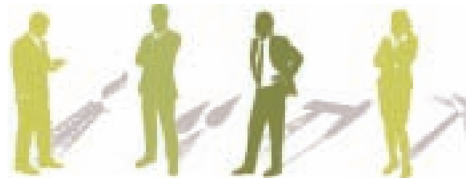


Nothing is certain in the race for a cleaner energy system
JOURNAL REPORT: ENVIRONMENT

An Afghanistan ally's past creates tensions for NATO
THE BIG READ 16-17

THE WALL STREET JOURNAL.

VOL. XXVIII NO. 26 | EUROPE | Monday, March 8, 2010

DOW JONES A News Corporation Company | europe.WSJ.com

Iraqis turn out to vote

By Charles Levinson

BAGHDAD—Despite a spasm of violence early Sunday, Iraqis flocked to the polls in what appeared to be large numbers, marking the country's first parliamentary elections since 2005.

Polls were scheduled to close at 5 p.m. local time, but some voting stations remained open to accommodate lines of voters. Party officials said they might release their own preliminary results later Sunday evening, but no official results are expected for several days.

A series of morning attacks cast an early pall over voting, seeming to confirm fears that insurgents would disrupt the process. At least 31 Iraqis died in dozens of attacks around the country as the voting began. The death toll is likely to rise in the aftermath of the bombings.

The violence subsided by the afternoon, and didn't approach the level of recent attacks in the capital of Baghdad, marking a victory of sorts for Iraq's security services.

Mortar attacks in the restive northern city of Mosul and its surroundings forced five polling stations there to close temporarily. By midday Sunday, officials appeared to be ramping up appeals to voters to go to the polls despite the scattered unrest.

Mosque loudspeakers in the city of Fallujah in Anbar province blared urgent calls for voters to go out and cast ballots. The government also lifted a ban on small vehicles to make it easier for voters to get to voting stations.

Across Baghdad, mortar attacks, bombings and the collapse of two buildings from explosions marred the early hours of voting. But in the late morning, the violence subsided in most places, and many Iraqis shrugged off the attacks and cast their ballots.

"The Iraqi people have seen much worse than this," said Ibtihal Khaled, a 51-year-old housewife waiting to vote in Baghdad's predominantly Shiite neighborhood of Utaifiya. "A few bombs won't keep them away from the polls."

Some 10,000 polling stations opened for voting, the government said.

U.S. President Barack Obama praised the Iraqi people for braving the violence to cast their ballots, describing the event as an advance for Iraq's democracy.

"I have great respect for the millions of Iraqis who refused to be deterred by acts of violence, and who exercised their right to vote today," Mr. Obama said in a statement Sunday. "Their participation demonstrates that the Iraqi people have chosen to shape

Please turn to page 11

Associated Press (top two); Agence France-Presse/Getty Images (bottom two)

Iraqis show their inked fingers Sunday as signs they cast their vote in parliamentary elections.

New tax will cut appeal of Britain

By Matt Turner

Senior bankers and hedge-fund managers in London will pay more in income tax than they would in any other major financial center when the new 50% rate of tax is introduced next month, according to data prepared by KPMG.

London will go from being one of the most competitive financial centers in terms of employee income tax to being one of the most expensive, according to various scenarios modeled by the accountancy firm. It calculated employee tax and social-security payments for four cases studies based in eight different financial centers—London, New York, Paris, Frankfurt, Geneva, Zurich, Dubai and Hong Kong. The data also compare London today with London after April 6, when a new 50% income tax for income over £150,000 comes into effect.

London is at present relatively competitive, but from April 6 onward, the city becomes the most expensive location by employee tax and social security for three of the four KPMG case studies.

■ Details on London's high tax for financial workers 5

Europe fund gains favor

By Marcus Walker And Bob Davis

Germany expressed support for creating a "European Monetary Fund" that could bail out indebted nations in the euro zone, showing how Greece's debt crisis is forcing Europe to rethink the institutional design of its common-currency area.

German Finance Minister Wolfgang Schäuble said he would "present proposals soon" for a new euro-zone institution that has "comparable powers of intervention" to the International Monetary Fund.

In an interview with German newspaper Welt am Sonntag, Mr. Schäuble said the euro zone should draw lessons from the Greek crisis, which has exposed the region's lack of tools for dealing with a member country at risk of defaulting.

Any European Monetary Fund would take too long to create to be of use in the current crisis in Greece, European officials say. But the proposal is part of a wider debate taking place in Europe about how to make the common-currency bloc function better in the wake of the Greek drama.

The European Union's treaties prevent existing EU institutions from bailing out a struggling country, and national governments such as Germany's, fearing voter ire, don't want to risk their taxpayers' money directly on nations such as Greece.

At the same time, most euro-zone governments are opposed to letting a euro member turn to the IMF, which has both the financial firepower and experience in negotiating economic-adjustment programs with countries with heavily strained finances.

"Accepting financial aid through the International Monetary Fund would in my opinion be an admission that the euro countries can't solve their problems through their own efforts," Mr. Schäuble said.

Divisions over the issue have emerged even within the German government, since Chancellor Angela Merkel is more open than her finance minister to letting the IMF play a greater role in Greece, according to people familiar with her thinking.

The IMF is likely to be wary of any new regional financing mechanism in Eu-

Please turn to page 4

The Quirk

Russian inventor has friends in Kremlin, but skeptics outside it. Page 29

World Watch

A comprehensive rundown of news from around the world. Pages 30-31

Editorial & Opinion

Icelandic voters say no to bailing out the British and Dutch. Page 15

Taking on the world's toughest energy challenges.

THE WALL STREET JOURNAL. £1.50
Bahrain BD 1.50 - Egypt $1.75 (C/V) Jordan JD 2 - Kuwait KD 1 - Oman OR 2 Qatar QR14 - Saudi Arabia SR 14
9 772191 986917 10

PAGE TWO

So Greece has cleared some obstacles, but will Spain overcome its hurdles?

[Agenda]

By Irwin Stelzer

Before waxing ecstatic over Greece's ability to flog some bonds, remember this: Greece is a sideshow. Spain is the main event.

Spain's economy, the euro zone's fourth largest, is five times the size of Greece's, and almost twice the size of those of other financially struggling countries—Greece, Ireland and Portugal—combined.

So it matters that Spain's socialist prime minister, José Luis Rodríguez Zapatero, seems to be an admirer of Charles Dickens's Mr. Micawber. Ask him what he plans to do about his country's 11.4% fiscal deficit, and he first promises to extend his country's retirement age, and then says he won't. He promises a public-sector wage freeze, but his finance minister, Elena Salgado, says he really doesn't mean it. But somehow he will cut the deficit to 3% by 2013.

"We have a plan," says Spain's deputy prime minister, Maria Teresa Fernandez de la Vega. To most observers, that plan seems to be Mr. Micawber's: "something will turn up."

Or two somethings. The first is a return to economic growth that will increase tax revenues. Never mind that after 16 years of growth the economy plunged into recession last year (GDP: -3.7%), and according to the International Monetary Fund is likely to shrink further this year; or that the unemployment rate is crowding 20% (double the euro-zone average) and is headed toward 22%, some forecasters say; or, most important, that after a decade in which labor costs rose at an annual rate of about 4%,

Reuters

People in Madrid pass a Web-site ad that reads, "We can only fix this together"

Spanish goods are uncompetitive in major export markets.

The second "something" is an EU bailout: Call it "support." If the rating agencies get stroppy, and the markets turn on Spanish bonds, even Germany won't be able to allow the euro zone's fourth-largest economy to default on its bonds.

Or so Mr. Zapatero might hope.

> **No one anticipates that the construction industry will recover very soon.**

Mr. Zapatero is also relying on two facts. First, Spain isn't nearly as indebted as is Greece. Or Italy, or Portugal, or France, or even Germany. It's debt-to-GDP ratio is comfortably below those of other countries, a result of the prudent fiscal policies of predecessor governments. Second, Spain has never overcooked its books in the manner of Greece. So it enters negotiations with the rating agencies and the bond market with credibility that Greece's serial book-cookers can't muster, and expectations that it won't have to pay over three percentage points more than Germany, as Greece did last week, to tap bond markets.

But Spain's advantages pale into insignificance in comparison with the disadvantages of a huge budget deficit, the absence of a credible plan to reduce it, a continued if moderating declines in economic activity, and the structural defects in its economy. These will count for a lot in the overloaded debt market of the next year or so.

The country's apparent prosperity was based on cheap credit that fueled a construction boom. No one anticipates that the construction industry will recover very soon, not with all those unsold houses on the market. Nor is there much hope for another tourism boom: Fun in the sun is a low priority for strapped consumers, and the overbuilt Spanish resort areas are less appealing than they once were, at least to tourists able to spend freely. Finally, the government has little money available to provide seed capital for 21st century industries.

Which will put the burden of long-term recovery on the private sector. Not a bad place. Spain's entrepreneurs have proved that they can do business on a global basis, witness the fact that Spain is Latin America's largest foreign investor. Indeed, a few slipups aside, Spanish companies have been so successful that there are mutterings of a second generation of Conquistadores descending on South America.

Another plus is that the Spanish banking system "has been relatively insulated from the global financial crisis," according to the U.S. Central Intelligence Agency rundown on the Spanish economy. The key word is "relatively." The nation's smaller, regional banks, the *cajas de ahorros* that account for about half of all lending in Spain, are overcommitted to the property market, but are resisting calls from Miguel Angel Fernandez Ordonez, governor of the Bank of Spain, to merge with larger, better capitalized institutions. Still, the banking system is indeed relatively strong. Think Santander.

Against those longer-run strengths must be weighed two important negatives. The government has resisted reforming a rigid labor market in which most workers have contracts that prevent their employers from adjusting their work forces, combined with a benefits system that seriously reduces incentives to move off the couch and into work.

Second, the rating agencies don't believe the government's growth forecasts, and the markets want firmer and more specific promises of frugality, especially since some 75% of all expenditures are controlled by autonomous regional governments and the social-security system. But something might turn up.

—Irwin Stelzer is a business adviser and director of economic-policy studies at the Hudson Institute.

What's News

■ **Investors are shunning** U.S. stocks even as the bull market hits its first anniversary, amid concerns over Washington policies and the economy. So far in 2010, global investors have put $2 billion into emerging-market stocks and $20 billion into U.S. bond funds. 19

■ **Icelanders rejected** a deal to repay the U.K. and the Netherlands $5.3 billion lost in the collapse of an Icelandic Internet bank. 6

■ **AIG was putting** the finishing touches on a $15 billion deal to sell its second-largest foreign life insurance business to MetLife. 20

■ **Protectionism by national** governments started to decline last year but remains a major threat to the global economy, the WTO said. 9

■ **China offered a sign** of flexibility over the yuan's exchange rate but gave little hope it would accommodate the U.S. on Iran. 10

Inside

Latest batch of laptops take images to a new dimension. **27**

Lalit Modi, chairman of Indian Premier League, discusses cricket. **28**

ONLINE TODAY

Most read in Europe

1. Opinion: 'They Need to Be Liberated From Their God'
2. Zhou Signals Yuan Policy Shift
3. Google Targets Microsoft With DocVerse Deal
4. Momentum Might 'Hurt' 3-D Hit
5. Bomb Squad vs. Blockbuster

Most emailed in Europe

1. Opinion: 'They Need to Be Liberated From Their God'
2. Frenchmen Star in Greek Drama
3. Scales of Justice: In Zurich, Even Fish Have a Lawyer
4. Spain's Woes Sting Big Banks
5. Queens's Napa Valley

Reader comment

europe.wsj.com/greekdebt

"The issue shows clearly the precarious fiscal and economic position of the EU member countries."

Roger Brown on the fiscal problems that are facing the Greek government

Continuing coverage

Watch an in-depth video on Greece's debt crisis and keep track of updates at **wsj.com/greekdebt**

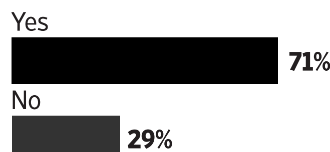
Question of the day

Vote and discuss: How many of the best-picture nominees have you seen?

Vote online at **wsj.com/dailyquestion**
Plus, see complete coverage of the Academy Awards at **wsj.com/oscars**

Previous results

Q: Will the situation in Greece lead to tighter economic coordination in the euro zone?



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

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

ADVERTISING SALES worldwide through Dow Jones International. Frankfurt: 49 69 9714280; London: 44 207 842 9600; Paris: 331 40 17 17 01.

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

Registered as a newspaper at the Post Office.
Trademarks appearing herein are used under license from Dow Jones & Co. ©2010 Dow Jones & Company. All rights reserved.
Editeur responsable: Patience Wheatcroft M-17936-2003.
Registered address: Boulevard Brand Whitlock, 87, 1200 Brussels, Belgium

NEWS

No animal defenders

Swiss voters say no to mandating state lawyers for abused pets

By Deborah Ball

ZURICH — Swiss voters overwhelmingly rejected a referendum that would have compelled all cantons to hire lawyers to defend the rights of animals, a setback to animal-rights organizations.

According to preliminary results, 71% of Swiss voters rejected the proposal on Sunday, with the rest voting in favor of the measure.

The referendum was hotly debated in a country that has some of the toughest animal-welfare laws in the world. If it had passed, each of the country's 26 cantons would have had to hire official animal lawyers—a sort of public defender—to represent pets, farm animals and wildlife in court.

Animal-welfare groups had argued that if people accused of mistreating animals can hire lawyers, the victims of such abuse are also entitled to representation.

The Swiss generally take civil liberties very seriously, whether animal, vegetable or human. Scientists must consider the dignity of plants before embarking on experiments. The country is also known for its right-to-die laws that draw hundreds of foreigners each year to Switzerland to kill themselves.

Yet for all the existing protections, Swiss Animal Protection, the group behind the referendum, says officials rarely prosecute animal-welfare infractions and the average fine—just 439 Swiss francs ($409) in 2008—is hardly a deterrent.

"We do have very, very tough laws," says Mark Rissi, spokesman for the organization. "But in some cantons, judges aren't applying the law to the fullest."

Several cantons had just two animal-mistreatment cases in 2008. In a statement released Sunday, Swiss Animal Protection said it was disappointed by the vote, and urged authorities to step up their enforcement of animal-welfare laws.

Instead, the Swiss government had urged voters to reject the referendum, arguing the money should go to extra veterinary resources to uncover animal abuse. Switzerland's powerful farming lobby also opposed it, arguing animals are closely monitored by state vets.

Since the 1970s, Swiss animals have enjoyed greater protection than their brethren in most countries. In 2008, a 160-page law tightened animal-welfare laws even further, requiring, for instance, that prospective dog owners take a four-hour course and that social species such as birds, fish and yaks must have companionship.

The run-up to the vote threw the spotlight on Zurich, the only canton that has an official animal lawyer. Antoine Goetschel, the canton's animal defender, has recently become a media darling in Switzerland thanks to his high-profile defense of the referendum.

Mr. Goetschel, 51 years old, is a vegetarian who has no pets and avoids taking medication because of his opposition to research on lab animals. He became interested in animal rights at 23, when an accident left him unable to speak for 10 days, helping him understand the plight of animals who can't express themselves. He was a major advocate of a 2003 Swiss law under which animals are to be treated as sentient beings, not personal property.

Last month, Mr. Goetschel went to court in defense of a pike that had fought a fisherman for 10 minutes before surrendering, after animal-welfare groups filed a complaint alleging animal cruelty.

The case emerged after a local newspaper photo showed the fisherman proudly showing off the 10-kilogram (22-pound) fish—a scene that, to Mr. Goetschel, was reminiscent of a safari hunter with his foot perched on the head of a dead lion. "It is this Hemingway thinking," he says. "Why should this be legal when other animals have to be slaughtered in a humane way?"

Juggling a private practice with his cantonal job, Mr. Goetschel handles about 180 animal cases a year. He points to stiff fines he has won—such as an 8,800-franc fine for a farmer who kept a dozen sheep underfed and without water.

Mr. Goetschel lost the pike case last month, but is considering an appeal. Any further court action would come too late for the fish, which has been eaten.

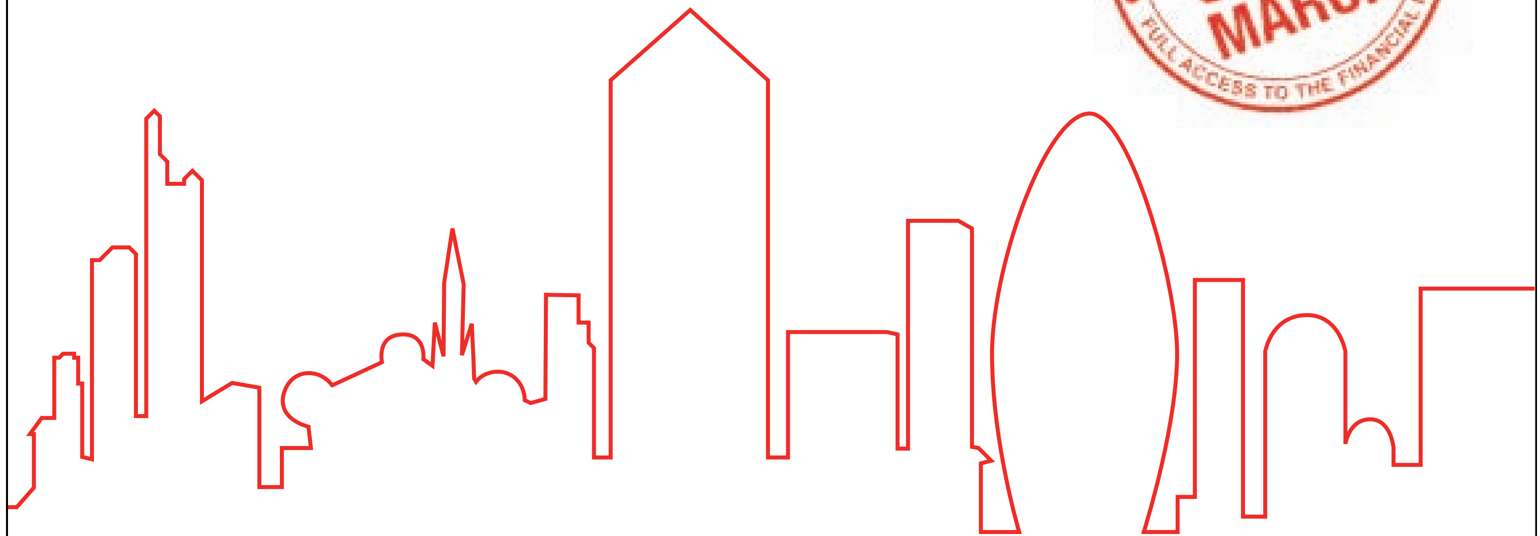
It is unclear whether Zurich will be forced to abolish the animal-lawyer job in the wake of the vote. In recent weeks, Zurich officials have said they are happy with the animal-defender role. If forced to abolish the post, officials have indicated they may find a way to keep the role by transforming it into an administrative job, perhaps within the canton's veterinary office.

Associated Press

An animal shelter in Switzerland, already home to tough animal-protection laws.

FINANCIAL NEWS

efinancialnews.com



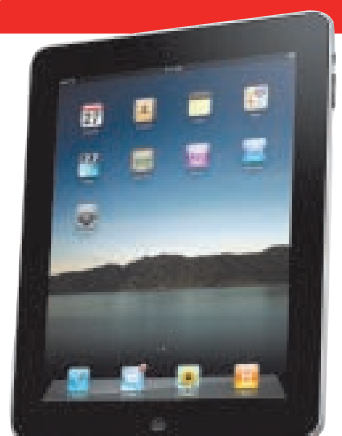
NEW website
MORE features
SAME inside track

ASSET MANAGEMENT
INVESTMENT BANKING
PRIVATE EQUITY
TRADING & TECHNOLOGY
PEOPLE ...

WIN ONE OF THREE iPADS

Tell us what you think of our new site for the chance to win one of 3 Apple iPads.
Tell us what you like and dislike and how we can improve.
The survey will take just 5 minutes of your time and all participants will be entered into our prize draw.

We look forward to hearing from you.



Visit www.efinancialnews.com/newmoresame to find out more...

(terms and conditions apply)

Blomberg News; Associated Press; Agence France-Presse/Getty Images

ECB President Jean-Claude Trichet, left, French President Nicolas Sarkozy, center, and IMF Managing Director Dominique Strauss-Kahn at times have been at odds over how to address Greece's debt crisis

Frenchmen are leads in Greek drama

Sarkozy and his fellow countrymen Trichet and Strauss-Kahn juggle different priorities and public roles

Three Frenchmen are among the key actors pulling the strings behind the Greek crisis, but they frequently pull in different directions.

*By **Alessandra Galloni** in Paris, **Bob Davis** in Washington and **Brian Blackstone** in Frankfurt*

European Central Bank President Jean-Claude Trichet, French President Nicolas Sarkozy and International Monetary Fund chief Dominique Strauss-Kahn all have a hand in trying to prevent a default that would send shockwaves through the world economy.

But each is also trying to do so in a way that bolsters the institution he heads.

This has revealed differences that could affect not only Greek rescue policies, but also other issues including how to boost growth and value currencies.

"Ultimately, all three are interested in Greece emerging from this in the best way possible," says Michel Camdessus, a former IMF managing director and honorary governor of the French central bank. "But they also have their different roles to play."

In discussions about Greece, Messrs. Sarkozy and Trichet say the European Union should run negotiations with Athens and that the IMF should stick to the lesser role of providing technical assistance.

The two men have somewhat different concerns.

Mr. Trichet's primary focus is the credibility of the euro and the 16-nation currency bloc. At a news conference Thursday, the ECB chief closed the door to any IMF participation in an eventual Greek bailout, saying it wouldn't be "appropriate."

Mr. Sarkozy, like other European government leaders, shares that view. But the 55-year-old president has an additional reason for keeping the IMF at bay: Mr. Strauss-Kahn, 60, could be a rival in France's 2012 presidential elections.

When Mr. Sarkozy lobbied for Mr. Strauss-Kahn to get the IMF job in 2007, it was widely considered a way to exile a political rival.

At the time, the IMF was an institution without a clear mission: The global economy was booming and few countries needed its loans. One of Mr. Strauss-Kahn's early tasks was to put in place the Fund's first large-scale layoffs.

But two years in Washington have raised Mr. Strauss-Kahn's international profile—and his ratings among voters in France, where he already had credibility for preparing the country's entry into Europe's single currency in 1999.

Mr. Strauss-Kahn recently indicated he might return to France to run for president before the end of his IMF term, which runs through 2012.

Mr. Strauss-Kahn "has built a reputation that he wouldn't have had in normal times," because of the IMF's prominent role in fighting the global economic crisis, says Jean Pisani-Ferry, director of Bruegel, an economic think tank in Brussels. "He's also seen as the one who speaks and works with the mighty heads of state."

A spokesman for Mr. Sarkozy, as well as one of his advisers, didn't return calls requesting comment.

A spokeswoman for Mr. Strauss-Kahn said the IMF chief's political ambitions were "just speculation, perhaps natural when you have someone of the managing director's stature."

Mr. Strauss-Kahn has taken positions at odds with the Sarkozy government. During the global downturn, he pushed France and other European countries to expand stimulus spending, while Mr. Sarkozy sought to focus more on updating regulations and reining in hedge funds.

Greek officials are trying to use differences among the three men to the country's advantage.

On other economic issues, though, they may not be that far apart. Mr. Sarkozy has railed about the strength of the euro against other currencies, which has made it harder for French companies to sell their goods abroad.

Mr. Strauss-Kahn has tried numerous tactics—so far unsuccessfully—to get China to revalue its currency, which would help producers in wealthy countries such as France.

Both men are proponents of a European "economic government" to balance the role of the ECB.

Officials in Mr. Sarkozy's government have accelerated calls for such an institution to oversee tax-and-spending policies amid the Greek crisis.

The economic policies pursued by both men have, in turn, put them on a collision course with Mr. Trichet, 67, whose mandate as ECB president is to control inflation in the euro zone, without interference from governments eager to stimulate domestic growth.

Since the euro zone doesn't have a finance ministry, Mr. Trichet is often a de facto economic diplomat for Europe.

But on Thursday, Mr. Sarkozy reiterated his call for a new global monetary system to prevent the loss of industrial competitiveness from foreign-exchange imbalances.

"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 said in a speech.

Mr. Trichet, at the ECB news conference a few hours later, said, "You know, my call is for the euro area, which has a single currency, to speak with one voice."

An ECB spokeswoman said the bank had nothing to add to Mr. Trichet's comments.

Under Mr. Strauss-Kahn, the IMF has also gotten under Mr. Trichet's skin, most recently when his hand-picked chief economist—Olivier Blanchard, another Frenchman—suggested central banks should consider aiming for a higher inflation level than in the past, giving governments the ability to cut rates more deeply in a crisis.

The suggestion had ECB officials apoplectic.

"It's plain wrong; plain wrong," Mr. Trichet said at the Thursday news conference.

Greek officials, meanwhile, are trying to use differences among the three men to their advantage.

For example, officials in Athens say they are still considering the possibility of appealing directly for loans from the IMF, in which Greece is a member.

While that is a possibility, Mr. Sarkozy and other European leaders have the upper hand.

Any Greek loan would have to be approved by the IMF's governing board, where they have outsize power.

Mr. Strauss-Kahn, like IMF directors before him, strives for board consensus.

Germany backs creating Europe monetary fund

Continued from first page

rope, even though Mr. Schäuble said any new financing mechanism shouldn't compete with the IMF. The Washington-based fund sees itself as the world's main economic-response unit and worries that regional funds could detract from its mission. The IMF declined to comment on the proposal.

The euro zone is the second region to view itself as off-limits to the IMF, following developing Asia. After the tough conditions the IMF insisted on to bail out Asian nations during the financial crisis there in 1997 and 1998, a number of countries—especially Japan—proposed an Asian monetary fund.

The IMF and the U.S. government were able to quash that proposal, which they saw as a go-it-alone strategy by the world's fastest-growing countries. In practice, Asian nations reduced the IMF's influence by bulking up their reserves, and through a loose pooling of reserves called the Chiang Mai Initiative.

Greek Prime Minister George Papandreou, who announced stiff austerity measures last week, won verbal support from French President Nicolas Sarkozy on a visit to Paris Sunday. But Greece has been unable to secure concrete promises of financial assistance from other euro-zone governments if it can't borrow enough funds on bond markets. Greece faces debt repayments of around €22 billion ($30 billion) in April and May.

Ms. Merkel has led the resistance to bilateral aid from other European governments, fearing a voter backlash ahead of key regional elections in Germany in May. Last week, Ms. Merkel extended warm words to Mr. Papandreou on a visit to Berlin, but no offer of financing guarantees, for which Greek officials had been hoping.

On Monday, Mr. Papandreou is due to visit U.S. President Barack Obama in Washington, a trip Greek officials say signals that Greece has friends beyond Europe.

Mr. Papandreou has said European governments' reluctance to help could force his country to turn to the IMF.

The idea for a European Monetary Fund has been championed by two European economists, Daniel Gros of the Centre for European Policy Studies and Thomas Mayer of Deutsche Bank, who argue the fund could make the euro zone's crisis management and its commitment to fiscal discipline more credible.

Their idea was for the fund to borrow in financial markets, backed by European governments.

It would also be financed by governments that would pay money into the fund based on how much their budget deficits exceeded the annual ceiling of 3% of gross domestic product and how much their total government debt exceeded the 60% of GDP limit. This would discourage governments from running excessive debt and deficits, they suggest.

—Stephen Fidler contributed to this article.

The new rates | How a new income-tax band in the U.K. will alter London's ranking among financial centers

Ranking in terms of the burden of personal taxes for high-earning financial workers

Single person, British, salary £100,000, bonus £150,000

City	Employee tax and social security	Rank*
Dubai	£0.00	9
Hong Kong	£38,299.00	8
Zurich	£92,259.00	7
London today	**£96,189.60**	**6**
New York	£102,456.00	5
Geneva	£104,422.00	4
London post April	**£108,779.60**	**3**
Paris	£113,944.00	2
Frankfurt	£116,021.00	1

Married banker, two kids, British, salary £150,000, bonus £350,000

City	Employee tax and social security	Rank*
Dubai	£0.00	9
Hong Kong	£75,799.00	8
Zurich	£191,826.00	7
London today	**£198,689.60**	**6**
New York	£205,583.00	5
Paris	£214,228.00	4
Geneva	£219,914.00	3
Frankfurt	£222,690.00	2
London post April	**£236,279.60**	**1**

Source: KPMG UK
Photo: Getty Images

The sun rises over the City of London

London tax hit on financiers

Highly paid bankers to face bigger levies in City than other locations after April changes

By Matt Turner

Senior bankers and hedge-fund professionals will pay more in personal tax and social security should they be based in London from April 6 onward than they would if they were located in any other major financial center, according to an analysis of various scenarios by KPMG.

The accountancy firm prepared data for employee tax and social-security payments in four case studies, basing them in eight different financial centers: London, New York, Paris, Frankfurt, Geneva, Zurich, Dubai and Hong Kong. The data also compare London today with London after April 6, when a new 50% tax on income over £150,000 ($225,480) comes into effect.

The tax payments were calculated for British professionals earning a combined salary and bonus of £250,000, £500,000 and £1 million in the eight financial centers. KPMG also prepared the data for a U.S. citizen earning £1 million, as U.S. citizens face different tax treatment from the U.S. tax authorities depending on what country they work in.

London's tax regime is at present relatively competitive compared with other financial centers. A British banker working in London who earns a £100,000 salary and a £150,000 bonus pays less in taxes than a banker on the same package based in Frankfurt, New York or Geneva.

For those earning a basic salary of £250,000 and a bonus of £750,000, London is even more competitive. Only those based in Dubai and Hong Kong paid less in tax and social security, according to KPMG.

However, after April 6, when the new tax rate in the U.K. comes into effect, KPMG ranks London as the most expensive financial center by employee tax and social security for combined bonus and salary over £500,000. For a professional earning combined bonus and salary of £250,000, it rises to become third-most expensive, after Frankfurt and Paris.

Beyond taxes focused on income, KPMG estimates that London is already the second-most-expensive location to base an executive in terms of employer tax and social-security payments, behind Paris. In addition, KPMG's calculations for employer tax and social security don't take into account this year's one-time bonus levy, where banks, rather than the recipients of the bonus, pay the equivalent of 50% of all bonus payments above £25,000.

Ian Hopkinson, head of people-services tax at KPMG UK, who helped prepare the statistics, said: "You can see from the calculations that for those earning significant bonuses London has moved from being highly competitive to being the most expensive location."

Of course, the financial sector chooses its locations according to more criteria than income taxes.

"The U.K. has been a world leader in banking for centuries," said City Minister Paul Myners. "Competitiveness cannot be explained only by tax rates—you have to look at the full range of reasons it makes sense to do business in London, from our financial infrastructure, to our world-class professional services, highly educated population, quality of life, and geographical advantages."

He added that at 28%, the U.K.'s corporation-tax rate is now at its lowest-rate ever, and is the lowest of the Group of Seven leading countries.

"But we will not be complacent about our competitive edge—the chancellor has been clear that the increase in personal tax was a measure he wishes could have been avoided," Lord Myners said, "but one that was required to repair the fiscal position following the financial crisis."

The calculations involve a number of assumptions based on the circumstances of the case studies and don't take various tax deductions available into account. The figures only take into account employment income, and not investment income, and assume that professionals working in a foreign city don't qualify as a nondomiciled and therefore get reduced tax rates. In addition, KPMG assumes its hypothetical U.S. hedge-fund manager based in London isn't liable to pay state or federal taxes in the U.S.

The calculations also omit some national taxes, which although not based on income, add to the tax burden of living there, such as France's wealth tax on assets over €790,000.

Nevertheless, the figures shed light on the difference the U.K.'s 50% income-tax rate will have on high earners. Bankers, fund managers and policy makers have warned that the tax regime could seriously damage London's competitiveness as a financial center, potentially driving highly paid executives abroad and making it more difficult to attract talent to the U.K. capital.

Barry Bateman, vice chairman of fund manager Fidelity International, said in a report in January that Britain was going from being "pretty competitive on a global scale to being pretty uncompetitive." He added: "People can see that [with the new 50% income tax] the government is now taking more than half of any extra income they earn. We've seen a number of our people asking can they work in other countries—and of course they could."

The City of London Corporation has also warned that the tax regime was driving bankers and fund managers abroad. "Of course we're losing people," said Stuart Fraser, policy chairman at the organization. "Not vast numbers, but it is a trend, and anyone who claims otherwise is naive. The problem is of course that apart from those that are in the papers, it is difficult to get that information, because they go quietly."

In addition, there is also a chance that uncertainty over the U.K. tax regime could make it more difficult to attract talent to London, or influence where banks look to build operations in future.

In December, Tullett Prebon said that it would help its staff move abroad because of the U.K. tax regime. The interdealer broker said it would help staff move to Switzerland, Bahrain and Singapore, though desks have to move en masse to qualify for the relocation assistance. London hedge-fund manager BlueCrest has already decided to relocate 50 of its 340 staff.

However, there have been no departures yet, according to a person familiar with the matter, though the offer remains open and conversations are still taking place on prospective moves.

Rival broker ICAP hasn't seen any staff asking to relocate yet either, said a person familiar with the situation.

Mr. Fraser said there had been a hiatus of international banks placing people in London, while Jonathan Moulds, president for Europe, Middle East and Africa at Bank of America Merrill Lynch and one of the U.S. bank's key employees in London, said the income-tax increase had caused uncertainty.

However, others argue that the U.K. capital's attraction as a financial center goes beyond the tax regime, and that the lifestyle, and family ties, were likely to keep the majority of professionals in London.

—For more, visit efinancialnews.com

Taxing times

Some of the assumptions accountancy firm KPMG made in assessing the personal-tax burden in various financial centers.

General assumptions

■ Tax and social-security rates calculated for Jan. 1 to Dec. 31, 2010, with the exception of the U.K. calculations, which have been done for the year ended April 6, 2010 and the following year.

■ Home country set as U.A.E. for British and French scenarios.

■ Home country set as U.S. for American scenarios.

■ All host locations assume the individual is considered a local employee and the analysis doesn't take into account any beneficial expatriate regimes that may be available.

■ All calculations assume all workdays are spent in the host location and no consideration is given for workdays in other countries and/or associated foreign tax credits (with the exception of the U.S. as the home location).

U.K.-specific assumptions

■ U.K. resident, ordinary resident

■ The new bank-payroll tax is disregarded.

■ National insurance contributions have been calculated at the "Contracted In" rates.

Assumptions related to New York as a host

■ Assume the individual is a resident of New York State and New York City

■ State taxes accrued as itemized deduction

Assumptions related to New York as a person's original home

■ The calculations assume that a worker who lived in New York is no longer liable for tax in New York State or New York City.

Paris assumptions

■ ASSEDIC calculation applies

■ Headquarters tax not applicable

■ The calculations assume that the employer isn't subject to wages tax.

■ France issues its tax rates a year late so the system is actually using 2008 rates.

Frankfurt

■ Frankfurt (Hesse) Church tax included

■ The calculations assume that the employee isn't enrolled in their home statutory pension scheme.

Geneva/Zurich

■ Mandatory pension contributions by employer may be higher.

■ System is using 2009 rates, but these should also apply to 2010.

Dubai

■ The calculations don't consider any municipal tax calculated on the rental value of any residence.

■ The calculations assume that individuals won't maintain any home-country social security.

Hong Kong

■ Mandatory provident fund applicable

■ System is using the 2009/10 fiscal rates.

EUROPE NEWS

Agence France-Presse/Getty Images

Protesters outside Iceland's Parliament in Reykjavík on Saturday demand the government do more to improve conditions. Their protest came amid a vote that rejected a plan agreed by the country's Parliament in December under which Iceland would repay the U.K. and the Netherlands $5.3 billion over 15 years.

Iceland votes down debt plan

Big 'no' vote on repaying U.K., Netherlands to complicate bid to access international aid

By Charles Forelle

Icelanders roundly rejected a deal to repay the U.K. and the Netherlands €3.9 billion ($5.3 billion) lost in the collapse of an Icelandic Internet bank, complicating the island's bid to access badly needed international aid funding and render normal its relations with the rest of the world.

More than 93% of Icelanders voted "no" in a national referendum Saturday, according to preliminary figures from the government Sunday with 98% of ballots counted. It was Iceland's first plebiscite since the island's independence from Denmark in 1944.

The huge margin of defeat—preelection polls had suggested a loud rejection by around three-quarters of voters, but not a thrashing of more than 90%—will make it harder for Iceland's politicians to cede ground in continuing negotiations with the British and the Dutch.

The government of Prime Minister Jóhanna Sigurdardóttir has labored for the better part of a year to get a bill through a hesitant parliament, arguing that Iceland desperately needs money from an International Monetary Fund-led bailout program. Much of those funds are effectively on hold until a payback deal is reached, as is Iceland's application to join the European Union.

Seeing early the signs of impending defeat, Ms. Sigurdardóttir and other political leaders—all the political parties back some form of repayment—had pushed to reach a new accord with Britain and the Netherlands in recent weeks, hoping to make the referendum pointless. After those talks ended Friday with no resolution, Ms. Sigurdardóttir even encouraged citizens not to vote, hoping to blunt the referendum's effect with low turnout.

"This result is no surprise," Ms. Sigurdardóttir said Saturday, according to the Associated Press. "Now we need to get on with the task in front of us, namely to finish the negotiations with the Dutch and the British."

A deal agreed by Iceland's parliament last December—under which Iceland would pay back the money over 15 years but wouldn't have to make payments for the first seven—was vetoed by the island's president, Ólafur Ragnar Grímsson.

In a rare display of power from a normally ceremonial post, Mr. Grímsson cited mass dissatisfaction for his veto, which led to the referendum.

Mr. Grímsson appears to have accurately taken the public pulse. Many Icelanders hold a seething anger at the giant burden placed on them to clean up a mess widely seen as the fault of greedy, high-flying bankers. They are also sore at the U.K. for using a law generally leveled against terrorists to freeze Icelandic assets in Britain as Iceland's banks spiraled toward collapse.

On Sunday, Mr. Grímsson said on state radio that the referendum went "very well," according to Agence France-Presse, and that it is up to Britain to forge a better deal for Iceland. "Gordon Brown should now step forward and ensure the next steps to guarantee a solution that everyone can accept," he said. A British government spokesman said the U.K. "remains committed" to reaching a deal.

The crisis has profoundly reshaped Iceland, which in recent years had been a Nordic idyll of microscopic unemployment, hefty economy growth and heady displays of wealth from a burgeoning financial industry. Reykjavík, once a quaint seaport, hummed with fancy cars, upscale shopping and a raucous party scene. Now, Iceland's krona barely functions off the island, unemployment is 6.7% and gross domestic product fell 6.5% last year—the biggest drop on record.

The bill from the failed bank known as Icesave is one of the most lasting hangovers of Iceland's spectacular banking meltdown in late 2008. All the island's major banks failed, including Landsbanki hf, which had taken deposits over the Internet in the U.K. and the Netherlands through Icesave.

Iceland's tiny deposit-insurance plan couldn't pay the claims of British and Dutch savers, and the two governments stepped in to do so. But they quickly asked Iceland for their money back. The sum to be repaid—€3.9 billion—is staggering for such small nation, equivalent to nearly half Iceland's entire economic output last year.

—Laurence Norman contributed to this article.

Berlin poker robbers are still on the run

Associated Press

BERLIN—Four heavily armed robbers who stormed a poker tournament in a luxury hotel and escaped with a hefty cut of the jackpot are still on the run, German police said.

Officers questioned more witnesses and analyzed surveillance footage on Sunday as the search effort intensified. "We are confident we will catch them," police spokesman Guido Busch said.

The men, armed with machetes and guns, stormed the downtown Berlin Grand Hyatt hotel on Saturday afternoon, forcing hotel employees to hand them at least part of the tournament's jackpot money, which stood at €1 million ($1.36 million).

Inside the poker room, at least seven people were injured while trying to escape, Mr. Busch said.

Security guards tried to keep the attackers from escaping. One of the robbers was pulled down by a guard and lost a bag with a substantial part of the money in the ensuing battle, police said.

The total amount of stolen money is a "low six-digit-figure," Mr. Busch said. Local media previously reported the robbers managed to escape with €200,000.

Following the brazen daylight heist, the robbers escaped on foot through a nearby shopping mall—not wearing black masks any longer—and finally fled in a getaway car. Police were evaluating the possibility of using some of the surveillance footage for a public search appeal, Mr. Busch said.

The five-day-tournament was organized by the European Poker Tour, which calls it the biggest such event in Germany. About 400 participants started into the five-day-long competition on Wednesday, though most had dropped out of the game by Saturday.

The poker games in the hotel, where only a few weeks ago celebrities showed up for the Berlin film festival, continued on Sunday.

Women remain scarce at top at major firms

By William Lyons

Women still are struggling to attain senior-management positions at some of the world's biggest corporations, according to a new survey that warns that among the companies surveyed, less than 5% of women on average manage to rise to the level of chief executive.

The findings from the World Economic Forum's Corporate Gender Gap Report 2010 show that female employees tend to be concentrated in entry- or midlevel positions and remain scarce in senior management or board positions in most countries and industries.

The report, which surveyed 600 leading companies across 16 industries in 20 countries, found the biggest barriers to women's access to leadership positions were a "masculine or patriarchal corporate culture" and "lack of role models." It warns that although wage gaps between women and men are a universally recognized problem, 72% of the companies surveyed don't attempt to track salary gaps.

But a more positive revelation is that almost 40% of the companies surveyed claim to be setting specified targets, quotas or other affirmative policies to improve women's participation in their structures.

Saadia Zahidi, co-author of the report, described the findings as an "alarm bell" that showed that the "corporate world is not doing enough to achieve gender equality."

Ms. Zahidi said: "While a certain set of companies in Scandinavia, the U.S. and the U.K. are indeed leaders in integrating women, the idea that most corporations have become gender-balanced or women-friendly is still a myth. With this study, we are giving businesses a one-stop guide on what they need to do to close the corporate gender gap."

Among the responding companies, the countries with the highest percentage of women employees at all levels were the U.S. (52%), Spain (48%), Canada (46%) and Finland (44%). India had the lowest percentage of women employees (23%), followed by Japan (24%), Turkey (26%) and Austria (29%).

The report is based on a survey of 600 heads of human resources.

Big disparities

Average percentage of women holding CEO-level positions in various countries, from a sample of the world's biggest employers that answered the WEF's survey.

Country	%
Finland	13%
Norway	12
Turkey	12
Italy	11
Brazil	11
Average	5
Belgium	0
Canada	0
Czech Republic	0
France	0
Switzerland	0
U.K.	0
U.S.	0

Source: The World Economic Forum's corporate gender gap report 2010

U.S. NEWS

Policy 'nudge' turns into a 'shove'

Behavior economics touted by Obama administration in its early days gives way to more heavy-handed measures

By Jonathan Weisman

A little more than a year into its ascendancy at the White House, behavioral economics as a key policy-making tool may be on the wane.

The opening weeks of the Obama administration were a coming-out party for economists who hold that incomplete information, subtle obstacles to participation and confusion tend to make people act in economically irrational ways. Economic policy can "nudge" people and institutions into more efficient, economically beneficial behavior without heavy-handed command-and-control measures in regulation and legislation, they argue.

THE OUTLOOK

Cass Sunstein, co-author of the behavioralist bible, "Nudge," took up residence at the White House Office of Information and Regulatory Affairs, while behavioral economist Jeff Liebman has become deputy director of the Office of Management and Budget. Yet another true believer, Austan Goolsbee, took a seat on the Council of Economic Advisers.

At this time a year ago, the order of the day was disclosure, transparency and light-touch policy proposals, such as automatically enrolling workers into 401(k) plans and simplifying student-loan forms.

Austan Goolsbee

But in recent weeks, President Barack Obama has proposed regulating health-insurance rate increases, separating commercial banking from investment banking and prohibiting commercial banks from owning or investing in private-equity firms or hedge funds.

Late last month, Vice President Joe Biden eschewed mere transparency requirements for investment advisers and announced new regulations that would require retirement counselors to base their advice on computer models that have been certified as independent. Otherwise, the advisers would be prohibited from suggesting that workers invest in funds they are affiliated with or receive commissions from. In short, "nudge" has come to shove.

White House budget director Peter Orszag said administration economists haven't given up on behavioral economics. The president's budget for fiscal 2011 again proposes legislation to make it easier for employers to make 401(k) enrollment the default option, since workers tend to take the easiest path on such matters; when employees aren't automatically enrolled in 401(k) plans, many don't sign up.

Work is almost complete on a simplified, online federal student-loan application that allows students to fill in income data from information the Internal Revenue Service has on file from tax returns with the click of a mouse. A study by H&R Block showed such advances could increase completion of student-aid applications by 30%.

And late last year, the Occupational Safety and Health Administration began publishing the names of workplaces where deaths have occurred, with a link from the OSHA home page. Shame, the thinking goes, can be a powerful motivator.

But some of the biggest proposals of last year have disappeared without a trace. When the White House turned last spring to financial-industry regulations, it pressed the concept of the "plain vanilla" financial product, believing that overworked, harried Americans do not read the fine print and compare the bewildering choices on offer. Credit-card companies could offer their array of sometimes-baffling products, but they also would have to offer a simple card with a fixed interest rate and unchanging penalty. Mortgage lenders wouldn't be prevented from selling adjustable-rate or interest-only mortgages, but they would always have to offer up a simple, 30-year fixed-rate loan upfront.

Those "plan vanilla" offerings aren't included in the financial-regulation legislation making its way through Congress.

" 'Plain vanilla,' however, was a subjective term," said Steven Adamske, a spokesman for the House Financial Services Committee. A product of the White House would consider stripped of its bells and whistles wasn't necessarily what others thought the term meant. It wasn't worth the fight, he said.

Even some of the White House's biggest proponents of behavioralism say they have become more prescriptive, in part because they have found the limits of behavioral economics. When Mr. Obama rejected calls to limit executive pay, he believed excesses could be reined in through transparency. A public airing of salaries and compensation would shame corporations into trimming them back.

But so far, executives—especially on Wall Street—haven't been particularly influenced by the public outcry.

« FRANCE IS A KEY MARKET. COMPANIES HERE ARE WORLD-LEADERS IN SEVERAL INDUSTRIES. As this economy opens up and becomes more and more global, companies are focusing on sharpening their competitive edge and are open to new ideas. This makes France a priority market for us. If you want to be a global player, France is an essential business destination to be in. »

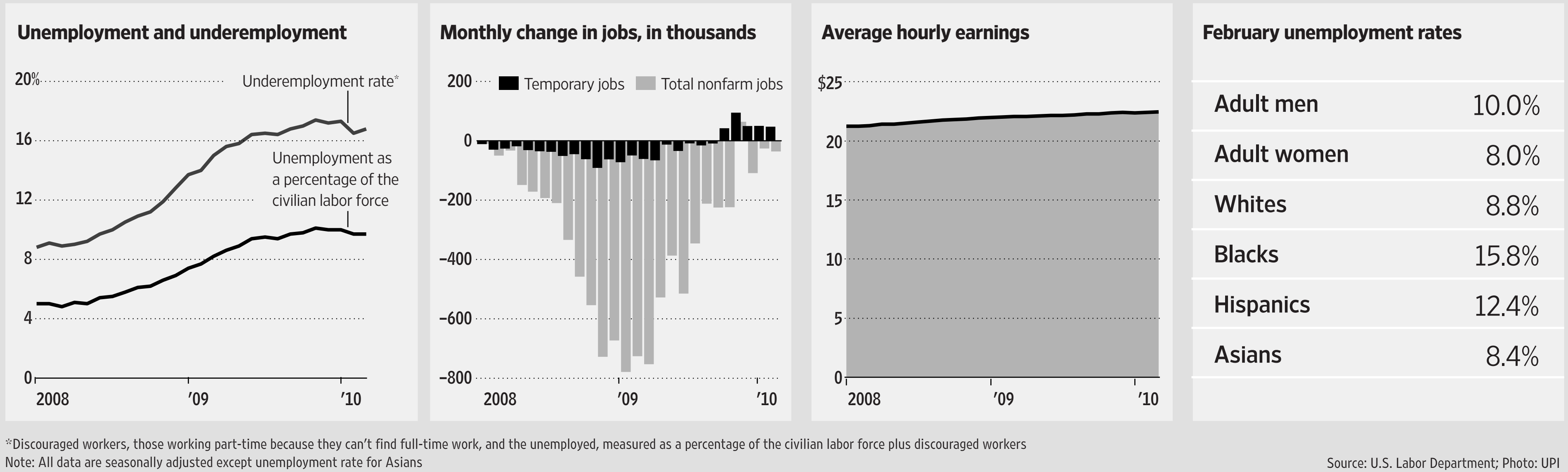
Suresh Vaswani Jt CEO - IT Business and Member of the Board, Wipro Ltd.

With support of the French government

U.S. NEWS

Snow falls on Times Square in New York City last month

Despite winter weather that depressed hiring in February, the unemployment rate was unchanged at 9.7% and employers shed only 36,000 jobs.



February unemployment rates

Adult men	10.0%
Adult women	8.0%
Whites	8.8%
Blacks	15.8%
Hispanics	12.4%
Asians	8.4%

*Discouraged workers, those working part-time because they can't find full-time work, and the unemployed, measured as a percentage of the civilian labor force plus discouraged workers
Note: All data are seasonally adjusted except unemployment rate for Asians

Source: U.S. Labor Department; Photo: UPI

Outlook brightens for unemployed

There remain deep problems in the labor market, but report offers a glimmer of hope to demoralized workers

By Conor Dougherty

The job market is beginning to thaw. The U.S. Labor Department's closely watched employment report, released Friday, suggests the nation's unemployment rate, which peaked at 10.1% in October, has hit a plateau as employers gain confidence in the economic recovery.

Employers still shed 36,000 jobs last month. But many economists say the U.S. would have added jobs if not for the snowstorms that kept people from working and potential employers from hiring. The unemployment rate was flat at 9.7% last month, while a steady rise in temporary workers and job gains across a spectrum of private-sector industries showed companies are growing more willing to hire.

The report suggests January's drop in the jobless rate wasn't a fluke. Indeed, the new report also showed that the number of workers facing long-term unemployment fell.

"There's a good chance we're at the turning point for unemployment," said Bruce Meyer, an economics professor at the University of Chicago.

Mr. Meyer said Friday's report was doubly encouraging because it showed that a steady drop in the unemployment rate since October was real. "It appears that last month's decline was not a statistical anomaly," he said.

There remain deep problems in the labor market, with 14.9 million still looking for full-time work, 8.8 million forced into part-time jobs and 1.2 million too discouraged to look for a job. But the report offers a glimmer of hope to demoralized workers who have suffered through the Great Recession.

The House of Representatives, concerned the economy isn't producing enough jobs, passed a $15 billion bill Thursday with tax cuts and credits to prod employers into hiring.

TD Bank, a unit of Toronto's TD Bank Financial Group, is among those hiring. The bank aims to take on about 4,600 U.S. workers this year, a combination of new hires and replacements for employees who have left, said Chief Executive Bharat Masrani. "Yes, the economy is tough, and some of our clients are suffering, and when our clients suffer, we suffer," said Mr. Masrani. "But we are growing." TD Bank, which employs 23,000 in the U.S., plans to add around 32 U.S. retail locations in 2010, hiring customer-service representatives, bank tellers and call-center operators.

Ninety-two percent of U.S. companies plan to hire in 2010, but half plan to do so more slowly than in pre-recession years, according to a January study by human resources consultancy Towers Watson.

Many companies that are hiring are doing so cautiously. Encouraged by the signs of recovery, two weeks ago, Baxter Miller, owner of BMLA Landscape Architecture in Corona, Calif., hired a business-development manager to find new customers for the firm. It is a single job out of millions still needed, but a big step for Mr. Miller, who had slashed his work force to six employees from 20 in the past three years. "Going from laying off 50% of my staff to hiring someone—that's a significant change," he said. "We're taking a calculated gamble that we can take advantage of the little things popping up."

> **Another report Friday showed U.S. consumers increased their borrowing for the first time in a year**

Last month's snowstorms likely kept the economy from adding jobs. Some of the most severe storms struck parts of the Northeast and Midwest during the pay period when the Labor Department collects its data. Weather was almost certainly behind a fall in the average workweek to 33.8 hours from 33.9 in January. About 1.1 million people were unable to work last month due to weather, compared with 300,000 in January. Despite the weather, several industries showed job gains. Manufacturing added 1,000 jobs, following a 20,000 increase in January. The professional and business-services sector, a broad category that includes legal work and consulting, added 51,000 jobs. Another encouraging sign: The temporary-help services sector added 47,500 jobs and has added 284,000 since September 2009, a sign employers need workers and may eventually add permanent positions.

Meanwhile, some of the heaviest job losses were in construction, which continues to suffer from depressed homebuilding and a slowdown in commercial real estate, such as office and industrial buildings. The construction industry shed 64,000 jobs in February. Without the losses in construction jobs, the private sector actually added jobs in February.

Another encouraging sign was that the number of people unemployed for 27 weeks or more—the long-term unemployed—fell to 6.1 million from 6.3 million in January.

Things are starting to look up for people like Valerie Kinman. In mid-February, Ms. Kinman, 45 years old, got a full-time position at a company that charges people a fee to settle their credit-card balances and other debt, where she does clerical tasks such as data entry and light accounting. For two years, Ms. Kinman, a single mother in Plainfield, Ill., has been getting by on unemployment checks, food stamps and temporary jobs that never lasted more than a few months. "I'm so happy," she said.

About a year and a half ago, Ms. Kinman was at a food bank set up at a local school, where she and her daughter were collecting free bags filled with items such as laundry detergent, boxed potatoes and pudding. "I don't care what job it is, call me back and I'll go to work," she said at the time.

Today, Ms. Kinman still has almost $6,000 in credit-card debt. For the next few months, she said she would continue to lean on food banks so she could use more of her paycheck to work down her debts. "I have to start living in the real world, but I'm excited."

Another report Friday showed U.S. consumers increased their borrowing for the first time in a year, indicating that Americans may be starting to feel more comfortable about spending amid signs the economy is improving.

Consumer credit outstanding rose at a seasonally adjusted annual rate of 2.4% in January, up $4.96 billion to $2.456 trillion, the Federal Reserve said.

The last time consumer credit rose was January 2009.

—Dana Mattioli and Luca Di Leo contributed to this article.

THE WALL STREET JOURNAL. EUROPE
Executive Travel Program
Guests and clients of 320 leading hotels receive The Wall Street Journal Europe daily, courtesy of
ACCESS MBA Tour
www.accessmba.com

Data offer look at hiring trends

By Jennifer Merritt

Payroll and unemployment data released Friday offered a snapshot of the labor market's health last month.

But some researchers say they can get a read on such trends days or weeks ahead of the official numbers by studying Google searches, tweets and even queries at an online phone directory.

Economists painted a mostly positive picture of the latest government data, which showed the economy shed fewer jobs than expected in February and the jobless rate held steady. For people who look at early-warning indicators, the figures were no surprise. The Web-based data have been telling a similar story for at least a month: The job market is getting better—very slowly.

Development of the new techniques is still in its early stages, but researchers say the data could become a part of the traditional forecasting models—or replace some outdated predictive surveys and statistics.

Economists who analyze the job market using more conventional techniques are already paying attention. "The great benefit is that these [data] show people actually doing something," said Ed Leamer, director of Anderson Forecast, an independent economic-forecasting group at the University of California, Los Angeles.

Still, Mr. Leamer and others don't yet use such indicators in their official forecasts because the tools haven't been around long enough to prove their worth.

Beyond that, the habits and makeup of people who use the Internet are in flux, which can make it difficult to isolate the economic message sent by searches and comments.

WORLD NEWS

Protectionism declines

WTO says it is still a risk, but some governments are opening up

By John W. Miller

BRUSSELS—Protectionism by national governments began to decline in the fourth quarter of 2009 but remains a major threat to the global economy, according to a World Trade Organization report.

A copy of the document—cowritten by officials from the WTO, the Organization for Economic Cooperation and Development and the United Nations and will be sent Monday to the governments of the Group of 20 leading nations—was reviewed by The Wall Street Journal.

The 85-page paper is an attempt by the Geneva-based WTO to temper what its officials say are overly pessimistic reports in the media of a rising tide of tariffs, import restrictions, subsidies and other protectionist measures. At the same time, the WTO continues to warn that protectionism is still a risk that could prevent trade from rebounding after it fell 12% in 2009, the sharpest drop since World War II.

The WTO argues that trade in goods remains relatively unencumbered. The share of world imports between September 2009 and February 2010 affected by protectionist measures was only 0.4%, down from 0.8% between October 2008 and October 2009, the report found.

In 2009, there were fewer antidumping investigations than there were a year earlier.

More good news: Countries didn't impose any direct new measures to restrict trade in services. The total number of antidumping investigations, which often lead to import tariff increases, fell to 152 in 2009 from 193 in 2008.

The WTO said that a G-20 goal of making available $250 billion in trade finance has been accomplished, mostly through national export-credit agencies. The average price for letters of credit in larger emerging economies such as Brazil, China and India has come down to 0.7%-1.5% from 1.5%-2.5% a year ago.

Some governments wrote new legislation that encourages foreign investment. Australia, for example, agreed to allow foreign ownership of domestic airlines. China issued a decree making it easier for foreigners to invest and allowing some foreign law firms to set up shop. Indonesia abolished the monopoly of its state electricity company.

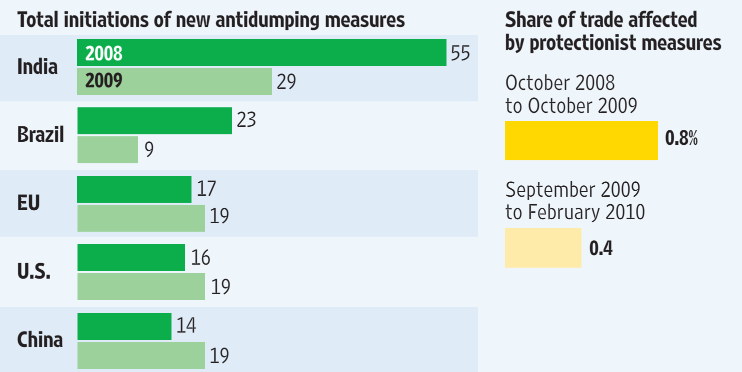
However, there is plenty in the report to dispel complacency. Twenty-seven million people lost their jobs in 2009, the report notes, bringing the total number of unemployed to 200 million, a record high. "Past experience shows that prolonged periods of job losses and unemployment are one of the main catalysts for more restrictive policy making," the report says.

Inflows of foreign direct investment fell to around $1 trillion from $1.7 trillion in 2008.

The number of nontariff trade barriers notified to the WTO increased to 1,489 in 2009, up from 1,272 in 2008. China stood out, imposing 80 new safety restrictions, mostly on food, between September 2009 and February 2010, compared with five for the year-earlier period.

Some parts of the world have suffered sharper trade declines than others. The dollar value of African exports slid 32% in 2009, compared with a 23% decline in the rest of the world. That reflects "Africa's heavy dependence on exports of fuels and mining products whose prices plunged during the crisis," according to the report. The situation is unlikely to improve. According to the report, banks are charging 20% to 32% interest to endorse a letter of credit for an African company seeking to import from the U.S. and Europe.

Most other analysts paint a nuanced picture of the situation similar to the WTO's, but most say the pressure for greater protectionism isn't weakening. "The rising rate of protectionism has not abated since the beginning of the financial crisis," says Simon Evenett, director of Global Trade Alert, a monitoring service funded by different governments.



Managing risk is an art in itself.

DAVID HARDING
Managing Director,
Winton Capital Management

David Harding has a perfectly clear picture of risk. As managing director and a founder of one of London's most prominent commodity trading advisors, with $13 billion under management, David relies on CME Group to manage a complex portfolio that includes everything from cattle futures to Eurodollars. With unparalleled liquidity, transparency and speed, and the security of central counterparty clearing, CME Group guarantees the soundness of every trade. That's why CME Group is where the world comes to manage risk. Learn more at cmegroup.com.

CME Group
A CME/Chicago Board of Trade/NYMEX Company

CME Group is a trademark of CME Group Inc. The Globe logo, CME, Chicago Mercantile Exchange, E-mini and Globex are trademarks of Chicago Mercantile Exchange Inc. CBOT and Chicago Board of Trade are trademarks of the Board of Trade of the City of Chicago. NYMEX, New York Mercantile Exchange and ClearPort are trademarks of New York Mercantile Exchange Inc. COMEX is a trademark of Commodity Exchange Inc. All other trademarks are the property of their respective owners. Copyright © 2010 CME Group. All rights reserved.

WORLD NEWS

Bloomberg News

Central bank Gov. Zhou Xiaochuan in Beijing on Saturday. China has signaled more flexibility in its currency policy in the long term, but a change isn't likely soon.

China is defiant on U.S. ties

Beijing moderates stance on yuan, but says Washington must move to repair relations

BEIJING—China offered its first real sign of flexibility in years over the exchange rate of its currency, a growing source of friction with the U.S., but gave little hope that it would accommodate Washington on Iran and other thorny foreign-policy issues.

*By **Andrew Batson**, **Terence Poon** and **Shai Oster***

Central bank Gov. Zhou Xiaochuan said China will eventually move away from its current exchange-rate policies, which he described as a temporary response to the global financial crisis, but played down the idea that a move could come in the near future.

Mr. Zhou's comments Saturday at a news conference during the annual session of China's legislature, the National People's Congress, could fuel optimism in the U.S. and other countries upset over China's currency policy that Beijing may start letting the yuan appreciate, although not as quickly as many foreign governments desire. Critics complain that the yuan's suppressed value makes China's exports unfairly inexpensive, putting other countries at a disadvantage.

China's foreign minister sounded a defiant note on other sensitive issues with the U.S. in a separate briefing Sunday. Yang Jiechi told reporters it is up to the U.S. to mend frayed relations, which he said had been hurt by American arms sales to Taiwan and by President Barack Obama's meeting with exiled Tibetan spiritual leader the Dalai Lama. "The responsibility for the difficulties in China-U.S. relations does not lie with China," the foreign minister said.

Mr. Yang reiterated China's opposition to sanctions on Iran over its nuclear program, despite intensifying efforts by the Obama administration to win Beijing's support. Last week, the White House sent two senior China hands, Deputy Secretary of State James Steinberg and the National Security Council's Asia director, Jeffrey Bader, to Beijing to discuss Iran. Israel also sent a high-level delegation late last month, led by its strategic-affairs minister, Moshe Yaalon, and its central-bank chief, Stanley Fischer, to seek Chinese backing for stronger sanctions against Iran.

On Sunday, Mr. Yang repeated Beijing's longstanding position that "pressure and sanctions can't solve the fundamental problem," and again urged continued diplomacy with Tehran. "We don't think diplomatic efforts have been exhausted," he said.

Mr. Zhou's comments on the currency Saturday were the most direct suggestion to date by a Chinese official that the yuan's current de facto peg to the dollar won't be maintained indefinitely. Previously, government officials have stressed currency stability without much qualification, and have rejected foreign pressure to allow the yuan to strengthen.

Mr. Zhou said the current policy—which has kept the yuan's value basically unchanged against the dollar since July 2008—was a "special measure" adopted in unusual circumstances. "This is a part of our package of policies for dealing with the global financial crisis," he said. "These kinds of policies sooner or later will be withdrawn."

Economists and currency-market participants increasingly expect that China will at some point this year allow its currency, which is formally known as the renminbi, to rise against the U.S. dollar. Inflation in China is picking up as the economy recovers, a problem many economists say a stronger currency could address.

Trade frictions are also on the rise. The currency peg has helped the country's exporters take advantage of the recent recovery in world trade, but has drawn increasing criticism from the U.S. and Europe as well as China's Asian neighbors. For those critical of Chinese currency policy, Mr. Zhou's indication that he is considering an exit from the peg was welcome.

"It is encouraging that Gov. Zhou's statement suggests that the move to a managed float of the renminbi will be resumed once the global recovery firms up," said Eswar Prasad, a professor at Cornell University who previously headed the International Monetary Fund's China desk. "Maintaining an undervalued exchange rate certainly benefits China, but at the expense of other countries that lose their relative competitiveness in foreign trade."

Mr. Zhou's remarks don't necessarily mean a change in the currency is imminent. China's Ministry of Commerce has stressed the need to continue present policy, especially as the recovery in the export sector remains fragile. On Friday, Premier Wen Jiabao reaffirmed that China will continue to keep the yuan "basically stable"—though that language is vague enough to allow the leadership some flexibility. Mr. Zhou himself said prospects will depend on how the global economy evolves.

"If we are to withdraw from unconventional policies and return to conventional economic policies, we need to choose the time very carefully. This includes the exchange-rate policy for the renminbi," Mr. Zhou said.

In addition to assessing the uncertain global economic outlook, Beijing also has to decide the tricky issue of exactly how to lift the current peg to the dollar. A gradual strengthening of the yuan would be easier on exporters but would attract foreign funds seeking to profit from further appreciation. A one-time revaluation, on the other hand, could stem such inflows but would hit exporters hard.

The political climate abroad is becoming less and less receptive to such nuances. Mr. Obama told Democratic senators earlier this year that he will "get much tougher" with China on trade issues, including the currency. The U.S. Treasury in April also faces its annual decision on whether to formally label China a "currency manipulator."

Chinese officials have long bristled at outside criticism of the currency, and Mr. Zhou said he is opposed to what he called "politicizing" exchange-rate policy. But he indicated a willingness to address currency issues in the context of the Group of 20 nations' discussions on maintaining balanced global economic growth.

Mr. Zhou emphasized that China's exchange-rate policies aren't set in stone for the long term, because they need to adapt to changes over time in the structure of the Chinese economy.

—Liu Li contributed to this article.

IMF chief says Africa will top growth outlook

By Sarah Childress

NAIROBI, Kenya—Africa's economic engines are emerging quickly from a global recession, powering better-than-expected growth for the bulk of the continent, said the International Monetary Fund's managing director.

Dominique Strauss-Kahn predicted growth for sub-Saharan Africa will hit 4.5% this year. That estimate topped an earlier IMF projection of 4% growth for the region. The IMF attributed the improved forecast to the positive performance of South Africa and Nigeria, two of the continent's biggest economies.

Mr. Strauss-Kahn also praised the fiscal policies many countries implemented ahead of the slump, as they largely avoided the financial wreckage that derailed the U.S. and European economies.

"African economies are recovering faster than expected," Mr. Strauss-Kahn told reporters on Sunday at the start of his three-nation visit to the continent, including stops in Zambia and South Africa. "Certainly some Asian countries are leading the move, but African economies are recovering at the same speed, sometimes faster than many others."

Still, the sub-Saharan region is growing at slower rates than before the global slump, and the IMF fears that efforts to reduce poverty will be undermined.

Still, the sub-Saharan region is growing at slower rates than before the global slump, and the IMF fears that efforts to reduce poverty will be undermined. For the first time in a decade, per-capita incomes declined on average across the region in 2009, said Antoinette Sayeh, director of the IMF's Africa department.

Before the slump, sub-Saharan Africa was enjoying its strongest and longest period of growth in three decades, due to high commodities prices and a burst of foreign investment from the West, China, India and the Persian Gulf.

The economic growth also coincided with fledgling democracy in a handful of countries, which saw improved transparency and better fiscal policies. Many countries built up fiscal surpluses and were able to keep inflation under control.

The IMF estimates that the sub-Saharan region's growth was just under 2% last year, not the 1% it had initially predicted. That is largely because South Africa, which last year entered its first recession since apartheid ended in the early 1990s, experienced a more muted downturn. Meanwhile, Nigeria saw a boost in oil production and exports after the government declared amnesty for rebels in its Delta region.

The region also had financial help. The IMF lent $5 billion to sub-Saharan African countries last year to help shore up finances in assorted countries. The amount included $3.6 billion in subsidized loans, the highest amount with those conditions in more than a decade. In January, the IMF adjusted those terms to zero-interest rates.