Getting back on track when mentoring goes awry
EXECUTIVE ADVISER REPORT

Ratings shopping lives on; Congress still seeks a fix
THE BIG READ 18-19

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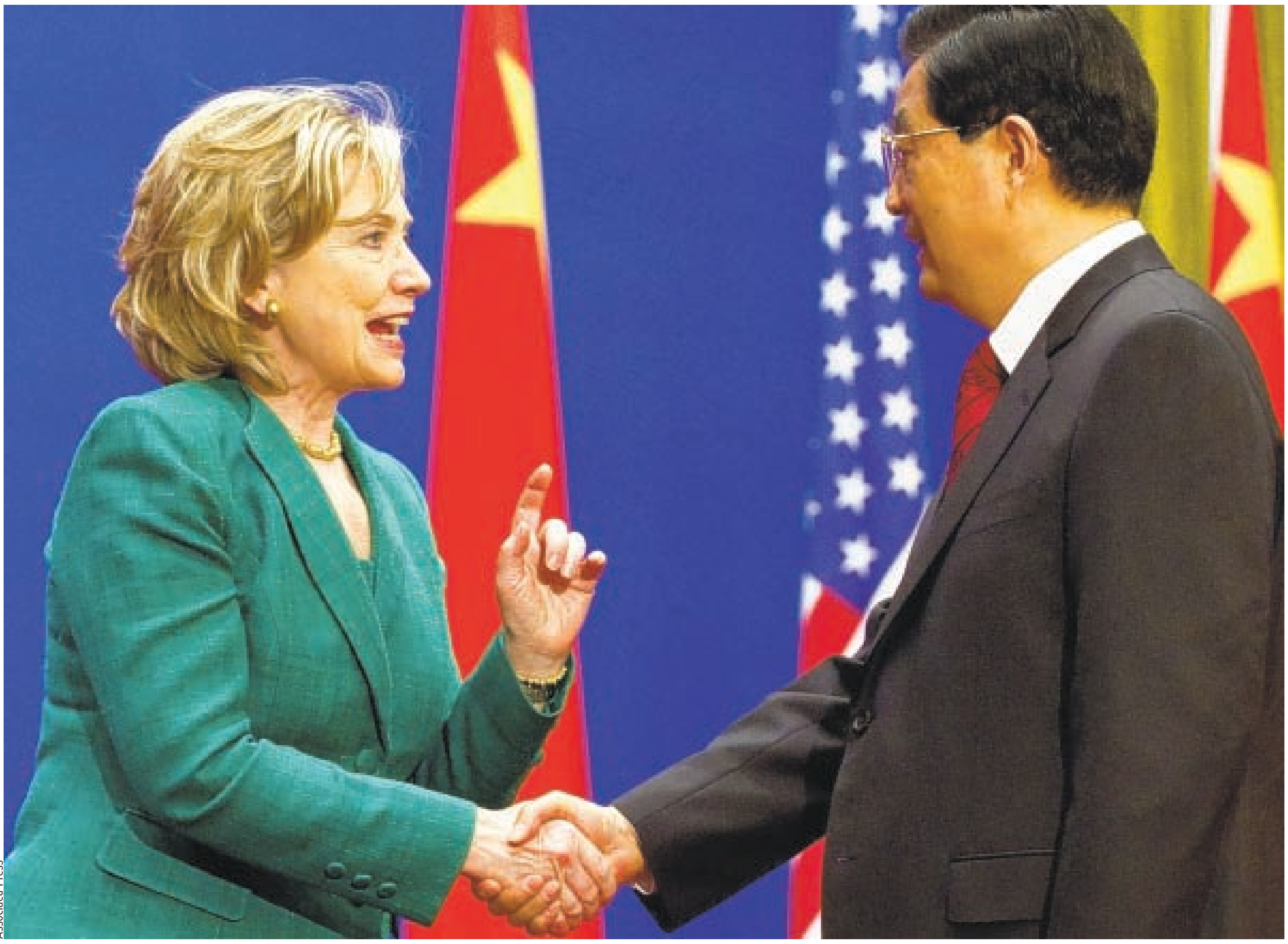
Chinese host seeks to regain mutual trust



Associated Press

Chinese President Hu Jintao's mention of the yuan-dollar exchange rate as he opened two days of U.S.-China talks in Beijing Monday was taken as a conciliatory gesture in the debate over the strength of the yuan. But he didn't mention North Korea, which Hillary Clinton, left, says is a key sticking point for the nations. Article on page 12.

U.S. to aid Korea defenses

The Obama administration said it could intensify its military posture toward North Korea, as the U.S. moved to bolster South Korea's defenses in retaliation for Pyongyang's alleged role in sinking a South Korean warship in March.

By Jay Solomon in Beijing and Evan Ramstad in Seoul

"Our support for South Korea's defense is unequivocal, and President Obama has directed his military commanders to coordinate closely with their Korean counterparts to ensure readiness and to deter future aggression," Secretary of State Hillary Clinton said Monday in Beijing on the sidelines of the annual U.S.-China Strategic of Economic Dialogue. "As part of our ongoing dialogue, we will explore further enhancements to our joint posture on the peninsula."

Mrs. Clinton declined to spell out the Pentagon's potential actions. The Pentagon declined to comment.

The White House's announcement came in support of South Korean President Lee Myung-bak's statement Monday that Seoul was cutting off all economic assistance to the North, banning North Korean ships from South Korean waters and halting visits between the two countries.

South Korea also said it was preparing to report Pyongyang to the United Nations Security Council, potentially for a new round of sanctions. On Monday, U.N. Secretary General Ban Ki-moon called the evidence against North Korea "overwhelming and deeply troubling," telling a news conference that he expected the Security Council would take "measures appropriate to the gravity of the situation."

The South Korea trade ban will wipe out $500 million in annual payments to Pyongyang, according to South Korean trade data, a significant blow to an economy that generates less than $20 billion of value each year.

The U.S. secretary of state

Please turn to page 12

U.S. bill would hit firms with Iran ties

By Spencer Swartz And Steve Stecklow

A U.S. House committee has proposed barring the Pentagon from buying fuel from companies that do business with Iran's energy industry—a stance that is a long shot for becoming law but that underscores U.S. lawmakers' continuing dissatisfaction with international efforts to slap tough sanctions on the nuclear ambitions of Tehran.

An amendment to a defense-spending bill, co-sponsored by a Republican and a Democrat and passed with full support in the House Armed Services Committee, would cost some European oil firms billions of dollars in Pentagon contracts for buying Iranian oil, and would dramatically escalate U.S. sanctions against Tehran. "The Secretary of Defense may not enter into any contract with an entity that engages in commercial activity in the energy sector of Iran," the amendment says, according to a copy reviewed by The Wall Street Journal.

The measure's passage re-

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The Quirk

Hawaii's tour guides and foam makers feel 'Lost' without TV show. Page 33

Editorial & Opinion

The fear returns to markets. Page 15

PAGE TWO

And the Oscar for the hardest hit from the Greek bailout goes to...

[Agenda]

By Irwin Stelzer

Nothing creates as much unhappiness among Peters as being robbed to pay Pauls. Which is one way to look at what is going on in the euro zone, where Hans is being robbed —not given any choice—to pay for carefree Stavros, and may soon be robbed to pay for José's and Joãos. There is a load of dicey debt out there in euroland—no one knows how much—and the markets are not signing on to the plan of the eurocracy to cope with it. Think of it this way. Someone is going to lose money. As they would say at the Oscar awards ceremony in Hollywood: the nominees for this honor are:

■ Anyone who has loaned money to the Club Med nations, including banks in Europe and the United States;

■ banks and money market funds doing business with Club Med creditors;

■ taxpayers in the EU and the U.S. who are being asked to bail out the stricken countries, either directly or through the International Monetary Fund; and

■ savers, pensioners and future generations if the European Central Bank decides to print money to pay for the sovereign debt it is buying because the markets won't, at interest rates the borrowers can bear.

I might have missed a few nominees, but you get the idea.

If this were the Oscars, we would open the envelope and find that the powers-that-be have elected all of the above, with the exception—for now, at least—of those to whom Greece and other sovereign debtors owe money. Which seems strange: these lenders of their own free will made loans in pursuit of what they considered returns commensurate with the risk they were assuming.

Associated Press

The category for biggest bailout loser contains some big-name nominees

To politicians steeped in the ethos of the euro zone, it is a matter of war and peace, of preventing the European project collapsing and leaving mighty Germany free to pursue its own rather than European interests. To them, if the euro collapses, or the euro zone shrinks rather than attracting new members, the European "project" will be at an end, with consequences foretold in Europe's bloody history.

The French fear that if there is a default—the polite term is 'restructuring'— they will have wasted a crisis.

Less apocalyptically, the French fear that if there is a default—the polite term is "restructuring"—they will have wasted a crisis, and failed to take the next step to replace a Europe of sovereign states with a United States of Europe by centralizing control over individual nations' fiscal policies. The only questions are what form the formal central review will take, and what penalties will be imposed on nations that overspend—fines, loss of votes, or expulsion of serial miscreants are all being discussed.

Economists see things differently. Bailing out Greece has created moral hazard by signaling to other countries deeply in debt that, even if they are small, they are still too big for the eurocracy to allow them to fail. But if, as planned, euroland as a whole borrows money in order to pay off Greek debt, it will merely have transferred the risk to the balance sheet of the euro zone as a whole—you can't eliminate debt by borrowing to pay it off. You can lower the interest cost by assuring investors that reluctant Germans stand behind rioting Greeks. But markets are saying that the eurocracy is only postponing the day of reckoning: there isn't enough money available from the north to prevent restructuring Greece and others for very long. Soon the burden of solving the problem will pass to Greece's creditors, who undoubtedly are already figuring they will have to write off a portion of their loans—30% is the number being bruited about.

Unless, of course, the European Central Bank begins printing money to pay for the sovereign debt it is buying. No knowledgeable person believes Jean-Claude Trichet's promise not to do that: his purchase of these bonds "does raise questions about the independence of the ECB", says Stanford University's John Taylor. Instead, we are likely to see a flood of newly minted euros, driving its value down to around $1.10. Or so experts are predicting.

There will be an increase in German angst: German terror of inflation and resentment at the bail-out has already deleted "Iron" as a descriptive of Chancellor Angela Merkel. But the lower euro is bringing cheer to industrialists, and not only in Germany. Exports are booming. Stock pickers are guessing that Spain's Banco Santander, and France's Danone SA will join Germany's Siemens and BMW AG as beneficiaries of the lower euro.

But that is merely a tiny ray of sunshine through clouds that won't be dispelled until writedowns and fundamental economic reforms replace attacks on "speculators" as part of the solution. Meanwhile, austerity and slow or no growth will be the order of the day for an area that proudly styles itself "the lifestyle superpower."

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

What's News

■ **Spanish central bank** officials sought to reassure nervous depositors after taking over ailing savings bank Caja-Sur over the weekend. The country's savings banks are reeling from the collapse of the property market. 7

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Iain Martin on Politics

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"Whatever he plans next for his stunned party, he'd best be relatively quick to take advantage."

Iain Martin on U.K. Prime Minister David Cameron's plans.

Continuing coverage

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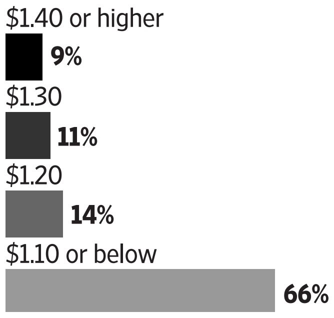
Question of the day

Q: How would you grade Merkel's leadership during Europe's debt crisis?

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

Previous results

Q: Where will the euro be a year from now?



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NEWS

U.K. access scandal is a royal pain

By Cassell Bryan-Low
And William Lyons

LONDON—With the U.K.'s election drama over, the royal family has quickly reclaimed its place at center stage of the country's scandal-driven media culture, thanks to a tabloid newspaper sting that caught the Duchess of York apparently accepting money for access to her former husband, Prince Andrew.

The drama appears to capture Sarah Ferguson, a former spokesperson for Weight Watchers, in the embarrassing act of soliciting pounds rather than shedding them.

Ms. Ferguson allegedly told an undercover reporter posing as a wealthy businessman that in return for £500,000 (about $723,000) she could provide access to the prince, Queen Elizabeth II's second son. He has been the British special representative for international trade and investment since 2001.

In video footage filmed by the reporter, the duchess appears to accept a $40,000 down payment in cash. Shaking hands, she says in the video: "That opens up everything you would ever wish for. And I can open any door you want." The report was published Sunday in the News of the World, which is owned by The Wall Street Journal's parent company **News Corp.**

Ms. Ferguson, who remained a close friend of the prince after their divorce, said she was "sincerely sorry" for her actions. "I very deeply regret the situation and the embarrassment caused," she said, adding that her finances had been "under stress" but that was "no excuse for a serious lapse in judgment." She said her former husband "was not aware or involved in any of the discussions that occurred," which the newspaper also reported.

Buckingham Palace said the prince "categorically denies any knowledge of any meeting or any conversation between the Duchess of York and the News of the World journalist."

"Since 2001 he has carried out his role as special representative in complete and absolute propriety and integrity," the palace added.

Ms. Ferguson kept her title after her divorce in 1996 but no longer is a royal. Ms. Ferguson has written books, produced films and worked as a spokeswoman for Weight Watchers International—where she made £2 million a year when the 10-year arrangement ended in 2007.

But recently, she has faced financial difficulty. Her divorce settlement entitles her to £15,000 a year, though she does live in a wing of the Duke of York's house.

"It's obviously very damaging, very embarrassing" for Ms. Ferguson, says Max Clifford, a British celebrity publicist. However, he said there would likely be little impact for the royal family because it has long distanced itself from her.

The scandal comes at an awkward time, falling just ahead of the queen's speech Tuesday, in which the new government unveils its key proposals. On Monday, the queen appeared at a preview of the annual Chelsea Flower Show in London.

In his role at the trade body, Prince Andrew promotes the U.K. as an attractive destination for foreign investors, among other functions. The position takes him to oil-rich nations in the Middle East, Africa and Asia.

This isn't the first time Ms. Ferguson has found herself surrounded by controversy. In the summer of 1992, the Daily Mirror published pictures of her and American financial manager John Bryan kissing her toes.

Phil Hall, a former editor at News of the World who now runs the London public-relations firm PHA Media, said that despite the duchess's public embarrassments over the years, she has largely enjoyed the sympathy of the British public.

"I think the public has always accepted her as vulnerable, but would fall out of love with her if they though she was maliciously using the royal family to make money," he said.

—Sara Schaefer Muñoz and Javier Espinoza contributed to this article.

Associated Press (left); Agence France-Presse/Getty Images

Duchess of York Sarah Ferguson, left, received an award on Sunday in Los Angeles for her work with underprivileged children. Prince Andrew addressed the World Islamic Economic Forum in Kuala Lumpur on Thursday.

U.S. oil contracts targeted

Continued from first page

flects growing frustration in parts of Congress with the failure of diplomacy to rein in Iran's nuclear program.

The bill passed through the committee last Wednesday, one day after the U.S., Russia and China agreed on a new list of sanctions against Iran for what they say is its refusal to abide by the United Nations' Security Council resolutions calling for Tehran to halt its uranium enrichment program.

The proposed U.N. sanctions would crimp trade in Iranian weapons and certain investments. But like current U.N. and U.S. sanctions, it doesn't ask international companies to stop doing business with Iran's energy sector.

The Pentagon is the world's single-largest oil consumer, burning around 400,000 barrels a day for its sprawling fleet of aircraft and vehicles, according to Congressional estimates. About half of the Iranian government's revenues come from oil exports, so any substantial drop could cripple Iran's economy.

The amendment was co-sponsored by Buck McKeon, a California Republican and Ike Skelton, a Missouri Democrat. The full House is scheduled to vote on the legislation later this week.

Even if the amendment makes it through the House, it is likely to face stiff opposition in the Senate and at the Pentagon, which would be forced to find alternative suppliers, not an easy task. Iranian oil officials have also said recently that any move by the U.S. targeting its oil exports would be viewed as an "act of war," another reason the Pentagon and the White House are likely to look unfavorably on the House amendment.

An aide to Howard P. "Buck" McKeon, a Republican congressman who co-sponsored the amendment, said the measure gives US Defense Secretary Robert Gates the right to override the measure if he deems it too burdensome for the Pentagon to find alternative fuel suppliers, even if BP and Shell are buying Iranian oil. The aide also said that, at this point, there is no sponsorer in the Senate for a similar measure.

European energy companies Royal Dutch Shell PLC and BP PLC have been the Pentagon's top fuel-supply contractors in recent years, according to data from USAspending.gov, an Office of Management and Budget website that tracks federal contracts.

The two oil companies also buy crude oil from Iran. Last week, The Wall Street Journal reported that some companies, including Shell, have been disguising some of those Iranian purchases, according to shipping records, even though they remain perfectly legal.

Spokespeople for Shell were not available to comment on the amendment. A BP spokesman declined to comment. A Pentagon spokeswoman also declined to comment.

The House and Senate currently are reconciling bills that would expand existing U.S. sanctions against Iran over its nuclear program by penalizing companies that ship gasoline to Iran.

The country imports around 40% of its total gasoline needs due to limited refining capacity. The legislation has drawn opposition from some U.S. business groups and from foreign companies, which say it tries to impose U.S. law beyond its borders.

EUROPE NEWS

U.K. coalition launches budget cuts

BY ALISTAIR MACDONALD AND LAURENCE NORMAN

LONDON—Britain's new coalition government took its first steps in reducing one of the world's largest deficits, but the £6.25 billion ($9.05 billion) in cuts outlined on Monday is only a warm-up for much tougher belt-tightening that lies ahead.

Next month, the coalition government formed by the Conservative and Liberal Democrat parties will unveil further cuts in an "emergency" budget. Then in the fall it plans to announce the results of a spending review designed to work out how to assign longer-term spending cuts within Britain's once-free-spending government.

While the cuts unveiled this week largely represent low-hanging fruit—efforts to increase efficiency within government departments—future cuts will likely be forced to tackle actual government services, a more painful and controversial task for the new government.

The U.K. must whittle down a deficit that hit £156 billion, or around 10.4% of gross domestic product, in the last financial year, without upending its fragile economic growth. Governments across Europe are scrambling to raise money and cut spending amid a sovereign-debt crisis.

On Monday, U.K. Treasury chief George Osborne, a Conservative, and his Liberal Democrat deputy, David Laws, acknowledged that the £6.25 billion was a down payment to assure financial markets that they are serious about narrowing the deficit.

The early cuts are also meant to show government departments that, as Mr. Laws said, "the years of public-sector plenty" are over. "These are only the first steps we'll need to take in order to put our public finances back in shape," he said.

Monday's cuts included spending reductions across government departments and some politically contentious moves, such as axing some parts of the jobs programs set up during the recession.

The cuts include some £120 million from a civil-service recruitment freeze; about £1.15 billion in reductions from discretionary spending items such as consultancy fees and travel costs; and £1.7 billion from stopping projects and renegotiating large government contracts with suppliers. Local governments will be expected to find £1.17 billion in savings.

This round of cuts was also targeted to minimize the political cost to a government only two weeks in power. The government kept its promise to protect spending on health, defense and overseas-aid budgets and added a pledge that this year it will ring-fence the spending totals for schools and various education programs.

In a nod to the demands of his new Liberal Democrat government partners, Mr. Osborne also said that some £500 million of the savings will be recycled back into government programs, including social housing and education. The £704 million in cuts by Scottish, Welsh and Northern Irish authorities won't have to be found until next year, meaning the cuts could actually total around £5 billion.

Many economists took the announcements as a positive step but will wait until June for the cuts needed to ensure Britain's AAA credit rating.

The £6.25 billion is only about 0.4% of GDP.

Markets also suspended judgment, with the pound and U.K. government bonds little changed after the announcements.

"This is really just a first installment, if it doesn't cut much more over time the U.K. would face a sizable risk of being a casualty of the sovereign-debt crises rather than a bystander," said Michael Saunders, an economist at Citigroup. Mr. Saunders says the government must spell out some £20 billion of cuts in the next three to four years and around £10 billion in tax increases.

The Institute of Fiscal Studies, a think tank, estimates government departments that are vulnerable to cutbacks face reductions of 8.4% this financial year.

Some experts, and the opposition Labour Party, argue that it is a risk to take money out of an economy that in the first quarter grew by only 0.2%. Unions said the cuts are dangerous.

While the U.K. has the largest deficit as a percentage of GDP among major economies, the country isn't seen as a risk on the level of Greece or Portugal. Even pessimistic economists expect Britain's economy to grow, while the U.K. controls its own monetary policy and has its own currency, unlike members of the euro zone.

Troubles on the Continent have in part inspired the U.K. to begin cutting early.

"Countries are waking up to the dangers of a sovereign-debt crisis and taking action to live within their means," Mr. Osborne said.

Agence France-Presse/Getty Images

U.K. Treasury chief George Osborne, left, and Chief Secretary to the Treasury David Laws unveil details Monday of $9.05 billion in budget cuts, the first steps by the new governing coalition in a long process to bring down the national deficit.

Ballooning budgets | Deficit as a percentage of GDP in 2009

Note: U.S. data are for fiscal 2009, all others calendar year.
Sources: Eurostat; U.S. Congressional Budget Office (U.S.)

Ban for doctor over vaccine-autism paper

BY JEANNE WHALEN

A U.K. medical regulator revoked the license of the doctor who first suggested a link between vaccines and autism and spurred a long-running, heated debate over the safety of vaccines.

Ending an almost three-year hearing, Britain's General Medical Council found Andrew Wakefield guilty of "serious professional misconduct" in the way he carried out his research in the late 1990s. The council struck his name from the U.K.'s medical register.

The same body in January concluded that Dr. Wakefield's research was flawed, saying that he had presented his work in an "irresponsible and dishonest" way and shown "callous disregard" for the children in his study.

Shortly after that January ruling, the British medical journal that first published Dr. Wakefield's study, the Lancet, retracted it. His central claim—that there could be a link between autism and the measles, mumps and rubella vaccine—has largely been discredited.

Dr. Wakefield couldn't immediately be reached to comment Monday. In an interview with the British Broadcasting Corp. on Monday, he said he would appeal the GMC's decision. "Efforts to discredit and silence me through the GMC process have provided a screen to shield the government from exposure on the MMR vaccine scandal," Dr. Wakefield said, according to the BBC.

'Efforts to discredit and silence me through the GMC process have provided a screen to shield the government from exposure on the MMR vaccine scandal.'

Dr. Wakefield's 1998 study of 12 children triggered worry among parents world-wide that the MMR vaccine caused autism. Many decided not to immunize their children, leading to outbreaks of measles in some Western countries. As many as 2.1% of children in the U.S. weren't immunized with the MMR vaccine in 2000, up from 0.77% in 1995, according to a 2008 study published in Pediatrics.

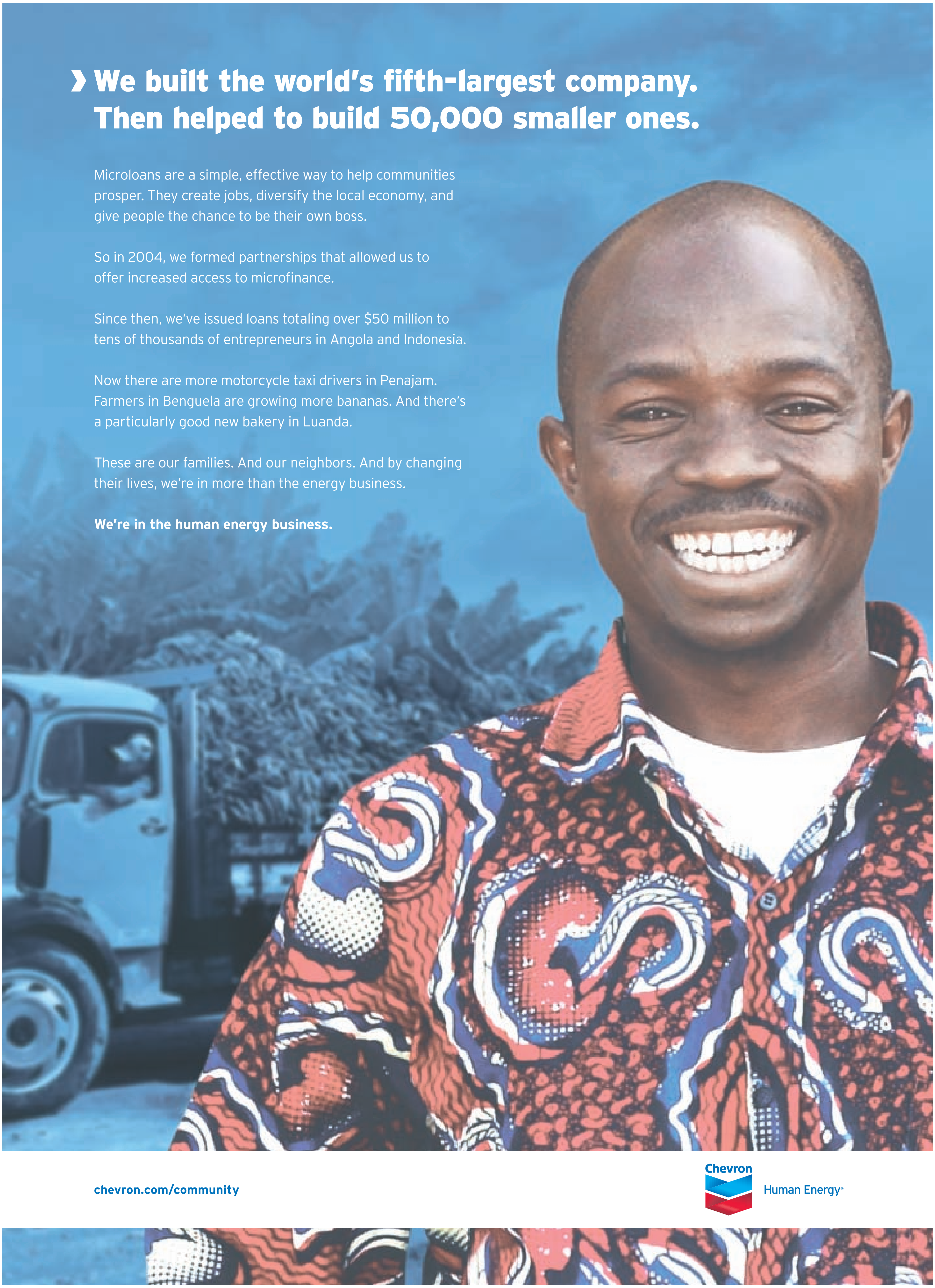
A 2004 statistical review of existing epidemiological studies by the Institute of Medicine, a respected nonprofit organization in the U.S., concluded that there was no causal link between the MMR vaccine and autism. Some autism activist groups, however, continue to advocate against vaccinations for children, despite the lack of scientific evidence for such a link.

In an eight-page decision released Monday, the GMC found Dr. Wakefield guilty of numerous cases of misconduct in his research, including: taking blood samples from children during a birthday party without approval from the necessary ethics committee and paying them £5 ($7.24) as a reward; improperly managing and accounting for funds he received to carry out his research; treating the children in his research unethically by causing them to undergo procedures such as lumbar punctures that weren't clinically necessary; and failing to disclose conflicts of interest to the Lancet, including that he received research funding from a lawyer representing parents who believed the MMR shot had harmed their children.

In the 1998 paper, Dr. Wakefield and his colleagues described 12 "previously normal" children who had developed gastrointestinal problems and developmental disorders including autism. The paper concluded that "in most cases, onset of symptoms was after measles, mumps, and rubella immunization. Further investigations are needed to examine this syndrome and its possible relation to this vaccine."

Reuters

Andrew Wakefield after a hearing at the General Medical Council in January


We built the world's fifth-largest company.
Then helped to build 50,000 smaller ones.
Microloans are a simple, effective way to help communities prosper. They create jobs, diversify the local economy, and give people the chance to be their own boss.
So in 2004, we formed partnerships that allowed us to offer increased access to microfinance.
Since then, we've issued loans totaling over $50 million to tens of thousands of entrepreneurs in Angola and Indonesia.
Now there are more motorcycle taxi drivers in Penajam. Farmers in Benguela are growing more bananas. And there's a particularly good new bakery in Luanda.
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EUROPE NEWS

More pressure on Spain's banks

By Leire Barrera
And Jonathan House

CORDOBA, Spain—Spanish central bank officials sought Monday to reassure nervous depositors after taking over ailing Church-controlled savings bank **CajaSur** over the weekend and firing its senior management.

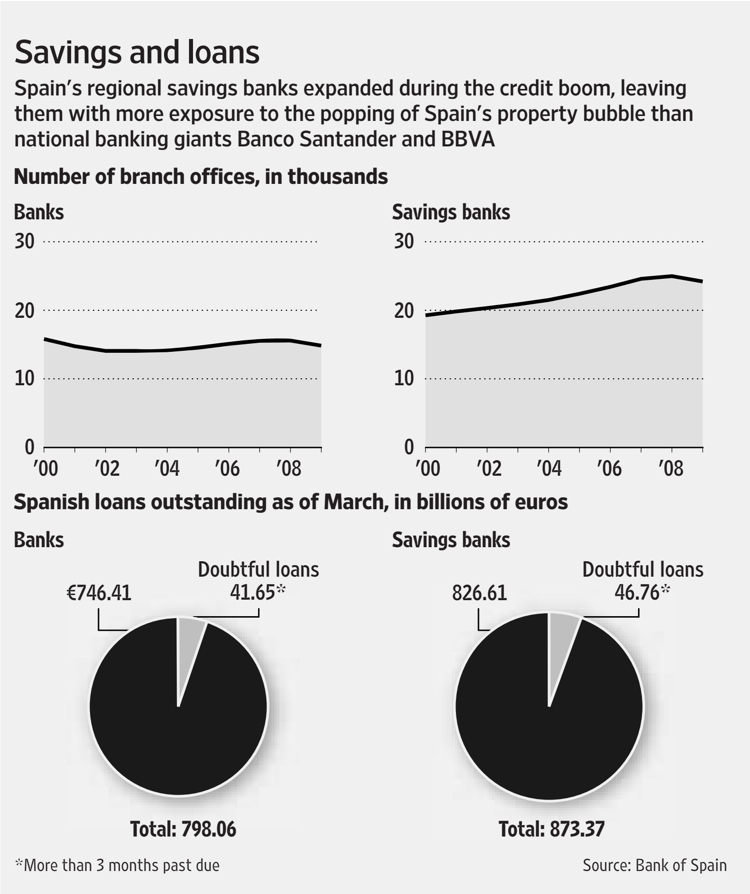
For the Bank of Spain, the cleanup of a mutual savings bank that holds just 0.6% of the country's banking assets shouldn't prove difficult. But the seizure of CajaSur comes as authorities grapple with a sector reeling from the collapse of the housing market at the same time that the government is hard-pressed to fix its own finances.

The International Monetary Fund also warned Monday that the Spanish banking sector needs to speed up restructuring to create more robust institutions. "The Bank of Spain should be prepared to intervene promptly if pockets of weakness remain," the fund said after its annual visit to the country.

The savings banks, known as cajas, control around half of Spain's banking business, but Prime Minister José Luis Rodríguez Zapatero recently said a majority of the 45 banks are so weakened by the crisis that they will have to merge with stronger peers. Bank of Spain Governor Miguel Ángel Fernández Ordóñez has been threatening to intervene in those that refuse.

Archaic governance structures at the mutually owned cajas are complicating attempts at speedy restructuring. Many institutions are controlled by regional political bosses who are reluctant to cede control. Indeed, several merger talks have been held back by regional government interference.

Monday, four savings banks—Caja de Ahorros del Mediterráneo, Cajastur, Caja Extremadura and Caja Cantabria—signaled their intent to eventually merge their operations but continue to maintain separate brands. A merger would create a bank with €135 billion ($169.75 billion) in assets and 2,300 branches.



Separately, ratings firm Fitch Ratings downgraded two small lenders, Caixa Girona and Caixa Laietana, to just a couple of notches above junk territory.

In the case of CajaSur, the Catholic Church controlled a majority of the seats on the 20-person board, including six held by priests. One of the priests served as chairman. Despite insolvency due to its wide exposure to past-due real-estate loans, and the threat of a takeover from the Bank of Spain, the board told the central bank on Friday that it had rejected a merger with larger and healthier Andalusian peer Unicaja, citing disagreements between the two banks about layoffs and wage cuts at a time when 20% of Spaniards were out of work.

"Cordoba's Church regrets that an agreement on labor issues wasn't reached," Cordoba's bishop, Demetrio Fernández, said in a statement on Monday. "This was key for the Church, which was willing to give in on everything, as long as jobs could be saved."

There were few signs of panic at CajaSur's branches in Cordoba Monday. Branch executives contacted clients, and the central bank posted a statement on its website saying that the takeover ensures normal operations.

"I'm not concerned about my savings because we have been told there's nothing to fear," said Aurelio Moreno, a retired doctor who has been a CajaSur client for most of his adult life. "What's sad is to see our institution go, and see people who may lose their jobs."

CajaSur, with about €18 billion in assets, is the dominant lender in this Southern Spanish city, with a staff of 3,000 and nearly 500 offices, most of which are concentrated in Andalusia. It has one of the highest rates of nonperforming loans among Spanish banks, at around 8% of total loans.

The Bank of Spain has appointed three administrators and is expected in coming months to determine whether to auction CajaSur off, sell some of its assets, or shut it down.

The CajaSur takeover is the second seizure of a Spanish lender since the global financial crisis and the first using public funds. The bank will get an injection of more than €500 million from the central bank to shore up its balance sheet.

The government created the Fund for Orderly Bank Restructuring last year to give the central bank greater power to take over failing institutions, and €9 billion in funds—expandable to €99 billion—to pay for the cleanups.

The central bank has argued that, after the collapse of the construction sector, there is no longer enough business to justify 45 local savings banks.

The FROB, as the restructuring fund is known, was meant to be the cornerstone of a strategy to clean up the sector by encouraging stronger savings banks to take over their weaker peers. But nearly a year after its creation, the FROB has yet to disburse any funds.

IMF urges major change for Spain

The International Monetary Fund issued an unusually blunt warning to Spain that it needs a "radical overhaul" of its labor laws, a "bold" reform of its government pension system and accelerated consolidation of its banks to stave off the kind of economic problems that have undermined Greece.

*By **Bob Davis** in Washington and **Jonathan House** in Madrid*

"Time is of the essence," the IMF said in a statement issued after its economic team completed an annual review of Spain's economy. The IMF didn't release the full report of its findings, which will be discussed at the IMF board meeting next month.

The review came as Spanish central-bank officials took over ailing CajaSur, a mutually owned savings bank that holds 0.6% of the banking system's assets. Central-bank officials dismissed CajaSur's management and tried to reassure nervous local depositors that their savings are safe.

For the Bank of Spain, the takeover underscores the magnitude of the task ahead as authorities try to refloat a savings-bank sector hit by the collapse of the country's once-buoyant housing market.

Even if Spain manages the deep structural reforms the IMF is prescribing, the Fund forecast that the country can expect to grow only 1.5% to 2% a year in the "medium term"—IMF lingo for three to five years from now. This year, the IMF forecasts a 0.4% contraction in Spain, followed by a 0.9% expansion in 2011—half as fast as the IMF forecasts growth generally for the European Union in 2011.

Spain is grappling with the collapse of a decade-long housing-market boom that pushed its economy into recession and sent its public-sector accounts into the red. Its weak budgetary position left it vulnerable to the spread of Europe's Greece-centered financial crisis. A strong sell-off of Spain's assets, as well as those of other fiscally frail countries, prompted EU leaders to put in place a giant financial backstop for the region earlier this month.

Spain, however, has advantages that distinguish it from Greece, namely a low public-sector debt level and a history of reliable budget accounting. The IMF applauded recent Spanish moves to tame spending and rein in a budget deficit equal to 11% of GDP.

But the IMF said fundamental change is needed to make Spanish companies more competitive. The emphasis on such reform reflects a change for the IMF in the financial crisis; it has generally emphasized the fiscal and monetary changes needed to get a country's economic affairs in order so it can ride out the global downturn.

The IMF statement is "remarkably hard-hitting, clear and strong," said Arvind Subramanian, a former senior official at the Fund who is now at the Peterson Institute of International Economics. "It's spelling out what needs to be done for Spain to avoid coming to the IMF" for a loan. In Greece, the IMF and EU insisted that the country broadly open its economy to foreign competition as the price of a combined €110 billion ($138.28 billion) loan.

The government of Prime Minister José Luis Rodríguez Zapatero has been under pressure to act to shore up the country's finances and economy. In return for an EU financial backstop, Spain last week approved measures valued at €15 billion this year and next to speed up deficit-reduction efforts. The move has chilled the Socialist-led government's once-warm relations with the country's unions, which are threatening a general strike.

The government is risking further confrontation by saying it may legislate labor-market reform if unions and business groups fail to reach an agreement by the end of the month.

Italy ready to finalize austerity budget

By Christopher Emsden

ROME—Italy's government said it will pass austerity measures on Tuesday of at least €24 billion ($30.18 billion) in budget cuts over two years.

The government said Monday it will meet Tuesday morning with local and regional officials, followed by labor unions and business leaders, before calling a cabinet meeting to approve the measures.

The Italian government's plans to freeze or cut public-sector wages mirror similar measures in Ireland, Spain, Portugal and Greece. Italian public-sector labor costs rose 60% faster than those in the private sector over the past decade.

The scale of the budget cuts is relatively modest. The average annual budget adjustment from 2002 through 2010 was €12.5 billion, according to CGIA, a trade group based in Mestre, near Venice.

"Tax hikes are excluded [from the legislative package], and the same applies for pensions," Prime Minister Silvio Berlusconi's spokesman, Paolo Bonaiuti, said on television Monday.

Mr. Berlusconi, who this week will become the longest-serving prime minister in postwar Italian history, is eager to avoid a painful adjustment at a time when corruption allegations are circling his cabinet.

Only one in three Italians says his government is performing fairly well or better, down from one in two a year ago, according to an ISPO poll published in Milan daily Corriere della Sera on Monday.

"Berlusconi should go live on television and use the word sacrifice," said Enrico Letta, deputy leader of the opposition Democratic Party.

Measures include restrictions on public-sector employment valued at €6 billion, with the rest of the cuts coming from reduced transfers to local governments and rationalization of health-care spending.

A proposal to allow owners of unregistered homes and buildings to legalize their properties may bring in further revenue.

U.S. NEWS

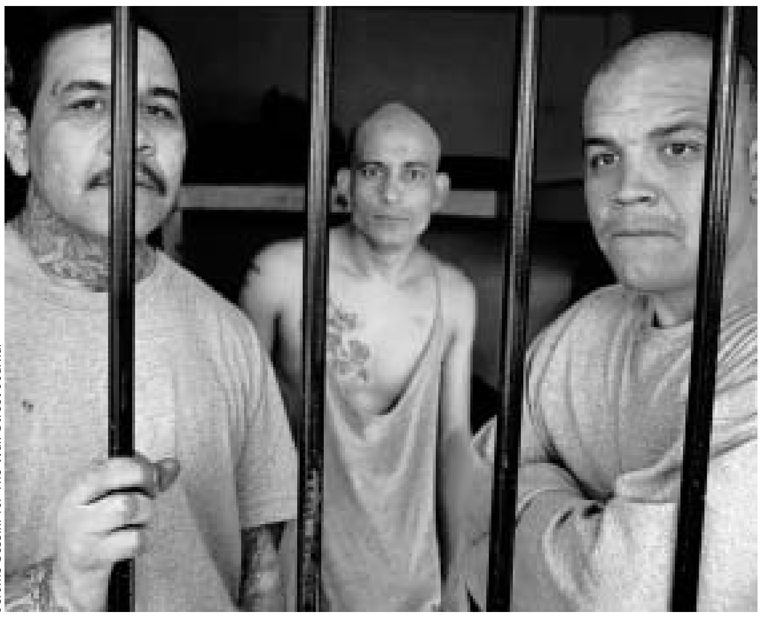
Mexican city's deaths rise amid border war

By Nicholas Casey

CIUDAD JUÁREZ, Mexico— Authorities battling drug traffickers in this violent border city have begun to suspect that their efforts to impede the flow of drugs into the U.S. has fostered demand—and turf wars—on their own territory.

Ciudad Juárez, which lies across the border from El Paso, Texas, has become ground zero in Mexico's fight against its powerful crime organizations. Drugs from methamphetamines to ecstasy funnel through the border bridge here on their way to U.S. cities.

In the case of marijuana, for example, U.S. and Mexican authorities agree that the crackdown made a dent on what was coming across the border. Yearly seizures of marijuana in the New Mexico and Texas area near Ciudad Juárez fell by 58% from 2007, according to U.S. authorities. Cocaine sales in that region fell in 2008 from 2007, though made a resurgence again in 2009.


Jerome Sessini for The Wall Street Journal

Members of the Barrio Azteca gang, one of two large local gangs engaging in a local turf dispute, in the state prison in Ciudad Juárez in December.

Yet authorities also see an unintended result of the crackdown: Traffickers, unable to get some drugs to Americans, began to sell them in Ciudad Juárez. That has left the city of 1.3 million people—once mainly a transit center for drugs—with a pattern of mounting crime similar to that of the U.S. cities where drugs are headed, namely killings at street corners between gangs vying to be the town's principal drug dealers.

"What we're seeing is a retail market here in the city," says Mayor José Reyes Ferriz, who has run the city since 2007.

President Calderón sent 5,000 more soldiers into the city in early 2009. Seizures of marijuana continued to fall, as did homicide rates, which dropped from about nine a day earlier in the year to two per day, according to estimates by the city. For a short time, violence in Ciudad Juárez appeared to have been calmed.

Then homicide rates suddenly skyrocketed to 12 a day, the highest level in the city's history. The year ended 2009 with about 2,750 drug-related homicides, up from 1,600 the year before.

It seemed drug organizations resumed their killings after figuring out new patterns of army and police patrolling. But that didn't explain why homicides were surpassing original levels.

Authorities now believe two large local gangs, known as Barrio Azteca and Los Mexicles, began to focus on selling the surplus drugs that didn't get across the border to Ciudad Juárez residents. The gangs, already fighting in the cross-border trade, were engaging in local turf disputes.

Cocaine offers a slightly different but equally troubling case. While authorities had some success between 2007 and 2008 in reducing its passage across the border, in 2009 U.S. authorities seized twice the amount seized in 2007, indicating smugglers were circumventing blockades. Yet consumption of cocaine in Ciudad Juárez isn't believed to have decreased either. One reason: Selling the drug locally is quicker and easier, even if the profits are smaller.

Court revives suit against NFL

By Brent Kendall

WASHINGTON—The Supreme Court denied the National Football League its long-sought goal of broad protection from antitrust suits, in a case involving a license for making souvenir caps.

The court, in a unanimous opinion by Justice John Paul Stevens, rejected the NFL's argument that the league should have broad protection from antitrust lawsuits because it operates as a "single entity" business, not as 32 separate team businesses that are potential competitors.

The court said that while there are times NFL teams need to cooperate, in the area of licensing the league isn't immune from an antitrust lawsuit because teams are potentially competing suppliers.

"Although NFL teams have common interests such as promoting the NFL brand, they are still separate, profit-maximizing entities, and their interests in licensing team trademarks are not necessarily aligned," Justice Stevens wrote.

For decades, sports leagues in the U.S. operated as they wished in terms of business and labor strategy, with athletes having little say over the terms of their employment and teams working in concert to limit competition off the field. However, beginning in the 1960s, leagues have found themselves forced to operate like any other business, with strict limits on their abilities to violate antitrust laws.

Baseball is alone among U.S. sports in enjoying an antitrust exemption, thanks to a 1922 Supreme Court ruling. A decision in favor of the NFL could have given other U.S. professional sports leagues significantly more room to operate without antitrust liability.

The justices sent the case back to a lower court for further examination of allegations made by American Needle Inc. of Buffalo Grove, Ill., which sued the NFL in 2004.

At issue was a 10-year deal the league struck with Reebok, a unit of Adidas AG, in 2001 that gave the company an exclusive license to market NFL caps and apparel.

American Needle, which had made and sold hats bearing NFL logos since the 1950s, sued the league, its teams and Reebok after it lost its right to make and sell NFL-licensed products. The company said the NFL-Reebok agreement was an illegal restraint of trade.

Two lower courts agreed with the NFL that the league was immune from antitrust liability because it acted as a single entity that licensed teams' logos to promote NFL football. Those courts said antitrust law didn't prohibit teams from cooperating so the league could compete against other entertainment providers. Each NFL team is separately owned, but they operate collectively when it comes to the rules of the game and schedules.

—Matthew Futterman contributed to this article.

Distrust of government drives the political mood

[Capital Journal]

By Gerald F. Seib

Amidst the Great Depression of the 1930s, the country moved sharply to the left politically, then stayed there.

Amidst the Deep Recession of 2008, the country zigged to the left, but now seems to be zagging back to the right.

Why the difference?

It will be hard to know for sure until after this year's midterm election, of course, and considering today's economic and political turbulence it's dangerous to draw too many hard and fast conclusions.

It may be that there is some ideological sea change under way. Or perhaps we're simply seeing that the country, down deep, remains what it was before the recession and the 2008 election shook things up: a nation that stands center-right ideologically.

It's also possible that Democrats just overplayed their hand in the last year and a half, moving policy too far left, sparking an equal and opposite reaction in the rightward direction.

But there's a broader potential explanation: It may be that the movement being seen now is less an ideological statement by Americans and more a reflection of a broad loss of confidence in big institutions, including the government.

To the extent that Democrats are the ones who have offered up government programs as the solution to the nation's recession-induced woes, then they are the ones being hurt more now, because the public simply lacks any deep faith in government's competence to solve those problems.

That doesn't necessarily mean that voters have more faith in any other institutions, including big business or Wall Street. And voters may be demonstrating less an ideological preference than a lack of confidence in all ideologies.

That would explain why the electoral consequences of this mood are so erratic—why Republicans won big governor races in Virginia and New Jersey last year, while Democrats have prevailed in several special House elections, including a key one in Pennsylvania last week. Perhaps that's why, even as Democrats slump in public-approval ratings, there's relatively little corresponding rise in approval of Republicans.

If that's so, the 2010 election is best viewed as an "I over E election—insurgent over establishment," says Peter Hart, a Democratic pollster who co-directs the Wall Street Journal/NBC News survey. "We are becoming angrier, and much of this anger is against the establishment—that is government, business, and those ripping off the system."

This mood has produced a shift to the right within the electorate, though apparently not a huge one. In the Journal/NBC poll, the share of Americans who identify themselves as conservatives has risen to 40% this month from 35% when President Barack Obama took office.

The share calling themselves Republicans, meanwhile, has moved upward by a similar increment, to 37% from 29%.

The more striking movement in public opinion over time has been the erosion of confidence in the country's big institutions, starting with but not limited to the government. Twenty years ago, 42% of Americans said they trusted the government to do what was right just about always or most of the time. By this month, in the Journal/NBC News poll, that number was down to 25%. A stunning 31% said they "almost never" trust the government to do the right thing.

Gallup pollsters found a similar long-term decline in confidence in other big American institutions. Over the last two decades, the share of Americans saying they have a great deal or quite a lot of confidence in banks has fallen to 22% from 32%; in big business to 16% from 26%; and in the Supreme Court to 39% from 48%.

Voters may be showing less an ideological preference than a lack of confidence in all ideologies.

It was amidst this environment that Mr. Obama and the Democrats took control in the 2008 elections, and told the nation much the same thing that Franklin Roosevelt and the Democrats told the nation in 1932: The nation is in a real mess caused by the big banks and Wall Street, and the government can help Americans get through and out of that mess.

In Roosevelt's time, voters appeared to believe both parts of that statement. The result was that Democrats actually added to their majorities in the House and Senate in the midterm elections of 1934. This year, voters seem convinced of the first half of the statement—that they are in a mess caused by banks and Wall Street—but less so the second half, that government will be able to get them out of it. As a result, Democrats seem almost certain to lose seats in this year's congressional elections.

The lesson in all this for Democrats may well be that their primary task is to convince people that government can be effective, and therefore deserving of a big role in helping the nation unwind from the recession and its aftermath.

But there's also a lesson for Republicans: There is a danger of overplaying their ideological hand by drifting too far to the libertarian views of some in the tea-party movement. Mainstream voters obviously aren't asking for no government, but definitely one that's competent and efficient.

Special Advertising Section

INVESTING IN TURKEY

Lessons learned in 2001 serve country well

Ankara opts to pursue its own fiscal policies rather than rely on IMF; strong recovery is forecast as exports rebound

By Catherine Bolgar

Fiscal discipline — learned the hard way — and a cautious reaction to the global recession, have given Turkey a tightly regulated, and therefore healthy, banking system and solid growth prospects.

"Turkey learned its lessons from the 2001 [financial] crisis," says Serdar Sayan, professor of economics at TOBB University of Economics and Technology in Ankara. "It was a local crisis triggered by huge budget deficits."

The government cleaned house, and even in the depths of the current recession ran a budget surplus if interest payments on debt are excluded. While some in Turkey complain the government has done too little, too late to deal with the global downturn, Dr.

> *How Turkey fares in the future depends on whether it can stick to its post-2001 healthy diet.*

Sayan says it was a reaction, in a sense, to the excesses of the 1990s. "So fiscal discipline has not been completely lost," adds Dr. Sayan, who is also director of the Entrepreneurship Institute at the Economic Policy Research Foundation of Turkey, or Tepav.

How Turkey fares in the future depends on whether it can stick to its post-2001 healthy diet. It has had almost a decade of fiscal prudence, but markets want a longer track record, especially for an economy that has come out of a half-century of instability, says Susan Schadler, former deputy director of the International Monetary Fund's European department, where she led surveillance missions to Turkey, among other countries, and now senior fellow at the Atlantic Council in Washington. "It has got its feet on the ground for the last decade," she says.

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Illustrations by Peter Hoey

Special Advertising Section

A healthy and highly profitable banking sector

By Catherine Bolgar

Turkey is one of a few countries today where "healthy banking system" is not an oxymoron. No toxic assets. Well-capitalized. Plenty of liquidity. Profitable. Crisis? Been there, done that. Back in 2001, Turkey's entire economy was shaken to the core by a banking crisis. Turkey reformed its banks as well as its approach to government finances.

"The banking sector paid a very high price in 2001," says Gazi Ercel, governor of the Central Bank of Turkey from 1996-2001, and currently founder and principal of Ercel Global Advisory in Istanbul. "The banker doesn't want to make any more mistakes… Turkish banks were very happy in 2009, and not just because they didn't have toxic assets." The central bank reduced its [base rate] from 17.5% in 2007 to 6.5% today. Turkish banks mainly hold government securities, whose value rises if interest rates go down, he explains, adding: "Mainly their profits came from these sources." As the base interest rate fell, so too did rates on consumer loans, but not to the same extent, widening the banks' profit margins.

The profit of Turkey's banking sector rose to 20 billion Turkish lira (€10.48 billion) in 2009, up 50% from a year earlier, notes the Organization for Economic Cooperation and Development's Economic Outlook.

GETTY IMAGES/EyesWideOpen

Turkey currently has 45 banks with some 9,000 branches, and the third-largest credit card market in Europe.

The reforms of nearly a decade ago turned out to be "a big advantage now, because the banking sector is quite sound," says Josef Pöschl, economist at the Vienna Institute for International Economic Studies.

Rising household credit

Banks had been evolving before the crisis. Traditionally, their core business had been dealing with government treasuries. With little access to bank loans, small businesses and individuals had to rely on families for most financing. But credit to households was rising strongly before the global recession, Dr. Pöschl says.

The ratio of government securities to total assets fell to 30% in 2008 from 40% in 2002, suggesting banks were moving more into commercial activities and away from government treasuries, according to the "Turkish Financial Services Industry Report," published in January by the prime minister's office and compiled by the international accounting firm Deloitte. The loan to deposit ratio hit 81% in 2008, the highest in Turkey's history and up from 40% in 2002, the report says.

As of last September, corporate loans made up 45.3% of all loans, while small and medium-size enterprises accounted for 21.9%. Personal loans accounted for 32.8%, the report says. Mortgages jumped 78.2% in 2009 from 2006, thanks to the passage of the mortgage law in 2007. Credit card use, a relatively new phenomenon, has skyrocketed: Turkey now is the third-largest credit card market in Europe, after the U.K. and Spain, in terms of number of cards, and No. 10 in terms of money spent with cards.

Turkey currently has 45 banks with some 9,000 branches, whose total assets in 2008 made up 77% of GDP, a jump from 57% in 2002, the report adds. The entire financial sector, dominated by banks but also including insurance, amounted to 134% of Turkey's GDP in 2008, far below the 486% in China, the 608% in Germany or the 1,253% in Japan.

In other words, Turkey's financial system has room to grow.

"Room for expansion"

"As long as the Turkish economy continues to grow, there will be room for expansion in the banking industry, for foreign firms as well as Turkish firms," says Serdar Sayan, professor of economics at TOBB University of Economics and Technology in Ankara and director of the Entrepreneurship Institute at the Economic Policy Research Foundation of Turkey, or Tepav.

Much of the financial sector has been privatized, with two main banks still in state hands: Halkbank, whose long-delayed sale has been a moving target, and Ziraat, the country's biggest bank. Ziraat is likely to stay in state hands because of its specialization in agricultural loans, says Tevfik Aksoy, chief economist for Turkey, the Middle East and North Africa at Morgan Stanley in London.

Banking demand is poised to expand in Turkey, says Uğur Gürses, business columnist for Radikal Daily, a newspaper in Istanbul. "Turkey's population is much younger than in other countries. For the future 20 or 30 years, Turkey will be one of the main growth countries."

Hard lessons learned in 2001 are serving the country well

Continued from previous page

The big issue for Turkey is whether they can maintain the fiscal situation from which they have benefited for the past decade, she says. The stimulus measures [announced March 2009 and valued at 5.5 billion Turkish lira (2.8 billion)] were "probably the right response," even though they caused the budget deficit and public debt to grow. "If that's not reined in quickly with the recovery, that would be a major source of uncertainty on the part of investors," she says.

Avoiding the IMF

In the past, investors counted on the IMF to keep Turkey's spending in line. Its last IMF funding deal, which had been implemented in the wake of the 2001 crisis, ran out in May 2008. Turkey pointedly avoided a new deal, despite the clutch of other countries lining up for IMF bailouts as the global recession bit. Finally, in March, the government said it had ended talks with the IMF about a new loan.

Rather than use the IMF as a watchdog, Turkey's parliament is preparing to vote on its own "fiscal rules" that would tie the government's hands from spending sprees. The rules would allow stimulus packages during downturns, for example, but include a clear program on ending that spending before it becomes addictive. If the measure passes, "it will be a very positive step," and already would guide the 2011 budget, says Tevfik Aksoy, chief economist for Turkey, the Middle East and North Africa for Morgan Stanley in London.

Though Turkey's government has shown fiscal prudence (its 2008 budget deficit was 2.2% of GDP, under the 3% limit for euro members) and the banking system is a model of health, the economy got slammed with a 4.7% contraction in 2009 — one of the worst among members of the Organization for Economic Cooperation and Development. Demand for Turkey's main exports — cars and durable consumer goods — slumped as its main market — the European Union, especially Germany — slid into recession. It was a headspinning switch from average annual growth of 5.9% between 2003 and 2008 — the fastest in Europe.

Efforts to stimulate the economy have met with mixed success.

"If Turkey has really turned the corner and its outlook is as bright as one could envisage, there'll be more and more people who will want to invest."

The government cut the tax on car purchases, for example, to help battered auto makers replace exports with domestic sales. However, some Turks used the program to get a better deal on an imported car, since the breaks weren't limited to cars made in Turkey, says Dr. Sayan of TOBB University.

One of the worst effects of the recession has been a jump in unemployment, to 14% from 11% in 2008. Without much of a social safety net, Turks have to rely on family when they lose their jobs. Some 1.5 million people work in the agricultural sector, but without any payment, notes Uğur Gürses, business columnist for Radikal Daily, a newspaper in Istanbul. "They just define themselves as 'family workers.' As time passes these people are coming into the work force looking for new jobs, so the unemployment rate isn't going to go down quickly."

Only 46% of Turks ages 15-64 were employed in 2009. Few Turkish women work. Turkey is young, with half the population under 29, so a bulge of new job seekers is yet to come. How to channel these untapped sources of wealth is not easy. Turkish companies need to improve productivity to remain competitive with other makers of relatively sophisticated goods. Yet, productivity gains rarely create new jobs.

If growth picks up, jobs will come along, says Josef Pöschl, economist at the Vienna Institute for International Economic Studies. The government has invested a lot in infrastructure, a common way to create jobs. "The construction sector has a lot going on. It's incredible, and all over the country," he says.

Turkey has already shown signs of recovery. "It can be considered one of the fastest recoveries in the world," says Dr. Aksoy of Morgan Stanley. He forecasts 4% growth this year, but it could be higher "if the current trend continues." The OECD foresees 6.7% average annual growth for 2011-2017, the best of all OECD countries.

Tremendous growth

Turkey already has grown tremendously. It has become the second-biggest steelmaker in Europe and No. 10 world-wide. It's the top maker of textiles and televisions in Europe, as well as the No. 1 European exporter of cement, according to the "Turkish Financial Services Industry Report," published in January by the prime minister's office and compiled by the international accounting firm Deloitte. Per-capita GDP has risen to €10,400, or 44% of the EU average, in 2009, from €3,700, or 27% of the EU average, in 1991.

Recent signs of recovery include a rise in exports of 23% in the January-April period from the corresponding four months last year. And the World Bank says the economy rebounded strongly in 2009 and predicts growth in 2010 to surpass 5%.

"If Turkey has really turned the corner and its outlook is as bright as one could envisage," Ms. Schadler, the senior fellow at the Atlantic Council says, "there'll be more and more people who will want to invest."