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India's spectacular opening night

Agence France-Presse/Getty Images

Dancers performed at the Commonwealth Games, which had a troubled run-up. **Article on page 3.**

U.K. pushes EU to relax stance on bankers' pay

By Sara Schaefer Muñoz And David Enrich

LONDON—U.K. banking regulators are trying to water down strict new European Union rules on bank bonuses, sparking a heated battle that illustrates how the clamp-down on excessive pay continues to be buffeted by pressure to richly compensate bankers.

The EU unveiled rules on banker pay this summer that were touted as the toughest yet from any major regulatory body in the wake of the financial crisis. One rule limits the proportion of bankers' bonuses that can be composed of cash, while another says no more than 60% of the award can be paid upfront.

But language in the EU directive has left up to interpretation exactly how much of the bonuses can be cash rather than equity. Lawmakers in Brussels say cash can't make up more than 30% of the bonus.

The Financial Services Authority, which regulates the U.K.'s banks, is calling for a more liberal reading of the rules that would allow bankers to receive at least 50% of their bonuses in cash. Along with representatives from the U.K., some authorities from Spain have also been vocal in opposing the 30% cap, according to a person close to the discussions.

The dispute has become a flashpoint in the European debate over excessive bank pay. Some European regulators say the U.K. is trying to create a loophole that contravenes the spirit of the rule, people close to the matter said.

The FSA's push for a more lax interpretation of the point represents a surprising concession to banks operating in the U.K. It shows that the agency—which at home has trumpeted its get-tough measures—is still willing to go to bat for its banking sector in the face of calls for even tougher rules across Europe.

A U.K. Treasury spokeswoman wouldn't comment directly on the FSA interpretation of the cash limit, but said "the government has asked the FSA to examine further options" in adapting the rule.

U.K. banks have argued to the FSA that the more liberal interpretation is important to prevent the industry from being at a disadvantage when competing against firms in the U.S. and Asia to hire and retain employees. A spokesman for the British Bankers Association said that paying less cash upfront to employees in the bonuses could force banks to raise salaries in order to remain competitive.

In the EU debate, both sides have been pushing their views in advance of a meeting of the Committee of European Bank Supervisors this week. The committee, made up of regulators from EU members, is preparing to issue guidance on how national authorities should implement the rule, but panel members are split

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■ The IMF says bank-capital rules aren't tough enough 13

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With Dublin down, Brussels moves in for the kill.
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U.S. warns Americans to be vigilant in Europe

By Jay Solomon And Siobhan Gorman

WASHINGTON—The U.S. State Department on Sunday issued a travel alert advising American citizens to show vigilance in traveling to Europe, citing heightened concerns about a potential al Qaeda terrorist attack in the region.

The response from European countries and U.S. travelers to the rare, broad-based terror-related warning was muted. Major U.S. and European airlines on Sunday said they hadn't altered their operations or seen any jumps in flight cancellations by customers.

The State Department alert warned U.S. citizens to "take every precaution to be aware of their surroundings and to adopt appropriate safety measures to protect themselves when traveling." It specifically warned about the prospects for terrorist strikes on "public transportation systems and other tourist infrastructure."

It said the U.S. has heightened intelligence-sharing and other counter-terrorism measures with European governments to guard against any threats.

State Department Undersecretary Patrick Kennedy told reporters on Sunday that the purpose of the alert was "to disseminate information about a relatively short-term condition that poses a serious risk." He said the State Department elected not to issue a higher-level "travel warning," because the information available didn't warrant it.

An official U.S. "travel warning" advises American citizens against certain foreign travel. The issuance of such a warning for Europe could have proved devastating for trans-Atlantic tourism and trade.

U.S. officials said the alert wasn't triggered by specific pieces of new intelligence, but by an accumulation of credible, but still general, threat

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Borrowers of Euroland are proving Einstein's theory of insanity right

[Agenda]

By Irwin Stelzer

"Insanity: doing the same thing over and over again and expecting different results." So, it is alleged, spoke Albert Einstein. All over Europe officials are trying to prove him right.

Greece led the peripheral countries in piling up debts that it had little hope of ever repaying. Non-peripheral countries, most notably Britain and France, joined in the fun, the latter despite its commitment to its Euroland partners to keep its fiscal deficit within 3% of GDP—in the event, borrowing reached 8%.

Cometh the markets, cometh reality: payback time. National cupboards being bare, the Euroland authorities stepped in with a cunning plan to handle excessive debt: borrow more to repay the wild borrowings of the member countries. And the Irish government will drive its deficit to 32% of GDP by borrowing to bail out banks hit by the inability of property developers to repay excessive borrowings. If more borrowing to repay excessive borrowing doesn't fit the great physicist's definition of insanity, it is difficult to tell what does.

On to austerity. No responsible observer would deny that the welfare states of many Euroland countries should be trimmed. But austerity is not costless: it can cost jobs, profits and, therefore, tax revenues. Unless the central banks oblige with an offsetting loose monetary policy. Which the European Central Bank is disinclined to do.

Yves Mersch, a member of the ECB's governing council, believes the euro-zone recovery is now self-sustaining and agrees with Jürgen Stark, a member of the Bank's executive board, that long-term liquidity support for the area's banks can be reined in. History suggests that austerity without loose monetary policy can be self-defeating. Never mind: Eurocrats will pay any price to avoid the humiliation of restructuring and unleashing inflation worries in Germany. So a combination of austerity and tighter credit is in store, to the applause of the rating agencies, those infallible appraisers of risk that endowed securitized subprime mortgages with triple-A credit ratings. Further proof of Einstein's genius.

Reuters

A presidential guard hoists the Greek flag at the Parthenon in Athens Sunday.

> **The reality is that Euroland now consists of a core and a periphery, or the best and the rest.**

In the end, this crisis is not about whether the piper will be paid, but who will do the paying. One set of candidates includes creditors and euro-zone citizens with fixed incomes. They can be forced to pay by having the central bank print lots of euros, produce inflation, and repay creditors with a debased currency. The ECB has said "no" to what is in effect a wiping out of creditors, with collateral damage inflicted on anyone without a cost-of-living escalator attached to his income source. And if the ECB weakens, there is always the loud "nein" from Berlin, representing a Germany ever fearful of the political consequences of inflation.

Another solution is to follow what is now the chosen path. Austerity, plus borrowing by Euroland as a whole. The borrowing in effect transfers the debts of the broke countries to Germany's balance sheet, while austerity concentrates the burden of repayment on the current recipients of government outlays—public-sector workers, benefits recipients, and private-sector contractors for whom the government is a major customer.

But this lets the creditors, who made the now-duff loans, off the hook. So consider the "D" word, or if default sounds harsh, call it restructuring. Federico Sturzenegger and Jeromin Zettelmeyer, in their scholarly work on the subject of debt crises and defaults, note, "All lending booms so far have ended in busts in which some of the beneficiaries of the preceding debt inflows defaulted or rescheduled their debts." Their list of defaulters in the 19th and 20th centuries includes Turkey, Bulgaria, Italy, Japan, Mexico, Russia, China, Spain, Czechoslovakia, Portugal, and several Latin American countries—an incomplete list, but you get the idea.

Euroland politicians think they can (1) fight markets, (2) inflict infinite pain on voters in democratic countries, and (3) whip the profligate into line. They can do none of these. Markets set borrowing rates, voters turn out politicians who push them too far, and plans to land with hobnailed boots on profligate debtor nations founder on two facts. First, no action was taken when Germany and France pierced the 3% ceiling on deficits, and sauce for the big geese should be sauce for the smaller gander. Second, fining countries that are broke might not be sensible, even if feasible.

The reality is that Euroland now consists of a core and a periphery, or the best and the rest. The latter cannot meet their debt obligations without a combination that includes restructuring, a heavy dose of inflation, more than a touch of austerity, and a separate, depreciated, euro, what economists (before the full extent of Ireland's problems became obvious) call Eurosud.

That currency could be allowed to depreciate sufficiently to restore the competitiveness of the periphery countries while they work on structural reforms, as economists such as George Stiglitz and Martin Feldstein, who disagree on many other things, are suggesting.

Not easy, but more likely to succeed than Brussels bluster.

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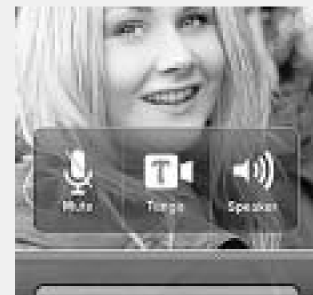

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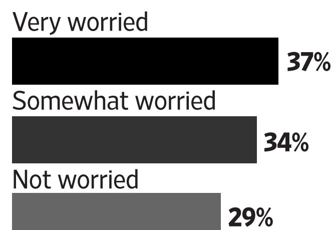

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NEWS

India Games open on a winning note

By Paul Beckett

NEW DELHI—India staged the Commonwealth Games opening ceremony Sunday night, a technical and pyrotechnic spectacular amid tight security that will go some way to dispelling the image of a nation that was chaotic in its preparations for the big athletic event.

The roughly 2½-hour ceremony at the main Jawaharlal Nehru Stadium featured the usual parade of athletes and speeches from Commonwealth officials and other dignitaries. But its highlights were the culture, dance and music of India—not Bollywood but traditional—and an $8 million balloon called an aerostat that rose from the stadium floor and hung suspended around roof level, beaming images to accompany the thousands of performers below.

The ceremony, which appeared to go off flawlessly, sought to draw a curtain over New Delhi's preparations for the Games, which included delays, poor construction, filthy accommodations in the athletes' Games Village and an official attitude among local organizers that nothing was amiss. Tension had flared with international athletic representatives to the Games, followed by a final, frantic push to get ready. Michael Fennell, president of the Commonwealth Games Federation, the London-based body that oversees the Games' franchise, referred in passing in his opening ceremony speech to the "many challenges" Delhi had faced.

But the tenor of the evening was to inject some enthusiasm into Games participants and the citizens of Delhi. Even so, there were worries among some of the athletes in attendance about the amount of time they had to spend waiting for their procession in the hot Delhi afternoon. Jackie Davidson, a director of Commonwealth Games Scotland, said there was "concern around the team about not being kept in the heat for too long."

Suresh Kalmadi, chairman of the local Organizing Committee, which is responsible for staging the Games, was jeered occasionally by the 60,000-plus in the crowd. He declared that "India is ready" for the Games and that Delhi had become a "world-class city" thanks to a new airport terminal and metro system.

Prince Charles declared the Games open as the representative of Queen Elizabeth II, who is the head of the Commonwealth, which includes nations of the former British Empire.

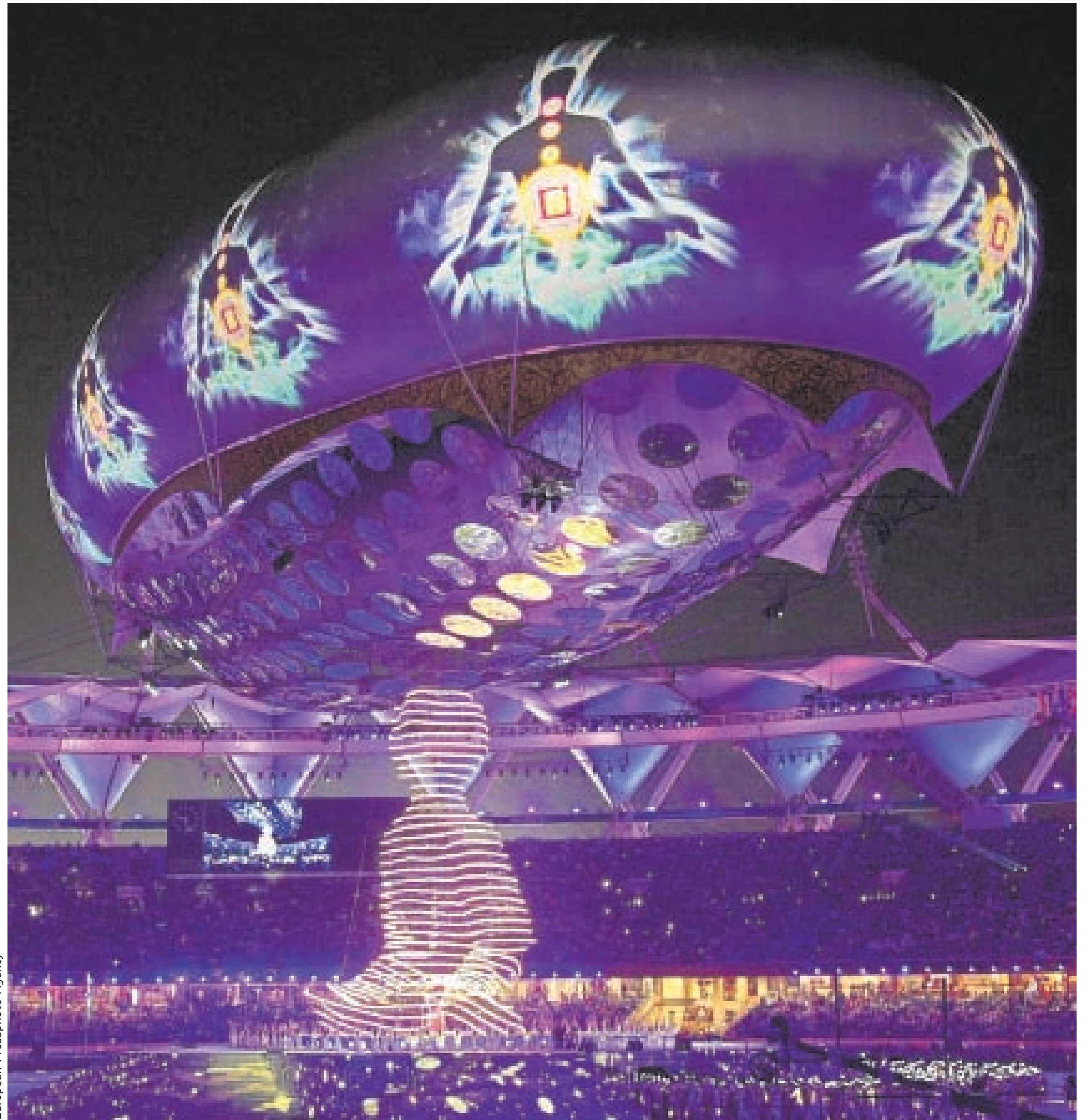
"The ceremony has been beautiful," said Vivian Maguire of Scotland, whose daughter is competing in field hockey. "So many diverse elements they're bringing together."

The show included segments on yoga, the "chinar" shade tree, traditional dancing and drumming, a tribute to Mohandas Gandhi and a performance by Oscar-winning composer A.R. Rahman, who wrote an anthem for the Games.

"I think the ceremony is already improving the mood after adverse publicity," said Vinod Gupta, a local physician.

The city center was in lockdown, with stores other than restaurants and pharmacies in the neighborhoods around the stadium ordered closed. Armed police guarded the approach roads. The Games begin Monday and run through Oct. 14.

—Amol Sharma contributed to this article.



European Pressphoto Agency

A balloon called an aerostat was one of the highlights of the opening ceremony of the Commonwealth Games on Sunda/.

U.S. warns Americans to be vigilant in Europe

Continued from first page

intelligence over the last several weeks.

"A growing body of information on terrorist plotting—gathered over time—factored into the decision to issue the alert," a U.S. official said on Sunday. "There's reason to be concerned, but as the general nature of the alert suggests, the precise timing and target of potential terrorist operations aren't known."

The Obama administration held meetings Saturday on the travel advisory issue and began notifying European governments about Washington's decision, a senior U.S. official said.

European governments on Sunday suggested that the U.S. alert was in line with their own recommendations. The French Foreign Ministry said in a statement that it was analyzing fresh U.S. intelligence pointing to possible terrorist threats in Europe.

French officials have said the terrorist threat was high in France, but that they have made no decisions to increase the alert level. Paris's Eiffel Tower was evacuated twice last month, after anonymous callers phoned in bomb threats, but police each time found nothing suspicious.

The U.K.—whose current threat level is at "severe," meaning an attack is thought highly likely—has sought in recent weeks to remind Britons of the dangers they face. Britain has prepared for a potential commando-like raid with a drill in its second-largest city, Birmingham.

"As we have consistently made clear, we face a real and serious threat from terrorism," Home Secretary Theresa May said in a statement. The U.K. has also updated its own travel advice for countries such as Germany and France, saying terrorist attacks "could be indiscriminate, including in public places frequented by expatriates and foreign travellers."

The warnings didn't appear to deter travelers over the weekend, or to affect operations of major U.S. or European carriers. "It is business as usual for our member airlines, with ongoing vigilance for the safety and security of their travelers," said David Castelveter, a spokesman for the Air Transport Association, an umbrella group for U.S. carriers.

Officials have been searching for a suspected hit team in Europe that may be planning a commando-style attack like the one in Mumbai, India, in 2008.

—Mike Esterl, Daniel Michaels, David Gauthier-Villars and Alistair MacDonald contributed to this article.

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Spanish towns struggle under debts

BY JONATHAN HOUSE

BRUNETE, Spain—This leafy town on the outskirts of Madrid, where residents live in comfortable homes behind high walls, marks the next front in Spain's fiscal crisis.

Struggling to rein in costs, Brunete has cut library and park workers' hours. Instead of fixing the roof of city hall, town administrators have cordoned off the sidewalk in front to keep tiles from falling on passersby. More gravely, it is as much as three years in arrears to providers of building supplies and electrical services. Soon, it says, it may be unable to pay city workers.

Across Spain, towns that once reaped the benefit of housing-boom revenues are slashing budgets, cutting services and racking up debt. Together, according to Spain's central bank, the country's 8,000 municipal governments owe companies some €13 billion ($18 billion), representing more than one-third of their €36 billion total debt.

Getty Images for Wall Street Journal

A Brunete city worker sweeps the town's Mayor Square by hand after a celebration because a machine is too expensive.

Economists say the situation is already suppressing Spain's economy and employment levels. **UBS Bank** SA forecasts that sharp fiscal adjustments at all levels of Spanish government—not only cities, but also the regional and federal governments—risk pushing Spain back into recession in the third quarter, following timid growth in first and second quarters.

In the longer run, fears are mounting that the government may have to mount some sort of local bailout. Such a move would have negative consequences for Spain's international creditworthiness, according to Giada Giani, economist at Citigroup in London.

"The sovereign debt crisis is not over," Ms. Giani said. "As we've seen, any negative news runs the risk of being magnified."

Brunete's plight underscores how little room Spain has to maneuver its way out of crisis. The country has already attempted to repair its fiscal woes by retooling its troubled savings banks and overhauling archaic labor laws. Now Prime Minister Jose Luis Rodriguez Zapatero is slashing Spain's budget to keep in the good graces of the European Union and international lenders.

While the government has offered cities a modest increase in their share of tax revenues after deep cuts this year and last, opening the taps any wider risks compromising the country's ambitious austerity push. But by reining in spending, it risks prolonging the pain to companies and workers across the economy.

On the other end of many cities' unpaid bills stand some of Spain's biggest companies. Aselip, an association of sanitation-service providers—which represents units of **Actividades de Construccion y Servicios** SA, **Fomento de Construcciones y Contratas** SA, **Sacyr-Vallehermoso** SA and **Ferrovial** SA—says these companies are owed €3.4 billion by Spanish cities, €1 billion of which is more than one year past due.

Unless they receive payments, these companies say, they can't continue to finance operations that employ more than 100,000 people collecting garbage, cleaning streets and maintaining parks. "We've been using our own capital to finance the cities," says Aselip spokesman Francisco Jardon. "But our own sources of finance have dried up."

Over the years, towns and cities started footing the bills for services they say other layers of government should have been providing. According to the Spanish Federation of Municipalities, cities pay more than €7 billion annually for services that they say should, by law, be provided by other levels of government, including nursery schools and some types of police and emergency-response services.

Municipal leaders say that for years, they stepped in with their own funds rather than leaving constituents without services. "If one of the neighbors here comes in with a personal problem or need, you try to help him," says Felix Gavilanes, 61, mayor of Brunete and owner of several local bars and restaurants.

Cities were able to meet these payments for much of the decade as revenues from new housing permits surged amid one of Europe's biggest construction booms. Brunete created a new emergency-response team, while providing cleaning services and various types of building materials for local schools.

But the town also paid out to build a gymnasium, library and covered swimming pool. Town officials say they paid €50,000 to €60,000 per year for summer fiestas that featured bullfights and live music, including an appearance by former AC/DC bassist Larry Van Kriedt.

Critics say towns overextended by spending unwisely, leaving themselves and their suppliers vulnerable. "It's scandalous that they say they can't pay their suppliers but maintain their fiestas," says Mr. Jardon of the sanitation providers' association.

Brunete responded to the housing crash with across-the-board spending cuts. The library now opens six hours a day instead of 10. The town has terminated a contract with the company that provided park-maintenance services and has given the job to existing town employees; parks are now watered and cleaned every three days instead of daily. For the past two years, the town has cut bullfights and live music from its annual fiesta.

Even so, Mr. Gavilanes says the city hasn't been able to pay bills to several companies and is three years behind on payments to one building-supplies company. "We're even having trouble paying our employees at the end of the month," he says.

Brunete's pain is being felt by dozens of small companies in the area.

"Now when they [city hall] need to check over their lighting systems, or maybe just change a cable or two, their own maintenance staff does it," says Jaime Aparicio, the 37-year-old owner of Aparicio Instalaciones Electricas, a family-run electrical-supplies and services provider.

Mr. Aparicio says Brunete owes his company some €3,000, with some of the debt dating back two years. Overall, Mr. Aparicio says his sales have fallen around 50% in the past two years. He has laid off four employees. The only remaining workers are his father and a part-time bookkeeper.

Some 125,000 companies—or around 10% of Spain's total—have gone out of business since the economic downturn began in 2008. The second-leading cause of failure among Spain's small companies is late payments by public administrations, according to the Spanish Confederation of Small And Midsize Enterprises.

Such troubles have the potential to weigh on the central government as it attempts to slash its budget to deficit to the 3%-of-GDP limit for European Union countries by 2013.

Earlier this year, the government promised its cities a €3 billion credit line to help them pay suppliers, such as sanitation providers, that have threatened to cut services. But the funds haven't been delivered yet.

Juan Bravo, finance chief for Madrid as well as vice chairman of the finance committee of Spain's Federation of Municipalities and Provinces, says the money is urgently needed to pay garbage collectors and others and avert a crisis of "public order."

"If someone sues the City of Madrid for interest on late payment," Mr. Bravo says, "I will turn around a sue the central government for the same amount."

Incumbents advance in Latvia, Hungary

BY GORDON FAIRCLOUGH

Voters in recession-scarred Latvia this weekend backed a group of politicians who pledged to slash government spending, while Hungarians threw their support behind a party calling for tax cuts and opposed to any new austerity measures.

These latest indications of voter sentiment come as governments across Europe are under pressure to cut budgets and shore up state finances to stave off a recurrence of market turmoil stemming from public debt. Workers from Spain to Lithuania marched against austerity plans last week, while Ireland's decision to rescue troubled banks was expected to send its 2010 deficit up to 32% of gross domestic product.

In the Baltic nation of Latvia, where economic output plunged and unemployment soared in the wake of the global financial crisis, citizens on Saturday re-elected the center-right coalition of Prime Minister Valdis Dombrovskis, who has raised taxes and sharply cut public spending and promises more of the same.

Hungary's governing Fidesz party, meanwhile, strengthened its political grip with a lopsided victory in local elections Sunday after arguing that austerity isn't the solution to the country's economic woes and pledging to boost growth with tax cuts and aid to businesses.

But despite the diverging campaign rhetoric and voter responses, politicians—bound by bailout agreements, European Union deficit and debt rules and faced with unforgiving financial markets—don't have much room to maneuver.

EU governments and international investors will be watching closely to see whether Hungarian Prime Minister Viktor Orbán, whose right-leaning Fidesz party won control of the national parliament in April, will stick to strict EU-imposed budget-deficit limits.

Hungary's reluctance to lay out budget plans that would result in more sweeping and long-lasting government-spending reductions has been a significant source of friction between Budapest and Brussels since Mr. Orbán took office.

Associated Press

Hungarian President Pal Schmitt watches his wife, Katalin Makray, vote Sunday.

In July, the EU and International Monetary Fund, which rescued Hungary from insolvency with a massive bailout in 2008, walked away from talks with Mr. Orbán's administration. Mr. Orbán responded by saying Hungary, which joined the EU in 2004, would make due without more aid.

Mr. Orbán has maintained his opposition to further loans from the EU and IMF. But last month, faced with an unyielding EU, a weakening currency and rising government borrowing costs, his government pledged to keep its deficit below the EU's mandated target for next year.

His party's victory in Sunday's vote for mayors and city council members across Hungary will make it easier for Mr. Orbán to push through changes aimed at shrinking the country's local administration and other cost-cutting measures.

But it could prove difficult for Mr. Orbán to keep his promises both to voters and to the EU. His government has delayed releasing its 2011 budget plans until after the election.

—Margit Feher contributed to this article.

EUROPE NEWS

Osborne is set to attack Miliband on U.K. deficit

By Laurence Norman

BIRMINGHAM, England—U.K. Treasury Chief George Osborne is expected to launch an attack Monday on the new leader of the opposition Labour Party, Ed Miliband, accusing him of protecting "vested interests" in the unions by refusing to tackle the budget deficit.

In the first keynote speech of Prime Minister David Cameron's Conservative Party annual conference, Mr. Osborne is scheduled to detail some areas he prioritize amid deep spending cuts.

And he will reiterate Mr. Cameron's commitment to build a more balanced economy for the future—one not dependent on the financial sector or "the quick fix of another debt bubble," according to excerpts released by his office.

But it is his attack on new Labour leader Ed Miliband that is likely to grab most attention. Mr. Miliband, 40 years old, edged out elder brother David for the post, with help from strong support among union members.

While David Miliband stood by the pre-election Labour government's plan to halve the budget deficit over four years, his younger brother has called that a "starting point" and hasn't specified how he would tackle the deficit.

Mr. Cameron's government is seeking a more ambitious fiscal plan than Labour—planning a fiscal tightening of about £113 billion (about $179 billion), some £40 billion more than Labour. Mr. Osborne will set out the scale of the cuts at his Oct. 20 spending review.

"Imagine if I were to stand up... and say: I'm canceling the deficit plan. I agree with Ed Miliband. ... Now imagine what would follow. The market turmoil. The flight of investors. The dismay of business. The loss of confidence. The credit downgrade. The sharp rise in market interest rates," Mr. Osborne is set to say.

He is scheduled to say that delaying tackling the deficit will cripple the recovery and lead to a "decade lost to debt" which will see the deficit grow.

Mr. Osborne will say the Conservative argument of tackling the deficit now has backing from the International Monetary Fund, Bank of England Governor Mervyn King, credit-rating agencies and the bond markets. "On the other side is Ed Miliband and the trade-union leaders who put him where he is. The national interest or the vested interests. I know which side we're on."

Labour has argued since before the election that Mr. Osborne's austerity plans could crimp a still weak economic recovery, pointing to the dangers in places, such as Ireland where deep austerity measures have crimped growth. They also charge the Conservatives with making an ideological attack on the state.

Mr. Osborne also is due to set out spending areas he is looking to protect. He will confirm the government will create a Green Investment Bank and will prioritize investment in transport programs, medical research and the U.K.'s communications network. And he will vow increases in the threshold at which people pay income tax—a measure pushed by the left-leaning junior Liberal Democrats coalition party.

Mr. Osborne will pitch his economic plans as a way of unleashing the aspirations of the British public, saying the "hard economic choices we make are but a means to an end. And that end is prosperity for all."

Mr. Osborne's speech comes on the second day of the conference which opened Sunday.

The gathering, which might have been a victory parade in other circumstances, had a sober mood, tempered by looming spending cuts and the Conservatives' failure to win a parliamentary majority in May after 13 years in opposition.

In an interview with the British Broadcasting Corp. Sunday morning, Mr. Cameron said the government's fiscal promises had taken the country out of the "danger zone," though he acknowledged the economy may face choppy times ahead.

Mr. Cameron touted a "radical" shakeup of welfare spending, the product of a summer of hard negotiations within the cabinet.

Under the changes, various means-tested out-of-work payments would be scrapped and one universal credit created. The system would be designed to ensure that an individual would always be better off working than staying home on unemployment benefits. He said there would be "huge savings" over time.

—*Ainsley Thomson contributed to this article.*

Reuters

U.K. Prime Minister David Cameron at the Conservatives' conference Sunday

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EUROPE NEWS

China offers Greece support

Chinese Premier Wen Jiabao offered Greece a major vote of confidence on a visit to the debt-ridden European nation, saying China will continue to buy Greek bonds and announcing the creation of a $5 billion fund to help Greek shipping companies buy Chinese ships.

By ***Nick Skrekas*** *in Athens and* ***Andrew Batson*** *in Beijing*

Associated Press

Chinese Premier Wen Jiabao, right, and his Greek counterpart George Papandreou at the Parthenon in Athens on Sunday.

The remarks represent some of China's most substantive support for the euro zone amid the region's debt troubles, and reflect the Asian giant's growing willingness to wield its economic clout to obtain wider international influence. Mr. Wen's Athens visit kicks off a week of intensive Chinese-European diplomacy, with the premier heading to Italy and Turkey as well as to summit meetings with European Union leaders in Brussels.

"We hope that by intensifying cooperation with you, we can be of some help in your endeavor to tide over difficulties at an early date," Mr. Wen said Sunday in a speech to the Greek parliament. "China will not reduce its euro-bond holdings and China supports a stable euro."

China has long had economic interests in Greece, primarily in its shipping industry, and it runs a substantial trade surplus with the European country. China's relations with Greece have come into focus in recent months as Greek officials actively lobbied the Asian nation to support its economy. Athens is desperate for investment as the country claws its way out of a deep recession and a debt crisis that drove it to the brink of bankruptcy in May.

"These agreements and the announcement of China's intent to continue to invest in Greek bonds are seen as a vote of confidence for our economy, which is going through a difficult time," said Greek Prime Minister George Papandreou. "As we say in both Greece and China, it is in the tough times that you know who your friends are."

Commercial officials from both nations exchanged visits in June, promising to boost trade and economic ties, and Beijing has said previously that it supports Europe's efforts to deal with its financial woes. Those promises were repeated and expanded with the state visit by Mr. Wen that started Saturday.

"With its foreign exchange reserves, China already has bought and intends to buy new Greek bonds," Mr. Wen said.

Greece needs to lower dramatically its bond yields—meaning its borrowing costs—to return to international market borrowing next year and the Chinese leader's comment was seen as boosting confidence in Greek government bond prices.

Mr. Wen also said China is encouraging its companies to invest in Greece, and predicted that trade between China and Greece likely will double in five years to $8 billion annually. Last year, China's exports to Greece totaled €3.04 billion ($4.19 billion), compared with €93 million of Greek imports to the country, according to EU data.

After overseeing the signing of agreements in shipping, construction and technology with Prime Minister Papandreou on Saturday, Mr. Wen announced China's intention to invest in Greek bonds and the creation of a substantial fund to finance the purchase of Chinese ships by Greek shippers.

"China will undertake a great effort to support euro-zone countries and Greece to overcome the crisis," Mr. Wen said, adding, "We hope the EU recognizes as soon as possible China's full market-economy status, and will relax restriction on high-technology exports to China and oppose trade protectionism."

Support from China could be crucial for Greece, which is looking to return to borrowing in international debt markets next year. While the bulk of China's foreign-exchange reserves of $2.454 trillion are held in U.S. debt, companies and governments have been looking to take advantage of Beijing's push to diversify into other currencies and assets.

Greece-China trade

In millions of euros

Source: Eurostat

U.K. pushes EU to relax stance on bank pay

Continued from first page

on which path to choose, people familiar with the matter said.

While the FSA is lobbying officials at CEBS to adopt its interpretation, the U.K. is committed to adhering to the final decision, people familiar with the matter said.

A CEBS spokeswoman confirmed that remuneration would be on the agenda at this week's meeting but wouldn't comment on individual countries' positions.

The disagreement over the 30% cap has been brewing for several months. After the FSA published its interpretation of the EU rules in July, Arlene McCarthy, the member of Parliament who drafted the rule, sent a strongly worded letter to Hector Sants, the head of the FSA. She said the FSA "cannot ignore core elements" of the legislation, and she also wrote members of the U.K. government, urging them to intervene on this issue.

"Cutting the amount of upfront cash...is essential to cutting the incentives for excessive risk-taking," Ms. McCarthy said in a statement Friday. "I am very concerned that the U.K. is trying to undermine that interpretation."

The FSA said its view on the 50% figure is consistent with the text of the EU rule. It also said it would take into account CEBS's guidance this week to "ensure that the final rules in the U.K. conform to those implemented in other member states."

In a September letter responding to Ms. McCarthy's, Mr. Sants said the FSA interpretation is only provisional. He said the FSA expects "this point to be clarified" by the CEBS guidelines to be issued this week.

In many respects, the U.K. has emerged from the financial crisis with some of the toughest policies on bank pay. Last year, it slapped a one-time tax on bonuses that any banks, British or otherwise, paid to employees in the U.K. The FSA in 2009 was one of the first regulators to put in place a remuneration code to encourage good pay practices at banks. It included rules on bonuses but didn't mandate cash, share or deferral ratios, as the EU regulations do.

The FSA's push for a looser interpretation of the bonus restrictions "is slightly going against the grain" of its recent tough-on-banks position, said Simon Morris, a London-based partner at law firm CMS Cameron McKenna.

Among European nations, Spain has also been vocal on calling for more flexibility, according to a person familiar with the CEBS discussion. Spanish ministers and regulators couldn't be reached or didn't return calls for comment Friday.

The controversy stems in part from fuzzy language—including a typing mistake in a crucial passage—in the original European directive.

The portion of the vast document relating to remuneration said that at least 40% of any bonuses must be paid out over three to five years, and that at least half of any bonuses must be in the form of stock or equivalent units. Part of the confusion stems from a clause in the text of the EU rule that refers to the wrong line farther down in the document.

The European Parliament said its intent was clear. If an employee gets a $1 million bonus, the bank can fork over up to $600,000 immediately. Of that, half must be in equity. That means that $300,000—or 30% of the total—can be in the form of cash. Documents that the legislature released in July repeatedly note that "the directive caps upfront cash bonuses at 30% of the total bonus and 20% for large bonuses."

But the FSA said the directive as written gives banks more leeway. In the case of the $1 million bonus, the FSA argued that a bank can pay an upfront cash award of up to $500,000, plus $100,000 of stock, which satisfies the directive's requirement that no more than 60% of the award be paid upfront. The remaining $400,000 of the award—all in stock—would have to be deferred a few years.

It isn't clear which interpretation is correct. Leading U.K. law firms arrived at different conclusions when they reviewed the directive. In addition to CEBS guidance this week, an EU body is expected this month to issue a cleaned-up version of the directive that could clarify the matter.

Sarkozy seeks lift to image via China

By David Gauthier-Villars

PARIS—France's President Nicolas Sarkozy has an ambitious plan for his Group-of-20 presidency: Get China to talk about exchange rates.

China's main trading partners want the yuan to rise, in the hope this will improve their trade balances with China and boost their economies. But Chinese officials resist, worried that this could upset the country's export performance and hamper growth.

Mr. Sarkozy, who takes over as G-20 president in November, thinks a key role for the forum could be currency, thus attempting to bring Bejing to talk about the yuan. He has now been courting China for a year to overcome the nation's resistance, people familiar with the matter said Friday. He is already trying to convince the U.S. and Germany—France's main trading partner—to participate in currency seminars he hopes will be held during his one-year G-20 presidency. In an August speech, Mr. Sarkozy said one of these seminars could be held in China.

Convincing China to discuss currency issues won't be easy; China has repeatedly indicated it won't yield to foreign pressure over its exchange-rate policies, but any success could help boost Mr. Sarkozy's image as a statesman and offset his sagging popularity at home, where the French president is trying to push through an unpopular plan to raise the retirement age.

Mr. Sarkozy's aim to lure Beijing to a currency round-table comes amid growing tension over exchange rates. Earlier last week, the U.S. House of Representatives passed legislation that would allow the U.S. to levy tariffs on goods from countries that it thinks undervalue their currencies and make their goods relatively cheaper compared to American products.

Under Mr. Sarkozy's plan, currency seminars could bring together about 80 people, including finance ministers, central bankers and prominent economists from G-20 members, people familiar with the matter said.

—Nathalie Boschat contributed to this article.

■ Higher yuan may not lead to a big jump in U.S. jobs 8

European Pressphoto Agency

Mr. Sarkozy at the U.N. last month.

Bank aid rankles voters in Ireland

By Neil Shah
And David Enrich

DUBLIN—To understand why Ireland's cash-strapped citizens are so angry about the country's banking debacle, consider the plight of bookseller Brendan Storey.

Mr. Storey's Dublin bookstore has seen sales drop 20% as Ireland's economy has withered. To avoid big layoffs, he sliced the salaries of his staff. Now, with Ireland's government likely to raise taxes to pay for its colossal bank bailout, he is bracing for more pain. "Nobody's accountable," he says. "People want to see people go behind bars."

Ireland's failure to stem the costs of its banking rescue is stoking citizens' ire at the bankers and politicians they hold responsible for the country's property bust, and fueling debate about how the government should pay its debts.

Last week, Irish authorities—on a day dubbed "Black Thursday" by local media—said the ultimate cost of bailing out the banks could reach €50 billion (about $68 billion), sending the country's budget deficit for 2010 to 32% of its economic output—the worst in euro-zone history. That, in turn, is likely to unleash yet another wave of government austerity measures that could crimp the economy and build citizens' anger.

So far, protests in Ireland have been muted, analysts say, partly because many Irish feel powerless and somewhat responsible for the recklessness of their country's property developers, bankers and government officials. By contrast, workers in Greece have staged demonstrations, while Spain saw its first nationwide strike in eight years last week.

"People are cross, but they don't see any obvious way out of this, other than what the government is preparing to do," says John Fitzgerald, of the Economic and Social Research Institute, an independent think tank in Dublin.

Still, anger in Ireland is mounting. On Friday, a new poll by the Irish Times newspaper showed that a strong majority—61%—of voters want Prime Minister Brian Cowen to relinquish power before the country's next election, due in 2012. His ruling Fianna Fail party runs a coalition government that is holding on to power by a slim margin—one likely to disappear next year, prompting new elections.

Last week, a man drove a cement mixer with slogans decrying banks and politicians to the gates of Ireland's Parliament here as legislators returned from their summer break. Police arrested the driver, but the public praised him. The 41-year-old was charged with "criminal damage" and is out on bail.

The Irish government is bracing for a backlash from taxpayers, who have accepted severe budget cutbacks in the past two years. "The Irish people are entitled to be angry with bankers who lent recklessly," Ireland's finance minister, Brian Lenihan, said Thursday.

Blair Horan, general secretary of Ireland's Civil Public and Services Union, which represents 14,000 lower-income workers, says the government has already cut the wages of public-sector workers by 12% to 14%. He says that if Ireland needs money, it should increase its relatively low corporate-tax rate instead—and protect the less wealthy.

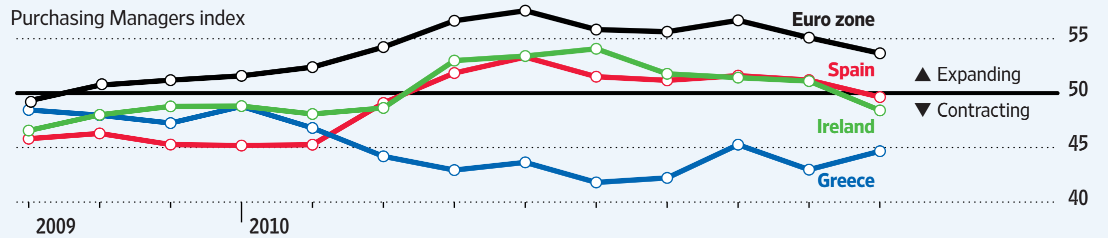
Ireland is already making €4 billion of budget cuts this year, the toughest in a generation, economists say. Additional measures could make the economy a lot worse, says Sean Healy, director of Social Justice Ireland, a research institution. "People are not stupid. They are not going to go out and spend money."

Most economists already expect the ruling Fianna Fail party to lose power in the next election. Indeed, the party's lack of prospects may help it advance deeply unpopular fiscal-austerity measures. But more austerity also could fuel anger against politicians of all stripes, making it more difficult for Ireland to restore stability to its finances.

Riled in the Emerald Isle

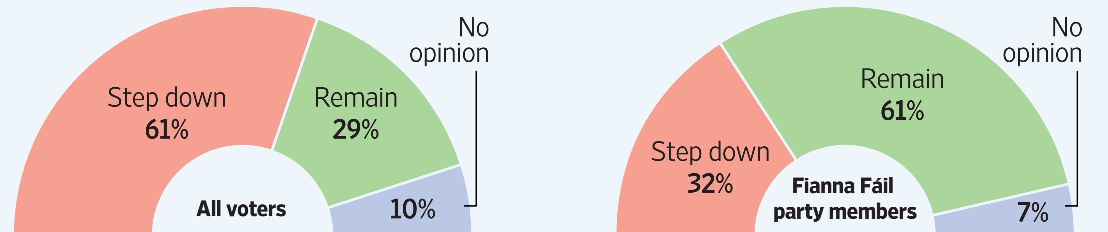
As Ireland's manufacturing activity contracts...

Purchasing Managers index



...A poll shows some voters seeking new leadership.

Should Brian Cowen remain Ireland's prime minister and leader of the Fianna Fáil party until the next election?



Source: Markit (PMI); Irish Times/Ipsos MRBI poll of 1,000 voters age 18 and older conducted Sept. 27-28; margin of error +/– 3 pct. points

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U.S. NEWS

Associated Press

President Obama with departing chief of staff Rahm Emanuel, left, and interim chief Pete Rouse on Friday.

Obama calls Mr. Fix-It as chief of staff departs

By Laura Meckler

In early 2006, when then-Sen. Barack Obama was denying any interest in running for president, Pete Rouse was quietly writing a plan to guide the campaign.

It was one of many key assignments Mr. Rouse, who Friday was named interim White House chief of staff, has taken on for President Obama. Averse to the spotlight, Mr. Rouse, a longtime top aide to Mr. Obama, is known as a "fixer."

"There is a saying around the White House, let's let Pete fix it. And he does," Mr. Obama said Friday. "Pete's known as a skillful problem-solver. And the good news for him is that we have plenty of problems to solve."

Mr. Obama formally introduced Mr. Rouse in his interim role at a gathering in the White House East Room, where the president also paid tribute to Rahm Emanuel, the departing staff chief who is leaving to run for mayor of Chicago. Mr. Rouse stood expressionless at Mr. Obama's side and didn't speak.

After the midterm elections, Mr. Obama is expected to weigh whether he wants to replace Mr. Rouse or ask him to stay in the job on a permanent basis.

Mr. Rouse's tasks in the White House have included bringing order to Mr. Obama's so far unsuccessful efforts to close the military prison at Guantanamo Bay, Cuba. He also helped figure out how to involve Elizabeth Warren in the start-up phase of the financial consumer-protection agency without nominating her as the agency's director, which would have touched off a problematic confirmation process.

Recently, he has been working on an organizational review of the White House for the second half of Mr. Obama's term.

Mr. Rouse spent more than three decades as a chief of staff on Capitol Hill, mostly in the Senate. For 19 years, he worked for Sen. Tom Daschle, who rose to become majority leader. Mr. Rouse was nicknamed the "101st senator," because so many members trusted his judgment.

"I can think of thousands of cases where a senator would walk into the leader's suite, and instead of making a left to go into see Daschle, they would make a right and close the door to go see Pete," said Joel Johnson, who worked for Mr. Daschle.

Mr. Daschle said Friday that Mr. Rouse was key in dealing with the anthrax-laced letter mailed to their office in October 2001. He said Mr. Rouse was able to reassure staffers, some of whom had been exposed to the deadly spores. "Very calmly but thoughtfully he laid out what we needed to do in the next hour, next five hours and next five days," Mr. Daschle said.

In 1998, Mr. Rouse was involved in dealing with a different sort of crisis: the impeachment trial of President Bill Clinton. He brought in attorney Bob Bauer, now White House counsel, to advise Senate Democrats on the legal maneuvering, and suggested the caucus meet twice a day to make sure everyone was holding together in support of Mr. Clinton.

"Inevitably when a staffer for a particular senator felt like their boss was not where they ought to be and they couldn't convince them to be in the right place, they would call Pete and ask him to talk to their boss," said Mr. Johnson.

He also had working relationships with Republicans, according to GOP Senate aides who worked with him.

"When he told you something, it was his bond. It was true, it was there," said David Hoppe, chief of staff to Sen. Trent Lott of Mississippi, the Republican leader when Mr. Daschle was the Democratic leader.

"There's a general perception of him as an honest broker," said Eric Ueland, a top aide to then-Sen. Bill Frist (R., Tenn.).

Both predicted that Mr. Rouse's understanding of Congress, particularly the Senate, would help the White House navigate the coming congressional term following an election that is widely expected to increase Republicans' strength.

When Mr. Daschle lost his re-election bid in 2004, some expected Mr. Rouse to move to the private sector. Instead, he took the top job in Mr. Obama's new Senate office.

When Mr. Obama first entered the Senate, Mr. Rouse counseled him to develop as many relationships as he could with other senators, particularly Republicans. One Senate colleague said Mr. Rouse's personal politics run to the liberal end of the Democratic spectrum, but added that Mr. Rouse was a political realist who sought to do the deals that were possible.

Last year, Mr. Rouse was involved in cutting one of the key deals in the health-care negotiations, over abortion coverage, between Sen. Ben Nelson (D., Neb.) and two liberal senators, Patty Murray of Washington and Barbara Boxer of California. That deal essentially moved the bill out of the Senate and, ultimately, into law. His work on the matter had its roots in the Senate, where he became close with Mr. Nelson's chief of staff.

Higher yuan may not lead to a big jump in U.S. jobs

[The Outlook]

By Kathy Chen

Suppose the Chinese, under intensifying pressure from the U.S. Congress and Obama administration, did let their currency, the yuan, climb 20% against the U.S. dollar. Then what?

The goal of U.S. politicians, of course, is jobs, which are in short supply these days with unemployment at 9.6% and projected to remain high for years. Proponents of a measure that passed the U.S. House last week to put pressure on China say a higher yuan would create thousands of U.S. jobs. The higher the Chinese currency, the logic goes, the costlier and thus less attractive are Chinese exports to Americans and others, and the more attractive are imports to Chinese business and consumers.

But there are reasons to doubt that even a hefty increase in the value of the yuan would yield big gains for the U.S.

For one thing, the last time a large revaluation of the yuan occurred, it had little impact. Stephanie Lester, vice president of international trade for the Retail Industry Leaders Association, a Rosslyn, Va., group whose members tend to benefit from a cheap yuan, says that when China allowed its currency to appreciate by about 20% between 2005 and 2008, many retailers didn't shift production out of China.

The reason: The currency is only one factor that influences where companies make things. Factors such as infrastructure, labor costs and political stability are also decisive, Ms. Lester says. Indeed, according to the Commerce Department, the U.S. trade deficit with China surged to $268 billion in 2008—up from $202 billion in 2005—despite the updraft in the yuan's value.

Another problem is that the U.S. no longer makes many of the goods China exports. So a shift in business out of China, for whatever reason, would more likely mean producers go to other low-cost Asian countries, rather than rebuild U.S. capacity.

Chinese Premier Wen Jiabao, in an interview with CNN's "Fareed Zakaria GPS," which aired Sunday, said some U.S. lawmakers were "politicizing" the U.S.-China trade imbalance. He noted that the yuan has appreciated by 55% against the dollar since 1994, when Beijing began to overhaul its foreign-exchange system, and that the bilateral trade imbalance was "mainly structural."

Advocates of the get-tough attitude in Washington argue that previous increases in the value of the yuan didn't work because they didn't go far enough. Many want to see another 20% bump, including U.S. Treasury Secretary Timothy Geithner, who has signaled a yuan appreciation of that amount would make a meaningful difference in boosting U.S. jobs and trade. China's large and growing trade surplus and massive dollar reserves lead many economists to conclude that the current value of the yuan is well below where the market would take it.

Steadier ground

How many yuan one U.S. dollar buys

Note: The scale is inverted to show the strengthening of yuan

Source: WSJ Market Data Group

One likely outcome of a pricier yuan is that it would make Chinese goods more expensive for U.S. consumers, giving them reason to buy fewer of those goods while increasing their purchase of U.S.-made products.

At the same time, a stronger Chinese currency would boost the purchasing power of Chinese consumers and companies, arguably making them more inclined to buy U.S. products, as well. They might also buy more Chinese goods, decreasing Chinese producers' reliance on exports.

According to C. Fred Bergsten, director of the Peterson Institute for International Economics in Washington, all that could add up to a decrease in the U.S.'s annual trade deficit with all countries by between $50 billion and $120 billion. Based on the Commerce Department's preliminary estimate for 2010, each $1 billion in exports supports about 5,500 jobs, which means the equivalent of 275,000 to 660,000 jobs in the U.S. economy.

A wild card remains whether neighboring Asian countries would allow their currencies to rise in tandem with a yuan appreciation. Gary Hufbauer, also at the Peterson Institute, suggested that that could make a difference between a "fairly modest" boost to the U.S. trade balance from a 20% yuan rise, of $20 billion to $30 billion, and a larger projected impact, of up to $100 billion.

Certainly, some U.S. sectors, such as agriculture and steel—which have been among the most vocal in pushing for action against China's currency policy—stand to benefit from a stronger yuan. But other factors sometimes have a bigger impact.

Take the steel industry. The U.S. price for hot rolled carbon sheet was $587 a short ton on Sept. 27, compared with $562 for Chinese-made hot rolled for export to North America and Europe, according to the Steel Index, an index provider. While China traditionally hasn't exported a lot of steel to the U.S., it has sometimes unloaded large amounts in the wake of excess capacity. A 20% increase in the yuan, by making Chinese steel pricier, could decrease the likelihood of such incidences.

It could also boost the competitiveness of U.S. steel exports. But for the most part, the best chances for the U.S. to fight off competitive challenges from China are to continue to innovate and boost productivity at home.

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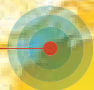
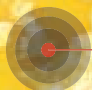
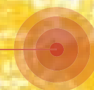


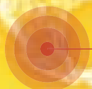
Documents to Martha on 1st floor, everything else to John in dispatch.



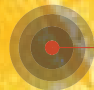
Fish market by day, shortcut by night.



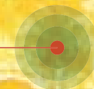
Road sign to airport hidden. If you miss it, hang the second left and then the third right.



In March it's a road, by August it's a river.



Any further and you need a plane.



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WORLD NEWS

Rescue ends, but anger lasts

By Deborah Solomon
And Naftali Bendavid

The U.S.'s top financial regulators gathered in Washington Friday to start work on a new council designed to prevent the need for more government bailouts. First, however, the U.S. will have to grapple with the long-term effects of the last one, the much-maligned Troubled Asset Relief Program.

In ways large and small, the 2008 financial rescue, which officially expires Monday, altered not just Wall Street but also the political, economic and social landscape. Lawmakers who voted for it are fighting for their political lives. Bailout anger has all but ruled out the chance of federal intervention in the foreseeable future. The Federal Reserve has seen its independence threatened. And the Obama administration's ability to respond to the economic crisis has been constrained.

"This whole event can have political implications for 30 years," says Kenneth Rogoff, a Harvard University economist and expert on financial crises.

TARP was just one piece of a broader financial rescue, which included unprecedented actions by the Fed to stabilize a financial system on the brink of collapse. But it rewrote the rules about government intervention and has come to symbolize what some voters say they loathe about the wider bailout and, to a large extent, Washington: expansive government power, money spent to help Wall Street, and an unwillingness by policy makers to let people pay for their own mistakes.

"The name itself has become associated with something other than what it was, through hyperbole, misrepresentation and exaggeration by unfortunately a lot of people who want an issue," said Sen. Judd Gregg, a Republican who voted for TARP and continues to defend it.

Reuters

Sen. Judd Gregg (R., N.H.) voted for TARP and continues to defend it.

TARP was an essentially bipartisan piece of legislation, in that it was crafted by the Bush administration, supported by both Democrats and many Republicans, then taken over by the Obama administration.

The anger against it, paradoxically, takes no heed of the fact that TARP, along with the broader government rescue efforts, has been arguably a success. It will ultimately cost far less than the initial $700 billion price tag that stunned a nation. Major banks are profitable and can raise capital. Credit spreads—a key measurement of risk—are down to pre-crisis levels.

The White House now projects TARP will lose at most $50 billion, down from $105 billion projected earlier this year. Privately, Treasury Department officials say the U.S. may not lose a dime, and could ultimately make money depending on how some investments fare.

"The incredible irony here is that TARP probably succeeded wildly beyond anybody's imagination," said Alan Blinder, a Princeton University economist who co-authored a paper crediting the administration's economic policies with preventing a second Great Depression. "Suppose the original TARP bill had been to spend $50 billion to avert a catastrophe. Would anyone have blinked?"

On Friday, top U.S. regulators took initial steps toward identifying which financial firms are so large or complex that they pose a threat to the financial system. Firms that are designated "systemic" will be subject to scrutiny by regulators.

To a public grappling with 9.5% unemployment, depressed housing prices and stagnant wages, the success of TARP matters little.

Perhaps the biggest fallout from TARP is that it precludes another TARP. Should the financial sector run into trouble, the chances of another government bailout are essentially nil. For many on Capitol Hill and beyond, the end of bailouts is a good thing. But some worry TARP's legacy could be a more devastating financial crisis down the road.

"The greatest consequence of the TARP may be that the government has lost some of its ability to respond to financial crises," concluded the Congressional Oversight Panel, which oversees TARP and has been one of its biggest critics.

The program also helped politicize the Fed, putting it in Congress's crosshairs for its willingness to work alongside the Treasury Department to aid Wall Street. It spawned deep distrust on Capitol Hill, threatening Fed Chairman Ben Bernanke's nomination and prompting Congress to curtail some of the Fed's autonomy and authority. The central bank is now subject to broader oversight.

The opprobrium attached to the program has made it harder for the administration to respond to the economic slowdown. In the battle over a recently enacted $42 billion law to aid small business, much of the debate revolved not around the bill's merits, but whether it was "TARP Jr." or "Son of TARP."

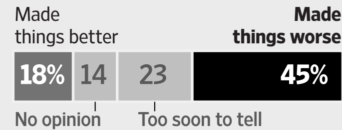
"We can say this isn't TARP," said Sen. John Thune (R., S.D.) during the debate. "But if it walks like a duck, talks like a duck, and acts like a duck, it is a duck."

Bailout blues

How Americans feel about providing government loans to:

BANKS

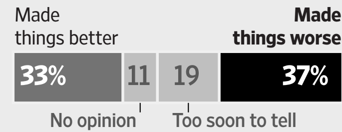
Made things better | Made things worse



No opinion | Too soon to tell

GM AND CHRYSLER

Made things better | Made things worse



No opinion | Too soon to tell

Source: WSJ/NBC News telephone poll of 1,000 adults conducted Aug. 26–30; margin of error: +/–3.1 percentage points

Obama sets a focus on energy plan and jobs

By Maya Jackson Randall

WASHINGTON—President Barack Obama touted his administration's energy policy on Saturday, predicting that his clean-energy programs will create "hundreds of thousands" of new American jobs by 2012.

Meanwhile, he painted a contrasting picture of the GOP energy agenda, arguing that Republicans would only boost the nation's dependence on foreign oil and keep special-interest groups in control.

"We can go back to the failed energy policies that profited the oil companies but weakened our country," the president said in his weekly radio address. "Or we can go after new jobs in growing industries."

Mr. Obama said special-interest groups have blocked efforts to cut back on foreign oil, effectively holding families hostage to gas-price increases and sending manufacturing jobs overseas.

But his administration's focus on clean-energy technology will mean more jobs for contractors who install energy-efficient products, factory workers who build more fuel-efficient cars and engineers who design wind farms and solar plants, he said.

Senate Republican Leader Mitch McConnell (R., Ky.) didn't specifically address energy policy in this week's GOP weekly address. But he said Republicans should "do pretty well" in the elections given that many Americans are opposed to the Obama administration's health-care, tax and financial policies. Voters want the U.S. government to work for them and to address chronic unemployment, he said in the GOP weekly address.

Mind the gap: Job figures tell different stories

[The Numbers Guy]

By Scott Thurm

The sluggish U.S. economic recovery prompts an urgent question: When will employers start hiring for real? And will we know when they do?

There are many estimates of employment, from both government agencies and private companies, that are sometimes contradictory. Economists who analyze them generally say that while the government's statistical methodology is more rigorous, this might be a moment where its approach is falling short.

The Labor Department's monthly estimate of nonfarm payroll jobs is the most closely followed employment report. The numbers can move stock and bond markets world-wide.

But several private entities also produce employment estimates. Temporary-help firm Manpower Inc. has been surveying employers about their hiring plans since 1962. The Conference Board, a group that compiles the index of leading economic indicators, publishes an employment trends index. And Automatic Data Processing Inc. in 2006 launched a monthly job estimate, based on the roughly 20 million paychecks it handles for clients.

Many economists remain skeptical of the methodology used by private companies. But the ADP report in particular has fans on Wall Street, where some analysts view its lower job estimates in recent months as a warning sign about the economy.

Both the Labor Department and ADP estimates are based on surveys of roughly 400,000 workplaces, but the employers are chosen in different ways. The Labor Department selects employers to mirror as precisely as possible the U.S. economy; it says the survey covers roughly one-third of the nation's private employees.

The government data have handicaps. Not all employers complete the survey each month. Also, in a complex economy, it can be difficult for the government to count jobs at businesses that are opening and closing.

Government statisticians acknowledge these issues, and include a margin of error: The Labor Department says there is a 90% chance that its monthly estimates are within 100,000 of the actual number of U.S. jobs. When jobs are growing slowly, as now, that's a significant number. The department estimates that private employers have added jobs every month this year, but in five of the eight months so far, the gains were less than 100,000.

A booming or shrinking economy poses a different problem for government statisticians, by disrupting their projections for new and dying firms. To adjust, officials once a year match their estimates to the total number of jobs employers report on payroll taxes.

ADP faces different statistical issues. It knows exactly how many people are working at the companies it samples, because it cuts their paychecks. But the sample is skewed by the firms that choose to use ADP. So Macroeconomic Advisers LLC, a consulting firm hired by ADP, attempts to adjust the numbers to more closely match the economy.

Some economists question whether the adjustments are adequate. ADP's early record was spotty. Its second report, which estimated private employers added 368,000 jobs, was shown to be vastly overstated.

Joel Prakken of Macroeconomic Advisers says the problems arose because ADP knows more about workers who are hired than fired. For various reasons, employers sometimes wait months to formally purge workers from rolls. Since then, ADP has tweaked its methodology several times.

Ray Stone, of Stone & McCarthy Research Associates, an economic and market-forecasting firm, says he already knows the unemployment-claims figures. He would prefer that ADP stick to a purer measure of its clients' payrolls. Like most economists, Mr. Stone considers the Labor Department numbers more reliable, despite their flaws, because of the way survey participants are selected.

Mr. Prakken sees the issue differently. "I don't think about it as one being right and one being wrong," he says. Prices on U.S. government bonds often swing up or down in the few minutes after ADP releases its monthly report, typically two days before the Labor Department number. If the markets are reacting so quickly, "that means there's value in the data," he says.

Determining which report delivered a more accurate picture could be a polite debate among economists. But with nearly 15 million Americans out of work, the differences take on more significance. And lately, those differences have become stark.

Since December, the Labor Department estimates that private employers have added 763,000 jobs. ADP pegs the number at 127,000. The discrepancy could reflect gaps in ADP's data because of its client base.

On the other hand, the Labor Department could again be misestimating the number of new and dying firms. That would presage another big adjustment, and suggest the economy is growing more slowly than thought. A Labor Department spokeswoman declined to comment.

Carl Bialik returns next week.