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SUZANNE PLUNKETT/REUTERS

Timothy F. Geithner, left, and George Osborne, at a news conference Wednesday. They want income from a planned bank tax to be considered general tax revenue. The banks disagree.

E.U. sees bank tax as anti-crisis defense

BRUSSELS

But proposal must clear multiple hurdles before G-20 can consider plan

BY JAMES KANTER AND JACK EWING

A European Union official proposed Wednesday that member states tax banks to raise money for a fund that would be used specifically to manage future financial crises.

But although the idea of such a fund is popular in Europe — winning backing even among banks — the proposal from the European Commission faces political hurdles before it can be submitted to the Group of 20 summit next month.

Some governments, like Britain and France, want the money to be considered general tax revenue, rather than being set aside until a crisis happens. At a news conference in London on Wednesday, Timothy F. Geithner, the U.S. Treasury secretary, and George Osborne, the British chancellor of the Exchequer, reiterated that position.

Banks generally would prefer to see the funds kept separate because they are afraid of becoming easy targets whenever budget gaps need closing; while some governments are afraid the banks will view a prepaid fund as a license to continue with risky behavior.

Another potential sticking point is the suggestion by Michel Barnier, the commissioner for the internal market, for the national funds to become part of an E.U. network, which some might view — warily — as a step toward centralizing economic governance of the 27-nation trade bloc.

Over the past two years, governments were forced to use enormous amounts of taxpayer money to support the financial sector, maintain stability and protect depositors, Mr. Barnier said.

That should not happen again, he said, saying it was "not acceptable that taxpayers should continue to bear the heavy cost of rescuing the banking sector."

He said his proposal would put the burden on banks "to contribute to a fund designed to manage bank failure, protect financial stability and limit contagion."

The plan will be discussed at a meeting of E.U. heads of state and government in June, with the aim of having it presented at the G-20 summit meeting in Toronto at the end of that month.

A number of E.U. governments already have introduced, or are considering introducing, levies on their banking sectors. But the commission said it was concerned that a lack of a coordination could lead to unfair competition among E.U. member states. The approaches differ in how much money would be raised through a bank levy and how that money would be used.

The organization representing German private-sector banks like Deutsche Bank and Commerzbank applauded the proposal. "If we had a patchwork that would not help much," said Bernd Brabänder, managing director for E.U. policy at the Association of German Banks. "The criteria and characteristics of such a fund must be the same around Europe."

Even so, any moves to centralize governance of the trade bloc are likely to be regarded skeptically by countries like the Netherlands and Britain.

The British business secretary, Vince Cable, told reporters in Brussels on Tuesday that his government broadly agreed on the need to tax the banks. He also underlined that Britain wanted to make sure that proceeds from such a levy were only channeled into national funds.

But in a document that accompanied Mr. Barnier's announcement, the European Commission said the creation of a network of national funds would be a "first step" toward more centralized governance of the banking sector.

That document suggested that the European Union would reassess the network by 2014 with the ultimate goal of putting the proceeds of the national bank taxes into a single fund to help banks in crisis, no matter where in the Union they were based.

The document said the commission had "the aim of creating E.U. integrated crisis management and supervisory arrangements, as well as an E.U. Resolution Fund in the longer term."

Mr. Brabänder, from the German banking group, said some details must still be worked out, like whether the levy

Some governments are afraid that the banks will view a prepaid fund as a license to continue with risky behavior.

should also be imposed on other financial service companies, like insurers and hedge funds. But he said Mr. Barnier's proposal contained provisions sought by banks, like a requirement that the levy funds be kept separate from general government budgets.

"In general it goes very much in the right direction," Mr. Brabänder said.

Angela Knight, chief executive of the British Bankers' Association, questioned whether having "a large sum of money sitting dormant somewhere in Europe" made economic sense.

"How would it do anything other than help facilitate the next crisis?" she said. "It would surely increase moral hazard by curtailing the consequences of a bank failure."

For that reason, Mr. Brabänder said it was important that the fund only be used for resolution of a failed bank, not a bailout.

Jack Ewing reported from Frankfurt. Julia Werdigier contributed from London.

U.S. urges united approach

Europe has the right ideas to solve its fiscal crisis and now needs to put them into practice to calm markets, Mr. Geithner, the U.S. Treasury secretary, said Wednesday, Reuters reported from London.

But he also once again stressed the need for a common approach to financial regulation, seemingly a swipe at Germany, which has gone it alone in banning certain types of speculative trading.

Mr. Geithner was in London at the start of a two-day European tour to press the case for greater international cooperation and discuss the latest in the crisis spreading through Southern Europe, which is sapping global investor confidence.

"The European leaders have put together a very strong program of reforms on the fiscal side and a very strong commitment on the financial side," Mr. Geithner said during the joint news conference with Mr. Osborne.

"I think it's got the right elements, and again I see a very strong political commitment — you see that not just in Germany but across Europe — to make it work. I think what Europe should do is implement the program they've laid out."

Mr. Osborne said that it was in both countries' interests to see stability in the euro zone.

It was the U.S. Treasury that initiated this month's emergency conference calls that led to a nearly $1 trillion rescue package, but there is rising concern that this may not have been enough.

Silicon Valley players see Russia's potential

MOSCOW

Firms support campaign by Medvedev to promote investing in technology

BY ANDREW E. KRAMER

Working together decades ago, the Russian physicist Zhores I. Alferov and his American colleague Herbert Kroemer made a discovery so amazing the pair went on to win a Nobel Prize.

In the United States, companies snapped up the scientific breakthrough and made cellphones, compact disc players and laser bar-code readers. Nothing much came of it in Russia.

That was where this touchstone story of the Soviet Union's and now Russia's inability to convert its science into consumer products stood — until now. Three former students of Mr. Alferov have announced plans to open a factory making energy efficient light bulbs using the technology, called semiconductor heterostructures.

The LED light factory was one of several investment opportunities a Russian government development fund presented to a group of Silicon Valley venture capitalists Wednesday, hoping to pique their interest in a sweeping effort under way here to commercialize Russian science.

While it is unclear whether any fund will support that particular project, it is clear that Russian officials are serious about courting the U.S. high-technology investment community.

The Russian president, Dmitri A. Medvedev, has elevated diversification of the economy away from oil to a centerpiece of his policy for dealing with the global economic crisis. That is because today about 80 percent of Russia's exports are petroleum and other cyclical commodities.

Mr. Medvedev is building a sprawling technology park outside Moscow referred to as Russia's Silicon Valley. That project, unveiled this spring, is intended to give a new fillip to Russian science.

And at a meeting Tuesday, Mr. Medvedev told the investors that he intended to visit the real Silicon Valley in June, during a trip to the United States.

The venture fund executives quickly embraced the idea and several said they were already scouting for both established technology companies and start-ups — half-eaten pizzas and energy drinks and all — for the Russian leader to tour during an expected two-day visit to the San Francisco Bay Area.

The American venture capitalists' trip to Russia this week offered a first look at how heavyweights in technology industry view Mr. Medvedev's program.

Drew J. Guff, managing director of Siguler & Guff, an $8 billion venture capital fund, said he had committed a $250 million investment to a data center in Russia, encouraged by Kremlin support for information technology as symbolized by the new science park, also sometimes called Inograd, Russian for Innovation City.

"We're committed to Inograd and a new, technological Russia," Mr. Guff told Mr. Medvedev at the meeting. "We believe our investors are satisfied investors."

A Russian state-backed fund for investment in nanotechnology, Rusnano, organized the trip with AmBAR, a trade group for Russian-speaking professionals in the San Francisco Bay Area.

Rusnano is looking for co-investors in start-ups created to commercialize Russian technological advances such as the LED lighting technology that are languishing at scientific institutes or university laboratories because the country has never had venture capital investors to bring them to market.

The LED lighting factory is hoping to apply a unique production technique for a type of lighting that is widely made elsewhere. Mr. Alferov and Mr. Kroemer discovered the underlying physics of some LED lights, cheap lasers in optical disc readers and components in cellphones in the 1960s. The two won the Nobel Prize in Physics in 2000.

Russia is the world's largest energy-exporting country and so does not lack capital for investment in business. The sovereign wealth funds are bulging. Instead, the strategy has been to attract expertise in incubating high-technology ventures, rather than simply money.

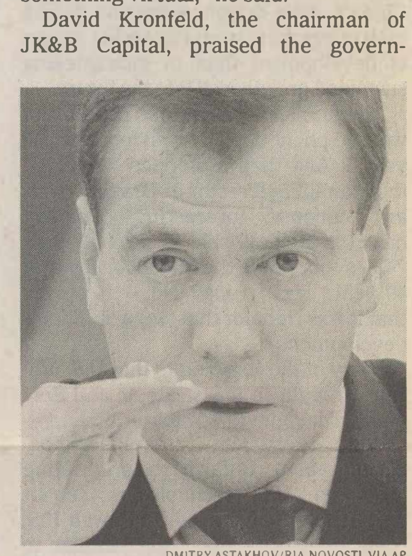
Rusnano's director, Anatoly B. Chubais, one of the architects of Russia's immediate post-Soviet privatization, who has now joined the effort to diversify, said in a statement that the goal of the visit was to "bring together the country's most promising innovative projects with the world's smartest money."

The venture fund investors met earlier with Viktor Vekselberg, the commercial director of the project to build the new scientific city. He had asked their views on the ambitious undertaking.

The technology city should become a stimulus for countrywide reforms to ease the emergence of small and midsize businesses, including technology companies, Mr. Guff said he told the Russians, and not a goal in itself.

Still, it could become a signal of Russian commitment to high technology development, he said, and might draw back to Russia some of the scientists and programmers who abandoned the country in the post-Soviet brain drain. "Inograd is not a physical location but something virtual," he said.

David Kronfeld, the chairman of JK&B Capital, praised the government's focus on nanotechnology, intended to leapfrog the semiconductor technology that Russia was far behind in anyway. But he added that Russia's grim reputation among American investors would keep many away for now.



DMITRY ASTAKHOV/RIA-NOVOSTI, VIA AP

Dmitri A. Medvedev, the Russian president, is building a technology park referred to as Russia's Silicon Valley.

Mr. Medvedev said he was aware of investors' negative mood toward Russia. The government was trying to improve policy, he said. But if those gathered at the table conveyed Russia's commitment to technology development, he said, the image might change. "Businessmen trust their colleagues," he said.

Peter N. Loukianoff, managing partner of Almaz Capital Partners, said some of the fund managers were already considering investments in Russian tech projects, and that most came away convinced of Mr. Medvedev's sincere interest in their business.

"The mood coming in was a complete unknown, and mostly negative and skeptical, and it's a completely different story coming out," he said.

Forecasts for growth raised, despite economic risks in Europe and Asia

O.E.C.D., FROM PAGE 1

recovery in Germany and France "has been crowded out by the extensive reporting about the economic crisis in Greece."

"This type of coverage could again trigger a severe loss of trust among consumers and business," it added.

Mr. Gurría said that countries are now taking steps to deal with the problem. Germany and France are moving toward legally enshrining budgetary rigor, while other countries, like Spain and Britain, have started serious deficit reduction. Some countries may even impose new taxes.

Esko Aho, an executive vice president and spokesman for the Finnish cellphone company Nokia, emphasized the differences between the markets, where the greatest fear is excess government borrowing, and the "real economy," where there are still lots of obstacles to growth.

"Maybe we're putting too much emphasis in Europe on financial stability and fiscal consolidation," Mr. Aho said during an interview at an O.E.C.D. forum in Paris. "This is important, but it's also important in Europe that, in the crisis, we create reasonable policy for growth."

A former Finnish prime minister, Mr. Aho noted that during the recession of the early 1990s, his government cut state spending widely, but investment in research and development was increased. Finland is now consistently ranked near the top of global competitiveness polls.

The O.E.C.D. report cautioned that the fiscal retrenchment announced in Europe would not take effect until next year and might not prove enough to avoid continued volatility in debt mar-

"A boom-bust scenario cannot be ruled out, requiring a much stronger tightening of monetary policy in some non-O.E.C.D. countries."

kets. "Bolder measures need to be taken to ensure fiscal discipline," the report said.

Mr. Padoan, the economist, said that it was wiser for countries like Spain, France and Britain, which are trying to rein in long-term liabilities, to focus on raising revenue through consumption-related taxes, rather than higher direct taxes, which can be more harmful to growth.

The shift taking place in Europe was emphasized by Giulio Tremonti, the finance minister of Italy, which on Tuesday became the latest euro-area country to announce austerity measures. The government proposed budget savings that aim to cut Italy's deficit below 3 percent of G.D.P. by 2012, from 5.3 percent last year.

"We are confronted with hard choices," Mr. Tremonti said. "The public coffers are not unlimited."

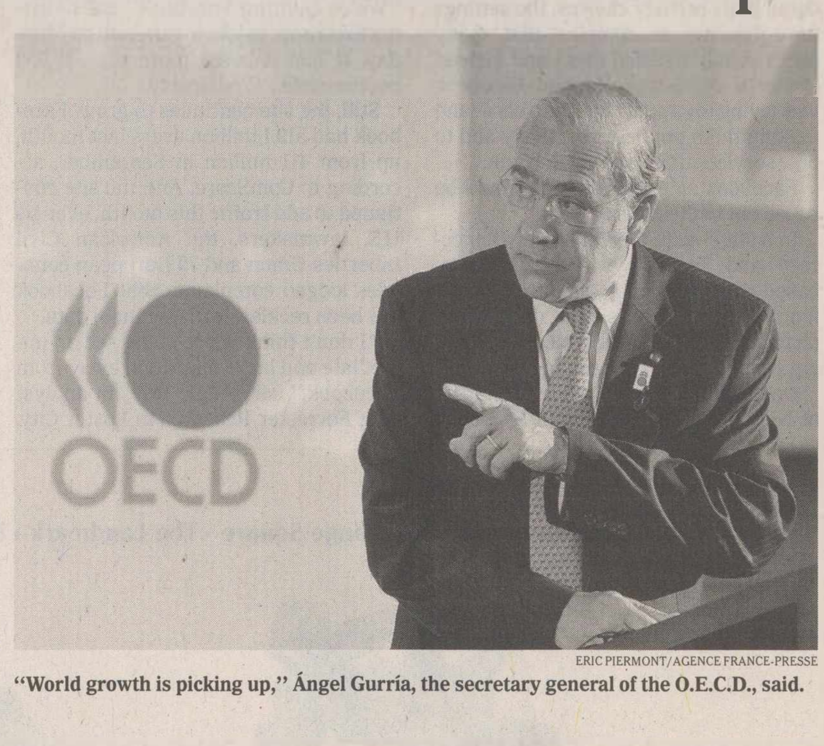
Still, the Italian government does not plan to reduce health and social security budgets, he said.

Challenging some of the conventional fears about the weakening euro, the O.E.C.D. said recent declines in the currency could help the economic outlook by lifting the competitiveness of euro-zone exporters.

"I would not be concerned if we see a further decline" in the euro, Mr. Padoan said, adding that any fall against other major currencies would help "rebalance" the global economy.

China can also play a role in the rebalancing by allowing its currency to climb, Mr. Padoan said, describing such a move as "low-hanging fruit" for the authorities in Beijing.

A stronger renminbi, along with higher interest rates, would help to offset rising Chinese inflation and lower the risk of a hard landing after years of surging growth.



ERIC PIERMONT/AGENCE FRANCE-PRESSE

"World growth is picking up," Ángel Gurría, the secretary general of the O.E.C.D., said.

"Overheating in emerging-market economies also poses a serious risk," the O.E.C.D. report said.

"A boom-bust scenario cannot be ruled out, requiring a much stronger tightening of monetary policy in some non-O.E.C.D. countries."

The report forecast a moderate decline in Chinese growth to 9.7 percen[t] next year, from 11.1 percent this yea[r] with consumer prices steady at 2.5 pe[r]cent.

Over all, the organization said that th[e] outlook for inflation remained "benign in the advanced economies because [of] economic slack.

The report forecast [real] G.D.[P.] growth in the United Stat[es of] 3.2 percent this year and next, compared w[ith] its previous forecast of 2.5 percent th[is] year and 2.8 percent in 2011. It predict[ed] that the U.S. jobless rate would fall to [8.5] percent in 2011 from 9.7 percent th[is] year.

Growth in the 16-country euro ar[ea] was estimated at a much more mod[est] 1.2 percent this year and 1.8 percent ne[xt] year, but that was up from the previo[us] forecast of 0.9 percent this year and [1.7] percent next year. Unemployment w[ill] remain high in the region, at 10.1 perc[ent] next year, it said.

For Britain, the O.E.C.D. forec[ast] growth of 1.3 percent this year, h[eld] back by the lingering effects of the cr[ed]it crunch, but rising to 2.5 percent n[ext] year, when household consumption [and] business investment are set to grow.

Driven mostly by export gains, [Ja]pan's G.D.P. was forecast to grow 3 [per]cent this year and 2 percent in 2011.