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## WHITE HOUSE ***NEWS CLIPS***

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**SEPTEMBER 15, 2009**

### **LEADING THE NEWS**

#### **Obama Tries To Reinvigorate Wall Street Reform (WP)**

By William Branigin, Brady Dennis And Alexi Mostrous, Washington Post Staff Writers

[Washington Post](#), September 15, 2009

Warning that "history cannot be allowed to repeat itself," President Obama urged Wall Street on Monday to help jump-start a stalled effort to overhaul the U.S. financial regulatory system and head off a potential reprise of the U.S. economic crisis.

Visiting New York on the first anniversary of the nation's biggest bankruptcy, Obama used a speech at Federal Hall at 26 Wall St., site of George Washington's 1789 inauguration, to rally support for regulatory reform and call on the financial community to take responsibility for avoiding the abuses and failures that led the nation into a financial crisis last year and triggered a global recession.

In the months that followed, Obama recalled, American households lost \$5 trillion in wealth and the financial crisis burgeoned into "a full-blown economic crisis," with housing prices plummeting, businesses unable to get credit and the economy shedding an average of 700,000 jobs a month.

Now, although "the work of recovery continues" and many people remain jobless, Obama said, "we can be confident that the storms of the past two years are beginning to break" and that "we are beginning to return to normalcy."

Yet, he added, "normalcy cannot lead to complacency." And he warned that "unfortunately there are some in the financial industry who are misreading this moment" and ignoring the lessons of the crisis.

Speaking to an audience of 150 financiers, bankers, traders, lawmakers and officials, he said: "We will not go back to the days of reckless behavior and unchecked excess that was at the heart of this crisis, where too many were motivated only by the appetite for quick kills and bloated bonuses. Those on Wall Street cannot resume taking risks without regard for consequences and expect that next time, American taxpayers will be there to break their fall."

He said, "That's why we need strong rules of the road to guard against the kind of systemic risks that we've seen."



Saying that the crisis was not "just a failure of regulation" and oversight but was "fundamentally a failure of responsibility," Obama called on the financial community to do its part and support "common-sense" reforms.

"Many of the firms that are now returning to prosperity owe a debt to the American people," he said, noting that they benefited from taxpayer bailouts. "It is neither right nor responsible, after you've recovered with the help of your government, to shirk your obligation to the goal of wider recovery, a more stable system and a more broadly shared prosperity."

Obama told Wall Street it should not wait for a new federal law before acting to "rebuild trust" with the public. He asked financial institutions to adopt changes before Congress acts by using clear language in their dealings with consumers, letting shareholders vote on 2009 executive bonuses and reforming pay systems to reward long-term performance instead of short-term gains.

But Obama faces an uphill struggle persuading lawmakers of the need to rewrite the nation's financial rulebook. Many have been cowed by controversies over health-care reform legislation and conservatives' anger at what they view as a planned government takeover of the sector.

"Is he going to get beaten up? Sure. Is he going to get everything he wants? No," said New York Mayor Michael R. Bloomberg (I), in an interview after the speech. "But he deserves a lot of credit. At least he's willing to put some of his political capital on the line for what he believes in."

In June, the Treasury Department unveiled an 85-page paper that laid out a vision of regulatory reform in painstaking detail. Key pieces include a new federal consumer agency to oversee financial products such as mortgages and credit cards, expanded authority for the Federal Reserve to monitor the economy for systemic risks, streamlining the system of banking regulation, and creating a mechanism that allows the government to take over and unwind large, failing financial institutions.

Since then, the proposals have come under fire from, among others, business lobbyists seeking to scuttle creation of a new Consumer Financial Products Agency, a key component of Treasury's regulatory plan.

The lobbyists, led by the U.S. Chamber of Commerce, have charged that the proposed agency would impose another layer of government regulation and would increase costs, stifle innovation and curtail choices for consumers. The Chamber of Commerce recently set up a Web site and launched an advertising campaign to oppose the agency.

Obama's speech came a year after the collapse of Lehman Brothers, a global financial services firm that filed for Chapter 11 bankruptcy protection in September 2008 after most of its clients fled, its stock plummeted and credit rating agencies drastically devalued its assets.

That debacle was followed by an extraordinary federal intervention to prop up some of the nation's largest financial institutions and prevent a catastrophic economic collapse. First came the bailout of insurance giant American International Group, followed by federal programs to unfreeze credit markets, government-imposed takeovers and mergers, a \$700 billion program to rescue ailing banks, bailouts of Detroit automakers and a colossal economic stimulus package.

"I promise you, I did not run for president to bail out banks or intervene in capital markets," Obama said Monday. Instead, the "very absence of common-sense regulations" forced the government's hand and led to "extraordinary intervention," he said. "The lack of sensible rules of the road, so often opposed by those who claim to speak for the free market, ironically led to a rescue far more intrusive than anything any of us, Democratic or Republican, progressive or conservative, would have ever proposed or predicted."

Now, he said, the nation must address the "collective failure of responsibility in Washington, on Wall Street and across America that led to the near-collapse of our financial system one year ago."

Obama called the administration's package of proposals "the most ambitious overhaul of the financial regulatory system since the Great Depression" and expressed confidence that Congress would pass it.

He defended the proposed Consumer Financial Protection Agency, saying it would ensure that consumers get "clear and concise" information on mortgages, for example, and would "prevent the worst kinds of abuses."



He said the package would also "close the loopholes that were at the heart of the crisis," force financial firms "to meet stronger capital and liquidity requirements" and create "resolution authority" to make large, far-reaching business failures less likely.

"This is intended to put an end to the idea that some firms are too big to fail," Obama said. The plan "would put the cost of a firm's failures on those who own its stock and loaned it money," he said. "And if taxpayers ever have to step in again, to prevent a second Great Depression, the financial industry will have to pay the taxpayer back every cent."

Obama has come under pressure to get the U.S. financial reform effort back on course in part because of a global economic summit he is hosting next week in Pittsburgh. The Sept. 24-25 gathering of the Group of 20 leaders, representing major industrialized and developing economies, is aimed at continuing an effort to spur global demand and address the "underlying problems" that caused the global recession, Obama said.

"Essential to this effort is reforming what's broken in the global financial system," he said. "For we know that abuses in financial markets anywhere can have an impact everywhere; and just as gaps in domestic regulation lead to a race to the bottom, so do gaps in regulation around the world."

Obama added: "As the United States is aggressively reforming our regulatory system, we're going to be working to ensure that the rest of the world does the same."

Responding to the speech, Republican National Committee Chairman Michael S. Steele said in a statement: "For the average American, the best measure of the economy is whether or not they have a job so they can pay the mortgage, make the car payment and put food on the table. For more than 3 million Americans who have lost their jobs this year, the president's policies have been a failure."

But Senate Majority Leader Harry M. Reid (D-Nev.) blamed the situation on a Republican administration that he said had "declared war on fiscal responsibility and accountability."

In a floor speech, Reid said, "A lethal combination of government deregulation and industry irresponsibility meant Wall Street could run wild. And run wild it did. . . . The mantra of the last eight years was deregulation, deregulation, deregulation. The last White House refused to police lenders when they deceived and defrauded Americans looking for loans, and neglected to protect consumers when we were being abused."

Mostrous reported from New York.

## **Obama Lashes Out At Wall Street (AFP)**

By Marine Laouchez

[AFP](#), September 15, 2009

NEW YORK (AFP) - President Barack Obama bluntly warned Monday that some Wall Street bosses were ignoring lessons of the financial crisis, as he demanded a new age of prudence after bloated years of unchecked excess.

"The old ways that led to this crisis cannot stand," the US leader said, in an outspoken address delivered in the shadow of US finance firms he blamed for unleashing global contagion. "History cannot be allowed to repeat itself."

A year after Lehman Brothers failed, triggering the meltdown, Obama also called on Congress to act this year on regulatory reforms he hailed as the most sweeping bid to tame industry over-exuberance since the Great Depression.

While blaming much of the crisis on the United States, Obama made clear a week ahead of the G20 summit in Pittsburgh that he would press global powers to do more to rein in finance industry abuses.

But his prime message after travelling to historic Federal Hall on Wall Street in New York was that, as the economy slowly mends, some key players in America's finance sector were willfully ignoring the lessons of the crisis.

"They do so not just at their own peril, but at our nation's," Obama said, noting that many big Wall Street banks and finance house had received huge government bailouts at taxpayer expense.

"So I want everybody here to hear my words: we will not go back to the days of reckless behavior and



unchecked excess that was at the heart of this crisis, where too many were motivated only by the appetite for quick kills and bloated bonuses.

"Those on Wall Street cannot resume taking risks without regard for consequences, and expect that next time, American taxpayers will be there to break their fall."

The president, speaking blocks from the New York Stock Exchange, also urged bosses of top finance firms to make a symbolic down payment in their effort to restore public trust, by taking a cautious tack on pending bonus pay awards.

While lambasting Wall Street, the president admitted that Washington -- and in a wider sense the American people -- were culpable for a crisis which sent unemployment up to nearly 10 percent at home and spread misery abroad.

"It was a collective failure of responsibility in Washington, on Wall Street and across America that led to the near-collapse of our financial system one year ago."

Duncan Niederauer, head of the stock exchange operator NYSE Euronext had an initially warm reaction to the speech.

"President Obama's address today was welcome and timely," he said.

"The financial crisis created a once-in-a-generation opportunity to modernize our outdated financial regulatory system."

But Eric Cantor, the Republican whip in the House of Representatives, said "smarter regulation," and not necessarily more, was the answer to the financial crisis.

Days after slapping duties on tire imports from China, in the most serious trade dispute of his administration with the Asian giant, Obama also denied accusations of protectionism.

"When, as happened this weekend, we invoke provisions of existing agreements, we do so not to be provocative or to promote self-defeating protectionism, we do so because enforcing trade agreements is part and parcel of maintaining an open and free trading system."

Obama argued that the leadership of his administration when it took office in January had helped stave off an even worse crisis.

But he warned that "normalcy cannot lead to complacency," vowing to press G20 powers to match his move to "aggressively reform" the financial system.

Obama fleshed out a previously announced strategy for reforming regulatory systems which is awaiting action in Congress, warning that a pre-crisis lack of "common-sense rules" had led the US economy to the brink.

He said his administration would give more power to the Federal Reserve to regulate interconnected firms that pose a risk of systemic failure.

Top firms will be required to meet stronger capital and liquidity requirements and submit to greater restraints on "risky" behavior.

The reforms also propose the establishment of a "resolution authority" to step in and dismantle, failed finance firms.

He also vowed to set up a new Consumer Protection Agency to enforce rules prohibiting predatory lending policies by credit firms and mortgage lenders.

## **On Wall St., Obama Pushes Stricter Finance Rules (NYT)**

By Jeff Zeleny

[New York Times](#), September 15, 2009

President Obama came to Wall Street on Monday to tout how the nation's economic outlook has improved from a year ago, but he called on Congress to pass stronger financial regulations this year, as he offered a sharp admonition that "there are some in the financial industry who are misreading this moment."

"Instead of learning the lessons of Lehman and the crisis from which we are still recovering, they are choosing to ignore them," Mr. Obama said in a speech at Federal Hall in Lower Manhattan. "They do so not just at their own peril, but at our nation's."



The president offered no new policy proposals during a lunchtime speech but sought to use the one-year anniversary of the fall of Lehman Brothers as a moment to mark how the country's financial system has moved beyond the brink of collapse. As he urged lawmakers to adopt new regulations for Wall Street, he asked executives to accept tougher oversight.

"I want everybody here to hear my words," Mr. Obama said. "We will not go back to the days of reckless behavior and unchecked excess at the heart of this crisis, where too many were motivated only by the appetite for quick kills and bloated bonuses. Those on Wall Street cannot resume taking risks without regard for consequences, and expect that next time, American taxpayers will be there to break their fall."

Mr. Obama touted the administration's plans to increase capital cushions at big banks, give the Federal Reserve new powers to oversee system-wide risks to the financial system and establish a new consumer-protection agency, which would have broad powers over home mortgages and other consumer loans.

Mr. Obama also urged banks to adopt changes before Congress acts by simplifying the language they use with consumers, overhauling their pay structures or allowing shareholders vote on 2009 bonuses.

Michael Steele, the chairman of the Republican National Committee, said in a statement that the policies of the Obama administration have not improved the economic lot for many Americans.

"For more than 3 million Americans who have lost their jobs this year, the president's policies have been a failure," Mr. Steele said in a statement released after the speech. "His \$787 billion stimulus bill has led to wasteful spending but hasn't created the jobs he promised."

Mr. Obama's appearance on Wall Street comes a year after the collapse of Lehman Brothers touched off a series of extraordinary government interventions in the nation's business sector. The anniversary also marks the moment that Mr. Obama became steeped in the financial crisis, which dominated the closing chapter of his campaign with Senator John McCain of Arizona.

It was one year ago that Mr. McCain declared "the fundamentals of our economy are strong," a remark Mr. Obama instantly seized upon to portray his Republican rival as out of touch with hardships facing Americans. The argument helped Mr. Obama win the White House, where he inherited an economic crisis. Now, he fully owns it.

"Full recovery of the financial system will take a great deal more time and work, the growing stability resulting from these interventions means we are beginning to return to normalcy," Mr. Obama said, speaking to an audience of a few hundred people in Federal Hall. "But what I want to emphasize is this: normalcy cannot lead to complacency."

The president spoke beneath the dome of the building where the nation's founding fathers once argued sharply over the role that government should play in the country's economy. Mr. Obama noted the historic setting, saying: "Two centuries later, we still grapple with these questions - questions made more acute in moments of crisis."

To an audience of a few hundred Wall Street executives, lawmakers and Mayor Michael Bloomberg of New York, Mr. Obama said he would push Congress to pass legislation to "guard against the kind of systemic risks we have seen." The president was welcomed warmly, but the speech was interrupted only once by applause.

"The fact is, many of the firms that are now returning to prosperity owe a debt to the American people," Mr. Obama said. "Though they were not the cause of the crisis, American taxpayers through their government took extraordinary action to stabilize the financial industry. They shouldered the burden of the bailout and they are still bearing the burden of the fallout."

While some Democrats say the health care debate in Washington makes it unlikely that financial reform can be undertaken, Representative Barney Frank of Massachusetts, chairman of the Financial Services Committee, said he was committed to pursuing the measure this year. The president acknowledged Mr. Frank, who was sitting near the stage, and said the administration wanted to work with the financial industry in crafting the legislation.

"We have a responsibility to write and enforce these rules to protect consumers of financial products, taxpayers, and our economy as a whole," Mr. Obama said. "Yes, they must be developed in a way that does



not stifle innovation and enterprise."

He added, "The old ways that led to this crisis cannot stand."

In response to the financial crisis, the Obama administration proposed a series of new financial regulation, included oversight of the risk that large financial institutions pose to the economy, new ways for the government to dismantle fallen companies and a new regulator to oversee financial products for consumers.

"At the same time, what we must do now goes beyond just these reforms," Mr. Obama said. "For what took place one year ago was not merely a failure of regulation or legislation; it was not merely a failure of oversight or foresight. It was a failure of responsibility that allowed Washington to become a place where problems - including structural problems in our financial system - were ignored rather than solved."

Following the speech, the president was heading off to have lunch with former President Bill Clinton before returning to Washington later Monday afternoon.

Jack Healy contributed reporting.

## **Obama Warns Wall Street Against High-risk Behavior (USAT)**

By Pallavi Gogoi

[USA Today](#), September 15, 2009

NEW YORK - President Obama called on Wall Street executives not to "go back to the days of reckless behavior and unchecked excess at the heart of this crisis," as he laid out "the most ambitious overhaul of the financial system since the Great Depression."

Obama was speaking in New York on Monday, on the one-year anniversary of the collapse of Lehman Bros., an event that led to the worst financial crisis the U.S. has faced since the Great Depression. He stressed that even though the economy is "beginning a return to normalcy," the country needs strong, updated rules and regulations to guard against future risks.

"Obama's speech was a combination of warning Wall Street not to get too quick in returning to its aggressive practices, while at the same time voicing support for the free enterprise system," says Sean Egan, founding principal of Egan-Jones ratings agency.

Obama warned that Wall Street firms are "misreading the moment," and said "some have so readily returned to (the old ways, which) underscores the need for change, and change now."

Egan says Obama was directly referring to firms like Goldman Sachs, JPMorgan Chase and Morgan Stanley that were among the first to pay back Troubled Asset Relief Program money to the government, and since then have set aside large portions of their revenue for compensation - barely months after being bailed out by the American taxpayer.

"His message is that restraint is the right thing at this time," says Egan.

Obama went on to outline the key elements of reforming the financial system. Among the various proposals:

.He emphasized the setting up of an agency that would be explicitly responsible for protecting consumers. The agency would make sure there are no hidden fees attached to mortgages or financial penalties in credit cards, for instance. "By setting ground rules, we'll increase the kind of competition that actually provides people better and greater choices," he said.

.Obama also promised to close gaps in financial regulation, set up a "systemic risk" council that will be responsible for oversight of the largest, most interconnected firms and also find a way to close a large troubled institution without threatening the economy.

The president's comments, which ended about 12:30 p.m. ET, stirred little reaction in financial markets. Shortly before 3 p.m., the Dow Jones industrial average was unchanged for the day. But Wall Street participants voiced their support of Obama's proposals. Timothy Ryan, CEO of the Securities Industry and Financial Markets Association, an industry trade group, said such regulation is "central to the goal of protecting our financial system to ensure that it functions in support of the broader economy."

Critics also voiced their concerns. "It is totally predictable that Congress will overreact," said Sen. Judd



Gregg (R-NH), ranking member of the Senate Budget Committee. "Congress will put in place regulatory schemes which will fundamentally undermine risk taking, capital formation and entrepreneurship, and thus hurt future job growth and American competitiveness so key to any economic recovery."

## **Obama Marks Crisis By Urging Wall Street To Act Before Congress (HILL)**

By Sam Youngman

[The Hill](#), September 15, 2009

President Barack Obama marked the first anniversary of the financial crisis by urging Wall Street to embrace financial reform, root out reckless behavior and police itself ahead of formal action from Washington.

In a speech at Federal Hall on Wall Street, Obama promised that a regulatory overhaul would be passed by Congress and signed into law, but urged banks and financial institutions to make changes on their own.

Obama said Wall Street did not have to wait for Congress to pass a law to take responsibility, and that many firms owe their prosperity to taxpayers, whose generosity prevented a further collapse of the system and economy.

"You don't have to wait to use plain language in your dealings with consumers. You don't have to wait to put the 2009 bonuses of your senior executives up for a shareholder vote," Obama said. "You don't have to wait for a law to overhaul your pay system so that folks are rewarded for long-term performance instead of short-term gains."

Obama said he expects Wall Street "to embrace serious financial reform, not fight it."

Obama spoke nearly a year to the day after investment bank Lehman Brothers collapsed from bad debts. That triggered a collapse in stock markets, broader panic in credit markets and the near-ruin of many giant firms with ties to Lehman.

Later that fall, Congress approved a \$700 billion bailout of the finance sector that was supported by Obama, then-President George W. Bush and the GOP candidate for president in 2008, Sen. John McCain (Ariz.).

Stock markets had a muted reaction to Obama's speech, with the Dow Jones Industrial Average ending up more than 20 points. Also on Monday, a judge struck down a settlement Bank of America had with the government to pay \$33 million in fines. The fines stem from Bank of America's takeover of Merrill Lynch at the height of the crisis and shareholder communications about bonus payments for Merrill employees.

The decision renews debate over a deal struck during the crisis that was once hailed a success.

Obama vowed in the speech that he would sign a regulatory reform bill later this year. "History cannot be allowed to repeat itself," Obama said.

Meeting that timetable could be difficult, as Obama's regulatory proposals have run into obstacles on Capitol Hill.

A broad range of financial lobbying groups said they support the need to revamp regulations, but many oppose specific administration efforts. The most notable source of debate surrounds the administration's plan to create a Consumer Financial Protection Agency.

The consumer agency has drawn opposition from banks, Republicans and even some existing regulators.

Key Democrats also differ on parts of the administration's agenda. Obama's call for a "systemic risk regulator" in the Federal Reserve has run into opposition from members who fear the Fed's powers are already too great.

Nonetheless, Rep. Joseph Crowley (D-N.Y.) on Monday expressed confidence a bill would be approved by the House later this year. "I don't think there's any question we'll get something done by the end of the year," said Crowley, who leads the centrist New Democrat Coalition.

In his speech, Obama at times scolded financial companies, saying they are "choosing to ignore" lessons they should have learned from the Lehman collapse and the financial crisis.



"I'm convinced they do so not just at their own peril, but at our nation's," Obama said.

"So I want them to hear my words: We will not go back to the days of reckless behavior and unchecked excess that was at the heart of this crisis, where too many were motivated only by the appetite for quick kills and bloated bonuses.

"Those on Wall Street cannot resume taking risks without regard for consequences and expect that next time, American taxpayers will be there to break their fall."

The president expressed hope that the worst of the financial crisis is behind the country because of steps taken by his and Bush's administrations. He spoke of a return to normalcy and said he is "confident that the storms of the past two years are beginning to break."

"While there continues to be a need for government involvement to stabilize the financial system, that necessity is waning," Obama said. "After months in which public dollars were flowing into our financial system, we are finally beginning to see money flowing back to the taxpayers."

At the same time, he added: "This doesn't mean taxpayers will escape the worst financial crisis in decades entirely unscathed."

Obama warned that the recovery still has a long way to go, but "growing stability resulting from these interventions means we are beginning to return to normalcy."

"But what I want to emphasize is this: Normalcy cannot lead to complacency," Obama said.

Ian Swanson and Silla Brush contributed to this article.

## **Obama Challenges Wall Street To Support His Regulations (MCT)**

By Margaret Talev And Kevin G. Hall

[McClatchy](#), September 15, 2009

WASHINGTON - A year after the collapse of Lehman Brothers ushered in the worst economic crisis since the Great Depression, President Barack Obama said Monday that although the nation was "beginning to return to normalcy," Congress still must pass new regulations on the financial industry to avoid a repeat.

"Normalcy cannot lead to complacency," Obama told a Wall Street audience in a speech at Federal Hall in New York in which he also defended as necessary his \$787 billion economic stimulus plan. He appealed to the financial community to support what he considers necessary changes in the way it does business, and to Congress to enact a regulatory overhaul by year's end. Both appear unlikely.

The president predicted with confidence that "the reforms I've laid out will pass and these changes will become law," but he urged Wall Street to work on its own to rebuild trust with American consumers.

"You don't have to wait" for legislation to pass before using "plain language" in dealing with consumers, voluntarily seeking shareholder votes on senior executive bonuses, changing which employee behaviors are rewarded and working harder to modify mortgages or to extend credit to small business owners, Obama challenged the financiers.

He asked them "to embrace serious financial reform, not fight it."

He also issued a moral challenge: "It is neither right nor responsible, after you've recovered with the help of your government, to shirk your obligation to the goal of wider recovery, a more stable system and a more broadly shared prosperity."

The president was referring to the heavy lobbying being conducted by financial firms that are interested in watering down his proposed regulations. Banks and the U.S. Chamber of Commerce are fighting Obama's proposal to strip consumer protection from the current hodgepodge of regulators and give it to a new agency that would have that as a single mission.

"The better answer to consumer protection is to amend the charters of the existing prudential regulators, giving consumer protection parity with safety and soundness regulation," Steve Bartlett, the president of the Financial Services Roundtable, the lobby for big finance, said in a statement shortly after Obama's speech.

The president has proposed financial revisions including:

Establishing a Consumer Financial Protection Agency to regulate credit cards, home loans and other



types of consumer credit finance. The Federal Reserve and other bank regulators do this now.

Closing loopholes to prevent companies from shopping for their preferred regulatory agencies or, for hedge funds and trades in complex derivatives, from operating outside the regulated system.

Holding financial firms to stronger capital and cash requirements. As companies grow larger, they'd be required to hold bigger capital set-asides to offset the greater risks they pose to the system.

Giving regulators "resolution authority" to allow them to dissolve giant, globally connected financial institutions and avoid institutions becoming "too big to fail." If taxpayers must bail out a company, he'd compel the financial industry to repay "every cent."

Working with other nations to establish global consumer and regulatory protections.

Obama called on Congress to pass the regulatory revamp this year, but that appears unlikely. Some lawmakers who are needed to spearhead financial revisions are preoccupied by the drive to overhaul the nation's health care system. Others are resisting what they think is a pattern of too much government control of the private sector. Still others agree that better regulation of Wall Street is needed but not with the president's road map on how to get there.

The House of Representatives is likely to approve Obama's financial approach with little major change. However, the Senate is balking at his proposals for a new consumer protection agency and for giving the Federal Reserve greater powers. The Senate also may merge more than two banking regulators. So the Senate may stretch out the timetable for legislation.

A delay may not be such a bad thing, said James K. Galbraith, a prominent liberal economist at the University of Texas at Austin.

"Getting effective action may have to wait until after this first few quarters of relatively high growth is behind us and people realize that we're not actually in an economy that's moving in a credible way back toward high employment. People will say, 'OK, there's an unfinished agenda,' " Galbraith said.

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## **Obama Says U.S. Financial Rules Overhaul Will Happen This Year (BLOOM)**

By Alison Vekshin And Julianna Goldman Alison

[Bloomberg News](#), September 15, 2009

Sept. 14 (Bloomberg) -- President Barack Obama said he is "very optimistic" rules overhauling federal oversight of the financial-services industry will be adopted this year to prevent future crises and keep taxpayers from bailing out Wall Street.

The banking industry won't succeed in efforts to defeat a proposal to create a Consumer Financial Protection Agency, and Obama in a Bloomberg Television interview today rejected opposition in Congress to his plan to give the Federal Reserve new authority to monitor firms for systemic risk.

"I'm very optimistic about us getting a set of rules in place that prevent the kind of crisis that we're seeing from happening again," Obama said. He also ruled out setting compensation limits on global banks.

Obama is rallying support for his proposal to overhaul U.S. financial services regulation one year after the collapse of Lehman Brothers Holdings Inc. as action on the plan stalls in Congress. Lawmakers have held a series of hearings on aspects of the plan since it was released in June.

The House in July approved a measure aimed at limiting incentives in executive pay that spur excessive risk taking. The Senate has not yet acted on that bill or advanced other legislation based on the plan.

Obama defended his proposal to create an agency focused on protecting consumers when they deal



with financial services companies, a plan the banking industry has been fighting.

"I don't think they're going to succeed in killing it and I'm going to do everything I can to stop them from killing it," Obama said.

He also rejected opposition from Congress to his plan to give the Fed new powers to monitor large firms for systemic risk.

Backs Fed Role

??oThe buck has to stop with someone and I think the Fed is best equipped to do this,??

House Financial Services Committee Chairman Barney Frank, leading the effort in Congress, said today he expected the House to approve legislation in November that will include rules governing derivatives and resolution of failing non-bank firms.

"I am working with my Senate colleagues to prepare a comprehensive bill to reform the financial system and protect consumers and investors to ensure that a crisis like this never happens again," Senator Banking Committee Chairman Christopher Dodd, a Connecticut Democrat and Frank's counterpart, said today in a statement.

## **Obama Urges Wall Street Co-operation (FT)**

By Edward Luce And Krishna Guha

[Financial Times](#), September 15, 2009

President Barack Obama on Monday sought to capitalise on the anniversary of the bankruptcy of Lehman Brothers to urge Wall Street to co-operate with Congress to enact the "most ambitious overhaul of the financial system since the Great Depression".

Mr Obama's remarks, intended to breathe life into the administration's regulatory reform proposals on Capitol Hill, where there is growing scepticism they will be enacted by the end of the year, were also intended to reassure Americans that the era of big government bail-outs was drawing to a close.

Amid polls showing growing taxpayer alarm about rising government debt and deficits, almost every White House initiative is now couched in the language of fiscal responsibility.

Mr Obama highlighted the fact that the banks had already repaid \$70bn in bail-out funds at a 17 per cent return to the taxpayer. "We can be confident that the storms of the past two years are beginning to break," Mr Obama said.

"I certainly did not run for president to bail out banks or intervene in the capital markets. But . . . the very absence of common-sense regulations . . . is what created the need for that extraordinary intervention."

Mr Obama also addressed the increasing public concern that Wall Street is returning to a "business as usual" mentality, telling bankers that their taxpayer-funded rescue left them with new obligations to the American people. This reflects the administration's acute discomfort at the return of big bonuses and aggressive hiring practices at a time when Main Street is still struggling with home foreclosures and unemployment is nudging 10 per cent.

In effect, the financial sector - or parts of it - is seeing a V-shaped rebound, but the economy as a whole is facing a more protracted U-shaped recovery, or worse, some economists believe, the possibility of a "W-shaped, double-dip recession".

"It is neither right nor responsible after you've recovered with the help of your government to shirk your obligation to the goal of wider recovery, a more stable system and a more broadly-shared prosperity," Mr Obama said.

The president told the financial sector, which is lobbying aggressively against some aspects of the reforms and hopes to kill a proposed new consumer products regulatory agency, to "embrace serious financial reform, not fight it".

Administration officials are concerned the political window for significant reform may soon close as the sense of impending disaster fades and normality returns to the system. "The old ways that led to this crisis cannot stand," he said.



"And to the extent that some have so readily returned to them underscores the need for change and change now. History cannot be allowed to repeat itself."

Other governments are also keen to press ahead with international regulatory reform, a subject that will be discussed by the leaders of the G20 countries when they meet in Pittsburgh later this month.

In an interview on Monday with the FT, Alistair Darling, Britain's chancellor, said he would introduce legislation within the next few months to force British banks to draw up "living wills" so that they could be dismantled in the event of another financial crisis. The proposal to set out a timetable for banks to simplify their corporate structures and plan for dissolution will be included in a new financial services bill to be presented in November.

## **Obama Delivers A Warning To Wall Street (WT)**

By Matthew Mosk

[Washington Times](#), September 15, 2009

President Obama told executives on Wall Street that they have a moral responsibility to support the regulatory reforms he has proposed in Congress and an obligation to adopt practices that will head off a future financial crash.

"It is neither right nor responsible, after you've recovered . to shirk your obligation to a wider recovery," Mr. Obama said, speaking at historic Federal Hall in Lower Manhattan.

The president traveled to New York's financial district to deliver the speech on the first anniversary of the collapse of Lehman Brothers, a pivotal moment in last year's spiraling descent of the nation's economy. During the darkest three months of the panic, the president said, "\$5 trillion of American's household wealth evaporated."

The president's proposal to head off a future collapse has been stalled on Capitol Hill as the Congress has devoted most of its energy to the White House's plan for an overhaul of the nation's health care system.

Mr. Obama is pushing a range of new regulatory measures, including granting greater authority to the Federal Reserve to police investment firms, creating a new oversight board to monitor the nation's largest financial companies and creating a consumer financial protection agency to crack down on abuses by credit card and mortgage lenders.

The president pushed two of his major goals during his speech, to push Congress to act on his regulatory plan and to persuade the public that Wall Street has not returned to business as usual - including eye-popping bonuses and CEO salaries - right after taxpayers were asked to pay for a massive bailout.

A newly released Associated Press poll found that seven out of 10 Americans still believe the federal government has not instituted the safeguards needed to prevent another financial meltdown, and an even higher number - 80 percent - rate the condition of the economy as poor.

Financial institutions, however, bore the brunt of the criticism - 79 percent of those surveyed said banks and lenders that made risky loans deserve much of the blame.

Mr. Obama attempted to channel that outrage during his 30-minute speech, saying that even as the economy begins a "return to normalcy" there are some on Wall Street who are returning to the same risky behavior that brought on the crisis in the first place.

"Unfortunately, there are some in the financial industry who are misreading this moment," Mr. Obama said. Those involved "do so not just at their own peril, but at the nation's."

"We will not go back to the days of reckless behavior," he said.

## **Obama Vows To Prevent 'Reckless Behavior And Unchecked Excess' On Wall Street (LAT)**

**The president, speaking on the anniversary of the Lehman Bros. collapse, says some are forgetting lessons of the financial crisis and urges passage of regulatory overhaul proposals.**

By Jim Puzzanghera And Walter Hamilton

[Los Angeles Times](#), September 15, 2009



President Obama, in a speech today on a key anniversary in the financial crisis, said "the storms of the past two years are beginning to break," but warned Wall Street that "normalcy cannot lead to complacency."

Obama said some in the financial industry already are forgetting the lessons of the crisis, which was triggered when legendary investment bank Lehman Bros. collapsed into bankruptcy a year ago today. That failure helped create a market panic that turned the recession that began in late 2007 into the worse economic downturn since the Great Depression.

"Instead of learning the lessons of Lehman and the crisis from which we're still recovering, they're choosing to ignore those lessons. I'm convinced they do so not just at their own peril but at our nation's," Obama said in a 30-minute speech at Federal Hall in New York City that was as much a lecture for Wall Street as a pitch for passage of his regulatory overhaul proposals.

"So I want everybody here to hear my words: We will not go back to the days of reckless behavior and unchecked excess that was at the heart of this crisis, where too many were motivated only by the appetite for quick kills and bloated bonuses. Those on Wall Street cannot resume taking risks without regard for consequences and expect that, next time, American taxpayers will be there to break their fall."

Obama touted the recent signs that the recession might be ending, saying his administration built on the "difficult but necessary" emergency actions of the Bush administration and Congress last fall to help turn around the crisis. And he noted that after sending billions of taxpayer dollars into the financial system, "we are finally beginning to see money flowing back to the taxpayers" in the form of \$70 billion in bailout money repaid by several large banks, at a 17% profit to the government.

"While there continues to be a need for government involvement to stabilize the financial system, that necessity is waning," Obama said.

But in sharply worded comments, the president said all that work would be wasted if Congress does not pass his overhaul of financial regulations to prevent a repeat of the crisis.

"That's why we need strong rules of the road to guard against the kind of systemic risks we have seen. And we have a responsibility to write and enforce these rules to protect consumers of financial products, to protect taxpayers and to protect our economy as a whole," Obama said.

"Yes . . . these rules must be developed in a way that doesn't stifle innovation and enterprise. And I want to say very clearly here today we want to work with the financial industry to achieve that end. But the old ways that led to this crisis cannot stand. And to the extent that some have so readily returned to them underscores the need for change and change now. History cannot be allowed to repeat itself."

Obama pressed Congress to approve the regulatory overhaul this year, but also said Americans, including those who work on Wall Street, must change the behavior that helped caused the crisis.

"It was fundamentally a failure of responsibility that allowed Washington to become a place where problems -- including structural problems in our financial system -- were ignored rather than solved," Obama said. "It was a failure of responsibility that led homebuyers and derivative traders alike to take reckless risks that they couldn't afford to take. It was a collective failure of responsibility in Washington, on Wall Street and across America that led to the near-collapse of our financial system one year ago."

Obama urged Wall Street to stop resisting his regulatory proposals and lectured corporate executives about taking the initiative on their own to change their behavior, such as helping struggling homeowners modify their mortgages and limiting executive compensation.

"You don't have to wait to use plain language in your dealings with consumers. You don't have to wait for legislation to put the 2009 bonuses of your senior executives up for a shareholder vote," he said.

"The fact is, many of the firms that are now returning to prosperity owe a debt to the American people . . . It is neither right nor responsible after you've recovered with the help of your government to shirk your obligation to the goal of wider recovery, a more stable system and a more broadly shared prosperity."

Among those attending the Wall Street speech were Obama's top economic advisors, including Treasury Secretary Timothy F. Geithner and White House Council of Economic Advisors Chairwoman Christina Romer. Rep. Barney Frank, (D-Mass.), who as chairman of the House Financial Services Committee will play a major role in trying to get regulatory overhaul legislation through Congress, also was



scheduled to attend.

The audience also included about 130 Wall Street executives and consumer advocates. Among those expected to attend were former Treasury Secretary Roger Altman, now chief executive of Evercore Partners, and executives from bailout recipients Bank of America, Goldman Sachs and Morgan Stanley.

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## **Obama Urges Wall Street Not To Ignore Lessons Of Crisis (WSJ)**

### **Need for Government Involvement Is 'Waning,' President Says**

By Henry J. Pulizzi And Eleanor Laise

Wall Street Journal, September 15, 2009

WASHINGTON – President Barack Obama warned Wall Street that it wouldn't be wise to ignore lessons from last year's economic turmoil, pressing the financial sector to join his effort to remake financial regulation by the end of the year.

In a major address in New York, Mr. Obama said the storms of the financial crisis "are beginning to break" with less need for the government to get involved in the financial system. But he pressed Wall Street not to grow complacent as the economy returns to normal, saying banks shouldn't expect taxpayers to come to the rescue again. (See the prepared text of Obama's speech.)

"Unfortunately, there are some in the financial industry who are misreading this moment," Mr. Obama said. "Instead of learning the lessons of Lehman and the crisis from which we are still recovering, they are choosing to ignore them. They do so not just at their own peril, but at our nation's."

Meanwhile, Wall Street executives who attended the speech heard a clear message from the president: Don't count on more government bailouts.

"It was very clear that we will not be in that situation again under his watch, and people should not expect the government to do the same type of things they did before," said Robert Kapito, president of money manager BlackRock Inc.

Mr. Obama's speech at Wall Street's Federal Hall marks the one-year anniversary of Lehman Brothers' failure. Since then, the government has undertaken an unprecedented effort to stem the financial meltdown, including the Federal Reserve's quantitative-easing measures, the Troubled Asset Relief Program and the bailouts of General Motors and Chrysler, initiatives Mr. Obama said are beginning to pay off.

"While full recovery of the financial system will take a great deal more time and work, the growing stability resulting from these interventions means we are beginning to return to normalcy," he said. "But what I want to emphasize is this: normalcy cannot lead to complacency."

Mr. Obama's planned overhaul would dramatically rewrite the rules of the road for the U.S. financial sector, with new protections for consumers and safeguards against the potential collapse of more big banks. But it is unclear if Congress can unite behind a revamp on Mr. Obama's timetable, given the time-consuming debate over health care and disagreements between lawmakers on the major components of the overhaul.

Mr. Obama repeated his call for a new Consumer Financial Protection Agency, an oversight council of regulators, stiffer capital and liquidity requirements for banks, and a "resolution authority" mechanism to allow the government to unwind firms that pose systemic risk.

While he pledged to work with Wall Street on his plans, he had sharp words for the banking sector, saying that it must take responsibility to avoid a rerun of the crisis.

"The old ways that led to this crisis cannot stand," Mr. Obama said. "And to the extent that some have so readily returned to them underscores the need for change and change now. History cannot be allowed to repeat itself."

Mr. Obama's remarks had the tone of lecture and were largely met with silence by an audience composed of Wall Street executives, members of Congress and high-ranking government officials, including Treasury Secretary Timothy Geithner and former Federal Reserve Chairman Paul Volcker, who heads Mr. Obama's Economic Recovery Advisory Board.



Rep. Barney Frank (D., Mass.), who as chairman of the House Financial Services Committee will be a key player in pushing legislation through Congress, discounted the silence that met Mr. Obama's speech.

"It's not that important if these CEOs listened," Mr. Frank said. "The fact is there is real political will for change. And there is going to be change."

Richard Parsons, chairman of Citigroup Inc., said his bank will "do the best we can to live up to the president's expectations." The federal government owns more than one-third of Citigroup, and Mr. Parsons is a member of Mr. Obama's economic-advisory board.

In pitching his financial revamp, the president said the absence of common-sense regulations a year ago prompted the government's intervention in the economy.

"The lack of sensible rules of the road, so often opposed by those who claim to speak for the free market, led to a rescue far more intrusive than anything any of us, Democrat or Republican, progressive or conservative, would have proposed or predicted," Mr. Obama said.

After the speech, guests including Goldman Sachs Group Inc. President Gary Cohn streamed out of the building as a crowd flanked Federal Hall, hoping for a glimpse of the president. "I thought he did a good job," Mr. Cohn said, adding that Mr. Obama struck "the right tone."

Mr. Obama's caution about ignoring the lessons of the crisis was on the mark, BlackRock's Mr. Kapito said. "It's very easy to fall back into old habits very quickly, and some firms are making profits and adding risk to their portfolios," he said.

Reacting to Mr. Obama's statement that "strong rules of the road" are needed to guard against systemic risk, Mr. Kapito noted that regulators have a long way to go to catch up with the complex risks being taken on Wall Street. "Regulations they've had in the past don't cover 75% of all the stuff that's out there," such as credit-default swaps and other arcane investments, Mr. Kapito said. What's more, "the financial community can do a better job regulating itself," he said.

Some people outside Federal Hall held signs; many snapped photos on handheld gadgets. Others were simply heading back to work after lunch, pushing through the masses.

"Wall Street reform is the pressing issue," said a man who had held a sign that read "Wall Street Reform First," after the speech ended. "Health care can wait."

Elaine Brower, a computer-project manager in the New York City comptroller's office, held a sign that read "Greed Kills" and attended with two friends. "We wanted to try and capture Obama's attention. We are dissatisfied with the money given to the financial institutions and the military-industrial complex. People are still losing their homes and are still out of work."

The president also touched on the controversy over the administration's decision to impose temporary tariffs on Chinese car tires, vowing to avoid "self-defeating protectionism."

"Make no mistake, this administration is committed to pursuing expanded trade and new trade agreements," he said. "It is absolutely essential to our economic future. But no trading system will work if we fail to enforce our trade agreements."

The trade controversy and the effort to craft exit strategies from the emergency stimulus measures will top the agenda when world leaders meet next week in Pittsburgh. Mr. Obama said he will work at the summit to ensure that other nations join the regulatory overhaul and reduce gaps in international regulation.

Republicans reacted to Mr. Obama's speech with criticism of his broad economic agenda, which they say has wasted money without creating jobs.

"Every time he has wanted to expand the government's influence over the economy and our daily lives, from his takeover of GM and banks to his proposed government-run takeover of our health care, it has meant spending more money we don't have and digging America deeper into debt," Republican National Committee Chairman Michael Steele said in a statement. "Those are the real results of the president's experiments on our economy, and no amount of speeches will convince the American people otherwise." -Joe Bel Bruno and Annelena Lobb contributed to this article.

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## **A Rebuilt Wall Street (LAT)**

**Taxpayer money -- lots of it -- saved Wall Street. Now it's time for the government to rethink its roll.**

[Los Angeles Times](#), September 15, 2009

When Lehman Bros. collapsed in bankruptcy a year ago, many bailout-weary observers (including this page) welcomed the unhappy ending for one of Wall Street's most powerful firms. It was a good reminder for the financial industry that the government wouldn't mop up after every messy mistake -- especially in light of Washington's frantic efforts to help Bear Stearns, Merrill Lynch, Fannie Mae and Freddie Mac. As it turned out, however, the reaction to Lehman's default was well-nigh apocalyptic.

The global financial industry went into seizure, with credit evaporating, stock markets plummeting and depositors fleeing even low-risk money-market funds. Washington responded with a series of even larger governmental interventions in the economy, including the \$700-billion Troubled Asset Relief Program. It's hard to measure how much those actions helped, just as it's hard to deny that things would have been considerably worse had Congress, the Treasury Department and the Federal Reserve not gone to extraordinary lengths to restore the credit markets. One thing is certain, though: By acting as Wall Street's backstop, the federal government has dangerously blurred the lines between the public and private sectors. It has to make them clear again.

The taxpayers continue to hold sizable interests in banks (including behemoths Citibank and Bank of America), Fannie Mae, Freddie Mac, American International Group and GMAC (not to mention General Motors and Chrysler). They're also on the hook for hundreds of billions of dollars in potential losses at troubled financial institutions whose investments were guaranteed by Washington. Some of the aid programs are due to expire soon, but the liabilities Washington has taken on will linger long after the feds stop offering loans or making new guarantees.

Now that the economy appears to be rebounding, it's time for the administration and the Federal Reserve to lay out a strategy for pulling the government out of the financial industry. President Obama observed the anniversary of Wall Street's meltdown Monday by focusing on something else: his administration's proposal for new banking rules to guard against the risks posed by companies as large and interconnected as Lehman. We agree that Congress should toughen the safeguards against banks, investment firms and insurance companies threatening the entire economy. But the administration should also leave no doubt that as regulators increase their scrutiny, the government will decrease its presence on the financial industry's balance sheets.

## **Barney And His Very Important Friend (WP)**

By Dana Milbank

[Washington Post](#), September 15, 2009

Barney Frank visited the floor of the New York Stock Exchange on Monday before President Obama addressed Wall Street, and he was asked by Bloomberg TV to preview the speech.

Instead of complying with this simple request, the chairman of the House Financial Services Committee went into a harangue. "I apologize, but you're going to listen to him in two hours," Frank replied. "I feel no compunction to guess what I'm going to hear in a couple of hours. I don't know what he's going to say, to be honest. . . . I don't try to guess what a president is going to say, because I wouldn't be allowed to bet on it if I did."

To understand this fall's fight in Congress over Obama's financial regulation reforms, think of it as a film-noir, Washington version of "Barney and Friends." In this episode, Barney -- still round and soft, like the purple dinosaur from the children's show -- assumes a very different persona: prickly, tart-tongued, vain and ferociously partisan. At the end, they probably won't sing the "I love you, you love me" song.

Cuddly or not, Barney -- pretty much nobody calls him Chairman Frank -- is probably Obama's only hope of getting some sort of legislation through Congress.

Obama acknowledged his dependence on the Massachusetts liberal on Monday. "We have a host of



members of Congress, but there's one that I have to single out because he is going to be helping to shape the agenda," he said, "and that's my good friend Barney Frank."

Just how reliant Obama is on Frank became apparent when the president told the bankers that "Barney is already working with his counterpart, Sheldon Bachus."

Um, Mr. President, the ranking Republican on the committee is Spencer Bachus, of Alabama. But, to Hill Democrats, the slip was emblematic of the administration's handling of the financial regulatory bill -- which looks eerily like the administration's mishandling of the health-care legislation.

The White House dribbled out its proposals for re-regulating Wall Street in the spring but then left it to Congress to work out the details and navigate the politics. As with health care, that stalled progress and gave opponents a chance to fill the vacuum. Now it's anybody's guess whether the regulatory scheme (which, along with health care and climate change, were Obama's top legislative priorities) will pass at all.

It has fallen to Frank to salvage what he can of the financial overhaul, particularly because Chris Dodd, chairman of the Senate Banking Committee, has let Frank take the lead. And that could make for some interesting moments this fall, as Barney coins witticisms for the cause and tongue-lashes anybody who stands in his way.

At the NYSE, Frank cheerfully told CNBC, in an interview above the trading floor, that he wants cuts in military spending and higher taxes. "I think we do have to raise the taxes on most of the people who would throw things at me from down there if they heard this," he said of the stock traders.

He then went downstairs and, after scolding the Bloomberg reporter for daring to ask about Obama's speech, chided him when he asked if the reform bill was in trouble. "No," Frank shot back, although "frankly it's a better media story and probably people have decided on that." The chairman, who once forecast passage in October, went on to argue that the bill was delayed only because the adjournment date for Congress had been delayed. "December is the new October," he reasoned.

The performance was reminiscent of hundreds of such Barney moments, one of the more famous coming last month, at a health-care forum, where he went after a questioner who had likened the Democrats' proposals to Nazism. He told her that "trying to have a conversation with you would be like trying to argue with a dining-room table."

Frank has directed similar sentiments at the political opposition. On MSNBC's "Rachel Maddow Show" last week, he accused the right of "cynicism and stupidity," and he said of Obama's promise of "post-partisan" leadership: "I got post-partisan depression because I knew that that meant dealing with these people."

Frank owns one of the last free-range tongues in all of Washington. When CNBC asked Frank last week about a Men's Health article in which Obama suggested a tax on soft drinks, Frank replied, "The other question is, will Men's Health have a picture of the president with his shirt off?" Frank is a pariah on the right, of course, but for Obama, who found that a soft touch got him nowhere on health care, having such a prickly partisan for its point man may not be such a bad thing. Hill Democrats complain that administration officials such as Assistant Treasury Secretary Michael Barr have so far been ineffective at building support for their far-reaching proposals.

In words, at least, Obama is indicating a tougher tack on the regulatory legislation, which should fit nicely with Frank's style. Scolding Wall Street for "quick kills and bloated bonuses," he told the bankers: "Those on Wall Street cannot resume taking risks without regard for consequences, and expect that next time, American taxpayers will be there to break their fall."

As Barney would say: Super-de-duper, Mr. President.

## **On Wall St., Obama Pushes Stricter Finance Rules (NYT)**

By Jeff Zeleny

[New York Times](#), September 15, 2009

President Obama came to Wall Street on Monday to tout how the nation's economic outlook has improved from a year ago, but he called on Congress to pass stronger financial regulations this year, as he offered a sharp admonition that "there are some in the financial industry who are misreading this moment."



"Instead of learning the lessons of Lehman and the crisis from which we are still recovering, they are choosing to ignore them," Mr. Obama said in a speech at Federal Hall in Lower Manhattan. "They do so not just at their own peril, but at our nation's."

The president offered no new policy proposals during a lunchtime speech but sought to use the one-year anniversary of the fall of Lehman Brothers as a moment to mark how the country's financial system has moved beyond the brink of collapse. As he urged lawmakers to adopt new regulations for Wall Street, he asked executives to accept tougher oversight.

"I want everybody here to hear my words," Mr. Obama said. "We will not go back to the days of reckless behavior and unchecked excess at the heart of this crisis, where too many were motivated only by the appetite for quick kills and bloated bonuses. Those on Wall Street cannot resume taking risks without regard for consequences, and expect that next time, American taxpayers will be there to break their fall."

Mr. Obama touted the administration's plans to increase capital cushions at big banks, give the Federal Reserve new powers to oversee system-wide risks to the financial system and establish a new consumer-protection agency, which would have broad powers over home mortgages and other consumer loans.

Mr. Obama also urged banks to adopt changes before Congress acts by simplifying the language they use with consumers, overhauling their pay structures or allowing shareholders vote on 2009 bonuses.

Michael Steele, the chairman of the Republican National Committee, said in a statement that the policies of the Obama administration have not improved the economic lot for many Americans.

"For more than 3 million Americans who have lost their jobs this year, the president's policies have been a failure," Mr. Steele said in a statement released after the speech. "His \$787 billion stimulus bill has led to wasteful spending but hasn't created the jobs he promised."

Mr. Obama's appearance on Wall Street comes a year after the collapse of Lehman Brothers touched off a series of extraordinary government interventions in the nation's business sector. The anniversary also marks the moment that Mr. Obama became steeped in the financial crisis, which dominated the closing chapter of his campaign with Senator John McCain of Arizona.

It was one year ago that Mr. McCain declared "the fundamentals of our economy are strong," a remark Mr. Obama instantly seized upon to portray his Republican rival as out of touch with hardships facing Americans. The argument helped Mr. Obama win the White House, where he inherited an economic crisis. Now, he fully owns it.

"Full recovery of the financial system will take a great deal more time and work, the growing stability resulting from these interventions means we are beginning to return to normalcy," Mr. Obama said, speaking to an audience of a few hundred people in Federal Hall. "But what I want to emphasize is this: normalcy cannot lead to complacency."

The president spoke beneath the dome of the building where the nation's founding fathers once argued sharply over the role that government should play in the country's economy. Mr. Obama noted the historic setting, saying: "Two centuries later, we still grapple with these questions - questions made more acute in moments of crisis."

To an audience of a few hundred Wall Street executives, lawmakers and Mayor Michael Bloomberg of New York, Mr. Obama said he would push Congress to pass legislation to "guard against the kind of systemic risks we have seen." The president was welcomed warmly, but the speech was interrupted only once by applause.

"The fact is, many of the firms that are now returning to prosperity owe a debt to the American people," Mr. Obama said. "Though they were not the cause of the crisis, American taxpayers through their government took extraordinary action to stabilize the financial industry. They shouldered the burden of the bailout and they are still bearing the burden of the fallout."

While some Democrats say the health care debate in Washington makes it unlikely that financial reform can be undertaken, Representative Barney Frank of Massachusetts, chairman of the Financial Services Committee, said he was committed to pursuing the measure this year. The president acknowledged Mr. Frank, who was sitting near the stage, and said the administration wanted to work with the financial industry



in crafting the legislation.

"We have a responsibility to write and enforce these rules to protect consumers of financial products, taxpayers, and our economy as a whole," Mr. Obama said. "Yes, they must be developed in a way that does not stifle innovation and enterprise."

He added, "The old ways that led to this crisis cannot stand."

In response to the financial crisis, the Obama administration proposed a series of new financial regulation, included oversight of the risk that large financial institutions pose to the economy, new ways for the government to dismantle fallen companies and a new regulator to oversee financial products for consumers.

"At the same time, what we must do now goes beyond just these reforms," Mr. Obama said. "For what took place one year ago was not merely a failure of regulation or legislation; it was not merely a failure of oversight or foresight. It was a failure of responsibility that allowed Washington to become a place where problems - including structural problems in our financial system - were ignored rather than solved."

Following the speech, the president was heading off to have lunch with former President Bill Clinton before returning to Washington later Monday afternoon.

Jack Healy contributed reporting.

## **Obama Wall Street Speech: Execs Wary Of His Reforms (CSM)**

By Ron Scherer

[Christian Science Monitor](#), September 15, 2009

President Obama came to Wall Street to chastise executives and to urge Congress to pass tougher regulation of the bankers and brokers whom he blamed for the crisis in the financial markets a year ago.

Speaking at Federal Hall, across the street from the New York Stock Exchange, on the anniversary of the collapse of Lehman Brothers, Mr. Obama said the United States needed "strong rules of the road to guard against the kind of systemic risks we have seen." He called on the financial industry "to join us in a constructive effort to update the rules and regulatory structure to meet the challenges of this new century."

The response from Wall Street: muted.

Only once during Obama's speech did financial executives give the president applause. Instead, they listened politely to the speech, applauded once more at the end, and then left.

"It was more of a lecture. There weren't too many points to applaud," says Jeffrey Kleintop of LPL Financial in Boston. "It was kind of painful."

However, Mr. Kleintop viewed the speech more as an opportunity for Obama to keep the issue of financial reform alive while the main focus is on healthcare legislation. "Congress is not going to tackle financial reform this year. There is too much on the plate," he says.

Republicans had their own take on the speech. Rep. John Boehner, House Republican leader, said in a statement, "Missing from the President's remarks today was a clear exit strategy for the federal government's involvement in the private sector."

The reaction from Democrats was quite different. Rep. Barney Frank (D) of Massachusetts, appearing on CNBC, said, "We are very much on track." He said his panel, the House Financial Services Committee, would vote on separate pieces of legislation covering derivatives, "resolution authority" for failing nonbank financial institutions, and the regulation of systemic risks.

Others are skeptical that any financial legislation will pass this year. "It's complicated and heavily lobbied, so you have to believe it will slip," says Douglas Elliott, a fellow at the Brookings Institution in Washington.

Instead, Mr. Elliott anticipates it will pass next year. "It's got the prestige of the president behind it, and if the public stays focused on the issue, it will pass," he says. "The public knows we've just had the worst recession since the Great Depression and it originated from the financial sector."

While Obama offered no new proposals in his speech, he asked Congress to:

- . Create a financial protection agency for consumers, which will help ensure that they "get information



that is clear and concise, and to prevent the worst kinds of abuses." This was the only proposal that Wall Street executives applauded.

- . Close the loopholes in regulatory authority so some companies cannot shop for the regulator of their choice and others, such as hedge funds, operate outside the regulatory system. Obama is calling for an "oversight council" that would bring together regulators from across markets to "share information, to identify gaps in regulation, and to tackle issues that don't fit neatly into an organizational chart."

- . Form a resolution authority that will try to ameliorate the threat of financial instability if a large financial institution fails.

The Obama plan also calls for banks and other financial institutions to raise a new, undisclosed level of capital. And he is proposing that if a financial organization fails, the "cost" of the failure would come out of the pockets of stockholders and bondholders.

Since financial failure can spread globally, Obama wants an international response to regulatory gaps. He will press for this at the Group of 20 summit next week in Pittsburgh.

## **Obama: Industry Ignoring Lessons (POL)**

By Eamon Javers

[The Politico](#), September 15, 2009

NEW YORK - President Barack Obama traveled to Wall Street on the first anniversary of the collapse of Lehman Brothers and warned that early signs of the nation's economic turnaround should not lead to a return to the old ways in the financial industry.

"What I want to emphasize is this: normalcy cannot lead to complacency," the president in a speech at Federal Hall.

"Unfortunately, there are some in the financial industry who are misreading this moment. Instead of learning the lessons of Lehman and the crisis from which we are still recovering, they are choosing to ignore them."

Obama delivered his remarks in a small but ornate central foyer that was packed with financial and business luminaries, as well as representatives of consumer groups.

But his speech, in which he said the Wall Street crisis was a "failure of responsibility" by those in finance and in government, was coolly received by the executives in the room, many of whom are prominent Obama supporters.

Only one line received even a smattering applause - and that was when the president discussed his proposed consumer financial protection agency, which drew praise from the consumer advocates in the audience.

Afterward, those who would talk on the record gave uniformly positive reviews.

"What he said makes sense," said former Securities and Exchange Commission chairman Bill Donaldson. "I don't think it will be easy to do, but he's determined to do so."

In his remarks, Obama traced the history of the financial crisis and walked a careful line between taking credit for the national economic recovery and assuring Americans that much more work remains to be done.

"Eight months later, the work of recovery continues," Obama said. "And although I will never be satisfied while people are out of work and our financial system is weakened, we can be confident that the storms of the past two years are beginning to break."

The president said that the taxpayers have begun to see some results from their investment of hundreds of billions of dollars in Wall Street bailouts - as much as 17 percent in the case of some investments that have already been repaid. And, he said, the need for government cash to backstop the private sector is coming to an end.

"While there continues to be a need for government involvement to stabilize the financial system," Obama said, "that necessity is waning."

Spotted in the crowd were Richard Parsons, the former chairman of Time Warner and current chairman of CitiGroup; Paul Volcker, former chairman of the Federal Reserve and current advisor to the Obama; and



Jim Chanos, President of Kynikos Associates. Politicians in the front row included House Financial Services Committee Chair Barney Frank (D-Mass.) and New York Mayor Michael Bloomberg.

Lehman's collapse a year ago touched off a global financial panic that led to a plunge in the stock market and saw trillions in American wealth evaporate. Obama continued a plan of bank bailouts begun under President George W. Bush.

"The fact is that many of the firms that are now returning to prosperity owe a debt to the American people," Obama said.

Obama walked through some of the details of his plan, including creating the consumer agency, ending loopholes and gaps in regulation, and creating a single "systemic risk" regulator to watch over the financial system as a whole.

"The only way to avoid a crisis of this magnitude is to ensure that large firms can't take risks that threaten our entire financial system, and to make sure that they have the resources to weather even the worst of economic storms," Obama said.

He also called for increased capital requirements for banks, "resolution authority" that would allow the government to close down financial institutions, and greater consistency with international regulatory bodies. "As the United States is aggressively reforming our regulatory system," he said, "we're going to be working to ensure that the rest of the world does the same."

Frank, who will push Obama's proposals on Capitol Hill in the coming months -- and was singled out twice by name in the president's comments -- said he's confident the measures will pass.

"I don't know where this mantra came from that we aren't going to do this," he said "We are."

But he said, the timeline has slipped a bit; "December has become the new October."

Industry reaction was tepid. Scott Talbott, a lobbyist with the trade group the Financial Services Roundtable, said, "We welcome the president's invitation to have a discussion. However, we do not believe that the consumer financial protection agency is the most effective way to achieve our common goals."

## **Not Closely Enough? (POL)**

By Ben Smith

[The Politico](#), September 15, 2009

A Republican aide points out that when President Obama talked about working "closely" with congressional leaders of both parties, he basically demonstrated the opposite, botching the name of the ranking Republican on the House Financial Services Committee.

"We've worked closely with leaders in the Senate and the House, including not only Barney [Frank], but also Senators Chris Dodd and Richard Shelby and Barney is already working with his counterpart, Sheldon Bachus," Obama said.

The name is Spencer.

Bachus's was the only name that wasn't mentioned in Obama's prepared remarks, which he delivered from a teleprompter.

## **A Year Later, AIG Rescue Is A Work In Progress (WSJ)**

By Dennis K. Berman

[Wall Street Journal](#), September 15, 2009

One year, two CEOs, and \$82 billion since the government rescue of American International Group Inc., monsters are still rattling in the closet.

You wouldn't know it from the outside, with new CEO Robert Benmosche exuding confidence from his Croatian villa and AIG shares up 50% during the past four weeks. But inside the offices of AIG and its government minders, there is a push to rescue one of AIG's most important units. It is the largest airplane-finance company in the world, known as International Lease Finance Corp., and like much of this country, it can't pay its coming debts.

AIG needs to save ILFC without hurting a core insurance business that has equity in the unit. And it



must do so without raising the ire of taxpayers and Congress. In other words, AIG must figure out how to feed the beast without being consumed by it.

Whether there is the political will, the financial acumen, and the dumb luck to pull off all these objectives is an unknown. But taxpayers should tune in because a likely scenario is that they will end up paying for much of this smaller rescue, too.

Already, there is a consensus that the current ILFC doesn't make financial sense. The business, whose \$47 billion balance sheet holds some 1,000 aircraft, used to piggyback off AIG's sterling credit rating. That meant it could issue debt at a low cost of just 4% to 5%, buy aircraft and lease them at higher rates.

The credit crisis pushed ILFC's borrowing costs up by nearly three times, according to a recent report by CreditSights. And there is a wave of debt coming due. The figure is about \$18 billion over the next three years, and \$30 billion overall. The problem is that bond investors aren't willing to re-up.

Though ILFC still produces a large chunk of annual cash flow -- and has the explicit backing of AIG for 11 more months -- the company is in a clear liquidity crisis, with a shortfall of around \$5 billion to \$6 billion, according to people familiar with the matter.

Bankruptcy would be the normal course for companies in this bind. But neither AIG nor the government has given up on ILFC, as both hope to extract some value from the company once considered AIG's crown jewel.

"AIG is working to pursue a business strategy that best positions ILFC for the long term, provides ongoing benefit to ILFC's customers and various stakeholders, and achieves enhanced value for its portfolio," said company spokeswoman Christina Pretto.

The Federal Reserve and the Treasury could agree to refinance tens of billions of ILFC debt at below-market rates, a move that would greatly increase their own risk and attract more AIG headlines. AIG has drawn on some \$82 billion in loans and investments since its rescue last year, and has access to an additional \$48 billion.

Fed and Treasury officials have made clear they don't want to pursue this path, say people familiar with the matter.

The government "recognizes the value in ILFC, but also that it's politically unpopular to give money to AIG. They'll find some way to preserve it. It would be stupid for them not to," said one person involved in the matter.

AIG is now pursuing a kind of politically palatable half measure. The hope is to keep ILFC alive in the short term, betting that that markets will begin buying ILFC debt two or three years in the future.

As described by people familiar with its details, the plan involves breaking up ILFC, grouping its leases into different portfolios, and skimming some of the best ones into separate vehicles made available to investors.

AIG is planning to sweeten one of the offerings by throwing in ILFC's current CEO, Steven Udvar-Hazy, to attract fresh capital, according to the people familiar with the plan. Investors don't want just aircraft, the reasoning goes. They want a new company. And Mr. Udvar-Hazy, a charismatic builder of ILFC's business, may be a big enough attraction to raise money in the stingy credit markets.

Much remains to be determined about how this separation would occur, and who would get the better of the deal.

AIG may have to give up some value of its equity, for instance, to incent Mr. Udvar-Hazy to leave. He didn't respond to requests for comment.

Another potential cost is that the federal government would have to back the debt of some of these smaller vehicles -- at least temporarily. That could delay repayment of billions in dollars of taxpayer borrowings for a few quarters, said one person familiar with the matter.

AIG also is expected to plug other holes caused by ILFC's problems. One of its main insurance subsidiaries, National Union Fire Insurance Co., has a \$4.5 billion equity stake in ILFC that is used to back customer policies. People involved in the situation expect AIG to draw down government funds to make up the difference -- protecting the insurer. An additional \$3 billion held by AIG itself likely will be worthless.



These moves won't attract many headlines when they happen. But somehow ILFC will have to be fed, and the taxpayer will be doing the feeding.

Happy Anniversary, AIG.

## **Judge Says SEC Failed Investors (WP)**

### **Settlement Over Merrill Lynch Bonuses Would Put Burden on Victims, He Says**

By Zachary A. Goldfarb, Washington Post Staff Writer

[Washington Post](#), September 15, 2009

A federal judge on Monday rejected a \$33 million settlement between the Securities and Exchange Commission and Bank of America, asserting that the agency bungled its basic job of protecting investors from the wrongdoing of executives.

In a scathing critique, Judge Jed S. Rakoff said the costs of the settlement would essentially be borne by the victims, in this case Bank of America's shareholders. The SEC had accused Bank of America of failing to adequately disclose plans to allow billions of dollars in bonuses to be paid to Merrill Lynch executives before shareholders were asked to approve a marriage between the two companies.

The SEC agreed to allow Bank of America – and by extension its investors – to pay \$33 million to settle the charges without admitting fault. Rakoff called this arrangement a "contrivance designed to provide the SEC with the facade of enforcement" that nonetheless "victimizes" shareholders.

The ruling is a setback for an agency that is seeking to burnish its image after being roundly criticized for inaction in the months leading up to the financial crisis. And it comes as other regulators appear to be eyeing charges against top Bank of America executives. New York Attorney General Andrew Cuomo sent sharply worded letters to Bank of America recently that strongly signaled his intent to file securities fraud charges against the bank's executives related to the disclosures.

A person familiar with the Cuomo's investigation said Monday that his office is in the final stages of drawing up charges against senior Bank of America executives.

Rakoff did not only direct his criticism at the SEC. He also attacked Bank of America's top executives for attempting to shield themselves at the expense of the company's shareholders.

"This case suggests a rather cynical relationship between the parties: the S.E.C. gets to claim that it is exposing wrongdoing on the part of the Bank of America in a high-profile merger; the Bank's management gets to claim that they have been coerced into an onerous settlement by overzealous regulators," Rakoff wrote in his order. "And all this is done at the expense, not only of the shareholders, but also of the truth."

Rakoff ordered that the case go to trial in February. The SEC and Bank of America each said Monday that they are reviewing their next legal steps. The SEC could move forward, drop the matter, appeal Rakoff's decision or renegotiate the agreement.

In reviewing the settlement, Rakoff said he wanted to know why the SEC didn't charge individual executives at Bank of America and Merrill Lynch who oversaw the allegedly faulty disclosures. The SEC said that Bank of America's executives relied on advice from their lawyers and that there was no evidence they intended to mislead shareholders. Bank of America, meanwhile, said it was settling to avoid the hassle of an extended, expensive case against one of its regulators. It also claimed that it had done nothing wrong.

Rakoff was not persuaded.

"It is not fair, first and foremost, because it does not comport with the most elementary notions of justice and morality, in that it proposes that the shareholders who were the victims of the Bank's alleged misconduct now pay the penalty for that misconduct," Rakoff wrote.

Rakoff also had harsh words for the SEC's contention that the settlement would punish Bank of America's executives by diminishing their reputation in the eyes of the bank's shareholders.

"The notion that Bank of America shareholders, having been lied to blatantly in connection with the multi-billion-dollar purchase of a huge, nearly-bankrupt company, need to lose another \$33 million of their money in order to [quoting from the SEC's brief] 'better assess the quality and performance of management' is absurd," Rakoff wrote.



In addition, as part of the settlement, the SEC is seeking an injunction barring Bank of America from violating securities laws again. But since Bank of America maintains that it did nothing wrong, such an injunction would mean nothing, Rakoff said.

"Notwithstanding the injunctive relief here sought by the S.E.C., the Bank would feel free to issue exactly the same kind of proxy statement [omitting bonuses] in the future," he wrote.

SEC spokesman John Nester said the agency continues to believe the proposed settlement "balanced all of the relevant considerations" and said it would review Rakoff's order.

Bank of America spokesman Scott Silvestri said the firm disagrees with Rakoff's ruling. "Bank of America believes the facts demonstrate that proper disclosure was made to shareholders about Merrill bonuses. We are prepared to prove that through litigation," he said.

Rakoff, of the Southern District of New York, is said to be a bit of a legal agitator who injects his views into settlements between other parties. For example, in 2003, he refused to consent to an SEC settlement with the telecommunications company WorldCom, which was accused of a massive accounting fraud. Rakoff boosted the financial penalty and altered the terms of the settlement to benefit shareholders.

Staff writer Tomoe Murakami Tse in New York contributed to this report.

## **Judge Tosses Out Bonus Deal (WSJ)**

### **SEC Pact With BofA Over Merrill Is Slammed; New York Weighs Charges Against Lewis**

By Kara Scannell, Liz Rappaport and Jess Bravin

[Wall Street Journal](#), September 15, 2009

A federal judge threw out the Securities and Exchange Commission's proposed settlement with Bank of America over its disclosure of controversial bonuses paid to Merrill Lynch employees, in an unusual ruling that casts doubts about how the agency handles probes of major U.S. companies.

The order, by U.S. District Judge Jed Rakoff, came as the New York State attorney general was weighing civil-fraud charges against Bank of America Corp. executives. Charges could be brought against the bank's chief executive, Kenneth Lewis, and Chief Financial Officer Joseph Price, according to a person familiar with the investigation.

The Rakoff ruling undermines one of the most high-profile cases against alleged corporate wrongdoing conducted under SEC chief Mary Schapiro, who took the job in January. It puts new pressure on the agency to show it is fighting for investors in the wake of the controversies over its policing of the financial industry during the Wall Street boom and its failure to catch Bernard Madoff's massive fraud despite several red flags.

In a rare scuttling of an SEC settlement, Judge Rakoff said the \$33 million fine levied on Bank of America "does not comport with the most elementary notions of justice and morality" because the company's shareholders -- the victims of the alleged misconduct -- are the same people being asked to pay the fine. He set a trial date for Feb. 1.

The furor originated after \$3.6 billion in bonuses were paid to Merrill employees just before it was formally acquired by Bank of America in January. The bonuses stirred outrage among taxpayers and politicians, given Merrill's mammoth losses. The SEC found fault with Bank of America's disclosures, saying a November 2008 proxy misled shareholders into thinking no bonuses would be paid.

The SEC declined to sue bank executives, saying the banks' lawyers wrote the allegedly misleading language and it couldn't find evidence that bank executives intended to mislead shareholders. A Bank of America spokesman said Messrs. Lewis and Price weren't available to comment.

Securities lawyers said they couldn't recall such a high-profile case being forced into a trial after the government and a company agreed to a settlement.

In his ruling, Judge Rakoff often wrote that if bank executives in fact relied on legal counsel in crafting the proxy language, "why are the penalties not then sought from the lawyers?"

By denouncing the deal, the judge implicitly posed broader questions about the government's role in emergency steps last fall to rescue a U.S. financial system flirting with collapse. Some of Judge Rakoff's statements in this case have been cited by those who believe authorities should take a harder line in



punishing executives at the center of the crisis.

The judge's move came on the anniversary of Lehman Brothers Holdings' bankruptcy-court filing and the unprecedented emergency government rescue of American International Group Inc.

Judge Rakoff has cited the \$40 billion taxpayer infusion into Bank of America as he weighed the settlement's fairness. Some of that money helped Bank of America complete its acquisition of Merrill Lynch.

Deciding to pay the bonuses was easy after the government gave BofA "a \$40 billion or so 'bail out,' of which \$20 billion came after the merger," he wrote. With so much taxpayer money at stake, the judge suggested his obligation to protect the public's interest was higher.

The SEC said proxy documents sent to investors in November 2008 showed Merrill wouldn't pay year-end bonuses without Bank of America's consent, while a separate document never distributed to shareholders had Bank of America approving billions of dollars in bonuses.

SEC spokesman John Nester said Monday the settlement, which imposed a \$33 million penalty on the bank, "properly balanced all of the relevant considerations." He said the agency will review the order. The SEC could appeal Judge Rakoff's decision, drop the case, take it to trial against the bank, or pursue charges against individuals.

In the settlement, Bank of America didn't admit or deny wrongdoing.

A Bank of America spokesman said "we disagree" with Monday's order and "the facts demonstrate that proper disclosure was made to shareholders about Merrill bonuses."

In a letter to Bank of America last week, New York Attorney General Andrew Cuomo wrote that his office was considering whether to file charges against Bank of America executives, but he didn't name potential defendants. That letter outlined four alleged failures to disclose material information to shareholders relating to the merger and Merrill bonus payments. Mr. Cuomo's office hasn't made any final decisions about individuals who may be charged, and on Monday it issued a statement saying there haven't been new developments since the letter.

A BofA spokesman said he had "nothing to add" to Mr. Cuomo's Monday statement.

Wachtell, Lipton, Rosen & Katz, which represented Bank of America, declined to comment. A lawyer for Shearman & Sterling, which represented Merrill Lynch, declined to comment.

Judges rarely second-guess settlements proposed by government agencies, said former SEC lawyer Adam Pritchard, now a law professor at the University of Michigan.

On Capitol Hill, Rep. Dennis Kucinich, a Democratic member of the House Oversight Committee that is reviewing aspects of Bank of America's takeover of Merrill, said the judge "did the right thing. The SEC now has a responsibility to identify the individuals who broke the law."

The SEC has filed charges against individuals in high-profile cases, including the co-founder of Countrywide Financial Corp., Angelo Mozilo. The SEC has argued in court papers that penalties against corporations are a legitimate tactic to serve as a deterrent.

It is unusual for a state attorney general to charge the head of a corporation, although Mr. Cuomo's predecessor, Eliot Spitzer, had high-profile battles with executives such as AIG's Hank Greenberg and the New York Stock Exchange's Richard Grasso.

Mr. Lewis, who has told people close to him that he'd like to remain CEO for awhile, acknowledged the difficulties presented by the Merrill merger in a speech Tuesday in Japan to an investors' conference there: "it's been quite a year...to say the least." But he remained defiant, saying, "We are going to succeed." --Dan Fitzpatrick contributed to this report.

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## **Judge Rejects Settlement Over Merrill Bonuses (NYT)**

By Zachery Kouwe

[New York Times](#), September 15, 2009

As President Obama traveled to Wall Street on Monday and chided bankers for their recklessness,



across town a federal judge issued a far sharper rebuke, not just for some of the financiers but for their regulators in Washington as well.

Giving voice to the anger and frustration of many ordinary Americans, Judge Jed S. Rakoff issued a scathing ruling on one of the watershed moments of the financial crisis: the star-crossed takeover of Merrill Lynch by the now-struggling Bank of America.

Judge Rakoff voided a \$33 million settlement that Bank of America had reached with the Securities and Exchange Commission over whether the bank had adequately disclosed the bonuses that were paid by Merrill before the merger, which was completed in January at regulators' behest as Merrill floundered.

He accused the S.E.C. of failing in its role as Wall Street's top cop by going too easy on one of the biggest banks it regulates. And he accused executives of the Bank of America of failing to take responsibility for actions that blindsided its shareholders, and the taxpayers who bailed out the bank at the height of the crisis.

The sharply worded ruling, which invoked justice and morality, seemed to speak not only to the controversial deal, but also to the anger across the nation over the excesses that led to the financial crisis, and the lax regulation in Washington that permitted those excesses to flourish.

Implicit in the judge's remarks were broader questions on the anniversary of one of the most tumultuous weeks in Wall Street's history: What do the giants of finance owe their shareholders and the investing public? And who will adequately oversee these behemoths?

Congress is pondering these issues as it prepares to reshape the power structure of financial regulators in Washington, including the S.E.C. President Obama is pushing lawmakers to pass tougher regulations this year that would touch everything from bonuses to the structural soundness of Wall Street's most powerful banks, even as some Democrats fret that the health care debate makes it unlikely that financial reform can be achieved.

"We will not go back to the days of reckless behavior and unchecked excess at the heart of this crisis," Mr. Obama said in his speech before several hundred banking executives, lawmakers and Mayor Michael R. Bloomberg of New York.

Such consequences were at the heart of the dispute that came before Judge Rakoff, who had demanded that the S.E.C. and the bank explain which executives were responsible for failing to tell the bank's shareholders about the payout of Merrill's bonuses. That information, together with evidence of large undisclosed losses at Merrill, may have led shareholders to reject the merger at a time when the government wanted to forestall a worse meltdown of the financial system.

The judge accused Bank of America and the S.E.C. of concocting the settlement to effectively absolve themselves of further responsibility.

"The S.E.C. gets to claim that it is exposing wrongdoing on the part of the Bank of America in a high-profile merger," he wrote, and "the Bank's management gets to claim that they have been coerced into an onerous settlement by overzealous regulators."

The ruling echoes a long-standing criticism that the S.E.C. has largely failed to prosecute cases against corporate executives, opting for quick settlements in which companies themselves are penalized instead of their leaders.

It comes as the agency, under its new leader, Mary L. Schapiro, is struggling to revive its reputation as an effective watchdog of Wall Street after presiding over a near-collapse of the financial markets and failing to catch the \$65 billion Ponzi scheme run by Bernard L. Madoff.

Mr. Rakoff called the \$33 million settlement unfair and inadequate, and ordered Bank of America and the S.E.C. to prepare for a possible trial that would begin by Feb. 1.

Both the bank and the S.E.C. said they disagreed with the judge's decision and were evaluating their legal options. Experts said the S.E.C. could decide to appeal the case to a higher court or drop the charges altogether instead of going to trial, but they noted that the agency was unlikely to exercise those options. Some analysts argued the case itself was irrelevant given that Bank of America's takeover of Merrill had increased the bank's profits, resulting in a surge in its stock price.



The deal also saved Merrill from impending collapse and arguably prevented a greater financial calamity from unfolding in the immediate aftermath of the Lehman Brothers bankruptcy.

"I'm having a difficult time understanding who was harmed here," said Richard X. Bove, a banking analyst with Rochdale Securities. "Why is this company being put into court over a series of events that benefited the nation, its economy, its financial system, the shareholders of Bank of America and the bank itself."

In forcing the two sides to argue their case in court, Judge Rakoff hopes to expose the truth about whether Bank of America lied to shareholders.

"It's a strong, blistering decision," said John C. Coffee, a Columbia Law School professor who has taught a course along with Judge Rakoff for 21 years. "It is really a critique, not just of this case, but of a long-standing practice at the S.E.C., which effectively allowed corporate managers to buy immunity with their shareholders' money."

Judge Rakoff focused much of his criticism on the fact that the fine in the case would be paid by the bank's shareholders.

"It is quite something else for the very management that is accused of having lied to its shareholders to determine how much of those victims' money should be used to make the case against the management go away," Judge Rakoff wrote.

The case is one of several investigations into the bank's \$50 billion deal with Merrill. Andrew M. Cuomo, the attorney general of New York, is also investigating the disclosures of bonuses and of Merrill's surprise losses last year.

Mr. Cuomo plans to file a complaint charging individuals at Bank of America in the next two weeks, according to a person briefed on the investigation.

The House Committee on Government Oversight and Reform is also looking into the merger.

Louise Story contributed reporting.

## **Rakoff Rakes The SEC (WSJ)**

### **A judge exposes regulatory cynicism in the BofA case.**

[Wall Street Journal](#), September 15, 2009

'Oscar Wilde once famously said that a cynic is someone 'who knows the price of everything and the value of nothing,'" wrote federal Judge Jed Rakoff yesterday in a scathing order rejecting a \$33 million settlement between Bank of America and the SEC. Credit the judge with highlighting the particular political cynicism that drives too many of today's regulators.

The SEC alleged earlier this year that BofA had "materially lied" in shareholder communications prior to its takeover of Merrill Lynch, by failing to disclose bonuses owed to Merrill employees. New SEC chief Mary Schapiro figured she'd play off public outrage with a civil lawsuit that would earn some headlines. BofA in August settled for \$33 million, neither admitting nor denying guilt.

Judge Rakoff was having none of it. In a 12-page opinion, he tore into the SEC for ignoring its own guidelines and penalizing shareholders rather than the individuals who supposedly acted improperly. The settlement "does not comport with the most elementary notions of justice and morality, in that it proposes that the shareholders who were the victims of the Bank's alleged misconduct now pay the penalty for that misconduct." As for the SEC's argument that this shareholder punishment will result in better management, the judge called it "absurd."

The judge also had little sympathy for the SEC's argument that it would be too difficult to pursue executives, since they had been guided by lawyers. "If that is the case, why are the penalties not then sought from the lawyers? And why, in any event, does that justify imposing penalties on the victims of the lie, shareholders?" he asked.

He also had harsh words for BofA, which has recently filed court papers claiming its proxy statement was neither false nor misleading. "If the Bank is innocent of lying to its shareholders, why is it prepared to pay \$33 million of its shareholders' money as a penalty for lying to them?"



On this point, we think the judge is soft-pedaling the coercive nature of regulatory prosecution. Recall Eliot Spitzer, who used the threat of adverse media and falling stock prices to extort quick Wall Street settlements. Given all the dirty laundry already aired about this deal, including claims that Federal Reserve Chairman Ben Bernanke and former Treasury Secretary Hank Paulson forced a reluctant BofA to conclude its Merrill purchase, it's not surprising if BofA was willing to pay for it to go away.

Judge Rakoff's larger point that companies too often dip into the shareholder purse instead of fighting the good court fight is nonetheless true. He noted that this decision might have been "made even easier" for BofA given "the U.S. Government provided [it] with a \$40 billion or so 'bailout.'" What was a "mere \$33 million . . . to get rid of a lawsuit?"

The judge had other complaints, but broadly the deal "suggests a rather cynical relationship between the parties: the SEC gets to claim that it is exposing wrongdoing on the part of the Bank of America in a high-profile merger; the Bank's management gets to claim that they have been coerced into an onerous settlement by overzealous regulators. And all of this is done at the expense, not only of the shareholders, but also of the truth." The parties will go to trial in February.

We look forward to it, especially in light of the recent news that Fed and Treasury knew all about these bonuses and stayed mum. Judge Rakoff has done a public service by exposing the political point-scoring that drives far too many regulatory actions.

## **Last Days Of Lehman (NYT)**

[New York Times](#), September 15, 2009

Lehman Brothers filed for bankruptcy Sept. 15, 2008, setting off tremors throughout the financial system. It also caused upheaval in the personal lives of the hundreds of employees who worked for the once-venerable investment bank.

Three former employees write about their experiences, a year later.

The Kindness of Strangers A year ago, carrying a tote bag with a Lehman Brothers logo elicited sympathy. By Lynn Gray

Robbed by the Bank Lehman Brothers' bankruptcy meant a former employee lost the severance package and benefits she was promised. By Jane Pedreira

Final Call A former Lehman Brothers employee received a painful phone call from an old boss. By Lawrence G. McDonald

## **The Kindness Of Strangers (NYT)**

By Lynn Gray

[New York Times](#), September 15, 2009

EARLY in the morning, a year ago today, I received an e-mail message at home from Lehman Brothers announcing its plans to file for bankruptcy. The message noted that Lehman would still be "open for business" that day.

So I headed toward the office at 745 Seventh Avenue. The television cameras and reporters were already there. I stopped to get my coffee from the street vendor and he asked how I was doing. I started to cry. I told him to keep the change from a \$20 bill because I knew that if Lehman was gone he would suffer as well. I walked toward the entrance and a young woman I had never seen before said, "Another Lehmanite!" - and we walked arm-in-arm into the building. Many of us had been together for more than 10 years and were scared of being cast adrift.

We had all seen it coming, but still didn't understand how our chief executive, Dick Fuld, could have let this happen. We were the firm with the culture that everyone envied. Yes, it had been a wild ride the previous couple of years, and especially the previous six months. We had had so many heads of fixed income that it was almost a joke when another e-mail message came around that another fixed income head had left to "pursue other interests" or "to spend more time with his family."

We used the rest of the day to pack our boxes. Finally, in the late afternoon, I walked out of the building.



I headed to a local bar to drown my sorrows and ponder the future of my career. Around West 51st Street, a homeless man approached me with a cup, gesturing for a contribution. He then looked at my tote bag with its Lehman Brothers logo and said, "Never mind" and "I'm sorry."

- LYNN GRAY, the chief executive of Campus Scout and a former senior vice president at Lehman

## **Robbed By The Bank (NYT)**

By Jane Pedreira

[New York Times](#), September 15, 2009

LEHMAN BROTHERS went bankrupt a week after I was fired. The job had few perks, long hours and little time for camaraderie, but I stayed there for 11 years. I was a single mom and needed to pay my mortgage. Then, after years of solid performance, I was fired on Sept. 9, 2008, as part of a "work force reduction."

I had a few hours to pack my things and leave. I wasn't allowed to download my personal files from my computer so I lost many records. I didn't bother to say goodbye to anyone, figuring that those who even noticed could phone me, but given the troubled work environment I got few calls. I was given a typical severance package with benefits based on my long tenure.

I wouldn't miss working at Lehman, I said to myself, but I would miss my BlackBerry. I decided to set up my own shop to provide independent research. My severance package would allow me time to establish myself.

Yet shortly after Lehman went under, I got a letter explaining that my severance contract was canceled because of the bankruptcy filing. I could keep my health plan if I chose to pay for it myself.

I was robbed first by Ben Bernanke, the Federal Reserve chairman, and Henry Paulson, the former Treasury secretary, who refused to support a sale of the company, and later by the bankruptcy judge who approved the sale of Lehman to Barclays for peanuts.

I am still unable to pay all of my bills. I know the public at large doesn't have sympathy for Wall Street employees, but did I deserve to be robbed because of the mistakes of others?

- JANE PEDREIRA, the managing director of Clear Sights Research and a former senior vice president at Lehman

## **Last Days Of Lehman: Final Call (NYT)**

By Lawrence G. McDonald

[New York Times](#), September 15, 2009

IT was late at night on Sept. 14, 2008, and I couldn't sleep. I kept going over to the computer, looking for news of Lehman's demise. I had lost my job in March, but I was still deeply invested in the company where I'd worked happily for four years. Many close friends still worked there. I had practical concerns as well: Much of my compensation remained in restricted Lehman shares. I feared I would be annihilated financially if the company went under.

My cell phone rang for maybe the 500th time that day. It was my former boss, a managing director and an old comrade-in-arms on the trading floor. Back in those days he almost never broke a sweat. He could lose \$10 million in a day and still buy lunch for the more than 50 people who worked for him. He also loved to crack jokes: He called Lehman's chief executive, Dick Fuld, "the invisible man" in reference to his consistent absence from the trading floor. The phrase quickly caught on.

That night, his voice was shaking. "They're putting Lehman's head under water," he told me. "They're just watching for the bubbles right now." He seemed to be in extreme pain, as if he'd been hit by a bus, though he didn't sound surprised.

- LAWRENCE G. McDONALD, a co-author of "A Colossal Failure of Common Sense: The Inside Story of the Collapse of Lehman Brothers" and a former vice president at Lehman

## **Lehman And The Financial Crisis (WSJ)**

**The lesson is that institutions that take trading risks must be allowed to fail.**



By John H. Cochrane And Luigi Zingales  
[Wall Street Journal](#), September 15, 2009

One year ago today Lehman Brothers filed for bankruptcy. The weeks that followed are among the most dramatic in U.S. history. They led to a massive government intervention in the financial system—an intervention that will likely change that system forever.

Many people say that letting Lehman fail was the mistake that caused the financial crisis. To them, the lesson is that the government should never allow any "systemically important" financial institution to fail. If only Lehman had been bailed out, the story goes, we could have avoided much of a 45% drop in the S&P 500, a 4% drop in output, the rise in unemployment to 9.7% from 6.2%, and the \$784 billion "stimulus" to top off a \$1.59 trillion deficit.

This story is false.

The Lehman failure was not an isolated event. It was a movement in a dramatic crescendo of failures.

Two weeks prior, on Sept. 7, the government took over Fannie Mae and Freddie Mac, wiping out much of their shareholder equity. On Sept. 16, the government bailed out AIG, lending it \$85 billion. On Sept. 25, Washington Mutual, the nation's sixth-largest bank, was seized by the FDIC. On Sept. 29, Wachovia, the nation's seventh-largest bank, was sold to avoid a similar fate. All this would have happened without Lehman. Meanwhile, the Federal Reserve and the Treasury Department went to Congress to ask for \$700 billion for the Troubled Asset Relief Program (TARP).

Which of these events set off the financial and economic crisis by freezing lending to commercial banks? The nearby chart shows that the main risk indicators only took off after Treasury Secretary Henry Paulson and Fed Chairman Ben Bernanke's TARP speeches to Congress on Sept. 23 and 24—not after the Lehman failure.

The risk of Citibank failure (the Citi-CDS spread) and the cost of interbank lending (the Libor-OIS spread) rose dramatically after Ben Bernanke and Hank Paulson spoke to Congress. (In basis points.)

On Sept. 22, bank credit-default swap (CDS) spreads were at the same level as on Sept. 12. (CDS spreads are the cost of buying insurance against default.) On Sept. 19, the S&P 500 closed above its Sept. 12 level. The Libor-OIS spread—which captures the perceived riskiness of short-term interbank lending—rose only 18 points the day of Lehman's collapse, while it shot up more than 60 points from Sept. 23 to Sept. 25, after the TARP testimony. (Libor—the London Interbank Offer Rate—is the rate at which banks can borrow unsecured for three months.)

Why? In effect, these speeches amounted to "The financial system is about to collapse. We can't tell you why. We need \$700 billion. We can't tell you what we're going to do with it." That's a pretty good way to start a financial crisis.

Subsequent reporting explained why they did it: The Fed and Treasury had felt for months that they needed legal authority to do more bailouts, and a crisis might get Congress to vote for it. But at the time, all the public saw was that our government was in a complete panic.

We inferred that the banks must be in much worse trouble than we thought. The ban on short sales of bank stocks the previous week could only reinforce that impression.

It did not help that the TARP was such a transparently bad idea. The Fed and Treasury soon figured that out, settling on equity "injections" and a bank-debt guarantee instead. Floating a bad idea does not instill confidence.

Would a Lehman bailout have averted a panic? The news would still be that Lehman failed, and markets knew bailouts would not last forever. After all, the Bear Stearns rescue in February had just postponed worse trouble.

[View Full Image](#) Associated Press

More deeply, Lehman's lesson cannot be that the government must always bail out every large financial institution. From the 1984 failure of Continental Illinois bank to the S&L crisis of the late 1980s, the Latin American bond defaults of the 1990s, the 1997 Asian crashes, the 1998 collapse of the Long-Term Capital Management hedge fund and now this mess, financial institutions are taking more and more risks, but their



bondholders keep getting rescued.

This crisis pushed our government close to its fiscal limits. The next one will be beyond what even our government can contain.

The big banks know the government will bail them out, and they are already bigger, more global, more integrated and "systemic" than ever. They are making huge trading profits-profits that must someday turn to losses. If brokerage and banking are "systemically important," they cannot be married to proprietary trading. Yet the financial-reform plans do not even talk about breaking up this marriage-they hope simply to regulate the behemoths instead.

The blame-it-on-Lehman story leads to a dangerous complacency. If we can persuade ourselves that the fault was just one policy mistake, forced on the feds by silly legal restrictions and not enough bailout power, everything can go back to the cozy way it was before.

This is a convenient story for large banks that dominate the lobbying and communication effort. And it absolves the Fed and Treasury of facing up to their long string of policy mistakes.

We don't pretend that we could have done any better. That's the point: A system with so much power vested in so few people, with so few rules, in which crises are managed with 2 a.m. conference calls, cannot possibly do better no matter how good the people at the top. Repeating the Lehman story lets us all ignore the fact that this system cannot go on.

Messrs. Cochrane and Zingales are professors of finance at the University of Chicago Booth School of Business.

## **HEALTHCARE NEWS:**

### **Obama Sees Progress, Will 'Walk Congress' Through Health Care (BLOOM)**

By Julianna Goldman and Kristin Jensen

[Bloomberg News](#), September 15, 2009

Sept. 14 (Bloomberg) -- President Barack Obama said he sees progress in the Senate Finance Committee for his bid to overhaul the U.S. health-care system and will work with Congress to get it done.

"There are going to be times where we need to walk Congress through some difficult areas," Obama said in an interview with Bloomberg News at the White House today. "I will be happy to use my office and my own time and energy anywhere that's appropriate in order to get this thing done."

To contact the reporter on this story: Julianna Goldman in Washington at [jgoldman6@bloomberg.net](mailto:jgoldman6@bloomberg.net)

### **That's It? That's The Bounce? (SLATE)**

[Slate](#), September 15, 2009

Ead-Day At-Cay: WaPo reports that in the days after Obama's speech, the Dem health care plan was opposed by a 48 to 46 margin--versus a 50-45 margin in mid-August. ... From five points down to two points down. That's all he got for playing the joint-session-prime-time-address card? Does that seem like enough to you? ... P.S.: "[S]eniors remain solidly opposed to health-care reform, and the number who think government involvement would do more harm than good continues to rise ... " Update: J. Rubin says it's worse than it seems. ...

P.P.S.: How's The Dreidl going to spin those numbers? Marc Ambinder's colleague Chris Good notes that support rises to 50% vs. 42% if people are told that the "public option" has been dropped--suggesting that "Dropping Public Option [Would] Mean Health Reform Passes." That seems to be the Obama strategy: Pack all the opposition energy into the public option and then torch it in a Bonfire of Triangulation. But a) even 50-42 is a mighty thin margin on which to build a major piece of legislation. (Remember when Nate Silver thought 46-33 was insufficient?) Again, Medicare had 63-28 support.) b) Is it a fair test of public opinion to ask for support/opposition, and then say "what if we toss in this big concession"? Will you get the same answer as if you flat out asked about the Dems' health plan at a time when it didn't have the 'public option'--and without highlighting that fact? I doubt it. c) This was a poll of adults, not likely voters--something that



would not be lost on worried representatives of the people. .... 2:44 A.M.

The MSM plot to destroy Obama: Meeting in a secret room off Statuary Hall, the leaders of the MSM have decided to sabotage President Obama's health care plan by promoting memes guaranteed to make voters who are skeptical about the President affirmatively hostile.

1. You're a bunch of racists!

2. We really do want to give illegal immigrants subsidized health care! But the yahoos won't let us.

3. We want to kill granny too. ...

I guess it's not like they're saying they'd really like to model a sixth of the U.S. economy on Castro's Cuba! ... Oh, wait. 12:36 P.M.

## **Health Care Bill Has Steep Hill To Climb (USAT)**

By Susan Page

[USA Today](#), September 15, 2009

WASHINGTON -- President Obama's long, hot summer is about to turn into a chilly fall.

A USA TODAY/Gallup Poll taken after the president's dramatic address to a joint session of Congress last week shows Americans almost evenly divided over passing a health care bill and inclined to think it would make some of the system's vexing problems worse, not better.

Six in 10 say Obama's proposal, if enacted, would not achieve his goals of expanding coverage to nearly all Americans without raising taxes on the middle class or lowering the quality of health care. For the first time, a majority disapprove of the way he's handling health care policy.

Milton Downing, 51, a teacher from Wilmington, Del., is a Democrat who says Obama is doing an "awesome" job, but he worries the legislation might upend the coverage he has. "How would it affect me right now and in the future?" he asks. "I don't have enough facts on what it might do to my family."

The findings underscore the steep climb ahead for the White House in trying to push a health care plan through the House and Senate during the next few weeks. Some major provisions, including how to pay for it and whether to include a government-run plan as an option, haven't been settled.

The president's speech apparently failed to galvanize public opinion in the way the White House had hoped. While it drew a national television audience estimated by Nielsen at more than 32 million people, there's little evidence in the survey that it changed minds.

Obama's approval rating is 54%, the same as in two USA TODAY polls in August; 43% disapprove, the highest of his presidency.

"There's no doubt people share the president's objectives," says White House counselor David Axelrod, citing steps to control costs and ensure coverage when workers change jobs. "There's just profound skepticism about the ability to achieve them. That's our opposition here."

He said the White House could address those qualms by delivering on promised reforms.

At stake is the future of what has been Obama's signature domestic initiative since he launched his campaign for the White House.

"They've pushed all the chips into the middle of the table on this," says Ed Gillespie, a top adviser in the Bush White House. That means success or failure is likely to shape perceptions of Obama's presidency and affect the prospects of future initiatives.

The approval rating for congressional Democrats is a dismal 36%-61%. It's even worse for congressional Republicans: 27% approve, 70% disapprove.

The survey of 1,030 Americans has a margin of error of +/-4 percentage points.

## **Obama Poll: Scores Higher On Personal Traits (USAT)**

By Susan Page and Andrew Seaman

[USA Today](#), September 15, 2009

Susan Bennett, a retired high school English teacher from Mesquite, Nev., thinks the health care



system needs to be fixed. Just consider her brother-in-law, diagnosed with cancer only to find that his insurance coverage won't pay for the \$3,000-to-\$4,000-a-month drug his doctor has prescribed.

"On the other hand," she worries, "I'd hate to have my insurance (costs) go up."

That's the dilemma for President Obama as he tries to push a health care bill through the House and Senate over the next month or two. In a USA TODAY/Gallup Poll taken Friday through Sunday, nearly everyone agrees the system has problems - just 2% say it doesn't - but there is considerable anxiety about the impact that legislation to change it would have.

Sara David, 26, of Lawrenceville, Ga., opposes Obama's proposal. "I am concerned that the quality of health care will go down," she says.

Americans are almost evenly divided, 50%-47%, over whether they would urge their representative in Congress to vote for or against a bill, and the views of those against it are more firmly held than those who are for it.

Obama's address to Congress last week "wasn't the huge game-changer some had hoped or thought," says Charles Franklin, a political scientist at the University of Wisconsin who studies public opinion.

If a bill passes this year, 40% predict it will improve health care coverage, but 37% say it will make things worse. When it comes to the overall costs and quality of health care, Americans are inclined to say the legislation will cause more harm than good.

Support for a bill plummets to 26% if expanding coverage means higher taxes for the middle class, and to 20% if middle-class Americans will have to pay more for health care than they do now.

Making 'hard decisions'

Whatever the strains on health care, the findings also reflect Obama's considerable popularity.

By 3-1, those surveyed say he is "willing to make hard decisions." By 2-1, he is seen as a strong and decisive leader. Two-thirds say that he can get things done and that he understands the problems Americans face in their daily lives. A majority rate him as someone who can manage the government effectively and shares their values.

By 53%-45%, those polled say Obama can fix the major problems facing the country.

"He is trying, and I think that's what we need," says Eva Nauman, 58, a warehouse worker in Lebanon, Pa., who was among those surveyed. "Now, whether he's going to succeed or not, I don't know, but at least he's trying to help the little guy."

The survey of 1,030 adults has a margin of error of +/- 4 percentage points.

The health care debate reflects the nation's sharp partisan divide: 83% of Democrats support passing a health care bill; 84% of Republicans oppose it.

The president's popularity hasn't prevented a slide in his standing on individual issues. For the first time, a majority disapprove of the way he's handling the economy. His approval rating on the situation in Afghanistan has fallen seven percentage points, to 49%, since July. Nearly six in 10 disapprove of his handling of the federal budget deficit.

In response to another question, 60% say Obama's proposals to address the country's biggest problems call for too much government spending, and 51% say he's called for too much expansion of government power.

In response to an open-ended question, the top reason cited by those who oppose a health care bill was concern about big government. The cost of a bill was also high on the list.

"I think everyone should be entitled to insurance, but I am so concerned about this deficit," says Nina Giacobbe, 51, a stay-at-home mom in the Chicago suburb of Homer Glen. "We are trillions of dollars in debt now, and I just can't see it. Where is it coming from?"

Among those who support a health care bill, more than a third say the main reason is the need to cover the uninsured.

No Clinton bounce

When President Clinton delivered an address to Congress on health care in 1993, his approval rating jumped 10 points in the USA TODAY/Gallup Poll, though that gain largely dissipated within three weeks.



Obama saw no change in his 54% approval rating.

"This was not the home run predicted from the Clinton experience," says Robert Blendon, a professor of health policy and political analysis at Harvard. The public's continued concerns "will make it harder to sway members of Congress on the fence about voting for the current bill."

Other issues down the line also could be affected, he says.

"If he takes a bad beating on this, it's very hard for him to get momentum on issues that don't have the same levels of support for major change," such as energy and immigration. On the other hand, "if he came out of health care and did something really significant that people felt good about, it would give momentum for some of the other issues that will be controversial."

Even a victory may have to be followed by a "pause" in White House ambitions, says William Galston, a domestic policy aide in the Clinton White House, given "the amount of political capital expended and the amount of administration energy expended."

That suits Adam Davis, 32, a software engineer from Turnersville, N.J., who was called in the survey. "No doubt things need to change," he says, "but for me personally it's too much, too fast."

## **Baucus Makes Last Health-Care Bid After Obama Address (BLOOM)**

By Kristin Jensen and Laura Litvan

[Bloomberg News](#), September 15, 2009

Sept. 14 (Bloomberg) -- Senate Finance Committee Chairman Max Baucus is making one last attempt this week to win Republican support before he joins Democrats in a party-line effort to overhaul the U.S. health-care system.

While Baucus said President Barack Obama's Sept. 9 speech to Congress "breathed new life" into negotiations for a bipartisan compromise, the Montana Democrat vowed to present draft legislation with or without Republican votes after struggling for months to reach a deal. Baucus said today he probably will introduce a bill on Sept. 16 and that he expects bipartisan talks to continue after that.

Failure to achieve a bipartisan bill may undermine public support for the measure, some Republicans have warned. It would also raise the question of whether Obama and congressional leaders can keep enough Democrats unified to pass legislation.

"There's not very many moderates," said James Thurber, director of the Center for Congressional and Presidential Studies at American University in Washington. "You move to the middle and you start losing people, significant people."

The finance committee is the last of five congressional panels to deal with legislation intended to cover more of the 46 million uninsured people in the U.S. and tame rising health-care costs, which account for a sixth of the economy. Lawmakers are grappling with whether to create a government-run program to compete with private insurers, whether to require employers to cover workers and how to pay for the plan.

### **Plan's Costs**

Congressional Republicans say the proposal is too costly and will add to the federal deficit, which is forecast to be \$1.5 trillion next year. Baucus has previously said his plan would cost about \$900 billion. Senate Budget Committee Chairman Kent Conrad, a North Dakota Democrat who is working with Baucus on a bipartisan compromise, today said the cost has been pared to less than \$880 billion.

Besides failing to win over any Republicans, Democrats have faced divisions within their own party, particularly over the idea of the new government program, or "public option," which some party members say would threaten private insurers.

"It's universally opposed by all Republicans in the Senate," Senator Olympia Snowe, a Maine Republican who is working with Baucus to draft a compromise, said on CBS's "Face the Nation" program yesterday. "There's no way to pass a plan that includes the public option."

### **'Game Changer'**

Obama may have helped get Democrats in line during his Sept. 9 speech. He exhorted a joint session of Congress to stop bickering and start cooperating. House Speaker Nancy Pelosi, who had said she couldn't



pass a plan without a public option, said on Sept. 10 that she had no "non-negotiable" demands.

Nebraska Senator Ben Nelson, one of the most vocal skeptics of the public option among Democrats, called Obama's speech a "game changer." Steve Hildebrand, Obama's former deputy campaign manager who had criticized the president for not pushing liberal policies hard enough, echoed those remarks.

A CBS News poll taken the day after Obama spoke found that 52 percent of Americans now approve of the way he's handling health care, up from 40 percent the week before. And three-fifths of those who watched said they "mostly agree" with the plans the president presented, CBS said.

In the speech, Obama focused on proposed changes such as barring insurers from refusing to accept new clients with preexisting conditions and limiting out-of-pocket expenses. He also embraced the idea of a tax on companies offering the most expensive insurance policies and left the door open to nonprofit member-run cooperatives instead of a public option.

#### 'Cannily Similar'

"It's cannily similar to what we're working on," Baucus said.

The Baucus plan would also require most Americans to get insurance or pay a fine, and allow states to form compacts to sell health insurance across state lines, a Republican priority.

"We think we are very close to an agreement," Conrad said yesterday on "Fox News Sunday."

One sticking point for the six-senator group is how an expansion of the Medicaid program for the poor affects state governments, which would pick up a portion of the costs. Baucus wants to extend Medicaid coverage to those with incomes 133 percent above the poverty level. That's worried governors, some of whom plan to speak to committee members tomorrow, according to Conrad.

#### Medical Malpractice

Meanwhile, the group may go further than Obama in making changes to medical malpractice law -- an effort designed to make an overhaul appeal more to Republicans. There is consensus to include "safe harbor" legal protection for doctors who can show they comply with "best practices," and expanded use of arbitration to end disputes between patients and practitioners, Conrad said on Sept. 10.

Obama, in an interview with "60 Minutes" broadcast on CBS last night, said he's open to "any ideas" on the issue.

Baucus said today lawmakers are adding language to clarify that federal funds can't be used to fund abortions and block illegal immigrants from benefiting from expanded coverage.

Without Republicans, the options for Democrats may be limited. They control 59 of the 99 current votes in the Senate, short of the 60 usually need to pass legislation. While they can use a budget process known as reconciliation that requires only a simple majority vote, it comes with limits that might require Democrats to significantly scale back their plans.

#### Much Skepticism

There are few signs that skeptics are coming on board. Thousands of protesters carrying signs saying "Obama = Socialism" and "Keep Government out of Health Care," descended on Washington on Sept. 12 to oppose government spending and the rising U.S. budget deficit.

Demonstrators expressing disapproval of plans to overhaul the health-care system, filled Pennsylvania Avenue near the White House and marched toward the U.S. Capitol.

And Senator George Voinovich, an Ohio Republican seen as one possible vote for the Democrats, said he won't support an expansion of health care at a time of soaring deficits.

"I am very, very, very concerned about the fragility of our financial situation," Voinovich told reporters on Sept. 10.

To contact the reporters on this story: Kristin Jensen in Washington at [kjensen@bloomberg.net](mailto:kjensen@bloomberg.net) ; Laura Litvan in Washington at [llitvan@bloomberg.net](mailto:llitvan@bloomberg.net)

## **Reform Bill Will Address GOP Fears (WP)**

### **But Affordability Questions Remain**

By Lori Montgomery and Shailagh Murray, Washington Post Staff Writers



[Washington Post](#), September 15, 2009

The chairman of the Senate Finance Committee said Monday that he will propose an overhaul of the nation's health-care system that addresses a host of GOP concerns, including blocking illegal immigrants from gaining access to subsidized insurance, urging limits on medical malpractice lawsuits and banning federal subsidies for abortion.

But even after Max Baucus (D-Mont.) spoke optimistically of gaining bipartisan backing, lawmakers continued to haggle over a question at the heart of the debate: How can the government force people to buy insurance without imposing a huge new financial burden on millions of middle-class Americans?

Even within his own party, Baucus confronted a fresh wave of concern about affordability. Sen. Ron Wyden (D-Ore.) declared himself dissatisfied with the chairman's plan, which, like other congressional reform proposals, would require every American to buy health insurance by 2013.

"Additional steps are going to have to be taken to make coverage more affordable," Wyden said, "and my sense is that will be a concern to members on both sides of the aisle."

Under the Baucus plan, described in a "framework" he released last week, as many as 4 million of the 46 million people who are currently uninsured would be required to buy coverage on their own, without government help, by some estimates. Millions more would qualify for federal tax credits, but could still end up paying as much as 13 percent of their income for insurance premiums -- far more than most Americans now pay for coverage.

People further down the income scale would receive much bigger tax credits, effectively limiting their premiums at 3 percent of their earnings. But experts on affordability say even those families could find it difficult to meet the new mandate without straining their wallets.

"We're talking about the equivalent of a middle-class tax increase," said Michael D. Tanner, a health-care expert at the libertarian Cato Institute. "Yes, they're paying it to an insurance company instead of to the government. But, suddenly, these people are paying more money to somebody."

A plan drafted by House Democratic leaders would offer more generous tax credits, but it would cost more than \$1 trillion over the next decade.

Baucus's team of three Democrats and three Republicans from the Finance Committee has labored for months to cut that cost as it crafts a reform plan that could win support from both parties. By squeezing the size and scope of the subsidies, the negotiators have lowered the cost to a more politically palatable \$880 billion -- within the range President Obama specified last week in a speech to Congress.

But a smaller bill would mean less help for people -- particularly those who earn too much to qualify for Medicaid but too little to easily slip the equivalent of a second rent payment into their budgets.

According to the latest Census data, about three-quarters of the uninsured earn less than 300 percent of the poverty level, or about \$32,500 for an individual and \$66,150 for a family of four. Nearly half are childless adults. In surveys, many say that they are not offered coverage by their employers or that they simply cannot afford it.

The centerpiece of the Baucus proposal is a series of "exchanges" where people without access to affordable coverage through their employers could apply for government subsidies and choose among a range of private insurance options. The plan would not, as liberals have demanded, create a government-run insurance option to compete with private firms, but would finance the creation of state or regional cooperatives run by consumers -- a concession aimed at winning over Republican lawmakers.

Baucus and his colleagues wrangled Monday in the hopes of persuading Republican Sens. Charles E. Grassley (Iowa) and Mike Enzi (Wyo.) to support the measure. The two conservatives have stayed at the bargaining table all summer, despite GOP leaders' strong opposition to the reform effort.

Baucus said the strategy is working. "Senators on and off the committee, their comfort level is starting to come up a bit," he told reporters. "I believe, in the end, we'll have some significant bipartisan support." But the chairman said Monday night that he will move forward Wednesday with or without Grassley, Enzi and Sen. Olympia J. Snowe (Maine), the most moderate Republican involved in the negotiations. He said the bipartisan group, known as the Gang of Six, would continue to negotiate until the full committee begins work



on the bill next week.

Baucus said he will comply with Republican demands that illegal immigrants would receive "no benefits" through the new insurance exchanges. Meanwhile, negotiators are crafting a provision that would authorize states to start pilot projects to try to lower health-care costs by reducing the number of malpractice lawsuits, an approach similar to the one Obama outlined in his speech. "States would be given resources to help them experiment with what works best," said Sen. Kent Conrad (D-N.D.), another participant in the talks.

Also unresolved Monday was the question of how to pay for an expansion of Medicaid to cover every U.S. citizen whose income falls below 133 percent of the federal poverty level, about \$14,500 for an individual or \$29,500 for a family of four. Governors in both parties strongly oppose an expansion that is not fully financed by the federal government. The Senate negotiators are scheduled to brief governors by conference call Tuesday afternoon, and Baucus predicted they would be "pleasantly surprised."

"The Medicaid costs," he said, "are not going to cost states near as much as feared."

Under the Baucus plan, subsidies would be offered to people who earn up to 400 percent of the poverty level (\$43,000 for an individual or \$88,000 for a family of four) in the form of tax credits that would be paid directly to the insurance company of the person's choice. The credit would be calibrated on a sliding scale to ensure that people at the bottom of the income range paid no more than 3 percent of their earnings for premiums while those at the top would be liable for as much as 13 percent.

That would amount to more than \$700 a month for a family of four making \$66,000 a year -- significantly more than most people at the same income level now pay, according to research conducted by Linda Blumberg, a senior fellow in the Health Policy Center at the Urban Institute. Families earning less than 300 percent of the poverty level also would be eligible for assistance with deductibles and other out-of-pocket expenses, but families who earn more would be on their own.

"That group does spend in the neighborhood of 12 percent of their income. But it's not just the premium. It includes out-of-pocket spending," Blumberg said, adding that the Baucus plan "is going to be somewhat of a wakeup call."

Families that do not purchase insurance would face penalties on their annual tax returns of up to \$1,500 a year if they make less than 300 percent of the poverty level, or \$3,800 a year if they make more.

But Senate Finance Committee negotiators are quick to point out that a hardship waiver would be available.

"We're doing our very best to make the insurance requirement as affordable as we possibly can," Baucus said, without driving up the overall cost of the bill.

## **New Objections To Baucus Health Care Proposal (NYT)**

By Robert Pear and David M. Herszenhorn

[New York Times](#), September 15, 2009

WASHINGTON -- Two of the three Republicans in a small group trying to forge a bipartisan compromise on health care have requested numerous major changes in a proposal drafted by the chairman of the Senate Finance Committee, reducing the chances that he can win their support.

The Republicans, Senators Michael B. Enzi of Wyoming and Charles E. Grassley of Iowa, have catalogued their concerns in documents sent to the chairman, Senator Max Baucus, Democrat of Montana.

President Obama has broadly endorsed many elements of Mr. Baucus's proposal, which White House officials praise as a possible template for comprehensive health legislation, Mr. Obama's top domestic priority.

Six members of the Finance Committee -- three Democrats and three Republicans -- have been trying since June to agree on a bill that would expand health insurance coverage and rein in health costs.

Senator Kent Conrad, Democrat of North Dakota, said Monday that the cost of the package, originally put at \$1 trillion over 10 years, was now less than \$880 billion.

But many governors in both parties still have deep concerns about a provision that would require states to pay some of the cost of covering millions of additional low-income people under Medicaid. And Mr. Enzi



indicated that he shared their concerns.

A summary of the senators' views, prepared by the Finance Committee, says Mr. Enzi believes that the federal government should pay "100 percent of the cost of the Medicaid expansion, in order to avoid an unfunded mandate" for states, which ordinarily share Medicaid costs with the federal government.

Mr. Enzi and Mr. Grassley have also objected to the fees that Mr. Baucus wants to impose on health insurance companies, clinical laboratories and manufacturers of medical devices. Such fees would help finance coverage of the uninsured.

Mr. Enzi and Mr. Grassley also told Mr. Baucus that health legislation must include language affirmatively prohibiting the use of federal money to pay for abortion. The restriction, they said, should apply to any subsidies that help low-income people buy insurance. In addition, they said, health plans should not be obliged to provide abortion. Thus, they said, the bill should "include a conscience clause to protect entities from being required to contract with abortion providers."

By contrast, a Democrat participating in the negotiations, Senator Jeff Bingaman of New Mexico, told colleagues that the legislation should "remain silent" on abortion, according to the committee documents.

Mr. Baucus and other senators agree that illegal immigrants should not benefit from the health care overhaul in any way. Mr. Enzi and Mr. Grassley want a five-year waiting period for legal immigrants to receive tax credits, or subsidies, to help them buy insurance.

Mr. Obama and most Democrats support a proposal that would require most Americans to carry health insurance. Under Mr. Baucus's proposal, a family that went without coverage would be subject to a penalty of up to \$3,800 a year.

The committee documents show that Mr. Grassley has reservations about this approach. He believes that "the individual responsibility to have health coverage should be reconsidered and replaced with a reinsurance policy to ensure that affordable health coverage is available to everyone in a voluntary system, with a lower overall cost for the package," one document says.

Under a reinsurance program, people carry private insurance, but the government might pick up some or all of the cost of claims exceeding a certain amount.

The third Republican in the group, Senator Olympia J. Snowe of Maine, is pushing another idea to make insurance readily available. She urged her colleagues to "allow private insurance companies to offer national plans, with uniform benefit packages that are offered across state lines."

Mr. Baucus said the Finance Committee would take up the legislation and start voting on it next week. That would allow the full Senate to consider the legislation next month.

But Senate and House leaders have missed many self-imposed deadlines in the past. Senate leaders would need to meld any Finance Committee bill with one approved in July by the Senate health committee, and that could be a challenge.

The Finance Committee, like Democratic leaders of the House, intend to expand Medicaid to cover anyone with income less than 133 percent of the poverty level (\$29,327 for a family of four).

Under a bill approved by the House Energy and Commerce Committee, the federal government would pick up all the additional Medicaid costs for two years, 2013 and 2014, but states would have to pay 10 percent of the cost for the newly eligible Medicaid recipients starting in 2015.

Members of the Senate Finance Committee said they might require states to pay a larger share, perhaps 15 percent or 20 percent of the new costs.

Governors of both parties object to such requirements as an "unfunded mandate."

In a letter to the Senate, Gov. Mitch Daniels of Indiana, a Republican, said: "States will likely have to pick up the tab for this extension of Medicaid. We have estimated that the price for Indiana could reach upwards of \$724 million annually. These additional costs will overwhelm our resources and obliterate the reserves we have fought so hard to protect."

## **Baucus Crafts Health Care Plan, But Senate Democrats Have Concerns (WSJ)**

By Greg Hitt and Jonathan Weisman



[Wall Street Journal](#), September 15, 2009

WASHINGTON – Some rank-and-file Senate Democrats are voicing concerns about sweeping health legislation being crafted by Senate Finance Committee Chairman Max Baucus, citing what they describe as excessive burdens placed on some families and concerns over financing for the \$880 billion package.

The Montana Democrat intends to introduce the package Wednesday, setting the stage for Finance Committee action next week. "We're on track," Sen. Baucus said Monday.

The senator has worked for months to craft a bill capable of attracting bipartisan support. His legislation would expand coverage to tens of millions of Americans but leave out a public health-insurance option supported by liberals.

Sen. Baucus has argued that steering the legislation toward the political center is the best strategy for ensuring passage on the Senate floor. But several Senate Democrats left a briefing with the chairman Monday night saying they would seek changes.

Sen. Ron Wyden (D., Ore.) complained the legislation would ask working Americans to commit as much as 13% of their income to buy basic insurance. "Additional steps are going to have to be taken to make coverage more affordable," he said. "That's a real hit on middle-class families."

Under the legislation, which has yet to be formally unveiled, individuals would be required to have health insurance, and would receive government assistance if they are at the lower end of the income ladder. But Sen. Wyden said more needs to be done to lower out-of-pocket expenses. "I'll certainly be offering ideas," he said.

Sen. John Kerry (D., Mass.) raised concerns about Mr. Baucus's mix of new taxes and other means of paying for the plan. Among other things, Mr. Baucus is proposing to levy a new tax on so-called gold-plated health policies. He also wants to levy new fees on health insurers, pharmaceutical companies and other health-care industries.

"There may be a better way to find that revenue," Sen. Kerry said. He suggested he'll be looking for changes, though he declined to offer specifics. "We are going to have a tug of war," he said, describing the chairman's soon-to-be-unveiled bill as a "starting point" for a new round of negotiations on details. "That's the process of legislating," he said.

Sen. Baucus said he fully expects amendments to be offered next week, but downplayed the prospect that major conflict looms. "I don't see any deal breakers...or anything that would change the basic framework" of the bill, he said.

Sen. Baucus is also trying to reassure the nation's governors that the measure wouldn't break the budgets of cash-strapped states. A key feature of the senator's bill would expand health-insurance coverage to millions of Americans by widening access to Medicaid, the federal-state health program for the poor. Many governors have voiced concern that local taxpayers would have to pay for the proposed expansion.

"Governors are concerned," Sen. Baucus said Monday, but the costs for states under his bill would be "much less than originally expected."

Mr. Baucus is expected to convene a conference call with the National Governors Association's health-care task force as soon as Tuesday to discuss his legislation.

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## **Health-Care Negotiators Pare Costs (WSJ)**

By Patrick Yoest

[Wall Street Journal](#), September 15, 2009

WASHINGTON -- Senators worked Monday toward unveiling health-care legislation that one lawmaker said would cost "below \$880 billion."

A bipartisan group of six members of the Senate Finance Committee held a meeting Monday to discuss the legislation, which Finance Chairman Max Baucus (D., Mont.), suggested could be made public as soon as Tuesday.

Sen. Kent Conrad (D., N.D.), a key senator in the negotiating group, said the bill would cost less than



\$880 billion. Mr. Baucus confirmed that the nonpartisan Congressional Budget Office told the group the overall price tag for the proposal was lower than earlier estimated, but said that it is "still moving a bit."

The group, which includes three Republicans and three Democrats, discussed an array of issues. Senators said they were working toward agreement on provisions to keep illegal immigrants from receiving benefits under the bill, reduce the financial burden on states from expanding the low-income Medicaid program, and lowering health-care costs stemming from medical-malpractice lawsuits.

A telephone meeting with state governors on the Medicaid issue is set for Tuesday. While Mr. Conrad said the federal government would bear the brunt of costs from providing Medicaid to people made eligible for the program through an expansion, Sen. Olympia Snowe (R., Maine) said that members of the group "have not settled what approach to take."

A preliminary proposal released by Mr. Baucus last week would raise eligibility for the Medicaid program from the current threshold allowing those at or below 100% of the federal poverty level to 133% of the poverty level.

Mr. Conrad said the group also discussed concerns Monday about whether federal funds authorized by the bill could be used for abortions, which he said has "yet to be resolved." The issue is a central concern for Sen. Charles Grassley (R., Iowa), who is the committee's top Republican and a member of the negotiating group.

The Finance Committee is expected to take up the legislation next week, but it is unclear whether Mr. Baucus will be able to secure an endorsement of his bill from Republicans before the session.

Ms. Snowe said that "it is hard to say and speculate right now" whether and when she will announce support for the bill. Ms. Snowe said she is waiting on final drafts of the bill and a final cost estimate from the Congressional Budget Office.

Mr. Baucus told reporters that he is confident "we'll have significant bipartisan support."

"I think, basically, as senators on and off the committee and the public begin to know more about this, their comfort level starts to come up a bit," Mr. Baucus said. "I believe that strongly."

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## **Baucus To Release Bill On Wednesday (HILL)**

By Jeffrey Young

[The Hill](#), September 15, 2009

The Senate Finance Committee will now unveil its long-awaited healthcare reform bill on Wednesday, according to its chairman.

The \$880 billion bill, which has been the subject of intense negotiations, would be the last piece of legislation introduced by one of Congress's healthcare committees. It could wind up serving as the vehicle most likely to attract the support of crucial centrist Democrats in the House and Senate -- as well as a handful of Republicans.

"We're on track to release the mark this week and have the markup next week," Chairman Max Baucus (D-Mont.) said Monday.

Baucus initially said the chairman's mark could be released Tuesday before saying later on Monday that it would be delayed until Wednesday.

He said the Senators needed more time to work out details with state governors on Medicaid funding, among other issues.

In July, Baucus set Sept. 15 as the deadline for agreeing to a deal and announced a week ago that he would introduce his draft legislation at some point this week, followed by committee action next week.

In the meantime, bipartisan negotiations between Baucus, committee ranking member Chuck Grassley (R-Iowa), Democratic Sens. Jeff Bingaman (N.M.) and Kent Conrad (N.D.) and Republican Sens. Mike Enzi (Wyo.) and Olympia Snowe (Maine) will continue. "I do believe that, in the end, we'll have significant bipartisan support," Baucus said.

The Gang of Six continues to try to hash out several outstanding issues, such as how the federal and



state governments will share the cost of enrolling additional Medicaid beneficiaries; how to prevent illegal immigrants from receiving benefits under healthcare reform; how to ensure that federal money is not used to finance abortion services; and how to implement state-based mechanisms to limit medical malpractice lawsuits.

Baucus plans to meet with Democrats on the Finance Committee on Monday afternoon to present a status update on the talks and solicit feedback on the bill due later this week. Liberals on the panel, most notably Sen. Jay Rockefeller (D-W.Va.), have expressed strong dissatisfaction with the draft proposal Baucus unveiled last week.

The Gang of Six met Monday morning to kick off the final stages of its talks, which have been going on for months - much to the consternation of impatient Democrats worried that Baucus is making too many concessions to win GOP support, chiefly because of his decision to omit from his bill the creation of a government-run public option health insurance program that would compete with private companies.

But with continued resistance among centrist Democrats in both chambers to the public option, as well as concerns within the same contingent about the cost of healthcare reform and issues such as whether the bill would cover illegal immigrants or pay for abortion services, Baucus has positioned his measure as the bill most likely to attract broad support.

President Barack Obama indicated during his address to a joint session of Congress last week that he could support a healthcare reform package consistent with the Finance Committee group's deliberations, even if the bill leaves out the public option.

Baucus has adopted Conrad's proposal to instead create federally chartered, not-for-profit, member-owned healthcare cooperatives. Snowe favors establishing a "trigger" that would activate a public option only if private insurers fail to enroll the uninsured under reform. Obama has also expressed openness to this proposal, but Baucus has said the idea has never been discussed among the Gang of Six.

Before Congress left for its August recess, the House Education and Labor, Energy and Commerce, and Ways and Means committees each marked up more liberal bills that included a public option.

The House Democratic leadership will begin the process of melding those bills this week. The House Democratic Steering and Policy Committee, composed of committee chairmen and members of the leadership, is holding a public forum on healthcare reform Tuesday.

The Energy and Commerce Committee is slated to meet this week for a session to put the finishing touches on its bill, which passed the committee in July based on a deal struck with centrist Blue Dog Democrats on the panel. That deal, however, may not hold because of protests from liberals and because Rep. Mike Ross (D-Ark.), the lead negotiator for the Blue Dogs, subsequently disavowed any healthcare reform bill that includes a public option.

The Senate Health, Education, Labor and Pensions Committee also approved its version of the bill before the recess.

This story was updated at 5:58.

## **Senate Finance Health Plan \$880 Billion (WT)**

By Jennifer Haberkorn

[Washington Times](#), September 15, 2009

The Senate Finance Committee's health care reform plan is expected to come in at \$880 billion over 10 years, but lawmakers are still working to produce a final bill.

Chairman Max Baucus, Montana Democrat, said he is likely to issue his plan Tuesday or Wednesday, and the committee would debate the bill next week.

It's still unclear whether the full "Gang of Six" would sign on. The group of three Republicans and three Democrats has been debating the compromise proposal for months and has emerged as the biggest hurdle to progress on the bill in Congress.

"We're working to bring this process to closure over the next two weeks or so," Mr. Baucus said, adding that there's a "high probability" of a bipartisan deal by Tuesday.



The remaining sticking points include the size of the expansion of Medicaid services for lower-income Americans,, medical malpractice reform, preventing illegals from obtaining government insurance subsidies and preventing the federal government from funding abortions.

## **'Gang Of 17' Key To Health Reform Future (WT)**

By Jennifer Haberkorn

[Washington Times](#), September 15, 2009

For weeks, all eyes have been focused on the "gang of six." Now, President Obama has set his sights on a group of 17.

The 17 moderate Democrats in the Senate are leery of the high price tag of health care reform and its impact on the federal deficit, and are starting to wield influence as Mr. Obama and Democratic leaders search for a bill palatable to both the public and Congress.

"I told the president that the primary focus for moderates is getting costs under control for middle-class families and small business, and passing fiscally responsible reform that reduces the federal deficit over time," said Sen. Evan Bayh, Indiana Democrat, after Mr. Obama met with the lawmakers Thursday.

In recent weeks, cost has challenged the public option as the most divisive issue in the health care reform debate. The plan being formulated in the Senate is expected to come in at \$900 billion and the House bills are expected to reach \$1 trillion. Lawmakers have also raised questions about how much the plans would bring down health care costs for the average American.

"We need to stop the rising costs that are bankrupting working families, small businesses and our economy," Sen. Michael Bennet, Colorado Democrat, said. "These reforms must be fiscally responsible and not add to the deficit."

At 17, the group's size could make it a heavyweight if members decide to join forces. So far, aides to the lawmakers say, there are no plans for that. Even so, the individuals' votes will be important to getting the 60 required for the bill's passage.

If Democrats turn to reconciliation, a procedural move that would cut off a Republican filibuster and enable the bill to pass with 51 votes, the 17 votes could become even more important.

The group, officially called the Senate Moderate Dems Working Group, came together in March under the leadership of Mr. Bayh and Sens. Blanche Lincoln of Arkansas and Thomas R. Carper of Connecticut.

Mr. Bayh, when the group was formed, said the members will not speak with a unified voice, but would work together to pursue "pragmatic, fiscally sustainable policies" on issues such as deficit containment, health care reform, housing, education, energy and climate change.

On Thursday, the lawmakers were briefed by Peter R. Orszag, the director of the Office of Management and Budget, who "walked them through the details" of the president's proposal, said White House press secretary Robert Gibbs.

"I think some people are surprised that the president is going to pay for a proposal, which is something that hasn't happened in this town in a long, long time," he said.

One White House official who had knowledge of the discussions said a chief concern among these Democratic senators is the plan's impact on the deficit.

"Of course, every senator is concerned about doing this in a fiscally responsible way, but [this group] wanted to hear how the president planned to make sure it is deficit-neutral," the official said. "Their concern was cost, and wanting to know that this isn't going to add to the deficit."

While many in the group have voiced concern about the financial aspects of the legislation, a handful have also said they're worried about the proposed plan to establish a government health insurance option. Others, such as Mr. Bennet, have supported the public option.

Jim Fagin, a spokesman for Sen. Ben Nelson, who also attended the meeting, said the Nebraska Democrat's views on the current bill have not changed much since Mr. Obama's speech and his subsequent meeting with the president.

"He just doesn't have enough details yet. He's just not going to support anything at this point," Mr. Fagin



said. "He's being a good juror on this. He doesn't make a decision until all of the evidence is in."

Sen. Jeanne Shaheen of New Hampshire described the White House meeting as "upbeat and thoughtful."

"We discussed, in detail, the cost of health care reform - both the cost of inaction for families and businesses, and the cost to our nation in terms of long-term spending," she said in a statement. "I remain hopeful that we can work together - Democrats and Republicans alike - to achieve this important goal."

The lawmakers aren't the only ones concerned about cost.

A July poll from Rasmussen Reports found that 61 percent of voters nationwide cite cost as the biggest health care problem today, followed by universal coverage and quality of care.

In the House, fiscally conservative Blue Dog Democrats had similar concerns about the cost of the legislation and its long-term impact on the federal deficit, stalling the legislation until it was changed.

The number of moderate Democrats in the Senate has grown substantially in the last two election cycles, and therefore many of the group's members are in their first or second term. Moderates are becoming particularly important in both the House and the Senate, as liberal Democrats threaten to pull support if the public option is removed and conservatives say they will vote against any public option.

The group's members include veterans such as Mr. Nelson and Sens. Mary L. Landrieu of Louisiana and Herb Kohl of Wisconsin, as well as freshmen such as Mark Warner of Virginia, Mark Begich of Alaska and Kay Hagan of North Carolina. Sen. Joe Lieberman, Connecticut independent, is a member, as is former Republican Sen. Arlen Specter of Pennsylvania.

. Kara Rowland and Matthew Mosk contributed to this report.

## **Medicaid Expansion Hinders Reform Talks (WT)**

By Jennifer Haberkorn

[Washington Times](#), September 15, 2009

A proposed expansion of Medicaid, the health care program for lower-income Americans, has emerged as one of the last sticking points in the Senate Finance Committee's health care reform bill, with governors and state legislatures around the country worried they're going to get left with the tab.

Proposals in the House and Senate would expand Medicaid eligibility to 133 percent of the federal poverty level, potentially putting millions of new people on the public health program for the poor younger than 65.

As the Senate Finance Committee's "gang of six" tries to wrap up its health care reform bill, it is also trying to determine how much of those new costs should be paid by the states and how much by the federal government.

The gang of six -- three Republicans and three Democrats -- hopes to finish negotiations this week. Committee Chairman Max Baucus, Montana Democrat, said he is likely to issue a bill Tuesday or Wednesday, but it's still unclear whether Republicans are going to sign on. Mr. Baucus said he plans to continue to lobby Republican support, even after the bill is released.

Other points of dispute for the group include medical malpractice reform; drafting a verification system to prevent illegal immigrants from obtaining government insurance subsidies; and preventing federal funding from going to abortions.

President Obama's plan got a bit of good news Monday, as a new survey by pollster John Zogby found a large consensus in the country on eight major health care issues, although in some cases the majority favors items not in the president's blueprint. And Mr. Obama's much-touted speech last week to Congress helped his cause.

According to a survey of 4,426 likely voters, 78.5 percent say they back tort reform - tentatively embraced in Mr. Obama's speech, and 82.8 percent of voters think that allowing out-of-state health-insurance purchases may lower premium costs.

Mr. Zogby said the speech improved Mr. Obama's standing among skeptical independents - though there is still plenty of work to do.



"Obama's speech boosted his approval by nine percentage points with the all-important independents - but not as much as needed," Mr. Zogby told The Washington Times. "Even with this post-speech boost, 54 percent of independents still disapprove of his job performance."

The Medicaid expansion plan is designed to extend health care access to more of the poor, a population that often doesn't get preventive care and ends up getting treated for routine medical problems in hospital emergency rooms. If the individual can't pay the hospital bill, those costs get "shifted" by the hospital or doctor to patients who can pay.

The proposal would extend Medicaid access to 133 percent of the federal poverty line, which in 2009 would mean that individuals making less than \$14,404, or families of four making less than \$29,327, would be eligible.

The National Governors Association (NGA) and the National Conference on State Legislatures have cautioned that the states cannot afford to take on new costs, particularly in a struggling economy.

"Any increase in the mandatory minimum eligibility threshold will cost states tens of billions of dollars per year," NGA Executive Director Ray Scheppach told a House panel in June.

States with spiking unemployment rates, such as Michigan, would be hit hardest.

Michigan Gov. Jennifer M. Granholm "recognizes there needs to be a shared responsibility in health reform ... from both federal and state," her spokeswoman, Megan Brown said, "and we look forward to working with the president to get health reform done this year."

Other states, such as Rhode Island, would be barely impacted by the change. There, adults with children are eligible until their incomes are 175 percent over the poverty rate, and children are eligible until their parents' income reaches 225 percent of the poverty rate - well above the proposed federal limit.

The gang of six is expected to hold a conference call about the Medicaid expansion proposal with a group of governors on Tuesday.

Republicans in the gang of six - Sen. Michael B. Enzi of Wyoming, Sen. Charles E. Grassley of Iowa and Sen. Olympia J. Snowe of Maine - have voiced concern over saddling the cash-strapped states with additional costs.

"Sen. Enzi ... believes that approach to covering the uninsured fails on all counts by creating a new, unfunded mandate for state governments, and by putting folks who need health care the most into a federally managed, waste-ridden program already desperately in need of reform," his spokesman said.

Mr. Baucus has also expressed concern over the impact on state budgets. He insisted Monday that the states would not be left with much to pay for, but declined to reveal specifics of how to avoid the extra costs.

"States, I think, are going to be pleasantly surprised because there are going to be some additional costs, but much less than we originally expected," he said. "The Medicaid costs with expansion are not going to complicate near as much as we originally feared because of" other programs, such as more generous drug rebates and changes to the state Children's Health Insurance Program.

The nonpartisan Congressional Budget Office found that the expansion, as described in the House health care bill, would increase federal outlays for Medicaid by \$438 billion over a 10-year-period. Mr. Obama said again Monday in a New York speech that he would not sign off on a bill that isn't fully paid for, a stance shared by Senate Democrats.

Under current law, Medicaid eligibility varies widely by state, with some states providing access to the program at 175 percent of the poverty rate and some offering little more than the federal requirements. States administer the program but are reimbursed by the federal government.

## **Some Gobs Say Medicaid Growth Could Hammer Budgets (WP/AP)**

By Emily Wagster Pettus, The AP

[Washington Post/AP](#), September 15, 2009

JACKSON, Miss. -- States with high levels of poverty and unemployment have been struggling with growing Medicaid budgets during the recession, and some governors worry their financial burdens could get worse as Congress works on a comprehensive health care bill.



They're especially worried about possible expansion of Medicaid, the federal-state health insurance program for the needy and disabled.

"If the federal government wants to expand health care to everybody in the country, they should not force the states to pay part of the bill. If they want to do that, the federal government should pay for it," said Mississippi Gov. Haley Barbour, who is chairman of the Republican Governors Association.

Democratic U.S. Sen. Max Baucus of Montana is part of a bipartisan group of Finance Committee members -- the so-called Gang of Six -- grappling with health care legislation. Part of Baucus' proposal would expand Medicaid to cover more low-income people. For example, childless adults making up to 133 percent of the federal poverty level would be eligible for the first time, starting in 2014. Under current standards, the federal poverty level is \$10,830 for an individual.

A House bill has a similar provision to expand coverage. Under current rules, adults who are not disabled and do not have children cannot be covered by Medicaid, regardless of how poor they are.

Baucus said his staff is trying to schedule a conference call with governors for Tuesday.

Montana Gov. Brian Schweitzer, chairman of the Democratic Governors Association, said in July that he worried the federal government's push to expand Medicaid might force states to borrow money to pay for new health expenses.

Since then, Schweitzer said he has spoken to President Barack Obama and Democratic congressional leaders and has been assured that the final version of health care legislation won't include unfunded mandates for the states.

"I think everybody has looked at each other and said, 'That dog don't hunt,'" Schweitzer said in late August.

Across the country, Medicaid budgets are already strained, especially in states with higher than average poverty and unemployment rates:

- In New Mexico, 18.4 percent live below the poverty level, well above the national average of 13.3 percent. Medicaid enrollment there has increased nearly 10 percent since mid-2008, and Human Services Secretary Pam Hyde said the program could overspend its budget by \$35 million to \$40 million this fiscal year.

- In Michigan, where unemployment hit 15 percent in July, Republicans who control the state Senate propose saving money by trimming 8 percent from the Medicaid reimbursement rates for physicians, hospitals and other health care providers in the state fiscal year that begins Oct. 1.

- In Georgia, Republican Gov. Sonny Perdue ordered 3 percent funding cuts for Medicaid and public schools and 5 percent cuts for most other state programs because of weak state tax collections in late July, just three weeks into the new fiscal year.

"If we're asked to pick up on state increased costs in health care, it's going to take away from infrastructure, it's going to take away from environment, transportation, education, public safety - all the other things that we as states do," said Perdue, who leads a state where 14.5 percent of residents live below the poverty level, according to the U.S. Census.

In Mississippi, where 21.1 percent of residents live in poverty and 20 percent are enrolled in Medicaid, paying for health care has long been a struggle. Barbour said a mandate to cover more people could lead to tax increases.

Barbour won the Mississippi governorship in 2003 after criticizing a 33 percent growth in Medicaid enrollment in four years under his Democratic predecessor. Enrollment has grown 5 percent since Barbour took office in January 2004. Mississippi saw an unexpected hiccup in Medicaid numbers in March, when enrollment jumped by 21,620. It was the largest single-month increase the program had seen since April 2001.

Barbour cut 2.9 percent from the \$6 billion state budget this month because of lagging income and sales tax collections, but didn't cut Medicaid because he expects more people to enroll as unemployment climbs. The state's seasonally adjusted unemployment rate jumped from 7.3 percent in July 2008 to 9.7 percent in July 2009.



Some Mississippi officials say a Medicaid expansion would be an efficient way to cover the uninsured. The Henry J. Kaiser Family Foundation says 55.5 percent of Mississippi's poor and low-income residents lack health insurance. The national figure is 36.5 percent.

Because of Mississippi's poverty, the federal government pays a generous share of Medicaid expenses, referred to as matching funds. Until December 2010, when federal stimulus money is scheduled to disappear, the federal government is paying for 84 percent of Medicaid costs in Mississippi. That's up from the usual 76 percent.

"One of the most frustrating things about dealing with Medicaid over the years has been the obsession in the Legislature with reducing Medicaid spending at a time when we have the most favorable Medicaid (federal) match in the nation," said Democrat Hob Bryan, chairman of the state Senate Public Health Committee and supporter of an expanded role for Medicaid. "Mississippi is a winner because of our incredible match."

Medicaid financing is a public policy discussion with real-world implications for some of Waymon Tigrett's customers at his family's store, Brandon Discount Drugs.

Tigrett, a pharmacist, said as Mississippi lawmakers have finished the state budget the past several years, unfounded rumors have spread that hospitals were turning away Medicaid patients, or that pharmacies were reducing the number of prescriptions they'd fill for people on the program. Tigrett said he has told Medicaid customers not to worry and has continued filling their prescriptions for blood-pressure pills, diabetic supplies and other essentials.

"It's a panic thing," Tigrett said from his store in a Jackson suburb. "It worries mostly the elderly people. It causes them undue anxiety, stress."

## **Healthcare Reform Wins Over Doctors Lobby (LAT)**

**The American Medical Assn., once opposed to any government overhaul, now has more to gain, including a proposal worth billions of dollars to physicians.**

By Kim Geiger And Tom Hamburger, September 15, 2009

[Los Angeles Times](#), September 15, 2009

The American Medical Assn., after 60 years of opposing any government overhaul of healthcare, is now lobbying and advertising to win public support for President Obama's sweeping plan -- a proposal that promises hundreds of billions of dollars for America's doctors.

Of all the interest groups that have won favorable terms in closed-door negotiations earlier this year, the association representing the nation's physicians may have taken home the biggest prizes, including an agreement to stop planned cuts in Medicare payments that are worth \$228 billion to doctors over 10 years.

In addition, the proposal that would require all individuals to obtain medical insurance includes premium subsidies to ensure that their doctor bills would be paid.

The AMA, which many still regard as the country's premier lobbying force, is providing money and grass-roots backing for these and other reforms.

Critics charge that, although doctors will be among those with the most to gain financially, the AMA -- unlike the pharmaceutical and insurance industries -- made relatively few concessions in return. The drug industry, for example, pledged \$80 billion in cost reductions. Health insurers agreed to give up restrictions on preexisting conditions.

"To our knowledge, this deal is better than those negotiated so far by drug companies, hospitals or health insurers," said Dr. Henry Simmons, founder of National Coalition on Health Care, which represents labor, business and medical provider interests. "The question is why."

Health industry analyst Robert Laszewski, a former insurance company executive who tracks health policy for industry clients in Washington, thinks that all of the major interests that once opposed reform, including insurance and drug companies, have received sweetheart deals in exchange for their support.

AMA officials acknowledge the huge turnaround in the organization's position, but they say it reflects changes in the healthcare system and the way doctors feel about it.



In the past, the AMA saw the government as endangering doctors' incomes and independence. Now, with the advent of Medicare and other federal programs, which the organization originally opposed, the government has become a vital source of revenue and stability for doctors.

"Doctors are really, really discouraged now about people not getting access to medical care," said Dr. Nancy Nielsen, immediate past president of the AMA, who has been meeting with top congressional officials this summer on behalf of the association.

That's why the doctors' position has changed so dramatically since the early 1990s, when they played a lead role in helping to kill President Clinton's healthcare plan, she said.

"Back then everybody's second position was the status quo," she said. "Now there is very broad agreement that the status quo is unacceptable. That's why we see people who opposed a variety of reforms in the past now advocating for them."

Critics take a less benign view of the AMA's transformation.

Laszewski, the health policy expert, says AMA support is really explained by the deals the organization cut with the White House and congressional Democrats.

"They were bought off," he said. "And the price tag was \$228 billion."

Laszewski is referring to what many consider the most costly single concession to any interest group made so far in the bargaining over healthcare.

Back in 1997, concerned about the soaring cost of Medicare, Congress and Clinton approved a plan to reduce reimbursements to doctors whenever Medicare's costs outpaced the growth of the U.S. economy.

The idea was to prod the medical community into holding down healthcare costs by cutting back payments if the industry failed to do so.

For the most part, the cuts were never imposed because doctors and other medical service providers persuaded Congress to override them. But for each year that Congress blocked the cutbacks, the next scheduled cuts were larger.

In 2010, the cumulative cut would be a whopping 21%.

Eliminating the cuts has been a top priority for the AMA, which spent \$30 million on lobbying since the beginning of 2008. Over the last decade, no other interest group or trade association has had a bigger lobbying budget except the Chamber of Commerce.

"The AMA got freed from planned reductions in reimbursements but offered little in return," said Simmons, whose coalition is seeking to make cost control a central part of reform.

Rep. Henry A. Waxman (D-Beverly Hills) disagrees. "That's not fair," he says, arguing that the reimbursement system was so seriously flawed that it threatened the stability of Medicare.

Besides, he said, the legislation passed by the Energy and Commerce Committee, which he chairs, provides other cost savings by encouraging more cost-effective models of care, electronic medical record keeping and other efficiencies.

As proposed in the House bill and provided for in Obama's current budget blueprint, physician payments would not be cut at all in 2010. The House bill would then replace the current formula for trimming reimbursements with a more generous "target" ratio -- which Congress could ignore whenever Medicare spending outpaced economic growth.

The AMA's Nielsen says that the change was necessary because the proposed cuts were so extreme they would undermine the stability of the Medicare program. The AMA is worried about costs in general, noting that it has also pushed for malpractice and other reforms, included in the president's proposal.

"This is a big concession to doctors," said Lawrence Jacobs, a University of Minnesota health policy specialist. "Waxman like any good reformer, is pushing costs into the future and emphasizing benefits in the near term. The magic of reform in America is to get prospective stakeholders to focus on wins in the present and delay the cost as much as you can."

Whatever the pros and cons of rescinding the cuts, their value to doctors is not in dispute.

Nor is the historic shift in doctors' views on the government overhaul of the healthcare system.

Some 60 years ago, bannering charges of "socialized medicine," the nation's physicians led a



devastatingly successful campaign against President Harry S. Truman's effort to pass the first comprehensive healthcare overhaul of modern times.

In the years that followed, the AMA became a lobbying powerhouse that frustrated healthcare initiatives by Democrats and Republicans alike. Armed with deep pockets, a matchless grass-roots network and the unusual credibility that doctors have traditionally enjoyed with patients, the AMA turned back almost every plan to revamp healthcare.

After the House Energy and Commerce Committee passed its legislation, the organization offered an immediate statement of support. It issued a similar statement lauding the Obama administration's approach to health reform on the morning before the president's speech to Congress last week.

Perhaps more important, are the AMA's efforts to sway public opinion in favor of Obama's proposed reforms. Like the pharmaceutical industry, the AMA has underwritten an advertising campaign backing the president's plan.

For example, since Aug. 13, viewers in key markets have seen \$8 million in ads sponsored by the Americans for Stable Quality Care, an organization that includes the AMA and a handful of other institutional backers of Obama's proposal.

Most of the ads have been focused on the states of key senators on the finance committee and on Louisiana and Arkansas, where conservative Democrats are thought to be wavering.

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## **Illegal Immigration Tied To Health Care (WP)**

### **Activists on Both Sides Escalate Debate**

By Spencer S. Hsu, Washington Post Staff Writer

[Washington Post](#), September 15, 2009

As Congress's debate over health-care legislation lumbers toward a defining test for the Obama presidency, partisans on both sides of another issue -- immigration -- escalated their own proxy war this week, concluding that the fates of the two issues have become politically linked.

Trying to beat back a furor over whether President Obama's centerpiece initiative would subsidize health care for illegal immigrants, liberal supporters of an immigration overhaul on Monday called a main proponent of that claim a "hate group," citing its founder's ties to white supremacists and interest in racist ideas, such as eugenics.

The counterattack comes as opponents of illegal immigration plan a Capitol Hill lobbying push, starting when 47 conservative radio talk show hosts hold a "town hall of the airwaves" in Washington on Tuesday and Wednesday to highlight the costs of illegal immigration.

Strategists on both sides said the clash underscores how Republican activists have stirred populist anxiety against not only Obama's health-care effort but other parts of his agenda, and how core Democratic groups have concluded that it is time to return fire.

In an ad published in the Capitol Hill newspaper Roll Call and a teleconference with reporters, America's Voice, an umbrella group of immigrant advocacy organizations, accused the Federation for American Immigration Reform, a prime lobby for reduced immigration, of leading xenophobic efforts to lower the number of Hispanic people in the United States.

Allies of America's Voice, including leaders of the National Council of La Raza, a Latino civil rights group, and Media Matters, a news watchdog group, alleged that FAIR and related organizations play on nativist, racially charged fears to drown out debate.

"The Federation for American Immigration Reform (FAIR) is designated a HATE GROUP by the Southern Poverty Law Center," the ad reads, citing a December 2007 listing by an independent group based in Montgomery, Ala., that monitors racist organizations. "Extremist groups, like FAIR, shouldn't write immigration policy," the ad concludes.

Dan Stein, president of FAIR, called attacks on the group's founder, John Tanton, false and outdated.



"Saying something that's not true or telling a lie 50 times doesn't make it more true than the first," Stein said, noting that SPLC began its attacks earlier this decade. "They've decided to engage in unsubstantiated, invidious name-calling, smearing millions of people in this movement who simply want to see the law enforced and, frankly, lower levels of immigration," Stein said. Ongoing Attacks

Supporters of immigration reform usually stopped short of such blunt attacks when Congress debated the issue in 2006 and 2007.

Frank Sharry, executive director of America's Voice, said conservative activists have been trying to intimidate Congress by tapping into a thin but vocal vein of populist anger. Sharry acknowledged that the best scenario for a successful legalization push would be "a comeback victory for health-care reform." Obama has said he will turn to immigration next after energy legislation.

"We didn't call them out last time, we thought we were in a political debate. Now we realize it's part political debate and . . . part culture war," Sharry said. "These talk-show guys and FAIR, this isn't about immigration policy, as much as they think there are way too many Latinos in this country and they want to get rid of a couple of million of them."

Mark Krikorian, executive director of the Center for Immigration Studies, a think tank spun off FAIR, said Obama and congressional Democrats have lost credibility in the dispute over health coverage for illegal immigrants and probably were surprised by its intensity.

"Right now there are a lot of members of Congress who might have thought the immigration issue wasn't as hot for opponents as it was a couple of years ago," Krikorian said. "They were disabused of that notion." Focus on FAIR Founder

Republican Rep. Joe Wilson's shout of "You lie!" during Obama's speech to Congress last Wednesday night dramatized the dispute, in which critics say Democrats are not doing enough to verify that illegal immigrants will not receive expanded health coverage at taxpayers' expense. The White House said Obama's plan would tighten restrictions and require more verification of legal residency. Supporters say research indicates that abuse is rare, that enforcement costs outweigh savings and that U.S. citizens may be improperly denied help.

In a series of reports, the Southern Poverty Law Center and the Anti-Defamation League have focused on Tanton, who founded FAIR in 1979. The groups quote from Tanton's correspondence with Holocaust deniers and white nationalist thinkers, his expressed interest in anti-Semitic writers and the study of eugenics, and concerns about the "educability" of Hispanics and the loss of a "European American" majority.

"We want to keep that drumbeat going so politicians know when FAIR lobbyists speak to them, this is who they represent," said Heidi Beirich, an SPLC researcher.

Stein defended FAIR's track record, cited its diverse membership and said the group "stands four-square against discrimination based on race, ethnicity or religion." He said attacks on Tanton are taken out of context and "simply do not reflect the true character of the person," whom Stein described as a "Jeffersonian or Renaissance man or intellect" whose interest and writings span a wide range of issues.

He criticized America's Voice and allied groups as "juvenile mud throwers who seem unprepared to engage in serious public debate."

## **Chamber Ad Attacking Congress On Health-care Is Misleading (MCT)**

By Jordan Rau, Kaiser Health News

[McClatchy](#), September 15, 2009

AD TITLE: "The Fast Sale."

SPONSOR: U.S. Chamber of Commerce.

SUMMARY: Comparing lawmakers to sleazy street-corner salesmen, the lobbying arm for big business complains that lawmakers are trying to rush a health care overhaul through before the public can digest it. The details that the ad claims Congress is trying to gloss over have been debated for months, however.

BACKGROUND: The ad is part of a campaign launched in July by the U.S. Chamber of Commerce, which describes itself as the "world's largest business federation," representing more than 3 million



businesses. The chamber says it expects to spend \$7 million or more on this phase of its ad campaign, the same it spent on an earlier round of advertisements. The chamber says the ad is airing in 21 states where lawmakers are ambivalent or undecided about the Democratic plan. Those states include Arkansas, Colorado and Nebraska, where both sides of the debate have targeted a significant chunk of their advertising.

**AUDIO AND VISUALS:** Vaudevillian music plays. A split screen shows a sports-jacket-clad salesman sliding open the back of a truck parked behind a building near a trash bin. Inside the truck, there are boxes of merchandise alongside signs that say "no refunds" and "cash only." Simultaneously, on the other side of the screen, another salesman standing on a city street holds open a briefcase filled with watches. As both launch into rapid, unintelligible patter, a female voice-over says: "You know the type. There's a reason why some want to make a fast sale."

The screen shows an actor playing a smiling member of Congress standing behind a podium at a news conference. "Now Congress wants to make the fast sale on government-run health care. What don't they want you to know? Maybe it's the trillion-dollar price tag. Or maybe the billions in higher taxes. Or the 239 billion in debt we'll owe when the sale is final." A man in a suit behind a desk holds up a legal contract titled "Government-Run Health Care," points a pen at the bottom of the page where a red X marks a line for a signature and extends the pen toward the camera. "The fast sale on government-run health care? No way."

The narrator concludes: "Let's get serious and reform health care the right way," as the screen displays the same phrase. The screen directs viewers to call the main number for the Senate switchboard, and lists the Web address for the chamber-run Campaign for Responsible Health Reform.

**POLITICS:** The business group opposes a government-run insurer to compete with private companies. It fears that this "public option" would pay medical providers low reimbursement rates, prompting doctors and hospitals to make up for the low fees by charging private insurers and businesses higher prices.

The chamber also opposes Democratic proposals to require employers to provide their workers with insurance or pay fines to help the government cover them. The chamber favors limiting malpractice and medical liability lawsuits, and letting individuals and the self-employed purchase health insurance with pretax dollars, just as many people do who work for big companies.

**ACCURACY:** The chamber exaggerates the speed at which health care legislation is moving through Congress. The Senate Finance Committee staff released a white paper May 14 that prominently included a government-run insurer as an option for lawmakers to consider. Yet four months later the panel's chairman hasn't introduced a bill, as negotiators try to find bipartisan agreement. The legislation in the House of Representatives, introduced July 14, has been approved by three committees but hasn't yet come to the floor.

The ad's claim that Congress "doesn't want you to know" the financial costs of health care legislation is specious. In fact, the "trillion-dollar price tag" and \$239 billion of deficit spending that the ad cites are estimates released July 17 by Congress' own nonpartisan budget analysts. Those figures have been reported and dissected by the news media for months.

The chamber says the ad's reference to a "fast sale" refers to a possible Democratic strategy to push the health care bill through the Senate using budget rules that allow for a majority vote rather than the 60 votes needed to avoid a Republican filibuster. However, the purpose of that maneuver wouldn't be to hide the details of the bill - as the ad alleges - but to prevent Republicans from blocking a Democratic bill.

(Kaiser Health News, an editorially independent news service, is a program of the Kaiser Family Foundation, a nonpartisan health care policy research organization that's not affiliated with Kaiser Permanente.)

## **Health-Care Reform And The Constitution (WSJ)**

### **Why hasn't the Commerce Clause been read to allow interstate insurance sales?**

By Andrew P. Napolitano

[Wall Street Journal](#), September 15, 2009



Last week, I asked South Carolina Congressman James Clyburn, the third-ranking Democrat in the House of Representatives, where in the Constitution it authorizes the federal government to regulate the delivery of health care. He replied: "There's nothing in the Constitution that says that the federal government has anything to do with most of the stuff we do." Then he shot back: "How about [you] show me where in the Constitution it prohibits the federal government from doing this?"

Rep. Clyburn, like many of his colleagues, seems to have conveniently forgotten that the federal government has only specific enumerated powers. He also seems to have overlooked the Ninth and 10th Amendments, which limit Congress's powers only to those granted in the Constitution.

One of those powers—the power "to regulate" interstate commerce—is the favorite hook on which Congress hangs its hat in order to justify the regulation of anything it wants to control.

Unfortunately, a notoriously tendentious New Deal-era Supreme Court decision has given Congress a green light to use the Commerce Clause to regulate noncommercial, and even purely local, private behavior. In *Wickard v. Filburn* (1942), the Supreme Court held that a farmer who grew wheat just for the consumption of his own family violated federal agricultural guidelines enacted pursuant to the Commerce Clause. Though the wheat did not move across state lines—indeed, it never left his farm—the Court held that if other similarly situated farmers were permitted to do the same it, might have an aggregate effect on interstate commerce.

James Madison, who argued that to regulate meant to keep regular, would have shuddered at such circular reasoning. Madison's understanding was the commonly held one in 1789, since the principle reason for the Constitutional Convention was to establish a central government that would prevent ruinous state-imposed tariffs that favored in-state businesses. It would do so by assuring that commerce between the states was kept "regular."

The Supreme Court finally came to its senses when it invalidated a congressional ban on illegal guns within 1,000 feet of public schools. In *United States v. Lopez* (1995), the Court ruled that the Commerce Clause may only be used by Congress to regulate human activity that is truly commercial at its core and that has not traditionally been regulated by the states. The movement of illegal guns from one state to another, the Court ruled, was criminal and not commercial at its core, and school safety has historically been a state function.

Applying these principles to President Barack Obama's health-care proposal, it's clear that his plan is unconstitutional at its core. The practice of medicine consists of the delivery of intimate services to the human body. In almost all instances, the delivery of medical services occurs in one place and does not move across interstate lines. One goes to a physician not to engage in commercial activity, as the Framers of the Constitution understood, but to improve one's health. And the practice of medicine, much like public school safety, has been regulated by states for the past century.

The same Congress that wants to tell family farmers what to grow in their backyards has declined "to keep regular" the commercial sale of insurance policies. It has permitted all 50 states to erect the type of barriers that the Commerce Clause was written precisely to tear down. Insurers are barred from selling policies to people in another state.

That's right: Congress refuses to keep commerce regular when the commercial activity is the sale of insurance, but claims it can regulate the removal of a person's appendix because that constitutes interstate commerce.

What we have here is raw abuse of power by the federal government for political purposes. The president and his colleagues want to reward their supporters with "free" health care that the rest of us will end up paying for. Their only restraint on their exercise of Commerce Clause power is whatever they can get away with. They aren't upholding the Constitution—they are evading it.

Mr. Napolitano, who served on the bench of the Superior Court of New Jersey between 1987 and 1995, is the senior judicial analyst at the Fox News Channel. His latest book is "Dred Scott's Revenge: A Legal History of Race and Freedom in America" (Nelson, 2009).

## **The Health-Care Debate, From Up North (WP)**



By Jonathan Malloy

[Washington Post](#), September 15, 2009

Canadians love American health-care debates because it means you notice us. Much like Tennessee or North Dakota, we like just being mentioned. But your debates allow us to replay our own debates about health care and their relationship to national myths.

Consider a lunchtime conversation I had a few years ago with some American political scientists. Academics incapable of small talk, we began discussing why our similar countries had different health-care systems. I talked about political culture and national identity, which mystified the Americans a bit. They were interested in iron triangles; veto points; and the power of congressional committees, lobbyists and campaign donations. Those are important, yes, but I argued that health care was ultimately determined more by national identity and myths.

Ask a Canadian about differences between our country and the States, and you'll get a threefold answer: One, gun control. Enough on that. Two, much better Super Bowl commercials that are blocked out by Canadian cable regulators. (This is actually discussed seriously. The fact that we watch the Super Bowl religiously is not discussed.) Three, we have health care for all and you don't.

The reality of the two systems is of course much closer. But Canadians, who have a highly fragile and internationally ignored national identity, understand instinctively that health care says a lot about a country's heart and its understanding of itself.

Facts are remarkably unimportant in health-care debates, as every incoming Democratic president quickly learns, especially if he tries to put his government hands on Medicare. The same goes for Canada. Just as a disturbing number of Americans seem to believe we have "death panels" here, most Canadians are convinced that American emergency room defibrillators are activated by credit card swipe. ("Your health card, not your credit card" is a standard phrase in the Canadian political lexicon.) If it doesn't fit the national myth, it goes nowhere and is politically dangerous.

This, of course, works both ways. While Americans loudly proclaim their opposition to "socialist" health care, right-wing Canadian politicians are the quickest to pledge total opposition to privatization and "two-tier health care."

Once facts are put aside, the national myths reinforce themselves, even across borders. Every Republican fulmination against Canadian health care gets big play in the Canadian media, because it reinforces our sense of difference with the States. (When Democrats criticize our system, we're hurt but keep quiet.)

Perhaps you missed the "Americans for Prosperity" ads this summer featuring a Canadian woman's allegation that she would have died waiting for treatment in Canada. Canadians didn't -- the ads received national coverage and rebuttals and boosted our sense of difference with and superiority over the United States. "An admitting nurse doesn't check your credit card -- she checks your pulse" was the sort of line typical from our unimaginative politicians.

Now let's be clear -- you don't care about Canada (or North Dakota or Tennessee). But you do care about American health care and the outcome of the current process.

A year ago, America had a great appetite for change, and a catalyst in candidate Barack Obama, that might have been able to shift the national myth enough to transform American health care, much like Lyndon Johnson established Medicare so firmly that it now needs protection from government hands. But having used up his superpowers on the global recession, Obama is left to slug out the health-care debate with nothing but facts. He needs more than this to overcome a national myth that denies health care as a public good.

Good luck and watch out for those death panels.

The writer is a professor of political science at Carleton University in Ottawa.

## **Government Medicine Vs. The Elderly (WSJ)**

**In Britain in 2007-08, 16.5% of deaths came after 'terminal sedation.'**



By Rupert Darwall

[Wall Street Journal](#), September 15, 2009

London — Rarely has the Atlantic seemed as wide as when America's health-care debate provoked a near unanimous response from British politicians boasting of the superiority of their country's National Health Service. Prime Minister Gordon Brown used Twitter to tell the world that the NHS can mean the difference between life and death. His wife added, "We love the NHS." Opposition leader David Cameron tweeted back that his plans to outspend Labour showed the Conservatives were more committed to the NHS than Labour.

This outbreak of NHS jingoism was brought to an abrupt halt by the Patients Association, an independent charity. In a report, the association presented a catalogue of end-of-life cases that demonstrated, in its words, "a consistent pattern of shocking standards of care." It provided details of what it described as "appalling treatment," which could be found across the NHS.

A few days later, a group of senior doctors and health-care experts wrote to a national newspaper expressing their concern about the Liverpool Care Pathway, a palliative program being rolled out across the NHS involving the withdrawal of fluids and nourishment for patients thought to be dying. Noting that in 2007-08, 16.5% of deaths in the U.K. came after "terminal sedation," their letter concluded with the chilling observation that experienced doctors know that sometimes "when all but essential drugs are stopped, 'dying' patients get better" if they are allowed to.

The usual justification for socialized health care is to provide access to quality health care for the poor and disadvantaged. But this function can be more efficiently performed through the benefits system and the payment of refundable tax credits.

The real justification for socialized medicine is left unstated: Because health-care resources are assumed to be fixed, those resources should be prioritized for those who can benefit most from medical treatment. Thus the NHS acts as Britain's national triage service, deciding who is most likely to respond best to treatment and allocating health care accordingly.

It should therefore come as no surprise that the NHS is institutionally ageist. The elderly have fewer years left to them; why then should they get health-care resources that would benefit a younger person more? An analysis by a senior U.K.-based health-care expert earlier this decade found that in the U.S. health-care spending per capita goes up steeply for the elderly, while the U.K. didn't show the same pattern. The U.K.'s pattern of health-care spending by age had more in common with the former Soviet bloc.

A scarcity assumption similar to the British mentality underlies President Barack Obama's proposed health-care overhaul. "We spend one-and-a-half times more per person on health care than any other country, but we aren't any healthier for it," Mr. Obama claimed in his address to Congress last Wednesday, a situation that, he said, threatened America's economic competitiveness.

This assertion is seldom challenged. Yet what makes health care different from spending on, say, information technology or any category of consumer service such that spending on health care is uniquely bad for the American economy? Distortions like malpractice suits that lead to higher costs or the absence of consumer price consciousness do result in a misallocation of resources. That should be an argument for tackling those distortions. But if high health-care spending otherwise reflects the preferences of millions of consumers, why the fuss?

The case for ObamaCare, as with the NHS, rests on what might be termed the "lump of health care" fallacy. But in a market-based system triggering one person's contractual rights to health care does not invalidate someone else's health policy. Instead, increased demand for health care incentivizes new drugs, new therapies and better ways of delivering health care. Government-administered systems are so slow and clumsy that they turn the lump of health-care fallacy into a reality.

According to the 2002 Wanless report, used by Tony Blair's government to justify a large tax hike to fund the higher spending, the NHS is late to adopt and slow to diffuse new technology. Still, NHS spending more than doubled to ?103 billion in 2009-10 from ?40 billion in 1999-2000, equivalent to an average growth rate of over 7% a year after inflation.

In 1965, economist (and future Nobel laureate) James Buchanan observed of the 17-year old NHS that



"hospital facilities are overcrowded, and long delays in securing treatment, save for strictly emergency cases, are universally noted." Forty-four years later, matters are little improved. The Wanless report found that of the five countries it looked at, the U.S. was the only one to be both an early adopter and rapid diffuser of new medical techniques. It is the world's principal engine driving medical advance. If the U.S. gets health-care reform wrong, the rest of the world will suffer too.

Mr. Darwall, a London-based strategist, is currently writing a book on the history of global warming, to be published by Quartet Books in Spring 2010.

## **OTHER NATIONAL NEWS:**

### **Obama Warns Must Be Careful To Avoid Removing Stimulus Too Soon (BLOOM)**

By Timothy R. Homan And Julianna Goldman

[Bloomberg News](#), September 15, 2009

Sept. 14 (Bloomberg) -- President Barack Obama said recent data suggest the U.S. economy is returning to growth and the administration must avoid removing stimulus programs prematurely.

"All the indicators would tend to suggest that we're starting to see growth," Obama said today in a Bloomberg Television interview. "What we have to be careful of is taking the crutches away from the patient too early."

The White House last week said it expects the \$787 billion stimulus to add as many as 3 percentage points to growth in July through September, and it credited the initiative with creating or saving as many as 1.1 million jobs. Obama signed the fiscal spending package into law in February.

"We want to get out of some of these extraordinary interventions as quickly as possible but not so soon that the recovery doesn't take place," Obama said. "We have to make sure that we avoid" a second recession, he said.

Economists put the odds of a double-dip recession in the next 12 months at 25 percent, according to the median estimate in a monthly Bloomberg News survey taken from Sept. 3 to Sept. 10. The previous forecast called for a 20 percent chance of the economy backsliding after it expands.

The U.S. economy will grow at a 2.9 percent annual rate in July through September, the Bloomberg survey showed. Growth is projected to slow to a 2.2 percent pace during the last three months of the year as consumer spending weakens during the holiday shopping season, when many stores expect to reap half of their annual revenue.

#### **Economic Contraction**

The world's largest economy contracted 1 percent from April through June, according to the Commerce Department. The drop was the fourth in a row, making it the longest contraction since quarterly records began in 1947.

The unemployment rate last month jumped to 9.7 percent, a 26-year high, from 9.4 percent in July, the Labor Department said. Economists surveyed by Bloomberg this month forecast the jobless rate will reach 10 percent by the end of the year.

"We've seen steady declines in the number of people who are losing their jobs each month," Obama said. "We're seeing a bottoming out and potentially we could start seeing some positive job growth."

Since the recession began in December 2007, the U.S. has lost 6.9 million jobs. Payroll cuts peaked at 741,000 in January and have since subsided, with 216,000 job losses in August, according to the Labor Department.

### **Fed Official Expects 'Tepid' Recovery (WSJ)**

By Michael Casey

[Wall Street Journal](#), September 15, 2009

NEW YORK -- Janet Yellen, the president of the Federal Reserve Bank of San Francisco, made a clear call Monday for keeping the Fed's accommodative monetary-policy stance in place for some time.



Ms. Yellen, who has positioned herself over the past few months as one of the more dovish members of the Federal Open Market Committee, said intervention by the Fed and the U.S. Treasury had averted the "second Great Depression," but that it was too early to cut monetary stimulus.

"I regret to say that I expect the recovery to be tepid," Ms. Yellen said. "What's more, the gradual expansion gathering steam will remain vulnerable to shocks."

She said that inventory restocking, a recovery in manufacturing and an improvement in home sales would lead to an expansion in economic activity in the current and fourth quarters of this year. However, she added, "My own forecast envisions a far less robust recovery, one that would look more like the letter U than V."

Holding growth back, she said, would be the process by which consumers recover their balance sheets by increasing their savings and the prospect that employers continue to shed jobs at a "rapid" rate.

Ms. Yellen said she didn't expect to see the economy reach full employment "for several years," and she foresees rising losses on commercial-real-estate loans bringing new blows to small and midsize banks in the months ahead.

"My personal belief is that the more significant threat to price stability over the next several years stems from the disinflationary forces unleashed by the enormous slack in the economy," she said.

Ms. Yellen acknowledged inflation hawks who worry that the Fed's aggressive quantitative-easing actions could put it in a difficult position to reverse policy when price increases pose a bigger threat, calling their fear "real, growing, and disruptive."

"That's why it's so important for me to say the following loud and clear: We at the Fed are and will remain fiercely independent from politics," she said.

In conclusion, Ms. Yellen said, "I can assure you that we will be ready, willing and able to tighten policy when it's necessary to maintain price stability. But, until that time comes, we need to defend our price stability goal on the low side and promote full employment."

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## **A World Of Hurt (NYT)**

By Bob Herbert

[New York Times](#), September 15, 2009

President Obama took a bit of a victory lap on Wall Street on Monday, declaring that the economy had been brought back from the abyss and "the storms of the past two years are beginning to break."

The president and his economic team (and the Federal Reserve) deserve credit for moving quickly to prevent a full-blown collapse. A year ago, amid the panic that accompanied the implosion of Lehman Brothers, there were serious fears that the U.S. was headed toward another Great Depression.

Now, with the financial sector stabilized and economists predicting that the Great Recession is nearing an end, the sighs of relief coming out of Washington and Lower Manhattan are understandable. But this is no time to lose sight of the wreckage all around us. This recession, a full-blown economic horror, has left a gaping hole in the heart of working America that is unlikely to heal for years, if not decades.

Fifteen million Americans are locked in the nightmare of unemployment, nearly 10 percent of the work force. A third have been jobless for more than six months. Thirteen percent of Latinos and 15 percent of blacks are out of work. (Those are some of the official statistics. The reality is much worse.)

Consider this: Some 9.4 million new jobs would have to be created to get us back to the level of employment at the time that the recession began in December 2007. But last month, we lost 216,000 jobs. If the recession technically ends soon and we get to a point where some modest number of jobs are created - say, 100,000 or 150,000 a month - the politicians and the business commentators will celebrate like it's New Year's.

But think about how puny that level of job creation really is in an environment that needs nearly 10 million jobs just to get us back to the lean years of the George W. Bush administration.

We're hurtin' and there ain't much healin' on the horizon.



A national survey of jobless workers by a pair of professors at Rutgers University shows just how traumatized the work force has become in this downturn. Two-thirds of respondents said that they had become depressed. More than half said it was the first time they had ever lost a job, and 80 percent said there was little or no chance that they would be able to get their jobs back when the economy improves.

The 1,200 respondents were jobless at some point over the past year, and most - 894 - are still unemployed. More than half said that they had been forced to borrow money from friends or relatives, and a quarter have missed their mortgage or rent payments.

The survey found that affluent, well-educated workers, who had traditionally been able to withstand a downturn in reasonably good shape, were being hit hard this time around.

The professors, Carl Van Horn and Cliff Zukin, described that phenomenon as "a metric of the recession's seismic impact." Of the workers who found themselves unemployed for the first time, more than one in four had been earning \$75,000 or more annually.

"This is not your ordinary dip in the business cycle," said Mr. Van Horn. "Americans believe that this is the Katrina of recessions. Folks are on their rooftops without a boat."

Stunned by the financial and psychological toll of the recession, and seeing little in the way of hopeful signs on the employment landscape, many of the surveyed workers showed signs of discouragement. Three-fifths said that they had experienced feelings of helplessness.

Said one respondent: "I've always worked, so this is very depressing. At age 60, I never believed I would be unemployed unless I chose to be."

Said another: "I fear for my family and my future. We are about to be evicted, and bills are piling. We have sold everything we possibly can to maintain, and are going under with little hope of anything."

At some point the unemployment crisis in America will have to be confronted head-on. Poverty rates are increasing. Tax revenues are plunging. State and local governments are in a terrible fiscal bind. Unemployment benefits for many are running out. Families are doubling up, and the number of homeless children is rising.

It's eerie to me how little attention this crisis is receiving. The poor seem to be completely out of the picture.

If we end up with yet another jobless recovery, there would seem to be little hope for impoverished families in America's big cities, rural areas and, increasingly, suburban neighborhoods as well.

The recession may be ending for some.

Tell that to the unemployed.

## **Stocks Notch Modest Gains (WSJ)**

By Peter A. Mckay And Geoffrey Rogow

[Wall Street Journal](#), September 15, 2009

Stocks drifted higher on Monday, continuing a longer-term trend of investors shifting money into riskier bets as the financial crisis and recession show signs of healing.

The Dow Jones Industrial Average climbed 21.39 points, or 0.2%, to 9626.80. General Electric rose 4.6%. Industrial and commodities-oriented stocks have helped rally the broader market recently on optimism about a global economic recovery.

The S&P 500 gained 6.61 points, or 0.6%, to 1049.34, supported by a 1.5% gain in its utilities sector after the Chinese government's investment arm was reported by The Wall Street Journal to be in talks acquire a minority stake in Virginia-based power-plant developer AES. AES shares rose 4.5%.

A flurry of dealmaking activity in recent weeks has helped give investors some confidence that financial markets are returning to normal functioning after the collapse a year ago of Lehman Brothers Holdings. Stocks rallied to the highest levels of the year last week and the dollar, which had become a popular refuge for rattled traders, declined.

Doug Roberts, chief investment strategist at Channel Capital Research Institute, said that "people are starting to reflect if we've really solved a lot of problems."



Some wariness clearly remains. Stocks have managed a solid recovery from the bear-market lows of early March but remain below the levels seen prior to the Lehman meltdown.

President Obama said in a speech at Federal Hall, across from the New York Stock Exchange, that financial markets "are beginning to return to normalcy" following the drama of last fall, but said new regulations are needed to prevent a return to the excesses that led to the crisis.

Still, some analysts said that for now, the path of least resistance for stocks may be upward.

"The market's positive bias remains intact, even though it's certainly overbought for the short term," said Ted Weisberg, a floor broker for Seaport Securities in New York. "The selloffs just can't seem to get any traction," with investors on the sidelines often seizing dips like the one after Monday's open as buying opportunities.

The Nasdaq Composite Index advanced 10.88 points, or 0.5%, to 2091.78. The Russell 2000 index of small-capitalization stocks climbed 6.44 points, or 1.1%, to 600.03.

Shares of U.S. tire makers rallied after the U.S. imposed tariffs on Chinese tires. Cooper Tire & Rubber shares jumped 7.1% and Goodyear Tire & Rubber gained 3%.

The dollar gained against the yen but weakened against the euro. Treasury prices fell. The two-year note was down 1/32, yielding 0.919%. The 10-year note declined 20/32 to yield 3.421%.

Crude-oil prices slipped, with the front-month contract shedding 43 cents to settle at \$68.86 a barrel, its lowest settlement since Sept. 4. Comex gold for September delivery declined \$5.00 a troy ounce, or 0.50% to \$999.90. Natural-gas futures bucked the broader downtrend in commodities prices.

"We have to look at natural gas," said Craig Peckham, equity trading strategist at Jefferies. "After many failed rallies, it seems to be putting in a decent rebound after all the other commodities reacted to the building sentiment that the industrial demand picture is improving." -Donna Kardos Yesalavich contributed to this article

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## **World's Wealthy Pay A Price In Crisis (WP)**

### **Nations Raise Taxes, Tighten Regulations**

By Anthony Faiola, Washington Post Foreign Service

[Washington Post](#), September 15, 2009

LONDON -- In this land of inherited privilege and celebrity billionaires, it no longer pays as much to be rich.

Hobbled by soaring debt and ballooning public spending amid the global financial crisis, the British government is joining others around the globe in tapping the wealthy to cover massive shortfalls. As a result, the tax rate here for those making more than \$250,000 a year is set to jump from 40 to 50 percent, leaving the likes of Charlie Mullins -- the self-made king of London plumbing -- fuming. He estimates that the new bill on his \$2.5 million annual income, with exemptions, will jump by no less than \$236,000.

Observers say it is part of a far broader campaign in the wake of the Great Recession -- including curbs on bankers' pay and a rigorous global hunt for tax cheats from Switzerland to Singapore -- that is suddenly putting the world's wealthy on notice.

In the United States, taxes on the richest Americans are one option for covering the cost of offering health care to the 46 million who are uninsured. The Obama administration has vowed to press forward with its ambitious agenda without raising income taxes on families earning less than \$250,000. But the president's current budget calls for a rollback of the Bush tax cuts for the richest Americans that would increase their top marginal tax rate in 2011 from 35 percent to 39.6 percent, or the same as in the Clinton era.

In India, the government has launched an effort to track down billions of dollars in "black money" -- or hidden profits of the rich. In Germany, Parliament in July passed a law requiring the affluent to provide more information on the locations of their assets. Since the economic crisis began, there have been fresh tax increases for high-earners in the Netherlands, France, Ireland, Italy, Belgium and several other countries.



Analysts say the action marks the first time since before the Reagan-Thatcher era of the 1980s -- when trickle-down economics led to decades of lower tax rates on the wealthy -- that the world's moneyed have faced this level of pressure from such a wide array of governments. It happens as cash-strapped governments -- even as the global economy begins to recover -- are scrambling for scarce sources of revenue to fund expensive stimulus packages, combat the recession and expand services to the less fortunate.

There has been "an absolutely direct correlation between taxes and the financial crisis," said Jon Terry, head of reward practices at Pricewaterhouse Coopers in London. "If there was no financial crisis, I would have been surprised if taxes would have increased at all for high-earners."

Given the gap between the rich and poor that widened globally during the excess of recent years, many see the wealthy as the fairest, most likely source for funds in hard times. In the case of tax cheats, the campaign to root them out, many argue, is long overdue.

But for some, it is beginning to feel like governments are piling on when it comes to the rich -- who, through lost real estate and stock values, have already shed untold billions.

"I know the public is angry and looking for someone to blame, but this [crisis] was not the doing of people like me," said Mullins, a mop-topped 56-year-old who left school at age 15 to form Pimlico Plumbers, now one of Britain's largest plumbing companies with 162 employees. "I've worked hard for what I have, and the government is taking it away because they've dug themselves into a fine mess. I know the rich have certain responsibilities, but this just isn't right."

A special hot seat has been reserved, however, for those seen as directly responsible for causing the economic crisis -- namely, bankers.

At a summit of the Group of 20 industrialized nations in Pittsburgh this month, the French and Germans will press for strict caps on extravagant bonuses at financial firms. Though such a measure has met resistance from the United States and Britain -- home to the world's two great financial centers, New York and London -- President Obama and other leaders are nevertheless expected to embrace guidelines for a level of transparency and government scrutiny of bankers' pay considered unthinkable before the crisis.

On a national level, the Obama administration's plan to curb financial bonuses is still pending before Congress. Yet other countries have already acted. The Dutch, whose taxpayers also are footing the bill for massive bailouts, have gone as far as capping bonuses at 100 percent of base salary while limiting severance packages to one-year's pay. The French have moved to defer existing bonuses and forbid multiyear bonus guarantees, making it no longer quite as rewarding to be a financial executive in Paris.

French bankers are reacting with a mix of anger and acceptance. "I would think that among the various causes you may give for the crisis, traders' pay is not a significant cause," said Pierre de Lauzun, director general of the French Banking Federation. "Of course, after a crisis, it is not bad that people reflect on how to make the market healthier. But [the bonus issue] is not the main cause, not the dominant problem. It is one dimension among others."

The push for more government revenue during the crisis has fueled what experts describe as the most serious global effort to root out wealthy tax evaders in recent history. The campaign began in earnest in April with threats to "name and shame" governments that act as tax havens. But it is now poised to markedly escalate, with G-20 leaders in Pittsburgh, according to sources close to the talks, set to take the further step of imposing sanctions on tax havens such as Uruguay and Panama if they do not move to cease shielding tax dodgers by March.

Already, the campaign has cracked open the famous secrecy of Swiss banks, which, under extreme pressure, have shared thousands of names of tax cheats with the Americans and the French. Last month, Indian officials said they would begin talks with Switzerland to track down an estimated \$27 billion annually in "black money" hidden by wealthy Indians overseas, which they consider vital cash that could go toward economic development and programs for the poor.

Yet some experts caution that such efforts only scratch the surface. In India's case, for example, critics argue that the government is moving too slowly to follow up on promises to bring wealthy cheats to justice, in



part because many tax offenders are believed to be government officials. Underscoring mounting public rage, on Sunday in New Delhi dozens of residents marched at the historic downtown India Gate against the "laziness" of the government in tracking down black money deposited in Swiss bank accounts.

Cheats or not, the rich are seeing governments helping themselves to their wallets in a manner not seen in years – particularly in Britain.

Spurred by Thatcher, who came to power in 1979, Britain became a relative paradise for the wealthy, with maximum tax rates coming down from 83 percent to 40 percent in recent years. But with Britain facing one of the world's sharpest downturns and lagging behind much of the rest of Europe in recovery, Prime Minister Gordon Brown has called the wealthy the fairest targets for the heavily indebted government.

Not only is the general income-tax rate for wealthy Britons scheduled to leap from 40 to 50 percent for 2010 but they will see major rollbacks on the types and sizes of permitted tax deductions. A separate tax on wealthy foreigners who live in Britain but do not pay income taxes here -- a measure partly aimed at the Arab sheiks of elegant Mayfair -- will now force them to cough up about \$51,000 a year.

Some, like the Swiss, whose domestic tax loopholes can still dramatically benefit foreign high-earners, see an opportunity to lure the jilted rich of Britain. Swiss officials have begun hosting seminars in London, seeking to persuade wealthy executives to move to the friendlier environment in the shadow of the Alps.

Some appear to be taking them up on their offers. Others, like Irish packaging tycoon Dermot F. Smurfit, thought about it but ultimately decided to stay in Britain.

"It bothers everybody paying taxes, and the rich have already been hit harder than the average person in this crisis since they have more stocks or property that have lost value," Smurfit said. "But I guess you can say that it is fair that the wealthy should pay more. That doesn't mean you have to like it."

Correspondent Emily Wax in New Delhi, staff writer Lori Montgomery in Washington and special correspondents Karla Adam in London and Shannon Smiley in Berlin contributed to this report.

## **No Easy Exit For Government As Housing Market's Savior (WSJ)**

By Jon Hilsenrath And Deborah Solomon

[Wall Street Journal](#), September 15, 2009

WASHINGTON -- After a year of extraordinary interventions in the economy, the federal government is starting to pare its support for the private sector. It doesn't look that way to Peter Lansing, president of mortgage firm Universal Lending.

The Denver home lender sees every day how dependent the housing market has become on the government. At the height of the boom, just 20% of Universal's mortgages were backed by the Federal Housing Administration, an arm of the government that guarantees loans to borrowers who can't afford big down payments. Today, the FHA accounts for more than 80% of his business. For Mr. Lansing, this represents a new way of life – more government, more paperwork, but also a lot of sales that wouldn't have happened otherwise.

"Over 29 years in business, we've always thought of ourselves as being in the free-enterprise system. Today I think of myself as a government contractor," Mr. Lansing says. "My business strategy is to get more of my employees to embrace that idea. Plan B would be to sell pencils on the corner."

In a speech on Wall Street a year after Lehman Brothers collapsed, President Barack Obama said Monday the need for the government to keep stabilizing the financial system "is waning." His administration released a 51-page report detailing rescue programs that are slowly being scaled back. But the Treasury Department, author of the report, noted that housing is one area where it's too early to exit.

Over the past year, the government has intervened heavily at essentially every stage of the home-buying process. In fact, more than 80% of the new residential mortgage loans made this year benefited from some form of government support, according to the trade publication Inside Mortgage Finance.

To keep funds flowing to the housing market, the government bailed out Fannie Mae and Freddie Mac last year and now effectively owns the mortgage finance giants and their combined \$5.4 trillion in loan portfolios. To keep mortgage rates low, the Federal Reserve is on track to purchase nearly \$1.5 trillion in debt



issued or guaranteed by the government's various mortgage arms and another \$300 billion in Treasuries, which set the benchmark for home lending.

And to boost sales, the government also is offering \$8,000 tax credits to first-time home buyers.

Those efforts appear to have had the intended effect of braking the housing market's plunge. They prompted Jonathan Swinton and his wife, Annie, to plunge into the market ahead of schedule. The couple plans to close on a \$226,000 home in a suburb of Salt Lake City in the coming weeks.

"We had always wanted to buy a home, but we had been planning to wait a couple of years," says Mr. Swinton, who recently completed course work for a Ph.D. in family therapy at Kansas State University and is now working at a mental health facility in Salt Lake City. "The low interest rates and the tax credit were the two primary factors that motivated us to buy this year."

Signs of a housing-market bottom have cropped up. Sales of new homes are up more than 30% from lows reached early this year, and sales of existing homes are up nearly 17%. Shares of companies that build homes have turned higher, inventories of unsold new homes are down and home prices have ticked up after steep declines.

Yet the government's efforts are the primary reason the housing market is functioning at all, economists and housing experts say, which makes an exit unlikely any time soon. Despite the signs of improvement, the housing market is still a shell of what it was during headier times. U.S. home prices are back around 2003 levels, having fallen by about one-third since their peak in the second quarter of 2006, according to Standard & Poor's. Sales of distressed homes still account for about one-third of existing home sales, and prices continue to fall in some markets such as the Sun Belt states. In addition, relatively few "jumbo" loans are being made -- those above the limits of what Fannie and Freddie will buy or guarantee.

"At least for the next two years, and possibly longer, it is not possible that the government would say: 'The U.S. mortgage market no longer needs our support,' " says Dwight Jaffee, an economics professor at the University of California Berkeley's Haas School of Business. "Were they to say that, the mortgage market and the housing market would almost surely crash."

Promoting homeownership has been a stated goal of Republican and Democratic presidencies for decades. The Obama administration recognizes it will need -- at some point -- to rethink broadly the government's role in housing and mortgages. Administration officials also acknowledge that moment won't come soon.

"Every government in the world takes a role in its country's housing market," says Lawrence Summers, Mr. Obama's top economic policy adviser. "What that role should be when normal conditions return is a crucial question we'll all be considering in coming months and coming years." He added: "It's clearly going to take time."

The government's role in housing has a long pedigree. The 1930s gave birth to Fannie Mae and the FHA, which traditionally insured loans aimed at low-income borrowers. Freddie Mac was created in 1970. Since the housing crash, these players are in some spots the only game in town.

Their backing means private lenders are assured of repayment -- by the government, if not the borrower. The size of loan that can be guaranteed is capped in most parts of the country at \$417,000, but can reach as high as \$729,750 in high-cost areas such as parts of California, New York and Washington, D.C.

Loans above those levels are hard to obtain. Steve Walsh, a mortgage broker in Arizona, said he recently tried to arrange a mortgage for a married couple who wanted to buy a \$1.5 million home in Mesa. The couple offered a down payment of \$400,000, but the lender wanted \$600,000, or 40%, in part because the couple had opened a law firm and didn't have two years of tax returns. That's double what was considered standard before the boom. The pair walked away, said Mr. Walsh.

The government temporarily raised the size of the loans Fannie and Freddie can guarantee in February 2008 and is unlikely to ever return to previous levels. The higher levels have been extended once, and the mortgage industry is lobbying to keep them high.

At the Fed, the question of whether to start dismantling the scaffolding is a dominant one. Since the



beginning of the year, the Fed has purchased \$836 billion of mortgage backed securities issued by Fannie Mae, Freddie Mac and Ginnie Mae, the federal body that securitizes FHA loans. The purchases have helped push down interest rates on mortgages guaranteed by the firms from nearly 6.5% last October to 5.25% today, according to HSH Associates, which tracks the mortgage market.

That seems to have helped to put a floor under housing sooner than many officials expected. At the same time, it has created distortions in the market.

When the Fed buys up to \$30 billion in mortgage securities every week, regardless of price, "it makes it very difficult for the market to find its own equilibrium," says Ajay Rajadhyaksha, head of U.S. fixed income research at Barclays. He said investors are trading in Treasury securities instead, pushing rates lower in that market, too.

The Fed is likely to decide to carry on buying until it reaches the \$1.25 trillion target it set in March, and then taper off gradually. Some Fed officials will likely argue for stopping sooner, even as soon as next week's regular policy meeting.

If the Fed stops sooner than expected, it could jolt the mortgage market and short-circuit a housing recovery. Barclays's Mr. Rajadhyaksha estimates that even if the Fed carries on as planned, mortgage rates will rise by half to three-quarters of a percentage point, simply because the Fed will cease to be as big a presence in the market.

The Fed will face a challenge managing its portfolio of mortgage backed securities even after it stops buying the securities. When it bought the securities, it effectively flooded the financial system with cash. One way to pull that cash back out would be to sell the securities, but officials are wary of disrupting the fragile mortgage market. If they move too slowly to drain the financial system of cash, however, it could lead to inflation.

The first-time home buyer's tax credit, which provides up to \$8,000 for individuals earning up to \$75,000 and couples earning up to \$150,000, is set to expire in November. It was originally included in the \$787 billion stimulus bill passed in February. Congress, increasingly preoccupied with mounting deficits, will have to decide whether to extend it. Deutsche Bank estimates the credit has helped generate 350,000 sales, about half the increase in single-family home sales in the past six months.

The tax credit's effectiveness depends largely on its longevity. That's because many of the home sales analysts think it has spurred have been stolen from the future, luring buyers into the market who might not otherwise have bought until next year or beyond. When the credit expires, that demand will disappear, too.

"All it does is move demand forward in time," says Kenneth Rosen, who chairs the Fisher Center for Real Estate and Urban Economics at the University of California, Berkeley. "The last six months, we've seen signs of a housing bottom. We could easily see that disappear."

Tom McMormick, president of Astoria Homes, a private home builder in Las Vegas, says the government's efforts to prop up the housing market are making a difference, but says his own business remains very fragile. "The tax credit is what we think got people off the fence," he says. "Once that money came in back in February, the market literally jumped 10% to 20%."

But, he says, most home buyers are buying existing or foreclosed homes, meaning the new home market has barely budged. At his peak in 2005, he built more than 1,000 homes. This year, he expects to do fewer than 100. "It is just real dark right now," he says.

Yet more uncertain is the future of Fannie Mae and Freddie Mac, an already difficult policy question exacerbated by the passions the pair evoke. When they were placed under government control last year, officials described the move as a "time out" while they find a permanent solution. Fed Chairman Ben Bernanke has floated the idea of turning them into a public utility or privatizing them and offering government insurance on their bonds for a fee.

The Obama administration has put off wrestling with that question until next year. It expects to issue a proposal by March 2010.

"We don't feel like the world is anywhere close to us being able pull back our support," one administration official says.



The FHA brings its own tough issues. The agency, which has insured private lenders against defaults on certain home mortgages, has seen its balance sheet take a hit as risky borrowers default on those loans and is already in danger of falling below a level of reserves mandated by Congress. Yet it remains a key facilitator of loans.

Teri Gifford, who runs a mortgage brokerage serving Kentucky and Ohio, says 95% of her business involves getting clients loans backed by the FHA. "It's all government loans," says Ms. Gifford, whose firm brokers between \$30 million and \$35 million in loans each year. "That's all that can be done anymore."

Loan volume is up at Ms. Gifford's firm, EZ Mortgage Loans Inc., Hillsboro, Ohio, but profitability is down, in part because of costs of working with the government. To work with the FHA, the firm must provide audited annual financial statements, an expense she said runs about \$10,000 annually, plus have a certain percentage of loans audited each quarter.

Still, Ms. Gifford fears that the U.S. will pull back when the loans it's backing start going bad. "I'm worried what the future could hold if we put all the eggs in one basket," she said.

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## **Crowd Estimates Vary Wildly For Capitol March (LAT)**

**How many angry conservatives showed up to protest Obama's policies? Was it 2 million? Or 60,000? It all depends on who you ask.**

By Joe Markman, September 15, 2009

[Los Angeles Times](#), September 15, 2009

A sea of angry taxpayers marched on the Capitol Saturday afternoon. That much is certain. But even before the march was over, the news media, bloggers and rally supporters were wrangling over the crowd count, with estimates ranging from 60,000 to 2 million.

The Daily Mail in England initially reported that 1 million people flooded the west lawn of the Capitol, protesting what they called the dangerous big government policies of President Obama. Some conservative blogs claimed 2 million attendees.

The two groups that sponsored the event offered more modest but widely varying numbers. Pete Sepp, a National Taxpayers Union spokesman, said the group estimated the crowd at 75,000 in the morning and from 200,000 and 300,000 as the day went on. FreedomWorks spokesman Adam Brandon put his "conservative" estimate at 600,000 to 800,000 after comparing photographs of Saturday's protest with previous events. Although no official crowd estimates were issued, local officials and an expert indicated the number was more likely under 100,000, still a sizable turnout.

Farouk El-Baz, a Boston University research professor and expert on crowd estimation, said his informal research from press coverage indicated 75,000 as the peak number. Pete Piring, a spokesman for the District of Columbia Fire Department, said he made an unofficial estimate of 60,000 to 70,000 at the beginning of the event.

Washington Metropolitan Area Transit Authority spokesman Steven Taubenkibel said Saturday ridership figures indicated an extra 87,000 people took the subway all day, a significant increase over the 350,000 average.

Confusion and anger over crowd estimates are as much a part of Washington as its marble monuments. Organizers of the Million Man March in 1995 threatened to sue the National Park Service over its crowd estimate of 400,000, when their own number was between 1.5 million and 2 million.

Boston University's Center for Remote Sensing estimated the Million Man March crowd at 837,214, with a 20% margin of error. The center, headed by El-Baz, used aerial photographs provided by the Park Service to do a computer analysis of the turnout.

Afterward, Congress directed the agency not to produce estimates.

"We do not give crowd estimates for any event, any time, whatsoever, period," said National Park Service spokesman Bill Line



The controversy this weekend was fanned by the Internet. Bloggers circulated a photo showing a mass of people on the National Mall as evidence of a larger crowd. But it turned out the photo was taken at least five years ago: The National Museum of the American Indian, which opened in 2004, is not on the Mall in the picture.

El-Baz said the only accurate way to measure attendance is by counting heads in a photograph taken from an airplane or satellite, an expensive undertaking. No such photo was taken Saturday, to El-Baz's knowledge. Airspace over the National Mall is restricted.

"There is just no way for anybody [on the ground] to estimate the crowds," El-Baz said of people trying to do rough counts. "Most of these [other] numbers are not even in the ballpark."

## **Movement Aired In Protests Isn't New (WSJ)**

By Gerald F. Seib

[Wall Street Journal](#), September 15, 2009

The buses that rolled into the U.S. capital over the weekend, carrying protesters steamed up about government spending and decrying the advent of "socialism," may appear to represent a rich new vein in American politics.

In fact, though, these Tea Party Patriots and like-minded brethren represent the latest resurfacing of a vein that has always been there and that simply goes below ground from time to time. This vein is populist and antiestablishment; it alternates between suspicion of government in general, and anger at the idea that government seems to be doing more to help fat cats or the other guy. In some fashion or another, it has been around since the time George Washington quelled the Whiskey Rebellion.

The last big appearance came when Ross Perot tapped into it in the 1990s. Mr. Perot, who ran for the presidency in 1992, when he got 19% of the vote, and in 1996, didn't create the movement then, any more than Fox News broadcaster Glenn Beck has created it now. He simply gave voice to it.

There are differences, of course, between the Perot foot soldiers and the protesters who now show up at town-hall meetings and marched on the Capitol on Saturday. The Perot phenomenon arose out of anger at a Republican president, George H.W. Bush, while today's movement bores in on a Democratic one, Barack Obama. The Perot movement tended to focus on the dangers of deficits, while today's more generally is focused on government spending -- and there's a subtle but important difference.

But the movements of then and now have a lot more in common, and there are some lessons to be learned about today's politics by looking back at what transpired in the '90s.

During the flowering of the Perot movement, I spent some time chronicling the comings and goings of a group of Perotistas in Pennsylvania. They jumped on the Texas billionaire's bandwagon early, later moved out to form their own political party (called, in a precursor of today's movement, the Patriot Party), then joined forces again with Mr. Perot when he formed his own national third party, the Reform Party.

It would be hard to find political activists whose motives were more pure, almost innocently so. Yet like most insurgents, the Pennsylvania folks also spent a fair amount of time arguing with one another -- often over whether they loved Mr. Perot or were being controlled by him and his organization -- and occasionally lapsed into internal squabbles with roots in local battles of days gone by.

But they knew they were angry, felt they had little say within the two existing parties and were worried most of all about how their tax dollars were being spent -- all the same hallmarks of today's movement. It's highly likely, in fact, that some folks who were Perotistas then are Tea Party Patriots now.

And that suggests a few lessons to remember:

These aren't partisan movements. The Perot followers were first angry at the first President Bush, then later easily transferred some of that anger to a Democratic president, Bill Clinton. Mostly they were mad at the establishment. Eventually, in fact, many ultimately focused their anger on Mr. Perot himself, after they came to believe he was trying to manipulate them. Which leads to lesson No. 2:

Movements like these aren't easy to control. If a citizen is motivated by anger that the government is trying to control his life, he isn't likely to easily accept the idea that some other person or institution is trying to



control him, either. Some of today's insurgents are angry at bank bailouts, some at the government takeover of auto companies, some at the prospect of a bigger government role in health care -- but the unifying characteristic is that they are angry at any kind of central control at all. Republicans who think they can harness Tea Party Patriots and their anger may be in for a rude surprise of their own.

It isn't really ideological. Perot followers were often thought to be conservatives, but one of their most powerful motivating forces was antipathy to free trade -- a classically conservative idea. Similarly, it's doubtful now that many of those senior citizens on the buses want their Medicare coverage turned into a voucher program, as some conservatives suggest, or share the view of many economic conservatives that the country benefits overall from immigration.

The movement is very much about how the government spends money. The Perot army and today's share that much in common -- but this also is an area where they diverge in an important way. What agitated Mr. Perot, and by extension his followers, was the idea that the government was spending money it didn't have, borrowing to finance the practice, and driving up the federal deficit in the process. It was shoddy management almost as much as spending that angered them. To rectify that, Mr. Perot advocated not just spending cuts but tax increases, including a hefty gasoline tax.

Today's protesters are more vocal about the level of spending, less about the way it's being financed. Thus, the protesters don't rally around a cry of "lower deficits," but rather "less government." It's more than a semantic difference -- and also a natural, perhaps even predictable, reaction to a period of intense government effort to rescue financial markets and the economy.

## **Angry, Polite 'Mob' Descends On D.C. (WSJ)**

**We're mad as hell and hope you have a nice day!**

By James Freeman

[Wall Street Journal](#), September 15, 2009

WASHINGTON, D.C. -- The running joke at Saturday's Taxpayer March on the Capitol was the claim by Democrats that those protesting against ObamaCare constitute a "mob." Aside from the few kooks who can be expected to show up at any large gathering (especially when there's media attention), participants were generally about as threatening as the lunchtime crowd at Cracker Barrel -- and just as old.

Health care is a huge day-to-day issue for the senior set. They certainly were over-represented on the West Front of the Capitol. In fact, if this is a radical movement, it might be the first in history to be led by retired people.

Attendees were angry about the expanding size of government, but also exceedingly polite about their anger. It would be hard to find a crowd of 75,000-plus that was more courteous. Many were not just retired, but retired specifically from the work of defending the country: So many veterans were in attendance that it almost seemed a U.S. military reunion.

Among the most popular T-shirts was one that announced: "I'll keep my guns, freedom and money. You can keep the Change." Other messages on posters, banners and T-shirts included the following:

"From tiny Acorns, mighty socialists grow."

"The Constitution: The Other Document They Never Read."

"I'm not your ATM."

"We came unarmed (this time)."

And . . . "I am the Mob."

Given how much the average retired person loves a long bus ride followed by standing around outside for hours at a time, the gathering on the Capitol lawn was an impressive one, even if it wasn't in the same ballpark as some of the more historic gatherings. Then again, this group has seen a lot of U.S. history -- and apparently is convinced the threat from ObamaCare is indeed historic.

For more entries, please subscribe to Political Diary.

## **Up To Two Million March To US Capitol To Protest Against Obama's Spending In**



## "tea-party" Demonstration (LONDM)

[London Daily Mail](#), September 13, 2009

Up to two million people marched to the U.S. Capitol today, carrying signs with slogans such as "Obamacare makes me sick" as they protested the president's health care plan and what they say is out-of-control spending.

The line of protesters spread across Pennsylvania Avenue for blocks, all the way to the capitol, according to the Washington Homeland Security and Emergency Management Agency.

People were chanting "enough, enough" and "We the People." Others yelled "You lie, you lie!" and "Pelosi has to go," referring to California congresswoman Nancy Pelosi.

Tens of thousands of people converged on Capitol Hill on Saturday to protest against government spending

Demonstrators waved U.S. flags and held signs reading "Go Green Recycle Congress" and "I'm Not Your ATM." Men wore colonial costumes as they listened to speakers who warned of "judgment day" - Election Day 2010.

Richard Brigle, 57, a Vietnam War veteran and former Teamster, came from Michigan. He said health care needs to be reformed - but not according to President Barack Obama's plan.

"My grandkids are going to be paying for this. It's going to cost too much money that we don't have," he said while marching, bracing himself with a wooden cane as he walked.

FreedomWorks Foundation, a conservative organization led by former House of Representatives Majority Leader Dick Armey, organized several groups from across the country for what they billed as a "March on Washington."

Organizers say they built on momentum from the April "tea party" demonstrations held nationwide to protest tax policies, along with growing resentment over the economic stimulus packages and bank bailouts.

US President Barack Obama sports a mustache famously worn by German dictator Adolf Hitler

Demonstrators hold up banners on Capitol Hill in Washington on Saturday

Many protesters said they paid their own way to the event - an ethic they believe should be applied to the government.

They say unchecked spending on things like a government-run health insurance option could increase inflation and lead to economic ruin.

Terri Hall, 45, of Florida, said she felt compelled to become political for the first time this year because she was upset by government spending.

"Our government has lost sight of the powers they were granted," she said. She added that the deficit spending was out of control, and said she thought it was putting the country at risk.

Anna Hayes, 58, a nurse from Fairfax County, stood on the Mall in 1981 for Reagan's inauguration. "The same people were celebrating freedom," she said. "The president was fighting for the people then. I remember those years very well and fondly."

Saying she was worried about "Obamacare," Hayes explained: "This is the first rally I've been to that demonstrates against something, the first in my life. I just couldn't stay home anymore."

The heated demonstrations were organized by a Conservative group called the Tea Party Patriots

Like countless others at the rally, Joan Wright, 78, of Ocean Pines, Md., sounded angry. "I'm not taking this crap anymore," said Wright, who came by bus to Washington with 150 like-minded residents of Maryland's Eastern Shore. "I don't like the health-care [plan]. I don't like the czars. And I don't like the elitists telling us what we should do or eat."

Republican lawmakers also supported the rally.

"Republicans, Democrats and independents are stepping up and demanding we put our fiscal house in order," Rep. Mike Pence, chairman of the House Republican Conference, said.

"I think the overriding message after years of borrowing, spending and bailouts is enough is enough."

Other sponsors of the rally include the Heartland Institute, Americans for Tax Reform and the Ayn Rand Center for Individuals Rights.



Recent polls illustrate how difficult recent weeks have been for a president who, besides tackling health care, has been battling to end a devastatingly deep recession.

Fifty percent approve and 49 percent disapprove of the overall job he is doing as president, compared to July, when those approving his performance clearly outnumbered those who were unhappy with it, 55 percent to 42 percent.

Just 42 percent approve of the president's work on the high-profile health issue.

The poll was taken over five days just before Obama's speech to Congress. That speech reflected Obama's determination to push ahead despite growing obstacles.

"I will not waste time with those who have made the calculation that it's better politics to kill this plan than to improve it," Obama said on Wednesday night. "I won't stand by while the special interests use the same old tactics to keep things exactly the way they are.

"If you misrepresent what's in the plan, we'll call you out. And I will not accept the status quo as a solution."

Prior to Obama's speech before Congress U.S. Capitol Police arrested a man they say tried to get into a secure area near the Capitol with a gun in his car as President Barack Obama was speaking.

Police spokeswoman Sgt. Kimberly Schneider said Thursday that 28-year-old Joshua Bowman of suburban Falls Church, Virginia, was arrested around 8 p.m. Wednesday when Obama was due to speak.

'Parasite-in-chief': The title given to the American President during the demonstrations on Saturday Bowman's intentions were unclear, police said.

Today's protests imitated the original Boston Tea Party of 1773, when colonists threw three shiploads of taxed tea into Boston Harbour in protest against the British government under the slogan 'No taxation without representation'.

The group first began rising to prominence in April, when the governor of Texas threatened to secede from the union in protest against government spending. Waves of tea party protests have crossed America since.

Today's rally, the largest grouping of fiscal conservatives to march on Washington, comes on the heels of heated town halls held during the congressional August recess when some Democratic lawmakers were confronted, disrupted and shouted down by angry protestors who oppose President Obama's plan to overhaul the health care system.

## **Dems To Vote On Wilson Sanction (POL)**

By John Bresnahan

[The Politico](#), September 15, 2009

House Democratic leaders will move ahead with a "resolution of disapproval" against Rep. Joe Wilson (R-S.C.) on Tuesday afternoon, following through on their threat to sanction the conservative lawmaker for heckling President Obama during his speech to Congress last week.

Democratic leaders will formally introduce the resolution Tuesday afternoon, according to House insiders, and the vast majority of Democrats - as well as some Republicans - are expected to vote for it.

No decision had been made at press time as to which Democrat would be offering the resolution.

A number of Democrats, led by Majority Whip James Clyburn (S.C.) and other black lawmakers, were outraged when Wilson yelled out "You lie!" during Obama's address, and they have pressed Speaker Nancy Pelosi (D-Calif.) and other top Democrats to sanction Wilson.

Pelosi initially downplayed the Wilson episode as a distraction from the larger issue of health care reform, but she has come around now to the position held by Clyburn and the other Democrats - if Wilson didn't apologize on his own, on the House floor, then Democrats must take action.

Wilson issued an apology on Wednesday night following his outburst, and he called White House Chief of Staff Rahm Emanuel to apologize personally, but he has refused to go to the floor and offer contrition for his comments. Obama said he accepted Wilson's apology.

Clyburn personally asked Wilson three times to offer a full apology to the House during a confrontation



the two had on the floor the day after Obama's speech. Since that exchange, Clyburn has led the charge to punish Wilson.

"Not addressing this issue sets a precedent for bad behavior," said a senior House Democratic aide following Monday's leadership meeting. "We're not the British Parliament, for a reason."

Democrats say they will craft the resolution very narrowly, so that it simply addresses Wilson's behavior while avoiding larger fights over Wilson's claim that the Obama-backed health care bill will give health insurance to illegal immigrants.

"It goes directly to the issue of conduct on the House floor," said the Democratic aide. "It was a breach of decorum and it can't be accepted."

In public appearances over the last several days, including a brief discussion with reporters on Monday, Wilson has remained adamant that he will not offer any further apology to the chamber.

"I won't be offering any more apologies," Wilson said as he strode into the chamber.

He also received the backing of Minority Leader John Boehner (R-Ohio) on Monday. While Boehner too had implored Wilson to say he's sorry for his outburst, he is backing his colleague from being singled out by the Democratic majority over his bad behavior.

"Rep. Wilson has apologized to the President, and the President accepted his apology," said Boehner in a statement released by his office. "Last Thursday, Speaker Pelosi said that she believed it was time to move on and discuss health care. I couldn't agree more, and that's why I plan to vote 'no' on this resolution. Instead of pursuing this type of petty partisanship, we should be working together to lower costs and expand access to affordable, high-quality health coverage on behalf of the American people."

There is also some uneasiness among rank-and-file Democrats, including members of the Congressional Black Caucus, that by singling out Wilson, party leaders will make him a martyr or cause c?l?bre for the right.

"I would not make Joe Wilson the martyr he is not," Del. Eleanor Holmes Norton (D-D.C.) told POLITICO. "If the House proceeds, they can make the mistake of appearing to want to humiliate a member who has indeed apologized to the president... We ought to think strategically about what there is to gain... I would not want to vote to humiliate him, rubbing it in."

But senior party officials said that it's too late, that Wilson is already an icon among conservative activists and other Obama critics for what he did. By sanctioning Wilson, Democrats demonstrate they won't tolerate such disrespect from other GOP lawmakers for Obama.

"We can't make him a martyr," noted on top Democratic aide, speaking on the condition of anonymity. "He already is one. We just don't want there to be any more Joe Wilsons."

This aide also notes that Wilson's 2010 Democratic opponent, Rob Miller, has seen more than \$1.5 million in campaign contributions pour in since last Wednesday from Democrats across the country outraged by Wilson's conduct, meaning he is likely to be a very well-funded challenge to the five-term Wilson.

But Wilson himself said he has gotten \$1 million from his own side, and conservatives at this weekend's big rally in Washington, D.C., were wearing t-shirts emblazoned with the phrase "You lie!" and Wilson's face, showing that his race will attract national interest.

-- Glenn Thrush contributed to this report.

## **Lines Harden Over Wilson (RC)**

By Steven T. Dennis And Jackie Kucinich, Roll Call Staff

[Roll Call](#), September 15, 2009

House Democratic and Republican leaders on Monday hardened their positions in advance of a planned formal rebuke of Rep. Joe Wilson (R-S.C.) for shouting "You lie!" at President Barack Obama last week - and his failure to apologize to the House for it.

Democrats plan to push forward as early as Tuesday with a resolution of disapproval, concluding that failing to act while Wilson refuses to apologize to the House would set a bad precedent for behavior, Democratic leadership aides said.



"Congressman Wilson's outburst during the joint session was a breach of decorum and brought discredit to the House," one leadership aide said. "Failure to respond would mean consent for that kind of conduct. In the absence of an apology, the House must act to admonish his behavior. These are the standards Members are held to when they take the oath of office."

Other Democrats argued that if they had screamed "You lie!" at former President George W. Bush when he was talking about Iraq, Republicans would have been up in arms over the breach of decorum, but that they seem to have fewer qualms about one of their Members screaming at Obama.

Republicans are charging Democrats with petty partisanship by taking a formal vote instead of moving on to other business.

Over the weekend, Wilson continued to defy calls to apologize to his colleagues on the House floor, reiterating that he had already apologized to the president. He has become a hero to some on the right, with protesters at Saturday's "Tea Party" rally in Washington, D.C., sponsored by the conservative group FreedomWorks, calling Wilson the "truth czar" and sporting "Wilson for President" signs and "You lie!" T-shirts.

But he has become a villain to the left.

That polarization presents problems for leaders in both parties as they try to manage the expectations of energized base voters without turning off moderates and independents.

Speaker Nancy Pelosi (D-Calif.) and Obama last week appeared ready to let the matter go - preferring to focus on the much bigger issue of health care reform - but Pelosi reversed course after House Majority Whip James Clyburn (D-S.C.) and other members of the Congressional Black Caucus demanded action.

Wilson's conduct since the incident, including soliciting more than \$1.5 million in campaign cash and declaring he won't be "muzzled," has only increased the Democratic anger.

"Since Republican Congressman Joe Wilson's outburst on the House floor, his Democratic opponent, former Marine Rob Miller, has received more than 40,000 individual grass-roots contributions raising more than \$1.5 million," Democratic Congressional Campaign Committee spokesman Ryan Rudominer said. The DCCC has raised more than \$200,000 in contributions related to Wilson's outburst.

Democratic aides also said there are racial overtones to the unprecedented act of calling the first black president a liar as he addressed Congress.

But the offense against the House and the breach of decorum will be the focus of the motion of disapproval, not the words or content of Wilson's outburst.

"The best approach would be to address this in a nonpartisan way and address this as a matter of conduct, not of speech," a Democratic leadership aide said.

Republican leaders privately urged Wilson to apologize to the House for his breach of decorum, but they are not willing to cross the party's energized base and vote for the resolution.

House Minority Leader John Boehner (R-Ohio) cited Pelosi's initial reluctance as he announced Monday that he will vote against the rebuke.

"Last Thursday, Speaker Pelosi said that she believed it was time to move on and discuss health care," Boehner said. "I couldn't agree more, and that's why I plan to vote no on this resolution. Instead of pursuing this type of petty partisanship, we should be working together to lower costs and expand access to affordable, high-quality health coverage on behalf of the American people."

House Republican leaders face the tricky task of urging their membership to vote against the resolution without defending Wilson's actions.

GOP leadership aides said they would seek to shift the focus off Wilson to the health care reform debate. Aides said rank-and-file Members would be encouraged to talk about substantive provisions in the Democratic health care plan rather than the text of the Democratic resolution.

Additionally, several Republican aides who spoke on background said Democrats had let the window of opportunity close by not punishing Wilson immediately after his comments.

"I think you'll see an effort to hold the line. The situation today is a little different than the one Republicans were dealing with on Thursday morning," a GOP leadership aide said.



Of course, not all members of the House Republican Conference want to play down the issue.

Rep. Steve King (R-Iowa), perhaps Congress' most vocal foe of illegal immigration, took to the floor Monday to express support for Wilson and his decision to not apologize in front of the full House.

"No one has the claim to any further redress if the president of the United States accepts an apology, and he did," King said. "So I stand with Joe Wilson. Let's get on with the business of this House and let's start running this country instead of doing cheap political points, which I expect will be coming to the floor of this House sometime about tomorrow."

King also circulated a letter of support to Wilson on Monday and encouraged Republican Conference members to add their signatures. King's office declined to release how many signatures they had gathered by press time.

Erick Erickson, editor-in-chief of the conservative blog RedState.com, said the GOP base would be watching how House Republicans react to the resolution.

"I very much think the base is lining up to pressure the GOP leadership to stand with Wilson," he said. "The base has really rallied to Wilson and his 'emperor has no clothes' moment."

He added, "For the GOP to back away from him would be disastrous for them."

A Democratic leadership aide called Boehner's move "eminently predictable because Boehner is a captive of the right wing of his party. ... They are telling him they don't care that what Wilson did was inappropriate."

The resolution of disapproval is the least serious slap on the wrist, falling short of a formal censure or reprimand.

Democratic aides have also been quick to note that Boehner has filed a resolution of disapproval in the past, including in 2007 when he asked the House to disapprove of the refusal of House Democrats to release a letter during a debate in the Rules Committee. That resolution was defeated.

Such resolutions are rare, especially because Members who breach the House's rules of decorum usually apologize quickly on the House floor.

## **'You Lie!' Shout Brings Vote On Sanction (WP)**

### **Racial Issue Simmers as Black Democrats Lead Push Against Wilson**

By Paul Kane, Washington Post Staff Writer

[Washington Post](#), September 15, 2009

House Democrats plan to formally reprimand Rep. Joe Wilson (R-S.C.) on Tuesday for his outburst last week in which he accused President Obama of lying about proposed health-care legislation.

The vote on punishment will resolve the issue in the House, but behind the incident some see a broader question: Is racism a factor in the way the president is being judged?

With two simple words -- "You lie!" -- shouted during Obama's speech to Congress, Wilson helped escalate an issue that has been on a slow burn for weeks, especially among African Americans. Many watched the rancor at last month's town hall meetings with suspicion that the intense anger among some participants -- including signs calling for Obama's death and a movement questioning his citizenship -- was fueled by the fact that a black man sits in the Oval Office.

Led by their most senior black lawmakers, House Democrats decided Monday evening to hold the vote. The decision risks escalating the partisan warfare that has erupted since Wilson's outburst.

A vote would reverse the initial sentiment voiced by the president and House Speaker Nancy Pelosi (D-Calif.) that it was time to "move on" to the debate on health-care. But the White House and Pelosi yielded to senior black Democrats, led by House Majority Whip James E. Clyburn (D-S.C.), and other members of the leadership team, who argued that Wilson's remark was a breach of conduct that must not be tolerated.

Clyburn has said behind closed doors that many black voters saw Wilson's actions as part of the heated rhetoric from conservative activists whose protests, including one on the Capitol grounds Saturday, have included depictions of Obama as Adolf Hitler and the comic-book villain the Joker, according to those attending the meetings. It was one thing to have such remarks at town hall meetings during the summer



recess but completely different during a presidential address to a joint session of Congress, Clyburn and other black Democrats argued, and Democrats needed to stand up for the nation's first black president.

Clyburn has not publicly called Wilson's remark racist, but he told reporters immediately after the speech that Obama is the only president to have been treated in such a manner.

Some black lawmakers were more direct.

Rep. David Scott (D-Ga.), who received hate mail from constituents during Congress's August break, said Wilson had just returned from the rowdy town hall forums at which the most heated accusations were leveled at Obama.

"I think he was caught up in a moment. The issue is: Would he have done that if the president were white?" Scott said, adding that few Republicans opposed the "level of rhetoric" against Obama in August. "We've got to realize racism is playing a role here. I'm hopeful that this will be a wake-up call for us to get it off the table."

Democrats emphasized that it was not just members of the Congressional Black Caucus seeking to reprimand Wilson, and that a broad cross section of Democrats supported the measure, including Majority Leader Steny H. Hoyer (D-Md.). Hoyer had argued publicly that Wilson had to make a formal apology from the well of the House chamber or face some sanction.

But Wilson has refused to offer any apology beyond the private phone call he made Wednesday night to White House Chief of Staff Rahm Emanuel. In a show of defiance Monday, the lawmaker was the first Republican to speak when the chamber opened for a round of brief speeches. Rather than apologizing, Wilson hailed the "patriots" who attended his August town hall forums and opposed a "government takeover" of the health-care system.

Republican leaders rejected the accusation that there was any racial tinge in Wilson's comments and instead accused Democrats of using the issue to play to their base of liberal activists, who have funneled more than \$1 million in contributions to Wilson's likely opponent next year.

"Representative Wilson has apologized to the president, and the president accepted his apology," said House Minority Leader John A. Boehner (R-Ohio). "Last Thursday, Speaker Pelosi said that she believed it was time to move on and discuss health care. I couldn't agree more."

Senior aides in both parties expect the resolution to pass largely along party lines. The vote will officially be on what the House calls a "resolution of disapproval," the mildest form of punishment. Democrats cite rules of debate that prohibit lawmakers from "unnecessarily and unduly exciting animosity among its members or antagonism from those other branches of the government."

Republicans said Monday that they are not likely to offer an alternative resolution and that instead they want their members to focus on the content of the health-care proposal, as Wilson did in his brief remarks. But some Republicans came to Wilson's defense, accusing Obama and Pelosi of going back on their statements to move about moving beyond the controversy.

"What's it called when somebody says something they're going to do, and then they don't do it? What is that statement?" Rep. Louie Gohmert (R-Tex.) asked in a floor speech.

After Obama's speech, the initial "macro view" among top Democrats was that he had finally broken through the noise of the town hall meetings and the alleged distortions of the legislation, according to one senior aide who discussed internal deliberations on the condition of anonymity. Democrats, the aide said, did not want to get distracted from the policy debate, as they had earlier in the summer after Obama's prime-time news conference on health care ended with his controversial comments that police had acted "stupidly" in deciding to arrest Henry Louis Gates Jr., a black Harvard professor, outside his home after police responded to a call about a possible intruder.

"It's time for us to talk about health care and not Mr. Wilson," Pelosi told reporters Thursday morning, echoing a similar statement from Obama, who suggested that "we all make mistakes."

But that morning several members of the black caucus stood up at a gathering of House Democrats to argue that Obama was being treated differently than any president, according to those in attendance. They argued that the image of a white Southerner calling the nation's first black president a liar on television on the



House floor could not stand with a private apology.

During a series of roll-call votes Thursday, Clyburn implored his fellow South Carolinian to make a formal apology, as did Boehner and other Republican leaders, who had initially rejected Wilson's comment to Obama as inappropriate. But Wilson rejected the entreaties.

Clyburn, the highest-ranking black lawmaker in Congress, took the position in a leadership meeting Thursday afternoon that Wilson had to be punished, according to a handful of those in attendance.

Clyburn has served as a leader on racial matters. During last year's hard-fought Democratic presidential primary contest, he criticized former president Bill Clinton when he thought his comments about Obama's victory over his wife, then-Sen. Hillary Rodham Clinton, in the critical South Carolina primary were racially disparaging toward Obama.

Rep. Gregory W. Meeks (D-N.Y.), another black lawmaker, said the action was warranted not "because he's the first black president" but because Wilson broke the rules. But Meeks said that Wilson's charge was borne of that sentiment from the town hall anger. "You've never seen those kinds of signs and that kind of language used before," Meeks said. "You didn't see that same kind of language with past presidents."

But some Congressional Black Caucus members were hesitant to give Wilson too much attention, suggesting that a reprimand plays into the Republican hands. Rep. Elijah E. Cummings (D-Md.), a past chairman of the group, said, "I don't want this to distract from what we are doing, because that's the danger."

## **High-Profile Outburst: Do We Hit New Lows? (WP)**

By Wil Haygood And Chris Richards, Washington Post Staff Writers

[Washington Post](#), September 15, 2009

They are dazzling -- if uncouth -- moments of live theater. A hyped-up individual at a major public event suddenly seizes center stage in the most unbecoming fashion. And just like that, with necks yanking and eyes widening, the crowd has witnessed an unnerving public outburst.

Rep. Joe Wilson (R-S.C.) calls the president a liar to his face.

Serena Williams threatens to stuff a tennis ball down a line judge's throat.

Kanye West stomps all over Taylor Swift's moment in the MTV Video Music Awards limelight.

Call it the unexpected news-shaking cameo.

It is the convergence of entertainment and moxie, shamelessness and passion. Despite the phalanx of publicists hired to advise a celebrity, an entertainer, an athlete -- maybe even a politician -- about the rules of decorum, they still seem unable to fathom the downside of outrageous public conduct.

For some celebrities and attention-hijackers, all press is good press, all the time. West, as some have noted, has practically turned this media hyper-awareness into an art form, delivering public fits of pique in precise, well-timed bursts. And after Wilson called out the president during a joint session of Congress, he went from a political unknown to a household name.

Of course, bad behavior knows no historical bounds. Still, this recent spate of spats has raised eyebrows and has some wondering whether new depths are being plumbed. Steve Blauner is a former movie executive and entertainment manager. The public outbursts of both Wilson and West unnerved him.

"I blame it on talk radio and TV," says Blauner, who lives outside Los Angeles. "Everything used to be more subtle. But you can say anything now." He goes on: "Kanye West got more publicity out of this stunt than he's gotten in the past year. And Joe Wilson was a total unknown except in South Carolina. Now he's a national figure. It's all rather demeaning. Of course, West can get away with this type conduct. He's got more money than God."

It has been a kind of trifecta -- West, Wilson and Williams -- that has dominated talk radio and the blogosphere.

"American life has always been coarse," says Angela Dillard, professor of Afroamerican Studies at the University of Michigan. "I'm unconvinced this type of behavior is new. I think the coverage is just more intense." She calls these three outbursts "a distinctive part of pop-culture history" in America.

There are those who wonder if certain segments of the populace have become even more emboldened



as a result of the verbal clashing that went on during the town hall meetings discussing President Obama's health care plan.

"These meetings turned into public derision," says Toby Miller, chairman of the Media and Cultural Studies Department at the University of California at Riverside. "They were powerfully organized. I think it represents an extraordinary shift in the terrain. And don't forget that behaving badly is an important part of publicity these days. There are promoters who are seasoned to highlight this conduct. And of course then you have the chance for public redemption. That narrative -- of redemption -- has become a part of the narrative of American life."

Both Wilson and West have issued apologies. West apologized on his blog immediately after his tantrum on MTV, and issued another quirky mea culpa Monday afternoon.

"I feel like Ben Stiller in 'Meet the Parents' when he messed up everything and Robert De Niro asked him to leave . . . That was Taylor's moment and I had no right in any way to take it from her. I am truly sorry," West wrote.

Williams, too, offered a full apology Monday for her U.S. Open outburst, saying in part, "I need to make it clear to all young people that I handled myself inappropriately and it's not the way to act."

But apologies never receive the same degree of attention as the actions that made them necessary. And the sincerity of an apology can be questioned. There are those who feel that while the curve of public behavior has taken sharp and bewildering turns, there are measures in place to address those turns.

"We have much more elaborate sanctions -- fines and discipline -- in place for this type of behavior," Miller says.

The case of Wilson, however, perplexes Miller. "The office of the president is very different from anything else. He is head of state. So I think what Wilson did is extremely unusual."

## **Solis Pledges To Make 'Strongest Case Possible' For Card Check (HILL)**

By Michael O'Brien

[The Hill](#), September 15, 2009

The Obama administration will make the "strongest case possible" for controversial "card check" legislation, Labor Secretary Hilda Solis pledged Monday.

Solis told a crowd at the AFL-CIO's annual convention in Pittsburgh that she and President Obama would fight to bolster workers' rights, which she said were "under assault."

"Workers are under assault, and they need a voice on the job that unions will provide," Solis said. "And that's why I will work with the White House so that together we make the strongest case possible for the Employee Free Choice Act."

Solis sent a signal that the administration would vigorously support the Employee Free Choice Act (EFCA), a controversial piece of union organizing legislation which has seen its prospects wane since the opening months of the administration.

Solis rejected claims that the bill would increase costs for businesses, saying that laborers need a more pronounced voice in the workplace.

"It's not enough to just have fair wages and a safe workplace; workers also need to have a voice on the job. And some people say that, given the state of the economy, we can't afford unions right now," she said.

"Well, they got it backward: today unions are more important than ever," Solis added.

Watch the portion of Solis's speech in which she discusses the card check bill below:

## **Obama Cautious On Faith-Based Initiatives (WP)**

**Activists Cite Campaign Pledge, but President Is Slow to Break With Bush Policies**

By Carrie Johnson, Washington Post Staff Writer

[Washington Post](#), September 15, 2009

Candidate Barack Obama drew little attention during last year's presidential campaign when he ventured into the thorny territory of church and state.



While President George W. Bush had expanded government contracts to faith-based groups, Obama promised to end that arrangement if the groups proselytized to the needy they served, or hired only members of that faith.

Today, that campaign pledge -- along with other complex questions of religion and government -- are posing something of a dilemma for President Obama, as he tries to balance increasing pressure from the left to renounce Bush-era policies against a desire to find common ground on social issues.

Civil liberties advocates have pressed Obama to keep the promise he made in July 2008 when he told an audience in Zanesville, Ohio: "If you get a federal grant, you can't use that grant money to proselytize to the people you help and you can't discriminate against them -- or against the people you hire -- on the basis of their religion."

But in office, Obama has proceeded far more cautiously. He has reinforced the need for the White House Office of Faith-Based and Neighborhood Partnerships, and dispatched Joshua DuBois, a young Pentecostal minister and an aide on Obama's Senate staff, to reach out to many of the same religious groups whose receipt of substantial federal grants in the Bush administration raised controversy.

Obama has pushed to the Justice Department the most vexing question: whether religious organizations receiving government contracts can reject job candidates on the basis of their faith.

Lawyers in the department's Office of Legal Counsel, which advises the executive branch, are considering a 2007 Bush-era religious freedom memo that carved out an exemption in employment discrimination law, allowing the Justice Department to award \$1.5 million to a Christian charity for a gang-prevention effort, according to a legal source. The question, according to a Justice Department source, is not on the front burner for an office grappling with urgent national security and legislative issues.

"Before the Bush years, religious organizations that got money just assumed they had to hire the most qualified person and couldn't proselytize," said Barry W. Lynn, executive director of Americans United for the Separation of Church and State, which has written Attorney General Eric H. Holder Jr. to demand action. The letter "presents the golden opportunity to the Department of Justice to reverse clearly erroneous past policy and to start looking at a new, constitutionally based framework." A Polarizing Issue

Some who cast doubt on the Bush administration memo, calling it "flatly erroneous" and "legally suspect," are now aligned with the Obama administration. They include Dawn Johnsen, who has been nominated to lead the OLC, and Martin Lederman, a deputy in the office since January.

Even as groups including Americans United and the ACLU urge Obama to draw a bright line between government funding and religious activity, it remains unclear how sharp a break the president wants on a subject that polarizes audiences as well as many swing voters.

Ben LaBolt, a White House spokesman, said Obama has reinforced "his commitment to ensuring that we partner with faith-based organizations in a way that is consistent with our Constitution, laws and values. The administration will continue to evaluate these difficult legal questions as they arise in particular cases or programs."

That hews closely to an executive order Obama issued in February. It said authorities would ensure that "services paid for with federal government funds are provided in a manner consistent with fundamental constitutional commitments guaranteeing the equal protection of the laws and the free exercise of religion and prohibiting laws respecting an establishment of religion."

The document also said the director of the White House faith-based office, "acting through the counsel to the President, may seek the opinion of the Attorney General on any constitutional and statutory questions involving existing or prospective programs and practices." A Constitutional Right?

Steven T. McFarland, vice president and chief legal officer at World Vision, which supports aid efforts in 100 countries, said needy people around the world will lose if the Obama Justice Department changes course. The Christian charity helps victims of earthquakes, famine and other natural disasters, provides food and support to refugees and abandoned children, and cares for people suffering from HIV-AIDS across three continents.

Richard Stearns, president of World Vision's American operations, sits on a presidential advisory panel,



and has emphasized the importance of hiring to World Vision's identity with members of the administration's faith-based office, the charity said. The Bellevue, Wash.-based group has been using religion as a factor in hiring for years.

"What is at stake is whether faith-based organizations can continue to exercise their constitutional right to remain faith-based and still compete for federal grants," said McFarland, who headed the Task Force on Faith-Based and Community Initiatives in the Bush Justice Department. "The power to determine the criteria for employees is the power to determine the ultimate identity, mission, and direction of the organization, nothing less."

But several Democratic lawmakers, including Rep. Robert C. Scott (Va.), are calling on Obama to take aggressive steps to roll back the Bush administration's government-wide initiatives. Scott said he is particularly concerned with the civil rights implications of the hiring question, since many religious congregations are not racially diverse and faith-based employment decisions by federal grantees can limit job opportunities for minorities.

"We had that debate 40 years ago, and we concluded that you can't discriminate on the basis of employment," Scott said. "If you cannot comply with equal opportunities in employment, you just can't win a government contract." A Complex Issue

Experts said the issue is unusually complex.

Ira C. Lupu, a professor who studies law and religion at the George Washington University, said several other programs include language on religion and hiring, in addition to the Bush-era executive orders and the Justice Department legal memos interpreting the Religious Freedom Restoration Act, a 1993 law designed to protect those exercising religious beliefs.

Several federal grant programs contain language from Congress forbidding religious favoritism in employment. They include the Justice Department's juvenile justice crime prevention efforts, which fund anti-gang initiatives and after-school programs that sometimes have a religious bent, and the Department of Health and Human Services' drug rehabilitation initiatives.

But other laws authorizing community service block grants to states and local governments for social services include language making clear that religious groups that do faith-based hiring have a right to win grant money. Title VII of the Civil Rights Act also offers an exemption from the ban on religious discrimination in employment for houses of worship, schools and churches. These rules can be altered only with Congress's approval.

Finally, Congress has been silent on the question of faith-based hiring by grantees in some federal grant programs, such as food-distribution efforts. Changes by the White House and executive branch in those programs might require the least amount of political capital or legal wrangling, experts said.

Lynn, of Americans United, called the president's cautious approach "a big surprise and of course a big disappointment for those of us fighting this during the Bush years." But he emphasized that Obama could be reaching to find common ground, perhaps by requiring religious groups who win federal funds to set up nonprofit offshoots: "I still have a guarded optimism that he will do in the long run the things he said in Zanesville."

## **The Presidents' Power Lunch (WP)**

### **Clinton Joins Obama in N.Y. to Break Bread and Talk Policy**

By Garance Franke-ruta And Anne E. Kornblut, Washington Post Staff Writers

[Washington Post](#), September 15, 2009

After President Obama delivered a speech to New York City's financial sector Monday, he headed to Greenwich Village to grab lunch. His tablemate: Bill Clinton.

Earlier this year, the former president said he had been in touch with the current chief executive only occasionally -- their relationship had been frosty and at times contentious as Obama battled Hillary Rodham Clinton during the primaries. But now they are seeing each other on an almost regular basis.

Obama saw Clinton just last week, at Walter Cronkite's memorial service, and he will see his



Democratic predecessor again next week, when Obama addresses the annual meeting of the Clinton Global Initiative on Sept. 22, an appearance the White House announced Monday.

Clinton also visited the White House several weeks ago to report to Obama on his mission to North Korea, after bringing home two American journalists. The lunch -- originally scheduled for the day of the Cronkite memorial -- was a result of planning that began then.

The two have "a very strong relationship," White House spokesman Robert Gibbs told reporters aboard Air Force One on the return trip from New York, adding that as "very few people" know what it's like to be president, "President Obama values the type of advice that President Clinton has."

The two sat down for an 90-minute meal at Il Mulino in the Village, a well-regarded Italian restaurant with a focus on dishes from the Abruzzi region. As Obama and Clinton exited the restaurant before photographers, a reporter asked how the lunch was. Only Clinton replied, saying: "It was good. It was Il Mulino, how could it not be?"

"We had fish, pasta and salad," Clinton said. "It was very healthy. Even I was healthy."

Gibbs said that he thought the two "split the bill," and that the two dined alone and spoke about the economy, health care and other issues.

Franke-Ruta reported from Washington, Kornblut from New York.

## **Interior Launches Climate Strategy (WP)**

### **New Council's Aim Is to Help Curb Warming**

By Juliet Eilperin

[Washington Post](#), September 15, 2009

Interior Secretary Ken Salazar launched the Obama administration's first coordinated response to the impacts of climate change Monday, which he said would both monitor how global warming is altering the nation's landscape and help the country cope with those changes.

Salazar will lead a new "climate change response council" that will coordinate action among the department's eight bureaus and offices. A secretarial order will create eight "regional climate change response centers" in areas ranging from Alaska to the Northeast and build landscape conservation cooperatives that will create strategies for the eight regions with the help of state and local groups, and other federal agencies.

Interior manages one-fifth of the nation's land mass and nearly 1.7 billion acres on the Outer Continental Shelf.

"The Department of Interior must continue to change how it does business and respond to the issues of energy and climate change, which I see as the signature issues of the 21st century," Salazar said at a news conference. "The time this department operated under silos is a time that's over."

To curb climate change, Interior will explore methods to sequester carbon by storing it underground and by absorbing it through forests and rangelands, Salazar said, as well as ways to cut the department's own greenhouse gas emissions. He did not, however, specify by how much the agency would reduce its carbon footprint.

Kit Batten, science adviser to Interior Deputy Secretary David Hayes, led reporters through an elaborate geospatial presentation that mapped everything from the frequency of large hailstorms and windstorms in the United States to the melting of Washington state's South Cascade Glacier.

"This will help us understand the impacts of climate change, adapt to the impacts of climate change and provide ways to reduce our greenhouse gas emissions as a department," Batten said. "This work is important to all Americans, not just scientists and land managers."

Brenda Ekwurzel, climate scientist at the Union of Concerned Scientists, said that while the announcement was not a substitute for a mandatory, nationwide limit on greenhouse gas emissions, it "means the United States will be much better prepared to respond to the current and coming changes due to global warming. The Interior Department manages 20 percent of the land in the United States, so its role in developing strategies to cope with the unavoidable consequences of global warming is critical and could



potentially save lives."

It remains unclear how much the department will devote in additional resources to the effort. Salazar noted that while the U.S. Geological Survey had received \$10 million to address climate change through its centers, "There is additional money that will be needed."

The initiative could change the way Interior employees such as Mike Pellant, Great Basin Restoration Initiative coordinator, does his job. Pellant works on bringing the habitat of the Great Basin -- an area that encompasses tens of millions of acres in Nevada, western Utah, southern Idaho, southeastern Oregon and parts of California -- closer to its natural state. The sage brush steppe that once dominated the landscape is being replaced by invasive cheat grass, which thrives on carbon dioxide and the wildfires that now take place with increasing regularity. Cheat grass plays a major role in roughly one-third of the 80 million acres the Bureau of Land Management oversees in the basin, converting the area from one that absorbs carbon to one that emits carbon into the atmosphere because of the grass-fed wildfires, accelerating global warming.

If the department puts a higher priority on carbon sequestration, Pellant expects more public and agency support of the effort to replace cheat grass with sage brush.

"Cheat grass is a carbon source, and we'd rather see [the basin] as a carbon sink," Pellant said.

## **EPA To Propose Ways To Cut Car Emissions (USAT)**

By Traci Watson

[USA Today](#), September 15, 2009

McLEAN, Va. - The chief of the Environmental Protection Agency said Monday that the Obama administration is studying how to curb global-warming gases from big industrial polluters such as power plants and factories.

In an appearance before the USA TODAY editorial board, Lisa Jackson also said the agency will soon propose rules to cut greenhouse emissions from cars.

"We will continue to move stepwise down the path toward regulation of greenhouse gases," Jackson said, assuming that the EPA adopts a preliminary finding that greenhouse gases are a danger to public health.

In May, President Obama said his administration would raise fuel-efficiency standards for cars and light trucks by roughly 40% to cut fuel consumption and reduce greenhouse gas pollution.

There has been no public announcement yet about how the administration plans to curb greenhouse gases from industrial facilities. Power plants and other industrial plants produce just over half of the nation's greenhouse gases, the EPA says.

Though she is willing to use current law to cut greenhouse gases, Jackson said it would be better if Congress passed climate legislation. A new law would forestall lawsuits, she said. The House of Representatives passed a climate-change bill in June. The Senate has not yet acted.

A law is also preferable because it could fund clean-energy efforts and other programs that would help fight climate change, said Lou Leonard of the World Wildlife Fund, an environmental group. However, he said, "if the Congress can't move fast enough, then the EPA should act."

Industry groups don't want the EPA to tackle climate in the absence of new legislation, said William Kovacs of the U.S. Chamber of Commerce. The existing law that would be used as the basis of regulations, he said, would require companies to apply for onerous permits if they want to open new facilities.

Regulating industrial sources with current law would be "a job killer and a project killer right at the outset," Kovacs said.

Other issues Jackson addressed:

. The EPA needs to ramp up its work on air pollution, Jackson said. She noted that federal courts have invalidated EPA rules - written during the Bush administration - to control smog and other air pollutants. New rules are a priority, she said.

. Environmental attitudes are changing, she said. Jackson said her sons, ages 13 and 14, were incredulous when they saw a friend's "huge, gas-guzzling" vehicle. "They are going to be very different



citizens when it comes to green than my generation," she said.

Her colleague in the administration, Energy Secretary Steven Chu, said Monday on National Public Radio that he'd rather live next to a nuclear plant than a coal-burning plant. She declined to specify which kind of plant she'd rather live next to. "I don't know why he did that," she said, laughing.

## **U.S. Takes Lone Lead On Climate Change (WT)**

By John Zaracostas

[Washington Times](#), September 15, 2009

GENEVA | Western nations that spent the past several years slamming the Bush administration for not doing enough to deal with climate change were conspicuously absent from a recent global climate conference.

The Obama administration sent a large entourage to the third World Climate Conference in Geneva earlier this month, trumpeting the return of the United States to the climate change debate.

But representatives from Britain, Germany, France, Italy, Canada and Australia were nowhere to be found. The European Commission, the executive arm of the 27-member European Union, also failed to send a commissioner.

In contrast, the United States sent a 41-member delegation, led by National Oceanic and Atmospheric Administration chief Jane Lubchenco, with representatives from eight agencies, the White House and Capitol Hill. They succeeded in fending off last-minute demands for Western concessions to developing nations, and their diplomatic footwork helped secure the establishment of a global framework for climate services that all nations will need if a carbon-reduction agreement is reached later this year.

But with three months to go before delegates convene in Copenhagen for a U.N.-sponsored conference to establish a path toward the global reduction of greenhouse gas emissions, diplomats say it is not clear whether the United States will be able to rally the support of its allies in the impending showdown with emerging nations such as China and India.

The absence of so many key European nations was disturbing to European diplomats who did show up. "EU member states are divided and unsure," said one ambassador, who spoke on the condition of anonymity.

Another top European envoy suggested that several countries are unwilling to make any commitments until they see what happens at the December conference.

The negotiations on how to cut greenhouse gas emissions have been threatened from the start by complex disputes between industrialized and developing nations over how to cut emissions without derailing economic growth.

The European Union proposed last week to offer up to \$21.8 billion a year in aid to encourage developing countries to participate in a climate change agreement. But environmentalists blasted the offer as woefully inadequate, noting that the burden on the poorest countries will almost certainly be far higher than that.

A U.N. study has found that developing nations would need to invest \$500 billion to \$600 billion annually if they are to continue rapid economic development while reducing emissions of carbon dioxide and other greenhouse gases that may contribute to climate change.

Fearing that a global deal is in danger, five European foreign ministers announced Thursday that they were taking a whirlwind tour of foreign capitals to raise awareness of the dangers of climate change.

"Time is now short and the need is urgent," British Foreign Minister David Miliband said at Copenhagen University.

U.N. Secretary-General Ban Ki-moon said time is running out to reach an agreement.

"We need cooperation, not competition," he told reporters at the Geneva climate conference. "It is important to act on what science tells us."

He said serious issues need to be settled in Copenhagen. Chief among them is finding a way to provide financial and technological support to help developing countries slow the growth of their emissions, he said.



"I urge developed countries to act on more ambitious targets," Mr. Ban said.

The U.N. chief acknowledged that political will for an agreement was still lacking, but urged world leaders to overcome their differences.

Ms. Lubchenco told delegates in Geneva that President Obama "is unwavering in his commitment" to get a deal at Copenhagen. But some Europeans at the conference expressed doubt that the United States would offer anything substantial to developing nations.

About 2,000 scientists, specialists and high-level policymakers from more than 150 countries took part in the five-day Geneva conference, which ended Sept. 4.

A task force was given 12 months to set up a framework that aims "to strengthen production, availability, delivery and application of science-based climate prediction and services." Organizers said they hope to have a climate services plan fully implemented by mid-2011.

## **When It Comes To Pollution, Less (Kids) May Be More (WP)**

By David A. Fahrenthold

[Washington Post](#), September 15, 2009

To heck with carbon dioxide. A new study performed by the London School of Economics suggests that, to fight climate change, governments should focus on another pollutant: us.

As in babies. New people.

Every new life, the report says, is a guarantee of new greenhouse gases, spewed out over decades of driving and electricity use. Seen in that light, we might be our own worst emissions.

The activist group that sponsored the report says birth control could be one of the world's best tools for fighting climate change. By preventing the creation of new polluters, the group says, contraceptives are a far cheaper solution than windmills and solar plants.

It is an unorthodox – and, for now, unpopular -- way to approach the problem, which can seem so vast and close that it is driving many thinkers toward gizmos and oddball ideas.

"There is no possibility of drastically reducing total carbon emissions, while at the same time paying no attention whatever to the drastic increase in the number of carbon emitters," said Roger Martin, chairman of the Optimum Population Trust, a British nonprofit that sponsored the report and whose goal is to rein in population growth in the United Kingdom and elsewhere. "For reasons of an irrational taboo on the subject, [family planning] has never made it onto the agenda, and this is extremely damaging to the planet." The Cost of Each Life

It is nothing unusual, of course, to think that the Earth could really use fewer of us.

In the 1700s, Thomas Malthus worried that population growth would outstrip the food supply. And a decade ago, writer Bill McKibben connected environmental concerns to his decision to have one child in a book called "Maybe One."

What is new, in the British study and in a separate report from Oregon State University, are statistics that show exactly how much each life – and especially each American life -- adds to the world's emissions.

In the United States, each baby results in 1,644 tons of carbon dioxide, five times more than a baby in China and 91 times more than an infant in Bangladesh, according to the Oregon State study. That is because Americans live relatively long, and live in a country whose long car commutes, coal-burning power plants and cathedral ceilings give it some of the highest per-capita emissions in the world.

Seen from that angle, the Oregon State researchers concluded that child-bearing was one of the most fateful environmental decisions in anyone's life.

Recycle, shorten your commute, drive a hybrid vehicle, and buy energy-efficient light bulbs, appliances and windows -- all of that would cut out about one-fortieth of the emissions caused by bringing two children, and their children's children, into the world.

"People always consider the financial costs, and they consider the time cost," said Paul Murtaugh, one of the Oregon State researchers, who said that he does not have children but that he is open to the idea despite his research. "We're just attempting to put on the table the ballpark estimate of the environmental



cost."

So what, exactly, is the world supposed to do with this information?

The researchers behind both studies are emphatic that they do not want people to be forced not to have children. But Martin, whose group sponsored the British study, said governments could help stop unwanted pregnancies by offering contraception and, in rare cases, abortion.

The British study found that \$220 billion, spent over the next 40 years, might prevent half a billion births and prevent 34 billion tons of carbon dioxide. The cost, measured in 2020, would be about \$7 for each ton reduced, the report said -- far cheaper than solar power at \$51, or wind power at \$24. Long-Shot Odds

But, for now, the world does not seem very interested.

"I don't know how to say 'No comment' emphatically enough," said David Hamilton of the Sierra Club. "I don't want to rain on anybody's parade, but the primary solutions to climate change have to deal with what we do with the people who are here," such as pushing for more renewable energy and a limit on U.S. greenhouse gases.

The idea of using condoms to fight climate change still has the same long-shot odds as the idea to make the world's clouds more reflective, or to seed the ocean with iron to supercharge its carbon-capturing plankton.

The Obama administration declined to comment when asked about the family-planning idea. At the United Nations, which is overseeing global negotiations on reducing emissions, an official wrote in response to a query that "to bring the issue up . . . would be an insult to developing countries," where per-capita emissions are still so low compared with those in the United States.

So the idea is not for everyone. But it made sense to climate activist Mike Tidwell of Takoma Park. He said that worries about climate change were part of his decision not to have more children after his son was born 12 years ago.

"There are moments when I say, 'Wow, it would be nice to have a second one,' so parenthood didn't pass so quickly," he said. "I see some of the consequences of this choice that involved, for me, climate change."

## **US Lawmakers Target Anti Gay-marriage Law (AFP)**

[AFP](#), September 15, 2009

WASHINGTON (AFP) - US lawmakers opposed to a 1996 law that bars the US government from recognizing same-sex marriages will launch a campaign Tuesday to repeal the ban, leaders of the group said Monday.

Democratic Representative Jerrold Nadler and two openly gay members of the House of Representatives -- Democrats Tammy Baldwin and Jared Polis -- will unveil legislation to scrap the Defense of Marriage Act, they said.

The bill, details of which were to be unveiled Tuesday, has the support of at least 75 lawmakers, according to a spokesman for Nadler, Ilan Kayatsky.

The 1996 law says no state needs to honor a same-sex marriage performed in another state as legal and defines marriage for the US government as a legal union exclusively between one man and one woman.

In June, New Hampshire became the sixth US state to legalize same-sex marriage, and supporters of recognizing such unions say they hope for US President Barack Obama's help in repealing the federal ban.

## **ACORN Mulls Suit Against Fox News (POL)**

By Michael Falcone

[The Politico](#), September 15, 2009

Facing intensifying scrutiny after the release of several disturbing hidden camera videos, the community organizing group, ACORN, is threatening to sue Fox News, the website Breitbart.com and the two conservative activists who produced the exposes.

ACORN is alleging that the filmmakers committed a felony by shooting the footage of ACORN



employees in the act of providing advice on how to falsify tax forms and set-up a child prostitution business-to a man and a woman posing as a pimp and a prostitute.

A lawyer for ACORN said Monday that statutes in Maryland and the District of Columbia made the undercover filming illegal and that the same laws should prohibit the rebroadcast of the tapes by the Web site BigGovernment.com, where they were first posted last week, and on Fox News, which aired clips of the videos.

BigGovernment.com, which launched last Wednesday, is a project of Andrew Breitbart, the founder of Breitbart.com. The videos show James O'Keefe, a conservative activist, and Hannah Giles, who is listed as a contributor on the right-leaning website, TownHall.com, visiting ACORN offices in Baltimore and Brooklyn and an ACORN Housing Corporation branch in Washington, D.C.

"It is clear that the videos are doctored, edited, and in no way the result of the fabricated story being portrayed by conservative activist 'filmmaker' O'Keefe and his partner in crime,' ACORN chief organizer Bertha Lewis said in a statement over the weekend. "And, in fact, a crime it was-our lawyers believe a felony- and we will be taking legal action against Fox and their co-conspirators."

After the videos surfaced two ACORN employees in Baltimore and two others at the Washington office of the off-shoot housing corporation, a separate organization, were fired.

"I cannot and I will not defend the actions of the workers depicted in the video," Lewis said in her statement. She added that the "scam," was also attempted but failed at other ACORN offices in San Diego, Los Angeles, Miami, New York, and Philadelphia.

Breitbart said Monday that the release of a new video from Brooklyn disproved ACORN's claims that the activists made failed attempts in other cities.

"ACORN was wrong in their initial defense that it succeeded in only one place because obviously it worked in a second and third place," he said. "Their defense is as hapless as the behavior witnessed on those videos. This is clearly an organization in internal turmoil over James and Hannah's exposure. The longer that the mainstream media ignores this massive story, the more that ACORN has to accumulate data in order to form a line of attack to annihilate the messenger."

Arthur Schwartz, a lawyer for ACORN, said he planned to file a lawsuit in federal court in Baltimore on Thursday against O'Keefe and Giles that would "probably" also include Breitbart.com and Fox News.

O'Keefe and Giles appeared Sunday on Fox News to defend the films.

"Bring it on," O'Keefe said of a potential lawsuit.

In a blog posting on BigGovernment.com, Giles described the undercover operation as a "silly idea" that "escalated into a full blown operation with scripts, method acting, undercover gear, scandalous outfits."

"James and I saw the ACORN Housing location in Baltimore as a target - the den of a giant corrupt lion. We wanted to get a reaction and gauge the corruption," Giles wrote. "We came armed with the things necessary to cause a reaction; we came equipped with the things necessary to capture the reaction. We expected to be successful."

## **Senate Hopeful Heckled For Fund-raiser On 9/11 (WT)**

By Jennifer Harper

[Washington Times](#), September 15, 2009

He's got a video camera and a mission to make big conservative noise.

William J. Kelly - a producer with FOX affiliate WFLD and an on-camera host on Comcast - is not beyond lunging at political candidates, bristling with gotcha questions. Mr. Kelly's latest target is Illinois State Treasurer Alexi Giannoulias, now a Democratic hopeful for the U.S. Senate seat now occupied by Sen. Roland Burris. The candidate was racing to make a \$500-a-plate fund-raiser at the Union League Club in Chicago at 8:45 a.m. Friday when Mr. Kelly stepped forward.

"Why are you having a fund-raiser at the exact moment the first plane struck the Twin Towers on September 11, eight years ago?" he asked Mr. Giannoulias as the camera rolled.

The flustered candidate immediately withdrew his handshake and ducked through the hotel door.



"Another Barack Obama/Tony Rezko farm team candidate running for higher public office in the state of Illinois. Oh, great, terrific," Mr. Kelly said. "This was shameful, thoughtless, selfish and typical Giannoulas. As America paused to remember the fall of the Twin Towers, he focuses on the rise of his own campaign."

Mr. Kelly has been a gadfly for some time, and was arrested in 1994 for heckling President Bill Clinton over gridlock in a Democratically-controlled Congress. The new social media appear to be his ideal milieu.

"He's a new kind of press entity. If conservative values are overlooked in the media, Kelly is going to go in there with a camera and get the values and ideas out there himself. And if no one will pick up the video footage, he's going to put it up at YouTube and let the public decide what's what," said Laura Grock, Mr. Kelly's spokeswoman.

## **Poll Shows Lincoln In Better Shape (HILL)**

By Aaron Blake

[The Hill](#), September 15, 2009

A new poll shows Sen. Blanche Lincoln (D-Ark.) in better shape than other recent polling had her, but she is still well under 50 percent support.

The Daily Kos Research 2000 poll shows Lincoln leading recently declared candidate state Sen. Gilbert Baker (R) 44-37 and businessman Curtis Coleman (R) 45-37.

Both Baker and Coleman are unknown to about 75 percent of voters. Lincoln leads to even-lesser-known potential opponents - businessman Tom Cox and state Sen. Kim Hendren - by 17 and 19 points, respectively. But in both of those matchups, she is under 50, as well.

Lincoln's favorable rating is 43 percent positive and 49 percent negative. She is viewed unfavorably by 29 percent of Democrats and 55 percent of independents.

Lincoln is set to become chairwoman of the Senate Agriculture Committee, which could help her on the campaign trail in 2010. Lincoln will become chairwoman with Sen. Tom Harkin's move to the Senate Health Committee. Harkin (D-Iowa) is taking over from Sen. Edward Kennedy (D-Mass.), who died last month.

## **Rangel Targets NY Post (POL)**

By Glenn Thrush

[The Politico](#), September 15, 2009

Rep. Charlie Rangel (D-NY) was asked about his failure to disclose about \$700,000 in assets this weekend in Harlem by my pal Azi Paybarah of PolitickerNY -- and responded by saying he was a victim of a New York Post smear campaign.

The charming, churlish House Ways and Means chairman, who is the subject of several ethics committee probes, blasted away at the Murdoch-owner tab -- even though the disclosure story was reported by POLITICO and other news outlets.

"I think it's totally unfair for the New York Post to send investigative reporters to my family's homes and to do that type of thing," he said during a rally in Harlem over the weekend. "I guess it's all selling papers."

Aides have said it was an oversight that broke no rules, but Rangel wouldn't talk about it.

Rangel is, of course, being highly selective in his shootings of messengers.

True, the Post has been a harsh, harsh critic -- and did snap the infamous photo of him sprawled, belly to the sun, at his Punta Cana beach property, which is now the subject of an ethics committee investigation.

But where were Rangel's harsh words for the New York Times, Washington Post and Buffalo News, whose editorial writers have called for him to step down as chairman? And why not go after the Times for its expose of his sweetheart apartment deal?

Explaining his shot at the Post, he added, "I'm just saying that... I wanted to make certain I maintained the good name, honor and integrity that I've enjoyed for 50 years -- and that the person that's evaluating me is the committee and not the New York Post."

## **Congressional Sclerosis (WP)**

**Rangel Suffers From a Case of Entitlement**



By Richard Cohen

[Washington Post](#), September 15, 2009

Once upon a time, before I began an interview with Rep. Charles Rangel, I was warned by an aide not to bring up the 1970 race in which the upstart Rangel defeated the virtually legendary Adam Clayton Powell to gain his House seat. In the intervening years, Powell had gone from has-been to icon, with both a state office building and a boulevard named for him in Harlem, and it did Rangel no good in his district to be remembered as the man who brought down Powell -- a little bit of history that desperately needed airbrushing. This, we are now learning, is Rangel's true vocation.

Rangel is now the chairman of the House Ways and Means Committee and a man of immense importance in Washington. Nonetheless, he has been busy of late revising and amending the record, backing and filling, using buckets of Wite-Out as he discovers or remembers properties he has owned in New York, New Jersey, Florida, the Dominican Republic and God only knows where else -- and has forgotten or neglected to fully report on the required forms, not to mention the income from them. Oops!

Rangel recently even discovered bank accounts that no one in the world, apparently including him, knew he had. One was with the Congressional Federal Credit Union; another was with Merrill Lynch -- each valued between \$250,000 and \$500,000. He somehow neglected to mention these accounts on his congressional disclosure forms, which means, if you can believe it, that when he signed the forms, he did not notice that maybe \$1 million was missing. Someone ought to check the lighting in his office.

The dim bulb could also have accounted for why Rangel did not notice that he was soliciting contributions for the curiously named Charles B. Rangel Center for Public Service on the congressional letterhead of the very same Charles B. Rangel. It may also account for why he failed to report dividend income from various investments in addition to what he made by selling a townhouse in Harlem. The place went for \$410,000 in 2004, and had been rented -- or not -- to various people, who paid rent or didn't -- since Rangel reported no income for years at a time. This is what he did, too, with the rent he earned on his Dominican Republic villa. Again, nada.

There is something wrong with Charlie Rangel. Either he did not notice that he was worth about twice as much as he said he was -- which is downright worrisome in a congressional leader -- or he thinks that he's above the law, which is downright worrisome in a congressional leader. I was with Rangel on election night last year and heard him speak eloquently about what it meant for a black person to become president of the United States -- my God, who would have thought this day would ever come? -- and he moved me to tears. So I don't think age has muddled his brain. He is sharper on a bad day than most people on a good one.

But he suffers from the degenerative disease called Congressional Sclerosis. Its symptom is the belief that the rules, especially the petty ones, no longer apply to you. This happens over time. It comes with seniority and a sense of victimization that combine to produce the onset of entitlement for goodies to which, in the course of things, you are not entitled. All this is abetted by the righteous belief that everyone else is making money and taking private planes and dipping their tootsies in the balmy Caribbean on a given February Friday -- and so why can't you? You have the power and the staff -- just look at all those people! -- and flunkies who will hold the elevator for you, pick you up at Reagan National Airport and on the other end at La Guardia -- and you ought to have some commensurate luxuries. This is only right.

This is the disease that ended Powell's career. He had good reason for his bitterness -- a black congressman whose staff couldn't even eat in the House cafeteria -- but he marshaled all the slights, all the insults, to excuse an abominable attendance record and contempt for the law. In the end, the very Harlem that today honors Powell turned against him and elected a Korean War vet named Charles Bernard Rangel. Now, all these years later, the omissions, deletions, amendments, corrections and curious accumulation of wealth make one revise the history that Rangel wants obliterated: He didn't beat Powell. He joined him.

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## **Slide Ended In Apparent Suicide (WP)**

**Friend of Blagojevich Was Faced With Debts, Prison Term**



By Peter Slevin and Kari Lydersen, Washington Post Staff Writers

[Washington Post](#), September 15, 2009

CHICAGO. Sept. 14 -- Christopher Kelly was a roofer, a fundraiser, a gambler and a felon. He started small, made millions, befriended a young politician named Rod Blagojevich and died last weekend in an apparent suicide.

It was an ignominious end for a handsome and gregarious man who was one of the former Illinois governor's closest friends. Together, prosecutors said, they used the levers of power to violate the public trust. Together, they were due to face a Chicago jury next year.

A few days before he died, Kelly, 51, acknowledged that his world was crumbling. As he pleaded guilty in court last Tuesday in an \$8.5 million kickback scheme involving roofing bids at O'Hare International Airport, he spoke at times in a whisper. He said he was under pressure.

By then, Kelly's marriage had foundered and he was living apart from his three young daughters. His finances were in ruins and he was already facing prison on a different charge of cheating the Internal Revenue Service. On Sept. 18, he was scheduled to begin serving eight years behind bars.

Yet it was a shock to close followers of Chicago politics and the Blagojevich scandal when Kelly died Saturday in the main county hospital. Local authorities said Kelly's girlfriend, a former Northwestern University basketball player, answered a text message or a call from him and found him ill in his Cadillac Escalade.

She told police that she pushed Kelly into the passenger seat and drove him from the parking lot of a lumber yard to a hospital. A few hours later, he was transferred to the larger John H. Stroger Jr. Hospital, where he died.

Blagojevich, who allegedly plotted to split illegal profits with Kelly and former fundraiser Antoin "Tony" Rezko, was quick to blame federal prosecutors for indicting Kelly in three separate cases and for urging him to testify for the government in return for a lighter sentence.

"Chris Kelly took his life because of the pressure he was under," Blagojevich said last weekend. He has been on the airwaves asserting his own innocence. "He refused to make it easier on himself to lie about someone else."

The U.S. attorney's office would not comment on the latest twist in a saga that began in December when Blagojevich, then governor, was led from his home in handcuffs. He was later impeached, in part for allegedly trying to profit from his authority to appoint someone to fill Barack Obama's Senate seat after Obama was elected president.

Kelly was "Rod's go-to guy," said Cindi Canary, director of the Illinois Campaign for Political Reform. She called him a "larger than life" friend and fundraiser "who would get a lot of credit or blame, depending on how you look at it, for making Rod Blagojevich governor of Illinois."

Kent Redfield, a professor of political science at the University of Illinois at Springfield, described Kelly as "part of the inner circle from the beginning." He called it ironic at best that Blagojevich made Kelly his point man with the Illinois Gaming Board.

Kelly wagered millions of dollars with an Illinois bookmaking operation and millions more in Las Vegas casinos, according to court documents. As the losses grew, he illicitly siphoned money from his roofing business to pay debts, then falsified his tax returns. He pleaded guilty in June.

The most serious charges had still awaited. Kelly was due to stand trial next year on allegations that he plotted with Rezko and the incoming governor as early as 2002 to profit from an abuse of power.

Prosecutors contend that Blagojevich would grant significant authority to Kelly and Rezko while agreeing to delay taking his cut until leaving office. Asked about that allegation last week by The Washington Post, Blagojevich called it "preposterous."

Police in Chicago and nearby Country Club Hills, where Kelly's girlfriend found him, are investigating his final hours and comments he made to police.

"People commit suicide for all kinds of reasons, all kinds of demons," Canary said. "We don't know if he would have changed his mind and testified. We don't know if he would have shed new light on things."



Whenever somebody dies, secrets go to the grave with them."

## **FBI: Murder, Violent Crime Dropped In 2008 (USAT)**

By Kevin Johnson

[USA Today](#), September 15, 2009

WASHINGTON - Nearly all major crime categories dropped in 2008 despite the sagging economy and high unemployment, according to the FBI's annual crime report out Monday.

Overall violent crime declined for the second straight year, including a nearly 4% drop in murder and a 2.5% drop in aggravated assault.

Although burglary was up 2%, car thefts plunged by nearly 13%, according to the report, which includes crime statistics from about 17,000 law enforcement agencies. Among other findings:

- . The largest overall declines were recorded in the West, where murder was down 6.8% and car thefts dropped by nearly 17%.

- . The 89,000 rapes recorded in 2008 were the fewest in two decades.

- . Of the 14,180 murder victims in 2008, 2,428 were victims ages 20 to 24.

James Alan Fox, a criminal justice professor at Northeastern University in Boston who has advised the Justice Department on homicide trends, says it is hard to know how the poor economy affected crime because of the relatively short, one-year period measured in the report. "You have to examine this over a longer period of time," Fox says.

Chuck Wexler, executive director of the Police Research Forum, a law enforcement think tank, says police chiefs disagree about whether a bad economy spurs crime.

He says the slight rise in burglaries is "consistent" with concern voiced by police officials in a January survey. "Police chiefs have been saying that they see an increase in opportunistic property crimes that people commit to get quick cash, like stealing iPods and GPS devices from cars," Wexler says.

## **Violent Crime Fell In 2008, F.B.I. Report Says (NYT)**

By David Stout

[New York Times](#), September 15, 2009

WASHINGTON — A young black man being shot to death by another black man who is an acquaintance continues to be the most "typical" homicide in the United States, according to a Federal Bureau of Investigations report released on Monday that showed an overall drop in violent crime for the second year in a row.

The F.B.I. figures show that nearly as many black people as white were homicide victims in 2008, even though 80 percent of Americans are white, compared with 13 percent who are black, according to Census Bureau figures.

To put it another way, based on census figures for white and black men of all ages, a black man was roughly six times as likely to be a homicide victim as a white man in 2008.

Of the nearly 17,000 homicide victims last year, 6,782 were black and 6,838 were white, the F.B.I. said, with men several times more likely to be victims than women. Several hundred other victims were classified as belonging to other races or as race unknown.

Of the more than 16,000 people arrested for homicide in the United States in 2008, 5,943 were black and 5,334 white, with several thousand other suspects classified as belonging to other races or as race unknown.

For both whites and blacks, men ages 17 to 30 were the most "typical" victims and killers. Over all, men were several times more likely than women to be the victims and the killers.

Justifiable killings by the police or civilians, suicides and deaths due to negligence are not included in the homicide statistics.

While the estimated number of all violent crimes in the nation declined for the second year, property crimes also fell over all in 2008, the sixth straight yearly drop in these offenses.



The information, based on data sent to the F.B.I. from police agencies, is explained in detail in the report, "Crime in the United States," which is offered with caveats.

Aware of the temptation to rank cities or regions according to how safe they are, the F.B.I. cautioned that "these rough rankings provide no insight into the numerous variables that mold crime in a particular town, city, county, state or region." The report continued, "Consequently, they lead to simplistic and/or incomplete analyses that often create misleading perceptions adversely affecting communities and their residents."

As Bill Carter, an F.B.I. spokesman, said Monday, the agency does not "cite any specific reasons" for crime rising or falling.

"We leave that up to the academics and the criminologists and the sociologists," Mr. Carter said.

The F.B.I. data released Monday showed that 23.3 percent of murder victims were slain by family members, and 54.7 percent were killed by acquaintances, while only 22 percent were murdered by strangers. Of last year's homicides, 9,484 involved firearms, 6,755 of which were handguns, the F.B.I. said.

In each of the four violent crime offenses, the 2008 rates were down from 2007. Murder and non-negligent manslaughter dropped 3.9 percent; aggravated assault declined 2.5 percent; forcible rape declined 1.6 percent; and robbery was down 0.7 percent. The figures are based on offenses per 100,000 people.

Burglaries rose 2 percent in 2008, and larceny-thefts went up three-tenths of 1 percent. But motor vehicle theft dropped 12.7 percent.

The 2008 violent crime rate was 454.5 offenses per 100,000 inhabitants (a 2.7 percent decrease from the 2007 rate), and the property crime rate was 3,212.5 per 100,000 persons (a 1.6 percent decrease from 2007).

Crime statistics can vary, depending on who is doing the counting. Information from the Bureau of Justice Statistics, which like the F.B.I., is a Justice Department agency, is based on surveys of households and individuals, instead of relying on police data. On Sept. 2, the statistics bureau said its figures showed that violent crime was unchanged in 2008 and that property crime was down slightly.

And the F.B.I. report released on Monday, while packed full of statistics, is based in part on estimates, since some of the more than 17,000 law enforcement agencies that participate in the F.B.I. survey could not or did not provide complete totals for the year. Hence, while 14,180 homicides were documented in 2008, the F.B.I. estimated the actual number at just over 16,700.

While Mr. Carter of the F.B.I. declined to discuss crime trends, he speculated that better medical care in recent years has spared some assault victims from being listed eventually as homicide victims.

## **Violent Crime Falls In U.S. For Second Straight Year (Update1) (BLOOM)**

By Justin Blum

[Bloomberg News](#), September 15, 2009

Sept. 14 (Bloomberg) -- Violent crime in the U.S. declined for the second year in a row in 2008, dropping 1.9 percent, according to the FBI.

All four categories of violent crime surveyed by the Federal Bureau of Investigation -- forcible rape, murder, robbery and aggravated assault -- declined in 2008, according to data released today. Property crime declined by 0.8 percent compared with 2007.

There were an estimated 1.38 million violent crimes in the U.S. last year, the FBI said. Murder and non-negligent manslaughter declined 3.9 percent.

The FBI released preliminary data on the 2008 crime rate in June.

To contact the reporter on this story: Justin Blum in Washington at [jblum4@bloomberg.net](mailto:jblum4@bloomberg.net)

## **Crime Down In US: FBI (AFP)**

[AFP](#), September 15, 2009

WASHINGTON - Violent crime including murder, rape, robbery and aggravated assault fell in the United States last year compared with 2007, an FBI report showed Monday.

But even though violent crime was down across the board by 1.9 percent, 16,272 people were



murdered -- around 45 every day of 2008 -- and 89,000 women were raped, the "Crime in the United States" report showed.

More than 834,000 people, or 2.5 percent fewer than in 2007, fell victim last year to aggravated assault, the most common form of violent crime in the United States, which the Federal Bureau of Investigation defines as an attack usually involving a weapon and intended to inflict severe injury or bodily harm.

Just over half as many, 441,885, were robbed last year, down 0.7 percent from 2007.

The number of women who were forcibly raped was down from more than 90,000 in 2007 to 89,000, a 20-year low for the offense, the report, which does not seek to analyze the data, said.

Sexual attacks on males are counted as aggravated assaults or sex offenses, and are not included in the statistics for rape.

The weapon of choice was the firearm. More than two-thirds of all murders committed in the United States, 43.5 percent of robberies and 21.4 percent of aggravated assaults involved a firearm.

Property crimes also declined in 2008, but only because car thefts dropped sharply, from just under 1.1 million in 2007 to around 957,000 last year, or a decline of 12.7 percent.

The other two property thefts which the report looked at, burglary and larceny, were both up.

Larceny, or the theft without force, violence or fraud of property such as a bicycle or vehicle parts, was up 0.3 percent last year, while burglary rose two percent.

Last year, around 39 percent of US law enforcement agencies submitted crime data for the report, which is put together to allow "local agencies to look at the types of crimes in their area and what they need to do to address those crimes," FBI spokesman Phil Carter told AFP.

## **Violent Crime Fell 1.9 Percent In '08, FBI Says (CNN)**

[CNN](#), September 15, 2009

WASHINGTON (CNN) -- Violent crime dropped for the second year in a row in 2008, according to an annual FBI crime report released Monday.

The FBI's annual crime report is based on statistics provided by almost 18,000 law enforcement agencies.

The total number of violent crimes nationwide dropped 1.9 percent compared with 2007, the FBI reported. Murders and non-negligent manslaughters declined 3.9 percent, aggravated assaults dropped 2.5 percent, and forcible rapes fell by 1.6 percent.

The 89,000 estimated forcible rapes in 2008 was the lowest reported total in 20 years.

Racial minorities suffered disproportionately as victims of some of the most violent crimes. Almost half of the country's 14,000 murder victims, for example, were African-American.

Blacks make up roughly 13 percent of the nation's total population, according to the U.S. Census.

Property crimes declined for the sixth straight year, due to a 12.7 percent drop in motor vehicle thefts, according to the report. Losses from property crimes in exceeded \$17 billion.

Burglaries, however, rose by 2 percent, according to the report.

The South had the highest rate of violent crime in 2008, while the Northeast had the lowest.

Nationwide, law enforcement agencies made more than 14 million arrests in 2008. The highest number of arrests were for drug abuse violations, according to the report. There were over 1.7 million estimated arrests relating to drug abuse, and another 1.4 million tied to driving while intoxicated.

Roughly three out of every four people arrested in 2008 were male, while almost seven in 10 were white, according to the report. Men make up slightly less than half of the country's population, and whites account for slightly less than 70 percent of the population, according to the U.S. Census.

The FBI's annual "Crime in the United States" report is based on statistics provided by almost 18,000 law enforcement agencies.

A separate annual report on prevalence of hate crimes -- offenses motivated by bias against an individual's race, religion, ethnicity, disability, or sexual orientation -- is scheduled to be released in November.



## **FBI: Violent Crime Down, But People Don't Feel Safer (CSM)**

**The FBI crime report, released Monday, shows murder and rape are down dramatically. But data on property crimes are inconclusive.**

By Patrik Jonsson, Staff Writer Of The Christian Science Monitor

[Christian Science Monitor](#), September 15, 2009

Atlanta

Overall crime in the US has dwindled to nearly 1960s levels, with particularly violent crimes - murder and rape - on a dramatic downward spiral, the FBI reported Monday.

Yet across the country, and especially in the South, residents are still alarmed about crime. Many report a surge in property crimes - chiefly break-ins targeting flat-screen TVs.

Criminologists have expected crime rates to rise - especially as young unemployed males turn to illegal enterprises for cash during the recession. But so far, at least, the current pattern seems more akin to what happened during the Great Depression, when crime rates did not spike dramatically despite - or perhaps because of - widespread poverty.

"It's kind of understood, but without being proven, if you've got an economic crisis that you're likely going to see an upswing in property crimes," says Stephen Handelman, director of the Center on Media, Crime, and Justice at John Jay College in New York. "Yet if everybody's in the same bag, then individual neighborhoods are not necessarily as threatened as when you have sharp disparities in income, as you did in the 1990s."

"The jury is still out on whether property crimes have gone up as a result of the recession," he adds.

The report is gleaned from law enforcement reports spanning 2007 and 2008 - including a period that preceded the recession's grip. The data show that the murder rate dropped 4 percent, and the total number of reported rapes dropped to 89,000 - the lowest level in 20 years. Car thefts were down 12 percent.

Yet some property crimes - including burglaries - did see a bump upward, by 2 percent

Regionally, the South had the highest crime rate, with 4,315 reported violent and property crimes per 100,000 people. The region with the lowest crime rate was the Northeast, which had 2,620 reported crimes per 100,000 people.

One reason for the disconnect between perception of crime and the hard stats: Crime, like politics, is local. A 2007 survey by the Center on Media, Crime, and Justice showed that more than 53 percent of Americans said crime was an equal concern to healthcare and the economy. While people may not have seen crime as a problem generally, they often pointed to crime in their own neighborhood as a major concern.

African-Americans report the greatest concerns about crime. For good reason: Nearly half of the 14,000 murder victims in the report were black. Meanwhile, about 70 percent of those who were arrested for all crimes were white, according to the report.

Blacks make up about 13 percent of the US population; whites make up about 70 percent.

"Even though globally crime is down and people sense that, they don't necessarily feel safer," says Mr. Handelman. "It depends on where you live. People in inner cities and rural areas may be more worried" whereas people who live in the suburbs have fewer fears, he says.

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## **Obscure Database Is Key To U.S. Educational Funds For California (LAT)**

**The data system tracks student, teacher and administrator performance year to year but has barely gotten off the ground. Other states' systems improve student performance and hold schools accountable.**

By Jason Felch And Jason Song

[Los Angeles Times](#), September 15, 2009

California's chance to receive hundreds of millions of federal educational dollars may rest heavily on an



obscure and long-neglected piece of education infrastructure: a statewide data system that tracks students, teachers and administrators year to year.

Such education systems are expensive, complex and do not win elections for politicians. But experts say they are essential to learn how much of the nearly \$60 billion that California spends on K-12 education makes a difference, a fact that student achievement tests only hint at.

Last month, California rolled out the first component, a student database known as CalPADS. It will eventually make it possible to measure what works and what doesn't in classrooms throughout the state. The second major component, a teacher and administrator database known as CalTIDES, will not come online until 2011.

Though still in its infancy, the state's data system has had a rocky history. The project was first conceived in the 1980s, but has been stalled repeatedly by infighting among state agencies and a lack of political support. Already overdue and over budget, it lacks many of the key components in place in other states such as Texas and Florida.

On Friday, the state Legislature passed a bill that removed one of the system's key limitations -- it sets aside a 2006 state law that, at the insistence of teachers unions, prevented California from using the system to evaluate teachers based on the academic gains of their students.

Experts say that identifying the most effective and least effective teachers is one of the most important factors in improving education, and the Obama administration has said that California would be ineligible for \$4.35 billion in competitive federal education grants unless it changed the law.

But education officials say that Friday's legislative fix does little to make California more competitive for the federal money, known as Race to the Top funds. To improve the state's chances, Gov. Arnold Schwarzenegger and several legislators have proposed a sweeping education reform bill that, among other things, seeks to hold teachers accountable for the performance of their students.

So far, few in Sacramento have championed the proposal, and the Democrat-controlled Legislature is facing pressure from the powerful teachers unions to delay the bill, education officials say.

David Sanchez, president of the California Teachers Assn., made his position clear at a summer meeting with his membership.

"Paying and evaluating teachers based on a single test score does not improve student learning and does not help attract and retain quality teachers in lower-performing schools," Sanchez said.

"And we will not stand for it."

Disorganized data

California has long been awash in educational data. The state Department of Education alone has 125 separate databases, including those that track student test scores, national origin and school finances.

But for all that data, the state cannot answer many basic questions about public education: Which high school classes are best at preparing students for success in college? Do the hundreds of millions of dollars spent annually on training actually make for better teachers? Which credentialing programs prepare the most effective educators?

For the most part, officials say, nobody knows.

David Gordon, the superintendent for Sacramento County schools, recalls a discussion in 1983 over unifying the databases to make it easier to measure the effectiveness of education reforms.

For two decades, the idea has been popular among reformers and policy wonks, but never received political support or funding.

In the meantime, other states developed data systems that have allowed them to improve student performance, hold schools accountable and spend education dollars more efficiently.

California was spurred into action in 2002, when the No Child Left Behind law required the state to collect new data. The Legislature approved CalPADS that year with little opposition. It was projected to cost \$6 million.

In fact, the student database has taken seven years and tens of millions of dollars to build -- the exact figures are in some dispute.



Many attribute the project's delays to the Department of Finance, which one study said used "100 ways of saying no" to slow the project. Finance officials have fought bitterly with the education department on the scope of the system and who would control access to the data.

H.D. Palmer, spokesman for the finance department, acknowledged his department's concerns about privacy and costs over the years. But once the system was approved, "in no way, shape or form have we been an impediment to providing the funds to build the system."

Even today, the two departments have dramatically different estimates for the pricetag: Finance puts it at more than \$100 million, including ongoing costs; the Department of Education says one-time development costs were \$24 million.

Whatever the figure, some say the state has been penny-wise and pound-foolish, wasting far more money by not investing in the system sooner. "If you're going to be investing \$60 billion a year, to have a \$20-million system in place to monitor what is working seems an obvious and appropriate investment," said Gary K. Hart, the former secretary of education for Gov. Gray Davis.

"We've been something of an embarrassment in the states on this issue," said Gordon, the Sacramento County superintendent. "This has been way, way too long in coming."

Despite the delays, CalPADS' development has already yielded some major breakthroughs for the state. California has been able to count the number of dropouts far more accurately, and students' test data and enrollment history will now follow them when they transfer between districts, eliminating the need for some of the costly testing.

And soon, the state will be able to answer those basic questions about what works in California classrooms.

When the teacher and administrator database is in place, the state for the first time will be able to determine which teacher training programs produce the most effective teachers.

Used together, the systems will allow the state to save money by eliminating programs that are not working.

"It's not going to solve the state budget deficit," said Mary Perry, deputy director of EdSource, a California policy group that has studied the data system. "But it's going to help educators learn what helps student performance and what doesn't."

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## **Texas District Cancels Plans To Bus Students To Bush Speech (MCT)**

By Melody McDonald, Fort Worth Star-Telegram

[McClatchy](#), September 15, 2009

FORT WORTH - Six days after drawing fire for not showing President Barack Obama's speech to schoolchildren, the superintendent of the Arlington Independent School District announced Monday that he also will not be allowing 600 fifth-graders to attend a Super Bowl event next week featuring former President George W. Bush.

Jerry McCullough issued an apology last week for not allowing students to watch Obama's speech live after it was learned that the district had approved a fifth-grade field trip to the new Cowboys Stadium on Sept. 21, where Bush is scheduled to speak during a Super Bowl XLV kickoff event.

On Monday morning, McCullough announced that he has changed his mind about allowing students to attend the Super Bowl event, which he said has become a "local and national issue and a distraction for the AISD."

"I have informed the North Texas Super Bowl XLV host committee that the AISD will not participate in the kickoff event on Sept. 21 in order to maintain our focus on instruction," McCullough wrote.

McCullough said last week that he didn't allow students to watch Obama's speech live Tuesday because he didn't want to disrupt the school day. After district offices were flooded with calls from parents and media about the district's plans to allow students to hear Bush speak, McCullough issued an apology.



"In retrospect, I can see the district's decisions concerning these two events could be seen as favoring one event over another," McCullough said last week. Twenty-eight fifth-grade classes were scheduled to attend the Bush event.

The Arlington school district is midway between Dallas and Fort Worth.

Read the full story at [star-telegram.com](http://star-telegram.com).

## **Hyde Park House For Sale Comes With A View: The Obamas (NYT)**

By Susan Saulny

[New York Times](#), September 15, 2009

CHICAGO - There is a "for sale" sign in the front yard, not that potential buyers would see it. The street is closed to nonresidents by order of the United States Secret Service.

The house at 5040 South Greenwood Avenue, next door to the Hyde Park residence of President Obama and his family, hit the market here over the weekend. And in a summer of real estate doldrums, it is causing quite a stir, not simply because it is a gracious, century-old, 17-room house with elaborate stained-glass windows and a charming carriage house in the backyard.

Here is what the owners say makes it a real deal: you just could not get more impressive neighbors. They are downright stately, and they come with a full-time security staff that keeps an eye out like no Neighborhood Watch in the world.

Bill and Jacky Grimshaw are the empty-nesters who are selling their 6,000-square-foot house after 36 years.

The price? Hard to know, real estate agents say, because not since Richard M. Nixon lived in a New York City apartment has the market tried to assess the value of immediate proximity to the president in a dense urban neighborhood. (The Greenwood Avenue neighbors are separated by about 20 feet, a line of thin trees and an iron fence that is more decorative than forbidding.) The Grimshaws paid \$35,000 in 1973; other homes in the area have sold for \$1 million to \$2.5 million.

"We think there's a premium," said Matt Garrison, the listing agent with Coldwell Banker, who does not intend to put an asking price on the house. "We don't know what the Obama effect is."

Mr. Garrison said he had tried to scout similar parcels of residential property, but pointed out that there was no family living next door to the White House.

"I tried to look at 12 Downing Street, but that's all offices," Mr. Garrison said, referring to the building next door to the British prime minister's residence in London. "Here we are looking out the kitchen window at the president's back porch. Buyers establish the market. Stuff sells for what people are willing to pay."

On the third floor, in a playroom, a large picture window offers a sweeping view of the red brick Georgian-style house that Mr. Obama bought in 2005 for \$1.65 million.

Looking out that window, Mr. Garrison was taken by surprise. "Obama's roof needs some work," he said. Well, at least now they know, he joked: "The Secret Service is probably looking at us, reading our lips."

Still, the Grimshaws - he a professor of political science at the Illinois Institute of Technology and she a transit expert and Democratic political activist - said they had managed to have an easy, neighborly rapport with the Obamas, who shot a commercial in the Grimshaws' living room during the campaign.

"They didn't want to mess up their own house," Professor Grimshaw said in jest. "Thirty people came traipsing in asking, 'Are these the best chairs you have to set at the table?' I thought, 'What a nutty lark this is.'"

The Obama children, Sasha and Malia, are known to stick their hands through the fence to pet the Grimshaws' boxer, Roxy.

Everyone involved in the sale agreed that prospective buyers would have to be screened for security reasons before being taken seriously, but a spokesman for the Secret Service would not comment on that process or anything related to the house.

Professor Grimshaw, an almost-retired 71-year-old, said he never had to lock his doors. "But I also know that there are some people who would never live under these circumstances," he said. "I'm just hoping



for a good patriot, a good family man, a good Democrat."

Would he sell to a Republican?

"Only if push came to shove," he said.

So far, all the shoving seems to be from the curious who want to get a peek inside the house. Already more than 7,000 people have visited the broker's Web site, [www.5040Greenwood.com](http://www.5040Greenwood.com).

A visit - if one is qualified to be granted a private showing - will reveal that the house is also a fixer-upper. The Grimshaws did not tamper with its original fixtures or woodworking. The electrical switches are from 1907. The kitchen and bathrooms are worn. The third floor probably needs to be gutted.

"I didn't lavish attention on the house," Professor Grimshaw admits. Mocking an outraged, imaginary potential buyer, he said: "Where's the granite? How can people live like this?"

Professor Grimshaw has been in poor health lately. The property, which sits on a 12,000-square-foot lot, requires too much upkeep now, he said.

Even looking back to when he bought it, Professor Grimshaw said, "We had no means to support a place like this."

He says they had no idea, back then, about how the larger middle- and working-class area would evolve into a premier address.

Their welcome to the area back in the 1970s? Some rough teenagers from a few blocks over broke in before they had even unpacked their boxes.

Somehow, Professor Grimshaw said, he is pretty sure the new owners will not have to worry about things like that.

Alain Delaquerre contributed research from New York.

## **Small Pain, Real Gain (WP)**

### **A quick and easy plan to reduce the federal deficit**

[Washington Post](#), September 15, 2009

WITH the federal deficit headed toward \$1.5 trillion both this year and next, the Obama administration is under pressure to produce a plan for fiscal stability. Some of that pressure has come from editorial pages, including this one, so we thought it was only fair that we offer a few specific ideas of our own.

Obviously the big dollars are in defense and Medicare, Social Security and other entitlements, as well as the monumentally inefficient tax code. A true fix to the country's structural fiscal problem must await their comprehensive overhaul. But the point here is to show how much Congress and the administration could accomplish even without taking on those huge political battles. In fact, with the help of the Congressional Budget Office's recently released annual budget options report, we've identified \$100 billion in savings over the next five years. They could be achieved without imposing sacrifices on the needy, reducing middle-class living standards below recent norms -- or even touching farm subsidies.

Much of the savings in our proposal would come from adopting a more accurate measure of inflation for annual adjustments in both taxes and spending. Currently, income tax brackets, exemptions, standard deductions and the like are indexed to keep up with the Consumer Price Index for urban consumers, which is based on buying pattern surveys that can be up to two years out of date. The government should instead use a slightly different, but more realistic version of the index, which reflects the fact that people maintain their standard of living by substituting cheaper products when prices rise. Use of this infelicitously titled "chained CPI" in the tax code would save \$22 billion over the next five years, according to the CBO. Adopting the chained CPI for all federal benefit programs that are indexed to inflation would save another \$20 billion -- merely by slowing the growth of future benefits slightly, not actually cutting them or taking away any that have already been awarded.

No Post editorial would be complete without a pitch for the federal gas tax, but let's keep it modest this time: Simply restore the gas tax, currently 18.4 cents per gallon, to its real value when enacted in 1993. The necessary increase, nine cents per gallon, would still leave gas prices lower than they were a year ago -- while cutting the deficit by about \$45 billion over the next half-decade. If this rankles, remember: Because the



tax discourages petroleum consumption, it will make it harder for oil producers to jack up the world price of oil. Hugo Chávez and Mahmoud Ahmadinejad would be getting hit, too.

Thirteen billion dollars to go: Let's consolidate three existing tax credits and deductions for higher education expenses into a single credit program (\$6.6 billion), eliminate school-lunch subsidies for non-poor children (\$1.2 billion) and phase out capital grants to big airports (\$5 billion). For the last \$200 million, get rid of just one of Amtrak's five most unprofitable routes.

There. Now, was that so hard?

## **Food Registry (WP)**

**The FDA takes a step toward improved safety, but Congress still needs to act.**

[Washington Post](#), September 15, 2009

NEW POWERS for the federal government to further protect a relatively safe food supply reside in a bill that passed the House in July. The Food Safety Enhancement Act would require companies to develop procedures for conducting hazard analysis and instituting preventive controls. The Food and Drug Administration could gain access to those records and order product recalls, if necessary. The secretary of health and human services would establish a system to trace the origins of food from farm to fork. Unfortunately, the legislation now sits parked in the Senate.

But here's a bit of good news: The FDA instituted an online portal last week to flag contamination in the food supply before it has a chance to spread. The Reportable Food Registry was mandated by a 2007 law signed by President George W. Bush. Its stated purpose is to provide a "reliable mechanism to track patterns of adulteration in food." As we have seen one too many times over the past couple of years, the lack of such a reliable mechanism has helped produce a rogues' gallery of products that have sickened consumers.

From now on, facilities that "manufacture, process or hold food for consumption in the United States" must report to the FDA through the registry within 24 hours of finding a "reasonable probability that an article of food will cause severe health problems or death to a person or animal." Bacterial contamination, allergen mislabeling or elevated levels of certain chemical components are among the reasons for reporting potentially dangerous products to the FDA.

Would that this early-warning system had been in place sooner. Remember the alleged actions of the Peanut Corporation of America? Earlier this year, the FDA revealed that the now-defunct Lynchburg, Va., company knowingly shipped salmonella-tainted peanut products 12 times between 2007 and 2008 from its Blakely, Ga., facility. This led to one of the largest product recalls in U.S. history and at least nine deaths.

The episode also exposed the troubling gaps in safeguarding the nation's food supply. The reportable food registry is a useful new tool for the FDA. But the agency needs the other tools in the Food Safety Enhancement Act if it is to stand a chance at stopping food-borne outbreaks before they start.

## **Sexual Abuse Behind Bars (WP)**

**The evidence is in, again. It's time for the Justice Department to respond.**

[Washington Post](#), September 15, 2009

THE men and women charged with ensuring an orderly and safe environment behind bars too often use their positions to sexually abuse prisoners. So concludes a recently released report from the Justice Department Office of Inspector General, which documents a litany of problems that still plague the nation's federal prisons. The report, which comes on the heels of a thorough study by the National Prison Rape Elimination Commission, should serve as a catalyst for immediate action.

The Bureau of Prisons operates 115 prisons in 93 locations, housing approximately 171,000 inmates. Allegations of sexual abuse by prison staff more than doubled from 2001 to 2008. "Staff sexual abuse of prisoners has severe consequences for victims, undermines the safety and security of prisons, and in some cases leads to other crimes," the IG's office concluded.

Reports of abuse arose in all but one of the 93 locations and involved male and female employees. Not surprisingly, allegations were made most often against staff who interacted most with inmates -- namely,



those in food services, recreation, vocational and educational training.

There were some bright spots. For example, the IG reports that prosecutions of criminal sexual abuse by staff rose by some 12 percentage points due in large part to prosecutors' willingness to tackle such cases after Congress enacted tougher penalties. Of the 90 prosecutions, 83 resulted in convictions or guilty pleas.

But the Bureau of Prisons still needs to articulate a zero-tolerance policy for sexual abuse and better train personnel to prevent, detect and report sexual crimes. Prisoners need information on how to report abuse. The agency should review policies in some prisons that automatically isolate or transfer a prisoner who has reported abuse. Although done with the intention of protecting a prisoner from further abuse, such actions are often perceived as punishment and have the effect of discouraging disclosure.

The U.S. Marshals Service, which transports federal prisoners and holds those arrested on federal charges until disposition of their cases, has no formal program to prevent and handle sexual abuse. This is unacceptable and should be remedied as soon as possible.

Even before the IG's report, Attorney General Eric H. Holder Jr. had in hand a blueprint to address sexual abuse by staff and inmates in federal and state institutions: a thorough and compelling report produced after nearly six years of study by the congressionally created prison rape elimination commission. Mr. Holder has until next June to act on the commission's report. He should not wait until then to begin implementing the commission's sensible -- and necessary -- recommendations.

## **Medical Inattention In New York Prisons (NYT)**

[New York Times](#), September 15, 2009

Prison inmates are the sickest people in society, with infection rates for blood-borne viruses like H.I.V. and hepatitis C far higher than the general population. Failing to test, counsel and treat these inmates makes it more likely that they will spread infection once they are released and suffer catastrophic illnesses that shorten their lives and drive up public health costs.

The New York State Legislature had this problem in mind when it passed a bill that requires the State Department of Health to ensure that prison H.I.V. and hepatitis programs are operating effectively and meet prevailing medical standards. Corrections officials, who tend to rebel against oversight of just about any kind, want Gov. David Paterson to veto this bill. He should ignore them and sign it.

The state correctional system has unquestionably improved medical care over the last several years. But a recent report by the Correctional Association of New York, which is authorized by the Legislature to monitor the prisons, found troubling inconsistencies in care in the state prison system, which is said to house 20 percent of the H.I.V.-infected inmates in the United States.

The report, based on state records, estimates that the state has identified through testing fewer than half of the H.I.V.-positive inmates and only about 70 percent of those with hepatitis C. The report finds that the number of people receiving treatment varies significantly from place to place, which is suspicious given that the population is fairly homogenous. The variation raises questions about the consistency and effectiveness of medical policies from prison to prison.

Prison medical officials argue that the treatment regime is fine and that oversight is unnecessary. But critics in the Legislature rightly point out that the prison health system is the only one in the state not overseen by the Health Department. The prison system, with about 4,000 infected inmates, is the largest provider of treatment for H.I.V., the virus that causes AIDS, in the state.

Other critics argue that the Health Department's initiative would cost money at time when the state can't afford it. But better diagnoses and treatment in prison would save more money than it would cost by preventing further infections and keeping many patients from moving on to costly, catastrophic illnesses.

## **INTERNATIONAL NEWS:**

### **China Seeks Talks At WTO Over Tire-Import Tariff (WSJ)**

**In Pursuing Talks With U.S., Some Say Beijing Appears Eager to Keep the Trade Tensions in the**



## Framework of International Law

By Terence Poon, Ian Johnson And Peter Fritsch

[Wall Street Journal](#), September 15, 2009

China called for talks with the U.S. at the World Trade Organization on Monday, after Washington levied punitive duties on tire imports last week and Beijing responded with a move to restrict some U.S. imports.

In Washington, talk turned to potential copycat cases in which American producers could seek protection from Chinese products ranging from steel to clothing. Key lawmakers, meantime, signaled a hope that the Obama administration could use the domestic politics of the moment to placate nervous trading partners and push forward with trade deals on other fronts.

China's quick action in taking the U.S. tariffs to the WTO suggested Beijing was eager to keep the trade tensions within the framework of international law, a sign the disagreement may be containable. A spokesman for China's Ministry of Commerce, in a statement on the ministry's Web site, described the move as "a practical step to protect one's own interests."

In a speech on Wall Street Monday, U.S. President Barack Obama touched on the controversy, pledging to avoid "self-defeating protectionism."

"Make no mistake, this administration is committed to pursuing expanded trade and new trade agreements," he said. "It is absolutely essential to our economic future. But no trading system will work if we fail to enforce our trade agreements."

At the same time, U.S. labor unions hinted the administration's decision could inspire more cases seeking relief from Chinese imports.

"We're looking at what's happening in paper sector, glass, cement, steel. That's our obligation to our members," said Leo Gerard, president of the 850,000-member United Steelworkers union that represents workers in numerous industries and brought the original case against Chinese tires.

"We've had the market flooded with oil [pipes]. It's no different in steel, in toys, or medicine or dog food," Mr. Gerard said.

Rep. Sander Levin, a Michigan Democrat who chairs a key trade subcommittee, said he didn't expect a flood of new cases seeking special protection from China. In part, that's because the law only allows such relief for another four years before expiring.

Rather, he said Mr. Obama's decision supported "expanded trade and the need for rules to govern the expansion." Mr. Levin highlighted the administration's past commitment to concluding pending trade deals with Panama, Colombia and South Korea -- though he said those still need debate.

It is more likely, he said, that the administration would push forward on talks to reopen the so-called Doha round of world trade talks. "I think the administration is beginning to gear up for that," he said. "There is more dialogue and consultation there."

The long-stalelated Doha talks seek to open the developed world to farm trade with poorer nations in exchange for greater access for service industries.

Meantime, the tire dispute has political costs for both sides.

In China, officials said Monday in the state media that the tire tariffs would "affect" the employment of 100,000 Chinese, although it wasn't clear whether that implies that all would lose their jobs. On Monday, Chinese government officials met with tire companies.

The moves came as evidence emerged that the economic value of the Chinese sectors affected by the simmering dispute is relatively small. An official from the Chinese rubber industry told state media in China on Monday that the U.S. tariffs would cost China \$1 billion a year in exports. The estimate, which couldn't be verified, amounts to less than three-tenths of 1% of China's \$337.77 billion in exports to the U.S. last year.

The effect on the U.S. is less clear because China hasn't imposed sanctions. China said Sunday it would investigate complaints by Chinese industries that U.S. companies were selling chicken and auto products in the local market at below-market value. But China already has a partial ban on U.S. poultry in retaliation for a similar U.S. ban on Chinese poultry.



U.S. poultry companies said they stood to lose \$370 million this year. In terms of auto products, the U.S. exported \$1.9 billion in vehicles and components to China in 2008, according to U.S. trade statistics, but it is unclear how much of these exports would be affected. Total U.S. exports to China last year added up to \$69.73 billion.

The American Chamber of Commerce in China on Monday warned China and the U.S. against "an escalation of restrictive trade measures that could undermine economic recovery in both nations." It urged both to solve disputes at the WTO.

Under WTO rules, the nations have around 60 days to settle the dispute through consultations. Failing that, the WTO could set up a dispute settlement panel. The Sino-U.S. trade spats and worries about rising trade protectionism -- just ahead of the Group of 20 summit next week in Pittsburgh -- hurt commodity markets Monday.

Natural rubber futures fell sharply across Asia on Monday as analysts estimated billions of dollars of Chinese tire exports could be lost. Rubber trading exchanges in Tokyo, Shanghai, Singapore and Bangkok witnessed a free fall as investors scrambled to liquidate long positions and stop losses. The benchmark January natural rubber futures contract in the Shanghai Futures Exchange settled down 935 yuan (\$136.88), or the daily limit of 5%, at 17,710 yuan per metric ton Monday. Rubber futures for February delivery on the Tokyo Commodity Exchange dropped 9.2%, the biggest daily loss since Dec. 9.

In Shanghai trading, shares of tire makers, such as Double Coin Holdings Ltd., fell even though the broader stock market rose. Other commodity futures, such as copper, also fell in China.

In the U.S., the trade tensions initially sent stocks lower, pushing the Dow Jones Industrial Average down 70 points at the open. The Dow rallied in the afternoon to close at 9626.80, up 21.39. The dollar slid to its lowest level against the euro in nearly a year. Shares of U.S. tire makers jumped in anticipation that they would benefit from the U.S.-imposed tariffs. Cooper Tire & Rubber Co. jumped 7.1% and Goodyear Tire & Rubber Co. added 3%.

## **China-US Trade Dispute Has Broad Implications (NYT)**

By Keith Bradsher

[New York Times](#), September 15, 2009

HONG KONG - An increasingly acrimonious trade dispute between China and the United States over the past three days is officially about tires, chickens and cars, but is really much broader.

Both governments face domestic pressure to take a tougher stand against the other on economic issues. But the trade frictions are increasing political tensions between the two nations even as they try to work together to revive the global economy and combat mutual security threats, like the nuclear ambitions of Iran and North Korea.

On Friday evening in Washington, President Barack Obama announced that the United States would levy tariffs of up to 35 percent on tires from China. China's commerce ministry issued a formulaic criticism of the American action on Saturday, but after a frenzy of anti-American rhetoric on Chinese Web sites, the ministry unexpectedly announced on Sunday night that it would take the first steps toward imposing tariffs on American exports of automotive products and chicken meat.

Late Monday, the ministry said in a statement that it was demanding talks with the United States on the tire tariffs. Carol J. Guthrie, a spokeswoman for the office of the United States trade representative, said earlier in the day that the United States wanted to avoid disputes with China and continue talks on tires, but would look at any Chinese trade decisions for whether they comply with World Trade Organization rules.

Eswar Prasad, a former China division chief at the International Monetary Fund, said rising trade tensions between the United States and China could become hard to control. They could cloud the Group of 20 meeting of leaders of industrialized and fast-growing emerging nations in Pittsburgh on Sept. 24 and 25, and perhaps affect Mr. Obama's visit to Beijing in November.

"This spat about tires and chickens could turn ugly very quickly," Mr. Prasad said.

The Chinese government's strong countermove on Sunday night followed a weekend of nationalistic



vitriol on Chinese Web sites. "The U.S. is shameless!" said one posting, while another called on the Chinese government to sell all of its huge holdings of U.S. Treasury bonds.

But rising nationalism in China is making it harder for Chinese officials to gloss over American criticism.

"All kinds of policymaking, not just trade policy, is increasingly reactive to Internet opinion," said Victor Shih, a Northwestern University specialist in economic policy formulation.

Mr. Obama's decision to impose a tariffs on Chinese tires is a signal that he plans to deliver on his promise to labor unions that he would more strictly enforce trade laws, especially against China, which has become the world's factory while the United States has lost millions of manufacturing jobs. The trade deficit with China was a record \$268 billion in 2008.

China exported \$1.3 billion in tires to the United States in the first seven months of 2009, while the United States shipped about \$800 million in automotive products and \$376 million in chicken meat to China, according to data from Global Trade Information Services in Columbia, South Carolina.

For many years, American politicians have been able to take credit domestically for standing up to China by enacting largely symbolic measures against Chinese exports in narrowly defined categories. In the last five years, the U.S. Commerce Department has restricted Chinese imports of goods as diverse as bras and oil well equipment.

For the most part, Chinese officials have grumbled but done little, preferring to preserve a lopsided trade relationship in which the United States buys \$4.46 worth of Chinese goods for every \$1 worth of American goods sold to China.

Now, the delicate equilibrium is being disturbed.

China's commerce ministry announced Sunday that it would investigate "certain imported automotive products and certain imported chicken meat products originating from the United States" to determine if they were being subsidized or "dumped" below cost in the Chinese market. A finding of subsidies or dumping would allow China to impose tariffs on these imports.

The ministry did not mention the tire dispute in its announcement, portraying the investigations as "based on the laws of our country and on World Trade Organization rules."

But the timing of the announcement - on a weekend and just after the tire decision in Washington - sent an unmistakable message of retaliation. The official Xinhua news agency Web site prominently linked its reports on the tire dispute and the Chinese investigations.

The commerce ministry statement, posted on its Web site, also hinted obliquely at the harm that a trade war could do while Western nations and Japan struggle to emerge from a severe economic downturn. "China is willing to continue efforts with various countries to make sure that the world economy recovers as quickly as possible," the statement said.

The Chinese government sometimes organizes blog postings to defend its own policies. But some postings on the tire decision have been implicitly critical of the Chinese government, making it unlikely that they are part of an orchestrated effort.

"Why did our government purchase so much U.S. government debt?" said one posting signed by a "Group of Angry Youths." It continued, "We should get rid of all such U.S. investments."

China has accumulated \$2 trillion in foreign reserves, mostly in Treasury bonds and other dollar-denominated assets. It has done so by printing yuan on a massive scale and selling them to buy dollars.

This has held down the value of yuan in currency markets and kept Chinese goods quite inexpensive in foreign markets. China's exports have soared -- China surpassed Germany in the first half of this year as the world's largest exporter - while China's imports have lagged, except for commodities like iron ore and oil that China lacks.

Worries that China might sell Treasury bonds - or even slow down its purchases of them - have been a concern for the Bush and Obama administrations as they have tried to figure out how to address China's trade and currency policies.

But China now finances a much smaller portion of American borrowing than a year ago. The savings rate in the United States has climbed during the recession and many private investors around the world have



been seeking the safety of Treasuries.

At the same time, the Chinese economy relies heavily on exports to the United States, while the American economy is much less dependent on exports in the other direction. Exports to the United States, at 6 percent of China's entire economic output, account for 13 times as large a share of the Chinese economy as exports to China represent for the United States economy.

The American Chamber of Commerce in China said in a statement on Monday afternoon, "We respect the rights of governments to take W.T.O.-compliant trade actions, but caution both the U.S. and China against an escalation of restrictive trade measures that could undermine economic recovery in both nations."

Products involved in trade disputes between the United States and China together make up only a minuscule sliver of the two countries' trade relationship.

The bigger risk for China, economists and corporate executives have periodically warned, is that trade frictions could cause multinationals to rethink their heavy reliance on Chinese factories in their supply chains. The Chinese targeting of autos and chickens affects two industries that may have the political muscle in the United States to dissuade the Obama administration from aggressively challenging China's policies.

General Motors sees much of its growth coming from its China subsidiary, the second-largest auto company in China after Volkswagen. The farm lobby in the United States has long pressed for maximum access to a market of 1.3 billion mouths, and agriculture is one of the very few trade categories in which the United States runs a trade surplus with China.

Chickens are a longstanding issue in Sino-American trade relations. The United States only allows the import of chicken meat from countries that meet food safety inspection requirements that are certified by the United States Department of Agriculture as equivalent to American standards. But Congress, worried about low-cost Chinese chickens at a time of international worries about food safety in China, has banned the Agriculture Department for the last several years from spending any money to certify China's procedures as equivalent.

The Senate budget bill, expected to come up for a vote next week, would remove the ban. So China's latest move could represent an attempt to influence that vote.

But spotlighting automotive trade may be risky for China. G.M. and Ford both rely mostly on local production to supply the Chinese market, because of steep Chinese tariffs on imported cars and car parts.

But China has rapidly increased its share of the auto parts market in the United States over the past three years, at a time of rising unemployment in the Upper Midwest, where the manufacture of auto parts has long employed more people than the final assembly of cars.

## **Threat Of Trade War With China Sparks Worries In A Debtor U.S. (WP)**

By Steven Mufson And Peter Whoriskey

[Washington Post](#), September 15, 2009

The prospect of a trade war with China fueled fears of wider fallout Monday, rattling bond markets and prompting many economists to criticize President Obama's decision to slap import tariffs on Chinese-made tires.

Traders fretted that the 35 percent tariffs might prompt China to send a sign of disapproval by paring purchases of U.S. government bonds. And a chorus of economists and climate activists fretted that the president's action might undercut U.S.-China climate talks and poison relations just two weeks before the summit of the Group of 20 major economies to be held in Pittsburgh.

Moreover, economists argued that it would all be for nothing; they said tariffs on Chinese tires would probably boost U.S. imports from countries like Poland and Mexico and do little to help the American steelworkers whose union brought the trade action in the first place.

Obama said Monday on CNBC that the tariffs, which were announced late Friday night, were necessary to maintain the "credibility" of trade agreements. "I'm not surprised that China is upset about it, but keep in mind, we have a huge economic relationship with China," he said.

China's commerce minister, Chen Deming, called Obama's action an "abuse" of trade provisions and



said it "sends the wrong signal to the world." China said it would look into punitive measures against U.S. exports of auto and poultry parts.

"I think it's a terrible message in the run-up to the G-20, and we are all very concerned about the escalation of protectionist measures," said Uri Dadush, senior associate at the Carnegie Endowment for International Peace and long-time international trade director at the World Bank.

"If there were any prospect of the United States taking the moral high ground in Pittsburgh at the G-20, there isn't any longer, and that's unfortunate," said Daniel Rosen, partner at the advisory firm Rhodium Group and a former senior adviser for Asia at the National Economic Council. "Instead . . . people are going to be talking about the U.S. and China squabbling over tires and chickens."

One person who said such fears are overblown: Leo W. Gerard, the former nickel mineworker and leader of the United Steelworkers who instigated the current flap by filing the trade complaint that pushed Obama to impose a tariff on Chinese tires imports. Brushing aside concerns over a trade war or China's purchases of mountains of U.S. debt, he said that China exports far more than it imports and so has much more to lose.

"Eh," Gerard said when asked about fears of Chinese retaliation. "Are they going to kick the three chickens out they let in? . . . We've got into a situation now where everyone's afraid to tick off our banker," he said. "If our government had the guts to retaliate, [China] is going to be on the losing end."

The Obama administration also said it was not worried. "We do not expect that it will have an impact on the broader relationship," said a senior administration official who spoke on the condition of anonymity because he was not authorized to speak publicly. He said that there had been a "robust effort" by the administration to negotiate with China for a settlement on tires before imposing import tariffs. He asserted that U.S. imports of Chinese tires, which more than tripled since 2004, clearly met the test for tariffs aimed at reducing "surges" in imports.

But when asked about whether the United States would simply import from other nations, he conceded that "it is hard to predict the impact with specificity." 'Not to Be Provocative'

"A healthy economy in the 21st century also depends on our ability to buy and sell goods in markets across the globe. And make no mistake, this administration is committed to pursuing expanded trade and new trade agreements," Obama said in a speech Monday in New York's financial district.

"But no trading system will work if we fail to enforce our trade agreements," he added. "So when -- as happened this weekend -- we invoke provisions of existing agreements, we do so not to be provocative or to promote self-defeating protectionism. We do so because enforcing trade agreements is part and parcel of maintaining an open and free trading system."

There are reasons why the dust-up over tires might settle down. China exports three times as much to the United States as it imports from the United States. It also has relatively few secure places to park its huge foreign-exchange reserves other than U.S. Treasury bonds and government-backed U.S. mortgage securities.

Thea Lee, an economist and policy director for the AFL-CIO, said the concern over an incipient trade war was overblown and called China's reaction "blustering."

"The Chinese government is trying to raise the rhetoric and scare off the U.S. We should not be scared off," she said. "We are within our rights. . . . It's not the beginning of a trade war."

From 2004 to last year, the number of Chinese tires imported in the United States more than tripled and their share of the U.S. market rose from 5 percent to 17 percent. Over the same period, the share of the U.S. market served by U.S. factories declined by a corresponding amount. More than 5,000 U.S. jobs were lost.

Opponents of the tariff say the U.S. industry's shrinkage is unrelated to the surge in Chinese imports. U.S. manufacturers, they say, have strategically moved into pricier, more profitable tires, shifting production of cheaper tires overseas. Yao Jian, a Chinese Commerce Ministry spokesman, said, "Four U.S. companies have tire production operations in China and account for two-thirds of exports to the U.S. The tariffs will have a direct impact on them."

Under the so-called "421 clause" that China agreed to as part of its bid to gain admission to the World



Trade Organization, the United States does not need to prove unfair trade practices. Bad Timing?

But other observers said the timing was particularly bad, regardless of the case's merits. "They may have the basis for doing this, but the point in my mind is not the legality but the overall political impact and the message this gives the world," said Dadush of the World Bank. "Over the last several months, Chinese imports are exploding and thank God for that because that's holding up all of Asia and having a good impact on the rest of the world." By contrast, he said, U.S. imports are declining.

Moreover, globally, new requests for protection from imports in the first half of 2009 are up 18.5 percent over the first half of 2008, according to the World Bank-sponsored Global Antidumping Database, organized by Chad P. Bown, a Brandeis University economics professor. That increase follows a 44 percent increase in new investigations in 2008.

On Tuesday, Obama is scheduled to address the AFL-CIO's annual convention. Some analysts said that the tire tariffs were a political favor to trade unions, whose support Obama needs for health-care reform and who backed Obama in the 2008 election. Gerard dismissed the idea that the tire tariffs were political payback. The people who say that "are smoking something," he said.

Some observers said Obama might follow the Bush administration, which initially seemed to adopt a tough stance on trade. In March 2002, President Bush imposed tariffs on foreign steel, but later he backed off and rejected proposals to impose trade sanctions for other products.

"He pulled the plug on us because he didn't think we were grateful enough," Gerard said. "He didn't have the guts to enforce the law. He basically invited the Chinese to keep doing the same thing."

## **Pro-trade Dems Give Tire Decision Thumbs-up (HILL)**

By Ian Swanson

[The Hill](#), September 15, 2009

Pro-trade Democrats in Congress say the Obama administration's decision to impose punishing tariffs on Chinese tires could actually open up trade.

The decision has provoked a furious response from China, and Republicans and business groups have blasted the president for bowing to demands from labor.

China on Monday took the first step toward filing a World Trade Organization (WTO) complaint against the U.S. as a trade war between the countries threatens to escalate. The issue is expected at a minimum to be a distraction at a global summit President Barack Obama will host in Pittsburgh next week.

Obama imposed the tariffs, set to be in place for three years beginning at a rate of 35 percent, in response to a petition filed by the United Steelworkers union. The quasi-judicial International Trade Commission, which first reviewed the petition, had recommended the president impose even higher tariffs.

But Democrats who have supported trade agreements in the past are casting the decision as a confidence-builder for U.S. industries and workers, one that shows the government will use trade laws when necessary to protect them. They argue such steps in the long run will increase public confidence in trade, which has dropped significantly over the past decade even as Congress has approved a series of free-trade agreements.

Rep. Joseph Crowley (N.Y.), the leader of the pro-trade New Democrat Coalition, noted that the safeguard law that Obama used to impose tariffs on Chinese tires was set up by Congress to protect domestic industries from surges in Chinese imports.

The safeguard was included in legislation passed by Congress and signed into law by President Bill Clinton in 2000 that granted China permanent normal trade relations and paved the way for that country to enter the WTO. It was included to get more lawmakers in Congress to support China's entry into the global trading system, Crowley said in an interview.

He said it was important for members of Congress to see "we're enforcing laws that are put in place."

Sen. Max Baucus (D-Mont.), who helped shepherd several trade agreements through the Senate Finance Committee during the George W. Bush administration, also has long called for the administration to more strongly enforce U.S. trade laws.



By imposing the tariffs on Chinese tires, Baucus said Obama had sent a signal to American farmers, ranchers and workers that "he will defend their rights under our international trade agreements."

In a statement released Friday night, Baucus also noted that the Bush administration rejected four petitions under the China safeguard. Obama's decision marks the first time the relief has been granted.

Crowley said it is important that Congress and the administration do more to have "a broad discussion" on trade that could also include pro-trade policies. He said the New Democrat Coalition stands willing to work with the administration on that effort.

China stepped up its complaints by asking the U.S. for formal discussions about the decision at the WTO. The request triggers a process in which the two sides are to try to settle their differences without a trade case. If they are unable to do so, China could request that the WTO set up a panel to look at the matter.

China's official news agency quoted China Minister of Commerce Chen Deming saying the U.S. decision violated WTO rules and failed to honor U.S. commitments made at a G-20 summit earlier this year to avoid protectionism.

Republicans have ripped the White House for bowing to pressure from a special interest group amid a downturn in the economy. Rep. Kevin Brady (R-Texas) said the president has imposed a new-tire tax on working Americans, "many who can barely afford to replace a tire as it is."

More generally, business groups and GOP lawmakers have been frustrated that the administration has done nothing to move trade agreements with Colombia, Panama and South Korea that were held over from the Bush administration.

All of those deals are opposed by organized labor and divide Democrats in Congress. The administration is widely seen as taking a go-slow approach on the deals, particularly as it works to get Congress to approve its ambitious legislative proposals on healthcare reform and climate change.

## **Trade War Won't Follow Tire Tariffs Against China, Obama Says (BLOOM)**

By Julianna Goldman And Mark Drajem

[Bloomberg News](#), September 15, 2009

President Barack Obama downplayed the possibility that his imposition of tariffs on imported tires from China would spark a cycle of retaliation.

"We're not going to see a trade war," Obama said yesterday in an interview with Bloomberg News at the White House. "There are some tensions around this, no doubt about it. But my message is very simple: We have rules on the books."

China called the tariffs an "abuse" yesterday and filed a complaint with the World Trade Organization. China also said it will probe whether U.S. chicken and auto products are being dumped at below-market prices or receive unfair government subsidies.

The "risk is that it just spirals" into a trade war, David Spooner, a former Commerce Department official and a lawyer at Squire, Sanders & Dempsey LLP in Washington, said in an interview yesterday. Spooner represented China's rubber industry in the case.

Obama said Sept. 11 that he will impose duties of 35 percent on \$1.8 billion of automobile tires from China, acting on a petition by the United Steelworkers union.

Existing rules must be enforced to gain support from lawmakers and the American public for future trade agreements, Obama said in the interview, when asked what he will tell China's President Hu Jintao at the G20 meeting next week in Pittsburgh.

"We've got to establish credibility and enforcement of the rules precisely because I want to further expand trade," Obama said. "And that is something that I think the Chinese government should understand."

China 'Highly Concerned'

China "is highly concerned about the negative effect the decision may have on its export companies," and will help tiremakers "overcome this difficulty," Zhong Shan, the vice minister of China's Ministry of Commerce, said yesterday in a statement.

The case brought by the steelworkers union was the largest so-called safeguard petition filed to protect



U.S. producers from increasing imports from China. Union leaders and Democratic lawmakers said the decision demonstrates Obama's commitment to protecting U.S. workers and jobs.

U.S. retailers that rely on imports are "disappointed in the president's decision to bow to political pressure," Stephanie Lester, vice president of the Retail Industry Leaders Association, which represents companies such as Wal-Mart Stores Inc. and Target Corp., said in a statement.

The retailers hope administration officials "will be more judicious in their responses to any future safeguard petitions," she said.

#### 'Biting Their Nails'

Obama's decision on tires may encourage U.S. producers of apparel, steel or other goods to file similar safeguard complaints against imports from China, and spur China to retaliate against U.S. companies trying to do business there, said Robert Kapp, a Port Townsend, Washington-based business consultant specializing in China.

"There are 10 to 50 companies on the U.S. side biting their nails to the bone, hoping they are not caught up in this," Kapp said.

As long as China continues to subsidize its manufacturers and channel government funds into export-oriented businesses, trade friction with the U.S. will remain, said Jeremie Waterman, senior director for China at the U.S. Chamber of Commerce.

The safeguard complaints "are symptoms of broader problems in the U.S.-China relationship," he said in an interview yesterday. Obama's decision "is not likely to save a single job, but it's a legal and legitimate action."

#### 'Limit to Anger'

The U.S. and China will try to make sure the tensions that erupted over tires don't disrupt a commercial relationship that totaled \$409 billion last year, Kapp said. China, the second-largest U.S. trading partner after Canada, is also the largest holder of U.S. debt with \$776 billion.

"The Chinese will be angry," said Elliot Feldman, a partner with Baker Hostetler LLP in Washington, who writes a blog on China trade. "But there is a limit to their anger."

Feldman predicted China won't prevail in its complaint over the tire tariffs because Chinese officials accepted such "safeguard cases" when it joined the WTO.

"The U.S. is confident that our action is fully WTO-consistent," Carol Guthrie, a spokeswoman for the U.S. Trade Representative's office, said in an interview. The safeguards were part of "the deal China agreed to."

In safeguard cases, companies need to show only that imports are surging and not that the products benefit from subsidies or are being dumped at a discount.

#### Goodyear, Cooper

Some of the largest U.S. tire companies didn't join in the union's petition for relief from Chinese tire imports. Goodyear Tire & Rubber Co., the largest U.S. tiremaker, stayed neutral. Cooper Tire & Rubber Co., the second-largest U.S. tiremaker, opposed the relief. The company has a plant in China.

"We see positive implications for U.S. pricing," Deutsche Bank Group said in a report yesterday. "Tightening supplies of Chinese tires could exacerbate this phenomenon in the U.S."

The USA Poultry & Egg Export Council said China's move to investigate whether the U.S. sold poultry there for below-market prices was prompted partly by bad U.S. trade policies, including the tariffs on tires.

"Our own government is creating these problems more so than the Chinese," James Sumner, president of the group representing producers of 90 percent of U.S. chicken and egg exports, said in an interview yesterday. "We are upset with the way this has been handled by the administration."

## Report: Protectionist Measures Rise (WSJ)

By John W. Miller

[Wall Street Journal](#), September 15, 2009

BRUSSELS -- This weekend's U.S.-China trade skirmish is just the tip of a coming protectionist iceberg,



according to a report released Monday by Global Trade Alert, a team of trade analysts backed by independent think tanks, the World Bank and the U.K. government.

A report by the World Trade Organization, backed by its 153 members and also released Monday, found "slippage" in promises to abstain from protectionism, but drew less dramatic conclusions. (Read the report.)

Governments have planned 130 protectionist measures that have yet to be implemented, according to the GTA's research. These include state aid funds, higher tariffs, immigration restrictions and export subsidies.

For example, Russia has planned across-the-board tariff increases, South Africa is changing government purchasing rules to favor domestic firms owned by nonwhites, and Japan is rewriting sanitation policies in a way that will restrict food imports.

The variety of today's protectionism demarcates it from the famed tariff-based economic warfare of the 1930s. Economists say the bottom line isn't as dire as then, but that creeping protectionism presents a firm obstacle to economic recovery. Global trade is expected to shrink 10% in 2009.

That is why economists and politicians are paying close attention to trade terms as the world's richest nations prepare to meet at the Group of 20 summit in Pittsburgh Sept. 24-25.

This weekend, they received a reminder of what a trade war could look like. On Friday, the Obama administration announced that, starting Sept. 26, it would impose duties of between 25% and 35% on imports of tires from China for the next three years. It would essentially price out of the market 17% of all tires sold in the U.S., and force up the market price for consumers. On Monday, China said it would file a complaint at the WTO to protest the duties. The day before, Beijing announced antidumping investigations into U.S. exports of chicken and auto parts.

China "is testing Obama" on trade, said Nikolay Mizulin, a trade lawyer with Hogan & Hartson.

The GTA's numbers paint a worrying picture. The number of discriminatory trade laws outnumbers liberalizing trade laws six to one. Governments are applying protectionist measures at the rate of 60 per quarter. More than 90% of goods traded in the world have been affected by some sort of protectionist measure.

Chinese officials might have some grounds for complaint. Their country is the one targeted by the most governments for protectionist measures. Fifty-five countries have passed measures that hurt Chinese exports, more than any other country in the world. That is followed by the U.S., with 49 measures against it; and Japan, 46.

The GTA director, Switzerland-based economist Simon Evenett, says the key finding was that "protectionist measures are focused on so-called dying industries, such as automobiles, or agriculture." Special-purpose machinery and foods were the goods most affected.

Even members of the G-20, who took a no-protectionist pledge last year, have passed more than 100 "blatantly discriminatory measures," according to the report.

The WTO's report, the fourth on protectionism released by the Geneva-based body this year, is more conservative. It found 53 new measures implemented between July and September. The GTA found 95.

In restrained language, the WTO criticized "policy slippage" by member governments.

Despite emphatic pledges at the last G-20 summit in London in April, the world's richest economies continue to protect their own industries and try to disrupt foreign imports.

At the time, G-20 leaders pledged to "refrain from raising new barriers to investment to trade in goods and services, imposing new export restrictions. . . We extend this pledge to the end of 2010."

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## **A Protectionist President (WSJ)**

**Like Hoover, Obama is abdicating U.S. trade leadership.**

[Wall Street Journal](#), September 15, 2009

President Obama traveled to Wall Street yesterday to press his case for more financial regulation, but



the bigger economic issue of the day concerned other White House policies. To wit, what does it mean for the world economy if America now has its first protectionist President since Herbert Hoover?

The smell of trade war is suddenly in the air. Mr. Obama slapped a 35% tariff on Chinese tires Friday night, and China responded on the weekend by threatening to retaliate against U.S. chickens and auto parts. That followed French President Nicolas Sarkozy's demand on Thursday that Europe impose a carbon tariff on imports from countries that don't follow its cap-and-trade diktats. "We need to impose a carbon tax at [Europe's] border. I will lead that battle," he said.

Mr. Sarkozy was following U.S. Energy Secretary Steven Chu, who has endorsed a carbon tax on imports, and the U.S. House of Representatives, which passed a carbon tariff as part of its cap-and-tax bill. This in turn followed the "Buy American" provisions of the stimulus, which has incensed much of Canada; Congress's bill to ban Mexican trucks from U.S. roads in direct violation of Nafta, prompting Mexico to retaliate against U.S. farm and kitchen goods; and the must-make-cars-in-America provisions of the auto bailouts. Meanwhile, U.S. trade pacts with Colombia, Panama and South Korea languish in Congress.

Through all of this Mr. Obama has either said nothing or objected so feebly that Congress has assumed he doesn't mean it. Despite his pro-forma demurrals, Mr. Obama's actions and nonactions are telling the world that the U.S. is abandoning the global leadership on trade that Presidents of both parties have worked to maintain since the 1930s. His advisers whisper that their man is merely playing a little tactical domestic politics, but he is playing with fire, as the last 80 years of trade history should tell him. \*\*\*

The modern free-trade era began during the Great Depression, after the catastrophe of the Smoot-Hawley tariff of June 1930. Hoover also thought he was shrewdly playing tactical politics by adopting a tariff that the economist Joseph Schumpeter said was the "household remedy" of the Republican Party at the time. But the tariff ignited a beggar-thy-neighbor reaction around the world, and the flow of global goods and services collapsed.

FDR's Secretary of State Cordell Hull recognized the damage, and he began rebuilding a pro-trade consensus with a series of bilateral accords in the 1930s. In the aftermath of World War II, John Maynard Keynes, Harry Dexter White and others on both sides of the Atlantic continued this progress by negotiating the Bretton Woods currency accords and creating the Global Agreement on Tariffs and Trade.

Like Britain in the 19th century, the U.S. has been the linchpin of this liberal trading order that despite occasional setbacks has moved in the direction of lower tariffs and fewer nontariff barriers. As the world's largest economy, the U.S. has largely kept its market open, using access to U.S. consumers as a lever to open other countries to foreign goods and services. Even as Big Labor broke with this consensus, Bill Clinton continued this bipartisan tradition by supporting Nafta, and prodding Congress to ratify the World Trade Organization and most-favored nation trading status for China.

Following America's lead, countries that were once largely closed economically-especially China and India-have in turn opened up to foreign goods and services. The result has been an explosion in world trade, especially since the 1980s, as the nearby chart makes clear. This boom has coincided with rising incomes in countries connected by trade and the free flow of capital, especially in the developing world but also in America. While some U.S. jobs have vanished, new industries have emerged, and the U.S. has maintained its lead in manufacturing productivity. \*\*\*

This 80-year history of free-trade progress is now under threat from the global recession and Mr. Obama's abdication of U.S. leadership. Labor's antitrade views now dominate in the Democratic Congress and liberal think tanks. As ominous, protectionism is increasingly justified by Democratic economists on political grounds.

Paul Krugman, the chief economist for House Democrats, has endorsed a carbon tariff. And Clyde Prestowitz, who insisted in the 1980s that Japanese mercantilism would rule the world, went so far as to argue in the Financial Times last week that imposing tariffs on China would strike a blow for free trade. As economic logic, this compares to the argument that the way to reduce government health-care spending is to pass a new trillion-dollar entitlement.

President Bush and his trade negotiator Robert Zoellick also claimed that the protectionism of their



2001 steel tariffs would lead to more free-trade support, but the move merely exposed U.S. hypocrisy and undermined global trade talks. The reality is that without the U.S. leading by example, the world trading order is likely to deteriorate into every country for itself. This is especially dangerous amid a global recession in which world merchandise trade volume fell by roughly 33% from the second quarter of 2008 to June 2009. Reviving trade flows is crucial to restoring global growth.

Mr. Obama may not intend to start a trade war, but then Hoover didn't set out to pick one either. His political abdication is what made it possible, however, and trade passions once unleashed can be impossible to control. On his present course, President Obama is giving the world every reason to conclude he is a protectionist.

## **China Watched For Sign Of New Leader (NYT)**

By Michael Wines

[New York Times](#), September 15, 2009

BEIJING - China's governing Communist Party will convene its annual policy meeting on Tuesday with a sober, if not soporific, mandate to root out government corruption and make the party adapt to changing times.

But lurking in the background is a more compelling topic: Who will become China's next ruler in 2012?

Analysts will watch the meeting, the annual plenary session of the party's 17th Central Committee, to see whether Vice President Xi Jinping is given the additional title of vice chairman of the Central Military Commission.

Such an appointment would be seen as a confirmation that Mr. Xi, 56, is set to succeed President Hu Jintao when Mr. Hu's second term ends in 2012. Any Chinese leader must have experience in leading the military, which is under party control. Mr. Hu was awarded the same post in 1999, three years before he became the party's general secretary in 2002.

Yet Chinese politics are so opaque that no outsider can say for certain that Mr. Xi, the presumed heir, will win the position - or that there will be a mark against him should he not.

"There is no foregone conclusion these days," said a political analyst at a Beijing institution tied to the Communist Party.

Whether that is true is a central question hanging over the meeting this week. Since the founding of the People's Republic 60 years ago, the Communist Party has governed both the Chinese people and itself strictly from the top down, with all important actions approved by a handful of party leaders united by power and personal relationships.

Officially, at least, the 2,000 or more Central Committee members meeting this week have been given an agenda to shake up that model. The members are supposed to prepare plans to bring democracy to the party's inner deliberations, choosing new leaders by consensus, not by the dictates of those at the top.

"A new crop of leaders who grew up after the reform and opening up started are going to step into new leadership roles" in 2012, Zhen Xiaoying, a professor at the Communist Party's central party school, stated in a recent article in the state-run newspaper People's Daily. He was referring to the period of economic reform that began in 1978.

"The era of relying on authority and personal charm to run the party is over," he said.

Mr. Xi and Mr. Hu epitomize that shift. Mr. Hu, 66, joined the party in 1964, two years before Mao's Cultural Revolution brought China a decade of social and political chaos. Mr. Xi joined in 1974, two years after President Richard M. Nixon first visited Beijing and China began to reconnect to the outside world.

Mr. Hu was the party's designated successor to Jiang Zemin, who ruled a battered-down China after the bloody suppression of the 1989 Tiananmen Square protests.

The process of political succession in China's one-party system is always shrouded in intrigue. The party elite elevated Mr. Xi to the ruling Politburo Standing Committee in 2007 and gave him the highest rank of any leader of his age group, signaling that he had been chosen to succeed Mr. Hu when the latter's second five-year stint as top leader ends in 2012. But the party's internal deliberations on such matters are in



the highest order of state secret, and there has been no public confirmation of Mr. Xi's status.

Whatever changes the plenum orders are unlikely to resemble democracy as Westerners know it. China has long shunned Western democracy, branding it anarchy, and embraced what it calls "democratic centralism" - essentially, passing carefully reviewed suggestions from lower-level party organs to leaders at the top.

Xinhua, the official Chinese news agency, recently quoted Mr. Hu as saying that democratic centralism would remain China's guiding version of democracy. One liberal political analyst who has called for a more open Chinese society, Liu Junning, argued in a telephone interview that prospects for genuine changes this week were dim.

"I think it is important in China first to strengthen formal institutions such as the legislature and the court system, rather than informal structures such as the ruling party," he said. "Let's see if there are any open factions within the party - any open opposition, any open minorities."

China's governing elite, like any group, has factions, but they are tightly cloaked. Mr. Xi, for example, is widely believed to be the favorite of Mr. Jiang, who still has considerable sway in retirement.

After Mao wreaked havoc with the party hierarchy by designating and then toppling multiple successors, the party's elite clawed back the power to oversee political succession. Mr. Hu was effectively designated China's future top leader in 1992, leaving Mr. Jiang, then the new No. 1 official, little choice in the matter. Likewise, Mr. Hu's apparent favorite, Deputy Prime Minister Li Keqiang, was not selected as his future successor, though Mr. Li is now considered likely to be the next prime minister.

The plenum will be closely watched for any signs that internal politicking has kept the succession contest alive.

The analyst at the Communist Party institution, who spoke on condition of anonymity because he was not authorized to speak to the press, said he believed that Mr. Xi might not win the military post this week. "If he doesn't," he said, "it would show that there's more of a balance of power. But it would not mean that Xi lost the opportunity."

The plenum is also scheduled to take up anticorruption measures that could include a requirement that some party officials disclose their holdings of property or financial instruments.



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SEPTEMBER 15, 2009

## LEADING THE NEWS

### Obama Tries To Reinvigorate Wall Street Reform (WP)

By William Branigin, Brady Dennis And Alexi Mostrous,  
Washington Post Staff Writers

[Washington Post](#), September 15, 2009

Warning that "history cannot be allowed to repeat itself," President Obama urged Wall Street on Monday to help jumpstart a stalled effort to overhaul the U.S. financial regulatory system and head off a potential reprise of the U.S. economic crisis.

Visiting New York on the first anniversary of the nation's biggest bankruptcy, Obama used a speech at Federal Hall at 26 Wall St., site of George Washington's 1789 inauguration, to rally support for regulatory reform and call on the financial community to take responsibility for avoiding the abuses and failures that led the nation into a financial crisis last year and triggered a global recession.

In the months that followed, Obama recalled, American households lost \$5 trillion in wealth and the financial crisis burgeoned into "a full-blown economic crisis," with housing prices plummeting, businesses unable to get credit and the economy shedding an average of 700,000 jobs a month.

Now, although "the work of recovery continues" and many people remain jobless, Obama said, "we can be confident that the storms of the past two years are beginning to break" and that "we are beginning to return to normalcy."

Yet, he added, "normalcy cannot lead to complacency." And he warned that "unfortunately there are some in the financial industry who are misreading this moment" and ignoring the lessons of the crisis.

Speaking to an audience of 150 financiers, bankers, traders, lawmakers and officials, he said: "We will not go back to the days of reckless behavior and unchecked excess that was at the heart of this crisis, where too many were motivated only by the appetite for quick kills and bloated bonuses. Those on Wall Street cannot resume taking risks without regard for consequences and expect that next time, American taxpayers will be there to break their fall."

He said, "That's why we need strong rules of the road to guard against the kind of systemic risks that we've seen."

Saying that the crisis was not "just a failure of regulation" and oversight but was "fundamentally a failure of responsibility," Obama called on the financial community to do its part and support "common-sense" reforms.

"Many of the firms that are now returning to prosperity owe a debt to the American people," he said, noting that they benefited from taxpayer bailouts. "It is neither right nor responsible, after you've recovered with the help of your government, to shirk your obligation to the goal of wider recovery, a more stable system and a more broadly shared prosperity."

Obama told Wall Street it should not wait for a new federal law before acting to "rebuild trust" with the public. He asked financial institutions to adopt changes before Congress acts by using clear language in their dealings with consumers, letting shareholders vote on 2009 executive bonuses and reforming pay systems to reward long-term performance instead of short-term gains.

But Obama faces an uphill struggle persuading lawmakers of the need to rewrite the nation's financial rulebook. Many have been cowed by controversies over health-care reform legislation and conservatives' anger at what they view as a planned government takeover of the sector.

"Is he going to get beaten up? Sure. Is he going to get everything he wants? No," said New York Mayor Michael R. Bloomberg (I), in an interview after the speech. "But he deserves a lot of credit. At least he's willing to put some of his political capital on the line for what he believes in."

In June, the Treasury Department unveiled an 85-page paper that laid out a vision of regulatory reform in painstaking detail. Key pieces include a new federal consumer agency to oversee financial products such as mortgages and credit cards, expanded authority for the Federal Reserve to monitor the economy for systemic risks, streamlining the system of banking regulation, and creating a mechanism that allows the government to take over and unwind large, failing financial institutions.

Since then, the proposals have come under fire from, among others, business lobbyists seeking to scuttle creation of a new Consumer Financial Products Agency, a key component of Treasury's regulatory plan.

The lobbyists, led by the U.S. Chamber of Commerce, have charged that the proposed agency would impose another layer of government regulation and would increase costs, stifle innovation and curtail choices for consumers. The Chamber of Commerce recently set up a Web site and launched an advertising campaign to oppose the agency.

Obama's speech came a year after the collapse of Lehman Brothers, a global financial services firm that filed for



Chapter 11 bankruptcy protection in September 2008 after most of its clients fled, its stock plummeted and credit rating agencies drastically devalued its assets.

That debacle was followed by an extraordinary federal intervention to prop up some of the nation's largest financial institutions and prevent a catastrophic economic collapse. First came the bailout of insurance giant American International Group, followed by federal programs to unfreeze credit markets, government-imposed takeovers and mergers, a \$700 billion program to rescue ailing banks, bailouts of Detroit automakers and a colossal economic stimulus package.

"I promise you, I did not run for president to bail out banks or intervene in capital markets," Obama said Monday. Instead, the "very absence of common-sense regulations" forced the government's hand and led to "extraordinary intervention," he said. "The lack of sensible rules of the road, so often opposed by those who claim to speak for the free market, ironically led to a rescue far more intrusive than anything any of us, Democratic or Republican, progressive or conservative, would have ever proposed or predicted."

Now, he said, the nation must address the "collective failure of responsibility in Washington, on Wall Street and across America that led to the near-collapse of our financial system one year ago."

Obama called the administration's package of proposals "the most ambitious overhaul of the financial regulatory system since the Great Depression" and expressed confidence that Congress would pass it.

He defended the proposed Consumer Financial Protection Agency, saying it would ensure that consumers get "clear and concise" information on mortgages, for example, and would "prevent the worst kinds of abuses."

He said the package would also "close the loopholes that were at the heart of the crisis," force financial firms "to meet stronger capital and liquidity requirements" and create "resolution authority" to make large, far-reaching business failures less likely.

"This is intended to put an end to the idea that some firms are too big to fail," Obama said. The plan "would put the cost of a firm's failures on those who own its stock and loaned it money," he said. "And if taxpayers ever have to step in again, to prevent a second Great Depression, the financial industry will have to pay the taxpayer back every cent."

Obama has come under pressure to get the U.S. financial reform effort back on course in part because of a global economic summit he is hosting next week in Pittsburgh. The Sept. 24-25 gathering of the Group of 20 leaders, representing major industrialized and developing economies, is aimed at continuing an effort to spur global demand and address the "underlying problems" that caused the global recession, Obama said.

"Essential to this effort is reforming what's broken in the global financial system," he said. "For we know that abuses in financial markets anywhere can have an impact everywhere; and just as gaps in domestic regulation lead to a race to the bottom, so do gaps in regulation around the world."

Obama added: "As the United States is aggressively reforming our regulatory system, we're going to be working to ensure that the rest of the world does the same."

Responding to the speech, Republican National Committee Chairman Michael S. Steele said in a statement: "For the average American, the best measure of the economy is whether or not they have a job so they can pay the mortgage, make the car payment and put food on the table. For more than 3 million Americans who have lost their jobs this year, the president's policies have been a failure."

But Senate Majority Leader Harry M. Reid (D-Nev.) blamed the situation on a Republican administration that he said had "declared war on fiscal responsibility and accountability."

In a floor speech, Reid said, "A lethal combination of government deregulation and industry irresponsibility meant Wall Street could run wild. And run wild it did. . . . The mantra of the last eight years was deregulation, deregulation, deregulation. The last White House refused to police lenders when they deceived and defrauded Americans looking for loans, and neglected to protect consumers when we were being abused."

Mostrous reported from New York.

## **Obama Lashes Out At Wall Street (AFP)**

By Marine Laouchez

[AFP](#), September 15, 2009

NEW YORK (AFP) - President Barack Obama bluntly warned Monday that some Wall Street bosses were ignoring lessons of the financial crisis, as he demanded a new age of prudence after bloated years of unchecked excess.

"The old ways that led to this crisis cannot stand," the US leader said, in an outspoken address delivered in the shadow of US finance firms he blamed for unleashing global contagion. "History cannot be allowed to repeat itself."

A year after Lehman Brothers failed, triggering the meltdown, Obama also called on Congress to act this year on regulatory reforms he hailed as the most sweeping bid to tame industry over-exuberance since the Great Depression.

While blaming much of the crisis on the United States, Obama made clear a week ahead of the G20 summit in Pittsburgh that he would press global powers to do more to rein in finance industry abuses.

But his prime message after travelling to historic Federal Hall on Wall Street in New York was that, as the economy slowly mends, some key players in America's finance sector were willfully ignoring the lessons of the crisis.



"They do so not just at their own peril, but at our nation's," Obama said, noting that many big Wall Street banks and finance house had received huge government bailouts at taxpayer expense.

"So I want everybody here to hear my words: we will not go back to the days of reckless behavior and unchecked excess that was at the heart of this crisis, where too many were motivated only by the appetite for quick kills and bloated bonuses.

"Those on Wall Street cannot resume taking risks without regard for consequences, and expect that next time, American taxpayers will be there to break their fall."

The president, speaking blocks from the New York Stock Exchange, also urged bosses of top finance firms to make a symbolic down payment in their effort to restore public trust, by taking a cautious tack on pending bonus pay awards.

While lambasting Wall Street, the president admitted that Washington -- and in a wider sense the American people -- were culpable for a crisis which sent unemployment up to nearly 10 percent at home and spread misery abroad.

"It was a collective failure of responsibility in Washington, on Wall Street and across America that led to the near-collapse of our financial system one year ago."

Duncan Niederauer, head of the stock exchange operator NYSE Euronext had an initially warm reaction to the speech.

"President Obama's address today was welcome and timely," he said.

"The financial crisis created a once-in-a-generation opportunity to modernize our outdated financial regulatory system."

But Eric Cantor, the Republican whip in the House of Representatives, said "smarter regulation," and not necessarily more, was the answer to the financial crisis.

Days after slapping duties on tire imports from China, in the most serious trade dispute of his administration with the Asian giant, Obama also denied accusations of protectionism.

"When, as happened this weekend, we invoke provisions of existing agreements, we do so not to be provocative or to promote self-defeating protectionism, we do so because enforcing trade agreements is part and parcel of maintaining an open and free trading system."

Obama argued that the leadership of his administration when it took office in January had helped stave off an even worse crisis.

But he warned that "normalcy cannot lead to complacency," vowing to press G20 powers to match his move to "aggressively reform" the financial system.

Obama fleshed out a previously announced strategy for reforming regulatory systems which is awaiting action in Congress, warning that a pre-crisis lack of "common-sense rules" had led the US economy to the brink.

He said his administration would give more power to the Federal Reserve to regulate interconnected firms that pose a risk of systemic failure.

Top firms will be required to meet stronger capital and liquidity requirements and submit to greater restraints on "risky" behavior.

The reforms also propose the establishment of a "resolution authority" to step in and dismantle, failed finance firms.

He also vowed to set up a new Consumer Protection Agency to enforce rules prohibiting predatory lending policies by credit firms and mortgage lenders.

## **On Wall St., Obama Pushes Stricter Finance Rules (NYT)**

By Jeff Zeleny

[New York Times](#), September 15, 2009

President Obama came to Wall Street on Monday to tout how the nation's economic outlook has improved from a year ago, but he called on Congress to pass stronger financial regulations this year, as he offered a sharp admonition that "there are some in the financial industry who are misreading this moment."

"Instead of learning the lessons of Lehman and the crisis from which we are still recovering, they are choosing to ignore them," Mr. Obama said in a speech at Federal Hall in Lower Manhattan. "They do so not just at their own peril, but at our nation's."

The president offered no new policy proposals during a lunchtime speech but sought to use the one-year anniversary of the fall of Lehman Brothers as a moment to mark how the country's financial system has moved beyond the brink of collapse. As he urged lawmakers to adopt new regulations for Wall Street, he asked executives to accept tougher oversight.

"I want everybody here to hear my words," Mr. Obama said. "We will not go back to the days of reckless behavior and unchecked excess at the heart of this crisis, where too many were motivated only by the appetite for quick kills and bloated bonuses. Those on Wall Street cannot resume taking risks without regard for consequences, and expect that next time, American taxpayers will be there to break their fall."

Mr. Obama touted the administration's plans to increase capital cushions at big banks, give the Federal Reserve new powers to oversee system-wide risks to the financial system and establish a new consumer-protection agency, which would have broad powers over home mortgages and other consumer loans.

Mr. Obama also urged banks to adopt changes before Congress acts by simplifying the language they use with consumers, overhauling their pay structures or allowing shareholders vote on 2009 bonuses.

Michael Steele, the chairman of the Republican National Committee, said in a statement that the policies of



the Obama administration have not improved the economic lot for many Americans.

"For more than 3 million Americans who have lost their jobs this year, the president's policies have been a failure," Mr. Steele said in a statement released after the speech. "His \$787 billion stimulus bill has led to wasteful spending but hasn't created the jobs he promised."

Mr. Obama's appearance on Wall Street comes a year after the collapse of Lehman Brothers touched off a series of extraordinary government interventions in the nation's business sector. The anniversary also marks the moment that Mr. Obama became steeped in the financial crisis, which dominated the closing chapter of his campaign with Senator John McCain of Arizona.

It was one year ago that Mr. McCain declared "the fundamentals of our economy are strong," a remark Mr. Obama instantly seized upon to portray his Republican rival as out of touch with hardships facing Americans. The argument helped Mr. Obama win the White House, where he inherited an economic crisis. Now, he fully owns it.

"Full recovery of the financial system will take a great deal more time and work, the growing stability resulting from these interventions means we are beginning to return to normalcy," Mr. Obama said, speaking to an audience of a few hundred people in Federal Hall. "But what I want to emphasize is this: normalcy cannot lead to complacency."

The president spoke beneath the dome of the building where the nation's founding fathers once argued sharply over the role that government should play in the country's economy. Mr. Obama noted the historic setting, saying: "Two centuries later, we still grapple with these questions - questions made more acute in moments of crisis."

To an audience of a few hundred Wall Street executives, lawmakers and Mayor Michael Bloomberg of New York, Mr. Obama said he would push Congress to pass legislation to "guard against the kind of systemic risks we have seen." The president was welcomed warmly, but the speech was interrupted only once by applause.

"The fact is, many of the firms that are now returning to prosperity owe a debt to the American people," Mr. Obama said. "Though they were not the cause of the crisis, American taxpayers through their government took extraordinary action to stabilize the financial industry. They shouldered the burden of the bailout and they are still bearing the burden of the fallout."

While some Democrats say the health care debate in Washington makes it unlikely that financial reform can be undertaken, Representative Barney Frank of Massachusetts, chairman of the Financial Services Committee, said he was committed to pursuing the measure this year. The president acknowledged Mr. Frank, who was sitting near the stage, and said the administration wanted to work with the financial industry in crafting the legislation.

"We have a responsibility to write and enforce these rules to protect consumers of financial products, taxpayers, and our economy as a whole," Mr. Obama said. "Yes, they must be developed in a way that does not stifle innovation and enterprise."

He added, "The old ways that led to this crisis cannot stand."

In response to the financial crisis, the Obama administration proposed a series of new financial regulation, included oversight of the risk that large financial institutions pose to the economy, new ways for the government to dismantle fallen companies and a new regulator to oversee financial products for consumers.

"At the same time, what we must do now goes beyond just these reforms," Mr. Obama said. "For what took place one year ago was not merely a failure of regulation or legislation; it was not merely a failure of oversight or foresight. It was a failure of responsibility that allowed Washington to become a place where problems - including structural problems in our financial system - were ignored rather than solved."

Following the speech, the president was heading off to have lunch with former President Bill Clinton before returning to Washington later Monday afternoon.

Jack Healy contributed reporting.

## **Obama Warns Wall Street Against High-risk Behavior (USAT)**

By Pallavi Gogoi

[USA Today](#), September 15, 2009

NEW YORK - President Obama called on Wall Street executives not to "go back to the days of reckless behavior and unchecked excess at the heart of this crisis," as he laid out "the most ambitious overhaul of the financial system since the Great Depression."

Obama was speaking in New York on Monday, on the one-year anniversary of the collapse of Lehman Bros., an event that led to the worst financial crisis the U.S. has faced since the Great Depression. He stressed that even though the economy is "beginning a return to normalcy," the country needs strong, updated rules and regulations to guard against future risks.

"Obama's speech was a combination of warning Wall Street not to get too quick in returning to its aggressive practices, while at the same time voicing support for the free enterprise system," says Sean Egan, founding principal of Egan-Jones ratings agency.

Obama warned that Wall Street firms are "misreading the moment," and said "some have so readily returned to (the old ways, which) underscores the need for change, and change now."

Egan says Obama was directly referring to firms like Goldman Sachs, JPMorgan Chase and Morgan Stanley that



were among the first to pay back Troubled Asset Relief Program money to the government, and since then have set aside large portions of their revenue for compensation - barely months after being bailed out by the American taxpayer.

"His message is that restraint is the right thing at this time," says Egan.

Obama went on to outline the key elements of reforming the financial system. Among the various proposals:

• He emphasized the setting up of an agency that would be explicitly responsible for protecting consumers. The agency would make sure there are no hidden fees attached to mortgages or financial penalties in credit cards, for instance. "By setting ground rules, we'll increase the kind of competition that actually provides people better and greater choices," he said.

• Obama also promised to close gaps in financial regulation, set up a "systemic risk" council that will be responsible for oversight of the largest, most interconnected firms and also find a way to close a large troubled institution without threatening the economy.

The president's comments, which ended about 12:30 p.m. ET, stirred little reaction in financial markets. Shortly before 3 p.m., the Dow Jones industrial average was unchanged for the day. But Wall Street participants voiced their support of Obama's proposals. Timothy Ryan, CEO of the Securities Industry and Financial Markets Association, an industry trade group, said such regulation is "central to the goal of protecting our financial system to ensure that it functions in support of the broader economy."

Critics also voiced their concerns. "It is totally predictable that Congress will overreact," said Sen. Judd Gregg (R-NH), ranking member of the Senate Budget Committee. "Congress will put in place regulatory schemes which will fundamentally undermine risk taking, capital formation and entrepreneurship, and thus hurt future job growth and American competitiveness so key to any economic recovery."

## **Obama Marks Crisis By Urging Wall Street To Act Before Congress (HILL)**

By Sam Youngman

[The Hill](#), September 15, 2009

President Barack Obama marked the first anniversary of the financial crisis by urging Wall Street to embrace financial reform, root out reckless behavior and police itself ahead of formal action from Washington.

In a speech at Federal Hall on Wall Street, Obama promised that a regulatory overhaul would be passed by Congress and signed into law, but urged banks and financial institutions to make changes on their own.

Obama said Wall Street did not have to wait for Congress to pass a law to take responsibility, and that many

firms owe their prosperity to taxpayers, whose generosity prevented a further collapse of the system and economy.

"You don't have to wait to use plain language in your dealings with consumers. You don't have to wait to put the 2009 bonuses of your senior executives up for a shareholder vote," Obama said. "You don't have to wait for a law to overhaul your pay system so that folks are rewarded for long-term performance instead of short-term gains."

Obama said he expects Wall Street "to embrace serious financial reform, not fight it."

Obama spoke nearly a year to the day after investment bank Lehman Brothers collapsed from bad debts. That triggered a collapse in stock markets, broader panic in credit markets and the near-ruin of many giant firms with ties to Lehman.

Later that fall, Congress approved a \$700 billion bailout of the finance sector that was supported by Obama, then-President George W. Bush and the GOP candidate for president in 2008, Sen. John McCain (Ariz.).

Stock markets had a muted reaction to Obama's speech, with the Dow Jones Industrial Average ending up more than 20 points. Also on Monday, a judge struck down a settlement Bank of America had with the government to pay \$33 million in fines. The fines stem from Bank of America's takeover of Merrill Lynch at the height of the crisis and shareholder communications about bonus payments for Merrill employees.

The decision renews debate over a deal struck during the crisis that was once hailed a success.

Obama vowed in the speech that he would sign a regulatory reform bill later this year. "History cannot be allowed to repeat itself," Obama said.

Meeting that timetable could be difficult, as Obama's regulatory proposals have run into obstacles on Capitol Hill.

A broad range of financial lobbying groups said they support the need to revamp regulations, but many oppose specific administration efforts. The most notable source of debate surrounds the administration's plan to create a Consumer Financial Protection Agency.

The consumer agency has drawn opposition from banks, Republicans and even some existing regulators.

Key Democrats also differ on parts of the administration's agenda. Obama's call for a "systemic risk regulator" in the Federal Reserve has run into opposition from members who fear the Fed's powers are already too great.

Nonetheless, Rep. Joseph Crowley (D-N.Y.) on Monday expressed confidence a bill would be approved by the House later this year. "I don't think there's any question we'll get something done by the end of the year," said Crowley, who leads the centrist New Democrat Coalition.

In his speech, Obama at times scolded financial companies, saying they are "choosing to ignore" lessons they



should have learned from the Lehman collapse and the financial crisis.

"I'm convinced they do so not just at their own peril, but at our nation's," Obama said.

"So I want them to hear my words: We will not go back to the days of reckless behavior and unchecked excess that was at the heart of this crisis, where too many were motivated only by the appetite for quick kills and bloated bonuses.

"Those on Wall Street cannot resume taking risks without regard for consequences and expect that next time, American taxpayers will be there to break their fall."

The president expressed hope that the worst of the financial crisis is behind the country because of steps taken by his and Bush's administrations. He spoke of a return to normalcy and said he is "confident that the storms of the past two years are beginning to break."

"While there continues to be a need for government involvement to stabilize the financial system, that necessity is waning," Obama said. "After months in which public dollars were flowing into our financial system, we are finally beginning to see money flowing back to the taxpayers."

At the same time, he added: "This doesn't mean taxpayers will escape the worst financial crisis in decades entirely unscathed."

Obama warned that the recovery still has a long way to go, but "growing stability resulting from these interventions means we are beginning to return to normalcy."

"But what I want to emphasize is this: Normalcy cannot lead to complacency," Obama said.

Ian Swanson and Silla Brush contributed to this article.

## **Obama Challenges Wall Street To Support His Regulations (MCT)**

By Margaret Talev And Kevin G. Hall

[McClatchy](#), September 15, 2009

WASHINGTON - A year after the collapse of Lehman Brothers ushered in the worst economic crisis since the Great Depression, President Barack Obama said Monday that although the nation was "beginning to return to normalcy," Congress still must pass new regulations on the financial industry to avoid a repeat.

"Normalcy cannot lead to complacency," Obama told a Wall Street audience in a speech at Federal Hall in New York in which he also defended as necessary his \$787 billion economic stimulus plan. He appealed to the financial community to support what he considers necessary changes in the way it does business, and to Congress to enact a regulatory overhaul by year's end. Both appear unlikely.

The president predicted with confidence that "the reforms I've laid out will pass and these changes will become law," but he urged Wall Street to work on its own to rebuild trust with American consumers.

"You don't have to wait" for legislation to pass before using "plain language" in dealing with consumers, voluntarily seeking shareholder votes on senior executive bonuses, changing which employee behaviors are rewarded and working harder to modify mortgages or to extend credit to small business owners, Obama challenged the financiers.

He asked them "to embrace serious financial reform, not fight it."

He also issued a moral challenge: "It is neither right nor responsible, after you've recovered with the help of your government, to shirk your obligation to the goal of wider recovery, a more stable system and a more broadly shared prosperity."

The president was referring to the heavy lobbying being conducted by financial firms that are interested in watering down his proposed regulations. Banks and the U.S. Chamber of Commerce are fighting Obama's proposal to strip consumer protection from the current hodgepodge of regulators and give it to a new agency that would have that as a single mission.

"The better answer to consumer protection is to amend the charters of the existing prudential regulators, giving consumer protection parity with safety and soundness regulation," Steve Bartlett, the president of the Financial Services Roundtable, the lobby for big finance, said in a statement shortly after Obama's speech.

The president has proposed financial revisions including:

Establishing a Consumer Financial Protection Agency to regulate credit cards, home loans and other types of consumer credit finance. The Federal Reserve and other bank regulators do this now.

Closing loopholes to prevent companies from shopping for their preferred regulatory agencies or, for hedge funds and trades in complex derivatives, from operating outside the regulated system.

Holding financial firms to stronger capital and cash requirements. As companies grow larger, they'd be required to hold bigger capital set-asides to offset the greater risks they pose to the system.

Giving regulators "resolution authority" to allow them to dissolve giant, globally connected financial institutions and avoid institutions becoming "too big to fail." If taxpayers must bail out a company, he'd compel the financial industry to repay "every cent."

Working with other nations to establish global consumer and regulatory protections.

Obama called on Congress to pass the regulatory revamp this year, but that appears unlikely. Some lawmakers who are needed to spearhead financial revisions are preoccupied by the drive to overhaul the nation's health care system. Others are resisting what they think is a pattern of too much government control of the private sector. Still others



agree that better regulation of Wall Street is needed but not with the president's road map on how to get there.

The House of Representatives is likely to approve Obama's financial approach with little major change. However, the Senate is balking at his proposals for a new consumer protection agency and for giving the Federal Reserve greater powers. The Senate also may merge more than two banking regulators. So the Senate may stretch out the timetable for legislation.

A delay may not be such a bad thing, said James K. Galbraith, a prominent liberal economist at the University of Texas at Austin.

"Getting effective action may have to wait until after this first few quarters of relatively high growth is behind us and people realize that we're not actually in an economy that's moving in a credible way back toward high employment. People will say, 'OK, there's an unfinished agenda,' " Galbraith said.

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## **Obama Says U.S. Financial Rules Overhaul Will Happen This Year (BLOOM)**

By Alison Vekshin And Julianna Goldman Alison

[Bloomberg News](#), September 15, 2009

Sept. 14 (Bloomberg) -- President Barack Obama said he is "very optimistic" rules overhauling federal oversight of the financial-services industry will be adopted this year to prevent future crises and keep taxpayers from bailing out Wall Street.

The banking industry won't succeed in efforts to defeat a proposal to create a Consumer Financial Protection Agency, and Obama in a Bloomberg Television interview today rejected opposition in Congress to his plan to give the Federal Reserve new authority to monitor firms for systemic risk.

"I'm very optimistic about us getting a set of rules in place that prevent the kind of crisis that we're seeing from happening again," Obama said. He also ruled out setting compensation limits on global banks.

Obama is rallying support for his proposal to overhaul U.S. financial services regulation one year after the collapse of Lehman Brothers Holdings Inc. as action on the plan stalls

in Congress. Lawmakers have held a series of hearings on aspects of the plan since it was released in June.

The House in July approved a measure aimed at limiting incentives in executive pay that spur excessive risk taking. The Senate has not yet acted on that bill or advanced other legislation based on the plan.

Obama defended his proposal to create an agency focused on protecting consumers when they deal with financial services companies, a plan the banking industry has been fighting.

"I don't think they're going to succeed in killing it and I'm going to do everything I can to stop them from killing it," Obama said.

He also rejected opposition from Congress to his plan to give the Fed new powers to monitor large firms for systemic risk.

Backs Fed Role

??oThe buck has to stop with someone and I think the Fed is best equipped to do this,??

House Financial Services Committee Chairman Barney Frank, leading the effort in Congress, said today he expected the House to approve legislation in November that will include rules governing derivatives and resolution of failing non-bank firms.

"I am working with my Senate colleagues to prepare a comprehensive bill to reform the financial system and protect consumers and investors to ensure that a crisis like this never happens again," Senator Banking Committee Chairman Christopher Dodd, a Connecticut Democrat and Frank's counterpart, said today in a statement.

## **Obama Urges Wall Street Co-operation (FT)**

By Edward Luce And Krishna Guha

[Financial Times](#), September 15, 2009

President Barack Obama on Monday sought to capitalise on the anniversary of the bankruptcy of Lehman Brothers to urge Wall Street to co-operate with Congress to enact the "most ambitious overhaul of the financial system since the Great Depression".

Mr Obama's remarks, intended to breathe life into the administration's regulatory reform proposals on Capitol Hill, where there is growing scepticism they will be enacted by the end of the year, were also intended to reassure Americans that the era of big government bail-outs was drawing to a close.

Amid polls showing growing taxpayer alarm about rising government debt and deficits, almost every White House initiative is now couched in the language of fiscal responsibility.

Mr Obama highlighted the fact that the banks had already repaid \$70bn in bail-out funds at a 17 per cent return



to the taxpayer. "We can be confident that the storms of the past two years are beginning to break," Mr Obama said.

"I certainly did not run for president to bail out banks or intervene in the capital markets. But . . . the very absence of common-sense regulations . . . is what created the need for that extraordinary intervention."

Mr Obama also addressed the increasing public concern that Wall Street is returning to a "business as usual" mentality, telling bankers that their taxpayer-funded rescue left them with new obligations to the American people. This reflects the administration's acute discomfort at the return of big bonuses and aggressive hiring practices at a time when Main Street is still struggling with home foreclosures and unemployment is nudging 10 per cent.

In effect, the financial sector - or parts of it - is seeing a V-shaped rebound, but the economy as a whole is facing a more protracted U-shaped recovery, or worse, some economists believe, the possibility of a "W-shaped, double-dip recession".

"It is neither right nor responsible after you've recovered with the help of your government to shirk your obligation to the goal of wider recovery, a more stable system and a more broadly-shared prosperity," Mr Obama said.

The president told the financial sector, which is lobbying aggressively against some aspects of the reforms and hopes to kill a proposed new consumer products regulatory agency, to "embrace serious financial reform, not fight it".

Administration officials are concerned the political window for significant reform may soon close as the sense of impending disaster fades and normality returns to the system. "The old ways that led to this crisis cannot stand," he said.

"And to the extent that some have so readily returned to them underscores the need for change and change now. History cannot be allowed to repeat itself."

Other governments are also keen to press ahead with international regulatory reform, a subject that will be discussed by the leaders of the G20 countries when they meet in Pittsburgh later this month.

In an interview on Monday with the FT, Alistair Darling, Britain's chancellor, said he would introduce legislation within the next few months to force British banks to draw up "living wills" so that they could be dismantled in the event of another financial crisis. The proposal to set out a timetable for banks to simplify their corporate structures and plan for dissolution will be included in a new financial services bill to be presented in November.

## **Obama Delivers A Warning To Wall Street (WT)**

By Matthew Mosk

[Washington Times](#), September 15, 2009

President Obama told executives on Wall Street that they have a moral responsibility to support the regulatory

reforms he has proposed in Congress and an obligation to adopt practices that will head off a future financial crash.

"It is neither right nor responsible, after you've recovered . . . to shirk your obligation to a wider recovery," Mr. Obama said, speaking at historic Federal Hall in Lower Manhattan.

The president traveled to New York's financial district to deliver the speech on the first anniversary of the collapse of Lehman Brothers, a pivotal moment in last year's spiraling descent of the nation's economy. During the darkest three months of the panic, the president said, "\$5 trillion of American's household wealth evaporated."

The president's proposal to head off a future collapse has been stalled on Capitol Hill as the Congress has devoted most of its energy to the White House's plan for an overhaul of the nation's health care system.

Mr. Obama is pushing a range of new regulatory measures, including granting greater authority to the Federal Reserve to police investment firms, creating a new oversight board to monitor the nation's largest financial companies and creating a consumer financial protection agency to crack down on abuses by credit card and mortgage lenders.

The president pushed two of his major goals during his speech, to push Congress to act on his regulatory plan and to persuade the public that Wall Street has not returned to business as usual - including eye-popping bonuses and CEO salaries - right after taxpayers were asked to pay for a massive bailout.

A newly released Associated Press poll found that seven out of 10 Americans still believe the federal government has not instituted the safeguards needed to prevent another financial meltdown, and an even higher number - 80 percent - rate the condition of the economy as poor.

Financial institutions, however, bore the brunt of the criticism - 79 percent of those surveyed said banks and lenders that made risky loans deserve much of the blame.

Mr. Obama attempted to channel that outrage during his 30-minute speech, saying that even as the economy begins a "return to normalcy" there are some on Wall Street who are returning to the same risky behavior that brought on the crisis in the first place.

"Unfortunately, there are some in the financial industry who are misreading this moment," Mr. Obama said. Those involved "do so not just at their own peril, but at the nation's."

"We will not go back to the days of reckless behavior," he said.

## **Obama Vows To Prevent 'Reckless Behavior And Unchecked Excess' On Wall Street (LAT)**

**The president, speaking on the anniversary of the Lehman Bros. collapse, says some are forgetting**



## **lessons of the financial crisis and urges passage of regulatory overhaul proposals.**

By Jim Puzzanghera And Walter Hamilton

[Los Angeles Times](#), September 15, 2009

President Obama, in a speech today on a key anniversary in the financial crisis, said "the storms of the past two years are beginning to break," but warned Wall Street that "normalcy cannot lead to complacency."

Obama said some in the financial industry already are forgetting the lessons of the crisis, which was triggered when legendary investment bank Lehman Bros. collapsed into bankruptcy a year ago today. That failure helped create a market panic that turned the recession that began in late 2007 into the worse economic downturn since the Great Depression.

"Instead of learning the lessons of Lehman and the crisis from which we're still recovering, they're choosing to ignore those lessons. I'm convinced they do so not just at their own peril but at our nation's," Obama said in a 30-minute speech at Federal Hall in New York City that was as much a lecture for Wall Street as a pitch for passage of his regulatory overhaul proposals.

"So I want everybody here to hear my words: We will not go back to the days of reckless behavior and unchecked excess that was at the heart of this crisis, where too many were motivated only by the appetite for quick kills and bloated bonuses. Those on Wall Street cannot resume taking risks without regard for consequences and expect that, next time, American taxpayers will be there to break their fall."

Obama touted the recent signs that the recession might be ending, saying his administration built on the "difficult but necessary" emergency actions of the Bush administration and Congress last fall to help turn around the crisis. And he noted that after sending billions of taxpayer dollars into the financial system, "we are finally beginning to see money flowing back to the taxpayers" in the form of \$70 billion in bailout money repaid by several large banks, at a 17% profit to the government.

"While there continues to be a need for government involvement to stabilize the financial system, that necessity is waning," Obama said.

But in sharply worded comments, the president said all that work would be wasted if Congress does not pass his overhaul of financial regulations to prevent a repeat of the crisis.

"That's why we need strong rules of the road to guard against the kind of systemic risks we have seen. And we have a responsibility to write and enforce these rules to protect consumers of financial products, to protect taxpayers and to protect our economy as a whole," Obama said.

"Yes . . . these rules must be developed in a way that doesn't stifle innovation and enterprise. And I want to say very clearly here today we want to work with the financial industry

to achieve that end. But the old ways that led to this crisis cannot stand. And to the extent that some have so readily returned to them underscores the need for change and change now. History cannot be allowed to repeat itself."

Obama pressed Congress to approve the regulatory overhaul this year, but also said Americans, including those who work on Wall Street, must change the behavior that helped caused the crisis.

"It was fundamentally a failure of responsibility that allowed Washington to become a place where problems -- including structural problems in our financial system -- were ignored rather than solved," Obama said. "It was a failure of responsibility that led homebuyers and derivative traders alike to take reckless risks that they couldn't afford to take. It was a collective failure of responsibility in Washington, on Wall Street and across America that led to the near-collapse of our financial system one year ago."

Obama urged Wall Street to stop resisting his regulatory proposals and lectured corporate executives about taking the initiative on their own to change their behavior, such as helping struggling homeowners modify their mortgages and limiting executive compensation.

"You don't have to wait to use plain language in your dealings with consumers. You don't have to wait for legislation to put the 2009 bonuses of your senior executives up for a shareholder vote," he said.

"The fact is, many of the firms that are now returning to prosperity owe a debt to the American people . . . It is neither right nor responsible after you've recovered with the help of your government to shirk your obligation to the goal of wider recovery, a more stable system and a more broadly shared prosperity."

Among those attending the Wall Street speech were Obama's top economic advisors, including Treasury Secretary Timothy F. Geithner and White House Council of Economic Advisors Chairwoman Christina Romer. Rep. Barney Frank, (D-Mass.), who as chairman of the House Financial Services Committee will play a major role in trying to get regulatory overhaul legislation through Congress, also was scheduled to attend.

The audience also included about 130 Wall Street executives and consumer advocates. Among those expected to attend were former Treasury Secretary Roger Altman, now chief executive of Evercore Partners, and executives from bailout recipients Bank of America, Goldman Sachs and Morgan Stanley.

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## **Obama Urges Wall Street Not To Ignore Lessons Of Crisis (WSJ)**

**Need for Government Involvement Is 'Waning,' President Says**



By Henry J. Pulizzi And Eleanor Laise  
[Wall Street Journal](#), September 15, 2009

WASHINGTON -- President Barack Obama warned Wall Street that it wouldn't be wise to ignore lessons from last year's economic turmoil, pressing the financial sector to join his effort to remake financial regulation by the end of the year.

In a major address in New York, Mr. Obama said the storms of the financial crisis "are beginning to break" with less need for the government to get involved in the financial system. But he pressed Wall Street not to grow complacent as the economy returns to normal, saying banks shouldn't expect taxpayers to come to the rescue again. (See the prepared text of Obama's speech.)

"Unfortunately, there are some in the financial industry who are misreading this moment," Mr. Obama said. "Instead of learning the lessons of Lehman and the crisis from which we are still recovering, they are choosing to ignore them. They do so not just at their own peril, but at our nation's."

Meanwhile, Wall Street executives who attended the speech heard a clear message from the president: Don't count on more government bailouts.

"It was very clear that we will not be in that situation again under his watch, and people should not expect the government to do the same type of things they did before," said Robert Kapito, president of money manager BlackRock Inc.

Mr. Obama's speech at Wall Street's Federal Hall marks the one-year anniversary of Lehman Brothers' failure. Since then, the government has undertaken an unprecedented effort to stem the financial meltdown, including the Federal Reserve's quantitative-easing measures, the Troubled Asset Relief Program and the bailouts of General Motors and Chrysler, initiatives Mr. Obama said are beginning to pay off.

"While full recovery of the financial system will take a great deal more time and work, the growing stability resulting from these interventions means we are beginning to return to normalcy," he said. "But what I want to emphasize is this: normalcy cannot lead to complacency."

Mr. Obama's planned overhaul would dramatically rewrite the rules of the road for the U.S. financial sector, with new protections for consumers and safeguards against the potential collapse of more big banks. But it is unclear if Congress can unite behind a revamp on Mr. Obama's timetable, given the time-consuming debate over health care and disagreements between lawmakers on the major components of the overhaul.

Mr. Obama repeated his call for a new Consumer Financial Protection Agency, an oversight council of regulators, stiffer capital and liquidity requirements for banks, and a "resolution authority" mechanism to allow the government to unwind firms that pose systemic risk.

While he pledged to work with Wall Street on his plans, he had sharp words for the banking sector, saying that it must take responsibility to avoid a rerun of the crisis.

"The old ways that led to this crisis cannot stand," Mr. Obama said. "And to the extent that some have so readily returned to them underscores the need for change and change now. History cannot be allowed to repeat itself."

Mr. Obama's remarks had the tone of lecture and were largely met with silence by an audience composed of Wall Street executives, members of Congress and high-ranking government officials, including Treasury Secretary Timothy Geithner and former Federal Reserve Chairman Paul Volcker, who heads Mr. Obama's Economic Recovery Advisory Board.

Rep. Barney Frank (D., Mass.), who as chairman of the House Financial Services Committee will be a key player in pushing legislation through Congress, discounted the silence that met Mr. Obama's speech.

"It's not that important if these CEOs listened," Mr. Frank said. "The fact is there is real political will for change. And there is going to be change."

Richard Parsons, chairman of Citigroup Inc., said his bank will "do the best we can to live up to the president's expectations." The federal government owns more than one-third of Citigroup, and Mr. Parsons is a member of Mr. Obama's economic-advisory board.

In pitching his financial revamp, the president said the absence of common-sense regulations a year ago prompted the government's intervention in the economy.

"The lack of sensible rules of the road, so often opposed by those who claim to speak for the free market, led to a rescue far more intrusive than anything any of us, Democrat or Republican, progressive or conservative, would have proposed or predicted," Mr. Obama said.

After the speech, guests including Goldman Sachs Group Inc. President Gary Cohn streamed out of the building as a crowd flanked Federal Hall, hoping for a glimpse of the president. "I thought he did a good job," Mr. Cohn said, adding that Mr. Obama struck "the right tone."

Mr. Obama's caution about ignoring the lessons of the crisis was on the mark, BlackRock's Mr. Kapito said. "It's very easy to fall back into old habits very quickly, and some firms are making profits and adding risk to their portfolios," he said.

Reacting to Mr. Obama's statement that "strong rules of the road" are needed to guard against systemic risk, Mr. Kapito noted that regulators have a long way to go to catch up with the complex risks being taken on Wall Street. "Regulations they've had in the past don't cover 75% of all the stuff that's out there," such as credit-default swaps and other arcane investments, Mr. Kapito said. What's more, "the financial community can do a better job regulating itself," he said.



Some people outside Federal Hall held signs; many snapped photos on handheld gadgets. Others were simply heading back to work after lunch, pushing through the masses.

"Wall Street reform is the pressing issue," said a man who had held a sign that read "Wall Street Reform First," after the speech ended. "Health care can wait."

Elaine Brower, a computer-project manager in the New York City comptroller's office, held a sign that read "Greed Kills" and attended with two friends. "We wanted to try and capture Obama's attention. We are dissatisfied with the money given to the financial institutions and the military-industrial complex. People are still losing their homes and are still out of work."

The president also touched on the controversy over the administration's decision to impose temporary tariffs on Chinese car tires, vowing to avoid "self-defeating protectionism."

"Make no mistake, this administration is committed to pursuing expanded trade and new trade agreements," he said. "It is absolutely essential to our economic future. But no trading system will work if we fail to enforce our trade agreements."

The trade controversy and the effort to craft exit strategies from the emergency stimulus measures will top the agenda when world leaders meet next week in Pittsburgh. Mr. Obama said he will work at the summit to ensure that other nations join the regulatory overhaul and reduce gaps in international regulation.

Republicans reacted to Mr. Obama's speech with criticism of his broad economic agenda, which they say has wasted money without creating jobs.

"Every time he has wanted to expand the government's influence over the economy and our daily lives, from his takeover of GM and banks to his proposed government-run takeover of our health care, it has meant spending more money we don't have and digging America deeper into debt," Republican National Committee Chairman Michael Steele said in a statement. "Those are the real results of the president's experiments on our economy, and no amount of speeches will convince the American people otherwise." -Joe Bel Bruno and Annelena Lobb contributed to this article.

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## A Rebuilt Wall Street (LAT)

**Taxpayer money -- lots of it -- saved Wall Street. Now it's time for the government to rethink its roll.**

[Los Angeles Times](#), September 15, 2009

When Lehman Bros. collapsed in bankruptcy a year ago, many bailout-weary observers (including this page) welcomed the unhappy ending for one of Wall Street's most

powerful firms. It was a good reminder for the financial industry that the government wouldn't mop up after every messy mistake -- especially in light of Washington's frantic efforts to help Bear Stearns, Merrill Lynch, Fannie Mae and Freddie Mac. As it turned out, however, the reaction to Lehman's default was well-nigh apocalyptic.

The global financial industry went into seizure, with credit evaporating, stock markets plummeting and depositors fleeing even low-risk money-market funds. Washington responded with a series of even larger governmental interventions in the economy, including the \$700-billion Troubled Asset Relief Program. It's hard to measure how much those actions helped, just as it's hard to deny that things would have been considerably worse had Congress, the Treasury Department and the Federal Reserve not gone to extraordinary lengths to restore the credit markets. One thing is certain, though: By acting as Wall Street's backstop, the federal government has dangerously blurred the lines between the public and private sectors. It has to make them clear again.

The taxpayers continue to hold sizable interests in banks (including behemoths Citibank and Bank of America), Fannie Mae, Freddie Mac, American International Group and GMAC (not to mention General Motors and Chrysler). They're also on the hook for hundreds of billions of dollars in potential losses at troubled financial institutions whose investments were guaranteed by Washington. Some of the aid programs are due to expire soon, but the liabilities Washington has taken on will linger long after the feds stop offering loans or making new guarantees.

Now that the economy appears to be rebounding, it's time for the administration and the Federal Reserve to lay out a strategy for pulling the government out of the financial industry. President Obama observed the anniversary of Wall Street's meltdown Monday by focusing on something else: his administration's proposal for new banking rules to guard against the risks posed by companies as large and interconnected as Lehman. We agree that Congress should toughen the safeguards against banks, investment firms and insurance companies threatening the entire economy. But the administration should also leave no doubt that as regulators increase their scrutiny, the government will decrease its presence on the financial industry's balance sheets.

## Barney And His Very Important Friend (WP)

By Dana Milbank

[Washington Post](#), September 15, 2009

Barney Frank visited the floor of the New York Stock Exchange on Monday before President Obama addressed Wall Street, and he was asked by Bloomberg TV to preview the speech.

Instead of complying with this simple request, the chairman of the House Financial Services Committee went



into a harangue. "I apologize, but you're going to listen to him in two hours," Frank replied. "I feel no compunction to guess what I'm going to hear in a couple of hours. I don't know what he's going to say, to be honest. . . . I don't try to guess what a president is going to say, because I wouldn't be allowed to bet on it if I did."

To understand this fall's fight in Congress over Obama's financial regulation reforms, think of it as a film-noir, Washington version of "Barney and Friends." In this episode, Barney – still round and soft, like the purple dinosaur from the children's show – assumes a very different persona: prickly, tart-tongued, vain and ferociously partisan. At the end, they probably won't sing the "I love you, you love me" song.

Cuddly or not, Barney – pretty much nobody calls him Chairman Frank -- is probably Obama's only hope of getting some sort of legislation through Congress.

Obama acknowledged his dependence on the Massachusetts liberal on Monday. "We have a host of members of Congress, but there's one that I have to single out because he is going to be helping to shape the agenda," he said, "and that's my good friend Barney Frank."

Just how reliant Obama is on Frank became apparent when the president told the bankers that "Barney is already working with his counterpart, Sheldon Bachus."

Um, Mr. President, the ranking Republican on the committee is Spencer Bachus, of Alabama. But, to Hill Democrats, the slip was emblematic of the administration's handling of the financial regulatory bill -- which looks eerily like the administration's mishandling of the health-care legislation.

The White House dribbled out its proposals for re-regulating Wall Street in the spring but then left it to Congress to work out the details and navigate the politics. As with health care, that stalled progress and gave opponents a chance to fill the vacuum. Now it's anybody's guess whether the regulatory scheme (which, along with health care and climate change, were Obama's top legislative priorities) will pass at all.

It has fallen to Frank to salvage what he can of the financial overhaul, particularly because Chris Dodd, chairman of the Senate Banking Committee, has let Frank take the lead. And that could make for some interesting moments this fall, as Barney coins witticisms for the cause and tongue-lashes anybody who stands in his way.

At the NYSE, Frank cheerfully told CNBC, in an interview above the trading floor, that he wants cuts in military spending and higher taxes. "I think we do have to raise the taxes on most of the people who would throw things at me from down there if they heard this," he said of the stock traders.

He then went downstairs and, after scolding the Bloomberg reporter for daring to ask about Obama's speech, chided him when he asked if the reform bill was in trouble.

"No," Frank shot back, although "frankly it's a better media story and probably people have decided on that." The chairman, who once forecast passage in October, went on to argue that the bill was delayed only because the adjournment date for Congress had been delayed. "December is the new October," he reasoned.

The performance was reminiscent of hundreds of such Barney moments, one of the more famous coming last month, at a health-care forum, where he went after a questioner who had likened the Democrats' proposals to Nazism. He told her that "trying to have a conversation with you would be like trying to argue with a dining-room table."

Frank has directed similar sentiments at the political opposition. On MSNBC's "Rachel Maddow Show" last week, he accused the right of "cynicism and stupidity," and he said of Obama's promise of "post-partisan" leadership: "I got post-partisan depression because I knew that that meant dealing with these people."

Frank owns one of the last free-range tongues in all of Washington. When CNBC asked Frank last week about a Men's Health article in which Obama suggested a tax on soft drinks, Frank replied, "The other question is, will Men's Health have a picture of the president with his shirt off?" Frank is a pariah on the right, of course, but for Obama, who found that a soft touch got him nowhere on health care, having such a prickly partisan for its point man may not be such a bad thing. Hill Democrats complain that administration officials such as Assistant Treasury Secretary Michael Barr have so far been ineffective at building support for their far-reaching proposals.

In words, at least, Obama is indicating a tougher tack on the regulatory legislation, which should fit nicely with Frank's style. Scolding Wall Street for "quick kills and bloated bonuses," he told the bankers: "Those on Wall Street cannot resume taking risks without regard for consequences, and expect that next time, American taxpayers will be there to break their fall."

As Barney would say: Super-de-duper, Mr. President.

## **On Wall St., Obama Pushes Stricter Finance Rules (NYT)**

By Jeff Zeleny

[New York Times](#), September 15, 2009

President Obama came to Wall Street on Monday to tout how the nation's economic outlook has improved from a year ago, but he called on Congress to pass stronger financial regulations this year, as he offered a sharp admonition that "there are some in the financial industry who are misreading this moment."

"Instead of learning the lessons of Lehman and the crisis from which we are still recovering, they are choosing to ignore them," Mr. Obama said in a speech at Federal Hall in Lower Manhattan. "They do so not just at their own peril, but at our nation's."



The president offered no new policy proposals during a lunchtime speech but sought to use the one-year anniversary of the fall of Lehman Brothers as a moment to mark how the country's financial system has moved beyond the brink of collapse. As he urged lawmakers to adopt new regulations for Wall Street, he asked executives to accept tougher oversight.

"I want everybody here to hear my words," Mr. Obama said. "We will not go back to the days of reckless behavior and unchecked excess at the heart of this crisis, where too many were motivated only by the appetite for quick kills and bloated bonuses. Those on Wall Street cannot resume taking risks without regard for consequences, and expect that next time, American taxpayers will be there to break their fall."

Mr. Obama touted the administration's plans to increase capital cushions at big banks, give the Federal Reserve new powers to oversee system-wide risks to the financial system and establish a new consumer-protection agency, which would have broad powers over home mortgages and other consumer loans.

Mr. Obama also urged banks to adopt changes before Congress acts by simplifying the language they use with consumers, overhauling their pay structures or allowing shareholders vote on 2009 bonuses.

Michael Steele, the chairman of the Republican National Committee, said in a statement that the policies of the Obama administration have not improved the economic lot for many Americans.

"For more than 3 million Americans who have lost their jobs this year, the president's policies have been a failure," Mr. Steele said in a statement released after the speech. "His \$787 billion stimulus bill has led to wasteful spending but hasn't created the jobs he promised."

Mr. Obama's appearance on Wall Street comes a year after the collapse of Lehman Brothers touched off a series of extraordinary government interventions in the nation's business sector. The anniversary also marks the moment that Mr. Obama became steeped in the financial crisis, which dominated the closing chapter of his campaign with Senator John McCain of Arizona.

It was one year ago that Mr. McCain declared "the fundamentals of our economy are strong," a remark Mr. Obama instantly seized upon to portray his Republican rival as out of touch with hardships facing Americans. The argument helped Mr. Obama win the White House, where he inherited an economic crisis. Now, he fully owns it.

"Full recovery of the financial system will take a great deal more time and work, the growing stability resulting from these interventions means we are beginning to return to normalcy," Mr. Obama said, speaking to an audience of a few hundred people in Federal Hall. "But what I want to emphasize is this: normalcy cannot lead to complacency."

The president spoke beneath the dome of the building where the nation's founding fathers once argued sharply over

the role that government should play in the country's economy. Mr. Obama noted the historic setting, saying: "Two centuries later, we still grapple with these questions - questions made more acute in moments of crisis."

To an audience of a few hundred Wall Street executives, lawmakers and Mayor Michael Bloomberg of New York, Mr. Obama said he would push Congress to pass legislation to "guard against the kind of systemic risks we have seen." The president was welcomed warmly, but the speech was interrupted only once by applause.

"The fact is, many of the firms that are now returning to prosperity owe a debt to the American people," Mr. Obama said. "Though they were not the cause of the crisis, American taxpayers through their government took extraordinary action to stabilize the financial industry. They shouldered the burden of the bailout and they are still bearing the burden of the fallout."

While some Democrats say the health care debate in Washington makes it unlikely that financial reform can be undertaken, Representative Barney Frank of Massachusetts, chairman of the Financial Services Committee, said he was committed to pursuing the measure this year. The president acknowledged Mr. Frank, who was sitting near the stage, and said the administration wanted to work with the financial industry in crafting the legislation.

"We have a responsibility to write and enforce these rules to protect consumers of financial products, taxpayers, and our economy as a whole," Mr. Obama said. "Yes, they must be developed in a way that does not stifle innovation and enterprise."

He added, "The old ways that led to this crisis cannot stand."

In response to the financial crisis, the Obama administration proposed a series of new financial regulation, included oversight of the risk that large financial institutions pose to the economy, new ways for the government to dismantle fallen companies and a new regulator to oversee financial products for consumers.

"At the same time, what we must do now goes beyond just these reforms," Mr. Obama said. "For what took place one year ago was not merely a failure of regulation or legislation; it was not merely a failure of oversight or foresight. It was a failure of responsibility that allowed Washington to become a place where problems - including structural problems in our financial system - were ignored rather than solved."

Following the speech, the president was heading off to have lunch with former President Bill Clinton before returning to Washington later Monday afternoon.

Jack Healy contributed reporting.

## **Obama Wall Street Speech: Execs Wary Of His Reforms (CSM)**



By Ron Scherer

[Christian Science Monitor](#), September 15, 2009

President Obama came to Wall Street to chastise executives and to urge Congress to pass tougher regulation of the bankers and brokers whom he blamed for the crisis in the financial markets a year ago.

Speaking at Federal Hall, across the street from the New York Stock Exchange, on the anniversary of the collapse of Lehman Brothers, Mr. Obama said the United States needed "strong rules of the road to guard against the kind of systemic risks we have seen." He called on the financial industry "to join us in a constructive effort to update the rules and regulatory structure to meet the challenges of this new century."

The response from Wall Street: muted.

Only once during Obama's speech did financial executives give the president applause. Instead, they listened politely to the speech, applauded once more at the end, and then left.

"It was more of a lecture. There weren't too many points to applaud," says Jeffrey Kleintop of LPL Financial in Boston. "It was kind of painful."

However, Mr. Kleintop viewed the speech more as an opportunity for Obama to keep the issue of financial reform alive while the main focus is on healthcare legislation. "Congress is not going to tackle financial reform this year. There is too much on the plate," he says.

Republicans had their own take on the speech. Rep. John Boehner, House Republican leader, said in a statement, "Missing from the President's remarks today was a clear exit strategy for the federal government's involvement in the private sector."

The reaction from Democrats was quite different. Rep. Barney Frank (D) of Massachusetts, appearing on CNBC, said, "We are very much on track." He said his panel, the House Financial Services Committee, would vote on separate pieces of legislation covering derivatives, "resolution authority" for failing nonbank financial institutions, and the regulation of systemic risks.

Others are skeptical that any financial legislation will pass this year. "It's complicated and heavily lobbied, so you have to believe it will slip," says Douglas Elliott, a fellow at the Brookings Institution in Washington.

Instead, Mr. Elliott anticipates it will pass next year. "It's got the prestige of the president behind it, and if the public stays focused on the issue, it will pass," he says. "The public knows we've just had the worst recession since the Great Depression and it originated from the financial sector."

While Obama offered no new proposals in his speech, he asked Congress to:

- Create a financial protection agency for consumers, which will help ensure that they "get information that is clear

and concise, and to prevent the worst kinds of abuses." This was the only proposal that Wall Street executives applauded.

- Close the loopholes in regulatory authority so some companies cannot shop for the regulator of their choice and others, such as hedge funds, operate outside the regulatory system. Obama is calling for an "oversight council" that would bring together regulators from across markets to "share information, to identify gaps in regulation, and to tackle issues that don't fit neatly into an organizational chart."

- Form a resolution authority that will try to ameliorate the threat of financial instability if a large financial institution fails.

The Obama plan also calls for banks and other financial institutions to raise a new, undisclosed level of capital. And he is proposing that if a financial organization fails, the "cost" of the failure would come out of the pockets of stockholders and bondholders.

Since financial failure can spread globally, Obama wants an international response to regulatory gaps. He will press for this at the Group of 20 summit next week in Pittsburgh.

## Obama: Industry Ignoring Lessons (POL)

By Eamon Javers

[The Politico](#), September 15, 2009

NEW YORK - President Barack Obama traveled to Wall Street on the first anniversary of the collapse of Lehman Brothers and warned that early signs of the nation's economic turnaround should not lead to a return to the old ways in the financial industry.

"What I want to emphasize is this: normalcy cannot lead to complacency," the president in a speech at Federal Hall.

"Unfortunately, there are some in the financial industry who are misreading this moment. Instead of learning the lessons of Lehman and the crisis from which we are still recovering, they are choosing to ignore them."

Obama delivered his remarks in a small but ornate central foyer that was packed with financial and business luminaries, as well as representatives of consumer groups.

But his speech, in which he said the Wall Street crisis was a "failure of responsibility" by those in finance and in government, was coolly received by the executives in the room, many of whom are prominent Obama supporters.

Only one line received even a smattering applause - and that was when the president discussed his proposed consumer financial protection agency, which drew praise from the consumer advocates in the audience.

Afterward, those who would talk on the record gave uniformly positive reviews.

"What he said makes sense," said former Securities and Exchange Commission chairman Bill Donaldson. "I don't think it will be easy to do, but he's determined to do so."



In his remarks, Obama traced the history of the financial crisis and walked a careful line between taking credit for the national economic recovery and assuring Americans that much more work remains to be done.

"Eight months later, the work of recovery continues," Obama said. "And although I will never be satisfied while people are out of work and our financial system is weakened, we can be confident that the storms of the past two years are beginning to break."

The president said that the taxpayers have begun to see some results from their investment of hundreds of billions of dollars in Wall Street bailouts - as much as 17 percent in the case of some investments that have already been repaid. And, he said, the need for government cash to backstop the private sector is coming to an end.

"While there continues to be a need for government involvement to stabilize the financial system," Obama said, "that necessity is waning."

Spotted in the crowd were Richard Parsons, the former chairman of Time Warner and current chairman of CitiGroup; Paul Volcker, former chairman of the Federal Reserve and current advisor to the Obama; and Jim Chanos, President of Kynikos Associates. Politicians in the front row included House Financial Services Committee Chair Barney Frank (D-Mass.) and New York Mayor Michael Bloomberg.

Lehman's collapse a year ago touched off a global financial panic that led to a plunge in the stock market and saw trillions in American wealth evaporate. Obama continued a plan of bank bailouts begun under President George W. Bush.

"The fact is that many of the firms that are now returning to prosperity owe a debt to the American people," Obama said.

Obama walked through some of the details of his plan, including creating the consumer agency, ending loopholes and gaps in regulation, and creating a single "systemic risk" regulator to watch over the financial system as a whole.

"The only way to avoid a crisis of this magnitude is to ensure that large firms can't take risks that threaten our entire financial system, and to make sure that they have the resources to weather even the worst of economic storms," Obama said.

He also called for increased capital requirements for banks, "resolution authority" that would allow the government to close down financial institutions, and greater consistency with international regulatory bodies. "As the United States is aggressively reforming our regulatory system," he said, "we're going to be working to ensure that the rest of the world does the same."

Frank, who will push Obama's proposals on Capitol Hill in the coming months - and was singled out twice by name in the president's comments - said he's confident the measures will pass.

"I don't know where this mantra came from that we aren't going to do this," he said "We are."

But he said, the timeline has slipped a bit; "December has become the new October."

Industry reaction was tepid. Scott Talbott, a lobbyist with the trade group the Financial Services Roundtable, said, "We welcome the president's invitation to have a discussion. However, we do not believe that the consumer financial protection agency is the most effective way to achieve our common goals."

## **Not Closely Enough? (POL)**

By Ben Smith

[The Politico](#), September 15, 2009

A Republican aide points out that when President Obama talked about working "closely" with congressional leaders of both parties, he basically demonstrated the opposite, botching the name of the ranking Republican on the House Financial Services Committee.

"We've worked closely with leaders in the Senate and the House, including not only Barney [Frank], but also Senators Chris Dodd and Richard Shelby and Barney is already working with his counterpart, Sheldon Bachus," Obama said.

The name is Spencer.

Bachus's was the only name that wasn't mentioned in Obama's prepared remarks, which he delivered from a teleprompter.

## **A Year Later, AIG Rescue Is A Work In Progress (WSJ)**

By Dennis K. Berman

[Wall Street Journal](#), September 15, 2009

One year, two CEOs, and \$82 billion since the government rescue of American International Group Inc., monsters are still rattling in the closet.

You wouldn't know it from the outside, with new CEO Robert Benmosche exuding confidence from his Croatian villa and AIG shares up 50% during the past four weeks. But inside the offices of AIG and its government minders, there is a push to rescue one of AIG's most important units. It is the largest airplane-finance company in the world, known as International Lease Finance Corp., and like much of this country, it can't pay its coming debts.

AIG needs to save ILFC without hurting a core insurance business that has equity in the unit. And it must do so without raising the ire of taxpayers and Congress. In other words, AIG must figure out how to feed the beast without being consumed by it.

Whether there is the political will, the financial acumen, and the dumb luck to pull off all these objectives is an unknown. But taxpayers should tune in because a likely



scenario is that they will end up paying for much of this smaller rescue, too.

Already, there is a consensus that the current ILFC doesn't make financial sense. The business, whose \$47 billion balance sheet holds some 1,000 aircraft, used to piggyback off AIG's sterling credit rating. That meant it could issue debt at a low cost of just 4% to 5%, buy aircraft and lease them at higher rates.

The credit crisis pushed ILFC's borrowing costs up by nearly three times, according to a recent report by CreditSights. And there is a wave of debt coming due. The figure is about \$18 billion over the next three years, and \$30 billion overall. The problem is that bond investors aren't willing to re-up.

Though ILFC still produces a large chunk of annual cash flow -- and has the explicit backing of AIG for 11 more months -- the company is in a clear liquidity crisis, with a shortfall of around \$5 billion to \$6 billion, according to people familiar with the matter.

Bankruptcy would be the normal course for companies in this bind. But neither AIG nor the government has given up on ILFC, as both hope to extract some value from the company once considered AIG's crown jewel.

"AIG is working to pursue a business strategy that best positions ILFC for the long term, provides ongoing benefit to ILFC's customers and various stakeholders, and achieves enhanced value for its portfolio," said company spokeswoman Christina Pretto.

The Federal Reserve and the Treasury could agree to refinance tens of billions of ILFC debt at below-market rates, a move that would greatly increase their own risk and attract more AIG headlines. AIG has drawn on some \$82 billion in loans and investments since its rescue last year, and has access to an additional \$48 billion.

Fed and Treasury officials have made clear they don't want to pursue this path, say people familiar with the matter.

The government "recognizes the value in ILFC, but also that it's politically unpopular to give money to AIG. They'll find some way to preserve it. It would be stupid for them not to," said one person involved in the matter.

AIG is now pursuing a kind of politically palatable half measure. The hope is to keep ILFC alive in the short term, betting that that markets will begin buying ILFC debt two or three years in the future.

As described by people familiar with its details, the plan involves breaking up ILFC, grouping its leases into different portfolios, and skimming some of the best ones into separate vehicles made available to investors.

AIG is planning to sweeten one of the offerings by throwing in ILFC's current CEO, Steven Udvar-Hazy, to attract fresh capital, according to the people familiar with the plan. Investors don't want just aircraft, the reasoning goes. They want a new company. And Mr. Udvar-Hazy, a

charismatic builder of ILFC's business, may be a big enough attraction to raise money in the stingy credit markets.

Much remains to be determined about how this separation would occur, and who would get the better of the deal.

AIG may have to give up some value of its equity, for instance, to incent Mr. Udvar-Hazy to leave. He didn't respond to requests for comment.

Another potential cost is that the federal government would have to back the debt of some of these smaller vehicles -- at least temporarily. That could delay repayment of billions in dollars of taxpayer borrowings for a few quarters, said one person familiar with the matter.

AIG also is expected to plug other holes caused by ILFC's problems. One of its main insurance subsidiaries, National Union Fire Insurance Co., has a \$4.5 billion equity stake in ILFC that is used to back customer policies. People involved in the situation expect AIG to draw down government funds to make up the difference -- protecting the insurer. An additional \$3 billion held by AIG itself likely will be worthless.

These moves won't attract many headlines when they happen. But somehow ILFC will have to be fed, and the taxpayer will be doing the feeding.

Happy Anniversary, AIG.

## **Judge Says SEC Failed Investors (WP)**

### **Settlement Over Merrill Lynch Bonuses Would Put Burden on Victims, He Says**

By Zachary A. Goldfarb, Washington Post Staff Writer  
[Washington Post](#), September 15, 2009

A federal judge on Monday rejected a \$33 million settlement between the Securities and Exchange Commission and Bank of America, asserting that the agency bungled its basic job of protecting investors from the wrongdoing of executives.

In a scathing critique, Judge Jed S. Rakoff said the costs of the settlement would essentially be borne by the victims, in this case Bank of America's shareholders. The SEC had accused Bank of America of failing to adequately disclose plans to allow billions of dollars in bonuses to be paid to Merrill Lynch executives before shareholders were asked to approve a marriage between the two companies.

The SEC agreed to allow Bank of America -- and by extension its investors -- to pay \$33 million to settle the charges without admitting fault. Rakoff called this arrangement a "contrivance designed to provide the SEC with the facade of enforcement" that nonetheless "victimizes" shareholders.

The ruling is a setback for an agency that is seeking to burnish its image after being roundly criticized for inaction in the months leading up to the financial crisis. And it comes as other regulators appear to be eyeing charges against top



Bank of America executives. New York Attorney General Andrew Cuomo sent sharply worded letters to Bank of America recently that strongly signaled his intent to file securities fraud charges against the bank's executives related to the disclosures.

A person familiar with the Cuomo's investigation said Monday that his office is in the final stages of drawing up charges against senior Bank of America executives.

Rakoff did not only direct his criticism at the SEC. He also attacked Bank of America's top executives for attempting to shield themselves at the expense of the company's shareholders.

"This case suggests a rather cynical relationship between the parties: the S.E.C. gets to claim that it is exposing wrongdoing on the part of the Bank of America in a high-profile merger; the Bank's management gets to claim that they have been coerced into an onerous settlement by overzealous regulators," Rakoff wrote in his order. "And all this is done at the expense, not only of the shareholders, but also of the truth."

Rakoff ordered that the case go to trial in February. The SEC and Bank of America each said Monday that they are reviewing their next legal steps. The SEC could move forward, drop the matter, appeal Rakoff's decision or renegotiate the agreement.

In reviewing the settlement, Rakoff said he wanted to know why the SEC didn't charge individual executives at Bank of America and Merrill Lynch who oversaw the allegedly faulty disclosures. The SEC said that Bank of America's executives relied on advice from their lawyers and that there was no evidence they intended to mislead shareholders. Bank of America, meanwhile, said it was settling to avoid the hassle of an extended, expensive case against one of its regulators. It also claimed that it had done nothing wrong.

Rakoff was not persuaded.

"It is not fair, first and foremost, because it does not comport with the most elementary notions of justice and morality, in that it proposes that the shareholders who were the victims of the Bank's alleged misconduct now pay the penalty for that misconduct," Rakoff wrote.

Rakoff also had harsh words for the SEC's contention that the settlement would punish Bank of America's executives by diminishing their reputation in the eyes of the bank's shareholders.

"The notion that Bank of America shareholders, having been lied to blatantly in connection with the multi-billion-dollar purchase of a huge, nearly-bankrupt company, need to lose another \$33 million of their money in order to [quoting from the SEC's brief] 'better assess the quality and performance of management' is absurd," Rakoff wrote.

In addition, as part of the settlement, the SEC is seeking an injunction barring Bank of America from violating securities laws again. But since Bank of America maintains

that it did nothing wrong, such an injunction would mean nothing, Rakoff said.

"Notwithstanding the injunctive relief here sought by the S.E.C., the Bank would feel free to issue exactly the same kind of proxy statement [omitting bonuses] in the future," he wrote.

SEC spokesman John Nester said the agency continues to believe the proposed settlement "balanced all of the relevant considerations" and said it would review Rakoff's order.

Bank of America spokesman Scott Silvestri said the firm disagrees with Rakoff's ruling. "Bank of America believes the facts demonstrate that proper disclosure was made to shareholders about Merrill bonuses. We are prepared to prove that through litigation," he said.

Rakoff, of the Southern District of New York, is said to be a bit of a legal agitator who injects his views into settlements between other parties. For example, in 2003, he refused to consent to an SEC settlement with the telecommunications company WorldCom, which was accused of a massive accounting fraud. Rakoff boosted the financial penalty and altered the terms of the settlement to benefit shareholders.

Staff writer Tomoeh Murakami Tse in New York contributed to this report.

## **Judge Tosses Out Bonus Deal (WSJ)**

### **SEC Pact With BofA Over Merrill Is Slammed; New York Weighs Charges Against Lewis**

By Kara Scannell, Liz Rappaport and Jess Bravin  
[Wall Street Journal](#), September 15, 2009

A federal judge threw out the Securities and Exchange Commission's proposed settlement with Bank of America over its disclosure of controversial bonuses paid to Merrill Lynch employees, in an unusual ruling that casts doubts about how the agency handles probes of major U.S. companies.

The order, by U.S. District Judge Jed Rakoff, came as the New York State attorney general was weighing civil-fraud charges against Bank of America Corp. executives. Charges could be brought against the bank's chief executive, Kenneth Lewis, and Chief Financial Officer Joseph Price, according to a person familiar with the investigation.

The Rakoff ruling undermines one of the most high-profile cases against alleged corporate wrongdoing conducted under SEC chief Mary Schapiro, who took the job in January. It puts new pressure on the agency to show it is fighting for investors in the wake of the controversies over its policing of the financial industry during the Wall Street boom and its failure to catch Bernard Madoff's massive fraud despite several red flags.

In a rare scuttling of an SEC settlement, Judge Rakoff said the \$33 million fine levied on Bank of America "does not



comport with the most elementary notions of justice and morality" because the company's shareholders -- the victims of the alleged misconduct -- are the same people being asked to pay the fine. He set a trial date for Feb. 1.

The furor originated after \$3.6 billion in bonuses were paid to Merrill employees just before it was formally acquired by Bank of America in January. The bonuses stirred outrage among taxpayers and politicians, given Merrill's mammoth losses. The SEC found fault with Bank of America's disclosures, saying a November 2008 proxy misled shareholders into thinking no bonuses would be paid.

The SEC declined to sue bank executives, saying the banks' lawyers wrote the allegedly misleading language and it couldn't find evidence that bank executives intended to mislead shareholders. A Bank of America spokesman said Messrs. Lewis and Price weren't available to comment.

Securities lawyers said they couldn't recall such a high-profile case being forced into a trial after the government and a company agreed to a settlement.

In his ruling, Judge Rakoff often wrote that if bank executives in fact relied on legal counsel in crafting the proxy language, "why are the penalties not then sought from the lawyers?"

By denouncing the deal, the judge implicitly posed broader questions about the government's role in emergency steps last fall to rescue a U.S. financial system flirting with collapse. Some of Judge Rakoff's statements in this case have been cited by those who believe authorities should take a harder line in punishing executives at the center of the crisis.

The judge's move came on the anniversary of Lehman Brothers Holdings' bankruptcy-court filing and the unprecedented emergency government rescue of American International Group Inc.

Judge Rakoff has cited the \$40 billion taxpayer infusion into Bank of America as he weighed the settlement's fairness. Some of that money helped Bank of America complete its acquisition of Merrill Lynch.

Deciding to pay the bonuses was easy after the government gave BofA "a \$40 billion or so 'bail out,' of which \$20 billion came after the merger," he wrote. With so much taxpayer money at stake, the judge suggested his obligation to protect the public's interest was higher.

The SEC said proxy documents sent to investors in November 2008 showed Merrill wouldn't pay year-end bonuses without Bank of America's consent, while a separate document never distributed to shareholders had Bank of America approving billions of dollars in bonuses.

SEC spokesman John Nester said Monday the settlement, which imposed a \$33 million penalty on the bank, "properly balanced all of the relevant considerations." He said the agency will review the order. The SEC could appeal

Judge Rakoff's decision, drop the case, take it to trial against the bank, or pursue charges against individuals.

In the settlement, Bank of America didn't admit or deny wrongdoing.

A Bank of America spokesman said "we disagree" with Monday's order and "the facts demonstrate that proper disclosure was made to shareholders about Merrill bonuses."

In a letter to Bank of America last week, New York Attorney General Andrew Cuomo wrote that his office was considering whether to file charges against Bank of America executives, but he didn't name potential defendants. That letter outlined four alleged failures to disclose material information to shareholders relating to the merger and Merrill bonus payments. Mr. Cuomo's office hasn't made any final decisions about individuals who may be charged, and on Monday it issued a statement saying there haven't been new developments since the letter.

A BofA spokesman said he had "nothing to add" to Mr. Cuomo's Monday statement.

Wachtell, Lipton, Rosen & Katz, which represented Bank of America, declined to comment. A lawyer for Shearman & Sterling, which represented Merrill Lynch, declined to comment.

Judges rarely second-guess settlements proposed by government agencies, said former SEC lawyer Adam Pritchard, now a law professor at the University of Michigan.

On Capitol Hill, Rep. Dennis Kucinich, a Democratic member of the House Oversight Committee that is reviewing aspects of Bank of America's takeover of Merrill, said the judge "did the right thing. The SEC now has a responsibility to identify the individuals who broke the law."

The SEC has filed charges against individuals in high-profile cases, including the co-founder of Countrywide Financial Corp., Angelo Mozilo. The SEC has argued in court papers that penalties against corporations are a legitimate tactic to serve as a deterrent.

It is unusual for a state attorney general to charge the head of a corporation, although Mr. Cuomo's predecessor, Eliot Spitzer, had high-profile battles with executives such as AIG's Hank Greenberg and the New York Stock Exchange's Richard Grasso.

Mr. Lewis, who has told people close to him that he'd like to remain CEO for awhile, acknowledged the difficulties presented by the Merrill merger in a speech Tuesday in Japan to an investors' conference there: "it's been quite a year...to say the least." But he remained defiant, saying, "We are going to succeed." --Dan Fitzpatrick contributed to this report.

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## Judge Rejects Settlement Over Merrill Bonuses (NYT)

By Zachery Kouwe

[New York Times](#), September 15, 2009

As President Obama traveled to Wall Street on Monday and chided bankers for their recklessness, across town a federal judge issued a far sharper rebuke, not just for some of the financiers but for their regulators in Washington as well.

Giving voice to the anger and frustration of many ordinary Americans, Judge Jed S. Rakoff issued a scathing ruling on one of the watershed moments of the financial crisis: the star-crossed takeover of Merrill Lynch by the now-struggling Bank of America.

Judge Rakoff voided a \$33 million settlement that Bank of America had reached with the Securities and Exchange Commission over whether the bank had adequately disclosed the bonuses that were paid by Merrill before the merger, which was completed in January at regulators' behest as Merrill foundered.

He accused the S.E.C. of failing in its role as Wall Street's top cop by going too easy on one of the biggest banks it regulates. And he accused executives of the Bank of America of failing to take responsibility for actions that blindsided its shareholders, and the taxpayers who bailed out the bank at the height of the crisis.

The sharply worded ruling, which invoked justice and morality, seemed to speak not only to the controversial deal, but also to the anger across the nation over the excesses that led to the financial crisis, and the lax regulation in Washington that permitted those excesses to flourish.

Implicit in the judge's remarks were broader questions on the anniversary of one of the most tumultuous weeks in Wall Street's history: What do the giants of finance owe their shareholders and the investing public? And who will adequately oversee these behemoths?

Congress is pondering these issues as it prepares to reshape the power structure of financial regulators in Washington, including the S.E.C. President Obama is pushing lawmakers to pass tougher regulations this year that would touch everything from bonuses to the structural soundness of Wall Street's most powerful banks, even as some Democrats fret that the health care debate makes it unlikely that financial reform can be achieved.

"We will not go back to the days of reckless behavior and unchecked excess at the heart of this crisis," Mr. Obama said in his speech before several hundred banking executives, lawmakers and Mayor Michael R. Bloomberg of New York.

Such consequences were at the heart of the dispute that came before Judge Rakoff, who had demanded that the S.E.C. and the bank explain which executives were responsible for failing to tell the bank's shareholders about the

payout of Merrill's bonuses. That information, together with evidence of large undisclosed losses at Merrill, may have led shareholders to reject the merger at a time when the government wanted to forestall a worse meltdown of the financial system.

The judge accused Bank of America and the S.E.C. of concocting the settlement to effectively absolve themselves of further responsibility.

"The S.E.C. gets to claim that it is exposing wrongdoing on the part of the Bank of America in a high-profile merger," he wrote, and "the Bank's management gets to claim that they have been coerced into an onerous settlement by overzealous regulators."

The ruling echoes a long-standing criticism that the S.E.C. has largely failed to prosecute cases against corporate executives, opting for quick settlements in which companies themselves are penalized instead of their leaders.

It comes as the agency, under its new leader, Mary L. Schapiro, is struggling to revive its reputation as an effective watchdog of Wall Street after presiding over a near-collapse of the financial markets and failing to catch the \$65 billion Ponzi scheme run by Bernard L. Madoff.

Mr. Rakoff called the \$33 million settlement unfair and inadequate, and ordered Bank of America and the S.E.C. to prepare for a possible trial that would begin by Feb. 1.

Both the bank and the S.E.C. said they disagreed with the judge's decision and were evaluating their legal options. Experts said the S.E.C. could decide to appeal the case to a higher court or drop the charges altogether instead of going to trial, but they noted that the agency was unlikely to exercise those options. Some analysts argued the case itself was irrelevant given that Bank of America's takeover of Merrill had increased the bank's profits, resulting in a surge in its stock price.

The deal also saved Merrill from impending collapse and arguably prevented a greater financial calamity from unfolding in the immediate aftermath of the Lehman Brothers bankruptcy.

"I'm having a difficult time understanding who was harmed here," said Richard X. Bove, a banking analyst with Rochdale Securities. "Why is this company being put into court over a series of events that benefited the nation, its economy, its financial system, the shareholders of Bank of America and the bank itself."

In forcing the two sides to argue their case in court, Judge Rakoff hopes to expose the truth about whether Bank of America lied to shareholders.

"It's a strong, blistering decision," said John C. Coffee, a Columbia Law School professor who has taught a course along with Judge Rakoff for 21 years. "It is really a critique, not just of this case, but of a long-standing practice at the S.E.C., which effectively allowed corporate managers to buy immunity with their shareholders' money."



Judge Rakoff focused much of his criticism on the fact that the fine in the case would be paid by the bank's shareholders.

"It is quite something else for the very management that is accused of having lied to its shareholders to determine how much of those victims' money should be used to make the case against the management go away," Judge Rakoff wrote.

The case is one of several investigations into the bank's \$50 billion deal with Merrill. Andrew M. Cuomo, the attorney general of New York, is also investigating the disclosures of bonuses and of Merrill's surprise losses last year.

Mr. Cuomo plans to file a complaint charging individuals at Bank of America in the next two weeks, according to a person briefed on the investigation.

The House Committee on Government Oversight and Reform is also looking into the merger.

Louise Story contributed reporting.

## **Rakoff Rakes The SEC (WSJ)**

**A judge exposes regulatory cynicism in the BofA case.**

[Wall Street Journal](#), September 15, 2009

'Oscar Wilde once famously said that a cynic is someone 'who knows the price of everything and the value of nothing,'" wrote federal Judge Jed Rakoff yesterday in a scathing order rejecting a \$33 million settlement between Bank of America and the SEC. Credit the judge with highlighting the particular political cynicism that drives too many of today's regulators.

The SEC alleged earlier this year that BofA had "materially lied" in shareholder communications prior to its takeover of Merrill Lynch, by failing to disclose bonuses owed to Merrill employees. New SEC chief Mary Schapiro figured she'd play off public outrage with a civil lawsuit that would earn some headlines. BofA in August settled for \$33 million, neither admitting nor denying guilt.

Judge Rakoff was having none of it. In a 12-page opinion, he tore into the SEC for ignoring its own guidelines and penalizing shareholders rather than the individuals who supposedly acted improperly. The settlement "does not comport with the most elementary notions of justice and morality, in that it proposes that the shareholders who were the victims of the Bank's alleged misconduct now pay the penalty for that misconduct." As for the SEC's argument that this shareholder punishment will result in better management, the judge called it "absurd."

The judge also had little sympathy for the SEC's argument that it would be too difficult to pursue executives, since they had been guided by lawyers. "If that is the case, why are the penalties not then sought from the lawyers? And why, in any event, does that justify imposing penalties on the victims of the lie, shareholders?" he asked.

He also had harsh words for BofA, which has recently filed court papers claiming its proxy statement was neither false nor misleading. "If the Bank is innocent of lying to its shareholders, why is it prepared to pay \$33 million of its shareholders' money as a penalty for lying to them?"

On this point, we think the judge is soft-pedaling the coercive nature of regulatory prosecution. Recall Eliot Spitzer, who used the threat of adverse media and falling stock prices to extort quick Wall Street settlements. Given all the dirty laundry already aired about this deal, including claims that Federal Reserve Chairman Ben Bernanke and former Treasury Secretary Hank Paulson forced a reluctant BofA to conclude its Merrill purchase, it's not surprising if BofA was willing to pay for it to go away.

Judge Rakoff's larger point that companies too often dip into the shareholder purse instead of fighting the good court fight is nonetheless true. He noted that this decision might have been "made even easier" for BofA given "the U.S. Government provided [it] with a \$40 billion or so 'bailout.'" What was a "mere \$33 million . . . to get rid of a lawsuit?"

The judge had other complaints, but broadly the deal "suggests a rather cynical relationship between the parties: the SEC gets to claim that it is exposing wrongdoing on the part of the Bank of America in a high-profile merger; the Bank's management gets to claim that they have been coerced into an onerous settlement by overzealous regulators. And all of this is done at the expense, not only of the shareholders, but also of the truth." The parties will go to trial in February.

We look forward to it, especially in light of the recent news that Fed and Treasury knew all about these bonuses and stayed mum. Judge Rakoff has done a public service by exposing the political point-scoring that drives far too many regulatory actions.

## **Last Days Of Lehman (NYT)**

[New York Times](#), September 15, 2009

Lehman Brothers filed for bankruptcy Sept. 15, 2008, setting off tremors throughout the financial system. It also caused upheaval in the personal lives of the hundreds of employees who worked for the once-venerable investment bank.

Three former employees write about their experiences, a year later.

The Kindness of Strangers A year ago, carrying a tote bag with a Lehman Brothers logo elicited sympathy. By Lynn Gray

Robbed by the Bank Lehman Brothers' bankruptcy meant a former employee lost the severance package and benefits she was promised. By Jane Pedreira

Final Call A former Lehman Brothers employee received a painful phone call from an old boss. By Lawrence G. McDonald



## **The Kindness Of Strangers (NYT)**

By Lynn Gray

[New York Times](#), September 15, 2009

EARLY in the morning, a year ago today, I received an e-mail message at home from Lehman Brothers announcing its plans to file for bankruptcy. The message noted that Lehman would still be "open for business" that day.

So I headed toward the office at 745 Seventh Avenue. The television cameras and reporters were already there. I stopped to get my coffee from the street vendor and he asked how I was doing. I started to cry. I told him to keep the change from a \$20 bill because I knew that if Lehman was gone he would suffer as well. I walked toward the entrance and a young woman I had never seen before said, "Another Lehmanite!" - and we walked arm-in-arm into the building. Many of us had been together for more than 10 years and were scared of being cast adrift.

We had all seen it coming, but still didn't understand how our chief executive, Dick Fuld, could have let this happen. We were the firm with the culture that everyone envied. Yes, it had been a wild ride the previous couple of years, and especially the previous six months. We had had so many heads of fixed income that it was almost a joke when another e-mail message came around that another fixed income head had left to "pursue other interests" or "to spend more time with his family."

We used the rest of the day to pack our boxes. Finally, in the late afternoon, I walked out of the building. I headed to a local bar to drown my sorrows and ponder the future of my career. Around West 51st Street, a homeless man approached me with a cup, gesturing for a contribution. He then looked at my tote bag with its Lehman Brothers logo and said, "Never mind" and "I'm sorry."

- LYNN GRAY, the chief executive of Campus Scout and a former senior vice president at Lehman

## **Robbed By The Bank (NYT)**

By Jane Pedreira

[New York Times](#), September 15, 2009

LEHMAN BROTHERS went bankrupt a week after I was fired. The job had few perks, long hours and little time for camaraderie, but I stayed there for 11 years. I was a single mom and needed to pay my mortgage. Then, after years of solid performance, I was fired on Sept. 9, 2008, as part of a "work force reduction."

I had a few hours to pack my things and leave. I wasn't allowed to download my personal files from my computer so I lost many records. I didn't bother to say goodbye to anyone, figuring that those who even noticed could phone me, but given the troubled work environment I got few calls. I was given a typical severance package with benefits based on my long tenure.

I wouldn't miss working at Lehman, I said to myself, but I would miss my BlackBerry. I decided to set up my own shop to provide independent research. My severance package would allow me time to establish myself.

Yet shortly after Lehman went under, I got a letter explaining that my severance contract was canceled because of the bankruptcy filing. I could keep my health plan if I chose to pay for it myself.

I was robbed first by Ben Bernanke, the Federal Reserve chairman, and Henry Paulson, the former Treasury secretary, who refused to support a sale of the company, and later by the bankruptcy judge who approved the sale of Lehman to Barclays for peanuts.

I am still unable to pay all of my bills. I know the public at large doesn't have sympathy for Wall Street employees, but did I deserve to be robbed because of the mistakes of others?

- JANE PEDREIRA, the managing director of Clear Sights Research and a former senior vice president at Lehman

## **Last Days Of Lehman: Final Call (NYT)**

By Lawrence G. McDonald

[New York Times](#), September 15, 2009

IT was late at night on Sept. 14, 2008, and I couldn't sleep. I kept going over to the computer, looking for news of Lehman's demise. I had lost my job in March, but I was still deeply invested in the company where I'd worked happily for four years. Many close friends still worked there. I had practical concerns as well: Much of my compensation remained in restricted Lehman shares. I feared I would be annihilated financially if the company went under.

My cell phone rang for maybe the 500th time that day. It was my former boss, a managing director and an old comrade-in-arms on the trading floor. Back in those days he almost never broke a sweat. He could lose \$10 million in a day and still buy lunch for the more than 50 people who worked for him. He also loved to crack jokes: He called Lehman's chief executive, Dick Fuld, "the invisible man" in reference to his consistent absence from the trading floor. The phrase quickly caught on.

That night, his voice was shaking. "They're putting Lehman's head under water," he told me. "They're just watching for the bubbles right now." He seemed to be in extreme pain, as if he'd been hit by a bus, though he didn't sound surprised.

- LAWRENCE G. McDONALD, a co-author of "A Colossal Failure of Common Sense: The Inside Story of the Collapse of Lehman Brothers" and a former vice president at Lehman

## **Lehman And The Financial Crisis (WSJ)**



**The lesson is that institutions that take trading risks must be allowed to fail.**

By John H. Cochrane And Luigi Zingales

[Wall Street Journal](#), September 15, 2009

One year ago today Lehman Brothers filed for bankruptcy. The weeks that followed are among the most dramatic in U.S. history. They led to a massive government intervention in the financial system-an intervention that will likely change that system forever.

Many people say that letting Lehman fail was the mistake that caused the financial crisis. To them, the lesson is that the government should never allow any "systemically important" financial institution to fail. If only Lehman had been bailed out, the story goes, we could have avoided much of a 45% drop in the S&P 500, a 4% drop in output, the rise in unemployment to 9.7% from 6.2%, and the \$784 billion "stimulus" to top off a \$1.59 trillion deficit.

This story is false.

The Lehman failure was not an isolated event. It was a movement in a dramatic crescendo of failures.

Two weeks prior, on Sept. 7, the government took over Fannie Mae and Freddie Mac, wiping out much of their shareholder equity. On Sept. 16, the government bailed out AIG, lending it \$85 billion. On Sept. 25, Washington Mutual, the nation's sixth-largest bank, was seized by the FDIC. On Sept. 29, Wachovia, the nation's seventh-largest bank, was sold to avoid a similar fate. All this would have happened without Lehman. Meanwhile, the Federal Reserve and the Treasury Department went to Congress to ask for \$700 billion for the Troubled Asset Relief Program (TARP).

Which of these events set off the financial and economic crisis by freezing lending to commercial banks? The nearby chart shows that the main risk indicators only took off after Treasury Secretary Henry Paulson and Fed Chairman Ben Bernanke's TARP speeches to Congress on Sept. 23 and 24-not after the Lehman failure.

The risk of Citibank failure (the Citi-CDS spread) and the cost of interbank lending (the Libor-OIS spread) rose dramatically after Ben Bernanke and Hank Paulson spoke to Congress. (In basis points.)

On Sept. 22, bank credit-default swap (CDS) spreads were at the same level as on Sept. 12. (CDS spreads are the cost of buying insurance against default.) On Sept. 19, the S&P 500 closed above its Sept. 12 level. The Libor-OIS spread-which captures the perceived riskiness of short-term interbank lending-rose only 18 points the day of Lehman's collapse, while it shot up more than 60 points from Sept. 23 to Sept. 25, after the TARP testimony. (Libor-the London Interbank Offer Rate-is the rate at which banks can borrow unsecured for three months.)

Why? In effect, these speeches amounted to "The financial system is about to collapse. We can't tell you why.

We need \$700 billion. We can't tell you what we're going to do with it." That's a pretty good way to start a financial crisis.

Subsequent reporting explained why they did it: The Fed and Treasury had felt for months that they needed legal authority to do more bailouts, and a crisis might get Congress to vote for it. But at the time, all the public saw was that our government was in a complete panic.

We inferred that the banks must be in much worse trouble than we thought. The ban on short sales of bank stocks the previous week could only reinforce that impression.

It did not help that the TARP was such a transparently bad idea. The Fed and Treasury soon figured that out, settling on equity "injections" and a bank-debt guarantee instead. Floating a bad idea does not instill confidence.

Would a Lehman bailout have averted a panic? The news would still be that Lehman failed, and markets knew bailouts would not last forever. After all, the Bear Stearns rescue in February had just postponed worse trouble.

[View Full Image Associated Press](#)

More deeply, Lehman's lesson cannot be that the government must always bail out every large financial institution. From the 1984 failure of Continental Illinois bank to the S&L crisis of the late 1980s, the Latin American bond defaults of the 1990s, the 1997 Asian crashes, the 1998 collapse of the Long-Term Capital Management hedge fund and now this mess, financial institutions are taking more and more risks, but their bondholders keep getting rescued.

This crisis pushed our government close to its fiscal limits. The next one will be beyond what even our government can contain.

The big banks know the government will bail them out, and they are already bigger, more global, more integrated and "systemic" than ever. They are making huge trading profits-profits that must someday turn to losses. If brokerage and banking are "systemically important," they cannot be married to proprietary trading. Yet the financial-reform plans do not even talk about breaking up this marriage-they hope simply to regulate the behemoths instead.

The blame-it-on-Lehman story leads to a dangerous complacency. If we can persuade ourselves that the fault was just one policy mistake, forced on the feds by silly legal restrictions and not enough bailout power, everything can go back to the cozy way it was before.

This is a convenient story for large banks that dominate the lobbying and communication effort. And it absolves the Fed and Treasury of facing up to their long string of policy mistakes.

We don't pretend that we could have done any better. That's the point: A system with so much power vested in so few people, with so few rules, in which crises are managed with 2 a.m. conference calls, cannot possibly do better no matter how good the people at the top. Repeating the



Lehman story lets us all ignore the fact that this system cannot go on.

Messrs. Cochrane and Zingales are professors of finance at the University of Chicago Booth School of Business.

## **HEALTHCARE NEWS:**

### **Obama Sees Progress, Will 'Walk Congress' Through Health Care (BLOOM)**

By Julianna Goldman and Kristin Jensen

[Bloomberg News](#), September 15, 2009

Sept. 14 (Bloomberg) -- President Barack Obama said he sees progress in the Senate Finance Committee for his bid to overhaul the U.S. health-care system and will work with Congress to get it done.

"There are going to be times where we need to walk Congress through some difficult areas," Obama said in an interview with Bloomberg News at the White House today. "I will be happy to use my office and my own time and energy anywhere that's appropriate in order to get this thing done."

To contact the reporter on this story: Julianna Goldman in Washington at [jgoldman6@bloomberg.net](mailto:jgoldman6@bloomberg.net)

### **That's It? That's The Bounce? (SLATE)**

[Slate](#), September 15, 2009

Ead-Day At-Cay: WaPo reports that in the days after Obama's speech, the Dem health care plan was opposed by a 48 to 46 margin--versus a 50-45 margin in mid-August. ... From five points down to two points down. That's all he got for playing the joint-session-prime-time-address card? Does that seem like enough to you? ... P.S.: "[S]eniors remain solidly opposed to health-care reform, and the number who think government involvement would do more harm than good continues to rise ... " Update: J. Rubin says it's worse than it seems. ....

P.P.S.: How's The Dreidl going to spin those numbers? Marc Ambinder's colleague Chris Good notes that support rises to 50% vs. 42% if people are told that the "public option" has been dropped--suggesting that "Dropping Public Option [Would] Mean Health Reform Passes." That seems to be the Obama strategy: Pack all the opposition energy into the public option and then torch it in a Bonfire of Triangulation. But a) even 50-42 is a mighty thin margin on which to build a major piece of legislation. (Remember when Nate Silver thought 46-33 was insufficient?) Again, Medicare had 63-28 support.) b) Is it a fair test of public opinion to ask for support/opposition, and then say "what if we toss in this big concession"? Will you get the same answer as if you flat out asked about the Dems' health plan at a time when it didn't have the 'public option'--and without highlighting that fact? I doubt it. c) This was a poll of adults, not likely voters--

something that would not be lost on worried representatives of the people. .... 2:44 A.M.

The MSM plot to destroy Obama: Meeting in a secret room off Statuary Hall, the leaders of the MSM have decided to sabotage President Obama's health care plan by promoting memes guaranteed to make voters who are skeptical about the President affirmatively hostile.

1. You're a bunch of racists!

2. We really do want to give illegal immigrants subsidized health care! But the yahoos won't let us.

3. We want to kill granny too. ...

I guess it's not like they're saying they'd really like to model a sixth of the U.S. economy on Castro's Cuba! ... Oh, wait. 12:36 P.M.

### **Health Care Bill Has Steep Hill To Climb (USAT)**

By Susan Page

[USA Today](#), September 15, 2009

WASHINGTON -- President Obama's long, hot summer is about to turn into a chilly fall.

A USA TODAY/Gallup Poll taken after the president's dramatic address to a joint session of Congress last week shows Americans almost evenly divided over passing a health care bill and inclined to think it would make some of the system's vexing problems worse, not better.

Six in 10 say Obama's proposal, if enacted, would not achieve his goals of expanding coverage to nearly all Americans without raising taxes on the middle class or lowering the quality of health care. For the first time, a majority disapprove of the way he's handling health care policy.

Milton Downing, 51, a teacher from Wilmington, Del., is a Democrat who says Obama is doing an "awesome" job, but he worries the legislation might upend the coverage he has. "How would it affect me right now and in the future?" he asks. "I don't have enough facts on what it might do to my family."

The findings underscore the steep climb ahead for the White House in trying to push a health care plan through the House and Senate during the next few weeks. Some major provisions, including how to pay for it and whether to include a government-run plan as an option, haven't been settled.

The president's speech apparently failed to galvanize public opinion in the way the White House had hoped. While it drew a national television audience estimated by Nielsen at more than 32 million people, there's little evidence in the survey that it changed minds.

Obama's approval rating is 54%, the same as in two USA TODAY polls in August; 43% disapprove, the highest of his presidency.

"There's no doubt people share the president's objectives," says White House counselor David Axelrod,



citing steps to control costs and ensure coverage when workers change jobs. "There's just profound skepticism about the ability to achieve them. That's our opposition here."

He said the White House could address those qualms by delivering on promised reforms.

At stake is the future of what has been Obama's signature domestic initiative since he launched his campaign for the White House.

"They've pushed all the chips into the middle of the table on this," says Ed Gillespie, a top adviser in the Bush White House. That means success or failure is likely to shape perceptions of Obama's presidency and affect the prospects of future initiatives.

The approval rating for congressional Democrats is a dismal 36%-61%. It's even worse for congressional Republicans: 27% approve, 70% disapprove.

The survey of 1,030 Americans has a margin of error of +/-4 percentage points.

## **Obama Poll: Scores Higher On Personal Traits (USAT)**

By Susan Page and Andrew Seaman

[USA Today](#), September 15, 2009

Susan Bennett, a retired high school English teacher from Mesquite, Nev., thinks the health care system needs to be fixed. Just consider her brother-in-law, diagnosed with cancer only to find that his insurance coverage won't pay for the \$3,000-to-\$4,000-a-month drug his doctor has prescribed.

"On the other hand," she worries, "I'd hate to have my insurance (costs) go up."

That's the dilemma for President Obama as he tries to push a health care bill through the House and Senate over the next month or two. In a USA TODAY/Gallup Poll taken Friday through Sunday, nearly everyone agrees the system has problems - just 2% say it doesn't - but there is considerable anxiety about the impact that legislation to change it would have.

Sara David, 26, of Lawrenceville, Ga., opposes Obama's proposal. "I am concerned that the quality of health care will go down," she says.

Americans are almost evenly divided, 50%-47%, over whether they would urge their representative in Congress to vote for or against a bill, and the views of those against it are more firmly held than those who are for it.

Obama's address to Congress last week "wasn't the huge game-changer some had hoped or thought," says Charles Franklin, a political scientist at the University of Wisconsin who studies public opinion.

If a bill passes this year, 40% predict it will improve health care coverage, but 37% say it will make things worse. When it comes to the overall costs and quality of health care, Americans are inclined to say the legislation will cause more harm than good.

Support for a bill plummets to 26% if expanding coverage means higher taxes for the middle class, and to 20% if middle-class Americans will have to pay more for health care than they do now.

### **Making 'hard decisions'**

Whatever the strains on health care, the findings also reflect Obama's considerable popularity.

By 3-1, those surveyed say he is "willing to make hard decisions." By 2-1, he is seen as a strong and decisive leader. Two-thirds say that he can get things done and that he understands the problems Americans face in their daily lives. A majority rate him as someone who can manage the government effectively and shares their values.

By 53%-45%, those polled say Obama can fix the major problems facing the country.

"He is trying, and I think that's what we need," says Eva Nauman, 58, a warehouse worker in Lebanon, Pa., who was among those surveyed. "Now, whether he's going to succeed or not, I don't know, but at least he's trying to help the little guy."

The survey of 1,030 adults has a margin of error of +/- 4 percentage points.

The health care debate reflects the nation's sharp partisan divide: 83% of Democrats support passing a health care bill; 84% of Republicans oppose it.

The president's popularity hasn't prevented a slide in his standing on individual issues. For the first time, a majority disapprove of the way he's handling the economy. His approval rating on the situation in Afghanistan has fallen seven percentage points, to 49%, since July. Nearly six in 10 disapprove of his handling of the federal budget deficit.

In response to another question, 60% say Obama's proposals to address the country's biggest problems call for too much government spending, and 51% say he's called for too much expansion of government power.

In response to an open-ended question, the top reason cited by those who oppose a health care bill was concern about big government. The cost of a bill was also high on the list.

"I think everyone should be entitled to insurance, but I am so concerned about this deficit," says Nina Giacobbe, 51, a stay-at-home mom in the Chicago suburb of Homer Glen. "We are trillions of dollars in debt now, and I just can't see it. Where is it coming from?"

Among those who support a health care bill, more than a third say the main reason is the need to cover the uninsured.

### **No Clinton bounce**

When President Clinton delivered an address to Congress on health care in 1993, his approval rating jumped 10 points in the USA TODAY/Gallup Poll, though that gain largely dissipated within three weeks.

Obama saw no change in his 54% approval rating.



"This was not the home run predicted from the Clinton experience," says Robert Blendon, a professor of health policy and political analysis at Harvard. The public's continued concerns "will make it harder to sway members of Congress on the fence about voting for the current bill."

Other issues down the line also could be affected, he says.

"If he takes a bad beating on this, it's very hard for him to get momentum on issues that don't have the same levels of support for major change," such as energy and immigration. On the other hand, "if he came out of health care and did something really significant that people felt good about, it would give momentum for some of the other issues that will be controversial."

Even a victory may have to be followed by a "pause" in White House ambitions, says William Galston, a domestic policy aide in the Clinton White House, given "the amount of political capital expended and the amount of administration energy expended."

That suits Adam Davis, 32, a software engineer from Turnersville, N.J., who was called in the survey. "No doubt things need to change," he says, "but for me personally it's too much, too fast."

## **Baucus Makes Last Health-Care Bid After Obama Address (BLOOM)**

By Kristin Jensen and Laura Litvan

[Bloomberg News](#), September 15, 2009

Sept. 14 (Bloomberg) — Senate Finance Committee Chairman Max Baucus is making one last attempt this week to win Republican support before he joins Democrats in a party-line effort to overhaul the U.S. health-care system.

While Baucus said President Barack Obama's Sept. 9 speech to Congress "breathed new life" into negotiations for a bipartisan compromise, the Montana Democrat vowed to present draft legislation with or without Republican votes after struggling for months to reach a deal. Baucus said today he probably will introduce a bill on Sept. 16 and that he expects bipartisan talks to continue after that.

Failure to achieve a bipartisan bill may undermine public support for the measure, some Republicans have warned. It would also raise the question of whether Obama and congressional leaders can keep enough Democrats unified to pass legislation.

"There's not very many moderates," said James Thurber, director of the Center for Congressional and Presidential Studies at American University in Washington. "You move to the middle and you start losing people, significant people."

The finance committee is the last of five congressional panels to deal with legislation intended to cover more of the 46 million uninsured people in the U.S. and tame rising health-care costs, which account for a sixth of the economy.

Lawmakers are grappling with whether to create a government-run program to compete with private insurers, whether to require employers to cover workers and how to pay for the plan.

### **Plan's Costs**

Congressional Republicans say the proposal is too costly and will add to the federal deficit, which is forecast to be \$1.5 trillion next year. Baucus has previously said his plan would cost about \$900 billion. Senate Budget Committee Chairman Kent Conrad, a North Dakota Democrat who is working with Baucus on a bipartisan compromise, today said the cost has been pared to less than \$880 billion.

Besides failing to win over any Republicans, Democrats have faced divisions within their own party, particularly over the idea of the new government program, or "public option," which some party members say would threaten private insurers.

"It's universally opposed by all Republicans in the Senate," Senator Olympia Snowe, a Maine Republican who is working with Baucus to draft a compromise, said on CBS's "Face the Nation" program yesterday. "There's no way to pass a plan that includes the public option."

### **'Game Changer'**

Obama may have helped get Democrats in line during his Sept. 9 speech. He exhorted a joint session of Congress to stop bickering and start cooperating. House Speaker Nancy Pelosi, who had said she couldn't pass a plan without a public option, said on Sept. 10 that she had no "non-negotiable" demands.

Nebraska Senator Ben Nelson, one of the most vocal skeptics of the public option among Democrats, called Obama's speech a "game changer." Steve Hildebrand, Obama's former deputy campaign manager who had criticized the president for not pushing liberal policies hard enough, echoed those remarks.

A CBS News poll taken the day after Obama spoke found that 52 percent of Americans now approve of the way he's handling health care, up from 40 percent the week before. And three-fifths of those who watched said they "mostly agree" with the plans the president presented, CBS said.

In the speech, Obama focused on proposed changes such as barring insurers from refusing to accept new clients with preexisting conditions and limiting out-of-pocket expenses. He also embraced the idea of a tax on companies offering the most expensive insurance policies and left the door open to nonprofit member-run cooperatives instead of a public option.

### **'Cannily Similar'**

"It's cannily similar to what we're working on," Baucus said.

The Baucus plan would also require most Americans to get insurance or pay a fine, and allow states to form



compacts to sell health insurance across state lines, a Republican priority.

"We think we are very close to an agreement," Conrad said yesterday on "Fox News Sunday."

One sticking point for the six-senator group is how an expansion of the Medicaid program for the poor affects state governments, which would pick up a portion of the costs. Baucus wants to extend Medicaid coverage to those with incomes 133 percent above the poverty level. That's worried governors, some of whom plan to speak to committee members tomorrow, according to Conrad.

#### Medical Malpractice

Meanwhile, the group may go further than Obama in making changes to medical malpractice law – an effort designed to make an overhaul appeal more to Republicans. There is consensus to include "safe harbor" legal protection for doctors who can show they comply with "best practices," and expanded use of arbitration to end disputes between patients and practitioners, Conrad said on Sept. 10.

Obama, in an interview with "60 Minutes" broadcast on CBS last night, said he's open to "any ideas" on the issue.

Baucus said today lawmakers are adding language to clarify that federal funds can't be used to fund abortions and block illegal immigrants from benefiting from expanded coverage.

Without Republicans, the options for Democrats may be limited. They control 59 of the 99 current votes in the Senate, short of the 60 usually need to pass legislation. While they can use a budget process known as reconciliation that requires only a simple majority vote, it comes with limits that might require Democrats to significantly scale back their plans.

#### Much Skepticism

There are few signs that skeptics are coming on board. Thousands of protesters carrying signs saying "Obama = Socialism" and "Keep Government out of Health Care," descended on Washington on Sept. 12 to oppose government spending and the rising U.S. budget deficit.

Demonstrators expressing disapproval of plans to overhaul the health-care system, filled Pennsylvania Avenue near the White House and marched toward the U.S. Capitol.

And Senator George Voinovich, an Ohio Republican seen as one possible vote for the Democrats, said he won't support an expansion of health care at a time of soaring deficits.

"I am very, very, very concerned about the fragility of our financial situation," Voinovich told reporters on Sept. 10.

To contact the reporters on this story: Kristin Jensen in Washington at [kjensen@bloomberg.net](mailto:kjensen@bloomberg.net) ; Laura Litvan in Washington at [llitvan@bloomberg.net](mailto:llitvan@bloomberg.net)

## Reform Bill Will Address GOP Fears (WP)

### But Affordability Questions Remain

By Lori Montgomery and Shailagh Murray, Washington Post Staff Writers

[Washington Post](#), September 15, 2009

The chairman of the Senate Finance Committee said Monday that he will propose an overhaul of the nation's health-care system that addresses a host of GOP concerns, including blocking illegal immigrants from gaining access to subsidized insurance, urging limits on medical malpractice lawsuits and banning federal subsidies for abortion.

But even after Max Baucus (D-Mont.) spoke optimistically of gaining bipartisan backing, lawmakers continued to haggle over a question at the heart of the debate: How can the government force people to buy insurance without imposing a huge new financial burden on millions of middle-class Americans?

Even within his own party, Baucus confronted a fresh wave of concern about affordability. Sen. Ron Wyden (D-Ore.) declared himself dissatisfied with the chairman's plan, which, like other congressional reform proposals, would require every American to buy health insurance by 2013.

"Additional steps are going to have to be taken to make coverage more affordable," Wyden said, "and my sense is that will be a concern to members on both sides of the aisle."

Under the Baucus plan, described in a "framework" he released last week, as many as 4 million of the 46 million people who are currently uninsured would be required to buy coverage on their own, without government help, by some estimates. Millions more would qualify for federal tax credits, but could still end up paying as much as 13 percent of their income for insurance premiums – far more than most Americans now pay for coverage.

People further down the income scale would receive much bigger tax credits, effectively limiting their premiums at 3 percent of their earnings. But experts on affordability say even those families could find it difficult to meet the new mandate without straining their wallets.

"We're talking about the equivalent of a middle-class tax increase," said Michael D. Tanner, a health-care expert at the libertarian Cato Institute. "Yes, they're paying it to an insurance company instead of to the government. But, suddenly, these people are paying more money to somebody."

A plan drafted by House Democratic leaders would offer more generous tax credits, but it would cost more than \$1 trillion over the next decade.

Baucus's team of three Democrats and three Republicans from the Finance Committee has labored for months to cut that cost as it crafts a reform plan that could win support from both parties. By squeezing the size and scope of the subsidies, the negotiators have lowered the cost to a more politically palatable \$880 billion – within the range President Obama specified last week in a speech to Congress.



But a smaller bill would mean less help for people -- particularly those who earn too much to qualify for Medicaid but too little to easily slip the equivalent of a second rent payment into their budgets.

According to the latest Census data, about three-quarters of the uninsured earn less than 300 percent of the poverty level, or about \$32,500 for an individual and \$66,150 for a family of four. Nearly half are childless adults. In surveys, many say that they are not offered coverage by their employers or that they simply cannot afford it.

The centerpiece of the Baucus proposal is a series of "exchanges" where people without access to affordable coverage through their employers could apply for government subsidies and choose among a range of private insurance options. The plan would not, as liberals have demanded, create a government-run insurance option to compete with private firms, but would finance the creation of state or regional cooperatives run by consumers -- a concession aimed at winning over Republican lawmakers.

Baucus and his colleagues wrangled Monday in the hopes of persuading Republican Sens. Charles E. Grassley (Iowa) and Mike Enzi (Wyo.) to support the measure. The two conservatives have stayed at the bargaining table all summer, despite GOP leaders' strong opposition to the reform effort.

Baucus said the strategy is working. "Senators on and off the committee, their comfort level is starting to come up a bit," he told reporters. "I believe, in the end, we'll have some significant bipartisan support." But the chairman said Monday night that he will move forward Wednesday with or without Grassley, Enzi and Sen. Olympia J. Snowe (Maine), the most moderate Republican involved in the negotiations. He said the bipartisan group, known as the Gang of Six, would continue to negotiate until the full committee begins work on the bill next week.

Baucus said he will comply with Republican demands that illegal immigrants would receive "no benefits" through the new insurance exchanges. Meanwhile, negotiators are crafting a provision that would authorize states to start pilot projects to try to lower health-care costs by reducing the number of malpractice lawsuits, an approach similar to the one Obama outlined in his speech. "States would be given resources to help them experiment with what works best," said Sen. Kent Conrad (D-N.D.), another participant in the talks.

Also unresolved Monday was the question of how to pay for an expansion of Medicaid to cover every U.S. citizen whose income falls below 133 percent of the federal poverty level, about \$14,500 for an individual or \$29,500 for a family of four. Governors in both parties strongly oppose an expansion that is not fully financed by the federal government. The Senate negotiators are scheduled to brief

governors by conference call Tuesday afternoon, and Baucus predicted they would be "pleasantly surprised."

"The Medicaid costs," he said, "are not going to cost states near as much as feared."

Under the Baucus plan, subsidies would be offered to people who earn up to 400 percent of the poverty level (\$43,000 for an individual or \$88,000 for a family of four) in the form of tax credits that would be paid directly to the insurance company of the person's choice. The credit would be calibrated on a sliding scale to ensure that people at the bottom of the income range paid no more than 3 percent of their earnings for premiums while those at the top would be liable for as much as 13 percent.

That would amount to more than \$700 a month for a family of four making \$66,000 a year -- significantly more than most people at the same income level now pay, according to research conducted by Linda Blumberg, a senior fellow in the Health Policy Center at the Urban Institute. Families earning less than 300 percent of the poverty level also would be eligible for assistance with deductibles and other out-of-pocket expenses, but families who earn more would be on their own.

"That group does spend in the neighborhood of 12 percent of their income. But it's not just the premium. It includes out-of-pocket spending," Blumberg said, adding that the Baucus plan "is going to be somewhat of a wakeup call."

Families that do not purchase insurance would face penalties on their annual tax returns of up to \$1,500 a year if they make less than 300 percent of the poverty level, or \$3,800 a year if they make more.

But Senate Finance Committee negotiators are quick to point out that a hardship waiver would be available.

"We're doing our very best to make the insurance requirement as affordable as we possibly can," Baucus said, without driving up the overall cost of the bill.

## **New Objections To Baucus Health Care Proposal (NYT)**

By Robert Pear and David M. Herszenhorn  
[New York Times](#), September 15, 2009

WASHINGTON -- Two of the three Republicans in a small group trying to forge a bipartisan compromise on health care have requested numerous major changes in a proposal drafted by the chairman of the Senate Finance Committee, reducing the chances that he can win their support.

The Republicans, Senators Michael B. Enzi of Wyoming and Charles E. Grassley of Iowa, have catalogued their concerns in documents sent to the chairman, Senator Max Baucus, Democrat of Montana.

President Obama has broadly endorsed many elements of Mr. Baucus's proposal, which White House officials praise as a possible template for comprehensive health legislation, Mr. Obama's top domestic priority.



Six members of the Finance Committee – three Democrats and three Republicans -- have been trying since June to agree on a bill that would expand health insurance coverage and rein in health costs.

Senator Kent Conrad, Democrat of North Dakota, said Monday that the cost of the package, originally put at \$1 trillion over 10 years, was now less than \$880 billion.

But many governors in both parties still have deep concerns about a provision that would require states to pay some of the cost of covering millions of additional low-income people under Medicaid. And Mr. Enzi indicated that he shared their concerns.

A summary of the senators' views, prepared by the Finance Committee, says Mr. Enzi believes that the federal government should pay "100 percent of the cost of the Medicaid expansion, in order to avoid an unfunded mandate" for states, which ordinarily share Medicaid costs with the federal government.

Mr. Enzi and Mr. Grassley have also objected to the fees that Mr. Baucus wants to impose on health insurance companies, clinical laboratories and manufacturers of medical devices. Such fees would help finance coverage of the uninsured.

Mr. Enzi and Mr. Grassley also told Mr. Baucus that health legislation must include language affirmatively prohibiting the use of federal money to pay for abortion. The restriction, they said, should apply to any subsidies that help low-income people buy insurance. In addition, they said, health plans should not be obliged to provide abortion. Thus, they said, the bill should "include a conscience clause to protect entities from being required to contract with abortion providers."

By contrast, a Democrat participating in the negotiations, Senator Jeff Bingaman of New Mexico, told colleagues that the legislation should "remain silent" on abortion, according to the committee documents.

Mr. Baucus and other senators agree that illegal immigrants should not benefit from the health care overhaul in any way. Mr. Enzi and Mr. Grassley want a five-year waiting period for legal immigrants to receive tax credits, or subsidies, to help them buy insurance.

Mr. Obama and most Democrats support a proposal that would require most Americans to carry health insurance. Under Mr. Baucus's proposal, a family that went without coverage would be subject to a penalty of up to \$3,800 a year.

The committee documents show that Mr. Grassley has reservations about this approach. He believes that "the individual responsibility to have health coverage should be reconsidered and replaced with a reinsurance policy to ensure that affordable health coverage is available to everyone in a voluntary system, with a lower overall cost for the package," one document says.

Under a reinsurance program, people carry private insurance, but the government might pick up some or all of the cost of claims exceeding a certain amount.

The third Republican in the group, Senator Olympia J. Snowe of Maine, is pushing another idea to make insurance readily available. She urged her colleagues to "allow private insurance companies to offer national plans, with uniform benefit packages that are offered across state lines."

Mr. Baucus said the Finance Committee would take up the legislation and start voting on it next week. That would allow the full Senate to consider the legislation next month.

But Senate and House leaders have missed many self-imposed deadlines in the past. Senate leaders would need to meld any Finance Committee bill with one approved in July by the Senate health committee, and that could be a challenge.

The Finance Committee, like Democratic leaders of the House, intend to expand Medicaid to cover anyone with income less than 133 percent of the poverty level (\$29,327 for a family of four).

Under a bill approved by the House Energy and Commerce Committee, the federal government would pick up all the additional Medicaid costs for two years, 2013 and 2014, but states would have to pay 10 percent of the cost for the newly eligible Medicaid recipients starting in 2015.

Members of the Senate Finance Committee said they might require states to pay a larger share, perhaps 15 percent or 20 percent of the new costs.

Governors of both parties object to such requirements as an "unfunded mandate."

In a letter to the Senate, Gov. Mitch Daniels of Indiana, a Republican, said: "States will likely have to pick up the tab for this extension of Medicaid. We have estimated that the price for Indiana could reach upwards of \$724 million annually. These additional costs will overwhelm our resources and obliterate the reserves we have fought so hard to protect."

## **Baucus Crafts Health Care Plan, But Senate Democrats Have Concerns (WSJ)**

By Greg Hitt and Jonathan Weisman

[Wall Street Journal](#), September 15, 2009

WASHINGTON – Some rank-and-file Senate Democrats are voicing concerns about sweeping health legislation being crafted by Senate Finance Committee Chairman Max Baucus, citing what they describe as excessive burdens placed on some families and concerns over financing for the \$880 billion package.

The Montana Democrat intends to introduce the package Wednesday, setting the stage for Finance Committee action next week. "We're on track," Sen. Baucus said Monday.



The senator has worked for months to craft a bill capable of attracting bipartisan support. His legislation would expand coverage to tens of millions of Americans but leave out a public health-insurance option supported by liberals.

Sen. Baucus has argued that steering the legislation toward the political center is the best strategy for ensuring passage on the Senate floor. But several Senate Democrats left a briefing with the chairman Monday night saying they would seek changes.

Sen. Ron Wyden (D., Ore.) complained the legislation would ask working Americans to commit as much as 13% of their income to buy basic insurance. "Additional steps are going to have to be taken to make coverage more affordable," he said. "That's a real hit on middle-class families."

Under the legislation, which has yet to be formally unveiled, individuals would be required to have health insurance, and would receive government assistance if they are at the lower end of the income ladder. But Sen. Wyden said more needs to be done to lower out-of-pocket expenses. "I'll certainly be offering ideas," he said.

Sen. John Kerry (D., Mass.) raised concerns about Mr. Baucus's mix of new taxes and other means of paying for the plan. Among other things, Mr. Baucus is proposing to levy a new tax on so-called gold-plated health policies. He also wants to levy new fees on health insurers, pharmaceutical companies and other health-care industries.

"There may be a better way to find that revenue," Sen. Kerry said. He suggested he'll be looking for changes, though he declined to offer specifics. "We are going to have a tug of war," he said, describing the chairman's soon-to-be-unveiled bill as a "starting point" for a new round of negotiations on details. "That's the process of legislating," he said.

Sen. Baucus said he fully expects amendments to be offered next week, but downplayed the prospect that major conflict looms. "I don't see any deal breakers...or anything that would change the basic framework" of the bill, he said.

Sen. Baucus is also trying to reassure the nation's governors that the measure wouldn't break the budgets of cash-strapped states. A key feature of the senator's bill would expand health-insurance coverage to millions of Americans by widening access to Medicaid, the federal-state health program for the poor. Many governors have voiced concern that local taxpayers would have to pay for the proposed expansion.

"Governors are concerned," Sen. Baucus said Monday, but the costs for states under his bill would be "much less than originally expected."

Mr. Baucus is expected to convene a conference call with the National Governors Association's health-care task force as soon as Tuesday to discuss his legislation.

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## Health-Care Negotiators Pare Costs (WSJ)

By Patrick Yoest

[Wall Street Journal](#), September 15, 2009

WASHINGTON -- Senators worked Monday toward unveiling health-care legislation that one lawmaker said would cost "below \$880 billion."

A bipartisan group of six members of the Senate Finance Committee held a meeting Monday to discuss the legislation, which Finance Chairman Max Baucus (D., Mont.), suggested could be made public as soon as Tuesday.

Sen. Kent Conrad (D., N.D.), a key senator in the negotiating group, said the bill would cost less than \$880 billion. Mr. Baucus confirmed that the nonpartisan Congressional Budget Office told the group the overall price tag for the proposal was lower than earlier estimated, but said that it is "still moving a bit."

The group, which includes three Republicans and three Democrats, discussed an array of issues. Senators said they were working toward agreement on provisions to keep illegal immigrants from receiving benefits under the bill, reduce the financial burden on states from expanding the low-income Medicaid program, and lowering health-care costs stemming from medical-malpractice lawsuits.

A telephone meeting with state governors on the Medicaid issue is set for Tuesday. While Mr. Conrad said the federal government would bear the brunt of costs from providing Medicaid to people made eligible for the program through an expansion, Sen. Olympia Snowe (R., Maine) said that members of the group "have not settled what approach to take."

A preliminary proposal released by Mr. Baucus last week would raise eligibility for the Medicaid program from the current threshold allowing those at or below 100% of the federal poverty level to 133% of the poverty level.

Mr. Conrad said the group also discussed concerns Monday about whether federal funds authorized by the bill could be used for abortions, which he said has "yet to be resolved." The issue is a central concern for Sen. Charles Grassley (R., Iowa), who is the committee's top Republican and a member of the negotiating group.

The Finance Committee is expected to take up the legislation next week, but it is unclear whether Mr. Baucus will be able to secure an endorsement of his bill from Republicans before the session.

Ms. Snowe said that "it is hard to say and speculate right now" whether and when she will announce support for the bill. Ms. Snowe said she is waiting on final drafts of the bill and a final cost estimate from the Congressional Budget Office.

Mr. Baucus told reporters that he is confident "we'll have significant bipartisan support."



"I think, basically, as senators on and off the committee and the public begin to know more about this, their comfort level starts to come up a bit," Mr. Baucus said. "I believe that strongly."

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## **Baucus To Release Bill On Wednesday (HILL)**

By Jeffrey Young

[The Hill](#), September 15, 2009

The Senate Finance Committee will now unveil its long-awaited healthcare reform bill on Wednesday, according to its chairman.

The \$880 billion bill, which has been the subject of intense negotiations, would be the last piece of legislation introduced by one of Congress's healthcare committees. It could wind up serving as the vehicle most likely to attract the support of crucial centrist Democrats in the House and Senate -- as well as a handful of Republicans.

"We're on track to release the mark this week and have the markup next week," Chairman Max Baucus (D-Mont.) said Monday.

Baucus initially said the chairman's mark could be released Tuesday before saying later on Monday that it would be delayed until Wednesday.

He said the Senators needed more time to work out details with state governors on Medicaid funding, among other issues.

In July, Baucus set Sept. 15 as the deadline for agreeing to a deal and announced a week ago that he would introduce his draft legislation at some point this week, followed by committee action next week.

In the meantime, bipartisan negotiations between Baucus, committee ranking member Chuck Grassley (R-Iowa), Democratic Sens. Jeff Bingaman (N.M.) and Kent Conrad (N.D.) and Republican Sens. Mike Enzi (Wyo.) and Olympia Snowe (Maine) will continue. "I do believe that, in the end, we'll have significant bipartisan support," Baucus said.

The Gang of Six continues to try to hash out several outstanding issues, such as how the federal and state governments will share the cost of enrolling additional Medicaid beneficiaries; how to prevent illegal immigrants from receiving benefits under healthcare reform; how to ensure that federal money is not used to finance abortion services; and how to implement state-based mechanisms to limit medical malpractice lawsuits.

Baucus plans to meet with Democrats on the Finance Committee on Monday afternoon to present a status update on the talks and solicit feedback on the bill due later this week. Liberals on the panel, most notably Sen. Jay Rockefeller (D-W.Va.), have expressed strong dissatisfaction with the draft proposal Baucus unveiled last week.

The Gang of Six met Monday morning to kick off the final stages of its talks, which have been going on for months -

much to the consternation of impatient Democrats worried that Baucus is making too many concessions to win GOP support, chiefly because of his decision to omit from his bill the creation of a government-run public option health insurance program that would compete with private companies.

But with continued resistance among centrist Democrats in both chambers to the public option, as well as concerns within the same contingent about the cost of healthcare reform and issues such as whether the bill would cover illegal immigrants or pay for abortion services, Baucus has positioned his measure as the bill most likely to attract broad support.

President Barack Obama indicated during his address to a joint session of Congress last week that he could support a healthcare reform package consistent with the Finance Committee group's deliberations, even if the bill leaves out the public option.

Baucus has adopted Conrad's proposal to instead create federally chartered, not-for-profit, member-owned healthcare cooperatives. Snowe favors establishing a "trigger" that would activate a public option only if private insurers fail to enroll the uninsured under reform. Obama has also expressed openness to this proposal, but Baucus has said the idea has never been discussed among the Gang of Six.

Before Congress left for its August recess, the House Education and Labor, Energy and Commerce, and Ways and Means committees each marked up more liberal bills that included a public option.

The House Democratic leadership will begin the process of melding those bills this week. The House Democratic Steering and Policy Committee, composed of committee chairmen and members of the leadership, is holding a public forum on healthcare reform Tuesday.

The Energy and Commerce Committee is slated to meet this week for a session to put the finishing touches on its bill, which passed the committee in July based on a deal struck with centrist Blue Dog Democrats on the panel. That deal, however, may not hold because of protests from liberals and because Rep. Mike Ross (D-Ark.), the lead negotiator for the Blue Dogs, subsequently disavowed any healthcare reform bill that includes a public option.

The Senate Health, Education, Labor and Pensions Committee also approved its version of the bill before the recess.

This story was updated at 5:58.

## **Senate Finance Health Plan \$880 Billion (WT)**

By Jennifer Haberkorn

[Washington Times](#), September 15, 2009



The Senate Finance Committee's health care reform plan is expected to come in at \$880 billion over 10 years, but lawmakers are still working to produce a final bill.

Chairman Max Baucus, Montana Democrat, said he is likely to issue his plan Tuesday or Wednesday, and the committee would debate the bill next week.

It's still unclear whether the full "Gang of Six" would sign on. The group of three Republicans and three Democrats has been debating the compromise proposal for months and has emerged as the biggest hurdle to progress on the bill in Congress.

"We're working to bring this process to closure over the next two weeks or so," Mr. Baucus said, adding that there's a "high probability" of a bipartisan deal by Tuesday.

The remaining sticking points include the size of the expansion of Medicaid services for lower-income Americans, medical malpractice reform, preventing illegals from obtaining government insurance subsidies and preventing the federal government from funding abortions.

## **'Gang Of 17' Key To Health Reform Future (WT)**

By Jennifer Haberkorn

[Washington Times](#), September 15, 2009

For weeks, all eyes have been focused on the "gang of six." Now, President Obama has set his sights on a group of 17.

The 17 moderate Democrats in the Senate are leery of the high price tag of health care reform and its impact on the federal deficit, and are starting to wield influence as Mr. Obama and Democratic leaders search for a bill palatable to both the public and Congress.

"I told the president that the primary focus for moderates is getting costs under control for middle-class families and small business, and passing fiscally responsible reform that reduces the federal deficit over time," said Sen. Evan Bayh, Indiana Democrat, after Mr. Obama met with the lawmakers Thursday.

In recent weeks, cost has challenged the public option as the most divisive issue in the health care reform debate. The plan being formulated in the Senate is expected to come in at \$900 billion and the House bills are expected to reach \$1 trillion. Lawmakers have also raised questions about how much the plans would bring down health care costs for the average American.

"We need to stop the rising costs that are bankrupting working families, small businesses and our economy," Sen. Michael Bennet, Colorado Democrat, said. "These reforms must be fiscally responsible and not add to the deficit."

At 17, the group's size could make it a heavyweight if members decide to join forces. So far, aides to the lawmakers say, there are no plans for that. Even so, the individuals' votes will be important to getting the 60 required for the bill's passage.

If Democrats turn to reconciliation, a procedural move that would cut off a Republican filibuster and enable the bill to pass with 51 votes, the 17 votes could become even more important.

The group, officially called the Senate Moderate Dems Working Group, came together in March under the leadership of Mr. Bayh and Sens. Blanche Lincoln of Arkansas and Thomas R. Carper of Connecticut.

Mr. Bayh, when the group was formed, said the members will not speak with a unified voice, but would work together to pursue "pragmatic, fiscally sustainable policies" on issues such as deficit containment, health care reform, housing, education, energy and climate change.

On Thursday, the lawmakers were briefed by Peter R. Orszag, the director of the Office of Management and Budget, who "walked them through the details" of the president's proposal, said White House press secretary Robert Gibbs.

"I think some people are surprised that the president is going to pay for a proposal, which is something that hasn't happened in this town in a long, long time," he said.

One White House official who had knowledge of the discussions said a chief concern among these Democratic senators is the plan's impact on the deficit.

"Of course, every senator is concerned about doing this in a fiscally responsible way, but [this group] wanted to hear how the president planned to make sure it is deficit-neutral," the official said. "Their concern was cost, and wanting to know that this isn't going to add to the deficit."

While many in the group have voiced concern about the financial aspects of the legislation, a handful have also said they're worried about the proposed plan to establish a government health insurance option. Others, such as Mr. Bennet, have supported the public option.

Jim Fagin, a spokesman for Sen. Ben Nelson, who also attended the meeting, said the Nebraska Democrat's views on the current bill have not changed much since Mr. Obama's speech and his subsequent meeting with the president.

"He just doesn't have enough details yet. He's just not going to support anything at this point," Mr. Fagin said. "He's being a good juror on this. He doesn't make a decision until all of the evidence is in."

Sen. Jeanne Shaheen of New Hampshire described the White House meeting as "upbeat and thoughtful."

"We discussed, in detail, the cost of health care reform - both the cost of inaction for families and businesses, and the cost to our nation in terms of long-term spending," she said in a statement. "I remain hopeful that we can work together - Democrats and Republicans alike - to achieve this important goal."

The lawmakers aren't the only ones concerned about cost.

A July poll from Rasmussen Reports found that 61 percent of voters nationwide cite cost as the biggest health



care problem today, followed by universal coverage and quality of care.

In the House, fiscally conservative Blue Dog Democrats had similar concerns about the cost of the legislation and its long-term impact on the federal deficit, stalling the legislation until it was changed.

The number of moderate Democrats in the Senate has grown substantially in the last two election cycles, and therefore many of the group's members are in their first or second term. Moderates are becoming particularly important in both the House and the Senate, as liberal Democrats threaten to pull support if the public option is removed and conservatives say they will vote against any public option.

The group's members include veterans such as Mr. Nelson and Sens. Mary L. Landrieu of Louisiana and Herb Kohl of Wisconsin, as well as freshmen such as Mark Warner of Virginia, Mark Begich of Alaska and Kay Hagan of North Carolina. Sen. Joe Lieberman, Connecticut independent, is a member, as is former Republican Sen. Arlen Specter of Pennsylvania.

Kara Rowland and Matthew Mosk contributed to this report.

## **Medicaid Expansion Hinders Reform Talks (WT)**

By Jennifer Haberkorn

[Washington Times](#), September 15, 2009

A proposed expansion of Medicaid, the health care program for lower-income Americans, has emerged as one of the last sticking points in the Senate Finance Committee's health care reform bill, with governors and state legislatures around the country worried they're going to get left with the tab.

Proposals in the House and Senate would expand Medicaid eligibility to 133 percent of the federal poverty level, potentially putting millions of new people on the public health program for the poor younger than 65.

As the Senate Finance Committee's "gang of six" tries to wrap up its health care reform bill, it is also trying to determine how much of those new costs should be paid by the states and how much by the federal government.

The gang of six -- three Republicans and three Democrats -- hopes to finish negotiations this week. Committee Chairman Max Baucus, Montana Democrat, said he is likely to issue a bill Tuesday or Wednesday, but it's still unclear whether Republicans are going to sign on. Mr. Baucus said he plans to continue to lobby Republican support, even after the bill is released.

Other points of dispute for the group include medical malpractice reform; drafting a verification system to prevent illegal immigrants from obtaining government insurance subsidies; and preventing federal funding from going to abortions.

President Obama's plan got a bit of good news Monday, as a new survey by pollster John Zogby found a large consensus in the country on eight major health care issues, although in some cases the majority favors items not in the president's blueprint. And Mr. Obama's much-touted speech last week to Congress helped his cause.

According to a survey of 4,426 likely voters, 78.5 percent say they back tort reform - tentatively embraced in Mr. Obama's speech, and 82.8 percent of voters think that allowing out-of-state health-insurance purchases may lower premium costs.

Mr. Zogby said the speech improved Mr. Obama's standing among skeptical independents - though there is still plenty of work to do.

"Obama's speech boosted his approval by nine percentage points with the all-important independents - but not as much as needed," Mr. Zogby told The Washington Times. "Even with this post-speech boost, 54 percent of independents still disapprove of his job performance."

The Medicaid expansion plan is designed to extend health care access to more of the poor, a population that often doesn't get preventive care and ends up getting treated for routine medical problems in hospital emergency rooms. If the individual can't pay the hospital bill, those costs get "shifted" by the hospital or doctor to patients who can pay.

The proposal would extend Medicaid access to 133 percent of the federal poverty line, which in 2009 would mean that individuals making less than \$14,404, or families of four making less than \$29,327, would be eligible.

The National Governors Association (NGA) and the National Conference on State Legislatures have cautioned that the states cannot afford to take on new costs, particularly in a struggling economy.

"Any increase in the mandatory minimum eligibility threshold will cost states tens of billions of dollars per year," NGA Executive Director Ray Scheppach told a House panel in June.

States with spiking unemployment rates, such as Michigan, would be hit hardest.

Michigan Gov. Jennifer M. Granholm "recognizes there needs to be a shared responsibility in health reform ... from both federal and state," her spokeswoman, Megan Brown said, "and we look forward to working with the president to get health reform done this year."

Other states, such as Rhode Island, would be barely impacted by the change. There, adults with children are eligible until their incomes are 175 percent over the poverty rate, and children are eligible until their parents' income reaches 225 percent of the poverty rate - well above the proposed federal limit.

The gang of six is expected to hold a conference call about the Medicaid expansion proposal with a group of governors on Tuesday.



Republicans in the gang of six - Sen. Michael B. Enzi of Wyoming, Sen. Charles E. Grassley of Iowa and Sen. Olympia J. Snowe of Maine - have voiced concern over saddling the cash-strapped states with additional costs.

"Sen. Enzi ... believes that approach to covering the uninsured fails on all counts by creating a new, unfunded mandate for state governments, and by putting folks who need health care the most into a federally managed, waste-ridden program already desperately in need of reform," his spokesman said.

Mr. Baucus has also expressed concern over the impact on state budgets. He insisted Monday that the states would not be left with much to pay for, but declined to reveal specifics of how to avoid the extra costs.

"States, I think, are going to be pleasantly surprised because there are going to be some additional costs, but much less than we originally expected," he said. "The Medicaid costs with expansion are not going to complicate near as much as we originally feared because of" other programs, such as more generous drug rebates and changes to the state Children's Health Insurance Program.

The nonpartisan Congressional Budget Office found that the expansion, as described in the House health care bill, would increase federal outlays for Medicaid by \$438 billion over a 10-year-period. Mr. Obama said again Monday in a New York speech that he would not sign off on a bill that isn't fully paid for, a stance shared by Senate Democrats.

Under current law, Medicaid eligibility varies widely by state, with some states providing access to the program at 175 percent of the poverty rate and some offering little more than the federal requirements. States administer the program but are reimbursed by the federal government.

## **Some Gobs Say Medicaid Growth Could Hammer Budgets (WP/AP)**

By Emily Wagster Pettus, The AP

[Washington Post/AP](#), September 15, 2009

JACKSON, Miss. — States with high levels of poverty and unemployment have been struggling with growing Medicaid budgets during the recession, and some governors worry their financial burdens could get worse as Congress works on a comprehensive health care bill.

They're especially worried about possible expansion of Medicaid, the federal-state health insurance program for the needy and disabled.

"If the federal government wants to expand health care to everybody in the country, they should not force the states to pay part of the bill. If they want to do that, the federal government should pay for it," said Mississippi Gov. Haley Barbour, who is chairman of the Republican Governors Association.

Democratic U.S. Sen. Max Baucus of Montana is part of a bipartisan group of Finance Committee members — the so-

called Gang of Six — grappling with health care legislation. Part of Baucus' proposal would expand Medicaid to cover more low-income people. For example, childless adults making up to 133 percent of the federal poverty level would be eligible for the first time, starting in 2014. Under current standards, the federal poverty level is \$10,830 for an individual.

A House bill has a similar provision to expand coverage. Under current rules, adults who are not disabled and do not have children cannot be covered by Medicaid, regardless of how poor they are.

Baucus said his staff is trying to schedule a conference call with governors for Tuesday.

Montana Gov. Brian Schweitzer, chairman of the Democratic Governors Association, said in July that he worried the federal government's push to expand Medicaid might force states to borrow money to pay for new health expenses.

Since then, Schweitzer said he has spoken to President Barack Obama and Democratic congressional leaders and has been assured that the final version of health care legislation won't include unfunded mandates for the states.

"I think everybody has looked at each other and said, 'That dog don't hunt,'" Schweitzer said in late August.

Across the country, Medicaid budgets are already strained, especially in states with higher than average poverty and unemployment rates:

- In New Mexico, 18.4 percent live below the poverty level, well above the national average of 13.3 percent. Medicaid enrollment there has increased nearly 10 percent since mid-2008, and Human Services Secretary Pam Hyde said the program could overspend its budget by \$35 million to \$40 million this fiscal year.

- In Michigan, where unemployment hit 15 percent in July, Republicans who control the state Senate propose saving money by trimming 8 percent from the Medicaid reimbursement rates for physicians, hospitals and other health care providers in the state fiscal year that begins Oct. 1.

- In Georgia, Republican Gov. Sonny Perdue ordered 3 percent funding cuts for Medicaid and public schools and 5 percent cuts for most other state programs because of weak state tax collections in late July, just three weeks into the new fiscal year.

"If we're asked to pick up on state increased costs in health care, it's going to take away from infrastructure, it's going to take away from environment, transportation, education, public safety - all the other things that we as states do," said Perdue, who leads a state where 14.5 percent of residents live below the poverty level, according to the U.S. Census.

In Mississippi, where 21.1 percent of residents live in poverty and 20 percent are enrolled in Medicaid, paying for



health care has long been a struggle. Barbour said a mandate to cover more people could lead to tax increases.

Barbour won the Mississippi governorship in 2003 after criticizing a 33 percent growth in Medicaid enrollment in four years under his Democratic predecessor. Enrollment has grown 5 percent since Barbour took office in January 2004. Mississippi saw an unexpected hiccup in Medicaid numbers in March, when enrollment jumped by 21,620. It was the largest single-month increase the program had seen since April 2001.

Barbour cut 2.9 percent from the \$6 billion state budget this month because of lagging income and sales tax collections, but didn't cut Medicaid because he expects more people to enroll as unemployment climbs. The state's seasonally adjusted unemployment rate jumped from 7.3 percent in July 2008 to 9.7 percent in July 2009.

Some Mississippi officials say a Medicaid expansion would be an efficient way to cover the uninsured. The Henry J. Kaiser Family Foundation says 55.5 percent of Mississippi's poor and low-income residents lack health insurance. The national figure is 36.5 percent.

Because of Mississippi's poverty, the federal government pays a generous share of Medicaid expenses, referred to as matching funds. Until December 2010, when federal stimulus money is scheduled to disappear, the federal government is paying for 84 percent of Medicaid costs in Mississippi. That's up from the usual 76 percent.

"One of the most frustrating things about dealing with Medicaid over the years has been the obsession in the Legislature with reducing Medicaid spending at a time when we have the most favorable Medicaid (federal) match in the nation," said Democrat Hob Bryan, chairman of the state Senate Public Health Committee and supporter of an expanded role for Medicaid. "Mississippi is a winner because of our incredible match."

Medicaid financing is a public policy discussion with real-world implications for some of Waymon Tigrett's customers at his family's store, Brandon Discount Drugs.

Tigrett, a pharmacist, said as Mississippi lawmakers have finished the state budget the past several years, unfounded rumors have spread that hospitals were turning away Medicaid patients, or that pharmacies were reducing the number of prescriptions they'd fill for people on the program. Tigrett said he has told Medicaid customers not to worry and has continued filling their prescriptions for blood-pressure pills, diabetic supplies and other essentials.

"It's a panic thing," Tigrett said from his store in a Jackson suburb. "It worries mostly the elderly people. It causes them undue anxiety, stress."

## **Healthcare Reform Wins Over Doctors Lobby (LAT)**

### **The American Medical Assn., once opposed to any government overhaul, now has more to gain, including a proposal worth billions of dollars to physicians.**

By Kim Geiger And Tom Hamburger, September 15, 2009

[Los Angeles Times](#), September 15, 2009

The American Medical Assn., after 60 years of opposing any government overhaul of healthcare, is now lobbying and advertising to win public support for President Obama's sweeping plan — a proposal that promises hundreds of billions of dollars for America's doctors.

Of all the interest groups that have won favorable terms in closed-door negotiations earlier this year, the association representing the nation's physicians may have taken home the biggest prizes, including an agreement to stop planned cuts in Medicare payments that are worth \$228 billion to doctors over 10 years.

In addition, the proposal that would require all individuals to obtain medical insurance includes premium subsidies to ensure that their doctor bills would be paid.

The AMA, which many still regard as the country's premier lobbying force, is providing money and grass-roots backing for these and other reforms.

Critics charge that, although doctors will be among those with the most to gain financially, the AMA — unlike the pharmaceutical and insurance industries — made relatively few concessions in return. The drug industry, for example, pledged \$80 billion in cost reductions. Health insurers agreed to give up restrictions on preexisting conditions.

"To our knowledge, this deal is better than those negotiated so far by drug companies, hospitals or health insurers," said Dr. Henry Simmons, founder of National Coalition on Health Care, which represents labor, business and medical provider interests. "The question is why."

Health industry analyst Robert Laszewski, a former insurance company executive who tracks health policy for industry clients in Washington, thinks that all of the major interests that once opposed reform, including insurance and drug companies, have received sweetheart deals in exchange for their support.

AMA officials acknowledge the huge turnaround in the organization's position, but they say it reflects changes in the healthcare system and the way doctors feel about it.

In the past, the AMA saw the government as endangering doctors' incomes and independence. Now, with the advent of Medicare and other federal programs, which the organization originally opposed, the government has become a vital source of revenue and stability for doctors.

"Doctors are really, really discouraged now about people not getting access to medical care," said Dr. Nancy Nielsen, immediate past president of the AMA, who has been meeting with top congressional officials this summer on behalf of the association.



That's why the doctors' position has changed so dramatically since the early 1990s, when they played a lead role in helping to kill President Clinton's healthcare plan, she said.

"Back then everybody's second position was the status quo," she said. "Now there is very broad agreement that the status quo is unacceptable. That's why we see people who opposed a variety of reforms in the past now advocating for them."

Critics take a less benign view of the AMA's transformation.

Laszewski, the health policy expert, says AMA support is really explained by the deals the organization cut with the White House and congressional Democrats.

"They were bought off," he said. "And the price tag was \$228 billion."

Laszewski is referring to what many consider the most costly single concession to any interest group made so far in the bargaining over healthcare.

Back in 1997, concerned about the soaring cost of Medicare, Congress and Clinton approved a plan to reduce reimbursements to doctors whenever Medicare's costs outpaced the growth of the U.S. economy.

The idea was to prod the medical community into holding down healthcare costs by cutting back payments if the industry failed to do so.

For the most part, the cuts were never imposed because doctors and other medical service providers persuaded Congress to override them. But for each year that Congress blocked the cutbacks, the next scheduled cuts were larger.

In 2010, the cumulative cut would be a whopping 21%.

Eliminating the cuts has been a top priority for the AMA, which spent \$30 million on lobbying since the beginning of 2008. Over the last decade, no other interest group or trade association has had a bigger lobbying budget except the Chamber of Commerce.

"The AMA got freed from planned reductions in reimbursements but offered little in return," said Simmons, whose coalition is seeking to make cost control a central part of reform.

Rep. Henry A. Waxman (D-Beverly Hills) disagrees. "That's not fair," he says, arguing that the reimbursement system was so seriously flawed that it threatened the stability of Medicare.

Besides, he said, the legislation passed by the Energy and Commerce Committee, which he chairs, provides other cost savings by encouraging more cost-effective models of care, electronic medical record keeping and other efficiencies.

As proposed in the House bill and provided for in Obama's current budget blueprint, physician payments would not be cut at all in 2010. The House bill would then replace the current formula for trimming reimbursements with a more

generous "target" ratio -- which Congress could ignore whenever Medicare spending outpaced economic growth.

The AMA's Nielsen says that the change was necessary because the proposed cuts were so extreme they would undermine the stability of the Medicare program. The AMA is worried about costs in general, noting that it has also pushed for malpractice and other reforms, included in the president's proposal.

"This is a big concession to doctors," said Lawrence Jacobs, a University of Minnesota health policy specialist. "Waxman like any good reformer, is pushing costs into the future and emphasizing benefits in the near term. The magic of reform in America is to get prospective stakeholders to focus on wins in the present and delay the cost as much as you can."

Whatever the pros and cons of rescinding the cuts, their value to doctors is not in dispute.

Nor is the historic shift in doctors' views on the government overhaul of the healthcare system.

Some 60 years ago, banner charges of "socialized medicine," the nation's physicians led a devastatingly successful campaign against President Harry S. Truman's effort to pass the first comprehensive healthcare overhaul of modern times.

In the years that followed, the AMA became a lobbying powerhouse that frustrated healthcare initiatives by Democrats and Republicans alike. Armed with deep pockets, a matchless grass-roots network and the unusual credibility that doctors have traditionally enjoyed with patients, the AMA turned back almost every plan to revamp healthcare.

After the House Energy and Commerce Committee passed its legislation, the organization offered an immediate statement of support. It issued a similar statement lauding the Obama administration's approach to health reform on the morning before the president's speech to Congress last week.

Perhaps more important, are the AMA's efforts to sway public opinion in favor of Obama's proposed reforms. Like the pharmaceutical industry, the AMA has underwritten an advertising campaign backing the president's plan.

For example, since Aug. 13, viewers in key markets have seen \$8 million in ads sponsored by the Americans for Stable Quality Care, an organization that includes the AMA and a handful of other institutional backers of Obama's proposal.

Most of the ads have been focused on the states of key senators on the finance committee and on Louisiana and Arkansas, where conservative Democrats are thought to be wavering.

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## **Illegal Immigration Tied To Health Care (WP)** **Activists on Both Sides Escalate Debate**



By Spencer S. Hsu, Washington Post Staff Writer  
[Washington Post](#), September 15, 2009

As Congress's debate over health-care legislation lumbers toward a defining test for the Obama presidency, partisans on both sides of another issue -- immigration -- escalated their own proxy war this week, concluding that the fates of the two issues have become politically linked.

Trying to beat back a furor over whether President Obama's centerpiece initiative would subsidize health care for illegal immigrants, liberal supporters of an immigration overhaul on Monday called a main proponent of that claim a "hate group," citing its founder's ties to white supremacists and interest in racist ideas, such as eugenics.

The counterattack comes as opponents of illegal immigration plan a Capitol Hill lobbying push, starting when 47 conservative radio talk show hosts hold a "town hall of the airwaves" in Washington on Tuesday and Wednesday to highlight the costs of illegal immigration.

Strategists on both sides said the clash underscores how Republican activists have stirred populist anxiety against not only Obama's health-care effort but other parts of his agenda, and how core Democratic groups have concluded that it is time to return fire.

In an ad published in the Capitol Hill newspaper Roll Call and a teleconference with reporters, America's Voice, an umbrella group of immigrant advocacy organizations, accused the Federation for American Immigration Reform, a prime lobby for reduced immigration, of leading xenophobic efforts to lower the number of Hispanic people in the United States.

Allies of America's Voice, including leaders of the National Council of La Raza, a Latino civil rights group, and Media Matters, a news watchdog group, alleged that FAIR and related organizations play on nativist, racially charged fears to drown out debate.

"The Federation for American Immigration Reform (FAIR) is designated a HATE GROUP by the Southern Poverty Law Center," the ad reads, citing a December 2007 listing by an independent group based in Montgomery, Ala., that monitors racist organizations. "Extremist groups, like FAIR, shouldn't write immigration policy," the ad concludes.

Dan Stein, president of FAIR, called attacks on the group's founder, John Tanton, false and outdated.

"Saying something that's not true or telling a lie 50 times doesn't make it more true than the first," Stein said, noting that SPLC began its attacks earlier this decade. "They've decided to engage in unsubstantiated, invidious name-calling, smearing millions of people in this movement who simply want to see the law enforced and, frankly, lower levels of immigration," Stein said. Ongoing Attacks

Supporters of immigration reform usually stopped short of such blunt attacks when Congress debated the issue in 2006 and 2007.

Frank Sharry, executive director of America's Voice, said conservative activists have been trying to intimidate Congress by tapping into a thin but vocal vein of populist anger. Sharry acknowledged that the best scenario for a successful legalization push would be "a comeback victory for health-care reform." Obama has said he will turn to immigration next after energy legislation.

"We didn't call them out last time, we thought we were in a political debate. Now we realize it's part political debate and . . . part culture war," Sharry said. "These talk-show guys and FAIR, this isn't about immigration policy, as much as they think there are way too many Latinos in this country and they want to get rid of a couple of million of them."

Mark Krikorian, executive director of the Center for Immigration Studies, a think tank spun off FAIR, said Obama and congressional Democrats have lost credibility in the dispute over health coverage for illegal immigrants and probably were surprised by its intensity.

"Right now there are a lot of members of Congress who might have thought the immigration issue wasn't as hot for opponents as it was a couple of years ago," Krikorian said. "They were disabused of that notion." Focus on FAIR Founder

Republican Rep. Joe Wilson's shout of "You lie!" during Obama's speech to Congress last Wednesday night dramatized the dispute, in which critics say Democrats are not doing enough to verify that illegal immigrants will not receive expanded health coverage at taxpayers' expense. The White House said Obama's plan would tighten restrictions and require more verification of legal residency. Supporters say research indicates that abuse is rare, that enforcement costs outweigh savings and that U.S. citizens may be improperly denied help.

In a series of reports, the Southern Poverty Law Center and the Anti-Defamation League have focused on Tanton, who founded FAIR in 1979. The groups quote from Tanton's correspondence with Holocaust deniers and white nationalist thinkers, his expressed interest in anti-Semitic writers and the study of eugenics, and concerns about the "educability" of Hispanics and the loss of a "European American" majority.

"We want to keep that drumbeat going so politicians know when FAIR lobbyists speak to them, this is who they represent," said Heidi Beirich, an SPLC researcher.

Stein defended FAIR's track record, cited its diverse membership and said the group "stands four-square against discrimination based on race, ethnicity or religion." He said attacks on Tanton are taken out of context and "simply do not reflect the true character of the person," whom Stein described as a "Jeffersonian or Renaissance man or intellect" whose interest and writings span a wide range of issues.

He criticized America's Voice and allied groups as "juvenile mud throwers who seem unprepared to engage in serious public debate."



## Chamber Ad Attacking Congress On Health-care Is Misleading (MCT)

By Jordan Rau, Kaiser Health News

[McClatchy](#), September 15, 2009

AD TITLE: "The Fast Sale."

SPONSOR: U.S. Chamber of Commerce.

**SUMMARY:** Comparing lawmakers to sleazy street-corner salesmen, the lobbying arm for big business complains that lawmakers are trying to rush a health care overhaul through before the public can digest it. The details that the ad claims Congress is trying to gloss over have been debated for months, however.

**BACKGROUND:** The ad is part of a campaign launched in July by the U.S. Chamber of Commerce, which describes itself as the "world's largest business federation," representing more than 3 million businesses. The chamber says it expects to spend \$7 million or more on this phase of its ad campaign, the same it spent on an earlier round of advertisements. The chamber says the ad is airing in 21 states where lawmakers are ambivalent or undecided about the Democratic plan. Those states include Arkansas, Colorado and Nebraska, where both sides of the debate have targeted a significant chunk of their advertising.

**AUDIO AND VISUALS:** Vaudevillian music plays. A split screen shows a sports-jacket-clad salesman sliding open the back of a truck parked behind a building near a trash bin. Inside the truck, there are boxes of merchandise alongside signs that say "no refunds" and "cash only." Simultaneously, on the other side of the screen, another salesman standing on a city street holds open a briefcase filled with watches. As both launch into rapid, unintelligible patter, a female voice-over says: "You know the type. There's a reason why some want to make a fast sale."

The screen shows an actor playing a smiling member of Congress standing behind a podium at a news conference. "Now Congress wants to make the fast sale on government-run health care. What don't they want you to know? Maybe it's the trillion-dollar price tag. Or maybe the billions in higher taxes. Or the 239 billion in debt we'll owe when the sale is final." A man in a suit behind a desk holds up a legal contract titled "Government-Run Health Care," points a pen at the bottom of the page where a red X marks a line for a signature and extends the pen toward the camera. "The fast sale on government-run health care? No way."

The narrator concludes: "Let's get serious and reform health care the right way," as the screen displays the same phrase. The screen directs viewers to call the main number for the Senate switchboard, and lists the Web address for the chamber-run Campaign for Responsible Health Reform.

**POLITICS:** The business group opposes a government-run insurer to compete with private companies. It fears that this "public option" would pay medical providers low

reimbursement rates, prompting doctors and hospitals to make up for the low fees by charging private insurers and businesses higher prices.

The chamber also opposes Democratic proposals to require employers to provide their workers with insurance or pay fines to help the government cover them. The chamber favors limiting malpractice and medical liability lawsuits, and letting individuals and the self-employed purchase health insurance with pretax dollars, just as many people do who work for big companies.

**ACCURACY:** The chamber exaggerates the speed at which health care legislation is moving through Congress. The Senate Finance Committee staff released a white paper May 14 that prominently included a government-run insurer as an option for lawmakers to consider. Yet four months later the panel's chairman hasn't introduced a bill, as negotiators try to find bipartisan agreement. The legislation in the House of Representatives, introduced July 14, has been approved by three committees but hasn't yet come to the floor.

The ad's claim that Congress "doesn't want you to know" the financial costs of health care legislation is specious. In fact, the "trillion-dollar price tag" and \$239 billion of deficit spending that the ad cites are estimates released July 17 by Congress' own nonpartisan budget analysts. Those figures have been reported and dissected by the news media for months.

The chamber says the ad's reference to a "fast sale" refers to a possible Democratic strategy to push the health care bill through the Senate using budget rules that allow for a majority vote rather than the 60 votes needed to avoid a Republican filibuster. However, the purpose of that maneuver wouldn't be to hide the details of the bill - as the ad alleges - but to prevent Republicans from blocking a Democratic bill.

(Kaiser Health News, an editorially independent news service, is a program of the Kaiser Family Foundation, a nonpartisan health care policy research organization that's not affiliated with Kaiser Permanente.)

## Health-Care Reform And The Constitution (WSJ)

**Why hasn't the Commerce Clause been read to allow interstate insurance sales?**

By Andrew P. Napolitano

[Wall Street Journal](#), September 15, 2009

Last week, I asked South Carolina Congressman James Clyburn, the third-ranking Democrat in the House of Representatives, where in the Constitution it authorizes the federal government to regulate the delivery of health care. He replied: "There's nothing in the Constitution that says that the federal government has anything to do with most of the stuff we do." Then he shot back: "How about [you] show me where in the Constitution it prohibits the federal government from doing this?"



Rep. Clyburn, like many of his colleagues, seems to have conveniently forgotten that the federal government has only specific enumerated powers. He also seems to have overlooked the Ninth and 10th Amendments, which limit Congress's powers only to those granted in the Constitution.

One of those powers-the power "to regulate" interstate commerce-is the favorite hook on which Congress hangs its hat in order to justify the regulation of anything it wants to control.

Unfortunately, a notoriously tendentious New Deal-era Supreme Court decision has given Congress a green light to use the Commerce Clause to regulate noncommercial, and even purely local, private behavior. In *Wickard v. Filburn* (1942), the Supreme Court held that a farmer who grew wheat just for the consumption of his own family violated federal agricultural guidelines enacted pursuant to the Commerce Clause. Though the wheat did not move across state lines-indeed, it never left his farm-the Court held that if other similarly situated farmers were permitted to do the same it, might have an aggregate effect on interstate commerce.

James Madison, who argued that to regulate meant to keep regular, would have shuddered at such circular reasoning. Madison's understanding was the commonly held one in 1789, since the principle reason for the Constitutional Convention was to establish a central government that would prevent ruinous state-imposed tariffs that favored in-state businesses. It would do so by assuring that commerce between the states was kept "regular."

The Supreme Court finally came to its senses when it invalidated a congressional ban on illegal guns within 1,000 feet of public schools. In *United States v. Lopez* (1995), the Court ruled that the Commerce Clause may only be used by Congress to regulate human activity that is truly commercial at its core and that has not traditionally been regulated by the states. The movement of illegal guns from one state to another, the Court ruled, was criminal and not commercial at its core, and school safety has historically been a state function.

Applying these principles to President Barack Obama's health-care proposal, it's clear that his plan is unconstitutional at its core. The practice of medicine consists of the delivery of intimate services to the human body. In almost all instances, the delivery of medical services occurs in one place and does not move across interstate lines. One goes to a physician not to engage in commercial activity, as the Framers of the Constitution understood, but to improve one's health. And the practice of medicine, much like public school safety, has been regulated by states for the past century.

The same Congress that wants to tell family farmers what to grow in their backyards has declined "to keep regular" the commercial sale of insurance policies. It has permitted all 50 states to erect the type of barriers that the Commerce

Clause was written precisely to tear down. Insurers are barred from selling policies to people in another state.

That's right: Congress refuses to keep commerce regular when the commercial activity is the sale of insurance, but claims it can regulate the removal of a person's appendix because that constitutes interstate commerce.

What we have here is raw abuse of power by the federal government for political purposes. The president and his colleagues want to reward their supporters with "free" health care that the rest of us will end up paying for. Their only restraint on their exercise of Commerce Clause power is whatever they can get away with. They aren't upholding the Constitution-they are evading it.

Mr. Napolitano, who served on the bench of the Superior Court of New Jersey between 1987 and 1995, is the senior judicial analyst at the Fox News Channel. His latest book is *"Dred Scott's Revenge: A Legal History of Race and Freedom in America"* (Nelson, 2009).

## **The Health-Care Debate, From Up North (WP)**

By Jonathan Malloy

[Washington Post](#), September 15, 2009

Canadians love American health-care debates because it means you notice us. Much like Tennessee or North Dakota, we like just being mentioned. But your debates allow us to replay our own debates about health care and their relationship to national myths.

Consider a lunchtime conversation I had a few years ago with some American political scientists. Academics incapable of small talk, we began discussing why our similar countries had different health-care systems. I talked about political culture and national identity, which mystified the Americans a bit. They were interested in iron triangles; veto points; and the power of congressional committees, lobbyists and campaign donations. Those are important, yes, but I argued that health care was ultimately determined more by national identity and myths.

Ask a Canadian about differences between our country and the States, and you'll get a threefold answer: One, gun control. Enough on that. Two, much better Super Bowl commercials that are blocked out by Canadian cable regulators. (This is actually discussed seriously. The fact that we watch the Super Bowl religiously is not discussed.) Three, we have health care for all and you don't.

The reality of the two systems is of course much closer. But Canadians, who have a highly fragile and internationally ignored national identity, understand instinctively that health care says a lot about a country's heart and its understanding of itself.

Facts are remarkably unimportant in health-care debates, as every incoming Democratic president quickly learns, especially if he tries to put his government hands on Medicare. The same goes for Canada. Just as a disturbing



number of Americans seem to believe we have "death panels" here, most Canadians are convinced that American emergency room defibrillators are activated by credit card swipe. ("Your health card, not your credit card" is a standard phrase in the Canadian political lexicon.) If it doesn't fit the national myth, it goes nowhere and is politically dangerous.

This, of course, works both ways. While Americans loudly proclaim their opposition to "socialist" health care, right-wing Canadian politicians are the quickest to pledge total opposition to privatization and "two-tier health care."

Once facts are put aside, the national myths reinforce themselves, even across borders. Every Republican fulmination against Canadian health care gets big play in the Canadian media, because it reinforces our sense of difference with the States. (When Democrats criticize our system, we're hurt but keep quiet.)

Perhaps you missed the "Americans for Prosperity" ads this summer featuring a Canadian woman's allegation that she would have died waiting for treatment in Canada. Canadians didn't – the ads received national coverage and rebuttals and boosted our sense of difference with and superiority over the United States. "An admitting nurse doesn't check your credit card -- she checks your pulse" was the sort of line typical from our unimaginative politicians.

Now let's be clear -- you don't care about Canada (or North Dakota or Tennessee). But you do care about American health care and the outcome of the current process.

A year ago, America had a great appetite for change, and a catalyst in candidate Barack Obama, that might have been able to shift the national myth enough to transform American health care, much like Lyndon Johnson established Medicare so firmly that it now needs protection from government hands. But having used up his superpowers on the global recession, Obama is left to slug out the health-care debate with nothing but facts. He needs more than this to overcome a national myth that denies health care as a public good.

Good luck and watch out for those death panels.

The writer is a professor of political science at Carleton University in Ottawa.

## **Government Medicine Vs. The Elderly (WSJ)**

**In Britain in 2007-08, 16.5% of deaths came after 'terminal sedation.'**

By Rupert Darwall

[Wall Street Journal](#), September 15, 2009

London -- Rarely has the Atlantic seemed as wide as when America's health-care debate provoked a near unanimous response from British politicians boasting of the superiority of their country's National Health Service. Prime Minister Gordon Brown used Twitter to tell the world that the NHS can mean the difference between life and death. His

wife added, "We love the NHS." Opposition leader David Cameron tweeted back that his plans to outspend Labour showed the Conservatives were more committed to the NHS than Labour.

This outbreak of NHS jingoism was brought to an abrupt halt by the Patients Association, an independent charity. In a report, the association presented a catalogue of end-of-life cases that demonstrated, in its words, "a consistent pattern of shocking standards of care." It provided details of what it described as "appalling treatment," which could be found across the NHS.

A few days later, a group of senior doctors and health-care experts wrote to a national newspaper expressing their concern about the Liverpool Care Pathway, a palliative program being rolled out across the NHS involving the withdrawal of fluids and nourishment for patients thought to be dying. Noting that in 2007-08, 16.5% of deaths in the U.K. came after "terminal sedation," their letter concluded with the chilling observation that experienced doctors know that sometimes "when all but essential drugs are stopped, 'dying' patients get better" if they are allowed to.

The usual justification for socialized health care is to provide access to quality health care for the poor and disadvantaged. But this function can be more efficiently performed through the benefits system and the payment of refundable tax credits.

The real justification for socialized medicine is left unstated: Because health-care resources are assumed to be fixed, those resources should be prioritized for those who can benefit most from medical treatment. Thus the NHS acts as Britain's national triage service, deciding who is most likely to respond best to treatment and allocating health care accordingly.

It should therefore come as no surprise that the NHS is institutionally ageist. The elderly have fewer years left to them; why then should they get health-care resources that would benefit a younger person more? An analysis by a senior U.K.-based health-care expert earlier this decade found that in the U.S. health-care spending per capita goes up steeply for the elderly, while the U.K. didn't show the same pattern. The U.K.'s pattern of health-care spending by age had more in common with the former Soviet bloc.

A scarcity assumption similar to the British mentality underlies President Barack Obama's proposed health-care overhaul. "We spend one-and-a-half times more per person on health care than any other country, but we aren't any healthier for it," Mr. Obama claimed in his address to Congress last Wednesday, a situation that, he said, threatened America's economic competitiveness.

This assertion is seldom challenged. Yet what makes health care different from spending on, say, information technology or any category of consumer service such that spending on health care is uniquely bad for the American



economy? Distortions like malpractice suits that lead to higher costs or the absence of consumer price consciousness do result in a misallocation of resources. That should be an argument for tackling those distortions. But if high health-care spending otherwise reflects the preferences of millions of consumers, why the fuss?

The case for ObamaCare, as with the NHS, rests on what might be termed the "lump of health care" fallacy. But in a market-based system triggering one person's contractual rights to health care does not invalidate someone else's health policy. Instead, increased demand for health care incentivizes new drugs, new therapies and better ways of delivering health care. Government-administered systems are so slow and clumsy that they turn the lump of health-care fallacy into a reality.

According to the 2002 Wanless report, used by Tony Blair's government to justify a large tax hike to fund the higher spending, the NHS is late to adopt and slow to diffuse new technology. Still, NHS spending more than doubled to ?103 billion in 2009-10 from ?40 billion in 1999-2000, equivalent to an average growth rate of over 7% a year after inflation.

In 1965, economist (and future Nobel laureate) James Buchanan observed of the 17-year old NHS that "hospital facilities are overcrowded, and long delays in securing treatment, save for strictly emergency cases, are universally noted." Forty-four years later, matters are little improved. The Wanless report found that of the five countries it looked at, the U.S. was the only one to be both an early adopter and rapid diffuser of new medical techniques. It is the world's principal engine driving medical advance. If the U.S. gets health-care reform wrong, the rest of the world will suffer too.

Mr. Darwall, a London-based strategist, is currently writing a book on the history of global warming, to be published by Quartet Books in Spring 2010.

## **OTHER NATIONAL NEWS:**

### **Obama Warns Must Be Careful To Avoid Removing Stimulus Too Soon (BLOOM)**

By Timothy R. Homan And Julianna Goldman  
[Bloomberg News](#), September 15, 2009

Sept. 14 (Bloomberg) -- President Barack Obama said recent data suggest the U.S. economy is returning to growth and the administration must avoid removing stimulus programs prematurely.

"All the indicators would tend to suggest that we're starting to see growth," Obama said today in a Bloomberg Television interview. "What we have to be careful of is taking the crutches away from the patient too early."

The White House last week said it expects the \$787 billion stimulus to add as many as 3 percentage points to growth in July through September, and it credited the initiative

with creating or saving as many as 1.1 million jobs. Obama signed the fiscal spending package into law in February.

"We want to get out of some of these extraordinary interventions as quickly as possible but not so soon that the recovery doesn't take place," Obama said. "We have to make sure that we avoid" a second recession, he said.

Economists put the odds of a double-dip recession in the next 12 months at 25 percent, according to the median estimate in a monthly Bloomberg News survey taken from Sept. 3 to Sept. 10. The previous forecast called for a 20 percent chance of the economy backsliding after it expands.

The U.S. economy will grow at a 2.9 percent annual rate in July through September, the Bloomberg survey showed. Growth is projected to slow to a 2.2 percent pace during the last three months of the year as consumer spending weakens during the holiday shopping season, when many stores expect to reap half of their annual revenue.

#### **Economic Contraction**

The world's largest economy contracted 1 percent from April through June, according to the Commerce Department. The drop was the fourth in a row, making it the longest contraction since quarterly records began in 1947.

The unemployment rate last month jumped to 9.7 percent, a 26-year high, from 9.4 percent in July, the Labor Department said. Economists surveyed by Bloomberg this month forecast the jobless rate will reach 10 percent by the end of the year.

"We've seen steady declines in the number of people who are losing their jobs each month," Obama said. "We're seeing a bottoming out and potentially we could start seeing some positive job growth."

Since the recession began in December 2007, the U.S. has lost 6.9 million jobs. Payroll cuts peaked at 741,000 in January and have since subsided, with 216,000 job losses in August, according to the Labor Department.

### **Fed Official Expects 'Tepid' Recovery (WSJ)**

By Michael Casey  
[Wall Street Journal](#), September 15, 2009

NEW YORK -- Janet Yellen, the president of the Federal Reserve Bank of San Francisco, made a clear call Monday for keeping the Fed's accommodative monetary-policy stance in place for some time.

Ms. Yellen, who has positioned herself over the past few months as one of the more dovish members of the Federal Open Market Committee, said intervention by the Fed and the U.S. Treasury had averted the "second Great Depression," but that it was too early to cut monetary stimulus.

"I regret to say that I expect the recovery to be tepid," Ms. Yellen said. "What's more, the gradual expansion gathering steam will remain vulnerable to shocks."



She said that inventory restocking, a recovery in manufacturing and an improvement in home sales would lead to an expansion in economic activity in the current and fourth quarters of this year. However, she added, "My own forecast envisions a far less robust recovery, one that would look more like the letter U than V."

Holding growth back, she said, would be the process by which consumers recover their balance sheets by increasing their savings and the prospect that employers continue to shed jobs at a "rapid" rate.

Ms. Yellen said she didn't expect to see the economy reach full employment "for several years," and she foresees rising losses on commercial-real-estate loans bringing new blows to small and midsize banks in the months ahead.

"My personal belief is that the more significant threat to price stability over the next several years stems from the disinflationary forces unleashed by the enormous slack in the economy," she said.

Ms. Yellen acknowledged inflation hawks who worry that the Fed's aggressive quantitative-easing actions could put it in a difficult position to reverse policy when price increases pose a bigger threat, calling their fear "real, growing, and disruptive."

"That's why it's so important for me to say the following loud and clear: We at the Fed are and will remain fiercely independent from politics," she said.

In conclusion, Ms. Yellen said, "I can assure you that we will be ready, willing and able to tighten policy when it's necessary to maintain price stability. But, until that time comes, we need to defend our price stability goal on the low side and promote full employment."

Write to Michael Casey at  
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## A World Of Hurt (NYT)

By Bob Herbert

[New York Times](#), September 15, 2009

President Obama took a bit of a victory lap on Wall Street on Monday, declaring that the economy had been brought back from the abyss and "the storms of the past two years are beginning to break."

The president and his economic team (and the Federal Reserve) deserve credit for moving quickly to prevent a full-blown collapse. A year ago, amid the panic that accompanied the implosion of Lehman Brothers, there were serious fears that the U.S. was headed toward another Great Depression.

Now, with the financial sector stabilized and economists predicting that the Great Recession is nearing an end, the sighs of relief coming out of Washington and Lower Manhattan are understandable. But this is no time to lose sight of the wreckage all around us. This recession, a full-blown economic horror, has left a gaping hole in the heart of

working America that is unlikely to heal for years, if not decades.

Fifteen million Americans are locked in the nightmare of unemployment, nearly 10 percent of the work force. A third have been jobless for more than six months. Thirteen percent of Latinos and 15 percent of blacks are out of work. (Those are some of the official statistics. The reality is much worse.)

Consider this: Some 9.4 million new jobs would have to be created to get us back to the level of employment at the time that the recession began in December 2007. But last month, we lost 216,000 jobs. If the recession technically ends soon and we get to a point where some modest number of jobs are created - say, 100,000 or 150,000 a month - the politicians and the business commentators will celebrate like it's New Year's.

But think about how puny that level of job creation really is in an environment that needs nearly 10 million jobs just to get us back to the lean years of the George W. Bush administration.

We're hurtin' and there ain't much healin' on the horizon.

A national survey of jobless workers by a pair of professors at Rutgers University shows just how traumatized the work force has become in this downturn. Two-thirds of respondents said that they had become depressed. More than half said it was the first time they had ever lost a job, and 80 percent said there was little or no chance that they would be able to get their jobs back when the economy improves.

The 1,200 respondents were jobless at some point over the past year, and most - 894 - are still unemployed. More than half said that they had been forced to borrow money from friends or relatives, and a quarter have missed their mortgage or rent payments.

The survey found that affluent, well-educated workers, who had traditionally been able to withstand a downturn in reasonably good shape, were being hit hard this time around.

The professors, Carl Van Horn and Cliff Zukin, described that phenomenon as "a metric of the recession's seismic impact." Of the workers who found themselves unemployed for the first time, more than one in four had been earning \$75,000 or more annually.

"This is not your ordinary dip in the business cycle," said Mr. Van Horn. "Americans believe that this is the Katrina of recessions. Folks are on their rooftops without a boat."

Stunned by the financial and psychological toll of the recession, and seeing little in the way of hopeful signs on the employment landscape, many of the surveyed workers showed signs of discouragement. Three-fifths said that they had experienced feelings of helplessness.

Said one respondent: "I've always worked, so this is very depressing. At age 60, I never believed I would be unemployed unless I chose to be."



Said another: "I fear for my family and my future. We are about to be evicted, and bills are piling. We have sold everything we possibly can to maintain, and are going under with little hope of anything."

At some point the unemployment crisis in America will have to be confronted head-on. Poverty rates are increasing. Tax revenues are plunging. State and local governments are in a terrible fiscal bind. Unemployment benefits for many are running out. Families are doubling up, and the number of homeless children is rising.

It's eerie to me how little attention this crisis is receiving. The poor seem to be completely out of the picture.

If we end up with yet another jobless recovery, there would seem to be little hope for impoverished families in America's big cities, rural areas and, increasingly, suburban neighborhoods as well.

The recession may be ending for some.

Tell that to the unemployed.

## **Stocks Notch Modest Gains (WSJ)**

By Peter A. McKay And Geoffrey Rogow  
[Wall Street Journal](#), September 15, 2009

Stocks drifted higher on Monday, continuing a longer-term trend of investors shifting money into riskier bets as the financial crisis and recession show signs of healing.

The Dow Jones Industrial Average climbed 21.39 points, or 0.2%, to 9626.80. General Electric rose 4.6%. Industrial and commodities-oriented stocks have helped rally the broader market recently on optimism about a global economic recovery.

The S&P 500 gained 6.61 points, or 0.6%, to 1049.34, supported by a 1.5% gain in its utilities sector after the Chinese government's investment arm was reported by The Wall Street Journal to be in talks acquire a minority stake in Virginia-based power-plant developer AES. AES shares rose 4.5%.

A flurry of dealmaking activity in recent weeks has helped give investors some confidence that financial markets are returning to normal functioning after the collapse a year ago of Lehman Brothers Holdings. Stocks rallied to the highest levels of the year last week and the dollar, which had become a popular refuge for rattled traders, declined.

Doug Roberts, chief investment strategist at Channel Capital Research Institute, said that "people are starting to reflect if we've really solved a lot of problems."

Some wariness clearly remains. Stocks have managed a solid recovery from the bear-market lows of early March but remain below the levels seen prior to the Lehman meltdown.

President Obama said in a speech at Federal Hall, across from the New York Stock Exchange, that financial markets "are beginning to return to normalcy" following the drama of last fall, but said new regulations are needed to prevent a return to the excesses that led to the crisis.

Still, some analysts said that for now, the path of least resistance for stocks may be upward.

"The market's positive bias remains intact, even though it's certainly overbought for the short term," said Ted Weisberg, a floor broker for Seaport Securities in New York. "The selloffs just can't seem to get any traction," with investors on the sidelines often seizing dips like the one after Monday's open as buying opportunities.

The Nasdaq Composite Index advanced 10.88 points, or 0.5%, to 2091.78. The Russell 2000 index of small-capitalization stocks climbed 6.44 points, or 1.1%, to 600.03.

Shares of U.S. tire makers rallied after the U.S. imposed tariffs on Chinese tires. Cooper Tire & Rubber shares jumped 7.1% and Goodyear Tire & Rubber gained 3%.

The dollar gained against the yen but weakened against the euro. Treasury prices fell. The two-year note was down 1/32, yielding 0.919%. The 10-year note declined 20/32 to yield 3.421%.

Crude-oil prices slipped, with the front-month contract shedding 43 cents to settle at \$68.86 a barrel, its lowest settlement since Sept. 4. Comex gold for September delivery declined \$5.00 a troy ounce, or 0.50% to \$999.90. Natural-gas futures bucked the broader downtrend in commodities prices.

"We have to look at natural gas," said Craig Peckham, equity trading strategist at Jefferies. "After many failed rallies, it seems to be putting in a decent rebound after all the other commodities reacted to the building sentiment that the industrial demand picture is improving." -Donna Kardos Yesalavich contributed to this article

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## **World's Wealthy Pay A Price In Crisis (WP)**

### **Nations Raise Taxes, Tighten Regulations**

By Anthony Faiola, Washington Post Foreign Service  
[Washington Post](#), September 15, 2009

LONDON -- In this land of inherited privilege and celebrity billionaires, it no longer pays as much to be rich.

Hobbled by soaring debt and ballooning public spending amid the global financial crisis, the British government is joining others around the globe in tapping the wealthy to cover massive shortfalls. As a result, the tax rate here for those making more than \$250,000 a year is set to jump from 40 to 50 percent, leaving the likes of Charlie Mullins -- the self-made king of London plumbing -- fuming. He estimates that the new bill on his \$2.5 million annual income, with exemptions, will jump by no less than \$236,000.

Observers say it is part of a far broader campaign in the wake of the Great Recession -- including curbs on bankers' pay and a rigorous global hunt for tax cheats from



Switzerland to Singapore -- that is suddenly putting the world's wealthy on notice.

In the United States, taxes on the richest Americans are one option for covering the cost of offering health care to the 46 million who are uninsured. The Obama administration has vowed to press forward with its ambitious agenda without raising income taxes on families earning less than \$250,000. But the president's current budget calls for a rollback of the Bush tax cuts for the richest Americans that would increase their top marginal tax rate in 2011 from 35 percent to 39.6 percent, or the same as in the Clinton era.

In India, the government has launched an effort to track down billions of dollars in "black money" -- or hidden profits of the rich. In Germany, Parliament in July passed a law requiring the affluent to provide more information on the locations of their assets. Since the economic crisis began, there have been fresh tax increases for high-earners in the Netherlands, France, Ireland, Italy, Belgium and several other countries.

Analysts say the action marks the first time since before the Reagan-Thatcher era of the 1980s -- when trickle-down economics led to decades of lower tax rates on the wealthy -- that the world's moneyed have faced this level of pressure from such a wide array of governments. It happens as cash-strapped governments -- even as the global economy begins to recover -- are scrambling for scarce sources of revenue to fund expensive stimulus packages, combat the recession and expand services to the less fortunate.

There has been "an absolutely direct correlation between taxes and the financial crisis," said Jon Terry, head of reward practices at Pricewaterhouse Coopers in London. "If there was no financial crisis, I would have been surprised if taxes would have increased at all for high-earners."

Given the gap between the rich and poor that widened globally during the excess of recent years, many see the wealthy as the fairest, most likely source for funds in hard times. In the case of tax cheats, the campaign to root them out, many argue, is long overdue.

But for some, it is beginning to feel like governments are piling on when it comes to the rich -- who, through lost real estate and stock values, have already shed untold billions.

"I know the public is angry and looking for someone to blame, but this [crisis] was not the doing of people like me," said Mullins, a mop-topped 56-year-old who left school at age 15 to form Pimlico Plumbers, now one of Britain's largest plumbing companies with 162 employees. "I've worked hard for what I have, and the government is taking it away because they've dug themselves into a fine mess. I know the rich have certain responsibilities, but this just isn't right."

A special hot seat has been reserved, however, for those seen as directly responsible for causing the economic crisis -- namely, bankers.

At a summit of the Group of 20 industrialized nations in Pittsburgh this month, the French and Germans will press for strict caps on extravagant bonuses at financial firms. Though such a measure has met resistance from the United States and Britain -- home to the world's two great financial centers, New York and London -- President Obama and other leaders are nevertheless expected to embrace guidelines for a level of transparency and government scrutiny of bankers' pay considered unthinkable before the crisis.

On a national level, the Obama administration's plan to curb financial bonuses is still pending before Congress. Yet other countries have already acted. The Dutch, whose taxpayers also are footing the bill for massive bailouts, have gone as far as capping bonuses at 100 percent of base salary while limiting severance packages to one-year's pay. The French have moved to defer existing bonuses and forbid multiyear bonus guarantees, making it no longer quite as rewarding to be a financial executive in Paris.

French bankers are reacting with a mix of anger and acceptance. "I would think that among the various causes you may give for the crisis, traders' pay is not a significant cause," said Pierre de Lauzun, director general of the French Banking Federation. "Of course, after a crisis, it is not bad that people reflect on how to make the market healthier. But [the bonus issue] is not the main cause, not the dominant problem. It is one dimension among others."

The push for more government revenue during the crisis has fueled what experts describe as the most serious global effort to root out wealthy tax evaders in recent history. The campaign began in earnest in April with threats to "name and shame" governments that act as tax havens. But it is now poised to markedly escalate, with G-20 leaders in Pittsburgh, according to sources close to the talks, set to take the further step of imposing sanctions on tax havens such as Uruguay and Panama if they do not move to cease shielding tax dodgers by March.

Already, the campaign has cracked open the famous secrecy of Swiss banks, which, under extreme pressure, have shared thousands of names of tax cheats with the Americans and the French. Last month, Indian officials said they would begin talks with Switzerland to track down an estimated \$27 billion annually in "black money" hidden by wealthy Indians overseas, which they consider vital cash that could go toward economic development and programs for the poor.

Yet some experts caution that such efforts only scratch the surface. In India's case, for example, critics argue that the government is moving too slowly to follow up on promises to bring wealthy cheats to justice, in part because many tax offenders are believed to be government officials. Underscoring mounting public rage, on Sunday in New Delhi dozens of residents marched at the historic downtown India



Gate against the "laziness" of the government in tracking down black money deposited in Swiss bank accounts.

Cheats or not, the rich are seeing governments helping themselves to their wallets in a manner not seen in years -- particularly in Britain.

Spurred by Thatcher, who came to power in 1979, Britain became a relative paradise for the wealthy, with maximum tax rates coming down from 83 percent to 40 percent in recent years. But with Britain facing one of the world's sharpest downturns and lagging behind much of the rest of Europe in recovery, Prime Minister Gordon Brown has called the wealthy the fairest targets for the heavily indebted government.

Not only is the general income-tax rate for wealthy Britons scheduled to leap from 40 to 50 percent for 2010 but they will see major rollbacks on the types and sizes of permitted tax deductions. A separate tax on wealthy foreigners who live in Britain but do not pay income taxes here -- a measure partly aimed at the Arab sheiks of elegant Mayfair -- will now force them to cough up about \$51,000 a year.

Some, like the Swiss, whose domestic tax loopholes can still dramatically benefit foreign high-earners, see an opportunity to lure the jilted rich of Britain. Swiss officials have begun hosting seminars in London, seeking to persuade wealthy executives to move to the friendlier environment in the shadow of the Alps.

Some appear to be taking them up on their offers. Others, like Irish packaging tycoon Dermot F. Smurfit, thought about it but ultimately decided to stay in Britain.

"It bothers everybody paying taxes, and the rich have already been hit harder than the average person in this crisis since they have more stocks or property that have lost value," Smurfit said. "But I guess you can say that it is fair that the wealthy should pay more. That doesn't mean you have to like it."

Correspondent Emily Wax in New Delhi, staff writer Lori Montgomery in Washington and special correspondents Karla Adam in London and Shannon Smiley in Berlin contributed to this report.

## **No Easy Exit For Government As Housing Market's Savior (WSJ)**

By Jon Hilsenrath And Deborah Solomon

[Wall Street Journal](#), September 15, 2009

WASHINGTON -- After a year of extraordinary interventions in the economy, the federal government is starting to pare its support for the private sector. It doesn't look that way to Peter Lansing, president of mortgage firm Universal Lending.

The Denver home lender sees every day how dependent the housing market has become on the government. At the height of the boom, just 20% of

Universal's mortgages were backed by the Federal Housing Administration, an arm of the government that guarantees loans to borrowers who can't afford big down payments. Today, the FHA accounts for more than 80% of his business. For Mr. Lansing, this represents a new way of life -- more government, more paperwork, but also a lot of sales that wouldn't have happened otherwise.

"Over 29 years in business, we've always thought of ourselves as being in the free-enterprise system. Today I think of myself as a government contractor," Mr. Lansing says. "My business strategy is to get more of my employees to embrace that idea. Plan B would be to sell pencils on the corner."

In a speech on Wall Street a year after Lehman Brothers collapsed, President Barack Obama said Monday the need for the government to keep stabilizing the financial system "is waning." His administration released a 51-page report detailing rescue programs that are slowly being scaled back. But the Treasury Department, author of the report, noted that housing is one area where it's too early to exit.

Over the past year, the government has intervened heavily at essentially every stage of the home-buying process. In fact, more than 80% of the new residential mortgage loans made this year benefited from some form of government support, according to the trade publication Inside Mortgage Finance.

To keep funds flowing to the housing market, the government bailed out Fannie Mae and Freddie Mac last year and now effectively owns the mortgage finance giants and their combined \$5.4 trillion in loan portfolios. To keep mortgage rates low, the Federal Reserve is on track to purchase nearly \$1.5 trillion in debt issued or guaranteed by the government's various mortgage arms and another \$300 billion in Treasuries, which set the benchmark for home lending.

And to boost sales, the government also is offering \$8,000 tax credits to first-time home buyers.

Those efforts appear to have had the intended effect of braking the housing market's plunge. They prompted Jonathan Swinton and his wife, Annie, to plunge into the market ahead of schedule. The couple plans to close on a \$226,000 home in a suburb of Salt Lake City in the coming weeks.

"We had always wanted to buy a home, but we had been planning to wait a couple of years," says Mr. Swinton, who recently completed course work for a Ph.D. in family therapy at Kansas State University and is now working at a mental health facility in Salt Lake City. "The low interest rates and the tax credit were the two primary factors that motivated us to buy this year."

Signs of a housing-market bottom have cropped up. Sales of new homes are up more than 30% from lows reached early this year, and sales of existing homes are up



nearly 17%. Shares of companies that build homes have turned higher, inventories of unsold new homes are down and home prices have ticked up after steep declines.

Yet the government's efforts are the primary reason the housing market is functioning at all, economists and housing experts say, which makes an exit unlikely any time soon. Despite the signs of improvement, the housing market is still a shell of what it was during headier times. U.S. home prices are back around 2003 levels, having fallen by about one-third since their peak in the second quarter of 2006, according to Standard & Poor's. Sales of distressed homes still account for about one-third of existing home sales, and prices continue to fall in some markets such as the Sun Belt states. In addition, relatively few "jumbo" loans are being made -- those above the limits of what Fannie and Freddie will buy or guarantee.

"At least for the next two years, and possibly longer, it is not possible that the government would say: 'The U.S. mortgage market no longer needs our support,'" says Dwight Jaffee, an economics professor at the University of California Berkeley's Haas School of Business. "Were they to say that, the mortgage market and the housing market would almost surely crash."

Promoting homeownership has been a stated goal of Republican and Democratic presidencies for decades. The Obama administration recognizes it will need -- at some point -- to rethink broadly the government's role in housing and mortgages. Administration officials also acknowledge that moment won't come soon.

"Every government in the world takes a role in its country's housing market," says Lawrence Summers, Mr. Obama's top economic policy adviser. "What that role should be when normal conditions return is a crucial question we'll all be considering in coming months and coming years." He added: "It's clearly going to take time."

The government's role in housing has a long pedigree. The 1930s gave birth to Fannie Mae and the FHA, which traditionally insured loans aimed at low-income borrowers. Freddie Mac was created in 1970. Since the housing crash, these players are in some spots the only game in town.

Their backing means private lenders are assured of repayment -- by the government, if not the borrower. The size of loan that can be guaranteed is capped in most parts of the country at \$417,000, but can reach as high as \$729,750 in high-cost areas such as parts of California, New York and Washington, D.C.

Loans above those levels are hard to obtain. Steve Walsh, a mortgage broker in Arizona, said he recently tried to arrange a mortgage for a married couple who wanted to buy a \$1.5 million home in Mesa. The couple offered a down payment of \$400,000, but the lender wanted \$600,000, or 40%, in part because the couple had opened a law firm and didn't have two years of tax returns. That's double what was

considered standard before the boom. The pair walked away, said Mr. Walsh.

The government temporarily raised the size of the loans Fannie and Freddie can guarantee in February 2008 and is unlikely to ever return to previous levels. The higher levels have been extended once, and the mortgage industry is lobbying to keep them high.

At the Fed, the question of whether to start dismantling the scaffolding is a dominant one. Since the beginning of the year, the Fed has purchased \$836 billion of mortgage backed securities issued by Fannie Mae, Freddie Mac and Ginnie Mae, the federal body that securitizes FHA loans. The purchases have helped push down interest rates on mortgages guaranteed by the firms from nearly 6.5% last October to 5.25% today, according to HSH Associates, which tracks the mortgage market.

That seems to have helped to put a floor under housing sooner than many officials expected. At the same time, it has created distortions in the market.

When the Fed buys up to \$30 billion in mortgage securities every week, regardless of price, "it makes it very difficult for the market to find its own equilibrium," says Ajay Rajadhyaksha, head of U.S. fixed income research at Barclays. He said investors are trading in Treasury securities instead, pushing rates lower in that market, too.

The Fed is likely to decide to carry on buying until it reaches the \$1.25 trillion target it set in March, and then taper off gradually. Some Fed officials will likely argue for stopping sooner, even as soon as next week's regular policy meeting.

If the Fed stops sooner than expected, it could jolt the mortgage market and short-circuit a housing recovery. Barclays's Mr. Rajadhyaksha estimates that even if the Fed carries on as planned, mortgage rates will rise by half to three-quarters of a percentage point, simply because the Fed will cease to be as big a presence in the market.

The Fed will face a challenge managing its portfolio of mortgage backed securities even after it stops buying the securities. When it bought the securities, it effectively flooded the financial system with cash. One way to pull that cash back out would be to sell the securities, but officials are wary of disrupting the fragile mortgage market. If they move too slowly to drain the financial system of cash, however, it could lead to inflation.

The first-time home buyer's tax credit, which provides up to \$8,000 for individuals earning up to \$75,000 and couples earning up to \$150,000, is set to expire in November. It was originally included in the \$787 billion stimulus bill passed in February. Congress, increasingly preoccupied with mounting deficits, will have to decide whether to extend it. Deutsche Bank estimates the credit has helped generate 350,000 sales, about half the increase in single-family home sales in the past six months.



The tax credit's effectiveness depends largely on its longevity. That's because many of the home sales analysts think it has spurred have been stolen from the future, luring buyers into the market who might not otherwise have bought until next year or beyond. When the credit expires, that demand will disappear, too.

"All it does is move demand forward in time," says Kenneth Rosen, who chairs the Fisher Center for Real Estate and Urban Economics at the University of California, Berkeley. "The last six months, we've seen signs of a housing bottom. We could easily see that disappear."

Tom McMormick, president of Astoria Homes, a private home builder in Las Vegas, says the government's efforts to prop up the housing market are making a difference, but says his own business remains very fragile. "The tax credit is what we think got people off the fence," he says. "Once that money came in back in February, the market literally jumped 10% to 20%."

But, he says, most home buyers are buying existing or foreclosed homes, meaning the new home market has barely budged. At his peak in 2005, he built more than 1,000 homes. This year, he expects to do fewer than 100. "It is just real dark right now," he says.

Yet more uncertain is the future of Fannie Mae and Freddie Mac, an already difficult policy question exacerbated by the passions the pair evoke. When they were placed under government control last year, officials described the move as a "time out" while they find a permanent solution. Fed Chairman Ben Bernanke has floated the idea of turning them into a public utility or privatizing them and offering government insurance on their bonds for a fee.

The Obama administration has put off wrestling with that question until next year. It expects to issue a proposal by March 2010.

"We don't feel like the world is anywhere close to us being able pull back our support," one administration official says.

The FHA brings its own tough issues. The agency, which has insured private lenders against defaults on certain home mortgages, has seen its balance sheet take a hit as risky borrowers default on those loans and is already in danger of falling below a level of reserves mandated by Congress. Yet it remains a key facilitator of loans.

Teri Gifford, who runs a mortgage brokerage serving Kentucky and Ohio, says 95% of her business involves getting clients loans backed by the FHA. "It's all government loans," says Ms. Gifford, whose firm brokers between \$30 million and \$35 million in loans each year. "That's all that can be done anymore."

Loan volume is up at Ms. Gifford's firm, EZ Mortgage Loans Inc., Hillsboro, Ohio, but profitability is down, in part because of costs of working with the government. To work with the FHA, the firm must provide audited annual financial

statements, an expense she said runs about \$10,000 annually, plus have a certain percentage of loans audited each quarter.

Still, Ms. Gifford fears that the U.S. will pull back when the loans it's backing start going bad. "I'm worried what the future could hold if we put all the eggs in one basket," she said.

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## **Crowd Estimates Vary Wildly For Capitol March (LAT)**

**How many angry conservatives showed up to protest Obama's policies? Was it 2 million? Or 60,000? It all depends on who you ask.**

By Joe Markman, September 15, 2009

[Los Angeles Times](#), September 15, 2009

A sea of angry taxpayers marched on the Capitol Saturday afternoon. That much is certain. But even before the march was over, the news media, bloggers and rally supporters were wrangling over the crowd count, with estimates ranging from 60,000 to 2 million.

The Daily Mail in England initially reported that 1 million people flooded the west lawn of the Capitol, protesting what they called the dangerous big government policies of President Obama. Some conservative blogs claimed 2 million attendees.

The two groups that sponsored the event offered more modest but widely varying numbers. Pete Sepp, a National Taxpayers Union spokesman, said the group estimated the crowd at 75,000 in the morning and from 200,000 and 300,000 as the day went on. FreedomWorks spokesman Adam Brandon put his "conservative" estimate at 600,000 to 800,000 after comparing photographs of Saturday's protest with previous events. Although no official crowd estimates were issued, local officials and an expert indicated the number was more likely under 100,000, still a sizable turnout.

Farouk El-Baz, a Boston University research professor and expert on crowd estimation, said his informal research from press coverage indicated 75,000 as the peak number. Pete Piringer, a spokesman for the District of Columbia Fire Department, said he made an unofficial estimate of 60,000 to 70,000 at the beginning of the event.

Washington Metropolitan Area Transit Authority spokesman Steven Taubenkibel said Saturday ridership figures indicated an extra 87,000 people took the subway all day, a significant increase over the 350,000 average.

Confusion and anger over crowd estimates are as much a part of Washington as its marble monuments. Organizers of the Million Man March in 1995 threatened to sue the National Park Service over its crowd estimate of 400,000, when their own number was between 1.5 million and 2 million.



Boston University's Center for Remote Sensing estimated the Million Man March crowd at 837,214, with a 20% margin of error. The center, headed by El-Baz, used aerial photographs provided by the Park Service to do a computer analysis of the turnout.

Afterward, Congress directed the agency not to produce estimates.

"We do not give crowd estimates for any event, any time, whatsoever, period," said National Park Service spokesman Bill Line.

The controversy this weekend was fanned by the Internet. Bloggers circulated a photo showing a mass of people on the National Mall as evidence of a larger crowd. But it turned out the photo was taken at least five years ago: The National Museum of the American Indian, which opened in 2004, is not on the Mall in the picture.

El-Baz said the only accurate way to measure attendance is by counting heads in a photograph taken from an airplane or satellite, an expensive undertaking. No such photo was taken Saturday, to El-Baz's knowledge. Airspace over the National Mall is restricted.

"There is just no way for anybody [on the ground] to estimate the crowds," El-Baz said of people trying to do rough counts. "Most of these [other] numbers are not even in the ballpark."

## **Movement Aired In Protests Isn't New (WSJ)**

By Gerald F. Seib

[Wall Street Journal](#), September 15, 2009

The buses that rolled into the U.S. capital over the weekend, carrying protesters steamed up about government spending and decrying the advent of "socialism," may appear to represent a rich new vein in American politics.

In fact, though, these Tea Party Patriots and like-minded brethren represent the latest resurfacing of a vein that has always been there and that simply goes below ground from time to time. This vein is populist and antiestablishment; it alternates between suspicion of government in general, and anger at the idea that government seems to be doing more to help fat cats or the other guy. In some fashion or another, it has been around since the time George Washington quelled the Whiskey Rebellion.

The last big appearance came when Ross Perot tapped into it in the 1990s. Mr. Perot, who ran for the presidency in 1992, when he got 19% of the vote, and in 1996, didn't create the movement then, any more than Fox News broadcaster Glenn Beck has created it now. He simply gave voice to it.

There are differences, of course, between the Perot foot soldiers and the protesters who now show up at town-hall meetings and marched on the Capitol on Saturday. The Perot phenomenon arose out of anger at a Republican president, George H.W. Bush, while today's movement bores in on a Democratic one, Barack Obama. The Perot movement

tended to focus on the dangers of deficits, while today's more generally is focused on government spending -- and there's a subtle but important difference.

But the movements of then and now have a lot more in common, and there are some lessons to be learned about today's politics by looking back at what transpired in the '90s.

During the flowering of the Perot movement, I spent some time chronicling the comings and goings of a group of Perotistas in Pennsylvania. They jumped on the Texas billionaire's bandwagon early, later moved out to form their own political party (called, in a precursor of today's movement, the Patriot Party), then joined forces again with Mr. Perot when he formed his own national third party, the Reform Party.

It would be hard to find political activists whose motives were more pure, almost innocently so. Yet like most insurgents, the Pennsylvania folks also spent a fair amount of time arguing with one another -- often over whether they loved Mr. Perot or were being controlled by him and his organization -- and occasionally lapsed into internal squabbles with roots in local battles of days gone by.

But they knew they were angry, felt they had little say within the two existing parties and were worried most of all about how their tax dollars were being spent -- all the same hallmarks of today's movement. It's highly likely, in fact, that some folks who were Perotistas then are Tea Party Patriots now.

And that suggests a few lessons to remember:

These aren't partisan movements. The Perot followers were first angry at the first President Bush, then later easily transferred some of that anger to a Democratic president, Bill Clinton. Mostly they were mad at the establishment. Eventually, in fact, many ultimately focused their anger on Mr. Perot himself, after they came to believe he was trying to manipulate them. Which leads to lesson No. 2:

Movements like these aren't easy to control. If a citizen is motivated by anger that the government is trying to control his life, he isn't likely to easily accept the idea that some other person or institution is trying to control him, either. Some of today's insurgents are angry at bank bailouts, some at the government takeover of auto companies, some at the prospect of a bigger government role in health care -- but the unifying characteristic is that they are angry at any kind of central control at all. Republicans who think they can harness Tea Party Patriots and their anger may be in for a rude surprise of their own.

It isn't really ideological. Perot followers were often thought to be conservatives, but one of their most powerful motivating forces was antipathy to free trade -- a classically conservative idea. Similarly, it's doubtful now that many of those senior citizens on the buses want their Medicare coverage turned into a voucher program, as some conservatives suggest, or share the view of many economic



conservatives that the country benefits overall from immigration.

The movement is very much about how the government spends money. The Perot army and today's share that much in common -- but this also is an area where they diverge in an important way. What agitated Mr. Perot, and by extension his followers, was the idea that the government was spending money it didn't have, borrowing to finance the practice, and driving up the federal deficit in the process. It was shoddy management almost as much as spending that angered them. To rectify that, Mr. Perot advocated not just spending cuts but tax increases, including a hefty gasoline tax.

Today's protesters are more vocal about the level of spending, less about the way it's being financed. Thus, the protesters don't rally around a cry of "lower deficits," but rather "less government." It's more than a semantic difference -- and also a natural, perhaps even predictable, reaction to a period of intense government effort to rescue financial markets and the economy.

## **Angry, Polite 'Mob' Descends On D.C. (WSJ)**

**We're mad as hell and hope you have a nice day!**

By James Freeman

[Wall Street Journal](#), September 15, 2009

WASHINGTON, D.C. -- The running joke at Saturday's Taxpayer March on the Capitol was the claim by Democrats that those protesting against ObamaCare constitute a "mob." Aside from the few kooks who can be expected to show up at any large gathering (especially when there's media attention), participants were generally about as threatening as the lunchtime crowd at Cracker Barrel -- and just as old.

Health care is a huge day-to-day issue for the senior set. They certainly were over-represented on the West Front of the Capitol. In fact, if this is a radical movement, it might be the first in history to be led by retired people.

Attendees were angry about the expanding size of government, but also exceedingly polite about their anger. It would be hard to find a crowd of 75,000-plus that was more courteous. Many were not just retired, but retired specifically from the work of defending the country: So many veterans were in attendance that it almost seemed a U.S. military reunion.

Among the most popular T-shirts was one that announced: "I'll keep my guns, freedom and money. You can keep the Change." Other messages on posters, banners and T-shirts included the following:

"From tiny Acorns, mighty socialists grow."

"The Constitution: The Other Document They Never Read."

"I'm not your ATM."

"We came unarmed (this time)."

And ... "I am the Mob."

Given how much the average retired person loves a long bus ride followed by standing around outside for hours at a time, the gathering on the Capitol lawn was an impressive one, even if it wasn't in the same ballpark as some of the more historic gatherings. Then again, this group has seen a lot of U.S. history -- and apparently is convinced the threat from ObamaCare is indeed historic.

For more entries, please subscribe to Political Diary.

## **Up To Two Million March To US Capitol To Protest Against Obama's Spending In "tea-party" Demonstration (LONDM)**

[London Daily Mail](#), September 13, 2009

Up to two million people marched to the U.S. Capitol today, carrying signs with slogans such as "Obamacare makes me sick" as they protested the president's health care plan and what they say is out-of-control spending.

The line of protesters spread across Pennsylvania Avenue for blocks, all the way to the capitol, according to the Washington Homeland Security and Emergency Management Agency.

People were chanting "enough, enough" and "We the People." Others yelled "You lie, you lie!" and "Pelosi has to go," referring to California congresswoman Nancy Pelosi.

Tens of thousands of people converged on Capitol Hill on Saturday to protest against government spending

Demonstrators waved U.S. flags and held signs reading "Go Green Recycle Congress" and "I'm Not Your ATM." Men wore colonial costumes as they listened to speakers who warned of "judgment day" - Election Day 2010.

Richard Brigle, 57, a Vietnam War veteran and former Teamster, came from Michigan. He said health care needs to be reformed - but not according to President Barack Obama's plan.

"My grandkids are going to be paying for this. It's going to cost too much money that we don't have," he said while marching, bracing himself with a wooden cane as he walked.

FreedomWorks Foundation, a conservative organization led by former House of Representatives Majority Leader Dick Armey, organized several groups from across the country for what they billed as a "March on Washington."

Organizers say they built on momentum from the April "tea party" demonstrations held nationwide to protest tax policies, along with growing resentment over the economic stimulus packages and bank bailouts.

US President Barack Obama sports a mustache famously worn by German dictator Adolf Hitler

Demonstrators hold up banners on Capitol Hill in Washington on Saturday

Many protesters said they paid their own way to the event - an ethic they believe should be applied to the government.



They say unchecked spending on things like a government-run health insurance option could increase inflation and lead to economic ruin.

Terri Hall, 45, of Florida, said she felt compelled to become political for the first time this year because she was upset by government spending.

"Our government has lost sight of the powers they were granted," she said. She added that the deficit spending was out of control, and said she thought it was putting the country at risk.

Anna Hayes, 58, a nurse from Fairfax County, stood on the Mall in 1981 for Reagan's inauguration. "The same people were celebrating freedom," she said. "The president was fighting for the people then. I remember those years very well and fondly."

Saying she was worried about "Obamacare," Hayes explained: "This is the first rally I've been to that demonstrates against something, the first in my life. I just couldn't stay home anymore."

The heated demonstrations were organized by a Conservative group called the Tea Party Patriots

Like countless others at the rally, Joan Wright, 78, of Ocean Pines, Md., sounded angry. "I'm not taking this crap anymore," said Wright, who came by bus to Washington with 150 like-minded residents of Maryland's Eastern Shore. "I don't like the health-care [plan]. I don't like the czars. And I don't like the elitists telling us what we should do or eat."

Republican lawmakers also supported the rally.

"Republicans, Democrats and independents are stepping up and demanding we put our fiscal house in order," Rep. Mike Pence, chairman of the House Republican Conference, said.

"I think the overriding message after years of borrowing, spending and bailouts is enough is enough."

Other sponsors of the rally include the Heartland Institute, Americans for Tax Reform and the Ayn Rand Center for Individuals Rights.

Recent polls illustrate how difficult recent weeks have been for a president who, besides tackling health care, has been battling to end a devastatingly deep recession.

Fifty percent approve and 49 percent disapprove of the overall job he is doing as president, compared to July, when those approving his performance clearly outnumbered those who were unhappy with it, 55 percent to 42 percent.

Just 42 percent approve of the president's work on the high-profile health issue.

The poll was taken over five days just before Obama's speech to Congress. That speech reflected Obama's determination to push ahead despite growing obstacles.

"I will not waste time with those who have made the calculation that it's better politics to kill this plan than to improve it," Obama said on Wednesday night. "I won't stand

by while the special interests use the same old tactics to keep things exactly the way they are.

"If you misrepresent what's in the plan, we'll call you out. And I will not accept the status quo as a solution."

Prior to Obama's speech before Congress U.S. Capitol Police arrested a man they say tried to get into a secure area near the Capitol with a gun in his car as President Barack Obama was speaking.

Police spokeswoman Sgt. Kimberly Schneider said Thursday that 28-year-old Joshua Bowman of suburban Falls Church, Virginia, was arrested around 8 p.m. Wednesday when Obama was due to speak.

'Parasite-in-chief': The title given to the American President during the demonstrations on Saturday

Bowman's intentions were unclear, police said.

Today's protests imitated the original Boston Tea Party of 1773, when colonists threw three shiploads of taxed tea into Boston Harbour in protest against the British government under the slogan 'No taxation without representation'.

The group first began rising to prominence in April, when the governor of Texas threatened to secede from the union in protest against government spending. Waves of tea party protests have crossed America since.

Today's rally, the largest grouping of fiscal conservatives to march on Washington, comes on the heels of heated town halls held during the congressional August recess when some Democratic lawmakers were confronted, disrupted and shouted down by angry protestors who oppose President Obama's plan to overhaul the health care system.

## **Dems To Vote On Wilson Sanction (POL)**

By John Bresnahan

[The Politico](#), September 15, 2009

House Democratic leaders will move ahead with a "resolution of disapproval" against Rep. Joe Wilson (R-S.C.) on Tuesday afternoon, following through on their threat to sanction the conservative lawmaker for heckling President Obama during his speech to Congress last week.

Democratic leaders will formally introduce the resolution Tuesday afternoon, according to House insiders, and the vast majority of Democrats - as well as some Republicans - are expected to vote for it.

No decision had been made at press time as to which Democrat would be offering the resolution.

A number of Democrats, led by Majority Whip James Clyburn (S.C.) and other black lawmakers, were outraged when Wilson yelled out "You lie!" during Obama's address, and they have pressed Speaker Nancy Pelosi (D-Calif.) and other top Democrats to sanction Wilson.

Pelosi initially downplayed the Wilson episode as a distraction from the larger issue of health care reform, but she has come around now to the position held by Clyburn and the



other Democrats - if Wilson didn't apologize on his own, on the House floor, then Democrats must take action.

Wilson issued an apology on Wednesday night following his outburst, and he called White House Chief of Staff Rahm Emanuel to apologize personally, but he has refused to go to the floor and offer contrition for his comments. Obama said he accepted Wilson's apology.

Clyburn personally asked Wilson three times to offer a full apology to the House during a confrontation the two had on the floor the day after Obama's speech. Since that exchange, Clyburn has led the charge to punish Wilson.

"Not addressing this issue sets a precedent for bad behavior," said a senior House Democratic aide following Monday's leadership meeting. "We're not the British Parliament, for a reason."

Democrats say they will craft the resolution very narrowly, so that it simply addresses Wilson's behavior while avoiding larger fights over Wilson's claim that the Obama-backed health care bill will give health insurance to illegal immigrants.

"It goes directly to the issue of conduct on the House floor," said the Democratic aide. "It was a breach of decorum and it can't be accepted."

In public appearances over the last several days, including a brief discussion with reporters on Monday, Wilson has remained adamant that he will not offer any further apology to the chamber.

"I won't be offering any more apologies," Wilson said as he strode into the chamber.

He also received the backing of Minority Leader John Boehner (R-Ohio) on Monday. While Boehner too had implored Wilson to say he's sorry for his outburst, he is backing his colleague from being singled out by the Democratic majority over his bad behavior.

"Rep. Wilson has apologized to the President, and the President accepted his apology," said Boehner in a statement released by his office. "Last Thursday, Speaker Pelosi said that she believed it was time to move on and discuss health care. I couldn't agree more, and that's why I plan to vote 'no' on this resolution. Instead of pursuing this type of petty partisanship, we should be working together to lower costs and expand access to affordable, high-quality health coverage on behalf of the American people."

There is also some uneasiness among rank-and-file Democrats, including members of the Congressional Black Caucus, that by singling out Wilson, party leaders will make him a martyr or cause a breach for the right.

"I would not make Joe Wilson the martyr he is not," Del. Eleanor Holmes Norton (D-D.C.) told POLITICO. "If the House proceeds, they can make the mistake of appearing to want to humiliate a member who has indeed apologized to the president...We ought to think strategically about what

there is to gain... I would not want to vote to humiliate him, rubbing it in."

But senior party officials said that it's too late, that Wilson is already an icon among conservative activists and other Obama critics for what he did. By sanctioning Wilson, Democrats demonstrate they won't tolerate such disrespect from other GOP lawmakers for Obama.

"We can't make him a martyr," noted on top Democratic aide, speaking on the condition of anonymity. "He already is one. We just don't want there to be any more Joe Wilsons."

This aide also notes that Wilson's 2010 Democratic opponent, Rob Miller, has seen more than \$1.5 million in campaign contributions pour in since last Wednesday from Democrats across the country outraged by Wilson's conduct, meaning he is likely to be a very well-funded challenge to the five-term Wilson.

But Wilson himself said he has gotten \$1 million from his own side, and conservatives at this weekend's big rally in Washington, D.C., were wearing t-shirts emblazoned with the phrase "You lie!" and Wilson's face, showing that his race will attract national interest.

-- Glenn Thrush contributed to this report.

## Lines Harden Over Wilson (RC)

By Steven T. Dennis And Jackie Kucinich, Roll Call Staff

[Roll Call](#), September 15, 2009

House Democratic and Republican leaders on Monday hardened their positions in advance of a planned formal rebuke of Rep. Joe Wilson (R-S.C.) for shouting "You lie!" at President Barack Obama last week - and his failure to apologize to the House for it.

Democrats plan to push forward as early as Tuesday with a resolution of disapproval, concluding that failing to act while Wilson refuses to apologize to the House would set a bad precedent for behavior, Democratic leadership aides said.

"Congressman Wilson's outburst during the joint session was a breach of decorum and brought discredit to the House," one leadership aide said. "Failure to respond would mean consent for that kind of conduct. In the absence of an apology, the House must act to admonish his behavior. These are the standards Members are held to when they take the oath of office."

Other Democrats argued that if they had screamed "You lie!" at former President George W. Bush when he was talking about Iraq, Republicans would have been up in arms over the breach of decorum, but that they seem to have fewer qualms about one of their Members screaming at Obama.

Republicans are charging Democrats with petty partisanship by taking a formal vote instead of moving on to other business.



Over the weekend, Wilson continued to defy calls to apologize to his colleagues on the House floor, reiterating that he had already apologized to the president. He has become a hero to some on the right, with protesters at Saturday's "Tea Party" rally in Washington, D.C., sponsored by the conservative group FreedomWorks, calling Wilson the "truth czar" and sporting "Wilson for President" signs and "You lie!" T-shirts.

But he has become a villain to the left.

That polarization presents problems for leaders in both parties as they try to manage the expectations of energized base voters without turning off moderates and independents.

Speaker Nancy Pelosi (D-Calif.) and Obama last week appeared ready to let the matter go - preferring to focus on the much bigger issue of health care reform - but Pelosi reversed course after House Majority Whip James Clyburn (D-S.C.) and other members of the Congressional Black Caucus demanded action.

Wilson's conduct since the incident, including soliciting more than \$1.5 million in campaign cash and declaring he won't be "muzzled," has only increased the Democratic anger.

"Since Republican Congressman Joe Wilson's outburst on the House floor, his Democratic opponent, former Marine Rob Miller, has received more than 40,000 individual grassroots contributions raising more than \$1.5 million," Democratic Congressional Campaign Committee spokesman Ryan Rudominer said. The DCCC has raised more than \$200,000 in contributions related to Wilson's outburst.

Democratic aides also said there are racial overtones to the unprecedented act of calling the first black president a liar as he addressed Congress.

But the offense against the House and the breach of decorum will be the focus of the motion of disapproval, not the words or content of Wilson's outburst.

"The best approach would be to address this in a nonpartisan way and address this as a matter of conduct, not of speech," a Democratic leadership aide said.

Republican leaders privately urged Wilson to apologize to the House for his breach of decorum, but they are not willing to cross the party's energized base and vote for the resolution.

House Minority Leader John Boehner (R-Ohio) cited Pelosi's initial reluctance as he announced Monday that he will vote against the rebuke.

"Last Thursday, Speaker Pelosi said that she believed it was time to move on and discuss health care," Boehner said. "I couldn't agree more, and that's why I plan to vote no on this resolution. Instead of pursuing this type of petty partisanship, we should be working together to lower costs and expand access to affordable, high-quality health coverage on behalf of the American people."

House Republican leaders face the tricky task of urging their membership to vote against the resolution without defending Wilson's actions.

GOP leadership aides said they would seek to shift the focus off Wilson to the health care reform debate. Aides said rank-and-file Members would be encouraged to talk about substantive provisions in the Democratic health care plan rather than the text of the Democratic resolution.

Additionally, several Republican aides who spoke on background said Democrats had let the window of opportunity close by not punishing Wilson immediately after his comments.

"I think you'll see an effort to hold the line. The situation today is a little different than the one Republicans were dealing with on Thursday morning," a GOP leadership aide said.

Of course, not all members of the House Republican Conference want to play down the issue.

Rep. Steve King (R-Iowa), perhaps Congress' most vocal foe of illegal immigration, took to the floor Monday to express support for Wilson and his decision to not apologize in front of the full House.

"No one has the claim to any further redress if the president of the United States accepts an apology, and he did," King said. "So I stand with Joe Wilson. Let's get on with the business of this House and let's start running this country instead of doing cheap political points, which I expect will be coming to the floor of this House sometime about tomorrow."

King also circulated a letter of support to Wilson on Monday and encouraged Republican Conference members to add their signatures. King's office declined to release how many signatures they had gathered by press time.

Erick Erickson, editor-in-chief of the conservative blog RedState.com, said the GOP base would be watching how House Republicans react to the resolution.

"I very much think the base is lining up to pressure the GOP leadership to stand with Wilson," he said. "The base has really rallied to Wilson and his 'emperor has no clothes' moment."

He added, "For the GOP to back away from him would be disastrous for them."

A Democratic leadership aide called Boehner's move "eminently predictable because Boehner is a captive of the right wing of his party. ... They are telling him they don't care that what Wilson did was inappropriate."

The resolution of disapproval is the least serious slap on the wrist, falling short of a formal censure or reprimand.

Democratic aides have also been quick to note that Boehner has filed a resolution of disapproval in the past, including in 2007 when he asked the House to disapprove of the refusal of House Democrats to release a letter during a debate in the Rules Committee. That resolution was defeated.



Such resolutions are rare, especially because Members who breach the House's rules of decorum usually apologize quickly on the House floor.

## **'You Lie!' Shout Brings Vote On Sanction (WP)**

### **Racial Issue Simmers as Black Democrats Lead Push Against Wilson**

By Paul Kane, Washington Post Staff Writer

[Washington Post](#), September 15, 2009

House Democrats plan to formally reprimand Rep. Joe Wilson (R-S.C.) on Tuesday for his outburst last week in which he accused President Obama of lying about proposed health-care legislation.

The vote on punishment will resolve the issue in the House, but behind the incident some see a broader question: Is racism a factor in the way the president is being judged?

With two simple words -- "You lie!" -- shouted during Obama's speech to Congress, Wilson helped escalate an issue that has been on a slow burn for weeks, especially among African Americans. Many watched the rancor at last month's town hall meetings with suspicion that the intense anger among some participants -- including signs calling for Obama's death and a movement questioning his citizenship -- was fueled by the fact that a black man sits in the Oval Office.

Led by their most senior black lawmakers, House Democrats decided Monday evening to hold the vote. The decision risks escalating the partisan warfare that has erupted since Wilson's outburst.

A vote would reverse the initial sentiment voiced by the president and House Speaker Nancy Pelosi (D-Calif.) that it was time to "move on" to the debate on health-care. But the White House and Pelosi yielded to senior black Democrats, led by House Majority Whip James E. Clyburn (D-S.C.), and other members of the leadership team, who argued that Wilson's remark was a breach of conduct that must not be tolerated.

Clyburn has said behind closed doors that many black voters saw Wilson's actions as part of the heated rhetoric from conservative activists whose protests, including one on the Capitol grounds Saturday, have included depictions of Obama as Adolf Hitler and the comic-book villain the Joker, according to those attending the meetings. It was one thing to have such remarks at town hall meetings during the summer recess but completely different during a presidential address to a joint session of Congress, Clyburn and other black Democrats argued, and Democrats needed to stand up for the nation's first black president.

Clyburn has not publicly called Wilson's remark racist, but he told reporters immediately after the speech that Obama is the only president to have been treated in such a manner.

Some black lawmakers were more direct.

Rep. David Scott (D-Ga.), who received hate mail from constituents during Congress's August break, said Wilson had just returned from the rowdy town hall forums at which the most heated accusations were leveled at Obama.

"I think he was caught up in a moment. The issue is: Would he have done that if the president were white?" Scott said, adding that few Republicans opposed the "level of rhetoric" against Obama in August. "We've got to realize racism is playing a role here. I'm hopeful that this will be a wake-up call for us to get it off the table."

Democrats emphasized that it was not just members of the Congressional Black Caucus seeking to reprimand Wilson, and that a broad cross section of Democrats supported the measure, including Majority Leader Steny H. Hoyer (D-Md.). Hoyer had argued publicly that Wilson had to make a formal apology from the well of the House chamber or face some sanction.

But Wilson has refused to offer any apology beyond the private phone call he made Wednesday night to White House Chief of Staff Rahm Emanuel. In a show of defiance Monday, the lawmaker was the first Republican to speak when the chamber opened for a round of brief speeches. Rather than apologizing, Wilson hailed the "patriots" who attended his August town hall forums and opposed a "government takeover" of the health-care system.

Republican leaders rejected the accusation that there was any racial tinge in Wilson's comments and instead accused Democrats of using the issue to play to their base of liberal activists, who have funneled more than \$1 million in contributions to Wilson's likely opponent next year.

"Representative Wilson has apologized to the president, and the president accepted his apology," said House Minority Leader John A. Boehner (R-Ohio). "Last Thursday, Speaker Pelosi said that she believed it was time to move on and discuss health care. I couldn't agree more."

Senior aides in both parties expect the resolution to pass largely along party lines. The vote will officially be on what the House calls a "resolution of disapproval," the mildest form of punishment. Democrats cite rules of debate that prohibit lawmakers from "unnecessarily and unduly exciting animosity among its members or antagonism from those other branches of the government."

Republicans said Monday that they are not likely to offer an alternative resolution and that instead they want their members to focus on the content of the health-care proposal, as Wilson did in his brief remarks. But some Republicans came to Wilson's defense, accusing Obama and Pelosi of going back on their statements to move about moving beyond the controversy.

"What's it called when somebody says something they're going to do, and then they don't do it? What is that statement?" Rep. Louie Gohmert (R-Tex.) asked in a floor speech.



After Obama's speech, the initial "macro view" among top Democrats was that he had finally broken through the noise of the town hall meetings and the alleged distortions of the legislation, according to one senior aide who discussed internal deliberations on the condition of anonymity. Democrats, the aide said, did not want to get distracted from the policy debate, as they had earlier in the summer after Obama's prime-time news conference on health care ended with his controversial comments that police had acted "stupidly" in deciding to arrest Henry Louis Gates Jr., a black Harvard professor, outside his home after police responded to a call about a possible intruder.

"It's time for us to talk about health care and not Mr. Wilson," Pelosi told reporters Thursday morning, echoing a similar statement from Obama, who suggested that "we all make mistakes."

But that morning several members of the black caucus stood up at a gathering of House Democrats to argue that Obama was being treated differently than any president, according to those in attendance. They argued that the image of a white Southerner calling the nation's first black president a liar on television on the House floor could not stand with a private apology.

During a series of roll-call votes Thursday, Clyburn implored his fellow South Carolinian to make a formal apology, as did Boehner and other Republican leaders, who had initially rejected Wilson's comment to Obama as inappropriate. But Wilson rejected the entreaties.

Clyburn, the highest-ranking black lawmaker in Congress, took the position in a leadership meeting Thursday afternoon that Wilson had to be punished, according to a handful of those in attendance.

Clyburn has served as a leader on racial matters. During last year's hard-fought Democratic presidential primary contest, he criticized former president Bill Clinton when he thought his comments about Obama's victory over his wife, then-Sen. Hillary Rodham Clinton, in the critical South Carolina primary were racially disparaging toward Obama.

Rep. Gregory W. Meeks (D-N.Y.), another black lawmaker, said the action was warranted not "because he's the first black president" but because Wilson broke the rules. But Meeks said that Wilson's charge was borne of that sentiment from the town hall anger. "You've never seen those kinds of signs and that kind of language used before," Meeks said. "You didn't see that same kind of language with past presidents."

But some Congressional Black Caucus members were hesitant to give Wilson too much attention, suggesting that a reprimand plays into the Republican hands. Rep. Elijah E. Cummings (D-Md.), a past chairman of the group, said, "I don't want this to distract from what we are doing, because that's the danger."

## High-Profile Outburst: Do We Hit New Lows? (WP)

By Wil Haygood And Chris Richards, Washington Post Staff Writers

[Washington Post](#), September 15, 2009

They are dazzling — if uncouth — moments of live theater. A hyped-up individual at a major public event suddenly seizes center stage in the most unbecoming fashion. And just like that, with necks yanking and eyes widening, the crowd has witnessed an unnerving public outburst.

Rep. Joe Wilson (R-S.C.) calls the president a liar to his face.

Serena Williams threatens to stuff a tennis ball down a line judge's throat.

Kanye West stomps all over Taylor Swift's moment in the MTV Video Music Awards limelight.

Call it the unexpected news-shaking cameo.

It is the convergence of entertainment and moxie, shamelessness and passion. Despite the phalanx of publicists hired to advise a celebrity, an entertainer, an athlete — maybe even a politician — about the rules of decorum, they still seem unable to fathom the downside of outrageous public conduct.

For some celebrities and attention-hijackers, all press is good press, all the time. West, as some have noted, has practically turned this media hyper-awareness into an art form, delivering public fits of pique in precise, well-timed bursts. And after Wilson called out the president during a joint session of Congress, he went from a political unknown to a household name.

Of course, bad behavior knows no historical bounds. Still, this recent spate of spats has raised eyebrows and has some wondering whether new depths are being plumbed. Steve Blauner is a former movie executive and entertainment manager. The public outbursts of both Wilson and West unnerved him.

"I blame it on talk radio and TV," says Blauner, who lives outside Los Angeles. "Everything used to be more subtle. But you can say anything now." He goes on: "Kanye West got more publicity out of this stunt than he's gotten in the past year. And Joe Wilson was a total unknown except in South Carolina. Now he's a national figure. It's all rather demeaning. Of course, West can get away with this type conduct. He's got more money than God."

It has been a kind of trifecta — West, Wilson and Williams — that has dominated talk radio and the blogosphere.

"American life has always been coarse," says Angela Dillard, professor of Afroamerican Studies at the University of Michigan. "I'm unconvinced this type of behavior is new. I think the coverage is just more intense." She calls these three outbursts "a distinctive part of pop-culture history" in America.



There are those who wonder if certain segments of the populace have become even more emboldened as a result of the verbal clashing that went on during the town hall meetings discussing President Obama's health care plan.

"These meetings turned into public derision," says Toby Miller, chairman of the Media and Cultural Studies Department at the University of California at Riverside. "They were powerfully organized. I think it represents an extraordinary shift in the terrain. And don't forget that behaving badly is an important part of publicity these days. There are promoters who are seasoned to highlight this conduct. And of course then you have the chance for public redemption. That narrative – of redemption – has become a part of the narrative of American life."

Both Wilson and West have issued apologies. West apologized on his blog immediately after his tantrum on MTV, and issued another quirky mea culpa Monday afternoon.

"I feel like Ben Stiller in 'Meet the Parents' when he messed up everything and Robert De Niro asked him to leave . . . That was Taylor's moment and I had no right in any way to take it from her. I am truly sorry," West wrote.

Williams, too, offered a full apology Monday for her U.S. Open outburst, saying in part, "I need to make it clear to all young people that I handled myself inappropriately and it's not the way to act."

But apologies never receive the same degree of attention as the actions that made them necessary. And the sincerity of an apology can be questioned. There are those who feel that while the curve of public behavior has taken sharp and bewildering turns, there are measures in place to address those turns.

"We have much more elaborate sanctions – fines and discipline – in place for this type of behavior," Miller says.

The case of Wilson, however, perplexes Miller. "The office of the president is very different from anything else. He is head of state. So I think what Wilson did is extremely unusual."

## **Solis Pledges To Make 'Strongest Case Possible' For Card Check (HILL)**

By Michael O'Brien

[The Hill](#), September 15, 2009

The Obama administration will make the "strongest case possible" for controversial "card check" legislation, Labor Secretary Hilda Solis pledged Monday.

Solis told a crowd at the AFL-CIO's annual convention in Pittsburgh that she and President Obama would fight to bolster workers' rights, which she said were "under assault."

"Workers are under assault, and they need a voice on the job that unions will provide," Solis said. "And that's why I will work with the White House so that together we make the strongest case possible for the Employee Free Choice Act."

Solis sent a signal that the administration would vigorously support the Employee Free Choice Act (EFCA), a controversial piece of union organizing legislation which has seen its prospects wane since the opening months of the administration.

Solis rejected claims that the bill would increase costs for businesses, saying that laborers need a more pronounced voice in the workplace.

"It's not enough to just have fair wages and a safe workplace; workers also need to have a voice on the job. And some people say that, given the state of the economy, we can't afford unions right now," she said.

"Well, they got it backward: today unions are more important than ever," Solis added.

Watch the portion of Solis's speech in which she discusses the card check bill below:

## **Obama Cautious On Faith-Based Initiatives (WP)**

### **Activists Cite Campaign Pledge, but President Is Slow to Break With Bush Policies**

By Carrie Johnson, Washington Post Staff Writer

[Washington Post](#), September 15, 2009

Candidate Barack Obama drew little attention during last year's presidential campaign when he ventured into the thorny territory of church and state.

While President George W. Bush had expanded government contracts to faith-based groups, Obama promised to end that arrangement if the groups proselytized to the needy they served, or hired only members of that faith.

Today, that campaign pledge – along with other complex questions of religion and government – are posing something of a dilemma for President Obama, as he tries to balance increasing pressure from the left to renounce Bush-era policies against a desire to find common ground on social issues.

Civil liberties advocates have pressed Obama to keep the promise he made in July 2008 when he told an audience in Zanesville, Ohio: "If you get a federal grant, you can't use that grant money to proselytize to the people you help and you can't discriminate against them -- or against the people you hire -- on the basis of their religion."

But in office, Obama has proceeded far more cautiously. He has reinforced the need for the White House Office of Faith-Based and Neighborhood Partnerships, and dispatched Joshua DuBois, a young Pentecostal minister and an aide on Obama's Senate staff, to reach out to many of the same religious groups whose receipt of substantial federal grants in the Bush administration raised controversy.

Obama has pushed to the Justice Department the most vexing question: whether religious organizations receiving government contracts can reject job candidates on the basis of their faith.



Lawyers in the department's Office of Legal Counsel, which advises the executive branch, are considering a 2007 Bush-era religious freedom memo that carved out an exemption in employment discrimination law, allowing the Justice Department to award \$1.5 million to a Christian charity for a gang-prevention effort, according to a legal source. The question, according to a Justice Department source, is not on the front burner for an office grappling with urgent national security and legislative issues.

"Before the Bush years, religious organizations that got money just assumed they had to hire the most qualified person and couldn't proselytize," said Barry W. Lynn, executive director of Americans United for the Separation of Church and State, which has written Attorney General Eric H. Holder Jr. to demand action. The letter "presents the golden opportunity to the Department of Justice to reverse clearly erroneous past policy and to start looking at a new, constitutionally based framework." A Polarizing Issue

Some who cast doubt on the Bush administration memo, calling it "flatly erroneous" and "legally suspect," are now aligned with the Obama administration. They include Dawn Johnsen, who has been nominated to lead the OLC, and Martin Lederman, a deputy in the office since January.

Even as groups including Americans United and the ACLU urge Obama to draw a bright line between government funding and religious activity, it remains unclear how sharp a break the president wants on a subject that polarizes audiences as well as many swing voters.

Ben LaBolt, a White House spokesman, said Obama has reinforced "his commitment to ensuring that we partner with faith-based organizations in a way that is consistent with our Constitution, laws and values. The administration will continue to evaluate these difficult legal questions as they arise in particular cases or programs."

That hews closely to an executive order Obama issued in February. It said authorities would ensure that "services paid for with federal government funds are provided in a manner consistent with fundamental constitutional commitments guaranteeing the equal protection of the laws and the free exercise of religion and prohibiting laws respecting an establishment of religion."

The document also said the director of the White House faith-based office, "acting through the counsel to the President, may seek the opinion of the Attorney General on any constitutional and statutory questions involving existing or prospective programs and practices." A Constitutional Right?

Steven T. McFarland, vice president and chief legal officer at World Vision, which supports aid efforts in 100 countries, said needy people around the world will lose if the Obama Justice Department changes course. The Christian charity helps victims of earthquakes, famine and other natural disasters, provides food and support to refugees and

abandoned children, and cares for people suffering from HIV-AIDS across three continents.

Richard Stearns, president of World Vision's American operations, sits on a presidential advisory panel, and has emphasized the importance of hiring to World Vision's identity with members of the administration's faith-based office, the charity said. The Bellevue, Wash.-based group has been using religion as a factor in hiring for years.

"What is at stake is whether faith-based organizations can continue to exercise their constitutional right to remain faith-based and still compete for federal grants," said McFarland, who headed the Task Force on Faith-Based and Community Initiatives in the Bush Justice Department. "The power to determine the criteria for employees is the power to determine the ultimate identity, mission, and direction of the organization, nothing less."

But several Democratic lawmakers, including Rep. Robert C. Scott (Va.), are calling on Obama to take aggressive steps to roll back the Bush administration's government-wide initiatives. Scott said he is particularly concerned with the civil rights implications of the hiring question, since many religious congregations are not racially diverse and faith-based employment decisions by federal grantees can limit job opportunities for minorities.

"We had that debate 40 years ago, and we concluded that you can't discriminate on the basis of employment," Scott said. "If you cannot comply with equal opportunities in employment, you just can't win a government contract." A Complex Issue

Experts said the issue is unusually complex.

Ira C. Lupo, a professor who studies law and religion at the George Washington University, said several other programs include language on religion and hiring, in addition to the Bush-era executive orders and the Justice Department legal memos interpreting the Religious Freedom Restoration Act, a 1993 law designed to protect those exercising religious beliefs.

Several federal grant programs contain language from Congress forbidding religious favoritism in employment. They include the Justice Department's juvenile justice crime prevention efforts, which fund anti-gang initiatives and after-school programs that sometimes have a religious bent, and the Department of Health and Human Services' drug rehabilitation initiatives.

But other laws authorizing community service block grants to states and local governments for social services include language making clear that religious groups that do faith-based hiring have a right to win grant money. Title VII of the Civil Rights Act also offers an exemption from the ban on religious discrimination in employment for houses of worship, schools and churches. These rules can be altered only with Congress's approval.



Finally, Congress has been silent on the question of faith-based hiring by grantees in some federal grant programs, such as food-distribution efforts. Changes by the White House and executive branch in those programs might require the least amount of political capital or legal wrangling, experts said.

Lynn, of Americans United, called the president's cautious approach "a big surprise and of course a big disappointment for those of us fighting this during the Bush years." But he emphasized that Obama could be reaching to find common ground, perhaps by requiring religious groups who win federal funds to set up nonprofit offshoots: "I still have a guarded optimism that he will do in the long run the things he said in Zanesville."

## **The Presidents' Power Lunch (WP)**

### **Clinton Joins Obama in N.Y. to Break Bread and Talk Policy**

By Garance Franke-ruta And Anne E. Kornblut, Washington Post Staff Writers

[Washington Post](#), September 15, 2009

After President Obama delivered a speech to New York City's financial sector Monday, he headed to Greenwich Village to grab lunch. His tablemate: Bill Clinton.

Earlier this year, the former president said he had been in touch with the current chief executive only occasionally -- their relationship had been frosty and at times contentious as Obama battled Hillary Rodham Clinton during the primaries. But now they are seeing each other on an almost regular basis.

Obama saw Clinton just last week, at Walter Cronkite's memorial service, and he will see his Democratic predecessor again next week, when Obama addresses the annual meeting of the Clinton Global Initiative on Sept. 22, an appearance the White House announced Monday.

Clinton also visited the White House several weeks ago to report to Obama on his mission to North Korea, after bringing home two American journalists. The lunch -- originally scheduled for the day of the Cronkite memorial -- was a result of planning that began then.

The two have "a very strong relationship," White House spokesman Robert Gibbs told reporters aboard Air Force One on the return trip from New York, adding that as "very few people" know what it's like to be president, "President Obama values the type of advice that President Clinton has."

The two sat down for an 90-minute meal at Il Mulino in the Village, a well-regarded Italian restaurant with a focus on dishes from the Abruzzi region. As Obama and Clinton exited the restaurant before photographers, a reporter asked how the lunch was. Only Clinton replied, saying: "It was good. It was Il Mulino, how could it not be?"

"We had fish, pasta and salad," Clinton said. "It was very healthy. Even I was healthy."

Gibbs said that he thought the two "split the bill," and that the two dined alone and spoke about the economy, health care and other issues.

Franke-Ruta reported from Washington, Kornblut from New York.

## **Interior Launches Climate Strategy (WP)**

### **New Council's Aim Is to Help Curb Warming**

By Juliet Eilperin

[Washington Post](#), September 15, 2009

Interior Secretary Ken Salazar launched the Obama administration's first coordinated response to the impacts of climate change Monday, which he said would both monitor how global warming is altering the nation's landscape and help the country cope with those changes.

Salazar will lead a new "climate change response council" that will coordinate action among the department's eight bureaus and offices. A secretarial order will create eight "regional climate change response centers" in areas ranging from Alaska to the Northeast and build landscape conservation cooperatives that will create strategies for the eight regions with the help of state and local groups, and other federal agencies.

Interior manages one-fifth of the nation's land mass and nearly 1.7 billion acres on the Outer Continental Shelf.

"The Department of Interior must continue to change how it does business and respond to the issues of energy and climate change, which I see as the signature issues of the 21st century," Salazar said at a news conference. "The time this department operated under silos is a time that's over."

To curb climate change, Interior will explore methods to sequester carbon by storing it underground and by absorbing it through forests and rangelands, Salazar said, as well as ways to cut the department's own greenhouse gas emissions. He did not, however, specify by how much the agency would reduce its carbon footprint.

Kit Batten, science adviser to Interior Deputy Secretary David Hayes, led reporters through an elaborate geospatial presentation that mapped everything from the frequency of large hailstorms and windstorms in the United States to the melting of Washington state's South Cascade Glacier.

"This will help us understand the impacts of climate change, adapt to the impacts of climate change and provide ways to reduce our greenhouse gas emissions as a department," Batten said. "This work is important to all Americans, not just scientists and land managers."

Brenda Ekwurzel, climate scientist at the Union of Concerned Scientists, said that while the announcement was not a substitute for a mandatory, nationwide limit on greenhouse gas emissions, it "means the United States will be much better prepared to respond to the current and coming changes due to global warming. The Interior



Department manages 20 percent of the land in the United States, so its role in developing strategies to cope with the unavoidable consequences of global warming is critical and could potentially save lives."

It remains unclear how much the department will devote in additional resources to the effort. Salazar noted that while the U.S. Geological Survey had received \$10 million to address climate change through its centers, "There is additional money that will be needed."

The initiative could change the way Interior employees such as Mike Pellant, Great Basin Restoration Initiative coordinator, does his job. Pellant works on bringing the habitat of the Great Basin -- an area that encompasses tens of millions of acres in Nevada, western Utah, southern Idaho, southeastern Oregon and parts of California -- closer to its natural state. The sage brush steppe that once dominated the landscape is being replaced by invasive cheat grass, which thrives on carbon dioxide and the wildfires that now take place with increasing regularity. Cheat grass plays a major role in roughly one-third of the 80 million acres the Bureau of Land Management oversees in the basin, converting the area from one that absorbs carbon to one that emits carbon into the atmosphere because of the grass-fed wildfires, accelerating global warming.

If the department puts a higher priority on carbon sequestration, Pellant expects more public and agency support of the effort to replace cheat grass with sage brush.

"Cheat grass is a carbon source, and we'd rather see [the basin] as a carbon sink," Pellant said.

## **EPA To Propose Ways To Cut Car Emissions (USAT)**

By Traci Watson

[USA Today](#), September 15, 2009

McLEAN, Va. - The chief of the Environmental Protection Agency said Monday that the Obama administration is studying how to curb global-warming gases from big industrial polluters such as power plants and factories.

In an appearance before the USA TODAY editorial board, Lisa Jackson also said the agency will soon propose rules to cut greenhouse emissions from cars.

"We will continue to move stepwise down the path toward regulation of greenhouse gases," Jackson said, assuming that the EPA adopts a preliminary finding that greenhouse gases are a danger to public health.

In May, President Obama said his administration would raise fuel-efficiency standards for cars and light trucks by roughly 40% to cut fuel consumption and reduce greenhouse gas pollution.

There has been no public announcement yet about how the administration plans to curb greenhouse gases from industrial facilities. Power plants and other industrial plants

produce just over half of the nation's greenhouse gases, the EPA says.

Though she is willing to use current law to cut greenhouse gases, Jackson said it would be better if Congress passed climate legislation. A new law would forestall lawsuits, she said. The House of Representatives passed a climate-change bill in June. The Senate has not yet acted.

A law is also preferable because it could fund clean-energy efforts and other programs that would help fight climate change, said Lou Leonard of the World Wildlife Fund, an environmental group. However, he said, "if the Congress can't move fast enough, then the EPA should act."

Industry groups don't want the EPA to tackle climate in the absence of new legislation, said William Kovacs of the U.S. Chamber of Commerce. The existing law that would be used as the basis of regulations, he said, would require companies to apply for onerous permits if they want to open new facilities.

Regulating industrial sources with current law would be "a job killer and a project killer right at the outset," Kovacs said.

Other issues Jackson addressed:

The EPA needs to ramp up its work on air pollution, Jackson said. She noted that federal courts have invalidated EPA rules - written during the Bush administration - to control smog and other air pollutants. New rules are a priority, she said.

Environmental attitudes are changing, she said. Jackson said her sons, ages 13 and 14, were incredulous when they saw a friend's "huge, gas-guzzling" vehicle. "They are going to be very different citizens when it comes to green than my generation," she said.

Her colleague in the administration, Energy Secretary Steven Chu, said Monday on National Public Radio that he'd rather live next to a nuclear plant than a coal-burning plant. She declined to specify which kind of plant she'd rather live next to. "I don't know why he did that," she said, laughing.

## **U.S. Takes Lone Lead On Climate Change (WT)**

By John Zaracostas

[Washington Times](#), September 15, 2009

GENEVA | Western nations that spent the past several years slamming the Bush administration for not doing enough to deal with climate change were conspicuously absent from a recent global climate conference.

The Obama administration sent a large entourage to the third World Climate Conference in Geneva earlier this month, trumpeting the return of the United States to the climate change debate.

But representatives from Britain, Germany, France, Italy, Canada and Australia were nowhere to be found. The



European Commission, the executive arm of the 27-member European Union, also failed to send a commissioner.

In contrast, the United States sent a 41-member delegation, led by National Oceanic and Atmospheric Administration chief Jane Lubchenco, with representatives from eight agencies, the White House and Capitol Hill. They succeeded in fending off last-minute demands for Western concessions to developing nations, and their diplomatic footwork helped secure the establishment of a global framework for climate services that all nations will need if a carbon-reduction agreement is reached later this year.

But with three months to go before delegates convene in Copenhagen for a U.N.-sponsored conference to establish a path toward the global reduction of greenhouse gas emissions, diplomats say it is not clear whether the United States will be able to rally the support of its allies in the impending showdown with emerging nations such as China and India.

The absence of so many key European nations was disturbing to European diplomats who did show up. "EU member states are divided and unsure," said one ambassador, who spoke on the condition of anonymity.

Another top European envoy suggested that several countries are unwilling to make any commitments until they see what happens at the December conference.

The negotiations on how to cut greenhouse gas emissions have been threatened from the start by complex disputes between industrialized and developing nations over how to cut emissions without derailing economic growth.

The European Union proposed last week to offer up to \$21.8 billion a year in aid to encourage developing countries to participate in a climate change agreement. But environmentalists blasted the offer as woefully inadequate, noting that the burden on the poorest countries will almost certainly be far higher than that.

A U.N. study has found that developing nations would need to invest \$500 billion to \$600 billion annually if they are to continue rapid economic development while reducing emissions of carbon dioxide and other greenhouse gases that may contribute to climate change.

Fearing that a global deal is in danger, five European foreign ministers announced Thursday that they were taking a whirlwind tour of foreign capitals to raise awareness of the dangers of climate change.

"Time is now short and the need is urgent," British Foreign Minister David Miliband said at Copenhagen University.

U.N. Secretary-General Ban Ki-moon said time is running out to reach an agreement.

"We need cooperation, not competition," he told reporters at the Geneva climate conference. "It is important to act on what science tells us."

He said serious issues need to be settled in Copenhagen. Chief among them is finding a way to provide financial and technological support to help developing countries slow the growth of their emissions, he said.

"I urge developed countries to act on more ambitious targets," Mr. Ban said.

The U.N. chief acknowledged that political will for an agreement was still lacking, but urged world leaders to overcome their differences.

Ms. Lubchenco told delegates in Geneva that President Obama "is unwavering in his commitment" to get a deal at Copenhagen. But some Europeans at the conference expressed doubt that the United States would offer anything substantial to developing nations.

About 2,000 scientists, specialists and high-level policymakers from more than 150 countries took part in the five-day Geneva conference, which ended Sept. 4.

A task force was given 12 months to set up a framework that aims "to strengthen production, availability, delivery and application of science-based climate prediction and services." Organizers said they hope to have a climate services plan fully implemented by mid-2011.

## **When It Comes To Pollution, Less (Kids) May Be More (WP)**

By David A. Fahrenthold

[Washington Post](#), September 15, 2009

To heck with carbon dioxide. A new study performed by the London School of Economics suggests that, to fight climate change, governments should focus on another pollutant: us.

As in babies. New people.

Every new life, the report says, is a guarantee of new greenhouse gases, spewed out over decades of driving and electricity use. Seen in that light, we might be our own worst emissions.

The activist group that sponsored the report says birth control could be one of the world's best tools for fighting climate change. By preventing the creation of new polluters, the group says, contraceptives are a far cheaper solution than windmills and solar plants.

It is an unorthodox -- and, for now, unpopular -- way to approach the problem, which can seem so vast and close that it is driving many thinkers toward gizmos and oddball ideas.

"There is no possibility of drastically reducing total carbon emissions, while at the same time paying no attention whatever to the drastic increase in the number of carbon emitters," said Roger Martin, chairman of the Optimum Population Trust, a British nonprofit that sponsored the report and whose goal is to rein in population growth in the United Kingdom and elsewhere. "For reasons of an irrational taboo on the subject, [family planning] has never made it onto the



agenda, and this is extremely damaging to the planet." The Cost of Each Life

It is nothing unusual, of course, to think that the Earth could really use fewer of us.

In the 1700s, Thomas Malthus worried that population growth would outstrip the food supply. And a decade ago, writer Bill McKibben connected environmental concerns to his decision to have one child in a book called "Maybe One."

What is new, in the British study and in a separate report from Oregon State University, are statistics that show exactly how much each life -- and especially each American life -- adds to the world's emissions.

In the United States, each baby results in 1,644 tons of carbon dioxide, five times more than a baby in China and 91 times more than an infant in Bangladesh, according to the Oregon State study. That is because Americans live relatively long, and live in a country whose long car commutes, coal-burning power plants and cathedral ceilings give it some of the highest per-capita emissions in the world.

Seen from that angle, the Oregon State researchers concluded that child-bearing was one of the most fateful environmental decisions in anyone's life.

Recycle, shorten your commute, drive a hybrid vehicle, and buy energy-efficient light bulbs, appliances and windows -- all of that would cut out about one-fortieth of the emissions caused by bringing two children, and their children's children, into the world.

"People always consider the financial costs, and they consider the time cost," said Paul Murtaugh, one of the Oregon State researchers, who said that he does not have children but that he is open to the idea despite his research. "We're just attempting to put on the table the ballpark estimate of the environmental cost."

So what, exactly, is the world supposed to do with this information?

The researchers behind both studies are emphatic that they do not want people to be forced not to have children. But Martin, whose group sponsored the British study, said governments could help stop unwanted pregnancies by offering contraception and, in rare cases, abortion.

The British study found that \$220 billion, spent over the next 40 years, might prevent half a billion births and prevent 34 billion tons of carbon dioxide. The cost, measured in 2020, would be about \$7 for each ton reduced, the report said -- far cheaper than solar power at \$51, or wind power at \$24. Long-Shot Odds

But, for now, the world does not seem very interested.

"I don't know how to say 'No comment' emphatically enough," said David Hamilton of the Sierra Club. "I don't want to rain on anybody's parade, but the primary solutions to climate change have to deal with what we do with the people who are here," such as pushing for more renewable energy and a limit on U.S. greenhouse gases.

The idea of using condoms to fight climate change still has the same long-shot odds as the idea to make the world's clouds more reflective, or to seed the ocean with iron to supercharge its carbon-capturing plankton.

The Obama administration declined to comment when asked about the family-planning idea. At the United Nations, which is overseeing global negotiations on reducing emissions, an official wrote in response to a query that "to bring the issue up . . . would be an insult to developing countries," where per-capita emissions are still so low compared with those in the United States.

So the idea is not for everyone. But it made sense to climate activist Mike Tidwell of Takoma Park. He said that worries about climate change were part of his decision not to have more children after his son was born 12 years ago.

"There are moments when I say, 'Wow, it would be nice to have a second one,' so parenthood didn't pass so quickly," he said. "I see some of the consequences of this choice that involved, for me, climate change."

## **US Lawmakers Target Anti Gay-marriage Law (AFP)**

[AFP](#), September 15, 2009

WASHINGTON (AFP) - US lawmakers opposed to a 1996 law that bars the US government from recognizing same-sex marriages will launch a campaign Tuesday to repeal the ban, leaders of the group said Monday.

Democratic Representative Jerrold Nadler and two openly gay members of the House of Representatives -- Democrats Tammy Baldwin and Jared Polis -- will unveil legislation to scrap the Defense of Marriage Act, they said.

The bill, details of which were to be unveiled Tuesday, has the support of at least 75 lawmakers, according to a spokesman for Nadler, Ilan Kayatsky.

The 1996 law says no state needs to honor a same-sex marriage performed in another state as legal and defines marriage for the US government as a legal union exclusively between one man and one woman.

In June, New Hampshire became the sixth US state to legalize same-sex marriage, and supporters of recognizing such unions say they hope for US President Barack Obama's help in repealing the federal ban.

## **ACORN Mulls Suit Against Fox News (POL)**

By Michael Falcone

[The Politico](#), September 15, 2009

Facing intensifying scrutiny after the release of several disturbing hidden camera videos, the community organizing group, ACORN, is threatening to sue Fox News, the website Breitbart.com and the two conservative activists who produced the exposes.

ACORN is alleging that the filmmakers committed a felony by shooting the footage of ACORN employees in the



act of providing advice on how to falsify tax forms and set-up a child prostitution business-to a man and a woman posing as a pimp and a prostitute.

A lawyer for ACORN said Monday that statutes in Maryland and the District of Columbia made the undercover filming illegal and that the same laws should prohibit the rebroadcast of the tapes by the Web site BigGovernment.com, where they were first posted last week, and on Fox News, which aired clips of the videos.

BigGovernment.com, which launched last Wednesday, is a project of Andrew Breitbart, the founder of Breitbart.com. The videos show James O'Keefe, a conservative activist, and Hannah Giles, who is listed as a contributor on the right-leaning website, TownHall.com, visiting ACORN offices in Baltimore and Brooklyn and an ACORN Housing Corporation branch in Washington, D.C.

"It is clear that the videos are doctored, edited, and in no way the result of the fabricated story being portrayed by conservative activist 'filmmaker' O'Keefe and his partner in crime," ACORN chief organizer Bertha Lewis said in a statement over the weekend. "And, in fact, a crime it was-our lawyers believe a felony-and we will be taking legal action against Fox and their co-conspirators."

After the videos surfaced two ACORN employees in Baltimore and two others at the Washington office of the off-shoot housing corporation, a separate organization, were fired.

"I cannot and I will not defend the actions of the workers depicted in the video," Lewis said in her statement. She added that the "scam," was also attempted but failed at other ACORN offices in San Diego, Los Angeles, Miami, New York, and Philadelphia.

Breitbart said Monday that the release of a new video from Brooklyn disproved ACORN's claims that the activists made failed attempts in other cities.

"ACORN was wrong in their initial defense that it succeeded in only one place because obviously it worked in a second and third place," he said. "Their defense is as hapless as the behavior witnessed on those videos. This is clearly an organization in internal turmoil over James and Hannah's exposure. The longer that the mainstream media ignores this massive story, the more that ACORN has to accumulate data in order to form a line of attack to annihilate the messenger."

Arthur Schwartz, a lawyer for ACORN, said he planned to file a lawsuit in federal court in Baltimore on Thursday against O'Keefe and Giles that would "probably" also include Breitbart.com and Fox News.

O'Keefe and Giles appeared Sunday on Fox News to defend the films.

"Bring it on," O'Keefe said of a potential lawsuit.

In a blog posting on BigGovernment.com, Giles described the undercover operation as a "silly idea" that

"escalated into a full blown operation with scripts, method acting, undercover gear, scandalous outfits."

"James and I saw the ACORN Housing location in Baltimore as a target - the den of a giant corrupt lion. We wanted to get a reaction and gauge the corruption," Giles wrote. "We came armed with the things necessary to cause a reaction; we came equipped with the things necessary to capture the reaction. We expected to be successful."

## **Senate Hopeful Heckled For Fund-raiser On 9/11 (WT)**

By Jennifer Harper

[Washington Times](#), September 15, 2009

He's got a video camera and a mission to make big conservative noise.

William J. Kelly - a producer with FOX affiliate WFLD and an on-camera host on Comcast - is not beyond lunging at political candidates, bristling with gotcha questions. Mr. Kelly's latest target is Illinois State Treasurer Alexi Giannoulias, now a Democratic hopeful for the U.S. Senate seat now occupied by Sen. Roland Burris. The candidate was racing to make a \$500-a-plate fund-raiser at the Union League Club in Chicago at 8:45 a.m. Friday when Mr. Kelly stepped forward.

"Why are you having a fund-raiser at the exact moment the first plane struck the Twin Towers on September 11, eight years ago?" he asked Mr. Giannoulias as the camera rolled.

The flustered candidate immediately withdrew his handshake and ducked through the hotel door.

"Another Barack Obama/Tony Rezko farm team candidate running for higher public office in the state of Illinois. Oh, great, terrific," Mr. Kelly said. "This was shameful, thoughtless, selfish and typical Giannoulias. As America paused to remember the fall of the Twin Towers, he focuses on the rise of his own campaign."

Mr. Kelly has been a gadfly for some time, and was arrested in 1994 for heckling President Bill Clinton over gridlock in a Democratically-controlled Congress. The new social media appear to be his ideal milieu.

"He's a new kind of press entity. If conservative values are overlooked in the media, Kelly is going to go in there with a camera and get the values and ideas out there himself. And if no one will pick up the video footage, he's going to put it up at YouTube and let the public decide what's what," said Laura Grock, Mr. Kelly's spokeswoman.

## **Poll Shows Lincoln In Better Shape (HILL)**

By Aaron Blake

[The Hill](#), September 15, 2009

A new poll shows Sen. Blanche Lincoln (D-Ark.) in better shape than other recent polling had her, but she is still well under 50 percent support.



The Daily Kos Research 2000 poll shows Lincoln leading recently declared candidate state Sen. Gilbert Baker (R) 44-37 and businessman Curtis Coleman (R) 45-37.

Both Baker and Coleman are unknown to about 75 percent of voters. Lincoln leads to even-lesser-known potential opponents - businessman Tom Cox and state Sen. Kim Hendren - by 17 and 19 points, respectively. But in both of those matchups, she is under 50, as well.

Lincoln's favorable rating is 43 percent positive and 49 percent negative. She is viewed unfavorably by 29 percent of Democrats and 55 percent of independents.

Lincoln is set to become chairwoman of the Senate Agriculture Committee, which could help her on the campaign trail in 2010. Lincoln will become chairwoman with Sen. Tom Harkin's move to the Senate Health Committee. Harkin (D-Iowa) is taking over from Sen. Edward Kennedy (D-Mass.), who died last month.

## **Rangel Targets NY Post (POL)**

By Glenn Thrush

[The Politico](#), September 15, 2009

Rep. Charlie Rangel (D-NY) was asked about his failure to disclose about \$700,000 in assets this weekend in Harlem by my pal Azi Paybarah of PolitickerNY -- and responded by saying he was a victim of a New York Post smear campaign.

The charming, churlish House Ways and Means chairman, who is the subject of several ethics committee probes, blasted away at the Murdoch-owner tab -- even though the disclosure story was reported by POLITICO and other news outlets.

"I think it's totally unfair for the New York Post to send investigative reporters to my family's homes and to do that type of thing," he said during a rally in Harlem over the weekend. "I guess it's all selling papers."

Aides have said it was an oversight that broke no rules, but Rangel wouldn't talk about it.

Rangel is, of course, being highly selective in his shootings of messengers.

True, the Post has been a harsh, harsh critic -- and did snap the infamous photo of him sprawled, belly to the sun, at his Punta Cana beach property, which is now the subject of an ethics committee investigation.

But where were Rangel's harsh words for the New York Times, Washington Post and Buffalo News, whose editorial writers have called for him to step down as chairman? And why not go after the Times for its expose of his sweetheart apartment deal?

Explaining his shot at the Post, he added, "I'm just saying that... I wanted to make certain I maintained the good name, honor and integrity that I've enjoyed for 50 years -- and that the person that's evaluating me is the committee and not the New York Post."

## **Congressional Sclerosis (WP)**

### **Rangel Suffers From a Case of Entitlement**

By Richard Cohen

[Washington Post](#), September 15, 2009

Once upon a time, before I began an interview with Rep. Charles Rangel, I was warned by an aide not to bring up the 1970 race in which the upstart Rangel defeated the virtually legendary Adam Clayton Powell to gain his House seat. In the intervening years, Powell had gone from has-been to icon, with both a state office building and a boulevard named for him in Harlem, and it did Rangel no good in his district to be remembered as the man who brought down Powell -- a little bit of history that desperately needed airbrushing. This, we are now learning, is Rangel's true vocation.

Rangel is now the chairman of the House Ways and Means Committee and a man of immense importance in Washington. Nonetheless, he has been busy of late revising and amending the record, backing and filling, using buckets of Wite-Out as he discovers or remembers properties he has owned in New York, New Jersey, Florida, the Dominican Republic and God only knows where else -- and has forgotten or neglected to fully report on the required forms, not to mention the income from them. Oops!

Rangel recently even discovered bank accounts that no one in the world, apparently including him, knew he had. One was with the Congressional Federal Credit Union; another was with Merrill Lynch -- each valued between \$250,000 and \$500,000. He somehow neglected to mention these accounts on his congressional disclosure forms, which means, if you can believe it, that when he signed the forms, he did not notice that maybe \$1 million was missing. Someone ought to check the lighting in his office.

The dim bulb could also have accounted for why Rangel did not notice that he was soliciting contributions for the curiously named Charles B. Rangel Center for Public Service on the congressional letterhead of the very same Charles B. Rangel. It may also account for why he failed to report dividend income from various investments in addition to what he made by selling a townhouse in Harlem. The place went for \$410,000 in 2004, and had been rented -- or not -- to various people, who paid rent or didn't -- since Rangel reported no income for years at a time. This is what he did, too, with the rent he earned on his Dominican Republic villa. Again, nada.

There is something wrong with Charlie Rangel. Either he did not notice that he was worth about twice as much as he said he was -- which is downright worrisome in a congressional leader -- or he thinks that he's above the law, which is downright worrisome in a congressional leader. I was with Rangel on election night last year and heard him speak eloquently about what it meant for a black person to become



president of the United States -- my God, who would have thought this day would ever come? -- and he moved me to tears. So I don't think age has muddled his brain. He is sharper on a bad day than most people on a good one.

But he suffers from the degenerative disease called Congressional Sclerosis. Its symptom is the belief that the rules, especially the petty ones, no longer apply to you. This happens over time. It comes with seniority and a sense of victimization that combine to produce the onset of entitlement for goodies to which, in the course of things, you are not entitled. All this is abetted by the righteous belief that everyone else is making money and taking private planes and dipping their tootsies in the balmy Caribbean on a given February Friday -- and so why can't you? You have the power and the staff -- just look at all those people! -- and flunkies who will hold the elevator for you, pick you up at Reagan National Airport and on the other end at La Guardia -- and you ought to have some commensurate luxuries. This is only right.

This is the disease that ended Powell's career. He had good reason for his bitterness -- a black congressman whose staff couldn't even eat in the House cafeteria -- but he marshaled all the slights, all the insults, to excuse an abominable attendance record and contempt for the law. In the end, the very Harlem that today honors Powell turned against him and elected a Korean War vet named Charles Bernard Rangel. Now, all these years later, the omissions, deletions, amendments, corrections and curious accumulation of wealth make one revise the history that Rangel wants obliterated: He didn't beat Powell. He joined him.

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## **Slide Ended In Apparent Suicide (WP)**

### **Friend of Blagojevich Was Faced With Debts, Prison Term**

By Peter Slevin and Kari Lydersen, Washington Post Staff Writers

[Washington Post](#), September 15, 2009

CHICAGO. Sept. 14 -- Christopher Kelly was a roofer, a fundraiser, a gambler and a felon. He started small, made millions, befriended a young politician named Rod Blagojevich and died last weekend in an apparent suicide.

It was an ignominious end for a handsome and gregarious man who was one of the former Illinois governor's closest friends. Together, prosecutors said, they used the levers of power to violate the public trust. Together, they were due to face a Chicago jury next year.

A few days before he died, Kelly, 51, acknowledged that his world was crumbling. As he pleaded guilty in court last Tuesday in an \$8.5 million kickback scheme involving roofing bids at O'Hare International Airport, he spoke at times in a whisper. He said he was under pressure.

By then, Kelly's marriage had foundered and he was living apart from his three young daughters. His finances were in ruins and he was already facing prison on a different charge of cheating the Internal Revenue Service. On Sept. 18, he was scheduled to begin serving eight years behind bars.

Yet it was a shock to close followers of Chicago politics and the Blagojevich scandal when Kelly died Saturday in the main county hospital. Local authorities said Kelly's girlfriend, a former Northwestern University basketball player, answered a text message or a call from him and found him ill in his Cadillac Escalade.

She told police that she pushed Kelly into the passenger seat and drove him from the parking lot of a lumber yard to a hospital. A few hours later, he was transferred to the larger John H. Stroger Jr. Hospital, where he died.

Blagojevich, who allegedly plotted to split illegal profits with Kelly and former fundraiser Antoin "Tony" Rezko, was quick to blame federal prosecutors for indicting Kelly in three separate cases and for urging him to testify for the government in return for a lighter sentence.

"Chris Kelly took his life because of the pressure he was under," Blagojevich said last weekend. He has been on the airwaves asserting his own innocence. "He refused to make it easier on himself to lie about someone else."

The U.S. attorney's office would not comment on the latest twist in a saga that began in December when Blagojevich, then governor, was led from his home in handcuffs. He was later impeached, in part for allegedly trying to profit from his authority to appoint someone to fill Barack Obama's Senate seat after Obama was elected president.

Kelly was "Rod's go-to guy," said Cindi Canary, director of the Illinois Campaign for Political Reform. She called him a "larger than life" friend and fundraiser "who would get a lot of credit or blame, depending on how you look at it, for making Rod Blagojevich governor of Illinois."

Kent Redfield, a professor of political science at the University of Illinois at Springfield, described Kelly as "part of the inner circle from the beginning." He called it ironic at best that Blagojevich made Kelly his point man with the Illinois Gaming Board.

Kelly wagered millions of dollars with an Illinois bookmaking operation and millions more in Las Vegas casinos, according to court documents. As the losses grew, he illicitly siphoned money from his roofing business to pay debts, then falsified his tax returns. He pleaded guilty in June.

The most serious charges had still awaited. Kelly was due to stand trial next year on allegations that he plotted with Rezko and the incoming governor as early as 2002 to profit from an abuse of power.

Prosecutors contend that Blagojevich would grant significant authority to Kelly and Rezko while agreeing to



delay taking his cut until leaving office. Asked about that allegation last week by The Washington Post, Blagojevich called it "preposterous."

Police in Chicago and nearby Country Club Hills, where Kelly's girlfriend found him, are investigating his final hours and comments he made to police.

"People commit suicide for all kinds of reasons, all kinds of demons," Canary said. "We don't know if he would have changed his mind and testified. We don't know if he would have shed new light on things. Whenever somebody dies, secrets go to the grave with them."

## **FBI: Murder, Violent Crime Dropped In 2008 (USAT)**

By Kevin Johnson

[USA Today](#), September 15, 2009

WASHINGTON - Nearly all major crime categories dropped in 2008 despite the sagging economy and high unemployment, according to the FBI's annual crime report out Monday.

Overall violent crime declined for the second straight year, including a nearly 4% drop in murder and a 2.5% drop in aggravated assault.

Although burglary was up 2%, car thefts plunged by nearly 13%, according to the report, which includes crime statistics from about 17,000 law enforcement agencies. Among other findings:

- The largest overall declines were recorded in the West, where murder was down 6.8% and car thefts dropped by nearly 17%.

- The 89,000 rapes recorded in 2008 were the fewest in two decades.

- Of the 14,180 murder victims in 2008, 2,428 were victims ages 20 to 24.

James Alan Fox, a criminal justice professor at Northeastern University in Boston who has advised the Justice Department on homicide trends, says it is hard to know how the poor economy affected crime because of the relatively short, one-year period measured in the report. "You have to examine this over a longer period of time," Fox says.

Chuck Wexler, executive director of the Police Research Forum, a law enforcement think tank, says police chiefs disagree about whether a bad economy spurs crime.

He says the slight rise in burglaries is "consistent" with concern voiced by police officials in a January survey. "Police chiefs have been saying that they see an increase in opportunistic property crimes that people commit to get quick cash, like stealing iPods and GPS devices from cars," Wexler says.

## **Violent Crime Fell In 2008, F.B.I. Report Says (NYT)**

By David Stout

[New York Times](#), September 15, 2009

WASHINGTON -- A young black man being shot to death by another black man who is an acquaintance continues to be the most "typical" homicide in the United States, according to a Federal Bureau of Investigations report released on Monday that showed an overall drop in violent crime for the second year in a row.

The F.B.I. figures show that nearly as many black people as white were homicide victims in 2008, even though 80 percent of Americans are white, compared with 13 percent who are black, according to Census Bureau figures.

To put it another way, based on census figures for white and black men of all ages, a black man was roughly six times as likely to be a homicide victim as a white man in 2008.

Of the nearly 17,000 homicide victims last year, 6,782 were black and 6,838 were white, the F.B.I. said, with men several times more likely to be victims than women. Several hundred other victims were classified as belonging to other races or as race unknown.

Of the more than 16,000 people arrested for homicide in the United States in 2008, 5,943 were black and 5,334 white, with several thousand other suspects classified as belonging to other races or as race unknown.

For both whites and blacks, men ages 17 to 30 were the most "typical" victims and killers. Over all, men were several times more likely than women to be the victims and the killers.

Justifiable killings by the police or civilians, suicides and deaths due to negligence are not included in the homicide statistics.

While the estimated number of all violent crimes in the nation declined for the second year, property crimes also fell over all in 2008, the sixth straight yearly drop in these offenses.

The information, based on data sent to the F.B.I. from police agencies, is explained in detail in the report, "Crime in the United States," which is offered with caveats.

Aware of the temptation to rank cities or regions according to how safe they are, the F.B.I. cautioned that "these rough rankings provide no insight into the numerous variables that mold crime in a particular town, city, county, state or region." The report continued, "Consequently, they lead to simplistic and/or incomplete analyses that often create misleading perceptions adversely affecting communities and their residents."

As Bill Carter, an F.B.I. spokesman, said Monday, the agency does not "cite any specific reasons" for crime rising or falling.

"We leave that up to the academics and the criminologists and the sociologists," Mr. Carter said.

The F.B.I. data released Monday showed that 23.3 percent of murder victims were slain by family members, and 54.7 percent were killed by acquaintances, while only 22



percent were murdered by strangers. Of last year's homicides, 9,484 involved firearms, 6,755 of which were handguns, the F.B.I. said.

In each of the four violent crime offenses, the 2008 rates were down from 2007. Murder and non-negligent manslaughter dropped 3.9 percent; aggravated assault declined 2.5 percent; forcible rape declined 1.6 percent; and robbery was down 0.7 percent. The figures are based on offenses per 100,000 people.

Burglaries rose 2 percent in 2008, and larceny-thefts went up three-tenths of 1 percent. But motor vehicle theft dropped 12.7 percent.

The 2008 violent crime rate was 454.5 offenses per 100,000 inhabitants (a 2.7 percent decrease from the 2007 rate), and the property crime rate was 3,212.5 per 100,000 persons (a 1.6 percent decrease from 2007).

Crime statistics can vary, depending on who is doing the counting. Information from the Bureau of Justice Statistics, which like the F.B.I., is a Justice Department agency, is based on surveys of households and individuals, instead of relying on police data. On Sept. 2, the statistics bureau said its figures showed that violent crime was unchanged in 2008 and that property crime was down slightly.

And the F.B.I. report released on Monday, while packed full of statistics, is based in part on estimates, since some of the more than 17,000 law enforcement agencies that participate in the F.B.I. survey could not or did not provide complete totals for the year. Hence, while 14,180 homicides were documented in 2008, the F.B.I. estimated the actual number at just over 16,700.

While Mr. Carter of the F.B.I. declined to discuss crime trends, he speculated that better medical care in recent years has spared some assault victims from being listed eventually as homicide victims.

## **Violent Crime Falls In U.S. For Second Straight Year (Update1) (BLOOM)**

By Justin Blum

[Bloomberg News](#), September 15, 2009

Sept. 14 (Bloomberg) -- Violent crime in the U.S. declined for the second year in a row in 2008, dropping 1.9 percent, according to the FBI.

All four categories of violent crime surveyed by the Federal Bureau of Investigation -- forcible rape, murder, robbery and aggravated assault -- declined in 2008, according to data released today. Property crime declined by 0.8 percent compared with 2007.

There were an estimated 1.38 million violent crimes in the U.S. last year, the FBI said. Murder and non-negligent manslaughter declined 3.9 percent.

The FBI released preliminary data on the 2008 crime rate in June.

To contact the reporter on this story: Justin Blum in Washington at [jblum4@bloomberg.net](mailto:jblum4@bloomberg.net)

## **Crime Down In US: FBI (AFP)**

[AFP](#), September 15, 2009

WASHINGTON - Violent crime including murder, rape, robbery and aggravated assault fell in the United States last year compared with 2007, an FBI report showed Monday.

But even though violent crime was down across the board by 1.9 percent, 16,272 people were murdered -- around 45 every day of 2008 -- and 89,000 women were raped, the "Crime in the United States" report showed.

More than 834,000 people, or 2.5 percent fewer than in 2007, fell victim last year to aggravated assault, the most common form of violent crime in the United States, which the Federal Bureau of Investigation defines as an attack usually involving a weapon and intended to inflict severe injury or bodily harm.

Just over half as many, 441,885, were robbed last year, down 0.7 percent from 2007.

The number of women who were forcibly raped was down from more than 90,000 in 2007 to 89,000, a 20-year low for the offense, the report, which does not seek to analyze the data, said.

Sexual attacks on males are counted as aggravated assaults or sex offenses, and are not included in the statistics for rape.

The weapon of choice was the firearm. More than two-thirds of all murders committed in the United States, 43.5 percent of robberies and 21.4 percent of aggravated assaults involved a firearm.

Property crimes also declined in 2008, but only because car thefts dropped sharply, from just under 1.1 million in 2007 to around 957,000 last year, or a decline of 12.7 percent.

The other two property thefts which the report looked at, burglary and larceny, were both up.

Larceny, or the theft without force, violence or fraud of property such as a bicycle or vehicle parts, was up 0.3 percent last year, while burglary rose two percent.

Last year, around 39 percent of US law enforcement agencies submitted crime data for the report, which is put together to allow "local agencies to look at the types of crimes in their area and what they need to do to address those crimes," FBI spokesman Phil Carter told AFP.

## **Violent Crime Fell 1.9 Percent In '08, FBI Says (CNN)**

[CNN](#), September 15, 2009

WASHINGTON (CNN) -- Violent crime dropped for the second year in a row in 2008, according to an annual FBI crime report released Monday.

The FBI's annual crime report is based on statistics provided by almost 18,000 law enforcement agencies.



The total number of violent crimes nationwide dropped 1.9 percent compared with 2007, the FBI reported. Murders and non-negligent manslaughters declined 3.9 percent, aggravated assaults dropped 2.5 percent, and forcible rapes fell by 1.6 percent.

The 89,000 estimated forcible rapes in 2008 was the lowest reported total in 20 years.

Racial minorities suffered disproportionately as victims of some of the most violent crimes. Almost half of the country's 14,000 murder victims, for example, were African-American.

Blacks make up roughly 13 percent of the nation's total population, according to the U.S. Census.

Property crimes declined for the sixth straight year, due to a 12.7 percent drop in motor vehicle thefts, according to the report. Losses from property crimes in exceeded \$17 billion.

Burglaries, however, rose by 2 percent, according to the report.

The South had the highest rate of violent crime in 2008, while the Northeast had the lowest.

Nationwide, law enforcement agencies made more than 14 million arrests in 2008. The highest number of arrests were for drug abuse violations, according to the report. There were over 1.7 million estimated arrests relating to drug abuse, and another 1.4 million tied to driving while intoxicated.

Roughly three out of every four people arrested in 2008 were male, while almost seven in 10 were white, according to the report. Men make up slightly less than half of the country's population, and whites account for slightly less than 70 percent of the population, according to the U.S. Census.

The FBI's annual "Crime in the United States" report is based on statistics provided by almost 18,000 law enforcement agencies.

A separate annual report on prevalence of hate crimes -- offenses motivated by bias against an individual's race, religion, ethnicity, disability, or sexual orientation -- is scheduled to be released in November.

## **FBI: Violent Crime Down, But People Don't Feel Safer (CSM)**

**The FBI crime report, released Monday, shows murder and rape are down dramatically. But data on property crimes are inconclusive.**

By Patrik Jonsson, Staff Writer Of The Christian Science Monitor

[Christian Science Monitor](#), September 15, 2009

Atlanta

Overall crime in the US has dwindled to nearly 1960s levels, with particularly violent crimes - murder and rape - on a dramatic downward spiral, the FBI reported Monday.

Yet across the country, and especially in the South, residents are still alarmed about crime. Many report a surge

in property crimes - chiefly break-ins targeting flat-screen TVs.

Criminologists have expected crime rates to rise - especially as young unemployed males turn to illegal enterprises for cash during the recession. But so far, at least, the current pattern seems more akin to what happened during the Great Depression, when crime rates did not spike dramatically despite - or perhaps because of - widespread poverty.

"It's kind of understood, but without being proven, if you've got an economic crisis that you're likely going to see an upswing in property crimes," says Stephen Handelman, director of the Center on Media, Crime, and Justice at John Jay College in New York. "Yet if everybody's in the same bag, then individual neighborhoods are not necessarily as threatened as when you have sharp disparities in income, as you did in the 1990s."

"The jury is still out on whether property crimes have gone up as a result of the recession," he adds.

The report is gleaned from law enforcement reports spanning 2007 and 2008 - including a period that preceded the recession's grip. The data show that the murder rate dropped 4 percent, and the total number of reported rapes dropped to 89,000 - the lowest level in 20 years. Car thefts were down 12 percent.

Yet some property crimes - including burglaries - did see a bump upward, by 2 percent

Regionally, the South had the highest crime rate, with 4,315 reported violent and property crimes per 100,000 people. The region with the lowest crime rate was the Northeast, which had 2,620 reported crimes per 100,000 people.

One reason for the disconnect between perception of crime and the hard stats: Crime, like politics, is local. A 2007 survey by the Center on Media, Crime, and Justice showed that more than 53 percent of Americans said crime was an equal concern to healthcare and the economy. While people may not have seen crime as a problem generally, they often pointed to crime in their own neighborhood as a major concern.

African-Americans report the greatest concerns about crime. For good reason: Nearly half of the 14,000 murder victims in the report were black. Meanwhile, about 70 percent of those who were arrested for all crimes were white, according to the report.

Blacks make up about 13 percent of the US population; whites make up about 70 percent.

"Even though globally crime is down and people sense that, they don't necessarily feel safer," says Mr. Handelman. "It depends on where you live. People in inner cities and rural areas may be more worried" whereas people who live in the suburbs have fewer fears, he says.

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## Obscure Database Is Key To U.S. Educational Funds For California (LAT)

**The data system tracks student, teacher and administrator performance year to year but has barely gotten off the ground. Other states' systems improve student performance and hold schools accountable.**

By Jason Felch And Jason Song

[Los Angeles Times](#), September 15, 2009

California's chance to receive hundreds of millions of federal educational dollars may rest heavily on an obscure and long-neglected piece of education infrastructure: a statewide data system that tracks students, teachers and administrators year to year.

Such education systems are expensive, complex and do not win elections for politicians. But experts say they are essential to learn how much of the nearly \$60 billion that California spends on K-12 education makes a difference, a fact that student achievement tests only hint at.

Last month, California rolled out the first component, a student database known as CalPADS. It will eventually make it possible to measure what works and what doesn't in classrooms throughout the state. The second major component, a teacher and administrator database known as CalTIDES, will not come online until 2011.

Though still in its infancy, the state's data system has had a rocky history. The project was first conceived in the 1980s, but has been stalled repeatedly by infighting among state agencies and a lack of political support. Already overdue and over budget, it lacks many of the key components in place in other states such as Texas and Florida.

On Friday, the state Legislature passed a bill that removed one of the system's key limitations -- it sets aside a 2006 state law that, at the insistence of teachers unions, prevented California from using the system to evaluate teachers based on the academic gains of their students.

Experts say that identifying the most effective and least effective teachers is one of the most important factors in improving education, and the Obama administration has said that California would be ineligible for \$4.35 billion in competitive federal education grants unless it changed the law.

But education officials say that Friday's legislative fix does little to make California more competitive for the federal money, known as Race to the Top funds. To improve the state's chances, Gov. Arnold Schwarzenegger and several legislators have proposed a sweeping education reform bill that, among other things, seeks to hold teachers accountable for the performance of their students.

So far, few in Sacramento have championed the proposal, and the Democrat-controlled Legislature is facing

pressure from the powerful teachers unions to delay the bill, education officials say.

David Sanchez, president of the California Teachers Assn., made his position clear at a summer meeting with his membership.

"Paying and evaluating teachers based on a single test score does not improve student learning and does not help attract and retain quality teachers in lower-performing schools," Sanchez said.

"And we will not stand for it."

Disorganized data

California has long been awash in educational data. The state Department of Education alone has 125 separate databases, including those that track student test scores, national origin and school finances.

But for all that data, the state cannot answer many basic questions about public education: Which high school classes are best at preparing students for success in college? Do the hundreds of millions of dollars spent annually on training actually make for better teachers? Which credentialing programs prepare the most effective educators?

For the most part, officials say, nobody knows.

David Gordon, the superintendent for Sacramento County schools, recalls a discussion in 1983 over unifying the databases to make it easier to measure the effectiveness of education reforms.

For two decades, the idea has been popular among reformers and policy wonks, but never received political support or funding.

In the meantime, other states developed data systems that have allowed them to improve student performance, hold schools accountable and spend education dollars more efficiently.

California was spurred into action in 2002, when the No Child Left Behind law required the state to collect new data. The Legislature approved CalPADS that year with little opposition. It was projected to cost \$6 million.

In fact, the student database has taken seven years and tens of millions of dollars to build -- the exact figures are in some dispute.

Many attribute the project's delays to the Department of Finance, which one study said used "100 ways of saying no" to slow the project. Finance officials have fought bitterly with the education department on the scope of the system and who would control access to the data.

H.D. Palmer, spokesman for the finance department, acknowledged his department's concerns about privacy and costs over the years. But once the system was approved, "in no way, shape or form have we been an impediment to providing the funds to build the system."

Even today, the two departments have dramatically different estimates for the pricetag: Finance puts it at more



than \$100 million, including ongoing costs; the Department of Education says one-time development costs were \$24 million.

Whatever the figure, some say the state has been penny-wise and pound-foolish, wasting far more money by not investing in the system sooner. "If you're going to be investing \$60 billion a year, to have a \$20-million system in place to monitor what is working seems an obvious and appropriate investment," said Gary K. Hart, the former secretary of education for Gov. Gray Davis.

"We've been something of an embarrassment in the states on this issue," said Gordon, the Sacramento County superintendent. "This has been way, way too long in coming."

Despite the delays, CalPADS' development has already yielded some major breakthroughs for the state. California has been able to count the number of dropouts far more accurately, and students' test data and enrollment history will now follow them when they transfer between districts, eliminating the need for some of the costly testing.

And soon, the state will be able to answer those basic questions about what works in California classrooms.

When the teacher and administrator database is in place, the state for the first time will be able to determine which teacher training programs produce the most effective teachers.

Used together, the systems will allow the state to save money by eliminating programs that are not working.

"It's not going to solve the state budget deficit," said Mary Perry, deputy director of EdSource, a California policy group that has studied the data system. "But it's going to help educators learn what helps student performance and what doesn't."

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## **Texas District Cancels Plans To Bus Students To Bush Speech (MCT)**

By Melody McDonald, Fort Worth Star-Telegram

[McClatchy](#), September 15, 2009

FORT WORTH - Six days after drawing fire for not showing President Barack Obama's speech to schoolchildren, the superintendent of the Arlington Independent School District announced Monday that he also will not be allowing 600 fifth-graders to attend a Super Bowl event next week featuring former President George W. Bush.

Jerry McCullough issued an apology last week for not allowing students to watch Obama's speech live after it was learned that the district had approved a fifth-grade field trip to the new Cowboys Stadium on Sept. 21, where Bush is scheduled to speak during a Super Bowl XLV kickoff event.

On Monday morning, McCullough announced that he has changed his mind about allowing students to attend the Super Bowl event, which he said has become a "local and national issue and a distraction for the AISD."

"I have informed the North Texas Super Bowl XLV host committee that the AISD will not participate in the kickoff event on Sept. 21 in order to maintain our focus on instruction," McCullough wrote.

McCullough said last week that he didn't allow students to watch Obama's speech live Tuesday because he didn't want to disrupt the school day. After district offices were flooded with calls from parents and media about the district's plans to allow students to hear Bush speak, McCullough issued an apology.

"In retrospect, I can see the district's decisions concerning these two events could be seen as favoring one event over another," McCullough said last week. Twenty-eight fifth-grade classes were scheduled to attend the Bush event.

The Arlington school district is midway between Dallas and Fort Worth.

Read the full story at [star-telegram.com](http://star-telegram.com).

## **Hyde Park House For Sale Comes With A View: The Obamas (NYT)**

By Susan Saulny

[New York Times](#), September 15, 2009

CHICAGO - There is a "for sale" sign in the front yard, not that potential buyers would see it. The street is closed to nonresidents by order of the United States Secret Service.

The house at 5040 South Greenwood Avenue, next door to the Hyde Park residence of President Obama and his family, hit the market here over the weekend. And in a summer of real estate doldrums, it is causing quite a stir, not simply because it is a gracious, century-old, 17-room house with elaborate stained-glass windows and a charming carriage house in the backyard.

Here is what the owners say makes it a real deal: you just could not get more impressive neighbors. They are downright stately, and they come with a full-time security staff that keeps an eye out like no Neighborhood Watch in the world.

Bill and Jacky Grimshaw are the empty-nesters who are selling their 6,000-square-foot house after 36 years.

The price? Hard to know, real estate agents say, because not since Richard M. Nixon lived in a New York City apartment has the market tried to assess the value of immediate proximity to the president in a dense urban neighborhood. (The Greenwood Avenue neighbors are separated by about 20 feet, a line of thin trees and an iron fence that is more decorative than forbidding.) The Grimshaws paid \$35,000 in 1973; other homes in the area have sold for \$1 million to \$2.5 million.

"We think there's a premium," said Matt Garrison, the listing agent with Coldwell Banker, who does not intend to put an asking price on the house. "We don't know what the Obama effect is."



Mr. Garrison said he had tried to scout similar parcels of residential property, but pointed out that there was no family living next door to the White House.

"I tried to look at 12 Downing Street, but that's all offices," Mr. Garrison said, referring to the building next door to the British prime minister's residence in London. "Here we are looking out the kitchen window at the president's back porch. Buyers establish the market. Stuff sells for what people are willing to pay."

On the third floor, in a playroom, a large picture window offers a sweeping view of the red brick Georgian-style house that Mr. Obama bought in 2005 for \$1.65 million.

Looking out that window, Mr. Garrison was taken by surprise. "Obama's roof needs some work," he said. Well, at least now they know, he joked. "The Secret Service is probably looking at us, reading our lips."

Still, the Grimshaws - he a professor of political science at the Illinois Institute of Technology and she a transit expert and Democratic political activist - said they had managed to have an easy, neighborly rapport with the Obamas, who shot a commercial in the Grimshaws' living room during the campaign.

"They didn't want to mess up their own house," Professor Grimshaw said in jest. "Thirty people came traipsing in asking, 'Are these the best chairs you have to set at the table?' I thought, 'What a nutty lark this is.'"

The Obama children, Sasha and Malia, are known to stick their hands through the fence to pet the Grimshaws' boxer, Roxy.

Everyone involved in the sale agreed that prospective buyers would have to be screened for security reasons before being taken seriously, but a spokesman for the Secret Service would not comment on that process or anything related to the house.

Professor Grimshaw, an almost-retired 71-year-old, said he never had to lock his doors. "But I also know that there are some people who would never live under these circumstances," he said. "I'm just hoping for a good patriot, a good family man, a good Democrat."

Would he sell to a Republican?

"Only if push came to shove," he said.

So far, all the shoving seems to be from the curious who want to get a peek inside the house. Already more than 7,000 people have visited the broker's Web site, [www.5040Greenwood.com](http://www.5040Greenwood.com).

A visit - if one is qualified to be granted a private showing - will reveal that the house is also a fixer-upper. The Grimshaws did not tamper with its original fixtures or woodworking. The electrical switches are from 1907. The kitchen and bathrooms are worn. The third floor probably needs to be gutted.

"I didn't lavish attention on the house," Professor Grimshaw admits. Mocking an outraged, imaginary potential

buyer, he said: "Where's the granite? How can people live like this?"

Professor Grimshaw has been in poor health lately. The property, which sits on a 12,000-square-foot lot, requires too much upkeep now, he said.

Even looking back to when he bought it, Professor Grimshaw said, "We had no means to support a place like this."

He says they had no idea, back then, about how the larger middle- and working-class area would evolve into a premier address.

Their welcome to the area back in the 1970s? Some rough teenagers from a few blocks over broke in before they had even unpacked their boxes.

Somehow, Professor Grimshaw said, he is pretty sure the new owners will not have to worry about things like that.

Alain Delaquerre contributed research from New York.

## Small Pain, Real Gain (WP)

### A quick and easy plan to reduce the federal deficit

[Washington Post](#), September 15, 2009

WITH the federal deficit headed toward \$1.5 trillion both this year and next, the Obama administration is under pressure to produce a plan for fiscal stability. Some of that pressure has come from editorial pages, including this one, so we thought it was only fair that we offer a few specific ideas of our own.

Obviously the big dollars are in defense and Medicare, Social Security and other entitlements, as well as the monumentally inefficient tax code. A true fix to the country's structural fiscal problem must await their comprehensive overhaul. But the point here is to show how much Congress and the administration could accomplish even without taking on those huge political battles. In fact, with the help of the Congressional Budget Office's recently released annual budget options report, we've identified \$100 billion in savings over the next five years. They could be achieved without imposing sacrifices on the needy, reducing middle-class living standards below recent norms -- or even touching farm subsidies.

Much of the savings in our proposal would come from adopting a more accurate measure of inflation for annual adjustments in both taxes and spending. Currently, income tax brackets, exemptions, standard deductions and the like are indexed to keep up with the Consumer Price Index for urban consumers, which is based on buying pattern surveys that can be up to two years out of date. The government should instead use a slightly different, but more realistic version of the index, which reflects the fact that people maintain their standard of living by substituting cheaper products when prices rise. Use of this infelicitously titled "chained CPI" in the tax code would save \$22 billion over the



next five years, according to the CBO. Adopting the chained CPI for all federal benefit programs that are indexed to inflation would save another \$20 billion – merely by slowing the growth of future benefits slightly, not actually cutting them or taking away any that have already been awarded.

No Post editorial would be complete without a pitch for the federal gas tax, but let's keep it modest this time: Simply restore the gas tax, currently 18.4 cents per gallon, to its real value when enacted in 1993. The necessary increase, nine cents per gallon, would still leave gas prices lower than they were a year ago -- while cutting the deficit by about \$45 billion over the next half-decade. If this rankles, remember: Because the tax discourages petroleum consumption, it will make it harder for oil producers to jack up the world price of oil. Hugo Chávez and Mahmoud Ahmadinejad would be getting hit, too.

Thirteen billion dollars to go: Let's consolidate three existing tax credits and deductions for higher education expenses into a single credit program (\$6.6 billion), eliminate school-lunch subsidies for non-poor children (\$1.2 billion) and phase out capital grants to big airports (\$5 billion). For the last \$200 million, get rid of just one of Amtrak's five most unprofitable routes.

There. Now, was that so hard?

## **Food Registry (WP)**

**The FDA takes a step toward improved safety, but Congress still needs to act.**

[Washington Post](#), September 15, 2009

NEW POWERS for the federal government to further protect a relatively safe food supply reside in a bill that passed the House in July. The Food Safety Enhancement Act would require companies to develop procedures for conducting hazard analysis and instituting preventive controls. The Food and Drug Administration could gain access to those records and order product recalls, if necessary. The secretary of health and human services would establish a system to trace the origins of food from farm to fork. Unfortunately, the legislation now sits parked in the Senate.

But here's a bit of good news: The FDA instituted an online portal last week to flag contamination in the food supply before it has a chance to spread. The Reportable Food Registry was mandated by a 2007 law signed by President George W. Bush. Its stated purpose is to provide a "reliable mechanism to track patterns of adulteration in food." As we have seen one too many times over the past couple of years, the lack of such a reliable mechanism has helped produce a rogues' gallery of products that have sickened consumers.

From now on, facilities that "manufacture, process or hold food for consumption in the United States" must report to the FDA through the registry within 24 hours of finding a "reasonable probability that an article of food will cause

severe health problems or death to a person or animal." Bacterial contamination, allergen mislabeling or elevated levels of certain chemical components are among the reasons for reporting potentially dangerous products to the FDA.

Would that this early-warning system had been in place sooner. Remember the alleged actions of the Peanut Corporation of America? Earlier this year, the FDA revealed that the now-defunct Lynchburg, Va., company knowingly shipped salmonella-tainted peanut products 12 times between 2007 and 2008 from its Blakely, Ga., facility. This led to one of the largest product recalls in U.S. history and at least nine deaths.

The episode also exposed the troubling gaps in safeguarding the nation's food supply. The reportable food registry is a useful new tool for the FDA. But the agency needs the other tools in the Food Safety Enhancement Act if it is to stand a chance at stopping food-borne outbreaks before they start.

## **Sexual Abuse Behind Bars (WP)**

**The evidence is in, again. It's time for the Justice Department to respond.**

[Washington Post](#), September 15, 2009

THE men and women charged with ensuring an orderly and safe environment behind bars too often use their positions to sexually abuse prisoners. So concludes a recently released report from the Justice Department Office of Inspector General, which documents a litany of problems that still plague the nation's federal prisons. The report, which comes on the heels of a thorough study by the National Prison Rape Elimination Commission, should serve as a catalyst for immediate action.

The Bureau of Prisons operates 115 prisons in 93 locations, housing approximately 171,000 inmates. Allegations of sexual abuse by prison staff more than doubled from 2001 to 2008. "Staff sexual abuse of prisoners has severe consequences for victims, undermines the safety and security of prisons, and in some cases leads to other crimes," the IG's office concluded.

Reports of abuse arose in all but one of the 93 locations and involved male and female employees. Not surprisingly, allegations were made most often against staff who interacted most with inmates -- namely, those in food services, recreation, vocational and educational training.

There were some bright spots. For example, the IG reports that prosecutions of criminal sexual abuse by staff rose by some 12 percentage points due in large part to prosecutors' willingness to tackle such cases after Congress enacted tougher penalties. Of the 90 prosecutions, 83 resulted in convictions or guilty pleas.

But the Bureau of Prisons still needs to articulate a zero-tolerance policy for sexual abuse and better train personnel to



prevent, detect and report sexual crimes. Prisoners need information on how to report abuse. The agency should review policies in some prisons that automatically isolate or transfer a prisoner who has reported abuse. Although done with the intention of protecting a prisoner from further abuse, such actions are often perceived as punishment and have the effect of discouraging disclosure.

The U.S. Marshals Service, which transports federal prisoners and holds those arrested on federal charges until disposition of their cases, has no formal program to prevent and handle sexual abuse. This is unacceptable and should be remedied as soon as possible.

Even before the IG's report, Attorney General Eric H. Holder Jr. had in hand a blueprint to address sexual abuse by staff and inmates in federal and state institutions: a thorough and compelling report produced after nearly six years of study by the congressionally created prison rape elimination commission. Mr. Holder has until next June to act on the commission's report. He should not wait until then to begin implementing the commission's sensible -- and necessary -- recommendations.

### **Medical Inattention In New York Prisons (NYT)**

[New York Times](#), September 15, 2009

Prison inmates are the sickest people in society, with infection rates for blood-borne viruses like H.I.V. and hepatitis C far higher than the general population. Failing to test, counsel and treat these inmates makes it more likely that they will spread infection once they are released and suffer catastrophic illnesses that shorten their lives and drive up public health costs.

The New York State Legislature had this problem in mind when it passed a bill that requires the State Department of Health to ensure that prison H.I.V. and hepatitis programs are operating effectively and meet prevailing medical standards. Corrections officials, who tend to rebel against oversight of just about any kind, want Gov. David Paterson to veto this bill. He should ignore them and sign it.

The state correctional system has unquestionably improved medical care over the last several years. But a recent report by the Correctional Association of New York, which is authorized by the Legislature to monitor the prisons, found troubling inconsistencies in care in the state prison system, which is said to house 20 percent of the H.I.V.-infected inmates in the United States.

The report, based on state records, estimates that the state has identified through testing fewer than half of the H.I.V.-positive inmates and only about 70 percent of those with hepatitis C. The report finds that the number of people receiving treatment varies significantly from place to place, which is suspicious given that the population is fairly homogenous. The variation raises questions about the

consistency and effectiveness of medical policies from prison to prison.

Prison medical officials argue that the treatment regime is fine and that oversight is unnecessary. But critics in the Legislature rightly point out that the prison health system is the only one in the state not overseen by the Health Department. The prison system, with about 4,000 infected inmates, is the largest provider of treatment for H.I.V., the virus that causes AIDS, in the state.

Other critics argue that the Health Department's initiative would cost money at time when the state can't afford it. But better diagnoses and treatment in prison would save more money than it would cost by preventing further infections and keeping many patients from moving on to costly, catastrophic illnesses.

## **INTERNATIONAL NEWS:**

### **China Seeks Talks At WTO Over Tire-Import Tariff (WSJ)**

**In Pursuing Talks With U.S., Some Say Beijing Appears Eager to Keep the Trade Tensions in the Framework of International Law**

By Terence Poon, Ian Johnson And Peter Fritsch

[Wall Street Journal](#), September 15, 2009

China called for talks with the U.S. at the World Trade Organization on Monday, after Washington levied punitive duties on tire imports last week and Beijing responded with a move to restrict some U.S. imports.

In Washington, talk turned to potential copycat cases in which American producers could seek protection from Chinese products ranging from steel to clothing. Key lawmakers, meantime, signaled a hope that the Obama administration could use the domestic politics of the moment to placate nervous trading partners and push forward with trade deals on other fronts.

China's quick action in taking the U.S. tariffs to the WTO suggested Beijing was eager to keep the trade tensions within the framework of international law, a sign the disagreement may be containable. A spokesman for China's Ministry of Commerce, in a statement on the ministry's Web site, described the move as "a practical step to protect one's own interests."

In a speech on Wall Street Monday, U.S. President Barack Obama touched on the controversy, pledging to avoid "self-defeating protectionism."

"Make no mistake, this administration is committed to pursuing expanded trade and new trade agreements," he said. "It is absolutely essential to our economic future. But no trading system will work if we fail to enforce our trade agreements."



At the same time, U.S. labor unions hinted the administration's decision could inspire more cases seeking relief from Chinese imports.

"We're looking at what's happening in paper sector, glass, cement, steel. That's our obligation to our members," said Leo Gerard, president of the 850,000-member United Steelworkers union that represents workers in numerous industries and brought the original case against Chinese tires.

"We've had the market flooded with oil [pipes]. It's no different in steel, in toys, or medicine or dog food," Mr. Gerard said.

Rep. Sander Levin, a Michigan Democrat who chairs a key trade subcommittee, said he didn't expect a flood of new cases seeking special protection from China. In part, that's because the law only allows such relief for another four years before expiring.

Rather, he said Mr. Obama's decision supported "expanded trade and the need for rules to govern the expansion." Mr. Levin highlighted the administration's past commitment to concluding pending trade deals with Panama, Colombia and South Korea -- though he said those still need debate.

It is more likely, he said, that the administration would push forward on talks to reopen the so-called Doha round of world trade talks. "I think the administration is beginning to gear up for that," he said. "There is more dialogue and consultation there."

The long-stalelated Doha talks seek to open the developed world to farm trade with poorer nations in exchange for greater access for service industries.

Meantime, the tire dispute has political costs for both sides.

In China, officials said Monday in the state media that the tire tariffs would "affect" the employment of 100,000 Chinese, although it wasn't clear whether that implies that all would lose their jobs. On Monday, Chinese government officials met with tire companies.

The moves came as evidence emerged that the economic value of the Chinese sectors affected by the simmering dispute is relatively small. An official from the Chinese rubber industry told state media in China on Monday that the U.S. tariffs would cost China \$1 billion a year in exports. The estimate, which couldn't be verified, amounts to less than three-tenths of 1% of China's \$337.77 billion in exports to the U.S. last year.

The effect on the U.S. is less clear because China hasn't imposed sanctions. China said Sunday it would investigate complaints by Chinese industries that U.S. companies were selling chicken and auto products in the local market at below-market value. But China already has a partial ban on U.S. poultry in retaliation for a similar U.S. ban on Chinese poultry.

U.S. poultry companies said they stood to lose \$370 million this year. In terms of auto products, the U.S. exported \$1.9 billion in vehicles and components to China in 2008, according to U.S. trade statistics, but it is unclear how much of these exports would be affected. Total U.S. exports to China last year added up to \$69.73 billion.

The American Chamber of Commerce in China on Monday warned China and the U.S. against "an escalation of restrictive trade measures that could undermine economic recovery in both nations." It urged both to solve disputes at the WTO.

Under WTO rules, the nations have around 60 days to settle the dispute through consultations. Failing that, the WTO could set up a dispute settlement panel. The Sino-U.S. trade spats and worries about rising trade protectionism -- just ahead of the Group of 20 summit next week in Pittsburgh -- hurt commodity markets Monday.

Natural rubber futures fell sharply across Asia on Monday as analysts estimated billions of dollars of Chinese tire exports could be lost. Rubber trading exchanges in Tokyo, Shanghai, Singapore and Bangkok witnessed a free fall as investors scrambled to liquidate long positions and stop losses. The benchmark January natural rubber futures contract in the Shanghai Futures Exchange settled down 935 yuan (\$136.88), or the daily limit of 5%, at 17,710 yuan per metric ton Monday. Rubber futures for February delivery on the Tokyo Commodity Exchange dropped 9.2%, the biggest daily loss since Dec. 9.

In Shanghai trading, shares of tire makers, such as Double Coin Holdings Ltd., fell even though the broader stock market rose. Other commodity futures, such as copper, also fell in China.

In the U.S., the trade tensions initially sent stocks lower, pushing the Dow Jones Industrial Average down 70 points at the open. The Dow rallied in the afternoon to close at 9626.80, up 21.39. The dollar slid to its lowest level against the euro in nearly a year. Shares of U.S. tire makers jumped in anticipation that they would benefit from the U.S.-imposed tariffs. Cooper Tire & Rubber Co. jumped 7.1% and Goodyear Tire & Rubber Co. added 3%.

## **China-US Trade Dispute Has Broad Implications (NYT)**

By Keith Bradsher

[New York Times](#), September 15, 2009

HONG KONG - An increasingly acrimonious trade dispute between China and the United States over the past three days is officially about tires, chickens and cars, but is really much broader.

Both governments face domestic pressure to take a tougher stand against the other on economic issues. But the trade frictions are increasing political tensions between the two nations even as they try to work together to revive the



global economy and combat mutual security threats, like the nuclear ambitions of Iran and North Korea.

On Friday evening in Washington, President Barack Obama announced that the United States would levy tariffs of up to 35 percent on tires from China. China's commerce ministry issued a formulaic criticism of the American action on Saturday, but after a frenzy of anti-American rhetoric on Chinese Web sites, the ministry unexpectedly announced on Sunday night that it would take the first steps toward imposing tariffs on American exports of automotive products and chicken meat.

Late Monday, the ministry said in a statement that it was demanding talks with the United States on the tire tariffs. Carol J. Guthrie, a spokeswoman for the office of the United States trade representative, said earlier in the day that the United States wanted to avoid disputes with China and continue talks on tires, but would look at any Chinese trade decisions for whether they comply with World Trade Organization rules.

Eswar Prasad, a former China division chief at the International Monetary Fund, said rising trade tensions between the United States and China could become hard to control. They could cloud the Group of 20 meeting of leaders of industrialized and fast-growing emerging nations in Pittsburgh on Sept. 24 and 25, and perhaps affect Mr. Obama's visit to Beijing in November.

"This spat about tires and chickens could turn ugly very quickly," Mr. Prasad said.

The Chinese government's strong countermove on Sunday night followed a weekend of nationalistic vitriol on Chinese Web sites. "The U.S. is shameless!" said one posting, while another called on the Chinese government to sell all of its huge holdings of U.S. Treasury bonds.

But rising nationalism in China is making it harder for Chinese officials to gloss over American criticism.

"All kinds of policymaking, not just trade policy, is increasingly reactive to Internet opinion," said Victor Shih, a Northwestern University specialist in economic policy formulation.

Mr. Obama's decision to impose a tariffs on Chinese tires is a signal that he plans to deliver on his promise to labor unions that he would more strictly enforce trade laws, especially against China, which has become the world's factory while the United States has lost millions of manufacturing jobs. The trade deficit with China was a record \$268 billion in 2008.

China exported \$1.3 billion in tires to the United States in the first seven months of 2009, while the United States shipped about \$800 million in automotive products and \$376 million in chicken meat to China, according to data from Global Trade Information Services in Columbia, South Carolina.

For many years, American politicians have been able to take credit domestically for standing up to China by enacting largely symbolic measures against Chinese exports in narrowly defined categories. In the last five years, the U.S. Commerce Department has restricted Chinese imports of goods as diverse as bras and oil well equipment.

For the most part, Chinese officials have grumbled but done little, preferring to preserve a lopsided trade relationship in which the United States buys \$4.46 worth of Chinese goods for every \$1 worth of American goods sold to China.

Now, the delicate equilibrium is being disturbed.

China's commerce ministry announced Sunday that it would investigate "certain imported automotive products and certain imported chicken meat products originating from the United States" to determine if they were being subsidized or "dumped" below cost in the Chinese market. A finding of subsidies or dumping would allow China to impose tariffs on these imports.

The ministry did not mention the tire dispute in its announcement, portraying the investigations as "based on the laws of our country and on World Trade Organization rules."

But the timing of the announcement - on a weekend and just after the tire decision in Washington - sent an unmistakable message of retaliation. The official Xinhua news agency Web site prominently linked its reports on the tire dispute and the Chinese investigations.

The commerce ministry statement, posted on its Web site, also hinted obliquely at the harm that a trade war could do while Western nations and Japan struggle to emerge from a severe economic downturn. "China is willing to continue efforts with various countries to make sure that the world economy recovers as quickly as possible," the statement said.

The Chinese government sometimes organizes blog postings to defend its own policies. But some postings on the tire decision have been implicitly critical of the Chinese government, making it unlikely that they are part of an orchestrated effort.

"Why did our government purchase so much U.S. government debt?" said one posting signed by a "Group of Angry Youths." It continued, "We should get rid of all such U.S. investments."

China has accumulated \$2 trillion in foreign reserves, mostly in Treasury bonds and other dollar-denominated assets. It has done so by printing yuan on a massive scale and selling them to buy dollars.

This has held down the value of yuan in currency markets and kept Chinese goods quite inexpensive in foreign markets. China's exports have soared - China surpassed Germany in the first half of this year as the world's largest exporter - while China's imports have lagged, except for commodities like iron ore and oil that China lacks.



Worries that China might sell Treasury bonds - or even slow down its purchases of them - have been a concern for the Bush and Obama administrations as they have tried to figure out how to address China's trade and currency policies.

But China now finances a much smaller portion of American borrowing than a year ago. The savings rate in the United States has climbed during the recession and many private investors around the world have been seeking the safety of Treasuries.

At the same time, the Chinese economy relies heavily on exports to the United States, while the American economy is much less dependent on exports in the other direction. Exports to the United States, at 6 percent of China's entire economic output, account for 13 times as large a share of the Chinese economy as exports to China represent for the United States economy.

The American Chamber of Commerce in China said in a statement on Monday afternoon, "We respect the rights of governments to take W.T.O.-compliant trade actions, but caution both the U.S. and China against an escalation of restrictive trade measures that could undermine economic recovery in both nations."

Products involved in trade disputes between the United States and China together make up only a minuscule sliver of the two countries' trade relationship.

The bigger risk for China, economists and corporate executives have periodically warned, is that trade frictions could cause multinationals to rethink their heavy reliance on Chinese factories in their supply chains. The Chinese targeting of autos and chickens affects two industries that may have the political muscle in the United States to dissuade the Obama administration from aggressively challenging China's policies.

General Motors sees much of its growth coming from its China subsidiary, the second-largest auto company in China after Volkswagen. The farm lobby in the United States has long pressed for maximum access to a market of 1.3 billion mouths, and agriculture is one of the very few trade categories in which the United States runs a trade surplus with China.

Chickens are a longstanding issue in Sino-American trade relations. The United States only allows the import of chicken meat from countries that meet food safety inspection requirements that are certified by the United States Department of Agriculture as equivalent to American standards. But Congress, worried about low-cost Chinese chickens at a time of international worries about food safety in China, has banned the Agriculture Department for the last several years from spending any money to certify China's procedures as equivalent.

The Senate budget bill, expected to come up for a vote next week, would remove the ban. So China's latest move could represent an attempt to influence that vote.

But spotlighting automotive trade may be risky for China. G.M. and Ford both rely mostly on local production to supply the Chinese market, because of steep Chinese tariffs on imported cars and car parts.

But China has rapidly increased its share of the auto parts market in the United States over the past three years, at a time of rising unemployment in the Upper Midwest, where the manufacture of auto parts has long employed more people than the final assembly of cars.

## **Threat Of Trade War With China Sparks Worries In A Debtor U.S. (WP)**

By Steven Mufson And Peter Whoriskey

[Washington Post](#), September 15, 2009

The prospect of a trade war with China fueled fears of wider fallout Monday, rattling bond markets and prompting many economists to criticize President Obama's decision to slap import tariffs on Chinese-made tires.

Traders fretted that the 35 percent tariffs might prompt China to send a sign of disapproval by paring purchases of U.S. government bonds. And a chorus of economists and climate activists fretted that the president's action might undercut U.S.-China climate talks and poison relations just two weeks before the summit of the Group of 20 major economies to be held in Pittsburgh.

Moreover, economists argued that it would all be for nothing; they said tariffs on Chinese tires would probably boost U.S. imports from countries like Poland and Mexico and do little to help the American steelworkers whose union brought the trade action in the first place.

Obama said Monday on CNBC that the tariffs, which were announced late Friday night, were necessary to maintain the "credibility" of trade agreements. "I'm not surprised that China is upset about it, but keep in mind, we have a huge economic relationship with China," he said.

China's commerce minister, Chen Deming, called Obama's action an "abuse" of trade provisions and said it "sends the wrong signal to the world." China said it would look into punitive measures against U.S. exports of auto and poultry parts.

"I think it's a terrible message in the run-up to the G-20, and we are all very concerned about the escalation of protectionist measures," said Uri Dadush, senior associate at the Carnegie Endowment for International Peace and long-time international trade director at the World Bank.

"If there were any prospect of the United States taking the moral high ground in Pittsburgh at the G-20, there isn't any longer, and that's unfortunate," said Daniel Rosen, partner at the advisory firm Rhodium Group and a former senior adviser for Asia at the National Economic Council. "Instead . . . people are going to be talking about the U.S. and China squabbling over tires and chickens."



One person who said such fears are overblown: Leo W. Gerard, the former nickel mineworker and leader of the United Steelworkers who instigated the current flap by filing the trade complaint that pushed Obama to impose a tariff on Chinese tires imports. Brushing aside concerns over a trade war or China's purchases of mountains of U.S. debt, he said that China exports far more than it imports and so has much more to lose.

"Eh," Gerard said when asked about fears of Chinese retaliation. "Are they going to kick the three chickens out they let in? . . . We've got into a situation now where everyone's afraid to tick off our banker," he said. "If our government had the guts to retaliate, [China] is going to be on the losing end."

The Obama administration also said it was not worried. "We do not expect that it will have an impact on the broader relationship," said a senior administration official who spoke on the condition of anonymity because he was not authorized to speak publicly. He said that there had been a "robust effort" by the administration to negotiate with China for a settlement on tires before imposing import tariffs. He asserted that U.S. imports of Chinese tires, which more than tripled since 2004, clearly met the test for tariffs aimed at reducing "surges" in imports.

But when asked about whether the United States would simply import from other nations, he conceded that "it is hard to predict the impact with specificity." 'Not to Be Provocative'

"A healthy economy in the 21st century also depends on our ability to buy and sell goods in markets across the globe. And make no mistake, this administration is committed to pursuing expanded trade and new trade agreements," Obama said in a speech Monday in New York's financial district.

"But no trading system will work if we fail to enforce our trade agreements," he added. "So when -- as happened this weekend -- we invoke provisions of existing agreements, we do so not to be provocative or to promote self-defeating protectionism. We do so because enforcing trade agreements is part and parcel of maintaining an open and free trading system."

There are reasons why the dust-up over tires might settle down. China exports three times as much to the United States as it imports from the United States. It also has relatively few secure places to park its huge foreign-exchange reserves other than U.S. Treasury bonds and government-backed U.S. mortgage securities.

Thea Lee, an economist and policy director for the AFL-CIO, said the concern over an incipient trade war was overblown and called China's reaction "blustering."

"The Chinese government is trying to raise the rhetoric and scare off the U.S. We should not be scared off," she said. "We are within our rights. . . . It's not the beginning of a trade war."

From 2004 to last year, the number of Chinese tires imported in the United States more than tripled and their share of the U.S. market rose from 5 percent to 17 percent. Over the same period, the share of the U.S. market served by U.S. factories declined by a corresponding amount. More than 5,000 U.S. jobs were lost.

Opponents of the tariff say the U.S. industry's shrinkage is unrelated to the surge in Chinese imports. U.S. manufacturers, they say, have strategically moved into pricier, more profitable tires, shifting production of cheaper tires overseas. Yao Jian, a Chinese Commerce Ministry spokesman, said, "Four U.S. companies have tire production operations in China and account for two-thirds of exports to the U.S. The tariffs will have a direct impact on them."

Under the so-called "421 clause" that China agreed to as part of its bid to gain admission to the World Trade Organization, the United States does not need to prove unfair trade practices. Bad Timing?

But other observers said the timing was particularly bad, regardless of the case's merits. "They may have the basis for doing this, but the point in my mind is not the legality but the overall political impact and the message this gives the world," said Dadush of the World Bank. "Over the last several months, Chinese imports are exploding and thank God for that because that's holding up all of Asia and having a good impact on the rest of the world." By contrast, he said, U.S. imports are declining.

Moreover, globally, new requests for protection from imports in the first half of 2009 are up 18.5 percent over the first half of 2008, according to the World Bank-sponsored Global Antidumping Database, organized by Chad P. Bown, a Brandeis University economics professor. That increase follows a 44 percent increase in new investigations in 2008.

On Tuesday, Obama is scheduled to address the AFL-CIO's annual convention. Some analysts said that the tire tariffs were a political favor to trade unions, whose support Obama needs for health-care reform and who backed Obama in the 2008 election. Gerard dismissed the idea that the tire tariffs were political payback. The people who say that "are smoking something," he said.

Some observers said Obama might follow the Bush administration, which initially seemed to adopt a tough stance on trade. In March 2002, President Bush imposed tariffs on foreign steel, but later he backed off and rejected proposals to impose trade sanctions for other products.

"He pulled the plug on us because he didn't think we were grateful enough," Gerard said. "He didn't have the guts to enforce the law. He basically invited the Chinese to keep doing the same thing."

## **Pro-trade Dems Give Tire Decision Thumbs-up (HILL)**

By Ian Swanson



[The Hill](#), September 15, 2009

Pro-trade Democrats in Congress say the Obama administration's decision to impose punishing tariffs on Chinese tires could actually open up trade.

The decision has provoked a furious response from China, and Republicans and business groups have blasted the president for bowing to demands from labor.

China on Monday took the first step toward filing a World Trade Organization (WTO) complaint against the U.S. as a trade war between the countries threatens to escalate. The issue is expected at a minimum to be a distraction at a global summit President Barack Obama will host in Pittsburgh next week.

Obama imposed the tariffs, set to be in place for three years beginning at a rate of 35 percent, in response to a petition filed by the United Steelworkers union. The quasi-judicial International Trade Commission, which first reviewed the petition, had recommended the president impose even higher tariffs.

But Democrats who have supported trade agreements in the past are casting the decision as a confidence-builder for U.S. industries and workers, one that shows the government will use trade laws when necessary to protect them. They argue such steps in the long run will increase public confidence in trade, which has dropped significantly over the past decade even as Congress has approved a series of free-trade agreements.

Rep. Joseph Crowley (N.Y.), the leader of the pro-trade New Democrat Coalition, noted that the safeguard law that Obama used to impose tariffs on Chinese tires was set up by Congress to protect domestic industries from surges in Chinese imports.

The safeguard was included in legislation passed by Congress and signed into law by President Bill Clinton in 2000 that granted China permanent normal trade relations and paved the way for that country to enter the WTO. It was included to get more lawmakers in Congress to support China's entry into the global trading system, Crowley said in an interview.

He said it was important for members of Congress to see "we're enforcing laws that are put in place."

Sen. Max Baucus (D-Mont.), who helped shepherd several trade agreements through the Senate Finance Committee during the George W. Bush administration, also has long called for the administration to more strongly enforce U.S. trade laws.

By imposing the tariffs on Chinese tires, Baucus said Obama had sent a signal to American farmers, ranchers and workers that "he will defend their rights under our international trade agreements."

In a statement released Friday night, Baucus also noted that the Bush administration rejected four petitions under the

China safeguard. Obama's decision marks the first time the relief has been granted.

Crowley said it is important that Congress and the administration do more to have "a broad discussion" on trade that could also include pro-trade policies. He said the New Democrat Coalition stands willing to work with the administration on that effort.

China stepped up its complaints by asking the U.S. for formal discussions about the decision at the WTO. The request triggers a process in which the two sides are to try to settle their differences without a trade case. If they are unable to do so, China could request that the WTO set up a panel to look at the matter.

China's official news agency quoted China Minister of Commerce Chen Deming saying the U.S. decision violated WTO rules and failed to honor U.S. commitments made at a G-20 summit earlier this year to avoid protectionism.

Republicans have ripped the White House for bowing to pressure from a special interest group amid a downturn in the economy. Rep. Kevin Brady (R-Texas) said the president has imposed a new-tire tax on working Americans, "many who can barely afford to replace a tire as it is."

More generally, business groups and GOP lawmakers have been frustrated that the administration has done nothing to move trade agreements with Colombia, Panama and South Korea that were held over from the Bush administration.

All of those deals are opposed by organized labor and divide Democrats in Congress. The administration is widely seen as taking a go-slow approach on the deals, particularly as it works to get Congress to approve its ambitious legislative proposals on healthcare reform and climate change.

## **Trade War Won't Follow Tire Tariffs Against China, Obama Says (BLOOM)**

By Julianna Goldman And Mark Drajem

[Bloomberg News](#), September 15, 2009

President Barack Obama downplayed the possibility that his imposition of tariffs on imported tires from China would spark a cycle of retaliation.

"We're not going to see a trade war," Obama said yesterday in an interview with Bloomberg News at the White House. "There are some tensions around this, no doubt about it. But my message is very simple: We have rules on the books."

China called the tariffs an "abuse" yesterday and filed a complaint with the World Trade Organization. China also said it will probe whether U.S. chicken and auto products are being dumped at below-market prices or receive unfair government subsidies.

The "risk is that it just spirals" into a trade war, David Spooner, a former Commerce Department official and a



lawyer at Squire, Sanders & Dempsey LLP in Washington, said in an interview yesterday. Spooner represented China's rubber industry in the case.

Obama said Sept. 11 that he will impose duties of 35 percent on \$1.8 billion of automobile tires from China, acting on a petition by the United Steelworkers union.

Existing rules must be enforced to gain support from lawmakers and the American public for future trade agreements, Obama said in the interview, when asked what he will tell China's President Hu Jintao at the G20 meeting next week in Pittsburgh.

"We've got to establish credibility and enforcement of the rules precisely because I want to further expand trade," Obama said. "And that is something that I think the Chinese government should understand."

#### China 'Highly Concerned'

China "is highly concerned about the negative effect the decision may have on its export companies," and will help tiremakers "overcome this difficulty," Zhong Shan, the vice minister of China's Ministry of Commerce, said yesterday in a statement.

The case brought by the steelworkers union was the largest so-called safeguard petition filed to protect U.S. producers from increasing imports from China. Union leaders and Democratic lawmakers said the decision demonstrates Obama's commitment to protecting U.S. workers and jobs.

U.S. retailers that rely on imports are "disappointed in the president's decision to bow to political pressure," Stephanie Lester, vice president of the Retail Industry Leaders Association, which represents companies such as Wal-Mart Stores Inc. and Target Corp., said in a statement.

The retailers hope administration officials "will be more judicious in their responses to any future safeguard petitions," she said.

#### 'Biting Their Nails'

Obama's decision on tires may encourage U.S. producers of apparel, steel or other goods to file similar safeguard complaints against imports from China, and spur China to retaliate against U.S. companies trying to do business there, said Robert Kapp, a Port Townsend, Washington-based business consultant specializing in China.

"There are 10 to 50 companies on the U.S. side biting their nails to the bone, hoping they are not caught up in this," Kapp said.

As long as China continues to subsidize its manufacturers and channel government funds into export-oriented businesses, trade friction with the U.S. will remain, said Jeremie Waterman, senior director for China at the U.S. Chamber of Commerce.

The safeguard complaints "are symptoms of broader problems in the U.S.-China relationship," he said in an interview yesterday. Obama's decision "is not likely to save a single job, but it's a legal and legitimate action."

#### 'Limit to Anger'

The U.S. and China will try to make sure the tensions that erupted over tires don't disrupt a commercial relationship that totaled \$409 billion last year, Kapp said. China, the second-largest U.S. trading partner after Canada, is also the largest holder of U.S. debt with \$776 billion.

"The Chinese will be angry," said Elliot Feldman, a partner with Baker Hostetler LLP in Washington, who writes a blog on China trade. "But there is a limit to their anger."

Feldman predicted China won't prevail in its complaint over the tire tariffs because Chinese officials accepted such "safeguard cases" when it joined the WTO.

"The U.S. is confident that our action is fully WTO-consistent," Carol Guthrie, a spokeswoman for the U.S. Trade Representative's office, said in an interview. The safeguards were part of "the deal China agreed to."

In safeguard cases, companies need to show only that imports are surging and not that the products benefit from subsidies or are being dumped at a discount.

#### Goodyear, Cooper

Some of the largest U.S. tire companies didn't join in the union's petition for relief from Chinese tire imports. Goodyear Tire & Rubber Co., the largest U.S. tiremaker, stayed neutral. Cooper Tire & Rubber Co., the second-largest U.S. tiremaker, opposed the relief. The company has a plant in China.

"We see positive implications for U.S. pricing," Deutsche Bank Group said in a report yesterday. "Tightening supplies of Chinese tires could exacerbate this phenomenon in the U.S."

The USA Poultry & Egg Export Council said China's move to investigate whether the U.S. sold poultry there for below-market prices was prompted partly by bad U.S. trade policies, including the tariffs on tires.

"Our own government is creating these problems more so than the Chinese," James Sumner, president of the group representing producers of 90 percent of U.S. chicken and egg exports, said in an interview yesterday. "We are upset with the way this has been handled by the administration."

### Report: Protectionist Measures Rise (WSJ)

By John W. Miller

[Wall Street Journal](#), September 15, 2009

BRUSSELS — This weekend's U.S.-China trade skirmish is just the tip of a coming protectionist iceberg, according to a report released Monday by Global Trade Alert, a team of trade analysts backed by independent think tanks, the World Bank and the U.K. government.

A report by the World Trade Organization, backed by its 153 members and also released Monday, found "slippage" in promises to abstain from protectionism, but drew less dramatic conclusions. (Read the report.)



Governments have planned 130 protectionist measures that have yet to be implemented, according to the GTA's research. These include state aid funds, higher tariffs, immigration restrictions and export subsidies.

For example, Russia has planned across-the-board tariff increases, South Africa is changing government purchasing rules to favor domestic firms owned by nonwhites, and Japan is rewriting sanitation policies in a way that will restrict food imports.

The variety of today's protectionism demarcates it from the famed tariff-based economic warfare of the 1930s. Economists say the bottom line isn't as dire as then, but that creeping protectionism presents a firm obstacle to economic recovery. Global trade is expected to shrink 10% in 2009.

That is why economists and politicians are paying close attention to trade terms as the world's richest nations prepare to meet at the Group of 20 summit in Pittsburgh Sept. 24-25.

This weekend, they received a reminder of what a trade war could look like. On Friday, the Obama administration announced that, starting Sept. 26, it would impose duties of between 25% and 35% on imports of tires from China for the next three years. It would essentially price out of the market 17% of all tires sold in the U.S., and force up the market price for consumers. On Monday, China said it would file a complaint at the WTO to protest the duties. The day before, Beijing announced antidumping investigations into U.S. exports of chicken and auto parts.

China "is testing Obama" on trade, said Nikolay Mizulin, a trade lawyer with Hogan & Hartson.

The GTA's numbers paint a worrying picture. The number of discriminatory trade laws outnumbers liberalizing trade laws six to one. Governments are applying protectionist measures at the rate of 60 per quarter. More than 90% of goods traded in the world have been affected by some sort of protectionist measure.

Chinese officials might have some grounds for complaint. Their country is the one targeted by the most governments for protectionist measures. Fifty-five countries have passed measures that hurt Chinese exports, more than any other country in the world. That is followed by the U.S., with 49 measures against it; and Japan, 46.

The GTA director, Switzerland-based economist Simon Evenett, says the key finding was that "protectionist measures are focused on so-called dying industries, such as automobiles, or agriculture." Special-purpose machinery and foods were the goods most affected.

Even members of the G-20, who took a no-protectionist pledge last year, have passed more than 100 "blatantly discriminatory measures," according to the report.

The WTO's report, the fourth on protectionism released by the Geneva-based body this year, is more conservative. It found 53 new measures implemented between July and September. The GTA found 95.

In restrained language, the WTO criticized "policy slippage" by member governments.

Despite emphatic pledges at the last G-20 summit in London in April, the world's richest economies continue to protect their own industries and try to disrupt foreign imports.

At the time, G-20 leaders pledged to "refrain from raising new barriers to investment to trade in goods and services, imposing new export restrictions. . . We extend this pledge to the end of 2010."

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## A Protectionist President (WSJ)

**Like Hoover, Obama is abdicating U.S. trade leadership.**

[Wall Street Journal](#), September 15, 2009

President Obama traveled to Wall Street yesterday to press his case for more financial regulation, but the bigger economic issue of the day concerned other White House policies. To wit, what does it mean for the world economy if America now has its first protectionist President since Herbert Hoover?

The smell of trade war is suddenly in the air. Mr. Obama slapped a 35% tariff on Chinese tires Friday night, and China responded on the weekend by threatening to retaliate against U.S. chickens and auto parts. That followed French President Nicolas Sarkozy's demand on Thursday that Europe impose a carbon tariff on imports from countries that don't follow its cap-and-trade diktats. "We need to impose a carbon tax at [Europe's] border. I will lead that battle," he said.

Mr. Sarkozy was following U.S. Energy Secretary Steven Chu, who has endorsed a carbon tax on imports, and the U.S. House of Representatives, which passed a carbon tariff as part of its cap-and-tax bill. This in turn followed the "Buy American" provisions of the stimulus, which has incensed much of Canada; Congress's bill to ban Mexican trucks from U.S. roads in direct violation of Nafta, prompting Mexico to retaliate against U.S. farm and kitchen goods; and the must-make-cars-in-America provisions of the auto bailouts. Meanwhile, U.S. trade pacts with Colombia, Panama and South Korea languish in Congress.

Through all of this Mr. Obama has either said nothing or objected so feebly that Congress has assumed he doesn't mean it. Despite his pro-forma demurrals, Mr. Obama's actions and nonactions are telling the world that the U.S. is abandoning the global leadership on trade that Presidents of both parties have worked to maintain since the 1930s. His advisers whisper that their man is merely playing a little tactical domestic politics, but he is playing with fire, as the last 80 years of trade history should tell him. \*\*\*

The modern free-trade era began during the Great Depression, after the catastrophe of the Smoot-Hawley tariff of June 1930. Hoover also thought he was shrewdly playing



tactical politics by adopting a tariff that the economist Joseph Schumpeter said was the "household remedy" of the Republican Party at the time. But the tariff ignited a beggar-thy-neighbor reaction around the world, and the flow of global goods and services collapsed.

FDR's Secretary of State Cordell Hull recognized the damage, and he began rebuilding a pro-trade consensus with a series of bilateral accords in the 1930s. In the aftermath of World War II, John Maynard Keynes, Harry Dexter White and others on both sides of the Atlantic continued this progress by negotiating the Bretton Woods currency accords and creating the Global Agreement on Tariffs and Trade.

Like Britain in the 19th century, the U.S. has been the linchpin of this liberal trading order that despite occasional setbacks has moved in the direction of lower tariffs and fewer nontariff barriers. As the world's largest economy, the U.S. has largely kept its market open, using access to U.S. consumers as a lever to open other countries to foreign goods and services. Even as Big Labor broke with this consensus, Bill Clinton continued this bipartisan tradition by supporting Nafta, and prodding Congress to ratify the World Trade Organization and most-favored nation trading status for China.

Following America's lead, countries that were once largely closed economically-especially China and India-have in turn opened up to foreign goods and services. The result has been an explosion in world trade, especially since the 1980s, as the nearby chart makes clear. This boom has coincided with rising incomes in countries connected by trade and the free flow of capital, especially in the developing world but also in America. While some U.S. jobs have vanished, new industries have emerged, and the U.S. has maintained its lead in manufacturing productivity. \*\*\*

This 80-year history of free-trade progress is now under threat from the global recession and Mr. Obama's abdication of U.S. leadership. Labor's antitrade views now dominate in the Democratic Congress and liberal think tanks. As ominous, protectionism is increasingly justified by Democratic economists on political grounds.

Paul Krugman, the chief economist for House Democrats, has endorsed a carbon tariff. And Clyde Prestowitz, who insisted in the 1980s that Japanese mercantilism would rule the world, went so far as to argue in the Financial Times last week that imposing tariffs on China would strike a blow for free trade. As economic logic, this compares to the argument that the way to reduce government health-care spending is to pass a new trillion-dollar entitlement.

President Bush and his trade negotiator Robert Zoellick also claimed that the protectionism of their 2001 steel tariffs would lead to more free-trade support, but the move merely exposed U.S. hypocrisy and undermined global trade talks. The reality is that without the U.S. leading by example, the

world trading order is likely to deteriorate into every country for itself. This is especially dangerous amid a global recession in which world merchandise trade volume fell by roughly 33% from the second quarter of 2008 to June 2009. Reviving trade flows is crucial to restoring global growth.

Mr. Obama may not intend to start a trade war, but then Hoover didn't set out to pick one either. His political abdication is what made it possible, however, and trade passions once unleashed can be impossible to control. On his present course, President Obama is giving the world every reason to conclude he is a protectionist.

## **China Watched For Sign Of New Leader (NYT)**

By Michael Wines

[New York Times](#), September 15, 2009

BEIJING - China's governing Communist Party will convene its annual policy meeting on Tuesday with a sober, if not soporific, mandate to root out government corruption and make the party adapt to changing times.

But lurking in the background is a more compelling topic: Who will become China's next ruler in 2012?

Analysts will watch the meeting, the annual plenary session of the party's 17th Central Committee, to see whether Vice President Xi Jinping is given the additional title of vice chairman of the Central Military Commission.

Such an appointment would be seen as a confirmation that Mr. Xi, 56, is set to succeed President Hu Jintao when Mr. Hu's second term ends in 2012. Any Chinese leader must have experience in leading the military, which is under party control. Mr. Hu was awarded the same post in 1999, three years before he became the party's general secretary in 2002.

Yet Chinese politics are so opaque that no outsider can say for certain that Mr. Xi, the presumed heir, will win the position - or that there will be a mark against him should he not.

"There is no foregone conclusion these days," said a political analyst at a Beijing institution tied to the Communist Party.

Whether that is true is a central question hanging over the meeting this week. Since the founding of the People's Republic 60 years ago, the Communist Party has governed both the Chinese people and itself strictly from the top down, with all important actions approved by a handful of party leaders united by power and personal relationships.

Officially, at least, the 2,000 or more Central Committee members meeting this week have been given an agenda to shake up that model. The members are supposed to prepare plans to bring democracy to the party's inner deliberations, choosing new leaders by consensus, not by the dictates of those at the top.

"A new crop of leaders who grew up after the reform and opening up started are going to step into new leadership



roles" in 2012, Zhen Xiaoying, a professor at the Communist Party's central party school, stated in a recent article in the state-run newspaper People's Daily. He was referring to the period of economic reform that began in 1978.

"The era of relying on authority and personal charm to run the party is over," he said.

Mr. Xi and Mr. Hu epitomize that shift. Mr. Hu, 66, joined the party in 1964, two years before Mao's Cultural Revolution brought China a decade of social and political chaos. Mr. Xi joined in 1974, two years after President Richard M. Nixon first visited Beijing and China began to reconnect to the outside world.

Mr. Hu was the party's designated successor to Jiang Zemin, who ruled a battered-down China after the bloody suppression of the 1989 Tiananmen Square protests.

The process of political succession in China's one-party system is always shrouded in intrigue. The party elite elevated Mr. Xi to the ruling Politburo Standing Committee in 2007 and gave him the highest rank of any leader of his age group, signaling that he had been chosen to succeed Mr. Hu when the latter's second five-year stint as top leader ends in 2012. But the party's internal deliberations on such matters are in the highest order of state secret, and there has been no public confirmation of Mr. Xi's status.

Whatever changes the plenum orders are unlikely to resemble democracy as Westerners know it. China has long shunned Western democracy, branding it anarchy, and embraced what it calls "democratic centralism" - essentially, passing carefully reviewed suggestions from lower-level party organs to leaders at the top.

Xinhua, the official Chinese news agency, recently quoted Mr. Hu as saying that democratic centralism would remain China's guiding version of democracy. One liberal political analyst who has called for a more open Chinese society, Liu Junning, argued in a telephone interview that prospects for genuine changes this week were dim.

"I think it is important in China first to strengthen formal institutions such as the legislature and the court system, rather than informal structures such as the ruling party," he said. "Let's see if there are any open factions within the party - any open opposition, any open minorities."

China's governing elite, like any group, has factions, but they are tightly cloaked. Mr. Xi, for example, is widely believed to be the favorite of Mr. Jiang, who still has considerable sway in retirement.

After Mao wreaked havoc with the party hierarchy by designating and then toppling multiple successors, the party's elite clawed back the power to oversee political succession. Mr. Hu was effectively designated China's future top leader in 1992, leaving Mr. Jiang, then the new No. 1 official, little choice in the matter. Likewise, Mr. Hu's apparent favorite, Deputy Prime Minister Li Keqiang, was not selected as his

future successor, though Mr. Li is now considered likely to be the next prime minister.

The plenum will be closely watched for any signs that internal politicking has kept the succession contest alive.

The analyst at the Communist Party institution, who spoke on condition of anonymity because he was not authorized to speak to the press, said he believed that Mr. Xi might not win the military post this week. "If he doesn't," he said, "it would show that there's more of a balance of power. But it would not mean that Xi lost the opportunity."

The plenum is also scheduled to take up anticorruption measures that could include a requirement that some party officials disclose their holdings of property or financial instruments.