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THE WALL STREET JOURNAL.

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Cargo hold

Countries that have ordered the Airbus A400M military transport plane must wait at least three more years for deliveries.

The Airbus A400M military transport plane in Seville, Spain. Agence France-Presse/Getty Images

Source: Airbus Military

*Export order from Europe

Airbus plane edges toward takeoff

BY DANIEL MICHAELS

Airbus aims to get its troubled A400M military transporter airborne for the first time as soon as next week, but financial and political problems could still ground the pan-European airplane.

The A400M is one of Europe's most ambitious defense projects. Airbus parent **European Aeronautic Defence & Space** Co. agreed in May 2003 with seven countries from the North Atlantic Treaty Organization to build 180 of the planes for €20 billion ($30 billion). Both sides hailed the deal as a model of Europe's integration and a sign of European savvy in the cutthroat aerospace industry. EADS promised to deliver the first A400M this year and swallow any budget overruns.

But when delays mounted and the budget swelled over recent years, EADS sought to renegotiate the contract. The program is now roughly three years behind schedule. EADS Chief Executive Louis Gallois has said the company will lose at least €2.4 billion on the deal, and that figure could rise substantially.

Defense officials earlier this year put the contract on hold and pledged to reach a new deal by year end. Time is now running out, both sides say, because they need to pre-

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SEC steps up probes into insider trade

BY KARA SCANNELL AND JENNY STRASBURG

The Securities and Exchange Commission has sent at least three dozen subpoenas to hedge funds and brokerages within the past month in an expanding sweep of potential insider-trading violations, according to people familiar with the matter.

At least some of the inquiries are focused on potential information leaks around health-care mergers of the past three years, these people said. Some retail-industry deals also are a subject of the SEC inquiries, these people said, including **Sears Holdings** Corp.'s aborted pursuit of home-furnishings retailer Restoration Hardware in 2007.

Some of the subpoenas also focus on investment bankers, including the role of **Goldman Sachs Group** Inc. bankers in roughly a dozen health-care deals since 2006, these people said. Investigators have also asked about other advisory firms, said these people, but the firms' names couldn't be learned.

In one of the subpoenas, the SEC asks hedge-fund managers and others about relationships and communications with Goldman bankers who worked on the health-care deals, these people said. It isn't clear whether regulators have contacted Goldman in connection with the recent subpoenas or the nature of any contact.

It also isn't clear whether the subpoenas are related to the insider-trading case involving New York hedge fund **Galleon Group**, though the subpoenas are broad and the SEC is looking for overlap, these people said.

A spokesman for the SEC declined to comment. A Goldman Sachs spokesman declined to comment.

Since coming under new leadership this year, the SEC has become more aggressive in enforcement, including insider-trading cases. The agency has faced attacks after fumbling an investigation into Bernard Madoff's multi-billion-dollar fraud.

The agency also has fallen under scrutiny in Congress, where two senators have alleged that the SEC was too passive in its look at potential in-

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The Quirk

World Watch

Editorial & Opinion

Obama plans Afghanistan surge

BY JONATHAN WEISMAN AND PETER SPIEGEL

U.S. President Barack Obama has ordered an 18-month "surge" of 30,000 troops into Afghanistan, after which the administration will review the war's progress and set a withdrawal timetable, a White House official said Tuesday.

At least some of the U.S. forces will begin withdrawing from Afghanistan in July 2011. That timetable suggests the troop commitment, which will take U.S. forces to nearly 100,000, won't be the sort of open-ended increase requested by top U.S. commander Gen. Stanley McChrystal.

Ahead of Mr. Obama's nationally televised speech to the U.S. Military Academy in West Point, N.Y., Tuesday night, administration officials stressed the speed of the deployments, and the potential speed of withdrawals, if all goes well.

U.S. troops will be teamed with Afghan security forces in an effort to speed the transfer of security duties to the Afghan army and police. That plan closely resembles the surge of forces into Iraq in 2007, a plan that Mr. Obama, then a senator, opposed.

After a three-month review of the war effort, the White House is now looking ahead to another review—after the additional troops have been in place 18 months.

White House officials said that, in his speech, the president would lay out a series of dates to map out an orderly winding down of a war now in its ninth year.

In a lengthy videoconference call, Mr. Obama shared his new strategy with President Hamid Karzai, spending an hour discussing troop levels, security and political and economic elements of his revised war plan, according to an Associated Press report.

Mr. Obama's decision launched a weeklong effort to convince Congress and the American people of the wisdom of the new strategy.

But the president will face a stiff headwind from his own party and from a public souring on the war and his handling of it.

To bolster support in Congress, lawmakers say the president must emphasize that additional troops will be used to bolster Afghan capacity, not for combat.

Getty Images

Displaced Afghans line up for U.N. relief aid Tuesday in Kabul. Supplies are to help some 200,000 cope with the harsh winter.

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PAGE TWO

Yearning for promise of better times

[Agenda]

By Iain Martin

In 1975, an editorial in The Wall Street Journal famously captured the sense that Britannia was about to slip beneath the waves. She had a serious dose of rampant inflation. Business was confronted by semi-permanent industrial strife (although the trade-union-inspired bedlam was only really getting going in 1975 and would be much worse later in the decade). Cultural decay had bred boredom, bickering and a widespread ennui. To use the local parlance, the United Kingdom looked like it was completely "knackered." Observing all this, the Journal concluded that it was time to bid a fond farewell: "Goodbye, Great Britain. It was nice knowing you."

Of course, that isn't quite how the story ended. The painful economic restructuring in the 1980s laid the ground for the sustained growth and long boom that lasted from the mid-1990s until last year. Socially, the Thatcherite reforms were highly divisive in Britain—they still are—but the international consensus was that the country had defied the doubters again. As on several other important occasions in its long history, it had pulled itself back from the brink right at the last moment.

The credit went to labor-market flexibility, privatization, modernized financial services, the useful accident of the City of London being in the perfect time zone for trading, migration, low inflation, open markets and sustained low interest rates from the mid-1990s onward.

This became the consensus view of the revival—across much of the British mainstream left and right. Gordon Brown, as chancellor of the Exchequer, was so dominant in proclaiming the perfection of the British model that the Conservative party felt compelled to decommission its economic weaponry. For the most part the Tories declined to contest Mr. Brown's claim that he had engineered an "end to boom and bust"—a strange claim with few parallels in economic history.

Agence France-Presse/Getty Images

Labour's Gordon Brown (left) and the Conservative's David Cameron

> For now, there is a missing ingredient in British politics: It's hope.

Mr. Brown was in charge, but there was shared culpability on the left and right. Until as late as 2008, the Tories were pledged to match Labour's levels of public spending. Only a handful of commentators, economists and wily old-hands in parliament pointed out that this was probably not the end of boom and bust. It might be wise, they said, to exercise some caution. But the public didn't listen any more than the political parties did.

The reality was that public spending was increasing so fast in the early years of the century that the country could easily end up with an enormous deficit if the music stopped suddenly. This has now happened.

Consider this: If public spending had risen in line with inflation from the mid-1990s it would be £219 billion lower this year than it is. Not entirely coincidentally, that figure isn't far off Britain's current projected deficit.

At more than 13% of GDP the deficit is the worst in the OECD. The country is still stuck in recession when France and Germany have returned to growth. And with Dubai defaulting, the warning in a report by Morgan Stanley this week that the U.K. is at risk of a sovereign-debt crisis next year produced shivers.

The British are a little depressed and confused about this. The story they have told about themselves for two decades and longer turns out to have been partly fiction. Their widespread presumption had been that the post-1970s reinvention was permanent—that it represented a decisive turning point. Instead, in terms of confidence, the country finds itself back roughly where it started.

Against this backdrop, Britons must go to the polls by June next year. It is a set of circumstances that should, in theory, suit the opposition. The Tory leader David Cameron is young and has modernized his party with some success. Gordon Brown is still highly unpopular, and Labour is the incumbent during a deep recession.

Yet, it is the Conservatives that are looking rattled. In the past 10 opinion polls, the party has recorded a rating below 40%: a magic number psychologically, if not electorally. Labour's numbers have marginally improved, although the party is still stuck in the core vote territory of the high 20s. This means that the prospect is of a hung parliament and a hampered minority government.

How to explain this? For now, there is a missing ingredient in British politics: It's hope.

When it is said that Mr. Cameron has failed to "seal the deal" after four years as leader of the opposition, this is what is meant. Crucial swing voters know how perilous the national position is because they have heard of little else for a year. However, they are looking to be led out of it. The polls show that few are yet convinced that the Conservatives have a road map with a clear set of directions.

The political class, which was too upbeat about prospects in the boom years, has also exchanged optimism for endless apocalyptic warnings of doom ahead. There is a need for some rebalancing. Gordon Brown is trying to get onto this ground, if only he can get a hearing.

Of course, the challenges facing Britain in the decade ahead are comparable in scale to those apparent when the Journal said "Goodbye, Great Britain." There's a balance to be struck between brutal realism and the promise that life will be better again. Perhaps no one will manage it for this election. But the first leader of a party that gets that recipe right—who manages to blend straight talking with a big dash of Reaganite optimism—will win convincingly.

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New Europe

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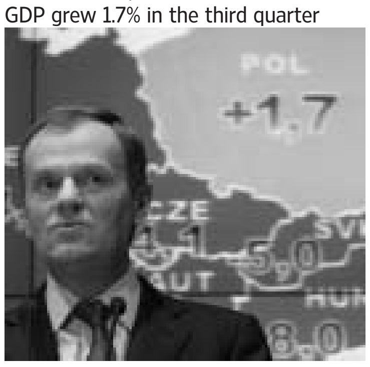
"And just a year ago some thought Poland would collapse and the zloty could turn virtually worthless."

Marcin Sobczyk on news that Poland's GDP grew 1.7% in the third quarter



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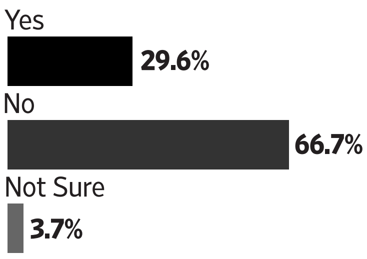

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■ **Airbus aims to get** its A400M military transporter airborne for the first time as soon as next week. **1**

■ **Obama has ordered** an 18-month surge of 30,000 troops into Afghanistan, after which the U.S. will review the war's progress and set a withdrawal timetable. **8**

■ **Iran threatened** to prosecute five British sailors detained last week when their racing yacht entered Iranian waters, and lashed out at Russia over the censure of Tehran's nuclear program. **3**

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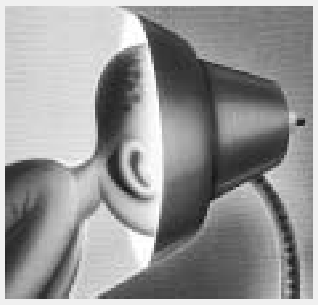

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NEWS

Iran voices defiance as conflicts percolate

Ahmadinejad lashes out at Russia for joining U.N. censure, while U.K. seeks to quell tensions over detained sailors

By Farnaz Fassihi
And Alistair MacDonald

Iran added fuel to its clashes with the international community Tuesday, with a threat to prosecute five British sailors detained last week, and President Mahmoud Ahmadinejad lashing out at Russia over the censure of Tehran's nuclear program.

Russia and China joined in a resolution Friday by the International Atomic Energy Agency, the U.N. nuclear watchdog, to censure Tehran for its lack of transparency and secret nuclear facility.

China appeared to escape Mr. Ahmadinijad's vitriol, saying Tuesday that more dialogue, not sanctions, is needed to resolve the issue.

Russia, however, has said it won't block new sanctions against Iran if the international community agrees to them, and a senior Russian diplomat repeated that stand on Tuesday.

Mr. Ahmadinejad, in a live interview with Iranian state television, took a defiant tone when asked about possible new economic sanctions. "Let me make it very clear right here and now that Iran doesn't need any other country in this world. We are completely self-sufficient. No country can make us isolated," he said.

The Iranian president reiterated plans announced Sunday to build ten new nuclear facilities, in what would be a major expansion of the country's nuclear program. "We never declare something we don't intend to do. This is not a political bluff and we are not keeping any thing secret."

He said the country's atomic agency had for months been conducting a study on appropriate location for the sites.

The international tensions complicated the fate of the five sailors, who have been in Iranian custody since being detained after their yacht, on its way from Bahrain to a race in Dubai, apparently strayed into Iranian waters.

With tensions over the nuclear program in the background, the U.K. and Iran on Tuesday approached the sailors' detention with caution.

Iran's foreign ministry confirmed that it had detained the sailors and was 'investigating' the matter. Some government officials appeared mindful not to stoke international fears that Iran planned to hold on to the foreign nationals as bargaining chips in its nuclear negotiations with the West.

The harshest words came from one of Iranian President Mahmoud Ahmadinejad's close advisers, hardliner Esfandiar Rahim Mashaee, who said Iran would deal seriously with anyone who crossed its borders illegally to gather intelligence.

The U.K., meanwhile, was keen to downplay talk of a confrontation. Britain had kept news of the arrests quiet for five days before it broke. Foreign Secretary David Miliband said in a statement that he "looked forward" to the situation being resolved quickly.

"There's certainly no confrontation or argument," he said. "As far as we're aware, these people are being well treated, which is right and what we would expect from a country like Iran."

Mr. Miliband said that the situation wasn't a political one, but one where yachtsmen, "going about their sport" strayed inadvertently into Iranian waters.

The Foreign and Commonwealth Office said the U.K. ambassador to Iran went into Tehran's Ministry of Foreign Affairs on Monday night to talk about the situation.

On Tuesday, an FCO official met with the Iranian ambassador to London and complained about the day's statements from Iran, while asking for consular access to the detainees.

"He made clear that we are approaching this matter in a calm, but resolute manner, and that aggressive rhetoric will not improve the situation," an FCO spokeswoman.

The FCO said any delay in replies from Iran was due to the Muslim holiday Eid over the weekend.

(Left to right) Agence France-Presse/Getty; Associated Press

From left, Luke Porter, Oliver Smith and David Bloomer are three of the five British yachtsmen Iran has detained since last week, when their craft apparently strayed into Iranian waters on the way from Bahrain to a race in Dubai.

EUROPE NEWS

ECB set to lay out stimulus exit plan

No rates move expected from Thursday's meeting of euro zone's central bank; U.K. struggles to recover from recession

By Brian Blackstone

FRANKFURT—The European Central Bank is expected Thursday to announce steps to slowly absorb some of the hundreds of billions of euros it pumped into banks since the peak of the crisis, starting with an end to cheap one-year loans next year.

That extraordinary lending program was aimed at countering the collapse of confidence in credit markets at the height of the crisis earlier this year. ECB President Jean-Claude Trichet said recently that cheap loans from the central bank can only be temporary, and warned that European lenders should avoid "addiction" to central-bank aid.

With inflation still low, officials are expected to proceed cautiously in ending monetary stimulus, because of worries over the recovery's durability and the euro's strength.

Inflation remains far below the ECB's medium-term goal of just under 2%, suggesting officials won't raise their key lending rate, currently 1%, until well into 2010 at the earliest.

The ECB releases its inflation and growth forecasts for 2010 and 2011 after its monthly meeting Thursday. If officials project 2011 inflation in the 1.5% or 1.6% range—in line with the ECB's latest survey of professional forecasters—it would be a further sign that official interest rates will remain steady for many months.

ECB officials are expected to announce after Thursday's meeting that the Dec. 16 installment of one-year loans to banks will be the last one of that maturity, confirming signals sent by Mr. Trichet and German Bundesbank President Axel Weber.

The ECB is likely to tread carefully in withdrawing its extraordinary support for the banking system, in case financial markets interpret the move as a precursor to higher interest rates.

An expectation of rising rates could lead to further gains in the euro against the dollar, especially because Federal Reserve officials have given few signs that they contemplate any policy-tightening soon.

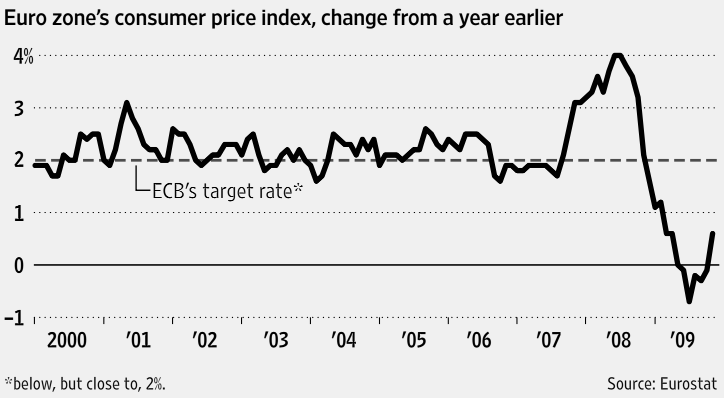
European policy makers are worried that the strong euro could hamper Europe's recovery by making its exports more expensive.

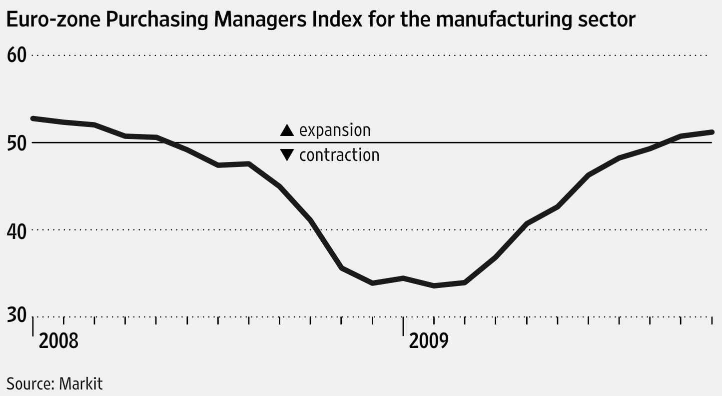
Mr. Trichet has in recent weeks emphasized the importance of a strong U.S. dollar for the world economy. At recent meetings in China, he and other top European policymakers pressed officials there to allow their currency, the yuan, to strengthen against the euro.

Reuters

Klaus Vogt paints toys in his workshop in Germany. The Purchasing Managers Index for the euro zone's factory sector hit a 20-month high in October.

Change of gears





ECB officials "know if they do anything that has the slightest hint of earlier rate hikes than the U.S., this will boost the euro," said Carsten Brzeski, economist at ING Bank.

Banks borrowed a total of more than €500 billion ($750 billion) at the two previous one-year tenders, in June and September; €442 billion in June alone. If the ECB wants to limit demand for the December loan installment and wean banks off their dependence on the measure, it could charge a higher interest rate for the loans than the previous 1%.

Meanwhile, fresh data showed the U.K. economy continuing to struggle back from recession, contrasting with more signs that France and Germany will show a third successive quarter of growth.

British manufacturers said business slipped in November, while the euro-zone manufacturing sector expanded for the second straight month, and at a faster pace. That boosted expectations that the economic recovery in the 16-country currency union is gathering strength.

Research firm Markit Economics said its purchasing managers' index for the euro zone's factory sector rose to 51.2 from 50.7 in October, hitting a 20-month high. The purchasing managers' survey measures current and future business prospects. A reading above 50 indicates the sector is expanding, while a reading below 50 indicates it is contracting.

The U.K.'s manufacturing sector continued to expand in November but at a sharply slower pace than in October, adding to concerns over the sustainability and strength of the economic recovery, data showed. The PMI for the manufacturing sector fell to 51.8 in November from 53.4 in October, Markit Economics and the Chartered Institute of Purchasing and Supply said.

"November's U.K. CIPS/Markit report on manufacturing suggests that the recovery in the industrial sector remains pretty fitful, although the underlying trend still seems to be one of improvement," said Vicky Redwood, U.K. economist for Capital Economics. "The recovery is clearly struggling to maintain momentum, suggesting that growth next year will be pretty modest," she said.

U.K. Prime Minister Gordon Brown's government, which faces a general election by June, has come under intensifying political pressure after the economy continued to contract in the third quarter, even as major European economies such as Germany and France had already started growing in the second quarter.

—Nina Koeppen and Terence Roth contributed to this article.

Eastern European output rises

By Margit Feher And Paul Hannon

BUDAPEST—A pickup in the euro zone's manufacturing sector has helped Eastern European factories, especially those with close links to German industry.

More orders from Europe's biggest economy boosted the manufacturing sectors of Poland and the Czech Republic in November. Both increases were the first in several months.

Poland's purchasing managers index for the month rose to 52.4 from 48.8, signaling that the sector grew for the first time since April 2008, according to a survey issued Tuesday by HSBC Bank and the Markit Economics research firm.

The Czech Republic's PMI rose to 50.6 from 49.8 in October, according to HSBC and Markit. Figures above 50 indicate expanding business activity while those below 50 show contraction.

Poland's prospects appear brighter, since it is less dependent on the ailing automobile sector, which is likely to suffer as Western European governments end their "cash for clunkers" programs.

"The zloty's relative weakness may have played some role in the notable increase in new export orders over the month, while the marked slowing in the decline of employment is good news for growth next year," said Kubilay Orzturk, an economist at HSBC.

Other economies on the euro zone's eastern fringe fared worse.

Hungary, subjected to a year of political turmoil and stiff fiscal overhauls, saw business activity deteriorate in November. Its PMI fell to a seasonally adjusted 47.5 in November, the Hungarian Association of Logistics, Purchasing and Inventory Management said.

Merkel to urge bank loans

By Geoffrey T. Smith

FRANKFURT—German Chancellor Angela Merkel is expected Wednesday to call for German banks to ramp up lending to businesses and households and put the economic recovery on a self-sustaining path.

German bank lending to domestic companies and households is down 0.5% from a peak in April, according to the Bundesbank. The fall comes despite a much more aggressive reduction in foreign lending, which theoretically should have freed resources for domestic customers.

Germany, the traditional engine of Europe's economy, emerged from its worst recession in 70 years in the second quarter, and expanded a further 0.7% in the third quarter.

Officials fret, however, that the recovery is still dependent on emergency support from the government and the European Central Bank. A survey published Monday by the Ifo research institute showed 42.9% of companies faced tighter loan requirements from their banks in November, up from 41.7% in October.

ECB President Jean-Claude Trichet maintains the weakness in lending has been "largely due to the fact that demand for credit diminished considerably during the recession."

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Welcome to Kazakhstan

Associated Press

Frank De Winne of Belgium in a vehicle after he returned in the Russian Soyuz TMA-15 capsule in the steppe near the town of Arkalyk, northern Kazakhstan. His mission marked the first time all five of the International Space Station's international partner agencies were represented in orbit together.

Russia is upbeat about economic growth

By Natasha Brereton
And Clare Connaghan

LONDON—The Russian government expects the economy to continue growing next year and accelerate in 2011, even if oil prices drop unexpectedly, a senior government minister said Tuesday.

Andrei Klepach, Russian deputy minister for economic development, told a bankers conference that the economy should grow 2% in the fourth quarter from the third, but the government is sticking with its forecast for an 8.5% drop overall in 2009.

Russia's economy returned to growth in the third quarter, prompting officials to declare that the country has emerged from its first recession in a decade.

In 2010, the economy should grow at least 1.3%, while in 2011, an expansion of 5% to 6% is "quite realistic," he said.

"In 2011 and 2012, a lot will depend on the stabilization of oil prices, whether it's going to be $65 or $75 per barrel or more," he said.

The government's budgets were based on $58 per barrel, compared with the current price of just under $80. Mr. Klepach said he agreed with projections by many oil analysts that the more realistic outlook for the next few years would be $75 per barrel or higher.

Still, he cautioned that high Russian interest rates and strengthening in the ruble pose serious risks to economic growth.

The Russian central bank has cut interest rates by four percentage points since April to help revive the Russian economy and discourage foreign-exchange speculators.

At 9% today, Russia's rates far outpace international averages and are attracting foreign capital, which is driving up the ruble rate and pressuring Russia's export industry.

Mr. Klepach said a serious wave of unemployment growth was likely this winter. The Russian jobless rate stood at 7.7% through October.

Deputy Central Bank Chairman Alexei Ulyukayev, also at the conference, said the bank would look for opportunities to cut rates to discourage speculators.

—Ira Iosebashvili in Moscow contributed to this article.

Libya sentences Swiss businessmen to 16 months

By Deborah Ball

ZURICH—A Libyan court sentenced two Swiss businessmen to 16 months in prison for violation of residency laws, just two days after a vote in Switzerland to ban the construction of minarets sparked criticism in the Muslim world.

In addition to the prison sentence, the court fined the pair 2,000 dinars ($1,600) each. The men—Max Goeldi, the country head in Libya for a Swiss engineering group, and Rachid Hamdani—have been detained in the country since July 2008, when Geneva police arrested Moammar Gadhafi's son Hannibal for allegedly beating two servants.

Swiss President Hans-Rudolf Merz traveled to Tripoli in August to apologize for the arrest in the hope of securing the men's release. Instead, Libya said last month it planned to try the men for tax and immigration irregularities.

The Libyan Embassy in Bern didn't respond to calls seeking comment. The Swiss Foreign Ministry said the two men are in the Swiss Embassy in Tripoli and were tried and convicted in absentia. A spokesman for the ministry had no further comment on the affair.

The news comes on the heels of Sunday's referendum in Switzerland to ban the construction of minarets on mosques. The vote has raised the ire of political and religious leaders in the Muslim world. Swiss diplomats have been working to calm tensions in those countries in the hope of staving off a backlash against Swiss interests. After the election, Libya's government-controlled news agency Jana branded the vote as "racist."

The standoff with Libya has been embarrassing for Switzerland. In addition to detaining the two businessmen, Libya, one of Switzerland's larger suppliers of oil, froze some business ties with the Alpine country for a time last year.

For much of the past year, Messrs. Goeldi and Hamdani were allowed to stay at home in Tripoli or in the Swiss Embassy there, but earlier this fall, Libyan officials detained them in an unknown location.

Then last month, they reappeared just as Tripoli announced plans to try the men.

When Mr. Merz's apology to the Libyan leader failed to secure the release of the two men, he came under criticism at home.

Some commentators in Switzerland said they believed the high yes vote in favor of the minaret ban—58% of voters supported the referendum—stemmed in part from resentment in Switzerland over the Libya affair. The referendum was promoted by Switzerland's right-wing People's Party.

European governments also have struggled in recent years with popular opposition to the construction of mosques.

BOE member suggests hedges against bubbles

By Natasha Brereton

A member of the Bank of England Monetary Policy Committee proposed using real-estate taxes and regulation as a hedge against asset-price booms and busts.

In a speech in London Tuesday, Adam Posen said he welcomes international efforts to require banks to build up capital buffers during upturns. But he said neither buffers nor interest-rate moves are enough to prevent asset-price bubbles.

He also said real-estate bubbles have historically caused more economic damage than stock bubbles, adding that it makes sense to focus new measures specifically on stabilizing house prices.

"The design of such a real-estate oriented tool would have to vary from country to country, depending upon their respective housing and tax structures, and it would have to be adopted by the elected fiscal authorities," Mr. Posen said.

A precrisis consensus among central banks held that there was little central bankers could do to stop bubbles from forming, but they could reduce the pain when bubbles pop. The harshness of the credit crunch ended that consensus.

U.S. Federal Reserve officials consider tougher bank supervision to be their first line of defense against bubbles and Fed Chairman Ben Bernanke has said the bank could raise interest rates to head off a bubble, although he has said he is wary of that step. Asian officials have complained to Mr. Bernanke and other U.S. officials that their own local real-estate markets could be overheating, something potentially fueled by low U.S. rates.

Mr. Posen said the tools he was proposing wouldn't require new regulatory infrastructure and could build on the tax systems already in place. He said his ideal tools in calculating the taxes would take into account factors such as ownership of second houses, speculative purchases and the length of time a property is owned before sale.

Similar measures for commercial real estate could be considered, and rules on loan-to-value ratios could also be changed, he said. The measures shouldn't have large implications for tax revenue over the cycle, and wouldn't constrain fiscal-policy decisions in the medium-term.

"It would mean having already existing title fees, capital-gains taxes, stamp and transfer taxes, varying over time in line with price developments in the housing market more broadly," said Mr. Posen.

Speaking to reporters later, Mr. Posen said he believes the U.K. economy has bottomed out, and output is most likely to increase quite rapidly over the next few years, albeit from a weak base.

"It's pretty strong growth off a weak base, so I'm not throwing cartwheels over that," he said, adding that all the risks are on the downside.

Mr. Posen also dismissed concerns in some quarters that extremely easy monetary conditions might be fueling new asset-price bubbles, and said even if they were, rate increases wouldn't be the way to tackle them.

"I think at best it's based on misapprehension and at worst it's whining about something," Mr. Posen said.

U.S. NEWS

Fed faces assault on consumer role

Central bank has stepped up protections under Bernanke, but lawmakers remain upset over lapses that fueled crisis

BY SUDEEP REDDY

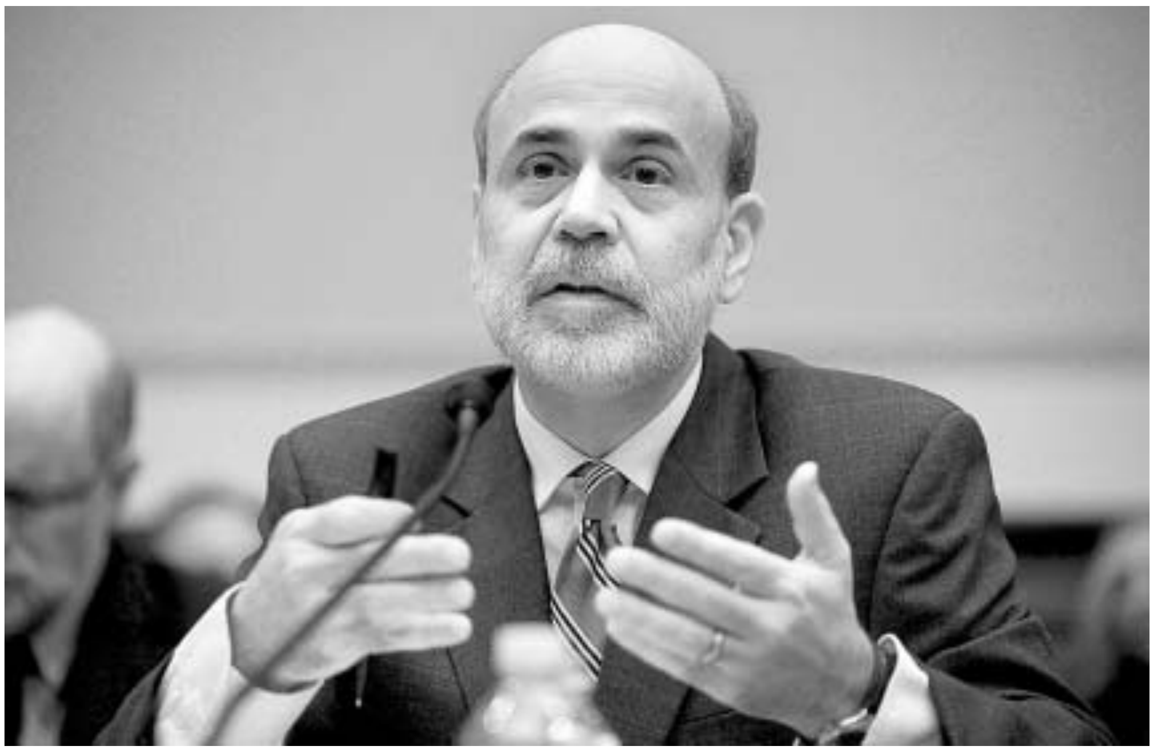
The Federal Reserve has moved more aggressively on consumer protection since Chairman Ben Bernanke took office in 2006 than it did during his predecessor Alan Greenspan's 19-year term.

But that's not likely to stop members of the Senate Banking Committee from attacking the Fed's failure to shield consumers from financial abuses when Mr. Bernanke appears Thursday at a confirmation hearing for a second term.

In the past three years, the Bernanke Fed instituted new regulations on mortgage loans, requiring lenders to verify a subprime borrower's ability to pay. It has put restrictions on credit-card companies. It has limited overdraft fees on ATM and debit-card transactions. It has other regulations pending on mortgage brokers' compensation, gift cards and home-equity lines.

That is a contrast to the Greenspan years, when the Fed's approach to protecting consumers relied mainly on requiring more disclosure. When asked about the Fed's record, Mr. Bernanke shies away from explicitly criticizing his predecessor. Instead, he points to his own record.

"While I certainly agree that the Federal Reserve did not do enough in this area for many years," he said in October, "in the past three years or so we have been quite active and aggressive in this area. And I think we've been very effective and made use of our particular strengths in economics and finance to complement our consumer protection."



Associated Press

Federal Reserve Chairman Ben Bernanke, pictured in October testifying before Congress, is expected to face a grilling from lawmakers at a confirmation hearing Thursday over the Fed's record on shielding consumers from financial abuses.

To many lawmakers and consumer advocates, this is too little too late. Many of the Fed's most significant regulations, such as a ban on deceptive subprime-mortgage practices, came only after the financial crisis exposed vast regulatory holes and a sea of loans to homeowners who can't meet their payments.

"It's good to have those rules in place for the future," said Eric Halperin, director of the Washington office of the Center for Responsible Lending, a consumer group advocating for more restrictions. "Unfortunately, they came after the damage was done in the mortgage market."

The White House has proposed giving the Fed new duties guarding against systemic risks to the economy. But the Obama administration and the chairmen of both congressional banking committees favor taking consumer-protection duties away from the central bank and giving them to a new agency. Some lawmakers say the Fed already has too much on its plate.

"They failed abysmally in their consumer-protection function and in any role that they could have played in systemic risk," said Sen. Jeff Merkley (D., Ore.), a Banking Committee member. With the Fed advocating to maintain most of its authorities and take on new ones, he said, "in the face of this history it just doesn't wash."

Mr. Bernanke has avoided lobbying Congress for the Fed to keep its consumer role, saying "it's Congress's decision." But he points to the vigor of the Fed's recent efforts to shield consumers. When focus groups showed that consumers couldn't understand some credit-card policies or mortgage practices, the Fed moved to ban them.

Pace of recovery slows at U.S. manufacturers

BY KELLY EVANS

U.S. manufacturing activity increased for the fourth consecutive month in November, although at a slower rate as the nation fumbles its way toward recovery.

Meanwhile, the housing market showed further signs of strength in October but nonresidential construction spending declined.

The Institute for Supply Management said Tuesday that its index of manufacturing activity fell to 53.6 in November from 55.7 the prior month, although it remained above the key 50 level that indicates expansion. Although the employment and production components within the index slipped, new orders rose nearly two points to a level of 60.3.

"I didn't expect new orders to jump up like that so it shows some strength there, which ultimately results in strength in other components," said Norbert Ore, who leads the survey committee.

But he cautioned that companies indicated some hesitance about hiring, and said only 12 of 18 industries surveyed reported overall growth.

Separately Tuesday, the National Association of Realtors said its index of pending home sales, a leading indicator of actual sales, rose for the ninth consecutive month in October to a level of 114.1, its highest since March 2006. The group's chief economist, Lawrence Yun, credited the government's tax credit for first-time home buyers with "helping unleash a pent-up demand" for housing.

While surging demand for homes is helping to spur U.S. economic growth, weakness in other real estate continues to be a drag.

Overall construction spending was flat in October. Spending on nonresidential projects, including hotels and office buildings, declined 1.5% to $652.2 billion at a seasonally adjusted annual rate. That was offset by a 4.2% jump in spending on residential construction to $258.5 billion.

Both housing and manufacturing activity are important barometers of the U.S. economy's health, and economists are trying to gauge whether the rebound seen in both areas this year can be sustained without the boost from government stimulus programs.

In October, for example, the ISM manufacturing index rose to 55.7 but new orders of big-ticket items known as durable goods actually slipped during the month, according to Commerce Department data released last week. A key gauge of business spending, nondefense orders for capital goods excluding aircraft, sank 2.9%.

One bright spot: Inventories are shrinking, paving the way for an increase in future orders and production. A third of manufacturing respondents told ISM their customers' inventory levels were "too low" in November, while only 7% said they were "too high."

Another boost: lower prices. Weak demand is keeping a lid on inflationary pressures. The prices component of ISM fell to 55 in November from 65 the prior month.

Finally, the weaker dollar is helping to spur demand for exports, which ticked up half a point to an index level of 56 last month.

AFGHANISTAN: THE OBAMA PLAN

Associated Press (2)

A motorcycle drives past a large U.S. Army convoy in Afghanistan's Wardak province on Monday. President Barack Obama was set Tuesday to announce his new plans for the war.

U.S. sets the stage for a limited surge

Move to send 30,000 troops allows for faster deployment, but White House will seek curbs on budget, duration

By Jonathan Weisman
And Peter Spiegel
Washington

PRESIDENT Barack Obama has ordered a revamped war plan for Afghanistan that appears to endorse the military strategy of his top generals but will set limits on U.S. involvement in terms of duration, manpower and money, White House officials said.

The plan, which Mr. Obama was to lay out in a televised address Tuesday night, includes sending 30,000 U.S. reinforcements to Afghanistan in an 18-month "surge."

The deployments would be led by Marines from Camp Lejeune, N.C., who could leave as early as this month. The Marine units are expected to flow into existing Marine bases in the southern Afghan province of Helmand, where reinforcements sent by Mr. Obama earlier this year have been fighting Taliban insurgents for months.

The rest of the reinforcements will be from the Army, including elements of the 101st Airborne, based in Fort Campbell, Ky. Those later deployments are expected to focus on the neighboring southern province of Kandahar, where Taliban-linked extremists have infiltrated into Kandahar city, the largest city in the south.

The planned deployments would come faster than previously believed. Originally, it was expected to take at least a year to get all new forces into the theater.

Eight U.S. allies also have committed to sending additional troops, which could total some 5,000, according to European and U.S. officials.

The combined level of additional manpower comes close to the preferred option of top U.S. commander Gen. Stanley McChrystal, which called for an additional 40,000 troops.

Dan Senor, a senior official in the Bush administration's occupational government in Iraq, said a rapid deployment that reaches full force by May 2010 should yield results "quite quickly."

But he said the summer of 2010 will see some of the fiercest fighting and worst casualties of the war. It will take two years to see "real, meaningful improvement," he said.

But by that time, Obama administration officials foresee some troops pulling out.

Secretary of State Hillary Clinton, in a preview Monday, told a New York audience that, in addition to defeating terrorist groups, the U.S. was committed to stabilizing Afghanistan and Pakistan, saying it is "directly connected to our own national security, to regional security, and to global security."

"As long as Afghanistan and Pakistan struggle to control their borders and extend their sovereignty to all their territory, the door is open to bad actors, and the result can be an environment in which terrorist groups thrive," she said.

Some U.S. and foreign officials fear that emphasis on an exit strategy will convince Taliban insurgents in both Pakistan and Afghanistan to lie low during the buildup and wait out international security forces. "Talk of an exit strategy can exacerbate the security situation," said a senior diplomat from the region. "It emboldens the people you are fighting."

White House spokesman Robert Gibbs brushed off such suggestions, saying the insurgency showed no sign of slowing when the commitment was open-ended.

The president was expected to seek to demonstrate to Afghans and leaders in neighboring Pakistan—as well as the Taliban—that Washington is committed to stability in the region for years to come, even while showing he doesn't intend to use U.S. forces to maintain the peace beyond squelching the current insurgency, according to a senior official briefed on U.S. strategy.

"We need to make sure the Afghan people are reassured not just for the next six months, but for the rest of their lives," said the official.

Wounded U.S. soldier Anthony Pickens speaks with the U.S. ambassador to Afghanistan, Karl Eikenberry, not shown in photo, Thursday at Bagram base, north of Kabul. Eight U.S. allies have committed to sending additional troops.

"What that does not mean is that we're going to be there ourselves fighting bad guys in the next 20 years."

Those goals closely reflect a strategy proposed in August by Gen. McChrystal, who called for a counterinsurgency strategy that included both targeting terrorist networks and committing tens of thousands of troops to stabilizing Afghanistan and training domestic security forces.

Mr. Obama met in the Oval Office Sunday at 5 p.m. to share his decision with Vice President Joe Biden, Defense Secretary Robert Gates, Admiral Mike Mullen, chairman of the Joint Chiefs of Staff and Gen. David Petraeus, head of Central Command, National Security Adviser James Jones, and White House Chief of Staff Rahm Emanuel, Mr. Gibbs said. Mr. Obama then communicated the decision to Gen. McChrystal and Karl Eikenberry, U.S. ambassador to Afghanistan, over a secure video link from the White House situation room.

The president also phoned the leaders of Denmark, France, Russia and Britain, and met personally with Australian Prime Minister Kevin Rudd. He was to speak with the leaders of Afghanistan, Pakistan, China, India, Germany and Poland, as well as meet with at least 31 senators and House members.

Many Democrats are already coming out against a troops escalation amid acknowledged corruption in Afghanistan, a tainted election, and open concerns in the Obama administration about the capacity for Afghanistan to ever supply the security force it will need.

Rep. Mike Honda, a California Democrat and member of the House Appropriations Committee, said he considers any administration move to deploy large numbers of new troops to Afghanistan "a really bad idea."

"We don't understand Afghanistan properly and we don't know what we're doing there," he said. "We can't win that war."

In an address to Parliament, British Prime Minister Gordon Brown provided new details on international efforts to hold Afghanistan President Hamid Karzai to account, saying that over the next nine months, Kabul will be forced to implement a new system to ensure local governors are selected based on merit.

Cronyism within Mr. Karzai's government has been a leading complaint among critics who say it has allowed allies with connections to drug trafficking and human-rights abuses to gain important government positions.

Mr. Brown said that the new program would apply to governors of all of Afghanistan's 400 provinces and districts, who will be assigned clearly defined job descriptions and financial resources from Kabul.

More U.S. aid will also be routed around Mr. Karzai, directly to provincial and local level officials and government ministries, White House officials said, and those funds will be allocated based on the performance of the governments.

According to the official briefed on Mr. Obama's strategy, the president was to emphasize the theme of ensuring Afghanistan and Pakistan must not again be turned into launching pads for attacks on the U.S. and its allies. The eventual model for Afghan policy, the official said, is Pakistan, where the U.S. has made huge commitments to foreign aid and offered to train the Pakistani military in counterinsurgency strategy, but not committed U.S. forces.

—Yochi J. Dreazen contributed to this article.

AFGHANISTAN: THE OBAMA PLAN

The new plan exacts a new price

Cost of the troop surge—which is a matter of dispute—rankles congressional democrats; some push for a special tax

By Yochi J. Dreazen
And August Cole

WASHINGTON—When President Barack Obama unveils his new Afghan war strategy Tuesday, he will face an immediate political fight over how to pay for it.

After a months-long review, Mr. Obama summoned Defense Secretary Robert Gates and other top military and civilian officials Sunday night to the White House to brief them on his decision to send tens of thousands of new U.S. troops to Afghanistan. The president will detail the plan in a prime-time speech Tuesday.

The troop announcement will set off a weeklong White House effort to persuade a skeptical Congress to back the new war strategy—and to approve the tens of billions of dollars in new spending at a time of ballooning federal deficits.

It may be a tough sell. The hefty price tag of the pending Afghan troop increase is already drawing opposition from many congressional Democrats, deepening Mr. Obama's estrangement from his own party over the conflict.

Some Democrats are coalescing around a new proposal to levy a war tax to help fund the conflict. The proposal by Wisconsin Democratic Rep. David Obey, who chairs the House Appropriations Committee, would impose a 1% tax on most Americans that rises to 5% for wealthier citizens. The administration has yet to weigh in on Mr. Obey's proposal, which would likely have a difficult time getting passed.

"If the president intends to go in over our objections, he should have to bear the burden of asking for a tax to pay for it," said Rep. Mike Honda (D., Calif.), a member of the House Appropriations Committee who supports the new tax. "You're talking about $30 billion or $40 billion per year in new spending. It's expensive."

Congressional Republicans have pressed Mr. Obama to fully heed his commanders' requests for more troops and military resources. Republicans, who oppose the idea of a war tax, generally favor borrowing the additional money necessary for the Afghan surge or reallocating other government funds.

White House spokesman Robert Gibbs says Mr. Obama "will touch on cost" in his Tuesday speech, but won't go into specifics about how he wants to fund expansion of the war effort. "I don't think that the intention of the speech is to lay out a lengthy discourse on that," Mr. Gibbs said.

Associated Press

Georgia National Guardsman Sgt. Scott Millican, right, and Air Force Technical Sgt. Phillip Huaser look up as U.S. fighter jets fly overhead in Afghanistan Monday. The White House estimates that sending 30,000 reinforcements to Afghanistan would add about $30 billion in new costs per year, or about $1 million per soldier or Marine.

The administration's dispute with congressional Democrats like Mr. Honda reflects stark statistics about the Afghan war's rising costs. The U.S. is currently spending roughly $3.6 billion a month in Afghanistan, a figure that will increase significantly once additional troops deploy there.

The White House estimates that sending 30,000 reinforcements to Afghanistan would add approximately $30 billion in new costs per year, or about $1 million per soldier or Marine. The Pentagon estimates that it will cost roughly $500,000 per soldier, for a total of about $15 billion per year in new expenses.

Independent budget analysts generally believe the Pentagon's numbers are more accurate, but acknowledge that it is hard to generate accurate estimates of how much the administration's decision to expand the Afghan war will ultimately cost.

"The arithmetic that's behind all of these numbers has never been made visible," said David Berteau, director of the Defense-Industrial Initiatives Group at the Center for Strategic and International Studies, a nonpartisan Washington think tank. "The astonishing thing is that there is no good summary of what we're getting for all of that money."

The Pentagon has already signaled that the U.S. has for the first time begun spending more money in Afghanistan than in Iraq. The administration's fiscal 2010 budget for the Pentagon, released in May, asked for $65 billion for Afghanistan and $61 billion for Iraq.

Defense officials say the administration will ask Congress to approve a separate Afghan war supplemental spending bill in coming months to fund the new troop deployments there.

Gen. James Conway, the commandant of the Marine Corps, said many of the Afghan war's high costs result from the difficulty and expense of trucking fuel, food and other supplies into the landlocked country.

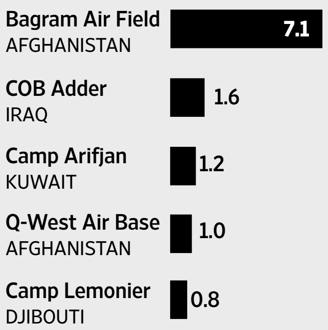
In a speech in mid-October, Gen. Conway said military-grade fuel—which costs roughly $1 a gallon in the U.S.—can sometimes cost the Marine Corps about $400 per gallon once all the expenses of ferrying it into Afghanistan are factored in. The Marines operating in southern Afghanistan consume more than 88,000 gallons of the fuel per day, he said.

"Most all of that comes along this fairly tenuous supply line across Pakistan, where we're paying large amounts of money to tribes so that they don't fight each other and so that they don't raid our supply lines," Gen. Conway said at an energy conference in Virginia.

Marine Col. T. C. Moore recently visited Afghanistan at the helm of the Marine Energy Assessment Team, which Gen. Conway created to look for ways to reduce Marine energy expenditures. "The last tactical mile costs the most money, because it's simply so dangerous," he said.

Burning through fuel

Fuel consumption, in millions of gallons, reported by selected U.S. military bases for June 2008



Source: U.S. Government Accountability Office

In Indiana town, families with military ties back effort

By Douglas Belkin

KOKOMO, Ind.—With a 22-year-old son serving in Afghanistan, Denise Young knows what she wants to hear President Barack Obama tell the nation Tuesday night.

"That he is going to let the generals make the decisions," Mrs. Young said. "They have asked for more troops. They should get them. There is safety in numbers."

Her sentiment echoes throughout this farm-and-factory city of about 46,000, where thousands of families are connected to the military—and some have paid the ultimate price.

Since 2003, six men from the Kokomo area have been killed in the wars in Iraq and Afghanistan, the fifth-highest ratio of casualties to residents of any U.S. community with five or more dead, according to a Wall Street Journal analysis of Defense Department data.

About 9,000 veterans live in surrounding Howard County, and the names of 277 soldiers killed in the Vietnam War are inscribed in black marble on Kokomo's war memorial. A field on the outskirts has been the site of a Vietnam Veterans reunion for more than two decades; this year it attracted 40,000 people.

Recent military deaths have made many people here more willing to support a harder push in Afghanistan, and have created a keen interest in Mr. Obama's speech.

"Obama needs to give them a clear mission...and he needs to let them fight," said Mrs. Young, whose son Richard is an Army sergeant seven months into his first deployment in Afghanistan. "The politicians need to get out of the way."

Indiana was a Republican stronghold for decades before Mr. Obama narrowly defeated Sen. John McCain in the presidential election last year. But Mr. Obama's three-month deliberation over how to proceed in Afghanistan has grated on some residents here.

Although Indiana is only the 16th most populous state, it counts the fourth-highest number of people serving in the military, said Bob Ladd, the state commander of the Disabled American Veterans of Indiana. Attitudes about strategy are grounded less in global politics than obligations to stand up for friends and family.

"People want to hear how we can win," said Mike Karickhoff, a Republican city councilman. "There is a strong sense that [Mr. Obama's] decision has to reflect well on the sacrifices that have already been made."

Kokomo has long defined itself as a city of builders and fighters. Generations of families helped manufacture cars in plants that built the regional economy. But the industry's decline has hit hard. Unemployment in Kokomo is 13.4%.

The military has emerged as a stable source of jobs. Enlistment is understood as a way both to serve the U.S. and build a career, said Rick Hagenow, principal at a local alternative school. "This is middle America and there is a strong sense of duty. There is also a sense that the military offers career training that you can't get anywhere else."

—Maurice Tamman contributed to this article.

WORLD NEWS

U.A.E. leaders seek to calm markets

Stocks in Dubai, Abu Dhabi sink again, but news of debt-restructuring talks eases global fears; stressing federal unity

By Maria Abi Habib
And Mirna Sleiman

DUBAI—The leadership of the United Arab Emirates sought to steady the nerves of investors, as concerns over Dubai's debt crisis sent stocks across the Gulf sharply lower for a second day.

Dubai's ruler, in a statement after the market closed Tuesday, stressed federal unity across the U.A.E. amid concern that oil-rich Abu Dhabi will remain on the sidelines as Dubai struggles to restructure the debts of its government-owned companies.

The U.A.E. is working on "enhancing integration between the federal and local frameworks," said Sheik Mohammed bin Rashid Al Maktoum, who also is prime minister of the U.A.E. Abu Dhabi is the capital of the U.A.E., a confederation of seven city-states including Dubai.

Those comments came after state-owned conglomerate **Dubai World** broke six days of silence early Tuesday morning, saying it was negotiating to restructure $26 billion in debt and anticipated a deal quickly. Last week Dubai said the company was seeking a standstill on the debt.

Stocks in Dubai and Abu Dhabi fell sharply for a second day. The Dubai Financial Market's main index dropped 5.6% Tuesday, after falling 7.3% Monday. Abu Dhabi shares closed 3.6% lower. Shares in Qatar and Kuwait also were hit, with benchmark measures down 8.3% and 2.7%, respectively.

However, the cost of insuring Dubai's sovereign debt against default declined again, following the statement from Dubai World just after midnight local time Tuesday. Dubai's five-year sovereign credit-default-swap spreads tightened to 5.124 percentage points Tuesday from 5.696 percentage points, data provider CMA said.

Also, stocks rose sharply in Europe and the U.S. as news of the restructuring talks eased Dubai-related concerns around the world.

Dubai World hired well-known deal maker Ken Moelis to advise on the debt restructuring and will continue to use **Rothschild** as a financial adviser. In an interview, Mr. Moelis said there had been confusion between debt for Dubai World and debt issued by Dubai itself, and emphasized that the firm was "doing private transactions with private money."

Agence France-Presse/Getty Images

Dubai ruler Sheikh Mohammed bin Rashid Al Maktoum, who is also the U.A.E.'s prime minister, speaks at a news briefing Tuesday. He said in an emailed statement that the 'media did not seek the truth and confused matters without knowledge.'

In its statement, Dubai World said the restructuring would affect Dubai World and subsidiaries including **Nakheel World** and **Limitless World**, but not other businesses such as **Istithmar World and Ports & Free Zone World**, which it said were on "stable financial footing."

Sheik Mohammed, meanwhile, turned on the media, blaming the press for international concerns over his sheikdom's ability to deal with its debts. "The exaggeration of the media won't affect our perseverance," he said in an emailed statement, adding that "media did not seek the truth and confused matters without knowledge."

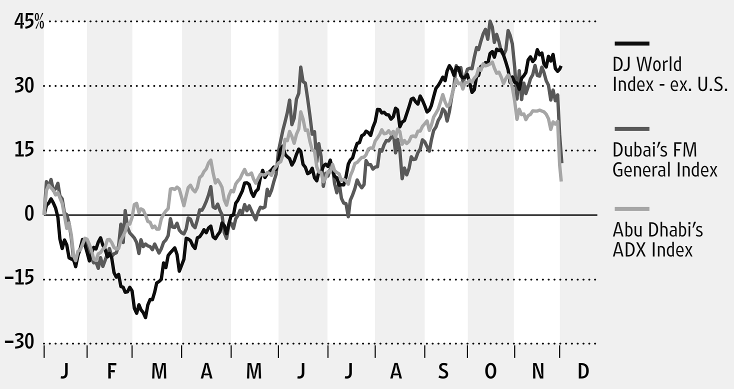
Last month, Sheik Mohammed told reporters gathered at an investment conference in the city to "shut up" and stop criticizing the emirate and its crucial relationship with Abu Dhabi amid concerns over its debts.

Investors recoiled after Dubai's government said Monday that it isn't responsible for the debts of Dubai World. The company—which owns diversified assets including Dubai's man-made, palm-shaped luxury islands and Barneys department stores in the U.S.—has liabilities of close to $60 billion.

Dubai's economy has been hit hard by a 50% slump in real-estate prices over the last year and the rising cost of financing its total debts.

Selloff in the U.A.E.

After Dubai World's debt crisis, the markets in Dubai and Abu Dhabi slid



Source: Thomson Reuters via WSJ Market Data Group; Dow Jones Indexes

Regional investment bank EFG-Hermes said Monday that Dubai and its government companies may have total debts of about $150 billion, exceeding the city-state's gross domestic product.

So far Abu Dhabi, which controls 90% of the U.A.E.'s reserves of crude oil, has remained on the sidelines and has refused to assist Dubai's corporate empire. Abu Dhabi supported the U.A.E. central bank's decision in February to buy $10 billion of Dubai's emergency bonds, and two banks that are majority-owned by the Abu Dhabi government bought $5 billion more in emergency bonds last week.

Abu Dhabi's ruler, who is also president of the U.A.E., tried to ease concerns Tuesday that Dubai's debt crisis could undermine the U.A.E.'s economy. His comments fell short of an unequivocal statement of financial support for Dubai's struggling companies.

"We would like to comfort everyone that our country today is stronger and better, and that our economy and society are healthy," said Sheik Khalifa bin Zayed Al-Nahayan, who is a cousin of Dubai's ruler.

His statement to the official Emirates News Agency came ahead of the National Day holiday in the U.A.E. on Tuesday.

Adair Turner, chairman of the U.K.'s Financial Services Authority, said the debt crisis in Dubai is a normal and expected part of the adjustment process to the global financial turmoil and not part of some new threat to the financial system.

He said U.K. banks' exposure to Dubai is "manageable" and doesn't represent a "major threat to them."

Brij Singh, founder and chief executive of Baer Capital Partners, an investment-management and corporate-finance firm with offices in Dubai, Mumbai and London, said, "There's bound to be some breakage with investors. The situation is manageable, it just needs to be managed."

The debt problems could lead to a wave of job cuts in Dubai as government-owned companies are forced to restructure. Government-owned companies are the emirate's biggest employers and account for the majority of expatriate jobs.

Dubai World employs about 70,000 people globally. A company spokesman declined to comment on whether there will be layoffs.

Laying off local workers in a country that prides itself on providing near full employment for its indigenous population and high incomes could be politically challenging for Dubai's unelected rulers.

Thousands of foreigners were fired in the emirate's construction, real-estate and financial-services sectors after the global economic downturn hit Dubai late last year.

"I think it will be more challenging for the government to lay off nationals," said Riyadh-based John Sfakianakis, chief economist at Banque Saudi Fransi. "The first downsizing happens with expatriates and, then if there is a need, the nationals are downsized, which could create discomfort."

—Nikhil Lohade, Andrew Critchlow, Alex Delmar-Morgan and Adam Bradbery contributed to this article.

Bank of Japan eases lending

TOKYO—Japan's central bank unveiled a surprise monetary-easing effort Tuesday that could inject up to $115.68 billion into an economy facing deflation and a soaring currency, but the move failed to impress financial markets or economists eager for bolder action.

The Bank of Japan's move followed increasing pressure from Japan's new government and came amid growing pessimism surrounding the country's economy. Japan has posted two straight quarters of economic growth and seen a resurgence in demand for its exports. But declining consumer prices and the yen's strength against the dollar have raised concerns that Japan could slip back into recession.

At an emergency meeting Tuesday, the BOJ adopted a new lending program to provide 10 trillion yen of funds for three months at a low rate of 0.1%, taking in exchange a wide range of collateral, from government bonds to deeds on loans. The bank stopped short of lowering its key policy rates, also at a low 0.1%.

"While Japan's economy is picking up, there is not yet sufficient momentum to support self-sustaining recovery in business fixed investment and private consumption," the BOJ said. "The bank believes that the decision made today, together with the government's efforts, will firmly support Japan's economic developments toward recovery."

BOJ Gov. Masaaki Shirakawa said that the move could be called "quantitative easing in a broad sense." Quantitative-easing programs increase money supply.

The central bank has been reluctant to intensify its stricter quantitative-easing measures, which could include more outright purchases of government bonds as a way to inject money into the financial system.

Reuters

Bank of Japan Gov. Masaaki Shirakawa, at a Tokyo news conference Tuesday, said the bank's new cash injection could be called 'quantitative easing in a broad sense.'