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Looming over Greece: Specter of bankruptcy

LONDON

BY LANDON THOMAS JR.

As interest rates on Greek debt spiraled upward again Thursday, the question facing Europe was no longer whether Athens has the political will to cut spending and raise taxes to curb its gaping budget deficit, but whether Greece

NEWS ANALYSIS

will run out of money before it gets the chance to do so.

With the rate on 10-year Greek bonds reaching as high as 7.5 percent, up from 6.5 just three days ago, and the cost of insuring against a Greek default hitting a record high, the message from the market could not be clearer: Artfully worded communiqués from Brussels will no longer suffice.

To avoid bankruptcy, analysts said, Greece needs a bailout from Europe, and fast.

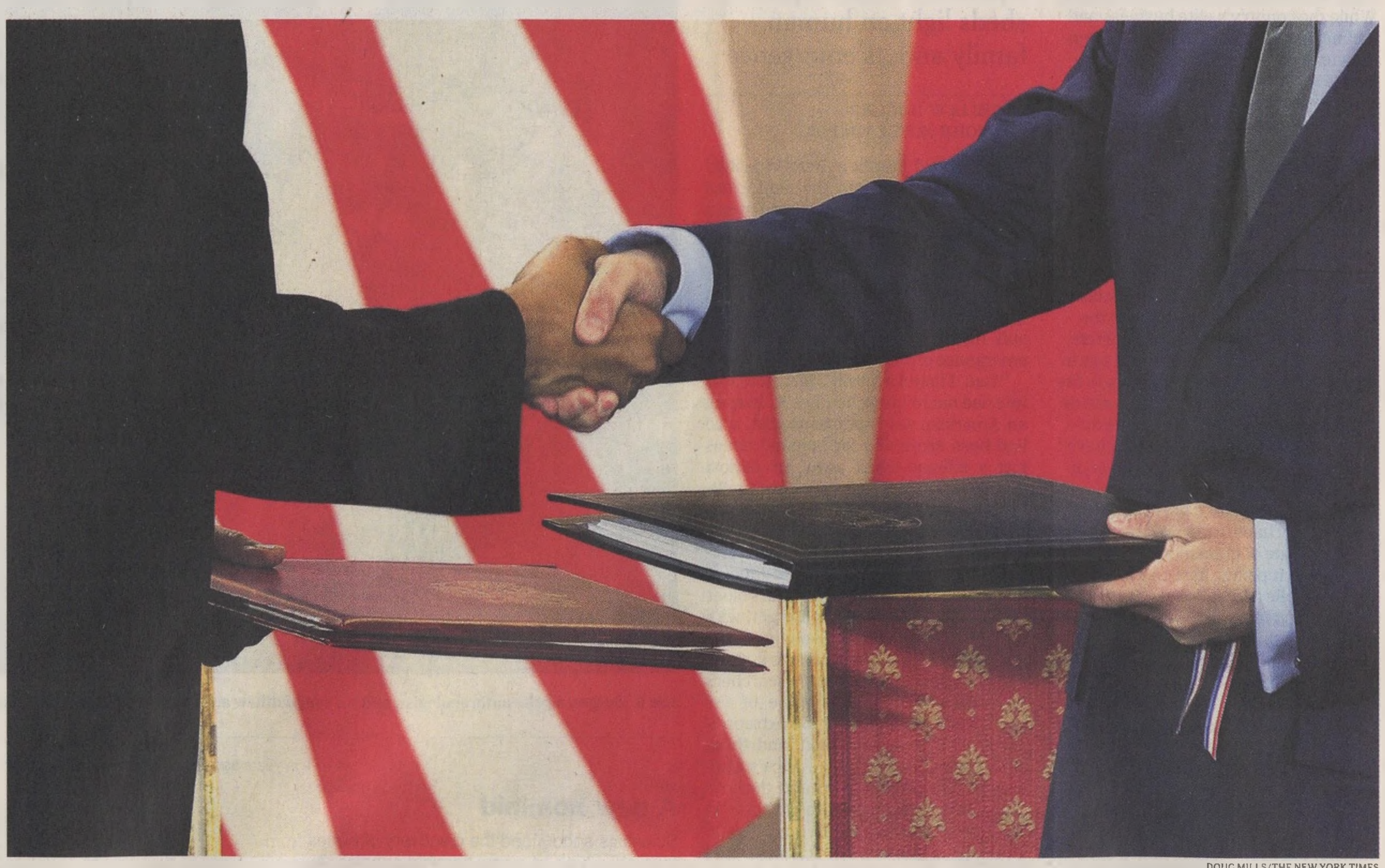
"This is no longer about liquidity — it's a solvency issue," said Stephen Jen, a former economist at the International Monetary Fund who is now a strategist at BlueGold Capital Management in London.

But with European officials consumed with a debate over whether loans to Greece should be offered at rates consistent with a typical I.M.F. bailout or punitive ones closer to current market levels, the risk is that while Brussels fiddles, Greece is burning.

At a press conference on Thursday, Jean-Claude Trichet, president of the European Central Bank, sought to break the fever in the markets by saying that the aid program proposed by the International Monetary Fund and the European Union was a "very, very serious commitment." (Page 13)

The statement helped bring yields on 10-year Greek government bonds down from their peak for the day, to 7.35 percent, but it was not enough to turn

GREECE, PAGE 14



DOUG MILLS/THE NEW YORK TIMES

President Barack Obama and President Dmitri A. Medvedev of Russia signaled better relations between their countries Thursday in Prague by signing the so-called New Start treaty.

Next up after historic arms treaty: Iran

PRAGUE

U.S. and Russia forge united front on Tehran, but other issues remain

BY PETER BAKER AND DAN BILEFSKY

The United States and Russia opened a new era in their tumultuous relationship Thursday as they signed an arms control treaty and presented a united front against Iran's nuclear program, marking a sharp change since they broke over the Georgia war almost two years ago.

But the potential for division loomed in Kyrgyzstan, where the two sides have vied for influence in recent years and are scrambling to figure out what the seeming ouster of the government will mean. Russia, which has pushed Kyrgyzstan to close an American military base there, quickly embraced the new government while the United States kept its distance.

President Barack Obama and President Dmitri A. Medvedev of Russia discussed the Kyrgyzstan situation during their meeting here but avoided any public discord, choosing instead to showcase their newfound partnership on a day of flourish and fanfare. As they signed the so-called New Start treaty paring back their nuclear arsenals, they praised each other warmly and forecast future agreements on a variety of economic and national security issues.

"When the United States and Russia are not able to work together on big issues, it's not good for either of our nations, nor is it good for the world," Mr. Obama said as his words echoed through a majestic, gilded hall in the storied Prague Castle. "Together, we've stopped that drift, and proven the benefits of cooperation. Today is an important milestone for nuclear security and nonproliferation, and for U.S.-Russia relations."

Mr. Medvedev called the treaty signing "a truly historic event" that will "open a new page" in Russian-American relations.

"What matters most is that this is a win-win situation," he said. "No one stands to lose from this agreement. I believe that this is a typical feature of our cooperation. Both parties have won."

The Russian president signaled support for the American-led drive to impose new sanctions on Iran, saying that Tehran's nuclear program had flouted international rules.

"We cannot turn a blind eye to this," Mr. Medvedev said, while adding that sanctions "should be smart" and avoid

PACT, PAGE 3

Beijing plans to weaken renminbi's tie to dollar

HONG KONG

Firmer currency will help fight inflation, but is also a win for Washington

BY KEITH BRADSHER

The Chinese government is preparing to announce in the coming days that it will allow its currency to strengthen slightly and vary more from day to day, people with knowledge of the emerging consensus in Beijing said Thursday. The change is being made for domestic policy reasons in China but is likely to please the administration of President Barack Obama.

While any announcement could still be delayed, China's central bank appears to have prevailed with its arguments within the Chinese leadership for a stronger currency, known as the renminbi or yuan, these people said. Insisting on anonymity because of the sensitivity of the issue in Beijing, they predicted that China's policy shift could easily come before President Hu Jintao arrives in Washington next week for discussions with Mr. Obama and other world leaders on improving nuclear security.

Many members of the U.S. Congress and many economists say that by spending several hundred billion dollars each year to hold down the value of the renminbi, China has made its exports extremely competitive in foreign markets and taken away sales from manufacturers in the United States and other countries.

But administration officials, especially Treasury Secretary Timothy F. Geithner, have kept quiet to avoid giving the impression that a currency policy shift by China was the result of American pressure, instead of a decision based on what was best for the Chinese economy.

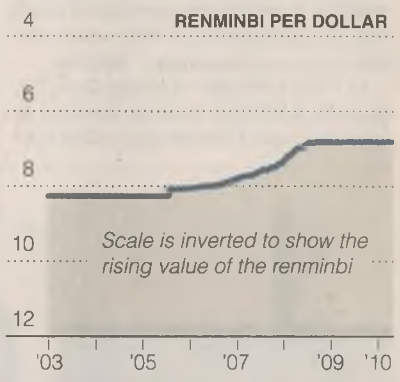
Mr. Geithner maintained that silence Thursday, holding meetings with senior officials in Hong Kong before flying in the afternoon to Beijing for a brief stopover and a meeting with the deputy prime minister, Wang Qishan.

A terse Treasury statement after the meeting with Mr. Wang noted only that the two men had "exchanged views on U.S.-China economic relations, the global economic situation and issues relating to the upcoming economic track dia-

CURRENCY, PAGE 14

New currency policy?

China may soon allow its currency to appreciate against the dollar.



Source: Bloomberg

IVAN SEKRETAREV/THE ASSOCIATED PRESS

Revolt in Kyrgyzstan The opposition lawmaker Isa Omurkulov speaking in front of government headquarters in the capital, Bishkek, on Thursday. A transitional government said it had dissolved Parliament and would hold power for six months. *PAGE 4*

Seeking British women's votes, leaders turn into sensitive guys

LONDON

BY SARAH LYALL

They have submitted to sharp questioning in live Web chats on Mumsnet, a popular social networking site for mothers. They have sat for lengthy interviews in Cosmopolitan, Glamour and other female-friendly publications.

And using their wives to burnish their domestic credentials before the national election May 6, the leaders of Britain's main political parties have relentlessly presented themselves as diaper-changing, beach-strolling, stroller-pushing, maternity-leave-supporting, dinner-cooking family men.

Commentators are calling it the "Mumsnet election," a reference both to the Web site that has become a new Station of the Cross for Britain's politicians and to the significance of the amorphous thing known as the women's vote. With the polls showing that many women are still undecided in a tight race, the parties are aggressively seeking their support.

A new approach is most evident in the Conservative Party, which in the old days was a bastion of stuffy masculinity whose leaders scoffed at political correctness and whose wives knew that their place was in the shadows. (The category of "wife" includes Margaret Thatcher's husband, Denis, who, at old-fashioned dinners in which guests separated for single-sex post-prandial socializing, reportedly used to file out with the women.)

But David Cameron, leader of the "modern Conservative Party," as he puts it, has presented himself as a cos-

BRITAIN, PAGE 3

BUSINESS

Ex-Citi executives offer regret

Charles O. Prince III, below left, and Robert E. Rubin, who both guided Citigroup into the center of the financial storm three years ago, issued their regrets Thursday to a government committee examining the crisis. *PAGE 13*

JOSHUA ROBERTS/BLOOMBERG

Long-awaited pipeline debut

The Nord Stream project, whose first pipes will be laid Friday, aims to solidify ties between Russia and Germany. But many in Europe say it will increase its energy dependency on Russia. *PAGE 15*

WORLD NEWS

U.S. quells rift with Karzai

The Obama administration, trying to put a turbulent week with the Afghan leader behind it, spoke of its "respect" for President Hamid Karzai and sharply countered claims made by a former U.N. official that he might be a narcotics user. *PAGE 5*

Bootleggers defy the Taliban

In the pursuit of profit, death threats do not deter Pakistani entrepreneurs who sell liquor to a favored few in places like Peshawar, a somewhat lawless and conservative city on the frontier of the Taliban's strongholds. *PAGE 4*

COMING THIS WEEKEND

A green lane into the E.U.

Illegal logging can cause erosion, increase the risk of natural disasters and destroy habitats. Now Malaysia wants to become the first country in Asia to sign an agreement with the European Union guaranteeing that timber exports to the bloc have been harvested legally.

PAGE TWO

Fossil history jumps ahead

Scientists have announced the discovery of a new hominid species that lived almost two million years ago during the still mysterious period spanning the emergence of the human family. Named Australopithecus sediba, it is described by one scientist as a possible ancestor of Homo erectus, an immediate predecessor to Homo sapiens, or a close "side branch."

BENEDICTE KURZEN FOR THE NYT

VIEWS

Roger Cohen

Tiger Woods has had to think again, and so have we. That's not so bad. Loss gives way to a kind of relief, the realization that all the paraphernalia of our lives ensnares us. *PAGE 7*

Send in the professors

Iraq once had one of the Middle East's most advanced systems of higher education. But that system now lies in ruins. American academics need to do more to help, writes Karim Altaii. *PAGE 6*

ONLINE

Help us create a global mosaic

Where will you be on Sunday, May 2, at 15:00 U.T.C.? Wherever you are, take a picture that will capture this singular instant in whatever way you think would add to a global mosaic that the Lens Blog will create: a Web-built image of one moment in time across the world. We extend the invitation to everyone, everywhere. Send us your moment. **lens.blogs.nytimes.com**

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IN THIS ISSUE
No. 39,525

CURRENCIES NEW YORK, THURSDAY 1:30PM

				PREVIOUS
Euro	—	€1=	$1.3340	$1.3340
Pound	▲	£1=	$1.5250	$1.5240
Yen	▼	$1=	¥93.240	¥93.340
S. Franc	—	$1=	SF1.0740	SF1.0740

Full currency rates Page 17

STOCK INDEXES THURSDAY

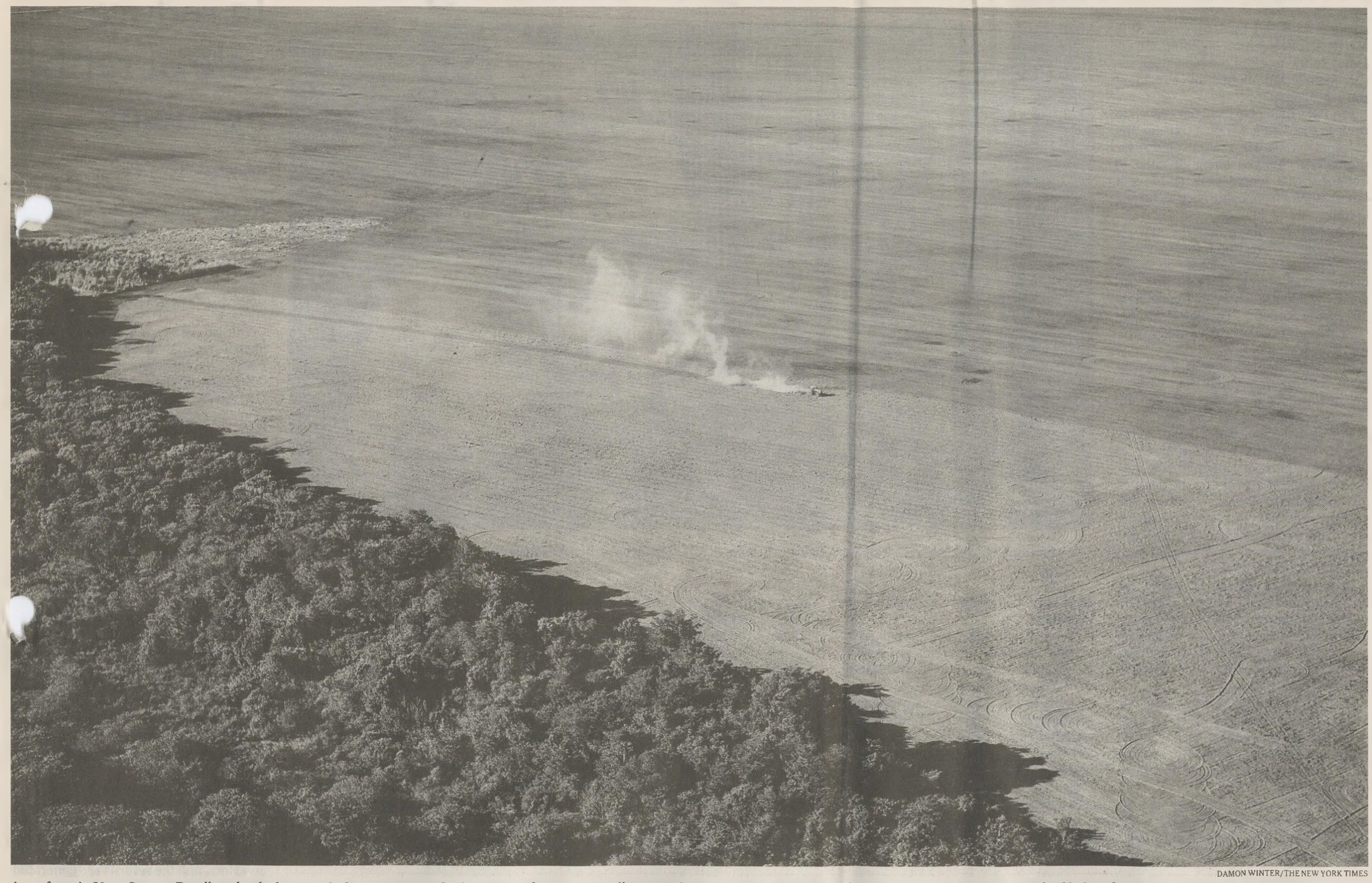
The Dow 1:30pm	▼	10,916.03	+0.17%
FTSE 100 close	▼	5,712.70	-0.86%
Nikkei 225 close	▼	11,168.20	-1.10%

OIL NEW YORK, THURSDAY 1:30PM

Light sweet crude	▼	$85.43	-$0.84

Business

WITH REUTERS



DAMON WINTER/THE NEW YORK TIMES

A soy farm in Mato Grosso, Brazil, on land where a rain forest once stood. The Amazon forests in Brazil are nearly 20 percent smaller today than in the 1970s, largely the result of being cleared by ranchers and farmers.

Saving the Amazon with economic incentives

SORRISO, BRAZIL

Environmentalists hope to convince farmers of the profit in conservation

BY LUCIANA LOPEZ
REUTERS

Talk of environmental diversity or of saving rare species does not go very far in Mato Grosso, Brazil.

This Western state is Brazil's leading soy producer, churning out an annual harvest of about 18 million tons. Fields of emerald green line the highways, stretching out to horizons so flat they look as if they were drawn with a ruler.

The crops have helped drive Brazil's economic boom in recent years, but they also came at a price, environmental advocates say: they required the clearing of more than 130,000 square kilometers, or 50,000 square miles, of Amazon rain forest in Mato Grosso from 1988 to 2008.

As environmental groups condemned the clearing of those rain forests, the faces of Mato Grosso farmers increasingly clouded with acrimony.

Seeing that environmental appeals often failed to effect change in the area, advocacy groups are turning to economic arguments, emphasizing that preserving the world's largest forest could mean bigger profits for farmers.

"We have to define what's in it for the farmer," said John Buchanan, senior director for agricultural markets at Conservation International in Washington. "The private sector is too important a stakeholder not to have on board."

Conservation International has worked with Brazilian farmers since 2001, helping them comply with environmental laws, navigate government bureaucracy and identify land with environmental significance, like parcels that are home to rare or threatened species.

"We started very small, very simple," Mr. Buchanan said, adding that about 132,000 hectares, or 326,000 acres, of reserves had been established across several states or were set to be soon.

"Some in the environmental community have unrealistic expectations of what farmers can do," he said. "We know we need to preserve important places. We also need to be producing the food, fiber and fuel that we need for a growing world."

The Amazon rain forest in Brazil is nearly 20 percent smaller today than it was in the 1970s, largely because ranchers and farmers have stripped the forest for new land for cattle and crops.

But better policing helped reduce annual destruction to about 7,000 square kilometers nationwide in 2009, the lowest rate in more than two decades and less than one-quarter of the record rate of 1995, according to satellite data from the National Institute of Space Studies in São José dos Campos, Brazil.

Environmentalists are trying to reduce the rate even more, pointing to the long-term economic losses that can be attributed to deforestation.

"We see the conventional economy as an instrument," said Maria Amélia Enriquez, president of Sociedade Brasileira de Economia Ecológica, which studies the economics of environmental policies. "Science can't just live in its own world anymore."

That is a shift that Blairo Maggi embodies well. Mr. Maggi's family is among the biggest soy producers in the world, and after Mr. Maggi became governor of Mato Grosso in 2002, deforestation in the state accelerated.

In 2003, Mr. Maggi told The New York Times that he did not feel "the slightest guilt" about deforestation. Two years later, he was designated the recipient of the Greenpeace Golden Chainsaw to signify his negative contributions to the environment.

But Mr. Maggi has recently adopted a much more moderate tone, calling for a balance between the needs of agriculture and of the environment. "We agree farmers need to preserve forest," he told Forbes magazine last year, "but they need the financial incentive to do so."

Mr. Maggi now supports carbon-financing mechanisms known as Reduced Emissions from Deforestation and Degradation, under which developed countries can offset their carbon emissions by financing the prevention of deforestation in countries like Brazil.

Such programs can make a clearer case for the financial benefits of conservation.

Consumer pressure for more environmentally friendly products also has an effect. Recent international campaigns by Greenpeace on the destructive effects of soy and cattle have made farmers here realize that not becoming more environmentally aware could make them risk losing customers.

"We have to define what's in it for the farmer."

Environmental groups say that more efficient land use has, in many cases, increased farmers' profits. "If you can make good economic arguments, it's hard not to make progress," said Marcos Amend, executive director of Conservação Estratégica, a Brazilian offshoot of the Conservation Strategy Fund.

Mr. Amend's group runs a nine-day class to teach conservationists how to present their environmental goals in financial terms. About 350 people have cycled through the Brazilian version of the course, which includes topics like microeconomics and valuing natural resources.

"Conservation is basically putting order to economic activities," Mr. Amend said. "But if you don't understand the economics behind it all, it's a tough sell."

Farmers can more easily be persuaded when arguments have demonstrable results. In Sorriso, for example, farmers have embraced a farming technique called zero tillage, in which they leave organic matter — like leaves, stalks and roots from previous harvests — on the soil to provide a natural fertilizer for the next crop and a barrier against erosion.

The fields in and around town are covered with old stalks and leaves of crops like corn, which is planted between seasons of soy, the plant most ubiquitous in this city of about 55,000 people.

Zero tillage can increase profit through labor and energy saving, and it can conserve soil, increase tolerance to drought and reduce greenhouse gas emissions, the World Bank says.

"For us, the farmers, as well as the environment, zero tillage has been the best thing," said Argino Bedin, a Sorriso farmer.

Brazilian farmers point out that they are feeding the country as well as helping the economy. Brazil is the world's top exporter of beef, poultry, coffee, sugar and orange juice.

But ultimately, numbers drive the bottom line, said Egídio Raul Vuaden, a farmer in the town of Lucas do Rio Verde, also in Mato Grosso.

"If there's demand in the market, man will go in search of money," he said.

E.C.B. says Greece won't be allowed to default

PARIS

Trichet urges markets to take commitment of support seriously

BY MATTHEW SALTMARSH

The European Central Bank sent a signal of support Thursday to Greece, saying that the government in Athens would not be left to default on its debts and that a European commitment of support should be taken seriously by investors.

The bank also provided details on modest changes that it will make, beginning next year, to tighten its refinancing operations — changes designed to restrict the flow of funds provided to lenders.

But the statements failed to provide relief to Greek and European assets, which have been punished recently by investors, who are not yet convinced by the pledges of support for Athens.

The main focus of remarks by the E.C.B.'s president, Jean-Claude Trichet, at a press briefing in Frankfurt — after the bank left its main interest rates steady — was the financial crisis in Greece.

Faced with a ballooning deficit that is becoming increasing expensive to finance in the face of rising long-term interest rates on Greek debt, Athens is expected soon to draw on a joint rescue package from euro-zone governments and the International Monetary Fund. The details of that package are still being thrashed out, creating uncertainty in markets.

Mr. Trichet said that the package was "a very, very serious commitment" and that "nobody should take lightly a statement which is signed by the heads of state."

"A default is not an issue for Greece," he added.

The timing of any support package for Greece depends on Athens itself, and the details — including interest rates and the duration of loans — will have to be worked out by Greece's euro-area partners and the I.M.F., Mr. Trichet said.

He had previously expressed skepticism about I.M.F. involvement in the Greek rescue plan, but in a harried exchange with a reporter, he sought to distance himself from that stance, saying that the E.C.B. had not wanted the fund's assistance "alone."

Despite the assurances, yields on 10-year Greek government bonds rose 18 basis points, or 0.18 percentage point, to 7.35 percent Thursday. The spread over comparable German debt, the European benchmark, rose to 4.26 percentage points from 4.05 points Wednesday. That gap, which has been growing along with concerns about Greece's ability to refinance its debt, shows the premium investors demand to hold the increasingly risky bonds.

Mr. Trichet declined to comment on recent investor speculation against Greek debt. "I never comment, myself, on spreads," he said, later adding that the market "has to be respected."

The euro, down most of the day, edged up to $1.3344 from $1.3343 late Wednesday.

The DJ Euro Stoxx 50 index, a baro-

DEBT, PAGE 17

Ex-executives at Citi offer regret over crisis

WASHINGTON

BY ERIC DASH AND SEWELL CHAN

Almost three years after Citigroup started to teeter, two of the executives who guided the bank into the center of the financial storm offered their regrets Thursday to a government committee examining the crisis.

Charles O. Prince III, Citigroup's former chairman and chief executive, apologized Thursday for the billions of dollars of losses that caused the company he helped build to nearly collapse. Instead, the bank required three government rescues and about $45 billion in taxpayer aid.

Mr. Prince departed sharply from his prepared testimony to offer a deep and extended mea culpa.

"Let me start by saying I'm sorry," he told the commission. "I'm sorry the financial crisis has had such a devastating impact for our country. I'm sorry about the millions of people, average Americans, who lost their homes. And I'm sorry that our management team, starting with me, like so many others could not see the unprecedented market collapse that lay before us."

Robert E. Rubin, an influential Citigroup board member and adviser, also showed some contrition but stopped short of accepting personal responsibility for the bank's woes. His stature as one of Wall Street's wise men — from chief of Goldman Sachs to Treasury secretary during the Clinton administration — has fallen along with Citigroup's stock.

In his remarks, Mr. Rubin cited at least nine different causes for the financial crisis, which formed a toxic cocktail that, he claimed, "almost all of us" missed.

"We all bear responsibility for not recognizing this, and I deeply regret that," Mr. Rubin said in his testimony.

The commission's chairman, Phil Angelides, pressed Mr. Rubin repeatedly on the presence of $40 billion of securities known as super-senior collateralized debt obligations, which were at the center of the bank's struggles. He expressed disdain for Mr. Rubin's professed lack of awareness about Citigroup's purchase of the securities.

"You're talking about a level of granularity that no board would have with respect to the position on its books," Mr. Rubin replied.

Mr. Angelides also asked Mr. Rubin about an e-mail message that a mortgage lending officer, Richard Bowen III, sent, warning him about "breakdowns in processes and internal controls" that led to the company's securitization of poorly underwritten mortgages.

"I do recollect this," Mr. Rubin said. "Either I or somebody else sent it to the appropriate people. I do know that that was acted on promptly."

The commission's vice chairman, Bill

BANKS, PAGE 14

Big airline deals brew on both sides of Atlantic

BY NICOLA CLARK, ANDREW ROSS SORKIN AND JAD MOUAWAD

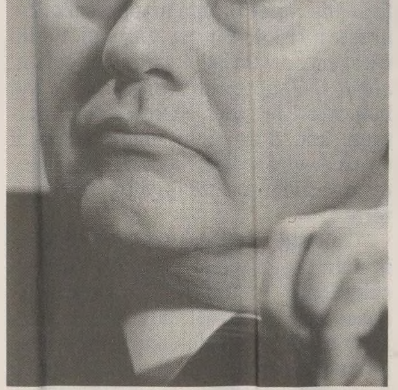
A fresh wave of consolidation in the travel industry surfaced this week as British Airways and Iberia of Spain formalized a long-awaited deal to create one of the world's largest airline groups, and United Airlines and US Airways revived talks to combine operations to form what would be the second-largest U.S. carrier.

The moves came amid tentative signs of a recovery from the airline industry's worst crisis since 2001.

The formalization of the British Airways and Iberia merger on Thursday, which is still subject to approval by European Union regulators, would create a group with a combined market value of roughly $7.5 billion that would be 55 percent owned by British Airways shareholders. The headquarters would be in London. The terms and conditions of the agreement are in accord with a preliminary deal reached in November, the companies said.

"The merged company will provide customers with a larger combined network," said Willie Walsh, the British Airways chief executive, who is expected to head the merged group. "It will also have greater potential for further growth by optimizing the dual hubs of London and Madrid and providing continued investment in new products and services."

The two unprofitable carriers said they hoped their combined operation would better equip them to compete with other major airlines and predicted annual savings from the deal of around €400 million,



DENIS BALIBOUSE/REUTERS

Willie Walsh, chief of British Airways.

or around $534 million, beginning in 2015. A sizable part of those savings is expected to come from the reduction or elimination of overlapping and unprofitable European routes, analysts said.

"I suspect there will be increasing retrenchment by the legacy carriers to cut back on short-haul routes, essentially ceding the field to low-cost competitors" like Ryanair and easyJet, said Daniel Solon, an independent aviation analyst in Barcelona.

The alliance by British Airways and Iberia is the latest in a spate of airline consolidations that has grown as the recent economic crisis reduced demand for air travel and limited airlines' access to financing for new aircraft.

Since late 2008, for example, Lufthansa — which absorbed Swiss International airlines in 2005 — has acquired Brussels Airlines, Austrian Airlines and, last year, took full control of its British Midland Airways subsidiary. Delta Air Lines and Northwest Airlines of the United States merged in 2008 and last year reached an expanded partnership agreement with Air France-KLM that seeks to control about 25 percent of passenger flight capacity between the United States and Europe.

A combination of United and US Airways — both part of the Star Alliance, the largest global airline alliance — could help both return to profit faster than they could going it alone.

United Airlines and US Airways have recently resumed talks about a possible merger that would create the second-largest U.S. airline, after Delta, people briefed on the matter said Wednesday.

But mergers in the airline industry have been difficult to accomplish, in part because complex labor contracts can offset the promised cost savings. The latest combination, involving Delta and Northwest, creating the largest U.S. carrier, took nearly two years to complete. One reason that merger succeeded was that Delta and Northwest negotiated a seniority plan and a new collective bargaining agreement with the pilots, enabling the two companies to integrate their operations faster and more smoothly.

Disclosure of the talks could spur other airlines, like Continental and American Airlines, to consider bidding for United or US Airways, analysts said.

"The success of the Delta-Northwest merger is reinvigorating consolidation discussions in the industry," said William S. Swelbar, a research engineer with the International Center for Air Transportation at the Massachusetts Institute of Technology.

Combining the British and Spanish flag carriers would create a company with about $22 billion in revenue, the companies said last year. The merged entity would operate a fleet of more than 400 aircraft flying 200 destinations and carrying more than 58 million passengers a year. The group said it planned to retain the British Airways and Iberia brands.

British Airways and Iberia recently received tentative approval from U.S. and European regulators to deepen an existing partnership with American Airlines that aims to create a unified network of about 500 possible destinations in more than 100 countries. All three carriers are members of the Oneworld alliance, which also includes Japan Airlines, Cathay Pacific and Qantas.

Antonio Vázquez, Iberia's chairman and chief executive, hinted that the merged group had potentially broader global ambitions, noting that it would be well equipped to "participate in future industry consolidation."

Analysts said they would not be surprised if a combined British Airways-Iberia group sought to acquire other airlines. "I suspect that everyone in the industry is going in that direction," Mr. Solon said. "Airlines are setting themselves up with new ownership struc-

AIRLINES, PAGE 17

Bernanke warns of fiscal risks as America ages

WASHINGTON

BY SEWELL CHAN
AND JAVIER C. HERNANDEZ

Ben S. Bernanke, the U.S. Federal Reserve chairman, has warned that an aging American population poses fiscal challenges for the United States.

In a rare foray into the realm of fiscal policy, Mr. Bernanke said Wednesday that the United States "must begin now to prepare for this coming demographic transition."

Speaking before the Dallas Regional Chamber, a business organization, Mr. Bernanke said the U.S. recovery was still fragile, and he made it clear that he did not expect the government to raise taxes or cut spending anytime soon. But he spoke with greater urgency than he has in the past about the budget pressures posed by Social Security, the system of retirement benefits, and Medicare, the health plan for people 65 and older.

"The arithmetic is, unfortunately, quite clear," Mr. Bernanke said. "To avoid large and unsustainable budget deficits, the nation will ultimately have to choose among higher taxes, modifications to entitlement programs such as Social Security and Medicare, less spending on everything else, from education to defense, or some combination of the above. These choices are difficult, and it always seems easier to put them off — until the day they cannot be put off any more."

A "sharp near-term reduction in our fiscal deficit is probably neither practical nor advisable," he said, but a long-term plan for fiscal sustainability could help to lower interest rates and borrowing costs, and even stimulate economic growth.

Mr. Bernanke's comments could lead to political confrontations. Raising taxes is anathema to Republicans, while cutting entitlement programs is strongly opposed by Democrats. Still, Mr. Bernanke's comments could add urgency to the work of the bipartisan fiscal commission named by President Barack Obama.

Mr. Bernanke also used his speech to review the Fed's conduct during the economic crisis. He voiced support for regulatory changes being debated in Congress that would seek to prevent any company from being seen as too big to fail.

"To end 'too big to fail,' the new regime should permit regulators to close a failing firm and impose losses on shareholders and creditors," he said. "Indeed, I would argue that no financial instrument counted as regulatory capital should be allowed to receive any protection from losses."

Mr. Bernanke has hinted that long-term U.S. unemployment has become one of his major worries as the economic recovery slowly moves forward.

Noting that about 40 percent of unemployed Americans have been out of work six months or longer, nearly double the share of a year ago, he said: "I am particularly concerned about that statistic, because long spells of unemployment erode skills and lower the longer-term income and employment prospects of these workers."

In a separate speech earlier in the day, a member of the Federal Reserve's policy-making board challenged the notion that financial markets were self-correcting, saying that asset bubbles existed and that central banks could do more to prevent them.

William C. Dudley, president of the Federal Reserve Bank of New York, called on policy makers to speak out more aggressively against prevailing wisdom when asset prices fluctuated wildly.

"The costs of waiting to respond to an asset bubble until after it has burst can be very high," Mr. Dudley said in prepared remarks to the Economic Club of New York. "A proactive approach is appropriate."

MIKE STONE/REUTERS

Protesters awaiting Mr. Bernanke's arrival in Dallas, where he spoke in urgent terms about budgetary pressures as the population grays.

In recent months, the Fed has faced intense criticism for failing to prevent the bubble in home prices that brought the U.S. economy to its knees.

Though Mr. Dudley acknowledged the difficulty in identifying bubbles, he said that "uncertainty is not grounds for inaction." He called for combining the power of the bully pulpit with other tools, like limiting loan-to-value ratios and debt loads.

Mr. Dudley's remarks contrasted sharply with those of Alan Greenspan, a former Federal Reserve chairman. Testifying before the Financial Crisis Inquiry Commission, Mr. Greenspan defended the Fed against complaints that it had not done enough to prevent the subprime mortgage crisis.

Mr. Greenspan seemed to reject the idea that central banks could use the power of their words to ward off bubbles. Instead, he said central banks should rely on tools like requiring banks to hold more capital and demanding that traders hold more collateral.

A third Fed official, Thomas M. Hoenig, president of the Federal Reserve Bank of Kansas City, Missouri, raised the possibility of higher interest rates Wednesday. Mr. Hoenig has repeatedly expressed concern that extraordinarily low interest rates may encourage inflation.

Mr. Hoenig said in a speech in Santa Fe, New Mexico, that the Fed should consider lifting the benchmark federal funds rate to 1 percent, from near zero, which he called a "highly accommodative policy."

"I am confident that holding rates down at artificially low levels over extended periods encourages bubbles, because it encourages debt over equity and consumption over savings," Mr. Hoenig said.

S.E.C. plans to reduce role of rating agencies

WASHINGTON

Responsibility for bonds backed by consumer loans would go to sellers

BY EDWARD WYATT

Credit rating agencies would lose their formal role in evaluating certain bonds backed by consumer loans, like home mortgages, under rules proposed by the U.S. Securities and Exchange Commission. Instead, the companies issuing these bonds would have to vouch for their soundness.

The bond issuers would also be required to keep a portion of the securities in their own portfolios so that they retained some of the bonds' risk, under the commission's plan.

The proposed changes, approved Wednesday in a vote of 5 to 0 despite misgivings expressed by two commissioners, now enter a 90-day period for public comment before returning to the commission for revision and final approval.

The changes would "represent a fundamental revision to the way in which the asset-backed securities market would be regulated," said the commission's chairwoman, Mary L. Schapiro. "I think changes are both necessary and critical components of restoring investor confidence."

The asset-backed securities that would be affected by the new rules are bundles of loans, like residential mortgages, student loans or automobile loans. They are converted into bonds for sale to investors, and the returns are generated from the payments on the loans.

Many such bonds sold in the years leading up to the financial crisis were backed by home loans made to unqualified borrowers. Regulators say the financial companies that created the bonds had little incentive to ensure that the bonds were backed by reliable loans. When large numbers of the borrowers began to default on the loans, the holders of the securities had big losses.

The proposed rules, which would affect a large portion of new offerings in the $9.5 trillion market for securities backed by consumer loans, would in many cases require financial companies to retain 5 percent of each offering, which Ms. Schapiro said would "better align" the interests of investors and the securities firms.

Financial regulation bills winding their way through Congress contain similar requirements that financial companies "keep skin in the game," as the commission put it. So does a proposal by the Federal Deposit Insurance Corp., which regulates some asset-backed securities originated by banks.

The changes would "represent a fundamental revision."

Also Wednesday, the commission proposed removing a requirement that securities offered through an expedited process known as a shelf offering be rated as investment grade by a credit rating agency. The change is part of the S.E.C.'s effort, it said, to "eliminate the appearance of an imprimatur" that a mandatory credit rating might create.

The changes could amount to a significant blow to the credit rating agencies, which generated large fees from rating asset-backed securities before the housing crisis all but killed the market for such bonds. The commission noted that there were 87 registered offerings in 2009, down from 1,306 in 2004.

Under the new rules, bond underwriters would not be required to receive a credit rating; rather, the chief executive of the bond issuer would have to certify that the assets were likely to produce the expected cash flows.

Asked about the effects of the change, the credit agency Moody's said, "We believe the market benefits when ratings agencies compete on the basis of the quality of their credit analysis, and we have long supported the removal of ratings from regulation."

The companies selling the bonds would also have to give the government extensive information, in a form that was easily searchable, on all of the individual loans that made up the portfolio behind the bond offering and update it on a continuing basis. Previously reports were required only on the overall credit quality of the pool of loans, and for some bonds, updates were suspended after about a year.

Two commissioners expressed misgivings about the proposed rules, despite their votes to release the proposals for public comment.

One of them, Troy A. Paredes, said he had "significant reservations" about some of the proposals and cautioned that the commission must be "mindful of the adverse impact the agency's actions could have on the real economy if the commission does not properly calibrate these reforms."

The other, Kathleen L. Casey, said she feared that instituting strict new disclosure requirements for securities that were already aimed at sophisticated investors could cause the agency to "regulate to the lowest common denominator and eviscerate the market for asset-backed securities."

China signals readiness to let its currency rise against dollar

CURRENCY, FROM PAGE 1

logue of the second U.S.-China Strategic and Economic Dialogue, to be held in Beijing in late May."

A more market-oriented currency policy in Beijing, with a trend toward a stronger renminbi, could help the U.S. economy in several ways, according to economists.

A stronger renminbi would make Chinese goods more expensive in the United States and make U.S. goods less costly in China, which is currently exporting more than four times as much to the United States as it imports.

Even more important, a Chinese decision to strengthen the renminbi would make similar moves possible by many other countries, particularly in Asia, that informally link the value of their currencies to the dollar. Exporters like Japan, South Korea and Taiwan are leery of letting their currencies appreciate for fear that their exports would lose out to Chinese exports in the U.S. market.

Full of confidence after the Chinese economy weathered the global downturn better than the West, officials in Beijing have opted to allow more fluctuations in the currency after determining it would be in China's interest, and not because of Western pressure, said the people familiar with the emerging consensus in Beijing, who are close to the Chinese side on the currency issue, not the U.S. side.

Allowing wider variation in the currency will also make it easier for the central bank to fight inflation, which Wen Jiabao, the prime minister, identified last month as a top concern for the leadership.

Consumer prices were 2.7 percent higher in February than a year earlier, after prices were falling as recently as last October. Inflation is accelerating in China faster than most Western economists expected.

A stronger renminbi helps hold down prices by making imports less expensive, and gives China's central bank more room to raise interest rates and brake economic growth without lessening the risk of drawing more speculative investments into the country.

Holding down the value of the renminbi through huge currency market intervention has also become an enormous expense for China. The central bank spent 9.2 percent of the entire country's economic output last year on the purchase of foreign reserves, mainly U.S. Treasury securities that pay extremely low interest right now.

A stronger renminbi could prove a mixed blessing for the United States. If China cuts back sharply on purchases of Treasury securities, then the Obama administration could find it harder to finance government budget deficits.

But with the Chinese economy booming, a small move in the renminbi may still leave the central bank struggling with trade surpluses and a tide of speculative investment into China. That could require it to continue buying Treasury issues with the extra dollars.

A slightly stronger renminbi that fluctuates each day against the dollar will mainly hurt low-margin, labor-intensive industries in China like shoemaking and textiles, they said. Many officials have been worried about job losses in these industries if the currency appreciates.

Much of this production is already starting to move out of China, notably to Vietnam and Bangladesh, where labor costs have stayed low. And Chinese factories producing these goods have been struggling to find enough workers in the past two months as the economy grew this winter, stoked by heavy bank lending, strong demand for workers in the retailing sector and rising government spending on high-speed rail lines and other infrastructure investments.

More high-tech industries, like the production of computers, have tended to favor a stronger renminbi. Further migration of labor-intensive industries to other countries could free up more workers for high-tech work, making it less expensive for these industries to import materials that are priced in dollars. Such a development would create more Chinese competition for high-tech operations in America, however.

In 2005, China allowed the renminbi to jump 2 percent overnight against the dollar and then trade in a wider daily range, with a trend toward further strengthening against the dollar. For its coming policy shift, China may follow a similar, pattern but officials may emphasize much more in public remarks that the value of the renminbi can fall as well as rise on any given day.

That would help discourage a flood of speculative funds into China from investors betting on rapid further appreciation in the currency, the people with knowledge of the emerging consensus in Beijing said.

Forward contracts on the value of the renminbi surged by the most in six weeks on Thursday in response to a report on the Web site of The New York Times that China was close to a shift in currency policy, according to Bloomberg News. One closely watched contract strengthened to 6.62 renminbi to the dollar for transactions a year from now; the spot rate is still 6.82.

Xia Bin, a member of the monetary policy committee of the Chinese central bank, hinted at the new policy for the currency while attending a forum in Shanghai on Thursday.

"Whether to let the yuan slowly appreciate or let it rise to a tolerable range after careful calculation, I think it is better to have that quick, prompt appreciation," he said, according to news services.

Mr. Xia later added that, "At a certain point, when necessary, it is better to have a quick, prompt appreciation in a bid to fend off speculative capital."

Mr. Xia also said that it was important to restore "as soon as possible" the system of managed but daily fluctuations in the renminbi that prevailed from July 2005 to July 2008.

But Mr. Xia cautioned that no one should expect a "large, one-time" appreciation of the renminbi.

The central bank declined to comment on its plans for the currency.

Michael Wines contributed reporting from Beijing, and Li Bibo contributed research from Beijing.

Ex-Citigroup executives express regret over crisis

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Thomas, a former chairman of the House of Representatives Ways and Means Committee, scolded Mr. Rubin and Mr. Prince for their lack of specific knowledge about some of the most arcane assets on Citi's books.

"Apparently you get to the top without having had to experience anything the people underneath you do," Mr. Thomas said. "You don't have a comprehension. You're not informed, but you get to make all this money on the upside, but there's no downside."

He later added: "What do you get paid for if it isn't having some intuition, understanding, knowledge? Or do you just do something because everybody else is doing it?"

Both men have kept relatively low profiles since leaving Citigroup. Mr. Prince, who resigned under pressure in November 2007, now spends much of his time in Palm Beach with his wife. He also works as an adviser to global companies and investors at Albright Stonebridge Group, a consulting firm based in Washington. He has not spoken to Sanford I. Weill, Citigroup's cofounder and his former boss, in months.

Mr. Rubin, who left Citigroup early last year, keeps a New York office at the Council of Foreign Relations, where he is a chairman, and has been gearing up to reintroduce the Hamilton Project, the economic policy group that is his Washington power base.

While Mr. Prince expressed regret for failing to prevent the losses that occurred, he said it was not the result of his executive team or the board's inattention or lack of reporting information.

"I personally do not think Citi was 'too big to manage,'" Mr. Prince stated. "Sure, it was a challenge to manage," but he emphasized that he did not believe the "broad multifaceted and diversified nature of Citi's businesses materially contributed to our losses."

In his remarks, Mr. Rubin distanced himself from Citigroup's troubles. As he has for months, he referred to his employment contract — which explicitly gave him a nonmanagerial role — and said that he learned of the bank's large exposure to certain complex mortgage-related assets only in the autumn of 2007.

"I feel confident that the relevant personnel believed in good faith that more senior level consideration of these particular positions was unnecessary because the positions were AAA-rated and appeared to bear 'de minimis' risk of default," he said.

Citigroup took more than $30 billion of mortgage-related losses after that analysis turned out to be wrong.

Mr. Rubin's remarks did not address the more than $100 million that he was paid for his role as senior adviser at Citi — an amount that rankles bank employees who have seen their personal fortunes evaporate after the share price collapsed. Nor did he address why the board bestowed a discretionary bonus on Mr. Prince — even as the extent of Citigroup's losses was becoming known.

Mr. Prince said he had suffered losses in his own personal financial standing, much of it held in Citigroup's stock.

"I own nearly ever share of stock that I acquired in a nearly 30-year career," Mr. Prince said. "I have watched it go from 50 to nearly 30 to less than $1 a share. I watched the great majority of my personal net worth disappear because my company suffered from these problems."

Greece faces specter of bankruptcy

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around the mood of pessimism that contributed to a further fall in both Greek and European stocks on Thursday.

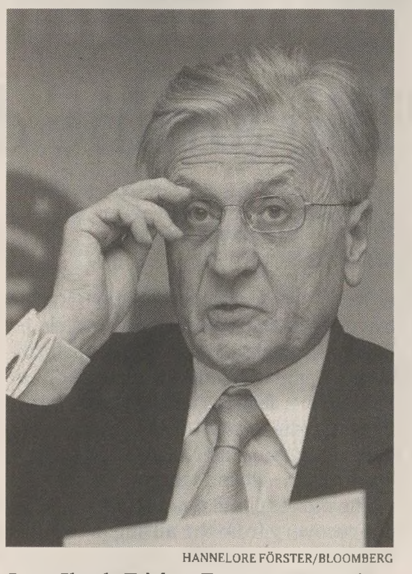
"Time is running out," said a senior official in the Greek government who spoke only on condition of anonymity because of the sensitivity of the issue. "The market is testing Europe's resolve."

To a large extent this latest bout of Euro-stasis is a function of Germany's view that it is not the market contagion from the Greek drama that presents the greatest risk to Europe. Instead, Berlin is far more worried, as Mr. Jen puts it, about the supposed "contagion of bad behavior" in other countries like Portugal and Spain that might follow if Greece were to become the beneficiary of a bailout on relatively generous terms.

"This should be easy to do — Greece is only 3 percent of Europe's G.D.P.," said Paul De Grauwe, an economist based in Brussels who advises the president of the European Commission, José Manuel Barroso. "But this is no longer a financial issue. It is about politics and nationalism, and it is a real setback for those who believed in a united Europe."

There are unmistakable signs that wealthy Greek individuals and corporations are withdrawing funds from Greek banks — although the sums involved do not yet constitute a bank run. Still, weakened Greek banks, increasingly shut out of the capital markets, have become largely dependent on the European Central Bank and have turned to the Greek government to release more money from a previously established rescue fund.

The Greek government is coming close to giving up on private investors as well. While Athens said it would go ahead with its short-term borrowing auctions this week, the planned fund-



HANNELORE FÖRSTER/BLOOMBERG

Jean-Claude Trichet, European Central Bank president, in Frankfurt on Thursday.

raising trip this month by the Greek finance minister, George Papaconstantinou, to tap Wall Street is unlikely to happen as long as Greek borrowing costs remain so high, said a person who was briefed on his plans.

Greece's hope is that it will be able to borrow as much as €30 billion, or $40 billion, from Europe and the I.M.F. at a rate of about 4 percent or so — which is consistent with the terms offered by the fund to other indebted countries.

Such a view, however, presupposes that the I.M.F. is the lead actor in the rescue — as it was in countries like Hungary and Latvia that are not in the euro zone. In all the vagueness of the E.U. agreement with the I.M.F. on Greece, the one point of clarity was that Brussels rather the fund should dictate terms — even if a team of I.M.F. experts is already on the ground in Athens advising the government.

As a result, European officials — pushed hard on this point by Germany — are now saying that Greece must not receive the carrot of concessional rates available to those who agree to accept the stick of an I.M.F.-style austerity package.

Greece's interest payments on its net debt, as a percentage of its gross domestic product, are already the highest among developed nations, according to recent research by Deutsche Bank. And while the economy withers further as spending cuts and tax increases begin to bite, its ability to generate the needed revenues to pay these sums decreases.

"If you look at Greece's G.D.P. potential and its borrowing costs," Mr. Jen said, "there is a gigantic gap."

The sharp spike in rates has spurred increased talk of some form of debt restructuring. Under such a scenario, analysts said, holders of Greek debt could perhaps be forced to accept a loss of 20 percent or more on their bonds.

That would be similar to what happened after Argentina defaulted on $93 billion in debt in 2001. Like Argentina, Greece has suffered from a fixed currency, fiscal deficits and a growing lack of industrial competitiveness.

Still it seems unlikely that Europe — which via German and French banks owns more than €100 billion in Greek bonds — could countenance such a solution.

"If you do a restructuring," said Yannis Stournaras, an economist and adviser to previous Socialist governments, "people would not lend any further money to Greece."

"That would be a huge mistake," Mr. Stournaras said. "Greece has the mechanism — it just has to ask for the money."

But at what price? That is the question.