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# Cameron is new prime minister

BY ALISTAIR MACDONALD  
AND LAURENCE NORMAN

LONDON—Conservative Party leader David Cameron completed a tortuous journey to become Britain's prime minister, even as he sought to clinch a fragile power-sharing deal with the country's No. 3 political party in the wake of Thursday's inconclusive election.

Five frenetic days after a general election that resulted in a so-called hung Parliament—in which no party holds a majority—Mr. Cameron's Tories were on the verge of a power-sharing deal with the Liberal Democrat Party headed by Nick Clegg.

The 43-year-old Mr. Cameron became prime minister after the incumbent, Labour Party leader Gordon Brown, abandoned his own party's hopes of making a coalition deal with the Liberal Democrats.

Shortly after 6 p.m., the men executed Britain's carefully choreographed change-of-power ritual, in which Mr. Brown visited the queen to resign and Mr. Cameron followed shortly thereafter to assume power.

The move returns the Tories to the premiership for the  
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Britain's incoming prime minister, David Cameron, and his wife, Samantha, wave in front of 10 Downing St. on Tuesday, after the incumbent, Gordon Brown, resigned.

## SEC finds no 'single cause' of market dive

BY FAWN JOHNSON  
AND KARA SCANNELL

U.S. regulators said they haven't found evidence of a "single cause" of last week's market plunge, as they established a joint advisory committee to look into the causes of the drop.

The Securities and Exchange Commission and the Commodity Futures Trading Commission said in a joint statement that the advisory committee will look at emerging regulatory issues and place its initial focus on the factors that contributed to the nearly 1,000-point dive in the Dow Jones Industrial Average last Thursday.

Regulators and exchange officials faced questioning Tuesday afternoon from a House subcommittee looking

into the market plunge. A number of officials from U.S. exchanges gave their own ideas about when trading should be temporarily halted to help guard against the sort of price gyrations that roiled the markets last Thursday.

In written testimony to the panel, SEC Chariman Mary Schapiro said neither the SEC nor the exchanges have uncovered evidence of an erroneous "fat finger" trade on that day. "We cannot yet definitively rule that possibility out," she said.

Investigators haven't found any unusual trading in Procter & Gamble Co.'s shares, which tumbled during the market chaos. They also haven't found evidence of hackers or terrorists.

The drop in stocks followed closely activity in the

E-mini S&P 500 futures, the largest stock-futures contract in the U.S., Ms. Schapiro said. But she cautioned that the mini-futures may not have been a cause of the market plunge.

### Regulators and the exchanges are working on unified responses to market volatility.

Regulators are coordinating with the exchanges to come up with unified responses to market volatility. The problems in the plunge may have been exacerbated by disparate practices among exchanges. The New York Stock Exchange's hybrid circuit-

breaker model switched to a temporary slowdown in trading during the volatility.

The head of transaction services at Nasdaq OMX Group Inc. said the exchange operator supports rules that would see a 15-minute halt in trading when the Standard & Poor's 500-stock index falls 5%, with a one-hour stoppage when the S&P 500 falls 10%.

If the S&P 500 fell 20%, trading would be halted for the remainder of the day, the executive, Eric Noll, said, according to prepared testimony he was to give at the hearing.

In separate prepared remarks, NYSE Euronext Chief Operating Officer Larry Leibowitz sought to defend NYSE's hybrid circuit-breaker model, which requires a temporary slowdown in trading.

While the NYSE slowed

trading in more than 1,000 stocks Thursday, electronic exchanges kept trading with limited buyers.

Mr. Leibowitz said in his prepared remarks that the average time for slowed stock trades on the NYSE Thursday was about 40 seconds, and some were even "resolved in less than one second."

While Mr. Leibowitz didn't recommend specific levels for trading halts, he said one area that needs to be looked at are amendments to Regulation NMS. That is an SEC rule that aims to facilitate electronic trading in normal market conditions to make sure trades aren't routed away from markets displaying the best prices.

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### The Quirk



Warmer climate gives cheer to the makers of British bubbly. Page 33

### Notice to Readers

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## PAGE TWO

# Now we have a true test of leadership

## [ Agenda ]

BY PATIENCE WHEATCROFT



As the EU belatedly responded to the threat of a spreading currency crisis and the U.K. struggled to find a new prime minister, Oxford University's Said Business School staged a conference on "The Future of Leadership."

The timing could not have been more apposite, although it was intended to mark the 70th anniversary of the start of Winston Churchill's first premiership—incidentally, at the helm of a coalition government—rather than the leadership crises in Europe.

While above ground London's Cabinet Office was the scene of frantic comings and goings as embarrassing attempts to broker a coalition wore on, below ground some 50 people gathered to discuss leadership in the rooms where Churchill had operated back in 1940. In the Cabinet War Rooms, where no mobile phone or Internet signal could penetrate to bring distracting news from the political battlefield, representatives of business, politics, the public sector, the media and the military were led by Oxford academics in an effort to try to define what is needed for modern leadership and how it might be nurtured.

That the issue was worthy of debate was not in doubt. A survey of Oxford M.B.A. students had found that a hefty majority of them thought that there was a major vacuum in leadership today. More than three-quarters (76%) said this was the case in politics and society generally and 82% thought it was the case in international relations.

Interestingly, business emerged as having stronger leadership, with 41% identifying it as having a leadership vacuum. One explanation advanced for this was



Winston Churchill's old Cabinet War Rooms housed a very modern conference.

that business rewards good leadership far better than other fields.

It is certainly the case that political leaders, at least while in office, do not command salaries in line with those of senior executives in business although, as Tony Blair has ably demonstrated, their capacity for post-office earning may be sky high. However, the majority of

## Today's leaders labor in a very different world to that which Winston Churchill inhabited.

voters probably would not be keen on having leaders whose main motivation was financial.

Even in business, where significant riches may reward effective leadership, a fervent desire to make money may militate against good leadership. But the gathering was clear about what constituted obstacles to good leadership in every sector. Repeated reference was made to the deleterious emphasis on short-term rather than long-term measures of success and the "goldfish bowl" in which modern leaders have to operate and which deters many from taking high-profile roles. The British, in contrast with those in the United

States, still regarded any failure as fatal to a career rather than a potentially useful learning experience for a would-be leader.

Today's leaders labor in a very different world to that which Churchill inhabited. They have to be able to think global as well as national and to cope with the changes that science and technology are spreading at a rapid rate, particularly in communications.

Yet the qualities that constitute a good leader are really very little changed from 70 years ago. The consensus of the meeting was that good leaders needed to have moral courage; they needed to be prepared to take risks; and they needed passion. (One academic thought the latter a fine idea for a post-graduate course: "advanced passion" would surely attract plenty of students.)

One business leader who was particularly vociferous on the need for passion in a leader remarked that he had watched the debates between the three potential future prime ministers of the U.K. and been struck by the lack of real passion any of them exhibited.

The cliché tells us that leaders are born rather than made, but part of the purpose of the War Rooms discussion was to debate whether leadership could be taught. There was a view that it could certainly be nurtured and techniques that aid leadership

could be imparted. One crucial one was the ability to evaluate risks. Another important technique to aid leaders was, said one of the Oxford contingent, a focus on ranking values as an aid to thinking strategically. It was not only the bishop present who made reference to values.

"Leaders need to have a vision they can sell," declared one member of the group. "So it has to be a vision which is morally justifiable."

An ability to manage in a crisis is vital. Equally, a thick skin is essential for a leader, a view expressed by one former FTSE chairman and endorsed by many others in the room. And while such a carapace cannot be bought, the techniques for dealing with criticism can be taught.

Sometimes that criticism will be unjust but on other occasions, it will be justified. That leaders have to listen was a recurrent theme throughout the proceedings.

Oxford's Said school is intent on continuing with its exploration of leadership and will be establishing an academy to help develop the next generation of leaders. It may be the case that political parties should consider sending some of their bright young things to benefit from such an institution.

The unseemly haggling that has gone on in the U.K. in recent days as the three main parties tried to cobble together a coalition has not shown political leadership at its finest. With the public already disenchanted with politicians, perceptions will not have been enhanced by the horse-trading that has taken place in the quest for power.

Now, however, the country has a new prime minister in David Cameron. He faces a looming financial crisis on a frightening scale. This is a true test of leadership.

Unless he moves hard and fast against the deficit, the markets will pass a very early judgment on his leadership and it will not be flattering. It will also be irreparable.

## What's News

■ **European stocks fell**, but upbeat U.S. stocks at the end of the European day and news that the U.K. was close to forming a majority government helped to offset nagging doubts surrounding the euro-zone rescue package. 27

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## ONLINE TODAY

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### Reader comment

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"If someone hiccups in Greece, then we feel it here in the United States."

Reader **Louis Ciola** on stock markets' pull back from gains as euphoria over euro-zone rescue package wanes



### Continuing coverage



Will David Cameron be the U.K.'s next prime minister? Get the latest at [wsj.com/ukelection](http://wsj.com/ukelection)

### Question of the day

Vote and discuss: Who bears responsibility for the oil spill in the Gulf?

Vote online and discuss with other readers at [wsj.com/dailyquestion](http://wsj.com/dailyquestion)

### Previous results

Q: Can a Conservative-Liberal Democrat coalition reassure the markets about the U.K.'s future?

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44%

No

56%

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NEWS

# Church is responsible for scandal, pope says

By STACY MEICHTRY

Pope Benedict XVI on Tuesday called on the Roman Catholic Church to take responsibility for its crisis of sexual-abuse allegations against priests, dismissing claims that the scandal had been whipped up in order to discredit the church.

"The greatest persecution of the church doesn't come from enemies on the outside but is born from the sin within the church," Benedict XVI said, according to Vatican radio. Responding to a question about the "suffering" of the church amid allegation of sexual abuse of minors, the pontiff placed the blame for the scandal squarely on the church and called for "purification."

The pope's comments were his strongest since the emergence this year of hundreds of allegations of sexual abuse and cover-ups across Europe, and indicated a growing recognition of the crisis engulfing the Catholic Church. The scandal has already driven people away from the church, threatening Benedict XVI's central aim of reviving its membership, particularly in Europe.

Earlier this year, Benedict XVI held silent on the crisis, leaving a vacuum that other Vatican officials and prominent Vatican clerics filled with controversial statements. The pope's personal preacher, the Rev.

**The pope's comments were his strongest since the emergence of allegations of priestly sexual abuse.**

Raniero Cantalamessa, used a Good Friday sermon on April 2 to liken scrutiny of the church to the persecution of Jews. The Vatican's spokesman disassociated the Vatican from the sermon.

Two days later, Cardinal Angelo Sodano, dean of the College of Cardinals, stood before Pope Benedict during Easter Mass in St. Peter's Square and dismissed scrutiny of the pope as "petty gossip." Victims of priestly sex abuse were outraged.

Pope Benedict broke his silence on April 15 when Vatican Radio published a papal address to advisers, calling on the church to "do penance" in the face of "attacks"—though without explicitly mentioning sex abuse.

Days later on a flight to Malta, the pope told reporters how the church had been "wounded" by "our sins," without specifying those sins.

Later in his trip to Malta, he met with sex-abuse victims behind closed doors at the Vatican Embassy. Returning to the Vatican, the pope recounted the Malta meeting to pilgrims in St. Peter's Square. "I shared with them their suffering, and emotionally prayed with them, assuring them of church action," he said.

Pope Benedict traditionally takes questions on foreign trips from traveling reporters. On the flight to Portugal on Tuesday, the pope responded to a question about the sex-abuse crisis, saying the church's internal struggle to confront it was "terrifying."

The church, the pope said, "has a

deep need to re-learn penance, to accept purification, to learn, on one hand, forgiveness, but also the need for justice," Vatican Radio said.

The pope did not say whether any Vatican policies led to the abuse. The Vatican is currently facing a handful of lawsuits filed in the U.S. alleging that its actions and policies allowed instances of child-

hood sex-abuse by Catholic priests to take place.

To date, the Vatican hasn't been found liable in U.S. courts; the majority of sex-abuse-related suits in the U.S. have been against individual bishops and dioceses.

—Ashby Jones and Margherita Stancati contributed to this article.



Pope Benedict XVI blesses a baby during a welcome ceremony in Lisbon



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## EUROPE NEWS

# Carriers chafe at flight limits as airports close

BY DANIEL MICHAELS  
AND ANDY PASZTOR

BRUSSELS—As clouds of ash from an Icelandic volcano continue to disrupt European aviation, airlines are attacking regulators over their analysis of the threat and decisions to close airspace.

The chief executive of Irish national carrier **Aer Lingus Group PLC** Tuesday called the computer model used to track the ash clouds “inaccurate,” and two major airline associations said their members were losing faith in the British office supplying European governments with data on the clouds.

A spokeswoman for the Volcanic Ash Advisory Center in London, part of the British Met Office, defended the center’s analysis and modeling. “It’s a proven and internationally endorsed model,” she said.

The dispute is flaring as national regulators in Spain, Portugal, Morocco and Turkey on Tuesday closed airports or airspace due to high ash concentrations, causing flight delays and cancellations.

At the crux of the dispute is a question fundamental to commercial aviation: What level of risk is acceptable for passengers, airlines and governments? It is an issue carriers face daily, assessing potential threats ranging from thunderstorms to birds. Safety experts say there are no documented cases of passenger fatalities due to engine failure from ash.

In a potential step toward greater flexibility on the issue, the European Union’s European Aviation

Safety Agency on Tuesday held a conference call with engine makers and others in an effort to raise the allowable concentration of volcanic ash for commercial flights. The current limit was set very conservatively last month when Europe’s airspace shut for five days.

The question of acceptable risk will also be central to discussions Wednesday in Paris, where the United Nations’ International Civil Aviation Organization will hold a meeting to start setting new global guidelines for operating amid volcanic dust.

ICAO’s previous guidance—established after jetliners flew near erupting volcanoes in the 1980s and nearly crashed—was that pilots should avoid all ash plumes, without exceptions.

But while erupting volcanoes pose an occasional threat, some level of volcanic ash is almost constantly in the atmosphere. Long before eruptions of Iceland’s Eyjafjallajökull volcano last month prompted authorities to close 80% of Europe’s airspace, carriers and engine makers had recognized that minor encounters with volcanic ash—typically unnoticed by pilots—caused extra wear on aircraft engines.

Desert sand, which is less abrasive than most volcanic ash, can significantly shorten the life an aircraft engine, and manufacturers mandate tighter inspection regimes for planes and helicopters operating in the Middle East and similar regions.

The U.S. Federal Aviation Administration, which deals with volca-



Cancelled flights stalled Europe-bound travelers Tuesday in Tenerife, one of the Canary Islands.

noes in Alaska and on the West Coast, advises against flying near ash clouds, but leaves operational decisions largely up to individual airlines.

Because the rule has always been to avoid volcanic ash, little real-world data exist on its effect for use in building analytical models, safety officials say.

Under ICAO rules, aviation officials had little choice but to close airspace on April 15, said David McMillan, director general of Eurocontrol, which oversees air traffic across 38 European countries. “It was the precautionary principle at work,” Mr. McMillan said in an interview.

European airspace reopened after transport officials from the EU, member states and Eurocontrol agreed with engine makers on an acceptable concentration of ash: 200 milligrams per cubic meter of air.

Since then, areas of airspace have been briefly shut by national authorities when the Volcanic Ash Advisory Center in London said concentrations exceeded the agreed-upon level.

Now, European airlines are questioning the VAAC’s data and attacking governments for not consistently matching responses to the actual threat.

“Airlines have lost confidence in the VAAC as the sole source of information for government decisions on airspace closure,” said Ulrich Schulte-Strathaus, secretary general of the Association of European Airlines.

The International Air Carrier Association, which represents charter airlines, said in a statement: “Airlines are losing faith in this methodology.”

Mr. Schulte-Strathaus called for collection of more data on ash in the atmosphere, greater use of experience from other regions such as the U.S., and more standardized application of existing European rules. “The data isn’t being interpreted consistently,” he said.

In France, for example, the civil aviation authority has worked with **Air France-KLM SA** to conduct several test flights. “It allows us to confirm there is no ash residue in the zone,” said an Air France spokes-

man. France has kept its airspace open while Spain shut Barcelona Airport, not far from France, based on VAAC data.

“We believe volcanic-ash predictions thousands of miles away from the original eruption need to be treated differently,” said Aer Lingus Chief Executive Christoph Mueller in a statement.

The Met Office spokeswoman said the model is constantly adjusted based on new data. First developed in 1986 to track a cloud of radioactive dust from the explosion of the Chernobyl nuclear reactor in the former Soviet Union, the model has been frequently revised and improved, she said.

Input for the model today comes from Iceland’s reporting of volcanic activity, satellite images, radar, environmental-test aircraft and a laser system that can judge air density, the spokeswoman said.

The VAAC puts these data through its model to produce maps that show where ash concentrations are expected over following hours to exceed the limit set by engine makers.

# In internal report, Russia shifts Westward

BY GREGORY L. WHITE

MOSCOW—In a confidential report, Russia outlined a shift toward a more pragmatic foreign policy aimed at building closer ties with the U.S. and Europe to help modernize its outdated industries.

The program detailed a shift away from the more confrontational line the Kremlin had taken in past years. It singled out the Obama administration for praise for its more cooperative approach to Moscow.

A Russian official confirmed the authenticity of the document, which was addressed to President Dmitry Medvedev by Foreign Minister Sergei Lavrov. It was first reported Monday by Russian Newsweek, which ran the document’s full text on its website.

A Kremlin spokesman said the program, dated February, hasn’t been officially approved. But some elements, such as a deal with the U.S. to reduce nuclear weapons, have already been implemented. Its spirit was reflected Sunday, when U.S. and European troops for the first time marched alongside Russian forces during Moscow’s annual military parade marking the end of World War II.

“It’s a document that reflects the mainstream in today’s Russian polit-

ical leadership,” said Dmitry Trenin, director of the Carnegie Moscow Center.

The report also includes insights into Moscow’s relationships with former Soviet republics. It calls for taking advantage of the global financial crisis to acquire industrial and energy assets in the Baltics, Belarus, Ukraine and Central Asia—all areas where Russian influence is a sensitive political issue.

On many issues, the Kremlin hasn’t lined up completely with the West. On a visit to Syria on Tuesday, Mr. Medvedev suggested Moscow might be interested in nuclear-energy deals there. The U.S. has opposed any nuclear cooperation with Syria until Damascus allays international concerns a suspected nuclear-weapons program destroyed by an Israeli strike in 2007.

On the issue of Iran’s nuclear ambitions, U.S. officials say Russia has largely come around to supporting Washington’s efforts to tighten sanctions on Tehran. But the report leaked Monday names Iran as a potential flash point for renewed conflict with the West in the event of a military strike against Iranian nuclear facilities, which Moscow staunchly opposes.

The report details a foreign-policy approach Mr. Medvedev called



Russian President Dmitry Medvedev, center, arriving in Turkey on Tuesday.

for during his annual address to parliament in November. Saying that “puffing up our cheeks” was pointless, he declared then that foreign policy should aim to help modernize Russia’s underdeveloped economy.

In a cover letter to the report, Mr. Lavrov calls for creating “alliances of modernization” with European countries to attract needed technology and wrote that “It is necessary to find opportunities to use American technological poten-

tial.” The report named Germany, France, Italy and Spain as Russia’s closest partners in Europe.

Though the document includes traditional denunciations of U.S. ambitions to maintain global dominance, it hails the Obama administration for its “transformational potential” in relations with Russia. President Barack Obama has sought to revive ties with Moscow, dropping many initiatives that had irked the Kremlin, including plans for missile-defense systems in Poland

and the Czech Republic and staunch support for leaders in Georgia, and previously Ukraine, who took an anti-Russian stance.

“The overall climate is better than it has been since the time of Perestroika,” said Vyacheslav Nikonov, a foreign-policy analyst and frequent Kremlin adviser. “Russia has started to react to the more cooperative policy from the West.”

He and other analysts noted that the Kremlin’s new approach bears some risks, especially as Moscow reasserts its influence in the former Soviet Union.

Mr. Nikonov noted that Mr. Medvedev’s focus on weaning Russia’s economy from its dependence on oil and other natural resources and stimulating high-technology industries mandated the Westward focus. “The sources of modernization and innovation are in the West, not the East,” he said.

Though the report notes Moscow’s partnership with China and other major developing countries, it gives much more attention to ties with the U.S. and Europe. The report also says that after several years of military buildup, the Kremlin aims to reduce defense spending as a share of the economy.

—*Ira Iosebashvili*  
contributed to this article.



EUROPE'S DEBT CRISIS

# Bailout sets stage for EU fiscal union

BY CHARLES FORELLE

BRUSSELS—Europe's pool of bailout money, €750 billion (\$955 billion) deep, appears for now to have prevented the crisis that began in Greece from tearing apart the 16-nation euro zone.

Now for the tougher question: Can Europe find a way to stop fiscal crises—those born of overspending and undertaxing—in the future?

As Germany's cabinet Tuesday agreed to send the country's bailout contribution of up to €123 billion to parliament for approval, Monday's euphoric rally in European financial markets petered out. European stock markets and the euro slipped.

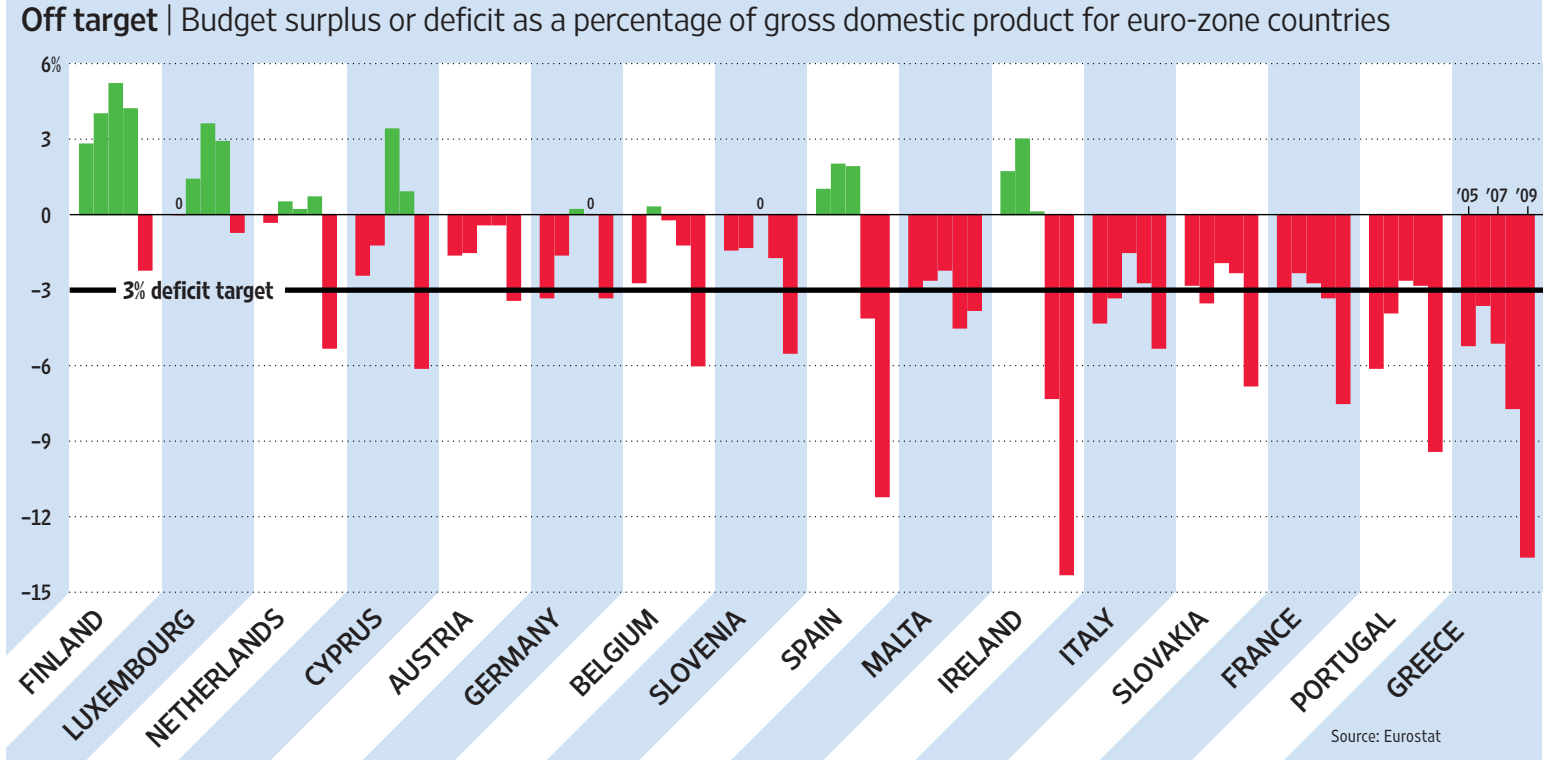
Prices of bonds from governments in Southern Europe continued to rise, however, moving their borrowing costs somewhat closer to those of Germany. That signaled that investors view bonds of these countries as less risky than even a few days ago.

One reason for the market caution: The open question over whether the bailout will put fresh impetus behind long-dormant notions that the European Union itself should have a greater hand in the budgetary affairs of its members. So far, says Marco Annunziato of UniCredit Group: "We have not yet seen any credible strengthening of the euro zone's fiscal rules."

To that end, the bloc's executive arm, the European Commission, will propose new rules on Wednesday that would let authorities in Brussels assess national budgets before they are passed by parliaments, a big step toward joint administration of fiscal policy.

Such centralization has long been anathema to many nations, who view the public purse as the sacred and exclusive domain of sovereign countries. But the woes of Greece may have forced their hand; the capital markets on which Greece has relied to fund epochs of deficit spending have fled in the face of its poor fiscal management, denting the common currency along the way.

"What the markets want is very clear," says Guy Verhofstadt, a former Belgian prime minister and current member of the European Parliament who is one of the Continent's



leading federalists. "What they want is that the European Union gets more grip on this, or you cannot have a coherent monetary union." That view has been widely echoed by economists.

The €750 billion bailout plan represents "a step towards replacing peer pressure with peer control in the context of fiscal surveillance," analysts at Moody's wrote on Tuesday. "A strengthening of the institutional fiscal framework in Europe ... would be credit-positive for the region as a whole."

Since the first rumblings of the Greece crisis, proponents of a tighter fiscal embrace have seized the opportunity.

The EC reanimated its efforts to give its statistical authority, Eurostat, greater powers to scrutinize countries' financial reporting. A similar effort was rejected by the EU's finance ministers several years ago, but times have changed and it appears to have support now.

Herman Van Rompuy, the EU president, decided last week to accelerate the work of a task force

looking to strengthen "policy coordination."

Resistance to closer fiscal coordination comes from national capitals, particularly Berlin. Germany is proud of its relative fiscal rectitude, and it is deeply reluctant to take advice on financial administration from others.

German officials reacted furiously earlier this year when French Finance Minister Christine Lagarde suggested the Germans should spend more in order to reduce imbalances within the euro zone that see money pouring into Germany from other countries.

"Budget laws are a national responsibility," German Finance Ministry spokesman Michael Offer told reporters Tuesday. "In Germany, naturally, it's in our own best interest, and we have historical precedent, for national jurisdiction over budget law. And we want to keep that independence."

But Germany is in a tricky spot. Chancellor Angela Merkel has been harshly critical of Greece's budget overruns. "Germany has a very diffi-

cult psychological process to get through," says Fabian Zuleeg of the European Policy Centre, a Brussels-based think tank. Tougher rules are needed to stabilize the euro and bring confidence to the monetary union, he says. But that can be done only by introducing "rules that will apply to all countries in the euro zone," including Germany.

Germany, for its part, prefers a list of new regulations, including tougher penalties for breaking the EU's Stability and Growth Pact, which limits annual deficits to 3% of gross domestic product. Germany also seeks harsh savings and restructuring measures for countries that tap the bailout fund, and new regulations on derivatives and short-selling.

Germany's exposure to the euro-zone bailout fund could however lead Berlin to rethink its opposition to stricter budget oversight, if not to fiscal collaboration. It may conclude that relinquishing some control over its own budget is a price worth paying if Berlin gains supervision over the finances of other members in re-

turn.

The EC's proposals will involve examining member countries' budgets before they are voted on by parliaments. It isn't clear whether the final legislation would permit actually blocking budgets—a step that could involve serious constitutional challenges in many countries—or providing an advisory assessment only.

The second major piece of the proposal is expected to create a sort of European Monetary Fund, making permanent the loan-making bailout mechanism established this week, which has a life span of three years.

The commission will also push for tougher enforcement of the Stability and Growth Pact. Countries have violated its limits to debts and deficits almost with impunity since the euro's creation a decade ago. "We need much stronger governance so we don't end up in exactly the same crisis in the future," says Mr. Zuleeg. But "the fundamental question is one of political will."

—Patrick McGroarty contributed to this article.

# IMF's reach spreads to Western Europe

BY BOB DAVIS

WASHINGTON—Within a month, the International Monetary Fund has moved from a euro-zone pariah to an essential institution whose blessing is necessary for euro-zone countries that need rescue packages.

"Only weeks ago, there was serious question of what the role of the IMF would be in the euro zone," said the IMF's deputy managing director, John Lipsky. "That role has now been clarified."

The European Union and its euro-zone members said on Sunday that any future bailout would occur only in the "context of joint EU/IMF support," and would require the IMF to approve a program of "strong conditionality," according to an agreement by EU finance ministers.

That is IMF lingo for saying that the IMF would have to approve any loan for a troubled EU country and would require that a borrower adopt

tough economic policies to get its house in order. The IMF and EU would then jointly police the loan to see that those conditions were being met before more money is disbursed.

"This is a template that will be used in the future," Mr. Lipsky said.

A powerful IMF role was a priority of U.S. Treasury Secretary Timothy Geithner, who lobbied his European counterparts during lengthy phone calls that IMF participation would give a European stabilization plan "credibility," said a participant. Over the weekend, European ministers agreed to increase what was initially conceived as a €100 billion (\$127 billion) contribution by the IMF to €250 billion.

The Europeans and the U.S. wanted to announce an overall number that was so large it would convince markets there were sufficient funds to handle any problem with European sovereign debt. In the end, the Europeans said they would

chip in €500 billion and announced that the IMF would add another €250 billion. In dollars, the total was about \$1 trillion.

"The \$1 trillion number seems to be well-defined eye-catching number to stop a panic," said former IMF senior official Eswar Prasad, who is now a researcher at the Brookings Institution in Washington.

But Mr. Lipsky said that the IMF hadn't made a €250 billion commitment to European nations—and couldn't because it only doles out money after individual countries ask for help.

No euro-zone nation, other than Greece, has applied for an IMF loan. "We were trying to give an idea of scale without being excessively precise," he said. He called the €250 billion figure "illustrative."

During the weekend, Mr. Prasad met with officials from the Group of 20 industrial and developing nations in Toronto who were debating eco-

nom policies ahead of a G-20 leaders' meeting in June. While representatives of the G-20 nations, which include India, China, Brazil and South Africa, were broadly supportive of IMF's efforts to help Europe—a big export market for developing nations—the scale of the aid is bound to deepen the divisions in the IMF between rich countries and poor, he said.

For decades, poor countries have complained that the IMF makes harsh demands of poor countries when they need to borrow, but doesn't press rich countries hard to change policies that can produce crises. In hallway conversation at the G-20 session, "there was significant concern about whether this was another example of unbalanced treatment between advanced countries and emerging markets," Mr. Prasad said.

More galling to the poor countries, he said, was that the IMF may tap loans made by India, China, Bra-

zil and other developing countries to finance smaller European countries that run into trouble—even though European nations have resisted changes in IMF voting structure that would give big emerging markets a larger say in the IMF.

"That issue will come roaring back," Mr. Prasad said, once the economic situation in Europe settles down.

But Mr. Lipsky said such an interpretation was mistaken. Until recently, Germany, France and other euro-zone nations refused to consider loans from the IMF, arguing that the IMF loans were for developing countries, not wealthy European ones. Scrapping that view puts wealthy nations and developing ones on more similar footing, he said.

"Perhaps if there is a stigma [to borrowing from the IMF]," said Mr. Lipsky, "it's a positive stigma of enhancing the reputation" of a country that turns to the IMF for help.

## EUROPE NEWS

# Miss France pageant takes ugly turn

*Longtime organizer, fed up with new risqué format, sparks feud with her plans to create a rival competition*

BY CHRISTINA PASSARIELLO  
AND MAX COLCHESTER

PARIS—For over half a century the Miss France beauty pageant was a bastion of French dignity and chic. Now things are getting ugly.

Miss France's organizer Geneviève de Fontenay has broken with television-production company **Endemol NV**, saying that the introduction of bikinis and leaked pornographic pictures has turned the pageant raunchy. She is organizing a rival pageant in an effort to restore respectability to the competition.

"Miss France was an image that symbolized a good upbringing and intelligence," Ms. de Fontenay said recently on French television. "Not a self-exhibiting slut."

Last month, the conflict between Ms. de Fontenay and Endemol came to a head, and the production company fired off an email to the local organizations, asking them to pick sides.

On Monday, both sides claimed victory. Endemol said 17 of 32 regions were on its side, but Xavier de Fontenay, Ms. de Fontenay son, said his mother had a majority.

Endemol, which is partly owned by Italian Prime Minister Silvio Berlusconi's **Mediaset SpA**, also said that it will sue Ms. de Fontenay for breaking a noncompetition clause in her contract if she follows through with plans for her own pageant. A Mediaset spokeswoman declined to comment on the results of the regional poll, while Ms. de Fontenay didn't respond to requests for comment.

The 77-year-old Ms. de Fontenay has presided over the Miss France contest since 1954, becoming inextricably linked with the event. Known as "the lady in the hat," she is renowned for never appearing in public without a black-and-white headpiece and a thick smearing of scarlet lipstick.

In 2002, she sold the Miss France brand to Endemol, the company behind international reality TV hits such as *Big Brother* and *Extreme Makeover*, for several million euros. She stayed on as a consultant and hostess for the national televised event, organizing contests from Lille, in the industrial north, to Nice, on the Mediterranean coast.

Under Ms. de Fontenay's ownership, the shows were a relatively dignified affair featuring presentations—in evening wear, regional costumes and one-piece swimsuits.



Geneviève de Fontenay, left, with Malika Menard as she is crowned Miss France 2010 in Nice in December. Ms. de Fontenay is now organizing a rival pageant.

Contestants had to wear their hair tied up in a bun.

Now, the two-hour show features more music and dance performances. The contestants wear skimpy bikinis and let their tousled locks flow. Despite the racier format, audience levels for the show have fallen to 7.9 million from 9.3 million viewers in the past five years, according to *Mediametrie*, a French company that measures TV ratings.

"The contestants have become showgirls in a musical rather than ambassadors for their regions," says Dominique Vilain-Allard, a delegate who organizes local beauty contests in the northern France pageant region Artois-Hainaut.

Part of the problem is that reality TV has turned the Miss France pageant into an audition for future

TV roles. Elodie Gossuin, Miss France 2001, was a finalist in a 2004 reality TV show and is now a small-screen presenter. Ms. Gossuin signed on to the reality TV show to get a media exposure that is different from a beauty pageant.

"It was an opportunity I couldn't refuse," says Ms. Gossuin, who remains a loyal beauty-queen recruiter for Ms. de Fontenay.

Lately, Miss France has been plagued by scandal. In 2007, less than two weeks after Valérie Bégue was crowned Miss France, a magazine published erotic photos of her taken before the pageant—a violation of Miss France rules.

Scantly clad, Ms. Bégue appeared licking the contents of a yogurt pot and floating in a pool on a wooden crucifix. Ms. de Fontenay called for her to step down and,

though she kept her title, she was barred from representing France in the Miss Universe and Miss World contests.

Last December, Miss Paris, Kelly Bochenko, was stripped of her crown three weeks after participating in a Miss France pageant when risqué photos of her naked and her legs akimbo appeared in a magazine. The following month, Ms. Bochenko was cast in one of Endemol's most successful reality shows, *Celebrity Farm*, where minor celebrities work with animals on an African ranch.

Ms. Bochenko's new gig proved the tipping point for Ms. de Fontenay, according to her son, who headed the Miss France company for nearly 30 years under her ownership.

In February, she filed a com-

plaint with a French employment tribunal claiming that she felt unable to fulfill her contract as a consultant with Endemol. A hearing is scheduled for October.

Mr. de Fontenay said he is in constant contact with his mother, and that he could help her on her new, rival pageant. "There certainly won't be any bikinis," he said of the new contest.

Nothing less than the image of France is at stake, according to Ms. de Fontenay's court of loyal pageant organizers. "When a Miss France arrives in a French village, it's like a presidential visit," says François Kathia Schlosser, who runs the Alsace pageant in eastern France. "People expect a nice girl, not something out of *Playboy*."

—Margherita Stancati in Rome  
contributed to this article.

## Embattled Spanish judge seeks leave of absence

Associated Press

MADRID—The high-profile Spanish judge who indicted Augusto Pinochet and Osama bin Laden is seeking to take a leave of absence as he awaits trial on charges of abuse of authority in a domestic case, a court official said Tuesday.

Judge Baltasar Garzón has accepted an offer for a seven-month assignment as an adviser at the International Criminal Court in The Hague, said the official at the National Court, where Mr. Garzón works.

Mr. Garzón, 54 years old, isn't

resigning, and his departure won't affect the case against him in Spain for having launched a probe of Spanish Civil War atrocities that were covered by an amnesty, the official said on condition of anonymity in line with court policy.

Mr. Garzón denies any wrongdoing and says the probe was legitimate. If convicted, he faces removal from the National Court for up to 20 years.

The transfer is a way to dodge the almost certain suspension that Mr. Garzón would face once his trial starts some time over the next few months.

Mr. Garzón received a job offer at the International Criminal Court from Luis Moreno-Ocampo, an Argentine who is its chief prosecutor, the official said.

A Spanish judicial oversight board has to decide whether to grant Mr. Garzón the leave of absence.

Mr. Garzón was indicted last month by a Supreme Court judge on charges he knowingly overstepped the bounds of his jurisdiction by launching in 2008 a probe of the execution or disappearance of more than 100,000 civilians at the hands of supporters of Gen. Francisco

Franco during the 1936-39 war and in the early years of the Franco dictatorship.

The Association for the Recovery of Historical Memory, a group that backed Mr. Garzón in his efforts to probe atrocities, said the judge has been reduced to "a political refugee in The Hague."

The association said his departure is probably part of a deal to spare Mr. Garzón from actually going on trial.

Mr. Garzón also is under investigation in two other cases: one involving money that a Spanish bank paid to sponsor human-rights semi-

nars he gave while on sabbatical in New York a few years ago, and another in connection with jailhouse wiretaps he ordered as part of a corruption probe.

The judge has been assigned to the National Court since 1988, and earned a reputation as a tireless sleuth as he took on big cases ranging from corruption and drug trafficking to human-rights abuses during Latin American dictatorship and Islamic terrorism, including the prosecution of a Spain-based cell charged with helping prepare the Sept. 11, 2001, attacks in the United States.



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## BRITISH ELECTION

## High and low points of the Labour Party's 13-year reign



Tony Blair celebrates Labour's election victory in 1997

**May 1997:** Labour's Tony Blair becomes U.K. prime minister in landslide victory, ending 18 years of Conservative rule.

**April 1998:** Mr. Blair helps broker historic peace agreement in Northern Ireland.

**June 2001:** With the economy growing, Mr. Blair re-elected by wide margins.

Source: WSJ research

**September 2001:** Terrorists attack the U.S.; Mr. Blair subsequently backs U.S. invasion of Afghanistan.

**March 2003:** Mr. Blair backs U.S.-led invasion of Iraq, which quickly becomes a political liability for Labour.

**September 2004:** Protesters storm Parliament in opposition to Labour's proposed ban on fox hunting.



A British airlift in Iraq, 2003

**May 2005:** Mr. Blair re-elected again, but Labour's majority in Parliament shrinks.

**July 2005:** Terrorist bombings of London's transit system kill dozens.

**June 2007:** Facing low approval ratings and internal party pressure, Mr. Blair resigns, handing power to Gordon Brown.



Gordon Brown announces his resignation

**September 2007:** Mortgage lender Northern Rock requires rescue by Bank of England, in harbinger of financial crisis.

**October 2008:** Mr. Brown unveils bailout of several big U.K. banks, serving as a model for U.S. and other government rescues.

**April 2010:** Mr. Brown asks the queen to dissolve Parliament and call national elections.

# Labour's longest reign comes to end

*Party will regroup in hopes of making a comeback, but it faces internal battle to develop and define new leadership*

BY ALISTAIR MACDONALD

The longest reign in the British Labour Party's history ended Tuesday, but the party may be hoping it can mount a swift comeback should a coalition government falter.

A likely hookup between the Conservatives and Liberal Democrats is fraught with big ideological differences and tough choices involving the country's huge deficit.

"The economy is not so good and any Tory-Lib Dem coalition may prove too much of marriage of convenience," said Prof. Mark Wickham-Jones, in the department of politics at Bristol University.

But as Labour regroups, it also has problems of its own. When Gor-

don Brown, prime minister for less than three years, tendered his resignation to Queen Elizabeth II late Tuesday, an already split Labour was pitched into an internal leadership battle, with no clear contender to take over.

Labour's "capacity to self-destruct shouldn't be underestimated," said Prof. Wickham-Jones.

The party leaves office after 13 years that saw a monumental boom and bust, leaving the next government with the task of tackling the debts accrued through both.

The party's slide has been years in the making—rooted in divisions over the Iraq war, an internal split, a deep recession and an electorate restless for change.

Tuesday's result marks the sunset of an era in British politics that began in 1997, when Tony Blair and Mr. Brown ushered in a movement known as New Labour. They aimed to use the pro-business, pro-markets policies of the right to raise tax revenue for reformed public services, shedding many of the socialist principles that had made Labour unelectable for almost 20 years.

Aided by a booming financial sector and debt-fueled consumer and government spending, the U.K. enjoyed an unprecedented period of growth. But many of the factors that set up the boom led to its bust, when the U.K. became one of the biggest victims of a credit crunch that would plunge it into the longest

postwar recession.

Mr. Brown clawed back some respect with a widely admired performance in bailing out the country's banks, and keeping unemployment and home repossessions low. But the effort was expensive for the Treasury.

Labour notched many gains during its 13-year tenure. Since 1997, overall crime has fallen 36%, according to the British Crime Survey. There were improvements in some public services, such as trimming notoriously long waiting lists for treatment at the country's National Health Service. In Northern Ireland, Mr. Blair helped negotiate an end to fighting between Catholics and Protestants. In addition, London trans-

ferred powers to Northern Ireland, Scotland and Wales in what was widely seen as a success.

But such spending also meant that Britain entered its recession with debts.

In the 2010-11 fiscal year, the U.K.'s public spending as a share of gross domestic product is forecast to be 48.1%, up from 39.9% in 1997. Out of 28 comparable economies surveyed by the Institute of Fiscal Studies, the U.K. has moved from having the 22nd-largest proportion of GDP spent publicly in 1997 to sixth-largest in 2010.

It now has the biggest budget deficit of the major economies, about 12% of GDP, a legacy the new government will have to pay down.

## 'Triangle' eased process

BY CASSELL BRYAN-LOW

LONDON—A low-key army of civil servants helped the U.K.'s main political parties navigate through a murky constitutional maze for which there is no legal map as they jockeyed to form a government in recent days.

This mass of bureaucrats is responsible for tasks that include ev-

erything from advising party negotiators on constitutional issues—in a country that doesn't have a codified written constitution—to making sure that the queen is available should the outgoing prime minister need to resign, as Gordon Brown did Tuesday, or an incoming leader require her formal blessing to form a new government.

The task of keeping the queen informed of the progress of negotiations between parties in an election like this one, where there was no clear winner, falls to a triumvirate of top officials known as "the golden triangle." It is led by cabinet secretary Sir Gus O'Donnell, the country's top civil servant, who liaises with the private secretaries for both the queen and prime minister.

With no one party having secured a majority of seats in Parliament, the leader of the Conservatives, David Cameron, and of the ruling Labour Party, Mr. Brown, spent the past few days trying to woo the third-largest group, the Liberal Democrats, to form an alliance.

In the U.K., where such electoral

outcomes are rare and no written laws exist to govern the process, the civil service acts as traffic cop.

On Friday, as it became clear that no party had won, Mr. Brown asked Sir Gus, the cabinet secretary, to provide support to the parties involved in negotiations.

In recent days, teams of civil servants have been providing factual information on policy proposals, advice on constitutional issues and logistical support for the meetings. Talks between senior Conservative and Liberal Democrat officials took place at the Cabinet Office building, which is home to the civil service that coordinates policy and strategy across government.

"They're facilitating. They're not actively negotiating," says Vernon Bogdanor, a professor of government at Oxford University, of the role of civil servants. Unlike in the U.S., British civil servants are non-party political appointments and are required to serve whatever government is in place.

What happens in the event of a U.K. hung Parliament is dictated by



Gordon Brown, right, with Sir Gus O'Donnell. in February.

constitutional convention. To clarify procedures, Sir Gus in February published a document pulling together conventions and practice for the first time.

Rules had existed, but "they existed in the British way," says Mr. Bogdanor, who helped draft the manual. "The establishment know what they are, but most people don't."

The manual states that where no party wins a majority, the incumbent prime minister gets first shot at forming a government. If he resigns, Parliament then directs the queen to name the successor, based

on the person best able to command support within the lower house.

The civil service also plays a key role in keeping the queen informed of progress of discussions between the parties.

As part of the golden triangle, Sir Gus remains in close contact with Christopher Geidt, the queen's private secretary and a former United Nations adviser to the Balkans. The third official is the permanent secretary to the prime minister's office, Jeremy Heywood, a former banker and previously an adviser to Tony Blair.

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BRITISH ELECTION

# Tories face political, fiscal hurdles

Tackling the deficit tops the list; Conservatives and Lib Dems agree on some measures, but are far apart on others

BY DAVE KANSAS

The Conservative Party returned to power after a 13-year absence to find financial markets tumbling, sterling weak and the U.K. sporting the largest fiscal deficit in the 27-member European Union at a time of heightened angst about sovereign debt.

Such a litany of woes would challenge any new government. But the Tories will have the added wrinkle of working on these key issues with their new partners, the Liberal Democrats, who don't necessarily agree on how to tackle the problems.

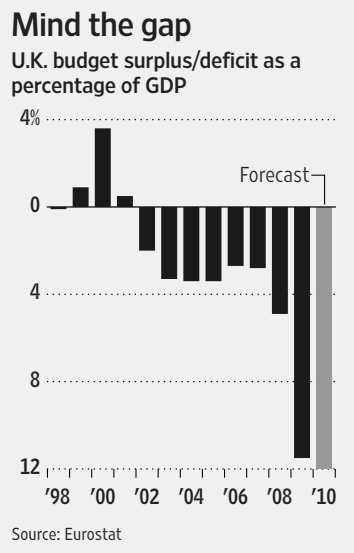
Both parties agree that the chief task is rolling back the nation's deficit, forecast at 12% of gross domestic product this year. David Cameron has promised to move more quickly than Labour or the Liberal Democrats had planned to, but beyond that he has provided scant details. Indeed, the Institute for Fiscal Studies, a think tank, criticized all three major parties for not offering greater specificity on their deficit-reduction plans.

That fuzziness, criticized during the campaign, will now give both parties some room for maneuver as they seek to make tough decisions. Many observers expect any plan will require a painful combination of spending cuts and tax increases and almost certainly some reduction in government services, despite pledges to the contrary by both the Tories and Liberal Democrats.

The Lib Dems said during the campaign that all parties should come together in a "Council for Financial Stability" to hammer out the right fiscal program.

But the Tories dismissed the idea, and it is difficult to see why Labour would sign up for such a council.

Instead, the Conservatives and the Lib Dems will have to tackle the fiscal issues on their own. They are expected to agree on various popu-



list measures, such as public-sector pay caps, new taxes on banks, and a higher tax exemption for low wage earners.

But other issues, such as a business tax cut or the pace of spending cuts, may expose fissures.

Stakes for the government partnership are high. Austerity measures in Greece have been met with strikes and riots. Similar unrest is brewing in Spain and Portugal. The euro zone has pledged nearly \$1 trillion to rescue struggling economies.

Dawdling isn't a good option: Ratings agencies have said the U.K. risks losing its top-notch triple-A credit rating if it doesn't start taking concrete steps immediately to solve its fiscal problems.

A credit downgrade would increase borrowing costs, making the budget arithmetic even more challenging.

In addition to the ratings agencies, the market itself has become acutely focused on sovereign-debt issues. The intense gyrations in the U.S. stock market late Thursday—including a nearly 1,000-point drop on



Conservative Party officials are escorted by police and media after meeting with Liberal Democrat counterparts Tuesday.

the New York Stock Exchange that was partially recouped—will make skittish investors even more eager to hear details on what the Tories have to offer.

The Conservatives have promised a new budget in 50 days, but they may need to act even more quickly to mollify the markets.

"Right now, we're in a perilous situation," said John Wraith, fixed-income strategist at Bank of America Merrill Lynch in London. "If the budget is too aggressive, that could be dangerous. Equally, to delay is also very dangerous."

The Conservatives' opening bid is £6 billion (\$8.9 billion) in savings from the current budget. The Lib Dems saw £15 billion in savings, but only "if the timing is right" for such cuts. Such savings represent just a

sliver of the U.K.'s £159 billion deficit last year.

Mr. Wraith and others are looking for additional indications that the Conservatives and Lib Dems will start to change the basic structure of U.K. government spending. For instance, the Conservatives have already pledged to bring forward an increase in the state-pension retirement age to as early as 2016 from 2026. Mr. Wraith would like to see the government take even bolder action to raise the state pension retirement age.

The Conservatives and Lib Dems also are expected to retain the recently increased top tax rate, which is at 50% of income, end certain tax credits and child trust-fund payments for wealthier families, and cap public-sector pensions above

certain levels.

But many observers say the Tories and Lib Dems will have to do much more to persuade skeptics, investors and ratings agencies that they can get the fiscal situation back under control. Given the backdrop of fiscal crises across the periphery of the euro zone, Mr. Cameron may feel the heat sooner rather than later.

"Attention has slipped away from the U.K. during the election, but that's going to change," says George Buckley, economist at Deutsche Bank in London. "People see how things are panning out in the rest of the world, and if those problems persist, the focus on the U.K.'s own problems will intensify."

—David Enrich contributed to this article.

## Cameron is new prime minister as Brown resigns

Continued from first page  
first time since 1997—but they return to Downing Street under far-from-ideal circumstances.

The country faces problems that include a massive budget deficit and an economy that has been slow to recover from the recession.

Mr. Cameron will have to tackle those woes without the big parliamentary majority he was long expected to have, but squandered in the final weeks of a historic, topsy-turvy campaign.

Instead, he faces the prospect of a coalition government with the Liberal Democrats. They may force the Conservatives to concede key policy ground on issues such as taxes and electoral reform—despite the fact that the Tories won five times more parliamentary seats in Thursday's election.

Discussions were under way late Tuesday that would also award cabinet posts in the government to the Liberal Democrats.

For any coalition deal to be completed, the leadership of both parties must still ask members of their respective groups to back the deal. And that may not be a certainty

given a huge gulf that divides them on everything from managing the economy to immigration and relations with Europe.

If the two sides don't manage to agree on the coalition, the Tories can still go it alone in a minority administration. But they would be dependent on support from other parties to pass legislation.

Either way, the Conservatives are faced with keeping a government together as they try to push through aggressive spending cuts to Britain's much-loved public services.

The new government must do this without upending a fragile economic recovery and must deal with other issues, such as public anger if progress isn't seen in the unpopular war in Afghanistan.

On Tuesday night, the Conservatives and Liberal Democrats were close to finalizing terms on a coalition after an attempt by the newly deposed Labour Party to seal a deal with the Liberal Democrats failed.

The party's last toss of the dice, after 13 years in power, crashed amid opposition from Labour Party lawmakers and the realization that any coalition, which would need the



Gordon Brown speaks to his children and wife outside 10 Downing St. Tuesday.

help of other parties, would be too fragile to survive.

After an emotional farewell speech in front of his staff and supporters outside No. 10 Downing St., Mr. Brown headed to Buckingham Palace to tender his resignation, ending a long career at the top of British politics with the words "thank you and goodbye."

The Liberal Democrats' leadership was set to meet with party lawmakers and other senior officials early Tuesday evening in London in what could prove the last major hurdle to a coalition deal.

The Liberal Democrats need backing from three-quarters of their lawmakers and their governing Federal Executive.

Financial markets reacted positively to signals that a deal between the Conservatives and the Liberal Democrats seemed set to happen.

The pound surged on the news with the euro sinking 0.7% to the day's low of £0.8514. Sterling spiked by the same amount against the dollar to the day's high of \$1.4915.

A day of frantic back-and-forth meetings began with Tory patience about the lack of a conclusion to power-sharing talks with the Liberal Democrats that began Friday.

"The Liberals played us quite smartly, kept us in the wings to keep the Tories keen," said Jim Fitzpatrick, who until Tuesday evening was a government minister. In a sign of likely recrimination that could hurt Labour, Mr. Fitzpatrick said his party should never have tried to torpedo the Liberal Democrat talks with the Conservatives, given the Tories had won the most seats.

Thursday's general election left Mr. Cameron's Conservatives as the largest in Parliament, with 306 seats, compared with 258 for Mr. Brown's Labour party. A party needs 326 seats to form a majority government.



## U.S. NEWS

# More workers quit than were laid off

BY SARA MURRAY

More U.S. workers quit their jobs than were laid off in March, the second month in a row this has occurred and a sign of employees' growing confidence that more positions are becoming available in a slowly recovering job market.

Nearly 1.9 million employees quit in March compared with more than 1.8 million who were laid-off or discharged, the Labor Department said Tuesday. Meanwhile, the number of hires rose to a seasonally adjusted 4.2 million in March from 4 million in February.

February marked the first month since November 2008 that the number who quit exceeded the number who were laid off or discharged.

"The most positive thing, certainly, is hiring activity finally started to pick up," said Harm Bandholz, a UniCredit Research economist. But "companies are still very cautious."

The Labor Department noted that, "The quits rate can serve as a measure of workers' willingness or ability to change jobs." In deep recessions, when work is tough to find, the number of those quitting declines as employees grow less willing to risk trying to switch jobs. Meanwhile, layoffs rise.

As hiring starts to improve, people grow more confident about their ability to leave their job and find

another and layoffs begin to decline.

Both figures—the number who quit and those who were laid off—rose slightly in March, compared with the prior month, but quits have been outpacing those who were discharged in recent months largely because the pace of layoffs has slowed from its peak during the recession.

On another positive note, the number of hires was also larger than the number of total separations, which include quits, layoffs and retirements. Separations increased 1.2% to 4 million in March from February.

Jobs still aren't easy to find, though. There were just 2.7 million job openings in March and 5.6 unemployed persons per available job as employers have shied away from widespread hiring.

Small businesses have been particularly reluctant to add to their ranks. An index of small-business optimism rose 3.8 points to 90.6 in April, the National Federation of Independent Business said Tuesday. Despite the improvement, owners surveyed said that, on net, they shed more workers than they added for the 27th consecutive month.

A separate report Tuesday showed that sales at U.S. wholesalers climbed 2.4% to a seasonally adjusted \$348 billion in March, according to the Commerce Department.



Agence France-Presse/Getty Images

Downplaying recent tensions, Hillary Clinton and Hamid Karzai said disagreements were normal among allies.

## Clinton emphasizes ties to Karzai on his U.S. trip

*U.S. wrestles with how much pressure to put on Afghan president*

BY PETER SPIEGEL

WASHINGTON—Afghan President Hamid Karzai and U.S. Secretary of State Hillary Clinton attempted to put recent differences

between their governments behind them Tuesday, saying that while they may have policy disagreements, such disputes don't reflect instability in the overall bilateral relationship.

Speaking at the formal opening of a three-day summit here for Mr. Karzai and a large delegation of Afghan ministers, Mrs. Clinton sought to reassure Afghans that the U.S. was committed to the country's long-term development, saying the Obama administration wouldn't abandon Mr. Karzai's government once U.S. troops begin withdrawing next year.

Notably, Mrs. Clinton only briefly mentioned corruption issues in Mr. Karzai's government, and then only to praise the Afghan president's efforts to fight graft, including his strengthening of the Afghan government's High Office of Oversight.

Those remarks stand in sharp contrast to criticisms made just weeks ago by National Security Adviser James Jones who, during a trip with President Barack Obama to Kabul in late March, said Mr. Karzai needed to be more concerned with fighting corruption in his own government.

The issue of how hard—and how publicly—to push Mr. Karzai over corruption has become a point of contention within the Obama administration.

Some officials say the repeated public chiding has only led Mr. Karzai to lash out against U.S. and Western allies.

Others have argued in internal meetings, however, that Mr. Karzai still has yet to take the issue of corruption seriously, and any letting up on pressure would lead Afghan civilians to believe the U.S. isn't serious about graft, which continues to undermine Mr. Karzai's government in the eyes of his constituents.

"I've been in many meetings with him where he says the right thing, and afterwards does nothing," said a U.S. government official. "At what point, then, do you ramp things up a little bit and take things public? There isn't an easy answer. They may be no answer at all," the U.S. official said.

Thus far during Mr. Karzai's stay, which began Monday, U.S. officials have noticeably resisted criticism. Current and former U.S. officials said the Obama administration is making an intentional effort to patch up recent disputes, which spiraled into a public swapping of accusations last month, with Mr. Karzai accusing the West of fraud and the White House intimating it might cancel this visit to Washington.

In her remarks on Tuesday, Mrs. Clinton said disagreements were

**Karzai had previously come under intense public criticism from the Obama administration for failing to crack down on corruption within his government.**

normal in any relationship between allies.

"President Obama and President Karzai both understand that the ability to disagree on issues of importance...is not an obstacle to achieving our shared objectives," Mrs. Clinton said.

"Rather, it reflects a level of trust that is essential to any meaningful dialogue and enduring strategic partnership," she said.

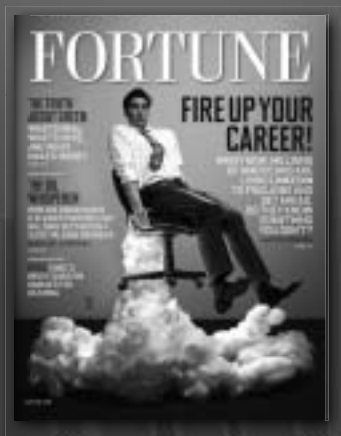
Mr. Karzai agreed with Mrs. Clinton, saying disagreements were a sign of a "matured relationship."

U.S. and Afghan officials working on the visit have urged Mr. Karzai to show more appreciation for American sacrifices during the visit, and the Afghan president began that effort during his remarks on Tuesday, saying advances in Afghanistan wouldn't have been possible "without the sacrifices of your sons and daughters."

Mr. Karzai is also scheduled to visit Arlington National Cemetery at the end of his stay in Washington.

"We will not forget the contributions you have made," Mr. Karzai said. "Afghanistan is known around the world for being a country that remembers a friend—and for long."

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