# In Kickback Inquiry, S.E.C. Is Said to Seek to Curb Financier's Wall St. Work

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*An investigation that could put a smudge on an insider's career.*

charges against Mr. Rattner or drop the case altogether.

The attorney's general's office is not involved in the S.E.C. talks: Mr. Rattner was granted immunity from criminal action by Mr. Cuomo's office in return for his testimony before a grand jury, said a person briefed on the matter. That deal has complicated Mr. Cuomo's case against Mr. Rattner.

But Mr. Rattner's immunity hinges on whether his testimony was accurate. And he could still face civil penalties from the attorney general.

Spokesmen for the attorney general's office and the S.E.C. declined to comment. A spokesman for Mr. Rattner also declined to comment.

The Rattner case stems from a four-year-old investigation into the conduct of aides to the former New York comptroller Alan G. Hevesi, who are accused of reaping millions of dollars from investment companies seeking to do business with the state.

Several private equity firms, including the Carlyle Group, have settled with the government, paying multimillion-dollar fines. But none of their executives were barred from the financial industry.

Even being barred temporarily would be a blow to Mr. Rattner's career and could endanger several of his pursuits. He will soon publish a book about his experience trying to restructure the American auto industry, which was widely praised. And he is playing a vital role in creating an investment office for Mayor Michael R. Bloomberg of New York, which will oversee billions of dollars for the mayor's ambitious new philanthropic foundation.

Under the proposed S.E.C. settlement, Mr. Rattner, 57, would most likely be barred from advising Mr. Bloomberg on his finances, people briefed on the matter said. A spokesman for the mayor declined to comment.

Mr. Rattner's troubles could also prove embarrassing for some well-known Democratic politicians. He and his wife, Maureen White, have become influential donors, turning their sprawling Fifth Avenue apartment into something of a salon frequented by leading figures, including Hillary Rodham Clinton and Harold E. Ford Jr., the former Tennessee representative.

A former reporter for The New York Times, Mr. Rattner went to work on Wall Street in the early 1980s, making it to the boardroom of top firms like the investment bank Lazard. He specialized in advising media companies on strategy, and in 2000, started Quadrangle to invest in media companies. For several years, Quadrangle took on the task of managing the multibillion-dollar fortune of Mr. Bloomberg.

MARY ALTAFFER/ASSOCIATED PRESS

Andrew Cuomo, New York's attorney general, and the federal government have been investigating the Quadrangle Group.

Quadrangle has acknowledged paying more than $1 million to Henry Morris, one of Mr. Hevesi's associates, in exchange for his help securing a $100 million investment from the state's pension system. Quadrangle, in turn, earned $5 million in fees for managing that money.

Mr. Cuomo's office, in its settlement with Quadrangle, said that Mr. Rattner had arranged for those payments. Mr. Rattner's lawyer has denied the attorney general's "characterization of events." Mr. Cuomo's office said that no current employees of Quadrangle were involved in the scheme and that the company's current executives were cooperating in the investigation.

Quadrangle has rebuked Mr. Rattner's conduct in unusually harsh terms, calling it "inappropriate, wrong and unethical."

# In Spain, Struggling To Find Path To Recovery

From First Business Page

ognizing this crisis and continues to make a mistake in the 'drip by drip' measures to solve it," said Jordi Sevilla, one of Mr. Zapatero's former ministers. "You can only get credibility by presenting one strong and coherent package."

Coming up with something strong and coherent that would satisfy all the various constituencies is no easy task. And Mr. Zapatero is under pressure from all sides.

In light of the international rescue package for Greece, investors want Spain to demonstrate that it can cut its bloated deficit fast enough to avoid emergency aid. Given the size of the Spanish economy, a rescue would be much more costly than the Greek bailout. Yet a debt default or severe restructuring would be even worse, crippling foreign banks whose lending underpinned Spain's debt splurge.

In domestic politics, meanwhile, the center-right Popular Party opposition is smelling blood. The parliamentary review last week of the spending cuts, which Mr. Zapatero won by a single vote, suggests that an even bigger struggle looms in budgetary talks later this year, perhaps even requiring him to call early elections.

In fact, most Spaniards now say they would like to cast their vote again, according to an opinion poll conducted by Sigma Dos and published Sunday by the newspaper El Mundo.

Mr. Zapatero, whose term in office is due to end in 2012, requires support from smaller parties to pass legislation because his Socialist party does not command a majority in Parliament.

Adding to the government's woes, labor unions, a mainstay of the Socialists, have started to rally against Mr. Zapatero's plans for change.

Civil servants are expected to strike next week over a 5 percent cut in their wages. Unions also warned last week that a general strike would be their response to any "hurtful" labor market changes.

Even though early elections are rare in Spain, they are now "absolutely" needed, said José María Aznar, the center-right former prime minister who led Spain into the euro.

MANU FERNANDEZ/ASSOCIATED PRESS


J.L. PINO/EFE, VIA EUROPEAN PRESSPHOTO AGENCY

In Barcelona, public workers on Tuesday protested the government's economic measures. Left, Prime Minister José Luis Rodríguez Zapatero's spending cuts passed in Parliament by one vote.

"The problem is not if we have a government of the right or the left," Mr. Aznar said. "It's a question of competence, and at the moment we just don't have a competent government. Living six more months with this government is taking an enormous risk for this country."

The 19.7 percent jobless rate in Spain is almost twice the euro zone average of 10.1 percent — even as Spanish companies face some of Europe's highest costs for dismissing workers with open-ended contracts, according to the World Bank.

Trying to avoid rigid labor rules, employers have shifted a quarter of the country's work force to temporary contracts, helping explain the sharp swing in Spain's employment level. The result has been to pass the pain mostly on to younger workers because older employees are generally well protected.

"For 10 years, we were the machine for creating employment in Europe, and now we have turned into the machine for destroying employment," said Ángel Torres Torres, secretary general for economic policy and international affairs in the Spanish Economics Ministry.

Mr. Zapatero has pledged to cut the budget deficit to 3 percent of gross domestic product by 2013 — the limit under euro rules — from 11.2 percent in 2009. Spain's central bank said on Monday the latest austerity measures "strengthened substantially" the likelihood of reaching that goal.

But the government also lowered its 2011 growth forecast on Friday to 1.3 percent from 1.8 percent. Moreover, many private economists are skeptical of those projections, which suggest that Spain could fall far short of its deficit-cutting goals. Mr. Zapatero recently warned the rich to expect higher taxes, an indication that his austerity package was not yet complete.

In the government's defense, José Manuel Campa, the deputy finance minister, argued that officials were not dithering, but could only introduce changes as fast as Spain's divisive political context allowed.

"We're a government that does not have a parliamentary majority, so we need to think about the right timing for every measure," he said.

In neighboring Portugal, the main rival parties recently agreed on an austerity package, but in Spain the Popular Party voted against spending cuts last week, without convincing most analysts that it had anything better to offer.

With 25 billion euros in refinancing coming due in July and with Spain's cost for issuing new debt now elevated by more than a full percentage point, Mr. Campa acknowledged that even the government's best efforts may not appease impatient investors.

"We have to get ahead of the curve for the markets," he conceded.

Part of what worries investors is the tremendous overhang of souring real estate loans — the residue of Spain's collapsed property boom — that languish on the balance sheets of the country's banks.

José García Montalvo, an economist in Barcelona, estimates that of the 450 billion euros in loans to the property sector, 165 billion euros are problematic and this number is bound to rise if real estate prices keep falling.

Mr. Campa cited an International Monetary Fund stress test that concluded Spanish banks would need to raise no more than 25 billion euros against bad loans.

Spaniards once thought their country was largely insulated from the debt crises in Ireland and Greece. Their mood has changed from giddy, when their homes tripled in value and they were protected by an elaborate safety net of public aid and family support, to grim.

Always a country of savers — in contrast to Portugal and Greece — Spaniards have begun to sock away even more. Household savings have almost doubled in two years to 19 percent, according to data from Spain's central bank.

Now, as they make their own sacrifices, some wonder whether Mr. Zapatero, who has been broadly criticized for not owning up to the seriousness of the crisis, can bring himself and other officials, particularly those in the regional governments, to do the same.

"He spends money on everything, from cars for his ministers to recreation facilities for the trade unions," said Adriano Molina, a retired lawyer in Madrid. "But we can no longer afford all that."



# Europe's Debt Crisis Starts to Weigh on Manufacturing

By JACK EWING

FRANKFURT — Signs emerged Tuesday that Europe's sovereign debt crisis was feeding through into the euro area economy, as unemployment rose and a survey pointed to a slowdown in the recovery of manufacturing, with a sharp decline in Greece.

While Greece accounts for less than 3 percent of the euro area gross domestic product, a survey of purchasing managers by Markit Economics pointed to a plunge in manufacturing that would make it that much more difficult for the country to solve the debt problems that are at the heart of Europe's crisis.

Manufacturing growth in Spain also may be losing momentum, according to Markit.

Meanwhile, Spain retained the dubious distinction of being the euro zone country with the highest unemployment rate — 19.7 percent, compared with an average of 10.1 percent for the 16 countries using the single currency. Unemployment for the euro area as a whole in April was up from 10 percent in March, according to Eurostat, the European Union's statistics agency.


ANDREAS RENTZ/GETTY IMAGES

A worker at a home appliance factory in Nauen, Germany. A survey indicated a slowdown in the growth of manufacturing.

The data reinforced widespread concern among economists that austerity measures in Europe's most heavily indebted countries would stunt growth, reducing tax revenue that Greece, Spain, Portugal and Ireland need to service their debts.

The surveys show "the speed with which uncertainty surrounding the sovereign debt crisis appears to have hit business activity," Chris Williamson, chief economist at Markit in London, said in a statement.

The decline in the growth indicators was the biggest since the onset of the financial crisis, he said, though all countries except Greece continued to show manufacturing expansion.

Markit also revised down previously released data for the euro area. Markit's index of purchasing manager sentiment in the euro zone fell to a three-month low of 55.8 in May compared with 55.9 in an earlier estimate and 57.6 in April. But a score above 50 still points to expansion.

At the same time, a poll of purchasing managers in Britain indicated solid growth in manufacturing, while Markit's survey in Germany showed growth slowing but still strong. The data suggested that there could be sharp divergence between the healthier northern countries and the heavily indebted nations on Europe's southern rim.

"Some countries are doing way better than others," said Christel Aranda-Hassel, an analyst in London for Credit Suisse.

She noted that the surveys indicated continued growth in most countries, albeit at a slower pace.

"Over all, it's way too early to say the crisis is erasing the recovery story," Ms. Aranda-Hassel said. "If anything, the weakness of the euro will continue to support manufacturing."