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France and U.K. find few allies for bonus taxes

The British special tax on banker bonuses unveiled this week received crucial backing from France, but other important countries have so far declined to follow the U.K.'s bid to curtail banker compensation.

By Sara Schaefer Muñoz in London, David Gauthier-Villars in Paris and Martin Vaughan in Washington

Reaction to the U.K.'s move underscored how difficult it is to coordinate reform efforts globally. While France said it would likely enact something similar, Germany expressed support for the concept but had no immediate plans to do anything similar. On the other side of the Atlantic, the U.S. showed no signs of following suit.

Germany's chancellor, Angela Merkel, called the special tax "charming"—but more for London than Frankfurt. "The step might assist learning in the City of London."

France, which was among the first countries to call for international rules aimed at capping bonuses, said Thursday that the U.K. move made it easier to consider a French tax. But French officials had made clear they wouldn't act single-handedly for fear of prompting a trader exodus.

"With Europe's largest financial center planning a bonus tax, we can shift from competition to cooperation on this matter," said a spokesman for French President Nicolas Sarkozy.

Compensation has emerged as a key issue in the debate about financial-sector reform. The Financial Stability Board, created by the Group of 20 nations in order to coordinate regulatory reform, has issued pay guidelines and says it will work aggressively to see that they are followed starting in 2010.

These rules, however, focus primarily on responsibly rewarding risk and paying careful attention to how compensation affects capital levels. There is scant attention paid to the size or timing of bonus payments, which is what the U.K. special tax is aimed at.

In the U.S., there is little indication that politicians will follow the U.K.'s lead. Congress briefly considered imposing a special tax on bonuses earlier this year amid a pay flap at government-controlled insurer American International Group Inc. But Congress dropped the idea after the furor about pay quieted down.

Paul Miller, managing director of midsize investment bank FBR Capital Markets in Washington, D.C., said there seems to be a lack of political will to push ahead with a bonus tax in the U.S., possibly because it could be more difficult to enforce in a place like the U.S. compared with the smaller financial-services sector of the U.K.

"You'll see politicians talk about it, but they won't actually do it," he said.

The White House has talked about getting Wall Street to pay for cleaning up after the financial crisis, though without providing specifics. A bill moving through

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A Nobel laureate and his prize

Associated Press

Having delivered a speech reconciling his status as a war-time leader with his Nobel Peace Prize, Barack Obama planned to leave Norway Friday, skipping some usual ceremonies. **See article, page 3.**

Goldman bows to pay pressure

By Joe Bel Bruno

NEW YORK—**Goldman Sachs Group** Inc. on Thursday said its top 30 executives won't receive a cash bonus for 2009 as the Wall Street bank responds to public pressure about runaway compensation packages.

The move approved by Goldman's board is an attempt to quell public criticism about multimillion-dollar bonus packages expected to be doled out this year. The firm's 31,000 employees are on track to earn an average of more than $700,000 apiece this year, the most in its history.

Investors will also get a say on pay: Goldman granted shareholders an advisory vote on the company's compensation policies. The firm has been in private discussions with major investors during the past several weeks in an effort to ward off backlash over its high-flying compensation pool.

One complaint is that bankers shouldn't reap record compensation packages just a year after a financial crisis that required a massive government rescue of Wall Street. Goldman has set aside about $17 billion so far this year for pay and bonuses.

Lloyd Blankfein, Goldman's chairman and chief executive, has given a number of speeches this year to assuage critics about high compensation packages. He said the changes made for its 30-person management committee will align payouts with long-term performance and the interests of the firm.

"We believe our compensation policies are the strongest in our industry and ensure that compensation accurately reflects the firm's performance and incentivize behavior that is in the public's and our shareholders' best interests," said Mr. Blankfein, who didn't take a bonus last year.

The new compensation plan won't affect a majority of Goldman's staff, allowing top-earning bankers to again reap massive cash-and-stock plans.

Goldman's board voted to make all discretionary compensation for the management committee, which comprises all global divisional and regional leadership, in the form of "shares at risk" that must be held for five years, a longer term than is normal on Wall Street.

The Quirk

U.S. immigration caseworker AA0089 has some thoughts about what is art. **Page 29**

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Obama, Oslo, and a world without nukes. **Page 12**

Oracle attacks EU on flaws in Sun bid

By Charles Forelle

BRUSSELS—**Oracle** Corp. is digging in against the European Union's objections to its bid for **Sun Microsystems** Inc.

In a closed-door hearing that began Thursday and is to continue Friday, and in legal papers that haven't been made public, the U.S.-based database giant is mounting a broad attack on the EU's proposition that Sun's MySQL is an important competitive force in the database industry that market-leader Oracle shouldn't be allowed to own.

Oracle contends that the EU's executive arm, the European Commission, misrepresented the opinions of database users and gave a "distorted view" of the market by "selectively" quoting from surveys as it put together its case.

U.S. authorities have cleared the $7.4 billion bid, but the EU's concerns have delayed it.

Complaints that the EU is selective in its use of evidence are common fare from companies that find themselves in the regulator's cross hairs. Recently, **Intel** Corp. claimed the EU ignored exculpatory material in its antitrust finding and €1.06 billion ($1.56 billion) fine against the chip maker.

In a legal filing reviewed by The Wall Street Journal, Oracle cites two customers whose survey responses were used by the EU as evidence against

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PAGE TWO

Greek troubles could boost euro zone

[Agenda]

By John Stevens

Like the wind that drives Odysseus toward the Underworld, the Dubai debacle has raised the specter of a Greek government default.

Is the moment of truth—when the euro's flimsy fiscal architecture is finally exposed, or addressed, after so many false alarms—approaching? And not just for Greece: What of the single currency's other overborrowed existing members? What of, even more, those countries outside the zone, but that are committed to eventual membership, such as Hungary? And what of the principal European Union nation with an open-ended opt-out from participation, the U.K., with a current fiscal deficit greater even than that of Greece? Finally, what of the impact beyond Europe, on the dollar, on Asian currencies, perhaps even on the very principle of fiat money itself?

Fortunately, given so much is at stake, the prospects that the Greeks' current difficulties will lead to a strengthening of the euro system are good. It is easy to see the sources of domestic opposition to Athens making the necessary draconian cuts in public expenditure. But equally, it is possible to discern a growing political and, more to the point, popular, recognition that painful measures have become imperative. The European Central Bank, the European Commission and the ad hoc council of the euro zone, above all the French and German finance ministers acting together, are unanimous in taking an admirably aggressive line. Talk of ring-fencing Greece and forcing it onto the tender mercies of the International Monetary Fund is now commonplace in Frankfurt, Brussels, Paris and Berlin.

What would ensure, this time, the desired effect, not just with regard to the Greeks, but also more widely, is a renewed effort to give the euro zone a fully

Bloomberg News

Greece's central bank in Athens

integrated identity in international capital markets. The biggest brake on the European single currency's reserve status is that member states continue to borrow in their own names, thereby denying euro-denominated sovereign debt the maximum possible trading depth. Creating a common issuing authority—the control of which would be on principles analogous to those of the ECB, and the obligations of which could be shared between member states according to a fixed formula, such as their portion of the total outstanding euro-zone debt for the conversion of historic liabilities, and, perhaps, their portion of euro-zone GDP at the date of maturity, for new paper—would address this problem and transform the fiscal rigor of the entire system.

> **It is possible to discern a growing recognition that painful measures have become imperative**

Such a notion has obviously been resisted, by countries such as France and Germany, as it certainly would increase their financing costs and could compromise the no bailout rules of the Maastricht Treaty.

The premium of diluting their creditworthiness with Greece and others, has plainly exceeded any discount from enhanced market liquidity, while there has been no political will for what would amount to Franco-German direction of Greek and other national fiscal policies. However, with interest rates now very low, this differential has never been more modest, and the political barriers to supranational direction of government borrowing, which would go far beyond mere peer pressure, are falling away fast. Of course, France and Germany might not always agree as to how to use the greatly enhanced powers over the European economy such a system would grant them, but institutionalizing their debate, in Europe's time-honored tradition of integration, would be plainly preferable to the status quo.

It would also make it much easier for them to resolve the problems posed by eastern European countries like Hungary. Given the exposure of western euro-zone, and especially German, banks to Hungarian debt, it is a fine judgment whether setting now a definitive timetable for replacing the forint with the euro—even if this meant some loosening of the Maastricht criteria—wouldn't be a sounder strategy than bailing out these institutions directly and hiding behind the IMF. The idea that this would set a poor precedent may be irrelevant, given that further enlargement of the EU, apart from the Balkans, seems off the agenda for the foreseeable future. But the crucial point is that a reinforced framework of euro-zone fiscal discipline, through a single government-funding mechanism, would clearly offset any fears that such a solution was a soft option.

This could mean that British entry into the euro zone would be easier nominally, as regard to the initial fiscal criteria, if not politically, as regard to the commitment to continuing supranational supervision. It should mean that, five years from now, Britain could be the only EU nation not in the euro zone.

Would such a situation be sustainable within the spirit, as opposed to the letter, of the Single Market? I doubt it.

Moreover, if the real sovereign debt and currency crisis in waiting is not Greece and the euro, or Hungary and the forint, or even Britain and sterling, but the U.S. and the dollar, then a greater reserve role for the European single currency, which the co-ordination of European public-sector borrowing would undoubtedly ensure, must greatly ease the necessary moves from a unipolar to a multipolar world monetary system. Odysseus makes it to Ithaca in the end.

—John Stevens is a former investment banker and politician who writes extensively on European affairs, principally the politics and economics of the euro.

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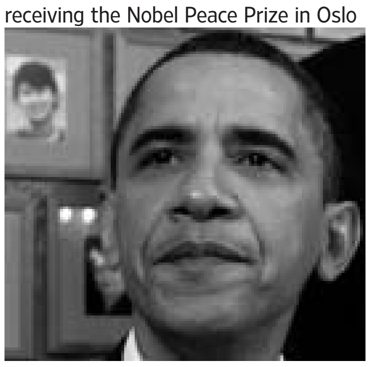
"Reagan ends the Cold War and gets nothing. Obama does nothing and gets a Nobel Peace Prize?"

Reader **David Reller** on Barack Obama receiving the Nobel Peace Prize in Oslo



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Vote and discuss: How would you grade Obama's Nobel Peace Prize acceptance speech?

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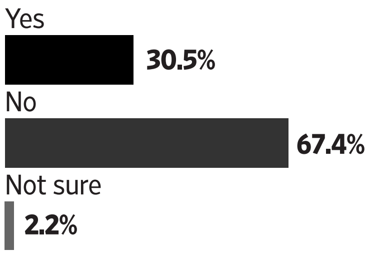

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Obama accepts prize

U.S. President outlines the limits of nonviolence in Oslo speech

By Elizabeth Williamson

OSLO—President Barack Obama accepted the Nobel Peace Prize on Thursday, defending his ability to seek peace while fighting two wars abroad.

"We must begin by acknowledging the hard truth that we will not eradicate violent conflict in our lifetimes. There will be times when nations—acting individually or in concert—will find the use of force not only necessary but morally justified," he said.

While espousing the moral standard of nonviolence as practiced by 1964 Nobel laureate Martin Luther King, Jr., Mr. Obama described its limits.

"As a head of state sworn to protect and defend my nation, I cannot be guided by their examples alone," he said, speaking in the cavernous marble Oslo City Hall.

"I face the world as it is, and cannot stand idle in the face of threats to the American people. For make no mistake: Evil does exist in the world. A nonviolent movement could not have halted Hitler's armies. Negotiations cannot convince al Qaeda's leaders to lay down their arms. To say that force is sometimes necessary is not a call to cynicism—it is a recognition of history; the imperfections of man and the limits of reason."

Underscoring the difficulty inherent in accepting the world's highest honor for peacemaking while at war, Mr. Obama told reporters Thursday before accepting the prize that U.S. withdrawal of troops from Afghanistan beginning in July 2011 wouldn't be steep, but gradual. He stressed that the U.S. would maintain a presence in Afghanistan, likely for years to come.

The pace, scope and tactics of a withdrawal, he said, "are all going to be conditions-based...it's very important to understand we're not going to see some sharp cliff," meaning a rapid reduction in forces, he said during a news conference with Norwegian Prime Minister Jens Stoltenberg.

The Afghan government "is still going to need our support" so that 2011 "will signal a shift in our mission."

In presenting the prize, Nobel Committee Chair Thorbjorn Jagland justified the selection of Mr. Obama, saying that over its centurylong history the prize has gone to those who have spent their lives struggling for peace, as well as those who display world leadership toward that goal.

"Who has done most for peace in the past year? If the question is put in Nobel's terms...it had to be U.S. President Barack Obama," Mr. Jagland said. "Political leaders must be able to think beyond the confines of realpolitik."

In awarding Mr. Obama the prize in October, the committee praised his expressed commitment to nuclear disarmament. The committee recognized what it said was Mr. Obama's advocacy for "a global response to global challenges," and efforts to enhance communication with other nations and the Muslim world.

Political observers on both the right and left say the award this year was in part meant as a repudiation by the left-leaning Nobel committee of the unilateral approach sometimes favored by the George W. Bush administration.

Mr. Obama saluted the Iran demonstrators in his speech.

"We will bear witness to the quiet dignity of reformers like Aung Sang Suu Kyi; to the bravery of Zimbabweans who cast their ballots in the face of beatings; to the hundreds of thousands who have marched silently through the streets of Iran. It is telling that the leaders of these governments fear the aspirations of their own people more than the power of any other nation. And it is the responsibility of all free people and free nations to make clear to these movements that hope and history are on their side," he said.

It is not unheard-of for a wartime leader to be nominated: In 1953, the American laureate George Marshall, General of the Army during World War II and architect of the post-World War II Marshall Plan, was jeered during the ceremony for his role in guiding the war.

Reuters

U.S. President and Nobel Peace Prize laureate Barack Obama speaks with his wife, Michelle Obama, after delivering his Nobel lecture in Oslo on Thursday.

Cool reaction to bonus tax

Continued from first page

Congress would levy fees on big financial firms to pay for unwinding collapsing institutions. And some lawmakers continue to push the idea of a tax on financial transactions, a notion backed by France and Germany, but not the U.K.

Instead of imposing special taxes, the administration has curbed pay and bonuses for executives at the firms receiving the most taxpayer funding, such as AIG and Citigroup Inc. Further action is likely to come from regulators, not lawmakers, led by the Federal Reserve.

Despite the cool reception to the bonus tax from the U.S. and Germany, U.K. Treasury officials assured U.K. banks that they are trying to get other governments to adopt similar measures to ensure a level playing field when it comes to hiring, a person close to the matter said.

In the U.K., Treasury officials slapped on the tax after banks found creative ways to skirt initial bonus restrictions. It is a 50% tax that banks must pay on any portion of a discretionary bonus above £25,000, or around $40,000, through April 5, 2010. Bonuses that are guaranteed by contract are exempt. Those are usually a small portion of a bank's bonuses, compensation experts say.

The move comes as Britain's Labour Party faces an election next year and is aiming to tap into public anger over what is seen as bankers' culture of excessive pay.

The move affects this year's compensation structure at banks such as Royal Bank of Scotland Group PLC, which is 70%-owned by the U.K. government after a multibillion-pound bailout. The troubled bank was the first to implement significant overhaul of its pay policies, curtailing most cash bonuses and deferring large portions of awards. But as a bone to employees, the bank offered loans against deferred awards, according to people close to the matter. This will now be subject to tax under the new U.K. rule.

An RBS spokesman said the same option had been offered last year and few employees took advantage of it.

Other banks have figured a way around the issue by raising salaries. Barclays PLC is planning to raise its base salaries for managing directors and others in order to make up for lower bonuses, in some cases doubling them, people familiar with the matter said. U.S. banks such as Morgan Stanley and Citigroup have also raised some base salaries this year.

—David Crawford in Berlin contributed to this article.

A bite from bonuses

Basics of the U.K.'s bonus tax

- **A 50% tax on individual bonuses, paid by the banks.**
- **First £25,000 of bonus will be exempt.**
- **Applies to noncash rewards like shares.**
- **Does not apply to bonuses that are guaranteed by contract.**
- **A one-off tax, ending April 5.**
- **Banks will be closely watched for compliance by Treasury and tax officials.**
- **U.K. expects to raise £500 million with this tax.**

Agence France-Presse/Getty Images

While pledging support for Greece, German leader Angela Merkel, seen here with Swedish Prime Minister Fredrik Reinfeldt, faces a difficult budget of her own.

Merkel says EU backs Greece

German leader's comments assuage some unease about how Athens will resolve its debt crisis

By Geoffrey T. Smith

FRANKFURT—German Chancellor Angela Merkel indicated Thursday that healthier members of the euro zone aren't prepared to abandon Greece and other heavily indebted countries in the currency bloc.

Ms. Merkel's comments were the first by a senior European figure in recent days to focus on shared obligations among members of Europe's monetary union, after a flurry of statements by European politicians and ECB officials emphasizing Greece's need to act.

"What happens in a member country influences all the others, particularly when you have a common currency," Mrs. Merkel said.

The chancellor's comments countered a growing sense of unease in the bond market that Greece, which angered its partners in the European Union with a massive upward revision to its budget deficit only a few weeks ago, might be left to default by an EU no longer prepared to tolerate the country's chronic deficits. Similar concerns had spread to other countries with weak public finances, such as Ireland and Spain.

Earlier Thursday, the European Central Bank warned that the overall direction of euro-zone public-debt levels is unsustainable and disavowed any responsibility for supporting profligate member states.

"The high deficits of countries such as Greece, Ireland and Spain are a reason for concern to us," said ECB governing council member Ewald Nowotny. "It's not the ECB's job to help defuse these situations."

The comments were a reminder of longstanding worries about Europe's ability to service a large debt burden amid a future that looks likely to be characterized by low growth and aging or declining populations.

Ratings firms Fitch and Standard & Poor's have downgraded Greek debt. S&P cut its outlook for Spain's debt to negative.

But as EU heads of government gathered for a summit meeting in Brussels, Luxembourg's Prime Minister Jean-Claude Juncker, who heads the group of euro-zone finance ministers, said he can "totally exclude a state bankruptcy in Greece." Belgian Finance Minister Didier Reynders said at the group's next monthly meeting, on Jan. 19, it will have to consider how to help Greece.

Bond markets across the region recovered after their initial setback, on signs of political support for weaker member states.

By midafternoon, the yield spread for Greece's 10-year bonds over similar German debt had narrowed to 232 basis points, from nearly 250 basis points at Wednesday's close. A basis point is one-hundredth of a percentage point.

Analyst concerns over the Greek situation revolve to a degree around the apparent unwillingness of the population to accept the kind of austerity that Ireland unveiled Wednesday, when it announced €4 billion ($6 billion) of spending cuts, equivalent to nearly 2.5% of GDP.

In Ireland, there appears to be widespread acceptance that the cuts are necessary.

Prime Minister Brian Cowen's Irish government "can't get any more unpopular, but they have until [the next general election in] 2012 to turn things around," said John FitzGerald, an economist with the Dublin-based Economic and Social Research Institute. "A lot of senior politicians have been through this before and they know they can't duck it."

—Quentin Fottrell in Dublin, Adam Cohen in Brussels, Flemming Emil Hansen in Vienna and Emese Bartha in Frankfurt contributed to this article.

German budget sees spending rising by 11%

By Andrea Thomas

BERLIN—German Finance Minister Wolfgang Schäuble is set to finalize the new government's first budget, which will be based on record debt levels and a gloomy outlook for public finances.

In a meeting with his counterparts from Germany's 16 states, Mr. Schäuble presented figures that put his government's net debt requirement at €86 billion ($126.6 billion) for next year—more than twice the €37.5 billion predicted for this year. Government spending will rise 11% to €325.5 billion from €294.5 billion, according to a document seen by The Wall Street Journal.

The strained budget situation has added to criticism over Chancellor Angela Merkel's planned tax cuts for 2010 and 2011. The tax cuts also come as the government expects Germany's budget deficit to widen to 3% of gross domestic product this year and to 6% in 2010, violating European budget limits.

Some German states have threatened to veto the €8.5 billion in tax cuts planned for 2010 and the €19 billion from 2011, saying they can't deal with an additional fall in tax revenue. The upper house of parliament will vote on the 2010 tax cuts next week.

The government says the cuts are necessary despite high deficits. "Public finances are in a extremely strained state due to the dramatic weakening of overall economic activity," said a draft conclusion to the meeting between the finance ministers, which was seen by The Wall Street Journal.

There is "no alternative" to stimulating the economy and letting the deficit rise without cutting spending, the document said. A forecast issued Thursday by German research institute RWI predicts Germany's economy will recover more strongly in 2010 than previously expected because of growing overseas demand for German goods and the government's fiscal-stimulus measures. But it warned the fundamental situation remains "fragile."

Oracle fights EU's opposition to bid for Sun

Continued from first page

the deal, though they wrote letters to the commission to support it.

Another database user, Deutsche Börse Group, told two commission staffers in late November that it was "concerned by the implication that Deutsche Börse's views on the transaction, generally, are negative." According to Deutsche Börse's minutes of the conversation, cited in the Oracle filing, it said "we do not see a negative impact of the Sun/Oracle transaction" so long as Oracle keeps developing MySQL. (Deutsche Börse didn't respond to a request for comment.)

The Oracle filing also cites several other customers who told the EU in market surveys they don't believe the deal is a problem, or that they would have other choices if Oracle manages to kill MySQL. A "great majority of customers do not in fact oppose" the deal, Oracle says. It brought eight to Thursday's hearing to back its view, and it says more than 200 are writing letters.

Of course, the Oracle filing isn't a dispassionate assessment of the data in the EU's analysis. It doesn't present complete, aggregate figures of survey responses, nor does it make the underlying surveys available. Oracle's quotations of the survey responses couldn't be verified.

The commission's antitrust spokesman, Jonathan Todd, didn't address Oracle's claims but said, "The whole point of the commission's investigative process is to allow parties ample opportunity to explain their positions."

In reviewing transactions, the commission sends out questionnaires and solicits inputs from assorted competitors in the market. From those responses, and other data, it determines whether a deal threatens competition.

In September, the commission said it was worried that Oracle's bid could squelch MySQL; last month, it filed a so-called statement of objections, which isn't made public, that laid out its arguments.

The EU has until late January to make a final decision. Blocking a deal is rare; more commonly, the two sides negotiate concessions that lead to a green light. But there haven't been fruitful talks on a possible remedy.

Thomas Vinje, a lawyer for Oracle at Clifford Chance LLP, said he was "extremely happy" with the progress of Thursday's hearing session.

The hearing is to continue Friday with presentations from **Microsoft** Corp. and **SAP** AG, both of whom oppose the deal, and Michael "Monty" Widenius, one of MySQL's founders. Mr. Widenius has warned that Oracle would starve MySQL of the resources needed to develop the product as a competitor to Oracle's own database.

MySQL began life as an open-source database in the 1990s, developed by a Swedish company. Sun bought it last year for $1 billion. The database was initially geared to lower-end uses such as supporting Web sites, though its abilities have expanded. **Facebook**, for instance, stores users' pages in a MySQL database. Oracle's namesake database is heavy-duty software intended for applications such as processing payroll or bank transactions.

A key piece of the antitrust equation is whether MySQL, which can be downloaded free of charge , has become—or will become—robust enough to compete against Oracle.

In one of its few public statements about the deal, the commission said it determined that Oracle and MySQL "compete directly in many sectors of the database market."

But the Oracle filing quotes several customers who said practically the opposite in response to the EU's market survey. **Vodafone Group** PLC said it "does not consider that Oracle's database offerings constitute direct substitutes to Sun's offerings." **McAfee** Inc. also said the two don't "constitute direct substitutes." As did **General Electric** Co., which added that while "both parties' offerings may on the face of it share some functionality, they are qualitatively different." Said **Fujitsu Services** Ltd.: "They operate in different markets."

Representatives for those customers either declined to comment or didn't immediately respond to requests for comment.

Another question is whether, if Oracle kills off MySQL, other products could move in as substitutes and thus alleviate anticompetitive effects.

In its statement of objections, the commission says two possible MySQL alternatives, Ingres and PostgreSQL "are not currently seen as able to fully replace the competitive constraints posed by MySQL." But the Oracle filing cites five customers from the EU's survey who say PostgreSQL is acceptable. "We would most likely have chosen PostgreSQL if MySQL was not available," said one, **Nasdaq OMX Group** Inc.

—Peppi Kiviniemi contributed to this article.

EUROPE NEWS

Agence France-Presse/Getty Images

Financier George Soros, shown giving a TV interview in Copenhagen Thursday, proposed a solution in a key emissions debate.

Soros's climate plan

Financier proposes use of IMF currency to pay for emissions reduction

By Alessandro Torello

COPENHAGEN—Financier George Soros proposed that rich nations tap into special currency reserves issued by the International Monetary Fund to finance efforts by poor countries to combat climate change.

Making the proposal, Mr. Soros, who has said he will invest up to $1 billion in low-carbon energy technology, waded into the key dispute between developed and developing nations at the United Nations climate summit here.

Mr. Soros suggested that rich nations finance climate subsidies for developing nations by tapping into some of the $283 billion in special drawing rights that the IMF issued to respond to the global financial crisis earlier this year. More than $150 billion of those rights went to the 15 biggest developed economies, he said. Special drawing rights, or SDRs, are a form of composite currency issued by the IMF to its members.

Developing countries expressed support for the idea, while European Union negotiators responded with skepticism and the IMF declined to comment.

Mr. Soros is one of a cadre of business and political figures in Copenhagen hoping to sway the bargaining among 190 nations over what should be done to cut the emissions linked to a trend of rising temperatures, and who should pay the price. The conference is scheduled to end Dec. 18 with a gathering of world leaders.

The U.N.'s chief climate negotiator said "some progress" is being made toward deals that leaders can consider next week. "There is real seriousness now to negotiate, good progress is being made in a number of areas, especially in the area of technology," said Yvo de Boer, the executive secretary of the U.N. Framework Convention on Climate Change.

Countries agreed that a new executive body should be set up and would be responsible "for accelerating action on technology development and transfer."

The transfer of technology to developing countries to help them limit their greenhouse-gas emissions is a delicate matter in the talks because of issues such as intellectual-property rights and patents. Technology transfer could be a profit opportunity for investors and companies with solar panels, wind turbines, carbon scrubbers and other technology.

Mr. Soros said in October he would invest up to $1 billion in clean-energy technology, and announced the formation of a policy initiative to address global warming, which he would fund with $10 million a year over 10 years.

Without action to put limits on consumption of fossil fuels, however, some clean-energy bets may not pay out, because fuels such as coal and oil are cheap, abundant, and don't require expensive new technology.

Poor countries are calling on the U.S. and the European Union to subsidize investments in clean-energy technology.

"Rich countries could double available funding to combat climate change by donating recently issued special drawing rights to a new green fund," Mr. Soros said. "This fund would jump-start investment in low-carbon energy sources, reforestation efforts, rainforest protection, land-use reform, and adaptation programs."

Developing countries, backed by some nongovernmental organizations, embraced Mr. Soros's idea. "As we are sitting now, the IMF is sitting with more than $200 billion of SDRs that are not being used," said Lumumba Stanislaus Di-Aping, Sudan's ambassador to the U.N. and chairman of the Group of 77 developing nations, in a news conference Thursday. Issuing that money wouldn't create inflation, just "effective demand," he said.

EU representatives were cautious. "We have to be very careful in the way we use the special drawing rights. It is an instrument which can be used in very specific situations," said Artur Runge-Metzger, a lead EU negotiator. "There is no way we can just print money in order to make sure there is sufficient finance on the table."

—Devon Maylie in London contributed to this article.

Bank of England stands pat on rates

By Natasha Brereton And Martin Gelnar

LONDON—The Bank of England held rates steady at 0.5% Thursday and maintained its current level of bond purchases, awaiting confirmation that the British economy is finally emerging from recession.

Also Thursday, Iceland's central bank trimmed its key interest rate to 10% from 11%. Switzerland's central bank left its rate unchanged at 0.25% but took its first tentative step toward tightening monetary policy.

The Bank of England's monetary policy committee, as expected by many economists, held the key interest rate at 0.5% for a tenth consecutive month. The committee also met expectations by keeping the £200 billion ($325.14 billion) target for its policy of buying bonds with freshly created central bank money.

The focus now turns to February, when the Bank of England will update its forecasts for growth and inflation. The monetary policy committee could still act before then.

In announcing the decision, the bank said only that its planned bond purchases are likely to take another two months to complete and that it would keep the amount of stimulus under review.

The Swiss National Bank adopted a more upbeat view on economic growth, saying it would phase out purchases of bonds issued by private-sector borrowers—one of several liquidity-boosting measures it started this year. It expected the Swiss economy to grow 0.5% to 1% next year, following a contraction of 1.5% this year.

Accounting gets harder as politics color the rules

[Brussels Beat]

By Stephen Fidler

When it comes to broad principles about how to extract the world from an economic crisis, the Group of 20 leading economies has come a long way in just over a year.

Now comes the hard part: putting the principles into practice. Talking about this at The Wall Street Journal's Future of Finance conference this week, Shriti Vadera, the former British official now advising South Korea, the new G-20 chair, hardly seemed brimming with confidence.

"It is fair to say that, right now, the G-20 process is like herding cats, because the issue of sovereignty ... is not something that people give up very easily," she said.

Principles aplenty emerged in Pittsburgh in September, as the G-20 leaders delved deep into the financial weeds in ways that would have seemed improbable a few years ago. Among other things, they called on international accounting bodies "to redouble their efforts to achieve a single set of high quality, global accounting standards ... and complete their convergence project by June 2011." The trouble with that statement, says Nicolas Véron of the Brussels-based think tank Bruegel, is "nobody in the accountancy profession believes that this is realistic."

The result, he predicts, will be that the deadline is missed or that poor quality standards will be put into place or that big differences in standards will remain from one country to another. Most likely, he says, all three.

Deadlines on the road to 2011 already are being missed—even within Europe. In the wake of the financial crisis, the European Commission led efforts to accelerate implementation of a key international accounting standard on the valuation of financial instruments, called IFRS 9.

It was supposed to happen at the end of this year. But in a letter last month to the International Accounting Standards Board, Ireland's Charlie McCreevy, the commissioner for internal markets, said that the standard wouldn't be implemented as planned after all. Instead, the commission would await the IASB's proposed rules on related issues: the valuation of financial liabilities (IFRS 9 deals with assets) and hedge accounting, which covers the effectiveness of financial hedges.

Mr. McCreevy said the delay was fine because it "reflects the changed market outlook and market improvements." This was widely regarded as a rather lame excuse, not least because the commission itself has no greater insight into the path of financial markets in 2010 than the rest of us. The decision on implementation thus is pushed to Mr. McCreevy's successor, Michel Barnier of France.

But why did it happen? In simplified form, IFRS 9 divided financial instruments into two buckets: in one you could put bank loans and other assets that you could value using more or less traditional "amortized cost" methodology. The rest would be assessed according to "fair value" and marked to market.

Among some accountants, particularly in the U.S. where fair value holds sway, this was seen as already leaning heavily to continental Europe's views. But not enough to satisfy many continental Europeans, who are worried that the need to mark to market intensified the financial crisis. It is a theme to which Christine Lagarde, the French finance minister, has frequently returned.

There is, however, more to it than that. In some countries—Germany, in particular—there are widespread concerns that IFRS 9 and its fair-value provisions would make the balance sheets of many banks, particularly the financially precarious state-owned Landesbanks, look worse even than they do now.

The big French banks don't seem to like IFRS 9, either. But there is a larger political agenda in Paris, which may be seen, depending on your point of view, as typical national politicking or important political principle. France has never enjoyed the domination of the accountancy profession by the big Anglo-American firms, and the IASB, as currently fashioned, seems to Paris only to further entrench this.

But there is a wider point, says Mr. Véron. He argues that the IASB has a "legitimacy deficit" in the way it is governed. Here are people from the private sector, with only modest government oversight, making decisions that have huge economic consequences for people across Europe and beyond. The IASB does have an oversight board, but the EU has withheld its approval of a recent effort to overhaul it.

Some of the issue stems from a division in opinion over what accountants are for: an Anglo-American view that sees them as a tool for investors to take a snapshot of a company's performance, and a view in continental Europe that sees them as the proper target for government policy and political intervention.

However this tension is resolved, it shows how the financial crisis has elevated accountants, who until now have largely considered themselves as technicians, into a role with high political sensitivity. And it is another example, for some, of how the crisis has exposed deficiencies in global financial governance.

Yet, one repeated theme of the Future of Finance conference was how a "level playing field" of capital, liquidity, compensation and accounting rules will be necessary to preserve a global financial system and to prevent it from atomizing into its national components. While the G-20's agreement on broad principles may have provided grounds for optimism here, the EU's discussions about one detail provide ample ammunition for pessimists.

EUROPE NEWS

Mobster rattles Berlusconi's camp

Political allies fear impact of convicted killer's scheduled testimony at appeals trial of premier's former employee

By Stacy Meichtry
And Margherita Stancati

Associated Press

Gasparre Spatuzza, center, testified that Giuseppe Graviano told him Silvio Berlusconi 'practically put the country in our hands.'

A top mobster serving multiple life sentences for ordering a series of deadly bombings is expected to testify Friday in a trial that has stirred up anxiety among the political allies of Italian Prime Minister Silvio Berlusconi.

Giuseppe Graviano is due to be called to the stand in the appeals trial of a former employee of one of Mr. Berlusconi's companies who is challenging a nine-year prison sentence for colluding with the Mafia.

Prosecutors in Palermo, where the trial is taking place, are expected to ask Mr. Graviano whether he can corroborate and elaborate on comments made last week by a former Mafia hitman, Gasparre Spatuzza, people familiar with the trial say. Mr. Spatuzza testified to prosecutors that Mr. Graviano told him that that Mr. Berlusconi "practically put the country in our hands" before he was elected to his first term as prime minister in the spring of 1994.

Gianfranco Fini, a co-founder of Mr. Berlusconi's People of Freedom Party and Speaker of Italy's Lower House of Parliament, on Nov. 6 described the trial as an "atomic bomb" that could rip apart Mr. Berlusconi's coalition government. Mr. Fini's spokesman confirmed his comment, which was heard over an open microphone at a ceremony commemorating a prosecutor killed by the Mafia.

Umberto Bossi, the leader of the Northern League, an influential party in Mr. Berlusconi's coalition, told reporters on Thursday that he was "certainly" worried Mr. Graviano's court appearance could tarnish the government's image.

Mr. Berlusconi isn't involved in the appeals trial, nor is he under investigation for any crime related to the Mafia. It is possible, Mafia experts say, that Mr. Graviano might not answer any of the prosecutors' questions, since the Mafia's code of conduct forbids members from discussing business with outsiders. Mr. Graviano's failure to answer questions would weaken the impact of the Mr. Spatuzza's testimony.

That two of the premier's closest allies are voicing pre-emptive concern underscores the quandary Mr. Berlusconi's government faces.

Italy's billionaire premier is popular with Italian voters, and his governing coalition of center-right political parties has a comfortable majority in Parliament.

Still, six months of heightened scrutiny of Mr. Berlusconi's business and personal life—including the resumption of two criminal trials, one for tax fraud, the other corruption, and the premier's high-profile divorce—have bred internal strife among coalition members, who fear their own political futures could be at risk. Mr. Berlusconi has maintained his innocence at both trials.

The government has also been distracted from urgent political matters, such as reining in Italy's massive public debt and kick-starting the Italian economy, which is emerging from one of its deepest recessions in decades. Last week, tens of thousands of people gathered in Rome to protest against Mr. Berlusconi. Newspapers have brimmed with coverage of the Palermo appeals trial.

"These testimonies risk casting a really sinister and dangerous shadow on the image of the Berlusconi government, especially on the international stage," said Alessandro Campi, director of the conservative think tank Fare Futuro.

Mr. Berlusconi's lawyer, Piero Longo, scoffed at the coming Graviano trial appearance. If the mobster were to testify and implicate Mr. Berlusconi in the trial in any way, "no one would believe it," said Mr. Longo, who is also a member of Italy's Senate. Mr. Longo added that the premier would never resign.

Mr. Graviano's forthcoming testimony is part of the Italian judiciary's long-running struggle to extract information from top mobsters who have been locked up for life. Top mafiosi are reservoirs of sensitive information, and prosecutors have in the past agreed to lighten prison sentences or transfer mobsters into witness-protection programs in exchange for their testimony in court.

Mr. Spatuzza, the hitman who appeared in court last week, has been temporarily placed in witness protection in exchange for his cooperation with prosecutors. As part of this new status, Mr. Spatuzza, who had been serving multiple life terms, appeared last week in the appeals trial of Marcello Dell'Utri, an Italian senator and former employee of Mr. Berlusconi's media empire who is appealing a 2004 conviction for colluding with the Mafia.

During last week's testimony, Mr. Spatuzza appeared while wearing a hunting cap and a face-concealing bandana. He recounted a conversation he had with Mr. Graviano at a café on Rome's chic Via Veneto. During that meeting, Mr. Graviano told Mr. Spatuzza that the crime syndicate had received the blessing of Messrs. Berlusconi and Dell'Utri, according to Mr. Spatuzza's testimony. Mr. Graviano didn't elaborate, Mr. Spatuzza testified.

Lawyers for Messrs. Berlusconi and Dell'Utri deny the two politicians had any contact with any members of the Mafia. Mr. Dell'Utri has criticized the trial for glorifying a group of men who have been convicted of committing heinous crimes.

"Spatuzza gets sanctified for his testimony while I get treated like a vicious butcher," Mr. Dell'Utri said on late-night television talk show earlier this week.

Lawyers for Mr. Berlusconi have challenged the credibility of Mr. Spatuzza's testimony, noting that his statements were based on hearsay, not a direct encounter. The lawyers have also questioned whether someone with Mr. Spatuzza's criminal record—the hitman has testified to murdering "40 or so" people, including a priest—made a credible witness.

Mr. Graviano, who is known within his crime family as "Mother Nature," isn't under witness protection. Since his arrest in 1994 on charges of ordering a series of bombings in response to a crackdown on the Mafia, the mob boss has remained in quasi-solitary confinement under a special prison regime designed to prevent convicted mobsters, terrorists and other threats to national security from sending messages to people on the outside.

Mr. Graviano is expected to testify via video conference with his face concealed for security reasons. His brother, Filippo, is also due to testify Friday via video conference. Filippo, who is also serving multiple life sentences for murder, is second-in-command to his brother.

Marijuana is now a personal matter for Czechs

[New Europe]

Dispatches from Central and Eastern Europe

The interim Czech government, led by chief statistician-turned-Prime Minister Jan Fischer, early this week took a step towards making casual marijuana smoking a less worrisome affair.

Mr. Fischer's cabinet defined on Monday what constitutes "small amounts" of cannabis for personal use, clarifying the country's new penal code that from next year decriminalizes cultivation and possession of the plant by individuals, according to Czech news agency CTK.

As of Jan. 1 ordinary Czechs can grow up to five marijuana plants or have several marijuana cigarettes in their pockets without fear of criminal prosecution. Previously what constituted a small amount wasn't specified.

The government's approval of a table specifying what amounts of drugs are permissible is a vital part of the country's new penal code that was last year approved by both houses of parliament and in January of this year was signed into law by President Vaclav Klaus. Without the just-approved table of amounts that will be used by Czech police, the January decriminalization of the drug would be difficult to judge by courts and investigators.

The plant still remains illegal, however, though from the new year possession of five or less plants is merely a misdemeanour, and fines for possession will be on par with penalties for parking violations.

There is also an interesting lifestyle footnote: Czechs are Europe's biggest drinkers of hops-infused beer and are also the continent's leaders in smoking pot. Czechs consume 320 pints of the golden brew per person annually. Also 22% of Czechs between the age of 16 and 34 smoke cannabis at least once a year, according to a recent report by the European Monitoring Centre for Drugs and Drug Addiction.

Czech decriminalization of small amounts of cannabis possession does not, however provide greater clarity to the country's policy on medical marijuana. "Konopi Je Lek," a Czech non-profit organization promoting medical marijuana recently co-founded the country's first marijuana dispensary in Prague despite there being no medical marijuana laws on the country's books. The grand opening of the dispensary on Sept. 28 was attended by Prague's Mayor Dr. Pavel Bem, who is also a physician and proponent of sensible use of the herb. Since then, however, Prague police have raided it, hauling away the cannabis meant for patients, and the dispensary is now looking for growers to help restock its supply.

—Sean Carney

What should a democratic state do with an ex-dictator who a document reveals 20 years after the collapse of his regime to have committed treason?

Defenders of former Polish dictator Wojciech Jaruzelski have often portrayed him as a tragic figure who introduced martial law in 1981 that led to imprisonments and deaths to prevent a greater evil: a Soviet military intervention. But an archived document that was released by a state-financed historical institute on Tuesday shows that Mr. Jaruzelski had a long conversation with a Soviet military leader just days before introducing martial law, in which he begged for that very intervention if the situation gets out of hand.

"Strikes are the best option for us," he tells Viktor Kulikov, the Soviet marshal and the Warsaw Pact's commander-in-chief at the time. "Workers will stay in place. It will be worse when they leave their workplaces and start devastating the party committees [of the communist party], organize street demonstrations etc. If this spreads to the entire country, you will have to help us. We can't handle this alone."

Mr. Jaruzelski's archrival in the communist era, Solidarity leader Lech Walesa — who has previously described the ex-dictator as a complicated figure who shouldn't necessarily be faulted for his actions—said shortly after the document was published that the communist general and apparatchik should be tried for treason.

—Marcin Sobczyk

A tricky Afghan vote

U.S. seeks to delay an election that could undercut counterinsurgency

By Yaroslav Trofimov

KABUL—Afghanistan's Western backers increasingly favor postponing the nation's parliamentary election, scheduled for May, fearing that another traumatic—and potentially fraud-marred—campaign will undermine the coalition's counterinsurgency strategy and create a new round of political turmoil.

The decision on when to hold the parliamentary poll rests with President Hamid Karzai's administration and the Independent Election Commission he has appointed. However, the U.S. and its allies have a crucial say: holding the vote will be virtually impossible without international funding and the security assistance provided by U.S.-led coalition forces.

Afghanistan's presidential election in August ended up undermining Western efforts to stabilize the country: Almost a million votes cast for Mr. Karzai were thrown out as fraudulent, and his challenger, Abdullah Abdullah, refused to participate in the runoff, accusing election officials of bias in favor of the incumbent. The Taliban described that election's outcome as a victory for the insurgents, due to the controversial process and low turnout. Parliamentary elections, with hundreds of candidates, are likely to be even more contentious.

Sipa Press

Gen. David Petraeus has said Afghan violence will rise in the months ahead.

"The question now is—should we go first for reforms, or carry on with another election that will probably turn out to be even more problematic than the presidential one?" a senior Western diplomat said. "And can we afford to divert troops to provide security for the election instead of conducting operations?"

Mr. Karzai, in his inauguration speech last month, said Afghanistan will hold both the parliamentary vote and the elections for district councils next year, "in order to strengthen the supervision of government decisions as an everlasting principle in the country." To conduct parliamentary elections by May, as required by Afghanistan's constitution, the electoral process must kick off in about two weeks.

The discussions among the U.S., European nations and other partners about postponing the Afghan vote are still in a preliminary stage, with the broad consensus emerging that the May date is unrealistic, diplomats say.

The minimum delay, if it occurs, is likely to be until August 2010. Many Western diplomats, however, favor pushing the parliamentary vote until mid-2011, when a military surge recently ordered by U.S. President Barack Obama is expected to produce a more secure environment in areas of southern and eastern Afghanistan where the Taliban managed to disrupt the voting last August.

This, however, would present a constitutional problem as the country will remain without a valid legislature for more than a year. Countries such as Russia, India and Turkey have privately indicated that they oppose such a long delay, a Western diplomat involved in the negotiations said. How to proceed with the election is likely to become a key issue at the international conference on Afghanistan scheduled for January in London. A U.S. Embassy spokesman in Kabul, John Groch, said that "the entire nature and timing of the election is an Afghan matter."

Door to diplomacy on Iran won't stay open for long

[Capital Journal]

By Gerald F. Seib

Gen. James Jones has the ramrod-straight demeanor and no-frills speaking style befitting someone who once was the commandant of the Marine Corps. And so it is with matter-of-fact precision that President Barack Obama's national security adviser describes where things stand in the U.S. quest to walk back Iran's nuclear program.

"Iran still controls its destiny on this issue," he says in an interview in his West Wing office. The door to diplomatic discussion with the Iranians remains ajar, "but it's not going to stay open much longer."

If Iran doesn't show it's serious about addressing international concerns that it is pursuing nuclear weapons, the action will shift in January to imposing sanctions at the United Nations Security Council. The effort to pass a sanctions resolution will take perhaps a month. And steps to penalize Iran may not stop there.

That, then, is the road just ahead on the U.S. foreign-policy problem most likely to dominate 2010. Washington is obsessed right now with Afghanistan and the tortured process of deciding on a new dose of troops for that troubled land. But Iran is moving to the front burner, and soon.

The Obama administration has, of course, tried the diplomatic track with Iran that the president championed in last year's presidential campaign, by attending a high-profile October meeting in Geneva. That produced high drama, followed by great promise, followed by frustration.

The drama came when, just before the Geneva meeting, Mr. Obama and his British and French counterparts announced that Iran was building a secret uranium-enrichment facility, undisclosed to U.N. watchdogs. The promise came when, at the meeting, Iran promised to open that facility to inspectors and seemed to agree to ship more than half its low-enriched uranium abroad to be refined into fuel for a research reactor—a step that would have removed a big chunk of Iran's potential bomb-making material.

The frustration has come in the weeks since, as Tehran has backed away from that nuclear swap. It hasn't exactly said yes or no, and tried to offer alternatives. So the International Atomic Energy Agency's board of governors—made up of 35 countries from around the world—has formally censured Iran, which responded by declaring, with more bombast than realism, that it would build 10 more uranium-enrichment plants.

Meanwhile, Iran's own internal woes intensified this week, when students and dissidents again poured into Tehran's streets to protest the dubious summer election that gave President Mahmoud Ahmadinejad a second term. Iran's rulers appear both distracted and imperiled, and maybe not in a great position to make tough international decisions.

So now there is just uncertainty. Gen. Jones says the diplomatic track hasn't yet reached a dead end, nor the turn toward punitive measures made. The administration always intended that the door to diplomacy would "stay open as long as we could leave it open," he says. In reality, he adds, that means "the end of this calendar year, which is rapidly approaching."

Then the game shifts to sanctions. The point of diplomacy and sanctions is the same, Gen. Jones says: "The goal very simply is to give Iran a chance, without sanctions or with sanctions, to give a clear statement of policy with regard to their future ambitions concerning the development of nuclear weapons and the delivery means to go with them. As long as there's an open question on both of those issues, then Iran is just asking the world to trust them. And Iran hasn't reached that status in the world where people will just trust them."

More bluntly, he says: "Our goal is to get 1,200 kilograms of low-enriched uranium out of Iran." Perhaps, he acknowledges, Iran hasn't agreed to consummate the Geneva deal because, in the tradition of the Middle Eastern bazaar, it's simply bargaining until the last minute to get the best deal it can. Hence, Tehran suggested at one point that the world simply bring in the fuel rods before it lets go of any of its uranium.

So maybe an Iranian turn to the positive is still coming. "If Iran pivots and does the right thing, whether it's Dec. 30 or Jan. 20, that's what everybody wants," the general says.

But in any case, the American focus will be on sanctions next month, and Gen. Jones seems confident Russia and China are moving Washington's way on the subject.

Turkey, though, is a potential problem. Ankara is a traditional bridge between Iran and the West, and happens to hold a rotating seat right now on the U.N. Security Council. Turkish Prime Minister Recep Tayyip Erdogan visited Washington this week, and Mr. Obama asked him to "use his good offices to convey the seriousness of the situation to Iran," Gen. Jones says. Yet Mr. Erdogan made clear that he disapproved of sanctions.

Gen. Jones says merely that there's "hope" Turkey will come along. Meanwhile, Israel, source of many a veiled threat of military action against Iran, is being "thoughtful" and working on sanctions planning.

A Security Council agreement on sanctions might be followed by tougher sanctions agreed upon by the U.S. and its allies outside U.N. channels. Gen. Jones can only guess at the Iranians' attitude, but surmises: "They think they can withstand anything the U.N. or the coalition of like-minded nations can put together. They might be right. They might be wrong."

U.S. NEWS

Economists urge more action on jobs

U.S. government needs to do more to help business expand employment in a dim labor market, analysts say in a survey

By Phil Izzo

Reuters

An unemployed research scientist at a job fair in New York Wednesday. Economists in a survey broadly agreed that there is a slow recovery in the U.S. jobs market.

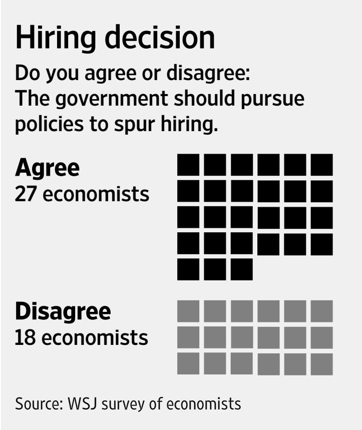
The U.S. government should do more to help businesses create jobs amid a continuing bleak outlook for the labor market, according to the majority of economists in the latest Wall Street Journal forecasting survey.

Twenty-seven of the 51 economists, not all of whom answered every question, said the government should pursue policies that encourage hiring, though they were divided on what actions lawmakers should take. Sixteen economists backed some form of tax cut or credit, while eight called for more aid to state and local governments. The rest were split among other options.

"The cost of joblessness is huge, both economically and societally," said Allen Sinai of Decision Economics.

The survey was conducted prior to President Barack Obama's speech this week, when he outlined a broad plan for jobs creation. His proposals include putting an additional $50 billion toward infrastructure spending, ramping up Treasury Department lending to small businesses through the Troubled Asset Relief Program, a hiring tax credit, extending tax credits for business investment and offering state and local governments a fresh lifeline.

Though most of the surveyed economists supported government intervention, a sizable number said lawmakers shouldn't do anything more to stimulate the jobs market. "There are no silver bullets and we would probably all do better if the repaid and unused TARP funds were used to minimize the deficit and hold interest on the debt down," said Diane Swonk of Mesirow Financial.



Indeed, 14 economists echoed Republican complaints that the Obama administration's agenda is creating an atmosphere of uncertainty that is keeping companies from hiring.

"Uncertainty on health and climate taxes far outweighs any proposed policies," said Stephen Stanley of RBS.

]The economists may be divided on the government's role in spurring hiring, but there is broad agreement that there is a slow recovery in the jobs market. Just four respondents expected the unemployment rate to drop below 9% by December of next year, and the average forecast remained at 9.6% despite a much better than expected Commerce Department report on employment in November that showed a decline in the jobless rate to 10%.

The economists, on average, expect the economy to start adding about 100,000 jobs a month over the next year, but that figure, which basically represents the number of jobs that need to be created in order to make up for new entrants into the work force, won't do much to bring down the unemployment rate.

Though the jobless rate has surpassed even some of the most pessimistic forecasts from earlier this year, the economists said it would have been worse without the $787 billion stimulus package. On average, respondents said that without government intervention, the unemployment rate would have been at 10.5% in November and the package added 1.3 percentage points to the 2.8% seasonally adjusted annualized rate of growth recorded in the third quarter. The stimulus is seen adding 1.1 percentage points to growth in the fourth quarter.

One area on which the economists want the government to focus is regulation. A resolution program for too-big-to-fail institutions was chosen as the top priority by 12, the plurality of respondents who answered the question, while banks' capital requirements came in a close second with 11 supporters. Nine are seeking more clarity on the Federal Reserve's role as regulator. But amid competing and disparate proposals from Rep. Barney Frank (D., Mass.) in the House of Representatives and Sen. Chris Dodd (D., Conn.) in the Senate, the economists weren't optimistic that regulation would be effective. On average, they put just a 1-in-3 chance that any overhaul passed by Congress would make the financial system significantly safer.

"Better regulation is necessary, but many legislators appear more interested in retribution than in future stability," said Lou Crandall at Wrightson ICAP.

Americans' net worth rises

By Sudeep Reddy

The net worth of U.S. households rose 5% in the third quarter as stock markets continued rebounding, the Federal Reserve said Thursday.

The gain in the July-September period to $53.4 trillion marked the second straight quarterly increase after Americans' wealth declined sharply during the financial crisis.

The figures were included in the central bank's quarterly flow-of-funds report, a comprehensive snapshot of the financial position of consumers and businesses. The data showed households and firms continuing to reshape their balance sheets—paying down debt even as assets regain value—as they recover from the deep recession.

Rising equity prices were key to raising household wealth, which peaked at about $65 trillion in 2007. The Fed data showed financial assets overall rising 5.6% during the latest quarter. The Dow Jones Industrial Average rose 15% during that July-September period and has continued climbing, suggesting net worth in the fourth quarter could continue climbing. That likely would spur Americans to boost their spending, raising growth prospects into 2010.

Household debt contracted at a 2.6% annual rate, the largest decline on record, as mortgage and credit-card borrowing fell. Nonfinancial business debt also declined at a 2.6% pace, the central bank said.

The exception came in the public sector, where government borrowing rose. Federal debt increased at an annual rate of nearly 21%—the fifth straight increase of more than 20%—as the U.S. ramped up borrowing and spending to boost the economy. Debt held by local and state governments climbed at a 5.1% pace.

Household mortgage debt contracted at a 3.6% annual rate, reflecting continuing adjustments in the real-estate market.

Businesses increasingly looked to internal funds to finance investments. The corporate financing gap, which reflects how much firms must raise externally, hit a negative-$189 billion from a negative-$153 billion in the April-June period. The wide gap "indicates that firms have ample resources to finance expansion without having to tap credit markets or bank relationships," said T. Rowe Price economist Alan Levenson.

A call to rethink bribes

By Dionne Searcey

The U.S. has been cracking down on bribery by American companies seeking a business advantage abroad, but it still permits small-scale bribes to speed a phone hookup or otherwise grease the wheels of overseas commerce. Now the Organization for Economic Cooperation and Development is calling for a ban on those payments as well. The OECD said Wednesday that such so-called facilitation payments are "corrosive... particularly on sustainable economic development and the rule of law."

Some antibribery experts say U.S. policy on the matter is inconsistent. The Justice Department is aggressively enforcing bans on overseas bribery with record fines and prosecutions under the Foreign Corrupt Practices Act, which prohibits companies that trade on U.S. stock exchanges from bribing government officials abroad to gain a business edge. The FCPA doesn't include a dollar limit, but the Justice Department has typically targeted companies that have paid a long trail of high-dollar bribes over several years.

The facilitation payments, nicknamed "grease payments," are an exception to the FCPA and include bribes to obtain mail service or unload cargo at customs, according to the Justice Department Web site. Such payments must be recorded. Besides the U.S., only a handful of countries permit companies to make such payments, including South Korea, Canada and New Zealand, according to lawyers who specialize in FCPA cases. Justice Department officials declined to comment on the OECD's recommendation.

WORLD NEWS

Reuters

Supporters of India's opposition Bharatiya Janata Party, in Hyderabad Thursday, celebrate a government decision top support the creation of a new state sought by separatists from territory in Andhra Pradesh.

India agrees to support a new state

Violent protests by Telangana separatists spurred the move, which now faces local and national political hurdles

By Vibhuti Agarwal

NEW DELHI—The Indian government agreed to carve a separate state out of the southern Indian province of Andhra Pradesh, which includes the information-technology capital of Hyderabad, following days of violent protests.

The government's unexpected decision, which could spur social unrest and separatist demands in other regions, prompted 83 of Andhra Pradesh's 295 legislators to say they would resign in protest.

Hyderabad has been hit by protests from supporters of K. Chandrashekar Rao, who heads the Telangana Rashtra Samithi political party dedicated to establishing a separate state for the Telangana region of Andhra Pradesh, which includes Hyderabad.

Mr. Rao ended a hunger strike to force the national government to support statehood for Telangana, after the government decision.

Late Wednesday, Home Minister P. Chidambaram announced an "appropriate resolution" for a Telangana state would be put forth in the Andhra Pradesh assembly soon.

"The aim is to bring an end to the agitation," Mr. Chidambaram said in national Parliament Thursday. "The process of Telangana would be initiated soon," he added, but he didn't give a time frame.

It was unclear whether the Andhra Pradesh legislators' resignations would be accepted. The speaker of the local assembly said they wouldn't.

With the assembly in limbo, it was uncertain how the effort to create a new state would move forward. A key battle will likely be whether the new state includes Hyderabad, a prospering city of four million.

Supporters of the Telangana party met Prime Minister Manmohan Singh and Sonia Gandhi, leader of the ruling Congress party, Thursday to discuss details for forming a new state. Mr. Chidambaram, the home minister, invited Mr. Rao to New Delhi for talks with the government.

The Congress party, which maintains its relatively strong governing position despite some recent setbacks, is viewed as sympathetic to the Telangana cause. In 2004, the Telangana party formed an alliance with the Congress party at the state and national levels, but in 2006 Telangana withdrew its support, saying the government hadn't fulfilled its "electoral promise" to create a Telangana state.

Mr. Rao's son, K.T. Rama Rao, welcoming the government's assurance for a separate state, but said the "real effort" was to introduce a bill in Parliament. He also said the party wouldn't accept a state without the inclusion of Hyderabad.

India is peppered with regions seeking statehood. The federal government's nod for Telangana statehood could raise similar demands from supporters of the formation of a Gorkhaland in West Bengal and Harit Pradesh in Uttar Pradesh.

The turmoil in the Andhra Pradesh assembly Thursday prevented the introduction of a resolution for a separate Telangana state. Andhra Pradesh Chief Minister K. Rosaiah said no bill would be put forward without "consensus."

If the state assembly approves a statehood resolution, a bill for the formation of a new state would then be placed in the Parliament by the federal government. Parliament needs to pass the bill by a two-thirds majority and have the president's approval before the creation of the new state.

The Telangana region is spread over 10 of the 23 districts that make up Andhra Pradesh. Its separatist movement dates to 1956, when the region was merged with the state of Andhra Pradesh as part of a reorganization of states along linguistic lines formulated by Prime Minister Jawaharlal Nehru after India gained independence in 1947.

The Telangana Rashtra Samithi party, formed in April 2001 to support the cause, argues that the region has been neglected by the government, with high poverty and unemployment rates and lack of proper irrigation facilities.

Mr. Rao, head of the Telangana party, apparently decided to push his statehood cause after the death of Andhra Pradesh Chief Minister Y.S.R. Reddy in a helicopter crash in September.

The formation of a Telangana state would bring the total tally of Indian states to 29. The newest states were formed nine years ago.

China exits deflation amid recovery

By Andrew Batson And Shai Oster

BEIJING—China is moving out of deflation after nearly a year of falling consumer prices, a turnaround driven in part by changes in government policies that kept costs for oil, water and electricity artificially low.

China's consumer price index likely climbed 0.5% from a year earlier in November, according to the median forecast of economists polled by Dow Jones Newswires, after declining every month since February. The government is scheduled to announce its CPI reading early Friday.

The return of inflation—still mild at this point—reflects both the recovering economy and efforts to raise state-set prices for key resources to better reflect market supply and demand.

Prices are rising for a range of goods, from food to property. The change in resource prices is noteworthy because the government had kept prices insulated from market forces even as it dismantled the planned economy in other sectors.

The effects of controlled energy and resource prices have been broad. Some of China's trading partners complain that its low prices for raw materials are, in effect, government subsidies to Chinese companies. Many economists say they think these prices send the wrong signals to Chinese corporate managers, encouraging them to overuse scarce resources and invest too much, risking overcapacity. At the same time, resource companies underinvested, leading to periodic electricity and fuel shortages.

"By keeping all these resources underpriced, they encourage overcapacity, which is a drag on overall economic performance," said Yolanda Fernandez Lommen, an economist for the Asian Development Bank in Beijing.