeld turned the beaux-arts building into a barnyard. What on earth next?

—Christina Binkley

Look of the Future

If the Jetsons were rich and suddenly living in the 21st century, I'm sure Mrs. Jetson

would ask Nicolas Ghesquiere to dress her.

He would go to her kitchen, grab paper towels, a roll of plastic, and dish rags and whip up a couture concoction that would wind up in a museum.

Oh wait. He just did that for Balenciaga.

Using paper, cardboard, something called aluminum paper, silk, cashmere and other materials, Mr. Ghesquiere created a Fall 2010 collection for Balenciaga that can hardly be called ready to wear. Layers of materials were adhered together to create thick squishy textiles (for lack of a better word) that were sculpted into simple silhouettes—nipped at the waist, flared out around the hip. Several outfits appeared to have been made from puffy quilted rectangles of blankets, zipped like sleeping bags at the sides.

A series made of a sort of laminated, perforated paper were printed with words and slogans in french and English.

"I wanted to use materials that are domestic," said Mr. Ghesquiere backstage. The Paris atelier purchased special machinery for laser-cutting and adhering the layers of paper and fabric. Several outfits, inspired by the car-crash sculptures by the American sculptor John Chamberlain (an assistant told me), were covered in small pieces of organza whose edges were painted by hand with black paint. Attached to the clothing, they looked like shards of broken glass.

It was beautiful and extraordinary—beyond haute couture and into the realm of modern art.

Backstage, written directions for the dressers who put the

Next up: Paris

Some of the most anticipated runway shows planned for the next few days (times are local):

- March 5**
 - Christian Dior at 2:30 p.m.
 - Lanvin at 5:30 p.m.
 - Yohji Yamamoto at 8:30 p.m.
- March 6**
 - Viktor & Rolf at 1:30 p.m.
 - Jean Paul Gaultier at 7 p.m.
- March 7**
 - Celine at 1 p.m.
 - Hussein Chalayan 3 p.m.
- March 8**
 - Stella McCartney at 10 a.m.
 - Yves Saint Laurent at 8 p.m.
- March 9**
 - Chanel 10:30 a.m.
 - Alexander McQueen 8:30 p.m.
- March 10**
 - Louis Vuitton at 2:30 p.m.

clothes on models were highly specific, telling them to pull zippers with the center-runner rather than the pull, in order not to tear the fragile garment and not to allow some models to bend.

Mr. Ghesquiere says the clothes can be worn and dry cleaned. He laughed when I requested the name of his dry cleaner. But I was serious.

—Christina Binkley

Balmain Rocks Out

Balmain is dishing up glitter for the glitterati. Designer Christophe Decarnin traded in the

house's studded motorcycle jackets for sparkly ones in velvet brocade. But the label is still rock'n'roll—and that's the way his Hollywood fans like it.

Mr. Decarnin has breathed fresh energy into Balmain since he took its creative helm in 2006. It is one of dozens of dusty old brands trying to make a comeback. Mr. Decarnin is one of the few that seems to be succeeding, thanks to his rock-chic look of miniskirts, skin-tight jeans and very pricey worn-in T-shirts. Celebs such as Kate Hudson and Rihanna rock out in his frocks.

So he stuck with his winning formula Thursday at his Paris fashion show. The silhouette stayed the same: big-shouldered jackets and skinny, mini bottoms. The shoulders were often pointy or swollen, a contrast to the slim cut of the clothes' other lines. The dresses were as tiny as ever. One black frock was cut around the bottom and the neckline to look as if the little bit of fabric had been ripped away. Skin-tight jeans still sagged slightly at the back.

What changed his season was the fabric. It went from distressed to decadent. Melding gold and black, Mr. Decarnin attached dense gold fringes to the sleeves of black jackets and dresses. Those big-shouldered blazers came in gold lame. Another leopard-print jacket had gold chains running up and down the seams.

Yet the brand has a ways to go before its cleanup is complete. Licensed products have dogged the comeback of many brands, and Balmain has a few in its universe. While Balmain's dresses are hot, Balmain-branded hair extensions are not.

—Christina Passariello

Sporty and Fancy

Dries van Noten set the tone for Paris Fashion Week with a mix of sporty and fancy looks Wednesday, along with a continuation of the mixed-media theme that was on display at Milan and New York fashion weeks. His was the first established label to show in fashion's last stop during the month-long marathon of fashion shows.

The Belgian designer picked a quintessentially Parisian location for his event: a gilded and mirrored hall in the city's Hôtel de Ville, or city hall. Guests climbed a grand marble staircase to enter the room.

But he tempered the formality in his collection. Mr. van Noten is renowned for his use of prints—a trend that was popular this winter with patterned scarves and other accessories.

For next winter, the designer showed a purple silk skirt with strokes of black, made casual by two back pockets like a pair of jeans. A full-length violet silk skirt with a ruffled train was paired with an oversized, slouchy sweatshirt.

Mr. van Noten's ethnic-looking clothing also took a turn for the sporty. A heavily-embroidered black and silver dress had green safari sleeves—a turn that could make the garment more versatile than for just a fancy evening out. A navy windbreaker in a fabric that looked like canvas was spiced up by black bejeweled sleeves. Casual, but chic.

—Christina Passariello

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- This year sees the best collections for working women since 1966 . W5

EUROPE NEWS

For the euro's laggards,
would a devaluation help?

[Brussels Beat]

By STEPHEN FIDLER



A transatlantic divide has opened up over whether the troubled economies of the euro zone would be able to solve their problems by leaving the common currency and devaluing.

The question centers on how countries such as Greece, Portugal, Spain, Italy and even Ireland can lower wages and other production costs to live alongside the euro zone's most competitive economy, Germany.

Pre-euro, the usual response would have been to devalue. Now, the costs of devaluing appear prohibitively high.

Devaluation would, at a stroke, produce a wave of defaults in euro-denominated contracts. Even the prospect of pulling out of the euro zone would set in a train a financial stampede from that country. It would likely create what Barry Eichengreen of the University of California, Berkeley, has described as "the mother of all financial crises."

Let us for now, like good economists, assume the financial crisis away. Would it work then?

On the American side of the pond, some notable economists think it would. Paul Krugman at Princeton has said it would make "macroeconomic sense" while Martin Feldstein of Harvard thinks that Greece could take "a temporary leave of absence from the euro zone" and rejoin later at a more competitive exchange rate.

Desmond Lachman of the American Enterprise Institute thinks that devaluation is not something that Spain and others in the euro zone will turn to quickly. But after years of low or no growth, a sharp currency depreciation could be a last resort to kick start the economy.

But in Europe, even euro-pessimists think that currency depreciation wouldn't provide the answer. And the chief economist of Citigroup, Willem Buiter, has come up with a possible reason for the difference. It comes down to where you're from.

It is no coincidence, says Mr. Buiter, once a member of the Monetary Policy Committee of the Bank of England, that the euro-devaluationists are predominantly in the U.S.

He argues they are familiar with the U.S. economy, where foreign trade makes up a small proportion of economic output and where there are what he calls "long-lasting nominal rigidities".

In other words, devaluations work in the U.S. because imports represent a small part of the economy so price rises induced by devaluation don't have a big impact on pocketbooks. Nominal rigidities mean that it's also difficult for dollar salaries to be increased as a response to falling living standards.

They are less familiar, he says in new research, with the euro-area and its "fiscally-challenged and competitiveness-impaired"

member states. These, he says, are "small open economies with enduring real rigidities and very limited nominal rigidities."

To translate: In open economies, imports have a bigger impact on the domestic price level than in closed economies. The "real rigidities" mean that workers resist declines in their real incomes through collective bargaining, for example. The limited nominal rigidities implies they are usually successful in negotiating higher wages.

(Actually, the openness of the euro economies varies a lot. Greece is one of the least open economies with trade in goods and service of around 28% of gross domestic product, compared with Ireland's 75%, according to figures from the **Organization for Economic Co-operation and Development**. But that compares with just 14% in the U.S.)

As a result of the structure of these economies, Mr. Buiter argues: "For Greece and these other countries, a sharp fall in the external value of their new, post-euro exit currencies would be followed promptly by an equally sharp fall in its internal value. There would be no material effect on competitiveness and it would create havoc for the euro-denominated balance sheets of the state, banks, corporates and households."

Any benefits of devaluation would be quickly offset by rising wage and other costs, leaving the country more or less back where it started, at the cost of extreme financial turmoil.

The implicit conclusion for Greece, Spain and others is that, to compete with Germany, they have to have a flexible labor market and should introduce other changes to boost the supply side of their economies.

Their alternative is slow growth that would turn whole countries into the national equivalents of West Virginia within the euro zone. Or they could wait in hope for the European Central Bank to decide inflation is not so bad after all; or for the Germans to resile from their economic puritanism and become free-spending idlers.

That last might not be the best approach, judging from figures released this week by Germany's **Federal Statistics Office**. Average wages in Germany fell 0.4% last year while wages in manufacturing fell by 3.6%. The falls are partly due to short-term working, but the figures suggest that during 2009, Germany became even more competitive against its euro-zone partners rather than less so.

In his research, Mr. Buiter returned to a theme that this column raised a week ago. The country most likely to leave the euro zone is not Greece, Spain or Portugal—but Germany.

He says that German politics has changed.

The "umbilical attachment" to the European Union and its institutions characteristic of the German political class for almost five decades "is a thing of the past and unlikely to return," he argues.



Agence France-Presse/Getty Images

European Central Bank President Jean-Claude Trichet speaks at a news conference in Frankfurt on Thursday.

Trichet resists IMF

ECB chief says EU will help Greece with its budget-deficit problems

By BRIAN BLACKSTONE

FRANKFURT—European Central Bank President Jean-Claude Trichet rejected calls for more IMF involvement in Greece, saying it is up to Europe to look after its own.

"I do not trust that it would be appropriate to have the introduction of the IMF as a supplier of help," Mr. Trichet told a news conference after the ECB's monthly meeting, though he said its technical assistance has been helpful.

Greece's budget deficit has created political divisions in Europe over whether to let the International Monetary Fund operate in a euro-zone country.

A majority of euro-zone leaders, led by Mr. Trichet and French President Nicolas Sarkozy, are staunchly against deeper IMF involvement.

On Wednesday, Greek Prime Minister George Papandreou said that if the EU doesn't come through with support measures for Greece, it could be forced to turn to the IMF.

Dominique Strauss-Kahn, the

IMF's managing director, has said the fund is "happy to help if asked" though he believes the EU can deal with the matter.

Mr. Trichet was firm in his opinion that this is an issue for Europe. "There has been appropriate surveillance" by European institutions, he said.

"It makes sense for the euro area to solve its own problems," said Onno Wijnholds, who was the ECB's representative at the IMF in Washington until 2008.

Besides, what European bodies have done "is what the fund would be doing, which is to say you have to tighten your belts" before getting assistance, he said.

German Chancellor Angela Merkel is more open to a combined IMF-European bailout of Greece if one proves necessary, according to people familiar with her thinking, but she is largely isolated in the euro zone; she also is opposed to giving Greece financing aid unless absolutely necessary.

A senior Greek official com-

plained that Europe's stance means his country is having to impose IMF-style austerity—but without receiving any financial assistance.

Separately, Mr. Trichet slammed an idea recently floated by the IMF's chief economist that central banks should consider setting inflation targets as high as 4%, which is double the ECB target. The idea, Mr. Trichet said, is "plain wrong" and could lead to much higher interest rates.

Mr. Trichet continued his support of Greece's latest austerity package, suggesting Greek debt should remain acceptable collateral to obtain cheap ECB credit beyond this year.

Right now, Greece is safe thanks to relaxed rules in place since the height of the crisis. But the ECB is due to revert to its old system in 2011 that calls for higher ratings from ratings firms. Moody's Investors Service is the only agency that still has Greece above the minimum A-minus requirement under the old rules.

debts in Greece and Spain—has made financial markets uneasy.

Goncalo Castilho dos Santos, secretary of state for the civil service, said the government won't budge from its austerity plan and urged workers to accept the need for cuts in government spending.

Portugal "cannot sacrifice the common good for the sake of individual well-being," he said. "There is no room to maneuver. We have to keep salary levels and benefits at the same level as 2009."

He insisted the central government was running close to normal, saying "most of the country's civil servants endorsed our message about realism and responsibility."

The minority center-left Socialist government included the planned austerity measures in its 2010 state budget, which parliament is expected to approve next week. The budget was delayed by a general election last year.

Portugal's budget deficit is projected to have hit a record 9.3% of gross domestic product last year—way above the 3% allowed for the 16 European countries using the euro common currency.

The government says it will announce further cost-cutting measures this month, although it has ruled out tax increases. It also wants to cut the amounts paid to civil servants who retire early.

Lisbon firm on austerity

Associated Press

LISBON—Portugal's government refused to back down from its austerity plan Thursday despite a nationwide strike by civil servants that canceled some school classes, shut down medical offices and left trash uncollected.

The strike over a planned pay freeze was supposed to be the biggest in four years but turnout was reported to be limited around the country. No demonstrations were planned.

It was the latest test of the minority Socialist government's commitment to reducing Portugal's debt burden, which—like government

EUROPE NEWS

Papandreou takes on father's legacy

By **MARCUS WALKER**

ATHENS—George Papandreou, the American-born scion of Greece's leading political family, took a big step Wednesday toward dismantling a political system his father helped to build.

When Mr. Papandreou, Greece's prime minister since October, announced a fresh austerity package Wednesday to address a budget deficit that has roiled European financial markets for weeks, he sent Greeks the strongest signal yet that the country can't go on living beyond its means.

The 57-year-old Greek leader, who is known here as "to amerikaniaki" or "the little American," is currently riding high in opinion polls amid his increasingly tough program of spending cuts and tax increases. His declared ambition: Not only to save Greece from a debt default, but also to change its culture of political cronyism and tax evasion.

Building a more disciplined Greek state will require overturning decades of barely controlled government largess since the fall of Greece's military junta in 1974—including under the current premier's father, Andreas Papandreou, a three-time prime minister who served for more than a decade and dominated Greek politics in the 1980s and early '90s.

The younger Mr. Papandreou's chances of success are helped by the fact that he is both the heir to Greece's equivalent of the Kennedy clan—his grandfather was also prime minister—but also an out-

sider to the country, colleagues and political analysts say.

There is no doubt his name has helped him reach power, says George Kyrtsos, a leading political commentator who was a classmate of Mr. Papandreou's at an elite Athens school in the 1960s. But Mr. Papandreou's years outside Greece have given him a distanced view of the country and its flaws, Mr. Kyrtsos says: "He's not a local personality. He's globalized in the way he thinks."

Mr. Papandreou was born to an American mother in Saint Paul, Minn., where his father held an academic post. The family lived in Athens by the 1960s, when the current premier's grandfather, also called George Papandreou, headed a liberal government. But his father and grandfather were arrested after the military coup of 1967.

George Sr. died under house arrest, while Andreas Papandreou and his son were exiled. George Jr. studied in the U.S., Canada, Sweden and Britain during the years before democracy was restored in 1974.

Returning to Greece that year, Andreas Papandreou founded the Panhellenic Socialist Movement, or Pasok, which has ruled Greece for much of the last 30 years—not always well, its critics say.

Andreas Papandreou was, in opposition, a left-wing firebrand who railed against the U.S. for having supported the junta. In power, he was a pragmatist, helping to entrench democracy and reconcile a nation still riven by the bitterness of Greece's 1940s civil war. But his quest to expand opportunities for



George Papandreou, who went from left-wing firebrand to austerity advocate, speaks in London last month.

Greece's many poor led to fast-rising state employment and a deteriorating budget. Political and personal scandals marred his later years. The current premier "has a divided view of his father's record," a spokesman for George Papandreou says.

Pasok's conservative rival, New Democracy, which was in power from 2004 to 2009, shares blame for today's Greek mess, especially by mismanaging public finances and allowing corruption to spread in recent years. Pasok won a landslide victory in last fall's elections.

On inheriting his father's party

in 2004, Mr. Papandreou at first proved a stumbling performer. He sometimes used English idioms that made no sense in Greek. His conservative counterpart raised a big laugh in parliament by branding him a "tourist." The premier's spokesman says his Greek is fine, but he also speaks fluent English, Swedish, French and Italian, and polyglots sometimes get mixed up.

The new Pasok leader has grown into the job, says Mr. Kyrtsos. In December Mr. Papandreou delivered a stark analysis of Greece's problems, saying "systemic corruption" lay at

the heart of Greece's disastrous finances.

Conservatives and other critics say that, for all his openness about Greece's shortcomings, Mr. Papandreou has delayed concrete measures too long. On Wednesday, Mr. Papandreou won over some of those critics with his new list of painful fiscal measures. "I have been very skeptical, but today he has broken with the past," says Yannis Stourouaris, director of the Foundation for Economic and Industrial Research, an Athens think tank. "Now he can start to build his own legacy."

Greece must vie for cash as rivals crowd trough

Continued from first page
their economies with stimulus programs aimed at softening the impact of the recession.

Countries also injected billions into banks to keep them from collapsing. Now, governments are struggling to pay the tab and bring their deficits into line.

In the next three months alone, European countries are on track to raise €287 billion, an amount that will test bond investors' willingness to buy.

On top of that, European banks face some €560 billion in maturing debt this year, a good portion of which will have to be refinanced, according to Morgan Stanley.

The danger for Greece is that the expected flood of debt will force it to offer investors a premium that itself is unsustainable. Greece already has to spend about 7% of gross domestic product to cover interest costs, said Carl Weinberg, chief economist at High Frequency Economics, a Valhalla, N.Y., research firm.

AXA's Mr. Iggo said Greece's offering Thursday was "attractively priced" and that he planned to invest in the 10-year notes, but he added that he doesn't believe the sale will erase concerns about Greece's prospects.

This "isn't going to be the end of the story," he said "Our longer-term view is that Greece is going to struggle for a number of years."

What worries many investors is that Greece, despite its recent promises, will be unable to fulfill its targets and escape its long history of



Demonstrators burn an EU flag in Athens on Thursday to protest austerity measures announced by Greece.

overspending.

"We think there is still a good deal of execution risk in terms of how the Greek government is able to implement these measures," said Kristin Ceva, who directs the global fixed-income group at Payden & Rygel, a Los Angeles asset-management firm, which did buy Greek debt in February at a cheap price. "We can buy other [emerging market] sovereigns with similar credit spreads to Greece where we think the story is a lot clearer, and the

fundamentals stronger."

The final decision to sell Greece's latest bond, announced in the early hours of trading in Athens and London, followed several days of behind-the-scenes European diplomacy and an improvement in performance of Greek government debt securities.

Officials in Athens had been hoping that Germany and other eurozone countries would provide it with a bailout, but in recent days it became clear that no aid was forth-

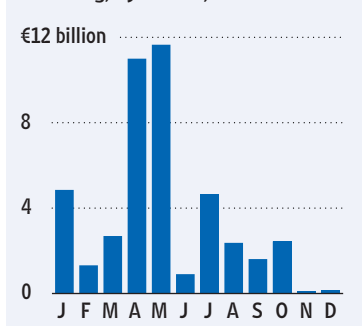
coming in the immediate term. Germany, which by virtue of its size and wealth would have to pay the lion's share of any rescue, made it clear that it expects Greece to fend for itself for now.

A solid majority of Germans are opposed to offering Greece any financial support.

Greek officials, fearing that a Friday meeting between Greek Prime Minister George Papandreou and German Chancellor Angela Merkel might disappoint investors hoping

Payment due

The amount of Greek debt maturing, by month, in 2010



to hear concrete plans to bail out Greece, decided early Thursday morning to launch the bond sale, according to a person familiar with the situation.

"We are very happy with the bid because the re-entry into the market is always challenging," said Petros Christodoulou, a former bond and derivatives trader who became head of Greece's debt-management agency just last month.

"They clearly did their homework on this one," said Gary Jenkins, head of fixed-income research at Evolution Securities in London. "It's priced to go."

The sale was handled by **Barclays PLC**, **HSBC Holdings PLC** and **Nomura Holdings Inc.** in London and Greece's **National Bank of Greece SA** and **Piraeus Bank SA**.

—Costas Paris and Michael Wilson contributed to this article.

EUROPE NEWS

Iceland's prospects hinge on vote

Negotiators in London aim for a new deal to repay Netherlands and U.K. for bailing out Icesave depositors

BY CHARLES FORELLE

Iceland's leaders are scrambling to blunt the impact of a referendum Saturday in which voters are set to defeat a measure to repay the U.K. and the Netherlands for bailing out depositors in a failed Icelandic Internet bank.

Iceland's prospects for an economic recovery, billions of dollars in international aid money and its bid for membership in the European Union are at risk.

Dutch, British and Icelandic officials have been wrangling for nearly a year over a compensation deal in which the island nation would repay the U.K. and the Netherlands a total of €3.9 billion (\$5.3 billion) for bailing out depositors in a failed Icelandic Internet bank, Icesave.

The failure in 2008 of all three of Iceland's major banks swamped the country's tiny deposit-insurance scheme, leaving British and Dutch savers with Icesave accounts high and dry. The U.K. and the Netherlands stepped in to pay their own residents' claims. But they quickly asked Iceland for their money back.

Iceland's parliament approved a deal in December after several false starts. But in January, citing mass public opposition, the president vetoed it. That set up Saturday's referendum.

A Capacent Gallup survey conducted over the last weeks of February showed 74% of those who had decided planned to vote "no." That figure has widened steadily since early January.

An Icelandic negotiating team remained in London on Thursday in a last-ditch bid to seal a new pact that

could—at least temporarily—eliminate the need for a referendum on the older agreement. Any new deal would once again need to pass a divided parliament and be signed by President Ólafur Ragnar Grímsson.

British and Dutch officials declined to comment on the talks.

Iceland's finance minister, Steingrímur Sigfússon, said on national radio Thursday that the two sides had made progress but remained apart. He said it was "highly unlikely" the referendum would be called off.

An overwhelming "no" carries real risks. "It will definitely make it more difficult to come to an agreement afterwards," says Tryggvi Þór Herbertsson, a member of parliament from the conservative opposition Independence Party.

The London talks have focused on the interest rate Iceland would pay, which many Icelanders find excessive. Britain and the Netherlands say it is reasonable given the risk of

lending to a nation whose financial system has collapsed. Under the agreement to be voted on Saturday, Iceland has 15 years to pay the money back, at 5.55% interest. There is a seven-year grace period in which no payments are due, though the interest clock is ticking.

The Icesave matter comes down to one question: Suffer the pain now, or suffer it later? Blocking the deal now could save Iceland from onerous repayments in the future. But there is a cost: Without a repayment deal, Iceland has been unable to access aid from the International Monetary Fund and other donors that it badly needs to repair its hobbled economy and allow its dam-



An August rally in Iceland, to protest a plan to repay the U.K. and the Netherlands for bailing out Icesave depositors.

aged currency to float freely again.

Most worrisome is €1 billion in foreign debt that matures in December 2011, and an additional €200 million maturing the next year. Iceland's foreign-currency reserves stand at just €2.7 billion, and Iceland would be deeply strained if it had to make those debt payments without an infusion of outside aid.

"The magnitude of those payments are such that we could survive them with the resources that we have, but we'd have little left for

anything else," Gylfi Magnússon, Iceland's economic-affairs minister, said in a recent interview.

Mr. Magnússon said energy- and technology-sector investments—viewed by the government as critical to getting Iceland's economy back on track—could be delayed further. "All these projects need capital," he said. Iceland's bid to join the EU is also effectively on hold until a deal is worked out.

Iceland's prime minister, Jóhanna Sigurðardóttir of the Social

Democrats, has staked much of her political capital on herding her skittish coalition into backing an Icesave deal. Failure to reach one would be a serious blow.

Mr. Herbertsson says he is optimistic of a new deal. "It is absolutely clear that all the political parties in Iceland want to settle this somehow," he says. "Everyone understands the cost of dragging this further."

—Alistair MacDonald
contributed to this article.



Jóhanna Sigurðardóttir

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U.K. house prices show signs of chill

By ILONA BILLINGTON

LONDON—U.K. house prices slumped in February from a month earlier, halting a seven-month run of gains in what could be an early signal that the property market's recent recovery has run its course.

House prices staged a surprise rebound in the second half of 2009, ending 2% higher despite double-digit, year-to-year falls reported earlier in the year. Forecasts for 2010 show the majority of economists expect prices to be flat to 1% higher by the end of the year as the sluggish economic recovery and concerns over jobs weigh on confidence and the housing market. The February data appear to show the beginning of that outcome.

U.K. lender Halifax, part of Lloyds Banking Group, reported Thursday that house prices fell 1.5% in February from a month earlier and rose a lower-than-expected 4.5% in annual terms. That more than reversed the 0.6% monthly gain made in January, when prices also rose 3.6% on a yearly basis.

Halifax attributed the fall to a combination of one-time factors

such as cold, snowy weather and the reimposition of stamp duty on lowest-priced properties, with a rise in the number of new properties on the market also exacerbating the situation.

"An increase in the number of properties available for sale has helped to reduce slightly the imbalance between supply and demand," said Martin Ellis, Halifax housing economist. "At the same time, the bad weather in the first two months of 2010, together with the return of the lowest stamp duty threshold to £125,000 (\$188,750), are likely to have had an adverse impact on housing demand," Mr. Ellis said.

While it is clear that these distortions did have an impact on the February statistics, Capital Economics chief property economist Ed Stansfield said he finds it hard to believe that bad weather made people offer less for houses. "It may be that volatility in the Halifax and Nationwide sample sizes, which were probably reduced due to the weather, had an impact on the data and we cannot rule out a reversal of February's house price fall next month," Mr. Stansfield said.

EUROPE NEWS

Panel advances genocide label, riling Turkey

Associated Press

WASHINGTON—A congressional panel approved a resolution Thursday declaring the Ottoman-era killing of Armenians genocide.

Turkey's government said it was recalling its ambassador in Washington following the vote.

The House Foreign Affairs Committee endorsed the resolution with a 23-22 vote Thursday, even though the Obama administration had urged Congress not to offend Turkey by approving it.

The resolution now goes to the full House, where prospects for passage are uncertain.

Turkey, a NATO ally with a crucial role for U.S. interests in the Middle East and Afghanistan, has warned that the resolution's approval could jeopardize U.S.-Turkish cooperation and set back negotiations aimed at opening the border between Turkey and Armenia.

The U.S. also is pressing Turkey, which holds a rotating seat in the U.N. Security Council, to support sanctions against Iran, Turkey's neighbor.

Armenian-American groups have for decades sought congressional affirmation of the World War I-era killings as genocide.

The U.S. relies on Turkey as a key supply route for U.S. troops in Iraq, and Turkey's troops serve in the U.S.-led coalition forces in Afghanistan.

Dutch group has higher aims

Freedom Party's strong showing in local elections gives it a place in national discussion

By ANNA MARIJ VAN DER MEULEN

AMSTERDAM—A strong performance by the Freedom Party in two local elections Wednesday shows that the group could emerge as a force to be reckoned with as the country approaches a national election due in three months.

The results also showed widespread dissatisfaction with the two leading parties, the Christian Democrats and Labor, which shared power in an uneasy coalition that collapsed last month over whether to continue the deployment of Dutch forces in Afghanistan.

Nearly complete returns posted by the NOS state broadcaster "indicate we are on our way to become one of the biggest, or even the biggest national party, and illustrate Dutch voters are ready for a new political voice," said Geert Wilders, the party's founder, in an interview.

Official results will be published Friday, but press agency ANP reported that the party won nine out of 39 seats in Almere and eight out of 45 seats in The Hague.

The Freedom Party's strong showing in Almere and The Hague, the only two races the four-year-old party contested, show that its anti-Islam program has relevance among Dutch voters, Mr. Wilders said.

Mr. Wilders and his party are best known for their stance on Islam, which the party argues is a vio-



Freedom Party leader Geert Wilders, right, speaks to supporters during a meeting in Almere on Wednesday.

lent ideology.

But the party also wants to get rid of the European Parliament and abandon the Schengen visa, which allows holders to travel freely among all EU member states that have adopted it.

Still, analysts said the fact that Mr. Wilders's party has done so well in two major cities is no guarantee for success at a national level.

"Wilders has chosen to run in the two cities where he gained most

at the European elections last June," said Günther von Billerbeck, senior European analyst at Oxford Analytica.

The Dutch political system has many parties, which could make it tough for a coalition government to compete. The next national elections will be held June 3.

Alfred Pijpers, a senior researcher at Clingendael, the Netherlands Institute of International Relations, said Mr. Wilders's party may

do well in national elections, but that chances they will actually get into government are very slim.

Mr. Wilders, 46 years old, faces federal criminal charges for inciting hatred. He could face fines or imprisonment. He has denounced Islam as antidemocratic and compared the Quran with Hitler's manifesto "Mein Kampf."

Britain banned him from entering the country last year, but the ban was overturned on appeal.

Party poses obstacle to U.K. deficit cuts

By ALISTAIR MACDONALD

As financial markets fret about the prospect of a hung Parliament in the U.K., attention is shifting to small political parties that could play a kingmaker in any minority government. Now, one of them has delivered some potentially bad news to Britain's Conservative Party, which hopes to win the coming general election and swiftly tackle the U.K.'s record deficit.

Gregory Campbell—a member of Northern Ireland's Democratic Unionist Party, which had nine members of Parliament elected after the last election—said Thursday that his party wouldn't back the Tories' plans to swiftly cut public spending. The reason: Such cuts would hurt Britain's fragile recovery, particularly in Northern Ireland, where around two-thirds of the economy is based on state spending.

Small parties like the DUP could play a significant role in deciding how Britain cuts its deficit. Recent opinion polls have seen the Conservatives' once double-digit lead over the ruling Labour Party whittled down to single digits, leading analysts to increasingly predict that the election will result in a so-called hung Parliament and the U.K.'s first minority government in more than three decades.

That would hand greater influence to small players like the DUP and the centrist Liberal Democrats. In an interview, Mr. Campbell said the narrowing poll numbers mean his party will find a "ready audi-

ence" from both major parties in the wake of a close election.

Financial markets have already pushed down the pound on fears that a hung Parliament would leave any new government without the political capital needed to make unpopular budget cuts.

The Tories have promised tougher measures to control a deficit that will likely hit 12.6% of gross domestic product this financial year. The party has pledged an emergency budget within 50 days of taking office and argues that financial markets will lose confidence in Britain if the deficit isn't tackled soon.

Labour, meanwhile, has said that cutting back too quickly will hurt the U.K.'s fragile recovery.

"If the Tories stick with the policy, which is much more immediate radical steps post the election, then we would be going in a different direction," Mr. Campbell said.

That would be a departure from its traditional line, given that a DUP spokesman estimates the party has voted with the Tories on more than 90% of parliamentary votes. Last summer, the two parties met to have a "general" discussion about whether there was much common ground in the event of a minority Parliament, and, again this year, to discuss greater coordination in fielding candidates in the election.

Of course, a Tory minority government would have alternatives for support beyond the DUP. Britain's third-biggest party, the Liberal Democrats, have proposed more cuts than any other party.

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U.S. NEWS

Treasury: There's no 'too big to fail'

Top official defends U.S. rescue of Citigroup in testimony on Capitol Hill; Pandit says bank is 'well capitalized'

BY MICHAEL R. CRITTENDEN
AND MATTHIAS RIEKER

WASHINGTON—There is no U.S. government guarantee to protect the largest financial firms, a Treasury Department official said Thursday, as a congressional watchdog criticized the \$45 billion in government aid provided to Citigroup Inc.

Herbert Allison, who oversees the Treasury's \$700 billion financial rescue plan, disagreed with members of a congressional oversight panel that some financial firms benefit from the assumption that the government would step in to prevent their failure.

"There is no too-big-to-fail guarantee on the part of the U.S. government," Mr. Allison said.

Elizabeth Warren, who chairs the five-member Congressional Oversight Panel, said it was clear that financial markets do assume the guarantee exists, pointing to a recent ratings company report that specifically noted the government's role in backing Citigroup.

"The market clearly perceives that there is a too-big-to-fail guarantee," Ms. Warren said. "That gives Citi an advantage in raising capital... That is very valuable to Citi."

Panel members locked horns with Mr. Allison over his reluctance to answer some questions, primarily regarding the health of Citigroup when the government injected capi-



Citigroup CEO Vikram Pandit told Congress the bank owes a "large debt of gratitude" to taxpayers for aiding the firm.

tal into the bank in late 2008. Panel member Damon Silvers, pressing Mr. Allison on whether the bank was at risk of failure at the height of the

financial crisis, said it was "extraordinary that it is not possible to have a straightforward conversation."

"I do not understand why it is

that the United States government cannot admit what everyone in the world knows, which is that in that week that Citigroup was a failing in-

stitution," Mr. Silvers said.

The U.S. government holds a \$25 billion stake in Citigroup after the bank partially repaid the taxpayer assistance last year. Mr. Allison said the Treasury intends to dispose of its current investment in the bank "as rapidly" as possible over the next year.

Citigroup Chief Executive Vikram Pandit, also appearing before the panel, said the bank owes a "large debt of gratitude" to taxpayers for aiding the firm.

"Taxpayers still hold 27% of our common stock, and we look forward to helping them make money on that investment," Mr. Pandit said.

Mr. Pandit echoed Mr. Allison, saying the bank has no plans to request more government funds. When asked whether the bank or any of its businesses are insolvent, he offered a simple answer: "No." He said it is "well capitalized."

In response to panel questions, he also said that Citigroup's transaction processing and trust business was not a factor in the government's rescue of the firm. The global transactions-services business helps move money around the world for big companies and governments.

He also embraced some of the Obama administration's top regulatory overhaul proposals, including new protections for consumers and limits on banks' ability to engage in proprietary trading.

Official confronts insurers

BY HENRY J. PULIZZI

WASHINGTON—Health and Human Services Secretary Kathleen Sebelius sat down with top executives from five health-insurance companies at the White House Thursday, the latest step in the Obama administration's effort to confront rising premium rates.

"The meeting was really focused on what is happening with the kind of jaw-dropping rate increases that people are seeing particularly in the individual and small-group market," Ms. Sebelius told reporters following the session.

The CEOs of UnitedHealth Group Inc., WellPoint Inc., Aetna Inc., Health Care Service Corp. and Cigna Corp. participated in the meeting. Officials from the National Association of Insurance Commissioners also were in attendance.

Ms. Sebelius said she asked the companies to file their rate requests online, along with actuarial data

that supports those requests.

"At the end of the day I still think there is a concern that the medical trends don't match the rate increases," she said.

"I'm hoping that the CEOs respond to the call for putting their information up in public," Ms. Sebelius said. "Put it on a Web site, tell us what your loss trends are, tell us what you're paying out, tell us what you're spending in overhead and CEO salaries and advertising."

Ms. Sebelius and lawmakers have criticized Wellpoint's plans to raise rates for individual Anthem Blue Cross of California members by as much as 39%.

Ms. Sebelius and lawmakers have criticized Wellpoint's plans to raise rates for individual Anthem Blue Cross of California members by as much as 39%.

The Obama administration says similar increases are hitting families and business owners across the U.S. It has proposed giving the federal government powers to stop insurers from raising rates on premiums.

The companies argue that the real cause of the rate increases is rising medical costs.

"To achieve true and sustainable reform, it is essential to first bring costs under control," said United-Health Chief Executive Stephen Hemsley in a statement after the meeting.

White House spokesman Robert

Gibbs said on his Twitter feed that President Barack Obama dropped in on the meeting after the media had left the room.

Mr. Gibbs said Mr. Obama brought a letter from a woman in Ohio whose insurance will go up 40% next year.

Rate increase proposals are currently reviewed by individual states. The president's proposal would give the federal government the power to review and block premium increases.

Sandy Praeger, Kansas's insurance commissioner, said the states' role in rates should be preserved but that a federal backstop is needed.

Ronald Williams, CEO of Aetna, said the insurance sector and the government "share a common goal—making sure working families have access to affordable health care."

Thursday's session came as Mr. Obama hoped to propel the debate over health care to a conclusion. Mr. Gibbs said the House was on track to pass the Senate's health-care bill by March 18, just before Mr. Obama leaves Washington for an overseas trip.

"We're leaving on March 18, and we believe that we're on schedule based on the conversations that have been had with the speaker of the House and the majority leader," Mr. Gibbs said Thursday on MSNBC.

Mr. Obama is scheduled to depart for Indonesia and Australia March 18.

House Speaker Nancy Pelosi said Thursday she expects to have legislation soon and noted that the president has called for an up-or-down vote on health care. "We are preparing to follow his lead," she said.

Jobless claims fall, productivity surges

BY SARA MURRAY

New claims for jobless benefits fell last week, but the number of workers filing first-time claims remains stubbornly high as many employers resist adding jobs in the face of a tepid economic recovery.

Separately, an index of pending home sales fell, adding to concerns about the recent stall in the housing market's revival. And in an indication that employers aren't rushing to add workers, nonfarm business productivity rose at a 6.9% annual rate during the fourth quarter, higher than the initial 6.2% estimate, as employers got more output from workers, the Labor Department said Thursday.

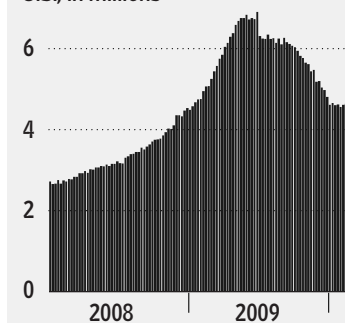
"The labor market is still very much lagging the rest of the economy," said Zach Pandl, a Nomura Global Economics analyst. "Firms are increasing their output but are not yet hiring."

Initial unemployment claims fell by 29,000 to a seasonally adjusted 469,000 in the week ended Feb. 27, the Labor Department said Thursday. Severe winter weather and holidays likely distorted jobs data in recent weeks, and economists predict these unusual factors could lead to another drop in payrolls in the government's official unemployment tally due to be released on Friday.

The four-week moving average of unemployment claims, which aims to smooth volatility in the data, declined 3,500 to 470,750. And continuing claims, which are drawn by workers for more than one week, dropped 134,000 to 4.5 million in

Smaller claims

Continuing jobless claims in the U.S., in millions



Source: U.S. Labor Department

the week ended Feb. 20.

Meanwhile, fourth-quarter productivity gains reflected a 7.6% quarterly jump in output that was brought down slightly by a 0.6% increase in hours worked. Inflation-adjusted hourly wages fell 2.8% from the prior quarter.

In addition to labor-market weakness, the drop in pending home sales prompted further economic worries. The index of pending home sales fell 7.6% to 90.4 in January, the National Association of Realtors said. The drop may have been influenced by weather, but economists are still concerned that the market is showing signs of fundamental weakness.

Meanwhile, manufacturing strength continued in January as factory orders rose a seasonally adjusted 1.7% to \$378.4 billion, the Commerce Department said.

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U.S. NEWS



Max Whittaker for The Wall Street Journal

Rabbi Josh Strulowitz leads Adath Israel, one of the few Modern Orthodox synagogues in the San Francisco Bay Area.

A synagogue's revival

Rabbi's outreach effort reverses traditional congregation's decline

By LIANA B. BAKER

SAN FRANCISCO—When Rabbi Josh Strulowitz set out to rebuild a rapidly shrinking Jewish congregation, it seemed like a long shot.

Mr. Strulowitz leads Adath Israel, one of the few Modern Orthodox synagogues in the San Francisco Bay Area. In 2005, when the newly ordained rabbi arrived at Adath Israel, the 68 members of the synagogue founded by Holocaust survivors had an average age of 70. Many of the congregants' descendants had moved away or gravitated toward more liberal forms of Judaism, and the congregation was debating selling its building and moving to a storefront location.

Today, thanks to an aggressive effort by Mr. Strulowitz, a 31-year-old rabbi, the synagogue has more than tripled in size, and the congregation's average age is closer to 40. Many of the new members came to Adath Israel through Mr. Strulowitz's unusual outreach efforts that included Super Bowl parties, a Chanukah gathering with a keg for adults and luncheon seminars at the offices of area businesses.

His approach was on display recently at his synagogue in the Central Sunset neighborhood.

As the prayer service wound down, he took the time to plug a Super Bowl party the next day. "The new high-def screen is off the hook," he said. "And there is going

to be kosher fried chicken."

That struck a chord with Julie Higashi, a physician who switched to Adath Israel in 2007 from a Conservative Jewish synagogue. With Mr. Strulowitz's events, she says, "there is room for having fun." The next day, she joined about 50 people who watched the Super Bowl on the synagogue's 110-inch screen.

The Bay Area's roughly 450,000 Jews make up the third-biggest Jewish population in the U.S., behind New York and Los Angeles, according to a 2004 study sponsored by the nonprofit Jewish Community Federation. But only 3% describe themselves as Modern Orthodox, the strain of Judaism that combines traditional observance with modern life—compared with 10% nationally, according to a 2001 study led by the nonprofit Jewish Federations of North America.

Mr. Strulowitz and some other Jewish leaders felt that allowing the synagogue to fade away would leave a hole in the city's Jewish life. The Modern Orthodox community helps to preserve a visible Jewish presence, they say, and lends strong support to Jewish institutions and the practice of certain traditions.

But many Jews in the liberal Bay Area perceive Modern Orthodoxy as too rigid or devout.

Rabbi Strulowitz recognizes the challenge he is up against. "It's an ambitious mission trying to bridge the gaps between the outside world

and making the religion—the way it was practiced 3,000 years ago—more relevant," he says.

Indeed, some of Mr. Strulowitz's unusual methods haven't resonated with his congregation—especially with older members. Birdie Klein, 79, an Adath Israel member for 40 years, says some of the rabbi's programming doesn't appeal to her, including a recent conference on Jewish ethics and the Internet that was held at Twitter Inc.'s San Francisco headquarters. "Twitter. Shmitter. I didn't even ask what Twitter means," Ms. Klein says.

When Mr. Strulowitz began his outreach efforts, he sought advice from Modern Orthodox rabbis in other cities who had had success attracting new members. By late 2005, he had put together a beginners' service for the High Holidays. Last fall, he opened a preschool across the street from the synagogue to help bring in families.

In 2006, he started holding Jewish study lunches at companies including venture-capital firm Blumberg Capital and Friedkin Realty Group. Bruce Taragin, a partner at Blumberg Capital who invited Mr. Strulowitz to host lunches at his office, says he has attended about half a dozen events. Mr. Taragin belongs to a Modern Orthodox synagogue in Oakland, but he says the rabbi has made him feel a "deeper and meaningful connection" to San Francisco's Jewish community.

Foreign-policy sage urges nuanced stance on Iran

[Capital Journal]

By GERALD F. SEIB



Iran is both today's paramount foreign-policy challenge, and a quandary of the first order. Its nuclear program keeps expanding, its concern about international opprobrium seems limited, and nobody can be sure the United Nations Security Council will find the courage to impose more economic sanctions.

So where do we go from here? Few have thought about that challenge longer or harder than Zbigniew Brzezinski, the provocative foreign-policy icon who was White House national security adviser when the Iranian revolution erupted three decades ago and has followed the case ever since.

In an interview, Mr. Brzezinski lays out his formula. Try to stop Iran's nuclear program, and make Tehran pay a price if it keeps pursuing it, but don't count too much on sanctions; offer a robust American defense umbrella to protect friends in the region if Iran crosses the nuclear threshold; give rhetorical support to Iran's opposition while accepting America's limited ability to help it; eschew thought of a pre-emptive attack on Iran's nuclear facilities; and keep talking to Tehran.

Above all: Play the long game, because time, demographics and generational change aren't on the side of the current regime.

"This is a country with a growing urban middle class, a country with fairly high access to higher education, a country where women play a great role in the professions," he says. "So it is a country which I think, basically, objectively is capable of moving the way Turkey has moved." That is, it can evolve into a country where Islam and modernity co-exist, even if somewhat uncomfortably.

Mr. Brzezinski's views are noteworthy because he touches so many bases in the Iran debate. He hails from the hawkish wing of the Democratic party, yet has a record of working comfortably with Republican administrations.

He was President Jimmy Carter's national security adviser when the Iranian Islamic revolution exploded in 1979. More recently, he teamed up with current Defense Secretary Robert Gates on a milestone 2004 Council on Foreign Relations report that advocated that the U.S. begin to "engage selectively with Iran."

Shortly thereafter, former President George W. Bush summoned Mr. Gates to be defense secretary, a job he retains under President Barack Obama.

Today, Mr. Brzezinski sees two American goals in Iran: "One is to prevent Iran from acquiring a nuclear weapon, assuming that is its objective, and to neutralize its strategic political significance if it does. The second goal is to facilitate, carefully and cautiously, the political evolution in Iran

toward a more acceptable regional role." As he notes, those two goals—stopping Iran's nuclear program, while coaxing it into more responsible behavior—can conflict.

On the nuclear-weapons front: There's a chance, he thinks, that Iran isn't seeking to possess actual nuclear weapons, but trying to become "more like Japan, a proto-nuclear power" with a demonstrated ability to make nuclear arms without actually crossing that line.

But it's impossible to know. And if a halt to Iran's nuclear program can't be negotiated, "then I think we have no choice but to impose sanctions on Iran, isolate it." But sanctions alone, he says, won't "determine the outcome."

So if Iran crosses the line, the U.S. should "make commitments to any country nearby that America would see itself engaged if Iran threatened to use nuclear weapons against that country, or worse, if it used them."

What does being "engaged" mean, exactly? "That means if [the Iranians] attack somebody, we have to strike at them," Mr. Brzezinski says bluntly. "I don't think every country in the region would want to have a formal agreement with the U.S. Some would want an understanding."

This American defense umbrella "should be sufficient to deter Iran," Mr. Brzezinski says. He thinks it significant that Ehud Barak, the defense minister of Israel, the nation most threatened by Iran's nuclear program, said in a Washington speech last week that Iranian leaders were "sophisticated" enough to "fully understand what might follow" the actual use of nuclear arms, and likely would use them for intimidation.

Meantime, on changing Iran's character: The U.S. should adopt "a kind of posture of support and endorsement" of the forces inside Iran now openly opposing Iranian President Mahmoud Ahmadinejad, Mr. Brzezinski says, without deluding itself into thinking it has the ability to propel a regime change. Crucially, Mr. Brzezinski instead thinks forces at work within Iran will undermine the regime over time, so long as the U.S. and the West don't take actions that actually interfere with that process.

Thus, it's important to craft sanctions in a way that "doesn't stimulate more anti-Westernism, or a fusion of Islamic extremism and nationalism." He'd keep talking to Iran too: "Most major issues internationally that have been resolved by negotiation have involved negotiations over a long period of time."

And he would avoid at all costs a military strike at Iran's nuclear facilities. Iran, he said, would make no distinction between an Israeli or an American strike. "The Iranians would strike out at us, in Afghanistan, in Iraq, in the Strait of Hormuz." If energy prices then soar, "we will suffer, the Chinese will suffer, the Russians will be the beneficiaries. The Europeans will have to go to the Russians for energy."

Levin to lead key House panel

By MARTIN VAUGHAN

WASHINGTON—Rep. Sander Levin was named chairman of the tax-writing House Ways and Means Committee, succeeding Charles Rangel, who stepped aside Wednesday.

Mr. Levin (D., Mich.) said he would take control of the panel after Rep. Pete Stark (D., Calif.) declined the chairman's gavel. Mr. Stark was next in line for the post, according to House seniority rules. In a statement, Mr. Stark said he was stepping aside because he wanted to retain the chairmanship of the health

subcommittee on Ways and Means.

Mr. Levin, 78 years old, said he would convene a meeting of the House Ways and Means panel Tuesday to discuss plans for the committee. "I'll be acting chairman. All the subjects before the committee will be on the table," Mr. Levin told reporters after a closed-door meeting of Ways and Means Democrats. The Ways and Means panel, one of the most influential in Congress, oversees taxes, as well as trade and Social Security, and it has substantial jurisdiction over health programs. The announcement capped a tu-

multuous 24-hour period of closed-door haggling over the chairman's gavel by Democrats, following the temporary leave taken by its former chairman, Mr. Rangel (D., N.Y.).

Mr. Levin represents an auto industry district outside Detroit, and is the Democrats' foremost expert on trade issues and a key player on tax legislation.

Mr. Levin was first elected in 1982 and is in his 14th term. He is the older brother of Sen. Carl Levin (D., Mich.).

—The Associated Press contributed to this article.

WORLD NEWS



Andrea Bruce for The Wall Street Journal

Ayad Allawi, speaking at a rally Wednesday, was Iraqi prime minister after the fall of Saddam Hussein. A Shiite, Mr. Allawi has forged a secular-nationalist alliance for elections Sunday.

Violence greets start of Iraq election

Early voting is troubled as nation prepares for polling Sunday; rise of U.S.-allied secularist seen as barometer

BY CHARLES LEVINSON

BAGHDAD—An Iraqi national election that will shape the future of the country's democracy and the U.S. role here opened to deadly violence and fraud claims Thursday.

Early balloting began Thursday for hundreds of thousands of Iraqis, including police and military who will be on duty Sunday, the main poll day in Iraq's second post-Saddam general election.

The vote will determine who leads the country for the next four years, during which time the U.S. is expected to withdraw the bulk of its forces.

In the frenetic run-up to Sunday's voting, the performance of Iyad Allawi—a U.S.-allied former prime minister leading a secular coalition—has emerged as a barometer for whether Iraqi voters will reject sectarianism, and whether Washington can maintain influence here as U.S. forces withdraw and Iran seeks greater influence.

"A strong showing by Allawi will signal a sea change for Iraq, a decisive break with the parties and policies of the past five years," says Saad Eskander, director of the Iraqi National Library and Archive, a non-partisan institution.

At least 12 people were killed in three separate attacks Thursday, a police official in Baghdad told Iraqi television. In two of the blasts, suicide bombers tried to enter polling stations, were turned away and detonated their explosive vests in the street among voters, the official said. A Katyusha rocket struck near a closed polling station in northern

Baghdad, killing five people, he said.

There were also early signs of irregularities which, if widespread on Sunday, could sap the vote's legitimacy. In predominantly Sunni Anbar province and in certain areas of Baghdad, complaints from voters and party officials filtered in to the Iraqi High Election Commission through the day of voters' names not showing up on voter rolls.

Election officials extended voting hours at some polling centers to address the concerns and announced that those whose names didn't appear on rolls could cast provisional ballots.

Many of Iraq's predominantly Sunni parties have accused the Election Commission, which is overseeing the vote, of bias. They have accused the government of arresting their candidates, harassment, and using government institutions for campaign purposes.

Election officials said they expected between 600,000 and 700,000 voters to take part in Thursday's session. The rest of the Iraqi electorate will cast their ballots on Sunday. About 19 million of Iraq's 28 million people are eligible to vote. About 6,200 candidates are competing for 325 parliamentary seats throughout Iraq's 18 governorates. In addition, election officials expect as many as 500,000 Iraqis living abroad to cast ballots.

The United Nations' envoy to Baghdad on Monday called the weekend vote "the most decisive moment for Iraq's future" since U.S.-led forces invaded and toppled Saddam Hussein in 2003.

In January, in a campaign hall in

West Baghdad, Mr. Allawi, a Shiite, sealed an unlikely political union with one of Iraq's leading Sunni politicians. The deal was meant to position his coalition as a secular-nationalist antidote to the sectarian politics that has dominated Iraq since the fall of Sunni leader Saddam Hussein.

The vote will determine who will lead the country as the U.S. withdraws forces. A rough election could prolong unrest and delay the American pullout.

Meanwhile, Mr. Allawi has courted Washington and Iraq's Arab neighbors, drawing a clear distinction with other leading Shiite candidates, who acknowledge close ties with Tehran.

For Mr. Allawi, a rotund, clean-shaven and soft-spoken politician, the union with Saleh al-Mutlaq was a controversial move. It risked key votes from Iraq's Shiites, who still make up a majority of the population and suffered disproportionately under Sunni-dominated rule.

The deal appears to have significantly bolstered Mr. Allawi's chances of unseating Prime Minister Nouri al-Maliki. Polling is hardly reliable here, but at least one reputable organization, the National Democratic Institute, a Washington-based group that promotes democracy, shows Mr. Al-

lawi's slate consistently leading polls since November.

Another key test for the election is the degree to which the vote is perceived as free and fair. A well-run poll could dramatically firm up this country's fledgling democracy. A messy one could sow the seeds of more violence and instability. U.S. commanders have said the outcome—stability or unrest—could also affect their plans to withdraw significant numbers of troops later this year.

The United Nations, European Union, the U.S. Embassy and others are deploying poll observers, but much of the monitoring will fall to as many as 300,000 Iraqi observers affiliated with political parties.

For months, Mr. Allawi has alleged that his candidates have been harassed, arrested and even killed. If Mr. Allawi performs poorly, his willingness to accept the results will be critical for the vote's overall perception of legitimacy.

As his prospects appeared to rise, Mr. Allawi has ratcheted up campaigning. One day earlier this week, Mr. Allawi campaigned at a revered Sunni mosque in Baghdad, where he promised to find a job for a man with one leg. As he left, a throng of supporters mobbed him.

He is also wooing Iraq's tribal sheikhs, in a bid to win votes in the Shiite south—and taking a page from Mr. Maliki's successful playbook in provincial elections in 2009.

Mr. Maliki leads a predominantly Shiite slate, the State of Law Alliance. It did well in provincial elections a year ago, campaigning on a nationalist, nonsectarian platform

and emphasizing Iraq's dramatic improvement in security.

Much of that support has since eroded. Sunnis, who still make up some 35% to 40% of the population, accuse him of falling back on sectarian tactics to shore up Shiite support. Meanwhile, a string of bombings targeting government institutions since August have shaken confidence in his government's handling of security.

Mr. Maliki's political troubles run so deep that even if his slate wins the most seats in parliament he may still struggle to recruit allies to form a new government.

That could make Mr. Allawi, or one of a handful of candidates on Iraq's main, Shiite-dominated slate, a more likely potential successor as premier.

Further boosting Mr. Allawi's chances, the Shiite alliance that dominated the last elections split last year. Mr. Maliki heads one faction. The other, the Iraqi National Alliance, is led by the Islamic Supreme Council in Iraq, or ISCI, and followers of Muqtada al-Sadr, the onetime firebrand cleric who championed some of the fiercest armed resistance to U.S. troops. ISCI acknowledges close ties to Iran, though officials have said Tehran doesn't dictate their policy.

ISCI suffered a blow in the January 2009 provincial elections, but party leaders have since regrouped. Other top names in the Shiite list include Vice President Adil Abdul-Mahdi and Ahmed Chalabi, the onetime Pentagon darling who has since turned U.S. critic and champion of Iran.