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THE WALL STREET JOURNAL.

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# EU names bloc's top officials

*Leaders choose Belgian Premier Van Rompuy as president and U.K. trade executive Ashton as chief of foreign policy*

By Charles Forelle And Alistair MacDonald

BRUSSELS — European Union leaders picked the low-key prime minister of Belgium and a British trade representative who has never held elective office as the bloc's first president and foreign minister.

After weeks of horse trading, the heads of the 27 EU nations settled quickly on Herman Van Rompuy and Catherine Ashton over dinner here Thursday after British Prime Minister Tony Blair—hoping for a political revival—lost the backing of his government.

Mr. Blair's withdrawal "made it easy" for the others to settle on Mr. Van Rompuy and Baroness Ashton, said Mr. Van Rompuy's spokesman.

The choices of two politicians largely unknown outside their home countries suggest the ambitions of some to give the bloc a bigger presence on the world stage had been scaled back.

By creating the two top jobs, the EU signaled it was seeking coherence while wrestling with domestic- and foreign-policy questions—such as its relationship with Russia—that often divided members.

"We live in an exceptionally difficult time," Mr. Van Rompuy said, citing the strains of the financial crisis and the challenge of climate change. "A period of anxiety and uncertainty."

The posts of president and foreign minister were introduced with the EU's Lisbon Treaty, a set of reforms to the bloc's internal functions that had been sought for years by proponents of a strong, centralized Europe. The treaty was ratified just a few weeks ago.

Initially, Britain and other countries favored a candidate for president who would generate high wattage in international circles—a description that fitted Mr. Blair. But his candidacy faced several problems—among them his support of the Iraq war and lukewarm backing from others on the political left.

Fatefully, he failed to get the backing of French President Nicolas Sarkozy and German Chancellor Angela Merkel. That raised the chances of lower-profile compromise candidates, such as Mr. Van Rompuy and the prime ministers of the Netherlands and Luxembourg.

Mr. Blair's challenge ended when, sensing that there wasn't enough support for him, Prime Minister Gordon Brown ceased championing the man he served as Treasury chief for a decade. Instead, Mr. Brown put Britain's efforts into pushing Baroness

*Please turn to page 3*

Reuters

Herman Van Rompuy became prime minister after a tenuous coalition between Belgium's French and Dutch speakers fell apart.

## Conquering cosmetics world is next step for Alliance Boots

The next step in Stefano Pessina's ambitious plan to turn **Alliance Boots** GmbH into a global health-and-beauty powerhouse turns on his ability to turn a store-brand U.K. cosmetics line into a best-seller throughout Europe and beyond.

The 68-year-old executive chairman is hungry for expansion, despite a heavy debt load left over from the buyout.

On one hand, that means an aggressive rollout of its beauty-products business. Following a small test-run in France and Portugal, Mr. Pessina is planning a broader rollout in continental Europe of its new Boots Laboratories line of beauty products. Five years down the line, he expects to bring Boots Laboratories to Asia and elsewhere.

At the same time, he is eager to acquire pharmacy chains. He hired a chief executive, HBOS PLC CEO Andy Hornby, to spend more time chasing the right group of pharmacies, especially in Europe, where deregulation is opening opportunities for buyers in the health sector.

He said Alliance Boots has "half a billion" British pounds available for acquisitions. More expensive purchases, he said, would likely be financed from outside the company, either directly by him and KKR or through a capital increase. Mr. Pessina insisted the heavy debt burden from the 2007 buyout wasn't limiting the company's freedom of movement going forward.

*See article on page 11*

Newscom

Stefano Pessina, executive chairman of Alliance Boots

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It's nothing to sneeze at: doctor's ties are considered a flu risk Page 29

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The U.N. has found the biggest threat to the climate, and it's you. Page 12

## Debt, jobs will trail recovery by years

By Gabriele Parussini

The global economic recovery will be stronger than previously expected, but it will take years to bring unemployment and government debt back to their precrisis levels, the Organization for Economic Cooperation and Development said.

The government debt of the 30 OECD member countries will exceed 100% of GDP in 2011, an increase of almost a third from 2007.

The OECD said the "unprecedented policy efforts" of governments and central banks have fostered a recovery but that it is time for policy makers to plan removing their policy measures.

"Stopping the rot is clearly necessary and will call for fiscal consolidation that is substantial in most cases and drastic in some," the OECD's acting Chief Economist Jorgen Elmeskov said in an interview. He said the Bank of Japan and the Bank of England "need to stay put" even longer to counter the risks of deflation in Japan, and to sustain the weak U.K. recovery.

But the measures are severely straining the U.K.'s budget. The Office for National Statistics said the public sector borrowed £11.4 billion ($19.1 billion) in October, the widest deficit recorded for that month since records began in 1993.

*See articles on pages 5, 10*

THE WALL STREET JOURNAL.

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# *In order to sustain economic growth, Britain needs lower energy costs*

[ AGENDA ]

By Ruth Lea

It is widely expected the U.K. economy will start recovering by the end of this year or the beginning of next. By contrast, Germany, France and Japan resumed growth in the second quarter of this year, and Italy and the U.S. returned to growth in the third.

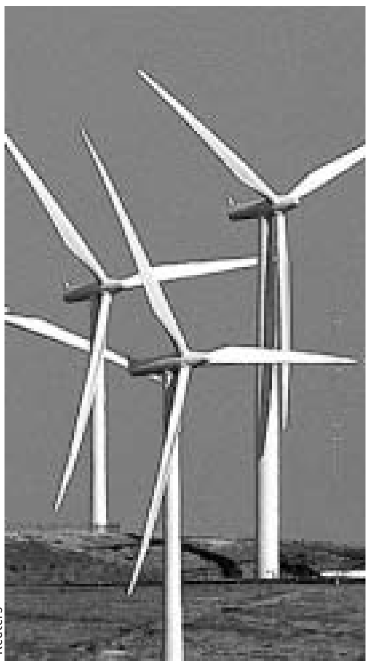
But it isn't just that Britain is a laggard in the international recovery. There is also the arguably bigger issue concerning the buoyancy and robustness of the recovery when it does begin.

It is difficult to see where drivers of buoyant growth will come from. Consumer spending will be restrained as the household sector continues to repair its balance sheet after the credit binge of the pre-2007 years, and unemployment will remain high. Tax increases will almost certainly hit the sector hard as the government seeks to repair horrendous public-sector deficits.

Similarly, public spending, after a period of rapid expansion, must also be restrained, and this will surely drag on growth. The next potential contributor to growth is investment. But given significant spare capacity, fixed investment will lag, not lead, growth, and stock-building—after a period of rapid de-stocking—will act as a temporary rather than a lasting stimulant.

So we are left relying on the final component of demand, exports net of imports, as the hoped-for silver bullet to push Britain's economy back onto a trajectory of healthy growth. And there is much to be done.

The U.K. is running a spectacular visible trade deficit—over 6% of GDP in 2008—which is only partly offset by positive balances on



Reuters

The Whitelee wind farm near Eaglesham, East Renfrewshire, in Scotland

"invisibles" earnings such as financial services.

While it isn't impossible the services industries could deliver the required increase in net exports, it is unlikely given the tribulations in the financial sector. This leaves Britain more than usually dependent on the manufacturing sector and its exporting and import-substituting capacity for future growth.

The British manufacturing sector has been much neglected the past 20 to 30 years. But such was the apparent vigor of our creative and financial-services industries, with the City of London the "jewel in the crown," that it was fashionable to claim "manufacturing didn't matter." Britain, the first industrial nation, would become the first "post-industrial" nation. It was nonsense then and even more glaringly obvious nonsense now.

Fortunately, parts of Britain's manufacturing capacity have survived—including world-beating aerospace and pharmaceuticals.

But just as some of us are looking toward the manufacturing sector for salvation, a major competitiveness-damaging threat is developing. This is the issue of the cost competitiveness and reliability of our energy supplies.

As with the rest of the EU, Britain's energy policies are inextricably tied up with climate-change policies, in the belief that carbon-dioxide emissions must be severely cut to mitigate dangerous anthropogenic global warming.

While this approach potentially damages the competitive position of much of EU industry by raising energy prices, the potential damage to Britain is much greater. the U.K. has pioneered the move toward a low-carbon economy with enthusiasm and commitment. But in the rush to appear "green," authorities seem to have neglected the competitiveness implications of policy decisions.

Britain has two major, and stringent, legislative commitments concerning carbon-emissions reduction. The first is the Climate Change Act (2008) that aims for a 34% drop in emissions by 2020 compared with 1990, and an 80% reduction by 2050. These targets will be extraordinarily difficult to meet—if not impossible.

The second is the EU's Renewables Directive (2008), under which the U.K. has a target of meeting 15% of its final energy consumption from renewable sources by 2020. The equivalent figure was less than 1.5% as recently as 2005, and few commentators believe the 15% target is achievable. The U.K's target is by far the most demanding and challenging of any major EU economy.

One implication of the 15% renewables commitment is the share of electricity generated from renewable sources is officially, and unrealistically, projected to rise from the current 5.5% to around 30% by 2020. It should be noted that Britain's renewable source of choice, wind power, is expensive and unreliable.

To move toward the inter-connected targets for cuts in carbon emissions and the take-up of renewables, policies have been imposed that add to energy costs. In 2008, these additional costs were estimated to be 21% for the average business electricity bill and, incidentally, 14% for domestic bills. Estimates released in July 2009 suggested these add-ons could rise to a maximum of 70% for business users and 33% for domestic by 2020.

Such huge additional cost burdens would surely drive businesses offshore and/or prevent businesses setting up in Britain in the first place. This would particularly apply to energy-intensive manufacturing such as primary chemicals, industrial gases, steel, ceramics, glass and concrete. These may be cursorily dismissed as "sunset industries" and therefore dispensable.

This is short-sighted. If these primary industries disappear, "downstream" processes that depend on them are more than likely to migrate as well. A good example is the chemicals industry, where important "downstream" industries range from cosmetics and detergents to plastics, aerosols, paints, adhesives and photographic chemicals.

For much of British manufacturing, and therefore the U.K. economy, to thrive, energy costs must be competitive. This isn't special pleading. It is obvious. But Britain's current energy policies will increasingly fail to deliver this basic requirement.

*—Ruth Lea is an economic adviser with Arbuthnot Banking Group*

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"The trick will be to keep clients on board and not let them think they're with another megabank."

**Margot Patrick** on preserving Cazenove's blue-blooded status

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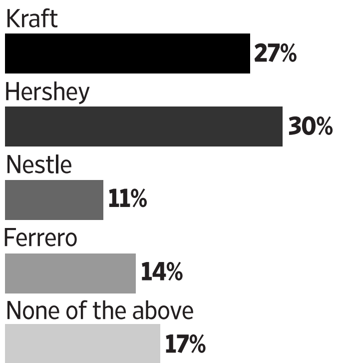


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## Fan favorites

The Top 5 all-time advance ticket sellers*

| Rank | Movie | Year |
|---|---|---|
| 1 | New Moon | 2009 |
| 2 | Star Wars: Episode III - Revenge of the Sith | 2005 |
| 3 | Harry Potter and the Half-Blood Prince | 2009 |
| 4 | The Dark Knight | 2008 |
| 5 | Twilight | 2008 |

*Ranked by number of tickets sold, from Fandango.com, which sells tickets to more than 16,000 U.S. screens, or about 70% of U.S. screens.
Source: Fandango

Kristen Stewart stars in 'New Moon' as Bella Swan, a human caught in a love triangle between a vampire, Edward, and a werewolf, Jacob.

# A record is set once in a 'New Moon'

*The second movie in the 'Twilight' saga is set to break through box-office tallies on both sides of the Atlantic*

By Javier Espinoza

LONDON—“Twilight” fans smashed advance-ticket sales records for “New Moon” ahead of its midnight opening Friday in the U.S., U.K. and other markets—as the franchise’s second film made a run for the biggest opening of the year.

U.S. ticket seller Fandango, which sells tickets to about 70% of U.S. screens, said “New Moon” set a record for the most advance ticket sales, surpassing previous champ 2005’s “Star Wars: Episode III—Revenge of the Sith” by last Saturday. A Fandango spokesman said the ticket seller has sold out “several thousand showtimes” across the U.S., with most of the sold out shows at midnight.

In the U.K., the country’s largest cinema chain, Odeon & UCI Cinemas Group, said the film had taken in more than $2.5 million by late Thursday, making it the chain’s fastest advance-selling film of 2009—outselling “Harry Potter and the Half-Blood Prince” and “High School Musical 3,” also geared at younger audiences.

“These vampires make sex dangerous again in a highly permissive society,” says Sara Lodge, a lecturer in Victorian literature at the University of St. Andrews in Scotland. “This is a message that will resonate in the teenage audiences—the film would perhaps help them through the difficult negotiation between delight and disgust.”

Paul Dergarabedian, president of Hollywood.com’s box-office division, estimated New Moon will open with more than $100 million ticket sales in North America this weekend. The North American benchmark so far is “Transformers: Revenge of the Fallen,” which made $109 million in its opening weekend earlier this year.

“I don’t know if New Moon can beat [Transformers] as it is a huge number, but reaching over $100 million is still a big deal,” he said. “This is a direct reflection of the fervor and the excitement surrounding this movie.”

Both “Twilight” and “New Moon” are Summit Entertainment releases. The films have met with mixed marks—not that that will deter fans.

The first “Twilight” film has a 49% rating on Rotten Tomatoes, meaning just under half of the 193 critics it tracked gave it a positive review. So far, the sequel has gotten even lower marks—39%—out of 44 reviews counted.

# *EU appoints top officials*

*Continued from first page*

Ashton—the EU’s trade commissioner. Mr. Blair also lost interest when he realized the job was more for a chairman than a higher-profile global figure.

Mr. Van Rompuy is, in fact, an accidental holder of his current office. He became prime minister after a tenuous coalition between the country’s French and Dutch speakers fell apart. The king of the Belgians turned to Mr. Van Rompuy as a conciliator, and he became prime minister.

A haiku-writing intellectual from Belgium’s Dutch-speaking north, Mr. Van Rompuy is a quiet figure, but one seen as a forceful negotiator and a keen seeker of compromise. That is an essential skill in permanently feuding Belgian, which has separate parliaments for its Dutch- and French-speaking regions, and for bilingual Brussels. Ironically, his selection is likely to return Belgian politicis to a state of turmoil.

“I did not seek this high office,” Mr. Van Rompuy said at a news conference he entered carrying a bouquet of yellow flowers. “But from this evening, I will assume it with conviction and with enthusiasm.”

Before becoming prime minister in late 2008, his last turn in the spotlight came as budget minister in the 1990s, when he had the task of helping the country to drop the Belgian franc and adopt the euro.

Baroness Ashton, who was made a peer in 1999 by the Labour government, went on to a number of junior ministerial roles in education and the ministry of justice before being made leader of the House of Lords for the Labour Party in 2007. When Peter Mandelson resigned as EU trade commissioner to return to the U.K. government, Mr. Brown named Baroness Ashton to succeed him in Brussels.

Margaret McDonagh, who as Labour peer worked with Baroness Ashton, believes her former colleague is a good choice for the role. “She is somebody that can develop relationships very quickly. A no-nonsense person,” she said.

Baroness Ashton is almost unknown in the U.K., let alone internationally.

This month, Andrew McGuinness arranged for her to speak before senior British business people at a central London restaurant and found them “unfamiliar” with her. Having demonstrated her “grip of her work, they told me they were surprised that someone with that level of competence wasn’t more familiar to them,” said Mr. McGuinness, the CEO of advertising agency BMB.

Not everybody agrees with the choice. Dan Hannon, a member of the European Parliament for Britain’s Conservative Party, pointed out that Baroness Ashton has never won an election and that her appointment as EU foreign-policy chief symbolizes the undemocratic nature of the bloc.

During the years it took to appoint an EU president, the job description was watered down considerably. Nevertheless, making the choice is a victory for European federalists who have long sought a union represented in the world by a single leader.

That desire became more acute earlier this decade as the EU prepared to add 10 countries, mostly from Europe’s ex-Communist east. Internal factions that mostly revolved and reshuffled around the views of a few big countries—France, the U.K., Germany—were set to become vastly more complicated.

EUROPE NEWS


Agence France-Presse/Getty Images

Opel workers demonstrate at a plant in western Germany. The T-shirt reads "We are Opel."

# Germany's hard line

*Politicians risk their leverage over GM by confronting it over Opel*

BY VANESSA FUHRMANS

Time is running out for German political leaders to provide financial help for **General Motors** Co.'s European Opel division—or risk the loss of more domestic jobs.

Angered by GM's surprise move to abandon plans to sell Opel this month, German politicians have so far taken a belligerent stance and are threatening to withhold state aid altogether.

Economics Minister Rainer Brüderle suggested this week that Opel may no longer qualify for aid regardless of what restructuring plan GM presents, a sentiment echoed by several other influential politicians.

The hard-line approach has won support in Germany, where many voters blame GM for driving Opel into the ground. Yet Germany's course may end up costing it the only real leverage it has to protect Opel plants and jobs.

Opel has plants across Europe, and GM can seek aid from other countries where it operates, including Spain, the Netherlands, Poland and the U.K. Unlike in Germany, where GM's decision to abandon a deal with Canadian auto supplier **Magna International** Inc. was met with outrage, these other countries are more amenable to the U.S. company's continued stewardship of Opel.

That reality may give GM an incentive to spare plants in countries more open to extending aid. "The [German] government didn't calculate that GM might go it alone" with Opel, said Gero Neugebauer, a political scientist at Berlin's Free University. "Now they are boxed in a corner."

European Union regulators, concerned that GM may try to play countries off against each another, plan to warn countries with Opel plants against trying to trade subsidies for jobs at an economic ministers' meeting in Brussels on Monday. But the jostling between countries has begun.

Flanders Premier Kris Peeters said earlier this week that his Belgian region would provide €500 million ($745.9 million) in loans and other aid, though under certain unspecified conditions.

After meeting Tuesday with GM's interim European chief, Nick Reilly, U.K. Business Secretary Peter Mandelson lauded GM's "solid commitment" to its U.K. Vauxhall plants, which are part of Opel, and said the U.K. was prepared to give financial support.

Germany, where Opel has its headquarters and operates four plants, is already crying foul.

It plans to use Monday's meeting to demand that the European Commission, the EU's governing body, monitor the situation closely, German officials said. The commission had previously expressed concern that under the aborted sale to Magna, Germany might have offered aid in return for promises not to close German factories. "The rules that apply to Germany must count for others, too," a German official said.

Yet governments are unlikely to make explicit quid pro quo arrangements with GM, making it difficult for the commission to intervene. Countries may simply extend aid in the hope that doing so will encourage GM to preserve their jobs.

So far, the most pronounced opposition to financial aid for GM in Germany has come from the Free Democrats, the new governing partners of German Chancellor Angela Merkel's Christian Democrats. Ms. Merkel and fellow conservatives have been more circumspect. Her party has to win regional elections next May in North Rhine-Westphalia, traditionally a stronghold of the more left-leaning Social Democrats,

*—Marcus Walker contributed to this article.*

# Russia looks at Tobin tax

BY IRA IOSEBASHVILI

MOSCOW—Russia is considering measures such as a tax on cross-border currency transactions to discourage speculative traders from driving up the ruble exchange rate, a central-bank official said Thursday.

Such a plan would put Russia in league with other commodity-exporting economies including Brazil and Indonesia. Both countries also have been seeking to discourage the inflow of speculative money, which boosts the local currency and reduces the profitability of their raw-material exporters.

"We need to develop an effective way of controlling cross-border transactions, something similar to the Tobin tax," said First Deputy Central Bank Chairman Alexei Ulyukayev at a conference on the ruble in Moscow.

Nobel laureate economist James Tobin proposed a tax on foreign-currency transactions in order to reduce exchange-rate volatility after the 1971 collapse of the Bretton Woods exchange-rate system. Since then, Mr. Tobin's original intent has been broadened in policy debate to include wider taxes on financial transactions of other types.

The broader definition of the levy was aired at a summit of the world's 20 leading economies this month, when Russian Finance Minister Alexei Kudrin criticized British Prime Minister Gordon Brown for proposing that leading economies apply a global financial-transactions tax.

To slow the ruble's appreciation, Russia's central bank has bought around $21 billion of foreign currency in October and the first half of November, and it has also lowered the country's refinancing rate by 3.5 percentage points this year to a record low of 9.5%—still many times the level seen in developed economies.

But the measures have done little to stop the ruble, which has risen by 10% against the dollar since September.

In September, Prime Minister Vladimir Putin, hoping to encourage investment, said the country wouldn't reintroduce capital controls, which were abandoned in 2006.

# *The modern iron curtain is made of gas pipelines*

[ Brussels Beat ]

BY STEPHEN FIDLER

The prospect of shivering through another January without gas for heating fills many people in Eastern Europe with understandable horror. Yet, a fight is shaping up between Russia and Ukraine that could leave them without vital Russian gas supplies.

Asked this week whether he believed Moscow would again cut off gas to Ukraine and therefore to much of Europe this winter, Andris Piebalgs, the European energy commissioner, said he thought it a "realistic probability." Some 80% of Russian gas supplies to the European Union pass through Ukraine and gas to Ukraine can't be interrupted without also stopping flows further west.

But not everyone views this prospect with the same dread as East European householders. One suspects senior executives at some major European energy companies would be secretly delighted if Russia stopped gas deliveries. The reason: they could buy the gas far cheaper on the world market than they are buying it from Russia.

In fact, this has the makings of a serious longer term challenge for OAO **Gazprom**, the state Russian gas monopoly that supplies 40% of the European Union's gas. The gas giant has short-term worries too. Gas demand has collapsed in Europe with the economic slowdown. Gazprom's sales to big European buyers such as **E.On**, **BASF**, **Eni** and **GDF Suez** have fallen to minimum contract levels, probably about 80% of contracted amounts, energy specialists say.

Unlike last winter, gas storage is full—though there remain EU countries such as Bulgaria with almost no storage. The buyers would love to take even less from Gazprom but they can't because, under their so-called take or pay contracts, they would have to pay fines if they do.

Contract details are confidential but prices of Gazprom contracts are linked to oil prices with a lag of several months. Energy experts reckon that contract prices are probably around $10 per million British thermal units—and because oil prices started climbing earlier this year, Russian gas prices will soon follow. Meanwhile, you can pick up liquefied natural gas on the world market for around $4 per million Btu.

The main reason for this gaping differential is a rapid expansion in output from North America. Developers have exploited new technologies to get gas out of the ground that was previously locked in. The growth of this so-called unconventional gas output has encouraged the prediction from the Paris-based International Energy Agency this month of "an acute glut of gas supply in the next few years."

"Gas suppliers to Europe and Asia-Pacific will come under increasing pressure to modify their pricing terms and cut prices to stimulate demand," it forecast in its World Energy Outlook.

But while at the moment Western Europe can bring this international gas into its networks, Eastern Europe can't. This divide, an affront to the idea of a single European market, is a "new iron curtain" that splits East from West, Pierre Noël of the European Council on Foreign Relations told a Brussels audience this week.

West of the divide, gas flows in two directions. East of it, the legacy of the past means that the pipelines allow gas to flow only from East to West, bringing gas from Russia but not allowing gas from the West. Last year's interruptions of supply have prompted renewed efforts to increase storage in Eastern Europe—Poland's for example is due to double by 2012—and also to permit a reverse-flow capability.

One giant obstacle, however, is that Gazprom owns some of the key pipelines bringing Russia gas to the West. Why would it allow the building of so-called interconnectors that will allow competitors' gas to enter Eastern Europe from the West?

How long this new iron curtain will last depends in part on how soon the EU can get its act together to push forward a single market in an environment where, as one senior EU adviser said this week, the bloc "doesn't address this with a strategic view."

A reason for that, said Charles Grant of the Centre for European Reform, is that "national energy champions"—by which he means the likes of Eni and E.On—have persuaded national governments to keep the European markets segregated.

Gazprom can help accelerate the progress to a single market by continuing to cut off gas supplies to paying customers. For lots of reasons, therefore, another bitter Russia-Ukraine gas dispute is the last thing Gazprom, as a business, needs.

Gazprom, though, is more than a business. It is also an arm of Russian foreign policy.

Ukraine, whose economy has been among the hardest hit in the world by the global economic crisis, faces a presidential election Jan. 17. If Ukraine can't pay for its gas, the Kremlin may not be able to resist teaching President Viktor Yushchenko a lesson by cutting off his country's gas supplies.

Vladimir Putin met Ukraine's prime minister, Yulia Tymoshenko, on Thursday to discuss their energy relations. On Wednesday, Ms. Tymoshenko sought to ease concerns about Ukraine's reliability as a transit nation, saying it hasn't missed a payment in the 10 months since signing a deal with Russia.

But watch out for this around Dec. 7 and Jan. 7, when Ukraine's payments are due. The people of Eastern Europe and European energy executives certainly will be.

EUROPE NEWS

# Public debt soars to new high in U.K.

*Government will likely have to borrow more than it had expected, in addition to raising taxes and cutting spending*

By Joe Parkinson
And Natasha Brereton

LONDON—The British government is likely to have to borrow even more than it plans for this fiscal year, increasing the scale of the tax rises and spending cuts it will need to reduce its debt to manageable levels.

The Office for National Statistics said Thursday that the public sector borrowed £11.4 billion ($19.1 billion) in October, the widest deficit recorded for that month since records began in 1993. The figure was much larger than the £7 billion economists had expected.

In addition, a monthly survey carried out by the Bank of England found that lending to businesses fell across all major sectors of the economy in the third quarter.

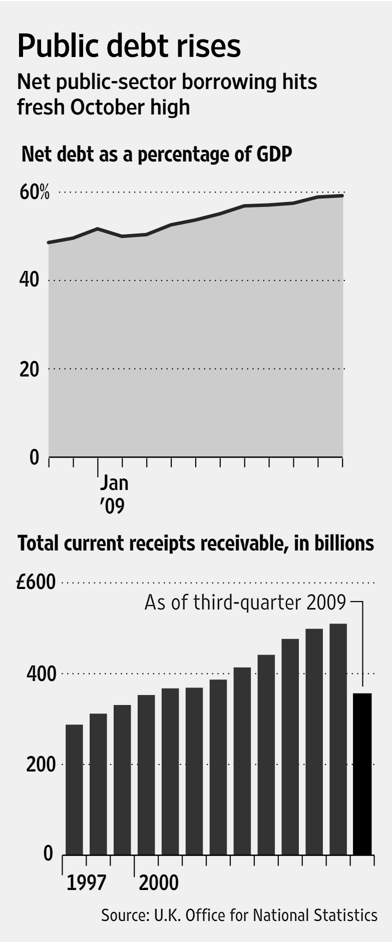
Some companies said access to funding has eased, but "many others continued to report concerns on access to finance," the BOE said. It said that financing difficulties, added to the economy's uncertain outlook, were damping investment plans.

Government borrowing in the first seven months of the fiscal year ending March 2010 totaled £86.9 billion, a record for that period. That makes it likely the government will have to borrow more than the £175 billion it expected in its March budget. Economists say the eventual figure is likely to be between £195 billion and £215 billion.

If it had been able to stick to its target, the government would have ended the year with a budget deficit equivalent to 12.4% of gross domestic product—already more than four times the limit set by the European Union.

In a separate report, the Organization for Economic Cooperation and Development said that among its 30 developed country members, only Iceland will have a larger deficit this year. It expects Iceland to cut its deficit more rapidly in 2010 and 2011, leaving the U.K. top of the table for borrowing in both years. It sees the U.K. deficit at 12.6% in 2010 and 13.3% in 2011.

The U.K.'s debt has grown to unprecedented levels under Prime Minister Gordon Brown's stewardship




Government tax revenue fell 9.1% in October from a year earlier while spending rose 10.3%. Net social benefits, which include unemployment payments, rose 10.4% on the year.

The declining state of Britain's public finances is a central issue ahead of an election due by mid-2010, with the ruling Labour Party and the opposition Conservative Party outlining measures to hold down spending.

The government's position is that economic recovery will turn those trends around in the months ahead. "We expect tax receipts to pick up as the economy begins to grow around the turn of the year and the temporary reduction in VAT ends," a spokesman for the Treasury said. He added that Chancellor of the Exchequer Alistair Darling will present new borrowing forecasts in his prebudget report, which is due Dec. 9.

But the shadow chancellor, George Osborne, disagreed with the Treasury's position. "Economic growth and a credible debt plan are not in contradiction, as Labour ludicrously still argue, but go hand in hand," he said. "Look no further than these truly terrible public-finance figures—with borrowing this month 88 times worse than the same time last year."

The figures aren't likely to appease the leading rating firms either. Fitch Ratings last week joined Standard & Poor's in warning that Britain's triple-A credit rating is at risk unless the government that emerges from the coming elections cuts debt more aggressively.

The OECD said it expects the U.K. to begin its recovery in this quarter. There are signs that consumer spending is picking up, with figures released Thursday by the Office for National Statistics showing that retail sales volumes rose 0.4% in October on a monthly basis, following an upwardly revised 0.4% gain in September.

On an annual basis, sales were 3.4% higher, the strongest annual gain since May 2008 and up from an upwardly revised 2.9% increase in September.

Figures released by the Council of Mortgage Lenders showed that lending by U.K. banks grew 5% in October from September, a development that is likely to support the housing market.

But the fragility of the U.K. economic outlook means the BOE is unlikely to raise its key interest rate until well into next year, and maybe 2011. The BOE last week forecast the economy will grow by 2.2% in 2010 and 4.1% in 2011.

*—Nicholas Winning and Ilona Billington contributed to this article.*

# French panel pushes economic investment

By Gabriele Parussini

PARIS—French President Nicolas Sarkozy received proposals from a high-profile commission on investing €35 billion ($52 billion) to boost economic growth, but the plan has been criticized for increasing the country's debt.

The commission, headed by former Prime Ministers Alain Juppé and Michel Rocard, Thursday urged the president to invest about half of the amount in education and research and development. Other projects include investment to create a new generation of airplanes and nuclear-power stations, to be co-financed by state-owned companies.

Mr. Sarkozy, who will outline his decision early next month, is counting on funds from companies, local authorities and the European Union to boost the final amount invested to €60 billion.

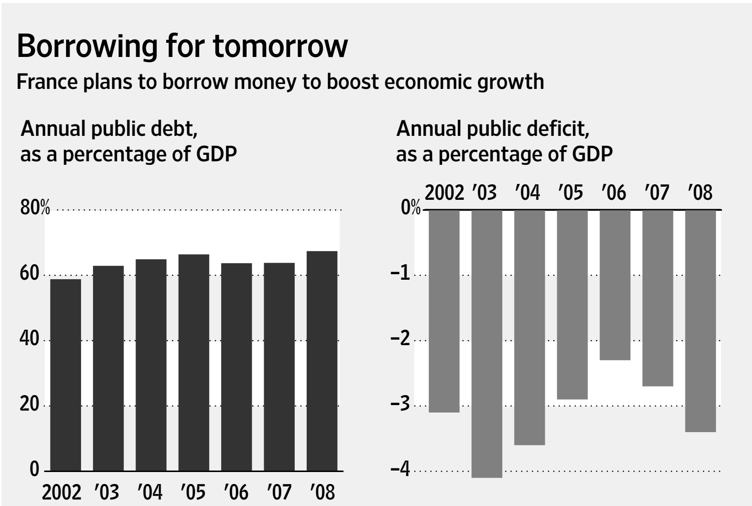
"Without this investment plan France would slowly go to sleep, and we won't be able to get out of these low rates of economic growth," Mr. Rocard told a news conference.

Some observers say there is little scope for more borrowing amid France's skyrocketing debt and widening budget deficit.

In its economic outlook published Thursday, the Organization for Economic Cooperation and Development urged France to finance investment with spending cuts or by increasing inheritance and property taxes. The OECD says that taking a loan of that size would make France's fiscal consolidation even more difficult.

Mr. Juppé disagrees. "There's no denying that this is more debt, but this debt follows a different logic," he said in an interview. "France borrows mostly to plug the holes in its public finances. This money is meant to fund investment."

Mr. Juppé said the share of investment in total public spending in France has fallen 40% in the past 20 years, and that three-quarters




of money coming from public coffers pays salaries and debt service.

Ultimately, more debt could curb growth rates in the medium term if borrowing needs push up interest rates, the Paris-based organization said.

The loan also is likely to raise eyebrows at the Brussels-based European Commission, which has asked France to rein in spending and cut its budget deficit to 3% of gross domestic product by 2013.

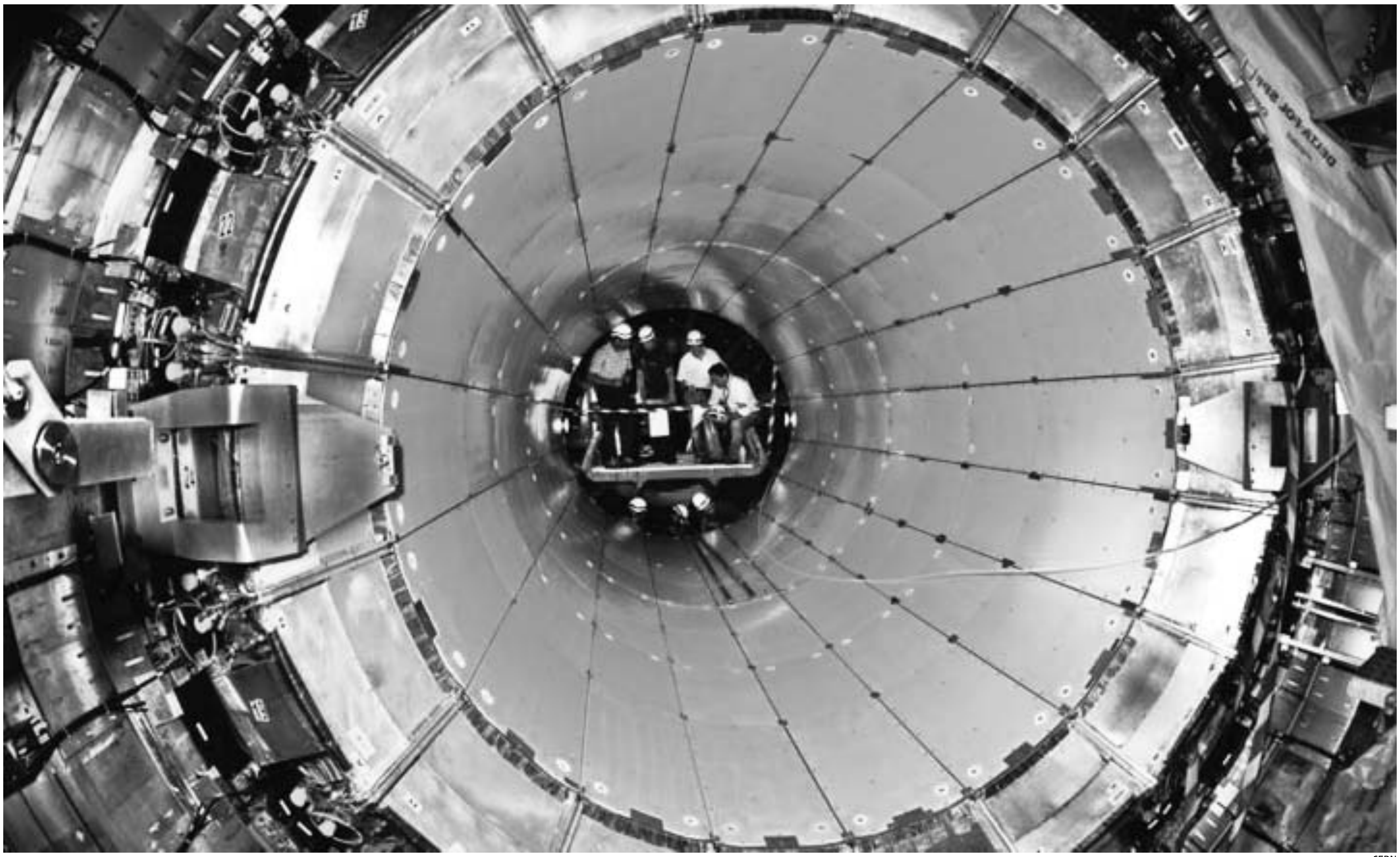
Markets scrutinized the plan, with Moody's Investors Service Inc. saying Tuesday that the borrowing program slightly weakens the country's Aaa sovereign rating, but doesn't call it into question.

France's debt is projected to climb from 77.1% of GDP this year to a record 91% in 2013. Next year the OECD expects a budget shortfall of 8.6% of GDP in the euro zone's second-largest economy.

Still, some economists point out that France would benefit from advantageous borrowing rates on the loan, and that the government will get a chance to steer economic development and go beyond day-to-day managing of the economy.

"It's a good plan, it could boost France's potential growth rate, which has been eroded by the slump," said Jean-Christophe Caffet, an economist at Natixis.

*—Nathalie Boschat contributed to this article.*



CERN

Researchers ready the Large Hadron Collider, a $6 billion particle accelerator near Geneva, which physicists hope will recreate the conditions present at the beginning of time.

# Advancing physics as a team sport

By Robert Lee Hotz

If all goes well, researchers Friday may power up the Large Hadron Collider—a $6 billion particle accelerator near Geneva. The atom smasher is so large that a brief status report lists 2,900 authors, so complex that scientists in 34 countries have readied 100,000 computers to process its data, and so fragile that a bird dropping a bread crust can short-circuit its power supply—as occurred earlier this month.

Far from trouble-free, the proton accelerator is resuming operations after a catastrophic breakdown in 2008 that triggered a year of repairs and recriminations. Its large research teams operate on such an elaborate scale that project management has become one of science's biggest challenges.

**SCIENCE JOURNAL**

Around the world, scientists are cutting across boundaries of place, organization and technical specialty to conduct ever more ambitious experiments. Inspired by such cooperative enterprises as Linux and Wikipedia, they are encouraging creative collaborations through networks of blogs, wikis, shared databases and crowd-sourcing.

Once a mostly solitary endeavor, science in the 21st century has become a team sport. Research collaborations are larger, more common, more widely cited and more influential than ever, management studies show. Measured by the number of authors on a published paper, research teams have grown steadily in size and number every year since World War II.

To gauge the rise of team science, management experts at Northwestern University recently analyzed 2.1 million U.S. patents filed since 1975 and all of the 19.9 million research papers archived in the Institute for Scientific Information database. "We looked at the recorded universe of all published papers across all fields and we found that all fields were moving heavily toward teamwork," says Northwestern business sociologist Brian Uzzi.

As research projects grow more complicated, management becomes a variable in every experiment. "You can't do it alone," says research management analyst Maria Binz-Scharf at City College of New York. "The question is how you put it all together."

The key is bringing them together in the first place, which has sped technological advancements that often benefited the rest of us. The ease of global business and social networking today owes much to the World Wide Web, which was designed to aid information-sharing between scientists. It was invented at the European Organization for Nuclear Research (CERN), the home of the Large Hadron Collider.

New online science management experiments are under way. Last year, the National Science Foundation started a $50 million project to map all plant biology research, from the level of molecules to organisms to entire ecosystems, so scientists can swoop through shared data as if they were using Google Earth. Last month, U.S. computer experts launched a $12 million federal project to create a national biomedical network called VIVOweb to encourage collaborations.

Scientists are experimenting with the new technology of teamwork even in mathematics, where researchers customarily work alone.

Last January, British mathematician Timothy Gowers invited volunteers to work on a problem in combinatorial research called the density Hales-Jewett theorem, which he posted at his Polymath Project blog. By brainstorming together online, two dozen volunteers solved the problem in 37 days. "This way of doing research led to our finding the proof much more quickly than otherwise," says Dr. Gowers at Cambridge University.

Other scientists team up out of frustration. Biology students created an online collaboration called OpenWetware to share technical tips about cell lines, enzymes, protocols and screening assays. "This stuff is never published," says Sriram Kosuri at the Harvard University Institute of Genetics, who was among its organizers. "We wanted to get this information into the open."

Since 2005, the project has grown into an online collaborative of 7,000 registered users on five continents and 65,000 Web pages—all with little or no direct management. "Everyone uses it for their own purposes and it grows organically," says Dr. Kosuri.

In that spirit, paleontologist Michael Taylor at the University College London recently set up the Open Dinosaur Project, encouraging volunteers to create an online database of dinosaur bones from collections world-wide. "The whole nature of the scientific engagement is changing dramatically and quickly," Dr. Taylor says.

By many measures, the Large Hadron Collider is the largest machine in the world. It is designed to smash together proton beams to test ultimate theories of matter. Its science teams, drawing on independent researchers, resources and funds from 150 universities and dozens of government agencies, already transcend the physics of conventional management.

Strictly speaking, no one is in charge.

Consider Tejinder Virdee, who occupies the top spot in the organizational chart of the collider's Compact Muon Solenoid detector—an intricate 12,500-ton device the size of a medieval cathedral. At least 3,600 people from 183 institutes in 38 countries are involved. Ordinarily, Dr. Virdee might exercise considerable executive authority. Instead, he carries the misleading title of "spokesperson." He was elected by researchers to negotiate with other groups on their behalf.

He has no power to order or insist, only to cajole and persuade. "I cannot direct anybody to do anything that they do not want to do," Dr. Virdee says. "All decision-making is by consensus." Yet, he is more or less the boss—at least of this component.

All around the collider, research groups organized themselves in democratic cooperatives, arranged in an anti-hierarchy. All deliberations are open—and exhaustive. Everyone gets their say no matter how long it takes. "It is bottom-up and not top-down," says Markus Nordberg, who is the resource coordinator—essentially the chief financial officer—for the collider's ATLAS detector. The ATLAS detector weighs the same as the Eiffel Tower and is among the largest collaborations ever attempted in the physical sciences.

"None of them can do the research without each other," says Barbara Gray, a management analyst at Pennsylvania State University. "No one can play with the Large Hadron Collider unless they all play together."

In one sign of trust, the scientists who designed the systems relied on technologies that did not yet exist, delaying key decisions as long as practicable in the expectation someone would invent a way out of the problem. "There is enough confidence in the community that the technical problems will be solved at the last possible affordable moment," says Dr. Nordberg. "That is not the way industry works."

If all performs as planned, the collider experiments will bare secrets of space, time and the universe. Research teams will share kudos—and ownership of the data. "The entire collaboration will be authors of each and every publication," says Andrew J. Lankford, the ATLAS deputy spokesperson.

For all their skill, the scientists starting up the Large Hadron Collider have encountered any number of operational glitches this year and, perhaps, one unique obstacle. The accelerator is expected to unleash forces so fundamental—and possibly so threatening to the existence of space and time—that a few physicists fret that the universe may be sabotaging the project to save itself.

*Robert Lee Hotz shares a video on this topic, recommended reading and responds to reader comments at WSJ.com/Currents. Email him at sciencejournal@wsj.com.*

## U.S. NEWS

Associated Press

A U.S. soldier stands at a checkpoint in Afghanistan. NATO is debating whether to add more troops to the fight.

# Upstaged by Brown

*Washington's Afghan policy stances have recently followed London's*

By Alistair MacDonald
And Peter Spiegel

LONDON—As the Obama administration continues to deliberate over Afghan strategy, many of its stances on war policy have come after a series of very similar public stands by U.K. Prime Minister Gordon Brown.

In many of those cases, Mr. Brown's moves reflected the White House thinking that hadn't yet become public. U.S. and U.K. officials say Mr. Brown is acting on his own, not as part of a coordinated effort to soften the path for decisions later made by U.S. President Barack Obama—and in fact U.S. officials have sometimes been irritated that Mr. Brown got out front on these issues.

In recent weeks, Mr. Brown announced a troop increase; embraced a manpower-intensive counterinsurgency strategy; harshly criticized Afghan President Hamid Karzai; and called for talks on a timetable for withdrawal from Afghanistan.

For Mr. Brown, these people say, the moves are both an attempt to shore up public support for the war at home but also to influence deliberations in Washington.

"If calling it as you see it is being an influencer, then yes," said a British official involved in trans-Atlantic relations.

As with his government's banking bailouts last fall, Mr. Brown's moves on Afghanistan have given him a measure of success in global affairs that largely eludes him at home, where he is widely seen as a beleaguered force heading for electoral defeat.

Unlike the seamless relationship between former President George W. Bush and former Prime Minister Tony Blair during the Iraq war, current and former U.S. officials said Mr. Brown and President Obama haven't closely coordinated their two governments' public stances on Afghanistan. Current and former officials say that isn't a reflection of any substantive differences over war policy.

Some of Mr. Brown's public stances have foreshadowed moves in the pipeline at the White House. Last month, for instance, Mr. Brown gave a full-throated endorsement of the counterinsurgency strategy put forward by U.S. Gen. Stanley McChrystal, the overall NATO commander in Afghanistan, even though the White House has only gradually moved toward backing the bulk of Gen. McChrystal's recommendations.

But some of Mr. Brown's stands have revealed strains between him and Washington—even when they were on the same side of an issue.

This month, Mr. Brown publicly chastised Mr. Karzai for failing to crack down on corruption even as the White House was reserving its harshest criticisms for behind closed doors. Shortly after Mr. Brown's statements, similar thinking on behalf of U.S. officials came to light when the U.S. envoy to Afghanistan privately cabled a similar view to Washington. Some U.S. officials were irritated that Mr. Brown has spoken publicly on the issue.

And this week, Mr. Brown called for an international conference to map out handing over security responsibility to Afghan forces while the White House was still discussing the advisability of such timetables.

A spokesman for Mr. Brown said the two governments are in constant communication. "There are close and frequent consultations with the U.S. government on Afghanistan, and the two countries are very much on the same page," said the spokesman.

But an Obama administration official who works on U.S.-U.K. relations said, "There are ruffled feathers on both sides," adding, "In a couple of meetings I've been in, it's been: 'What's going on over there?' "

# Senate health vote looms

By Greg Hitt
And Janet Adamy

WASHINGTON—Senate Majority Leader Harry Reid set the stage for a health-care debate in the Senate by unveiling a 10-year, $848 billion bill that would extend insurance to 31 million Americans without coverage.

Mr. Reid's proposed legislation, 2,074 pages, is the Senate's answer to a bill that narrowly passed the House on Nov. 7. The two bills have differences on taxes, abortion coverage and a public-insurance plan, and would require considerable work to reconcile if Congress hopes to pass some form of health-care overhaul—the centerpiece of President Barack Obama's domestic agenda.

Mr. Reid said at a rally Thursday that a key procedural vote that would allow the Senate to formally move to the legislation would take place Saturday. But he hadn't secured commitments of support on the vote from centrist Democrats, including Sens. Ben Nelson, (D., Neb.), Mary Landrieu, (D., La.) and Blanche Lincoln (D., Ark.), who have insisted that they want to review the bill before deciding how to vote.

Mr. Nelson said he still had a range of concerns but suggested he might at least be willing to begin debate. "If you don't like the bill, then why would you block your own opportunity to amend it?" he said.

Nearly every Republican in Congress opposes the overhaul. "This is yet another trillion-dollar experiment, but it is not what Americans bargained for," said Senate Minority Leader Mitch McConnell (R., Ky.)

The nonpartisan Congressional Budget Office estimated the bill would ensure that 94% of those living in the U.S., not counting illegal immigrants, have insurance coverage. CBO previously estimated about 83% of Americans now have insurance. The CBO estimated the measure would reduce the federal budget deficit by $130 billion over the next decade.

—*Patrick Yoest contributed to this article.*

European Pressphoto Agency

South Korean President Lee Myung-bak, right, presented President Barack Obama with a tae kwon do outfit, prompting the U.S. leader to re-enact lessons he took in the martial art when he was young.

# U.S. confronts Iran

*Obama to prepare sanctions with allies to as a response to failed deal*

BY JONATHAN WEISMAN AND EVAN RAMSTAD

SEOUL—U.S. President Barack Obama said Thursday the U.S. and its allies will draft a package of sanctions "over the next several weeks" to show an intransigent Iran "the importance of having consequences" for its failure to respond favorably to a U.N.-brokered nuclear deal.

On Wednesday, Iran's foreign minister rejected a plan cobbled together only weeks ago that would have sent roughly 70% of Iran's enriched uranium to Russia and France for processing into fuel for medical purposes, a deal meant to curtail the Islamic Republic's ability to build a nuclear bomb.

The uranium would then be returned to Iran a year later as refined fuel rods. Those rods could be used to power reactors, but can't be readily turned into weapons-grade material.

Diplomats now see that deal as essentially dead, but have said they expect the United Nations Security Council to wait until the end of the year before pushing for fresh sanctions against Iran.

"Iran has taken weeks now and has not shown its willingness to say yes to this proposal ... and so as a consequence we have begun discussions with our international partners about the importance of having consequences," Mr. Obama said at a joint news conference with South Korean President Lee Myung-bak in Seoul that concluded Mr. Obama's four-nation tour of Asia.

He said Iran wouldn't be given an unlimited amount of time and compared the continuing talks with Iran, which Mr. Obama has pushed for, to the years of stop-and-start negotiations with North Korea about its nuclear ambitions. "We weren't going to duplicate what has happened with North Korea, in which talks just continue forever without any actual resolution to the issue."

Mr. Obama had set a year-end deadline for Iran to respond to his overtures, but Western diplomats said there remains little confidence that Security Council members China or Russia will go along with fresh sanctions, though that diplomatic push has yet to begin in earnest.

The White House now views next week's meeting of the International Atomic Energy Agency's board of governors as a key moment to assess the next steps. In anticipation of that, the U.S. and five other world powers will meet Friday in Brussels to discuss Iran. The meeting will include representatives of the Security Council's five permanent members—Britain, China, France, Russia and the U.S.—plus Germany.

Iranian Foreign Minister Manochehr Mottaki on Thursday played down the threat of sanctions, saying embargoes have long proved ineffective. "I think they are wise enough not to repeat failed experiences," Mr. Mottaki said in Manila, according to the Associated Press.

In apparent response to Mr. Obama's comments, Iranian President Mahmoud Ahmadinejad said in a speech: "I am speaking to the world powers: Those who say they want to have a constructive interaction should know that if the Iranian nation sees a practical change in their behavior and that they have given up their aggressive attitude and honestly raised a hand to Iran, then we would accept it," he said. "But if we find they are still continuing their past domineering and hostile policies ... then the response of the Iranian national would be as firm as in the past."

In Seoul, Mr. Obama also talked about consequences for another country whose nuclear ambitions are being watched. He and President Lee showed they remain united in their approach to dealing with North Korea, which has troubled the U.S., South Korea and other countries with its relentless pursuit of nuclear weapons.

Mr. Obama announced a date—Dec. 8—for a visit by the U.S. envoy Stephen Bosworth to Pyongyang to discuss the North's return to the six-nation aid-for-disarmament talks that also involve China, Japan, Russia and South Korea. But he said he and Mr. Lee want to break North Korea's cycle of acting belligerently, then expecting rewards for turning nice.

"North Korea behaves in a provocative fashion, and then is willing to return to talks," Mr. Obama said, describing the North's playbook. "It talks for a while and then leaves the talks seeking further concessions, and there's never actually any progress on the core issues."

He said the U.S. will end sanctions on North Korea if it "is taking serious steps around the nuclear issue."

The two leaders hugged when Mr. Obama arrived at the presidential Blue House and again at the end of their postsummit news conference, a setting where usually a handshake or pat on the back will do. "Our alliance has never been stronger," Mr. Obama said in a speech to U.S. troops a short time after his meeting with Mr. Lee.

Mr. Obama also reached out to Mr. Lee over the free-trade agreement that the two countries reached in April 2007 but haven't ratified. In the U.S. last year, it got caught up in election politics. Some Democrats believe the pact doesn't do enough to even out the trade imbalance between the two countries, particularly in automobiles.

For Mr. Obama, the 20 hours he spent in South Korea were some of the easiest of a weeklong trip to Asia, that at times was difficult. He asked for no favors from Mr. Lee and appeared grateful for the friendly welcome. When Mr. Lee presented Mr. Obama with a gift of a taekwondo uniform, Mr. Obama recalled lessons he took in the martial art when he was young. The two men then acted out taekwondo poses as cameras snapped.



# *Opportunities are missed as CEOs, Obama diverge*

[ Capital Journal ]

BY GERALD F. SEIB

As Rodney King once said, famously and in a quite different context, "Can we all get along?"

Mr. King, the victim of a police beating in Los Angeles, was referring to race relations. But the same plea now could be applied to relations between the Obama administration and the business community.

That relationship, once so promising, has given way to an atmosphere of mistrust and suspicion, as evident from the comments of executives this week at The Wall Street Journal CEO Council, a gathering in Washington of about a hundred of the U.S.'s top chief executives.

It doesn't have to be this way, and some tentative steps may have been taken at the Council meetings to begin changing the atmosphere. If the tenor persists, though, it has real consequences, especially in missed opportunities to cooperate on jobs, education and the deficit.

Today's tone is strikingly different than it was just one year ago, when the Journal first brought together the nation's top CEOs in Washington in the wake of President Barack Obama's election. The magnitude of the economic crisis was becoming clearer, and the business leaders were virtually leaning forward in their seats, seeking help and reassurance as representatives of the new administration appeared.

As a group, in fact, the CEOs endorsed the idea of a big economic stimulus and the idea of a health-system overhaul. They soon got a giant stimulus package—endorsed by the U.S. Chamber of Commerce—and the second half of a multi-billion-dollar bailout of the financial system.

Yet the tone has grown sour. The CEOs complain that the administration, through the combination of its giant health plan and looming budget deficits, has created job-killing uncertainty on the cost and regulatory fronts. In the administration's populist flourishes, they say, it has stoked anti-business, even anti-free-enterprise emotions.

There's plenty of blame to go around, though. For their part, financial executives sometimes don't seem to grasp the role their own failings have played in creating the political environment they now decry. Republican Sen. John McCain, no fan of the current administration, appeared before the CEOs and bluntly told them that much popular anger is directed at them, not just at Washington. He cited small-business owners, who lose their lines of credit while big banks are bailed out, and ask him: "Why are they too big to fail, and I'm too small to succeed?"

The virtue of the CEO Council meeting was that these issues were at least laid on the table. White House Chief of Staff Rahm Emanuel appeared and tried to offer reassuring words and openings for change.

"Let's talk honestly among friends," he told the CEOs. Acknowledging that executives are "nervous about tenor and tone," he suggested that may be in large measure an outgrowth of the administration's decisions to become a majority owner of General Motors Corp. and American International Group Inc.

But those moves, he said, were aberrations: "The president believes firmly that the capacity of the American economy grows and will grow because of what the private economy does. He did not come into office to be an investor in banks, to be an investor in the auto industry....Nobody wanted to do that."

The political reality, Mr. Emanuel said, is that taxpayers have been forced to sacrifice to save major financial institutions, and many feel "taken advantage of....In a democratic process somehow you've got to respond to that."

Broadly speaking, he insisted, President Obama's philosophy is that "the role of the government is to create an environment and the conditions so you can grow your business."

He specifically asked business leaders to help push changes in the education system. And on a much different front, Adm. Mike Mullen, chairman of the Joint Chiefs of Staff, poignantly sought business executives' help in hiring wounded veterans of the Iraq and Afghanistan wars.

After Mr. Emanuel spoke, Cisco Systems Inc. Chief Executive John Chambers told his colleagues: "Clearly...there's a movement by the administration to listen a little bit more to business. And to miss this opportunity would be one we would look back on and say, 'Shame on us.' "

Both sides should hope for a better atmosphere, for current tensions bode ill in at least three important areas. The first is job creation, now Washington's top priority. Suspicions create uncertainty, and uncertainty translates into unwillingness to take a chance by hiring more workers.

Second, there could well be a missed opportunity to work together for education reforms on which the administration and business leaders appear to be in sync.

Third, and most critically, the two sides could blow a chance to work together to bring down destructive federal budget deficits. It's likely that the deficit monster, already causing problems for the dollar and jitters in financial markets, will be truly tamed only if both parties and both branches of government come together and agree to take shared political risks on spending and taxes. Business leaders—influential with both parties, but especially with the Republican opposition—should be part of the equation, throwing their weight behind the effort and politicians willing to take a chance.

That's one mission too important to miss because of a bad atmosphere.

## WORLD NEWS

Getty Images

Afghan President Hamid Karzai, left, recites the oath of office at the inauguration ceremony in Kabul on Thursday. He used his address to reassure the West.

# Karzai aims to satisfy West

*Afghan leader promises at inauguration to fight corruption, prepare for exit of coalition forces*

By Alan Cullison And Anand Gopal

KABUL—President Hamid Karzai used his inauguration address Thursday to reassure the West that he will cleanse his government of corruption and buttress Afghan security forces so they can take charge of the nation's security within five years.

Mr. Karzai's speech was a virtual laundry list of promises that the increasingly disenchanted international backers of the Afghan president had hoped to hear. At the inaugural ceremony that began his second five-year term, Mr. Karzai pledged to require senior government officials to declare their assets, to reinvigorate the court system, and to fire senior officials engaged in the drug trade.

Promising an exit strategy for the U.S.-led coalition just as President Barack Obama is mulling his Afghan commander's request for 40,000 additional American troops, Mr. Karzai stressed that he wants an invigorated Afghan army to begin taking over oversight of parts of the country in the near future.

President Obama, who said this week he wants to end the Afghan war before the end of his presidency, and other Western leaders are pressing Mr. Karzai for a strategy that would eventually allow the 100,000 foreign troops here to go home. The Afghan army and police, however, are still badly lacking in men, equipment and training, and are rarely able to stand up on their own against the hardened Taliban-led insurgency.

In the next two years, Mr. Karzai said, he desires all private security firms to cede their functions to the Afghan government. After three years, the Afghans should be able to lead and conduct operations around the country, he said.

By the end of his five-year term, he added, Afghan forces should be "capable of taking the lead in ensuring security and stability across the country."

During his 30-minute address, Mr. Karzai vowed to end the "culture of impunity" and dismiss corrupt officials. But he also singled out the international aid system, saying a "lack of transparency and accountability in aid spending reduces people's trust and causes the spread of administrative corruption."

Despite the promising rhetoric, many Afghans in Kabul were disillusioned with the inauguration proceedings.

Habibullah Rafeh, a policy analyst at the Kabul-based Afghan Academy of Sciences, said "he is not presenting much that is new to the Afghan public. In many ways, his speech was addressed more to the international community than to ordinary Afghans."

# Suicide bomber kills at least 19 in Pakistan

By Zahid Hussain

ISLAMABAD—A suicide bomber killed at least 19 people Thursday when he detonated explosives at the gate of a court complex in the city of Peshawar, the latest in a series of terror strikes to pound northwestern Pakistan.

The court building is in a heavily guarded part of Peshawar that has seen repeated militant attacks. It lies a few hundred meters from the residence of the top army commander in the region, who is overseeing a major offensive against the Taliban and al Qaeda.

The blast occurred when a police guard tried to stop the bomber from entering the grounds of the courthouse, officials said.

"The bomber started walking towards the gate after alighting from a taxi," said Nisar Marwat, a senior police officer in Peshawar. The guard, identified by officials as Khaista Gull, was among those killed, Mr. Marwat said.

He called the dead officer courageous and said casualties could have been higher had the bomber entered the crowded building, where hundreds of people were waiting at the time of the blast.

There was no claim of responsibility for the blast. But suspicion quickly fell on the Taliban, who have carried out repeated terror strikes in Pakistan's towns and cities since early October.

The first strikes hit targets across the country, including the headquarters of the military outside Islamabad. But in recent weeks, the focus has shifted almost exclusively to the northwest, where the Taliban is strongest. Peshawar, the capital of the North West Frontier province, has been hit repeatedly.

Pakistan's military has sent about 30,000 soldiers—backed by fighter jets, helicopters and artillery—to try to conquer the major Pakistan Taliban faction, which is based in the South Waziristan tribal region on the Afghan border.

Commanders say they have pushed deep into the region, a base for militants fighting in Pakistan and Afghanistan, and should have the area subdued before year's end.

# Graft scandal in poor state rattles New Delhi

By Krishna Pokharel

NEW DELHI—The state of Jharkhand was established in 2000 to give India's tribal people—among the poorest of India's underprivileged masses—greater representation in their own government.

Nine years later, key figures in the state's political machinery have been accused of money-laundering and corruption that an official involved in the investigation said could involve at least $500 million in misused funds. That would make it one of the largest corruption scandals India has seen.

The scale of the alleged corruption presents image problems for India ahead of Prime Minister Manmohan Singh's visit to the White House next week. In an appearance before a ballroom of foreign executives at a five-star hotel here this month, Mr. Singh stressed the government's efforts to increase transparency at the national level. Without referring to Jharkhand by name, he noted that governance at the state and local level left much to be desired.

At the center of the Jharkhand investigation is Madhu Koda, a 38-year-old tribal leader who has served on behalf of, or with the support of, both of India's major political parties. Mr. Koda, who was Jharkhand's chief minister from 2006 to 2008, is now a member of the lower house of Parliament in New Delhi.

In July, following a court-ordered investigation, state police accused Mr. Koda and three of his former cabinet colleagues of misusing public office to acquire assets police said were disproportionate to their known incomes. Five other individuals were accused of related charges. Federal officials plan to follow these accusations with formal charges in January, according to an official with the federal Income Tax Department, part of the Finance Ministry. The department is investigating transactions involving the granting of mining leases in Jharkhand, according to the official from the department.

Last month, the Finance Ministry's Directorate of Enforcement accused Mr. Koda and the eight alleged associates of money laundering, in a preliminary filing that will lead to formal charges.

Mr. Koda denies any wrongdoing, said his lawyer, Rahul Kumar. Mr. Kumar said investigators haven't indicated how Mr. Koda allegedly got funds the Directorate of Enforcement alleges he invested overseas, or proved that he ever had such funds.

The son of a former laborer at a state mining company, Mr. Koda served as a minister in two state governments run by the Bharatiya Janata Party, the national party that now sits in opposition in Parliament in New Delhi. After leaving the BJP in 2005, he was elected to the state assembly, and became minister of mines in the BJP-led state government.

After bringing down that government when he and other independents withdrew their support, Mr. Koda moved into the post of chief minister—with support from the Congress party and its allies in the ruling United Progressive Alliance. Mr. Koda's own state government fell in 2008 when some allies withdrew their support.

Because of Mr. Koda's past association with both of India's major political parties, the graft investigation is creating unease in the capital. On Monday, Arun Jaitley, a member of the upper house of Parliament and a leading BJP figure, called on the federal government to disclose the names of all politicians suspected of having shared in Mr. Koda's alleged "loot."

A spokesman for the Congress party said Monday that the government had no tolerance for corruption and had supported Mr. Koda's government in Jharkhand with the best intentions.

Jharkhand has 40% of India's total mineral resources, according to the state government, but has struggled to convert attention from some of world's largest industrial companies into tangible development. As of August 2008, 73 companies had proposed investments totaling $63 billion for the development of resources in the state, but only $2.1 billion had been realized.

Tribal Indians, who make up 28% of Jharkhand's 27 million people, have blocked projects with demonstrations and other activism, saying their land is being taken for industrialization without adequate compensation. The annual per capita income in Jharkhand is $436, compared with $720 nationally.

WORLD NEWS

# Jobless and with debt

*The OECD forecasts that a 2010 recovery will come with burdens*

BY GABRIELE PARUSSINI AND PAUL HANNON

PARIS—The global economic recovery will be stronger than previously expected, but it will be uneven and take years to bring unemployment and government debt back to their precrisis levels, the Organization for Economic Cooperation and Development said Thursday.

The think tank said in its latest economic outlook that it now expects the combined output of its 30 developed-country members to grow 1.9% in 2010, having forecast in June that it would expand by 0.7%. It expects even stronger growth in 2011, with the gross domestic product of its members growing by 2.5%.

But the main driver for the world economy is outside the OECD. Economic growth in China, which isn't a member of the OECD, is expected to expand more than 10% in 2010 and 9.3% in 2011. Within the OECD, the U.S. appears to be a key source of growth next year, with GDP growth of 2.5% more than doubling that of the euro area, which is expected to expand only 0.9%. Three euro-zone economies—Spain, Greece and Ireland—are expected to contract next year, the OECD said.

Of course, forecasts by the OECD and others are subject to uncertainty. Like other institutions and private-sector economists, the OECD vastly underestimated the severity of the global downturn this year. The current upswing could be stronger than the OECD predicts if employment recovers more quickly or rebounding asset markets translate into spending and investment. Or, economies could undershoot again if there is another crisis or if unemployment remains persistently high.

The OECD said the "unprecedented policy efforts" of governments and central banks have helped to limit the severity of the downturn and fostered a recovery that it said began in the third quarter.

The OECD said those policy makers should now plan for the removal of their stimulus measures, producing medium-term strategies that have enough credibility with investors to help keep interest rates low.

But it said leading central banks shouldn't begin to withdraw the stimulus they have provided until "well into" 2010, while the recovery should be secure enough by 2011 to allow most governments to begin the process of reducing their budget deficits.

"The recovery began a quarter earlier than we thought, and has more short-term strength," acting Chief Economist Jorgen Elmeskov said in an interview. "But tightening here and now could be detrimental: The economy is still weak and monetary policy is not in a position to offset a stricter fiscal policy."

The OECD said it will take some time to repair the damage caused by the worst slump since World War II. In the third quarter of 2011 global output will likely reach the same level as in the first quarter of 2008. Unemployment is likely to continue to rise in 2010, and won't quickly fall back to 2007 levels.

And the government debt of OECD member countries will exceed 100% of GDP in 2011, an increase of almost a third from 2007.

"Stopping the rot is clearly necessary and will call for fiscal consolidation that is substantial in most cases and drastic in some," Mr. Elmeskov said.

The OECD said central banks shouldn't start to tighten their monetary policy until the end of next year, since inflationary pressures will remain weak.

"For major areas, such as the U.S. and the euro zone, the end of 2010 would seem a good time to start tightening their stance," Mr. Elmeskov said. Inflation in both economies should remain quite low through 2011, the OECD said.

And he said the Bank of Japan and the Bank of England "need to stay put" even longer to counter the risks of deflation in Japan, and to sustain the weak U.K. recovery.

Mr. Elmeskov said interest rates won't need to be raised to a level where they are no longer stimulating demand until the end of 2011, at which point the ECB's key rate should be at 2% and the U.S. Federal Reserve's at 2.25% to 2.5%. The ECB's main rate is now 1%. The Fed's is near zero.

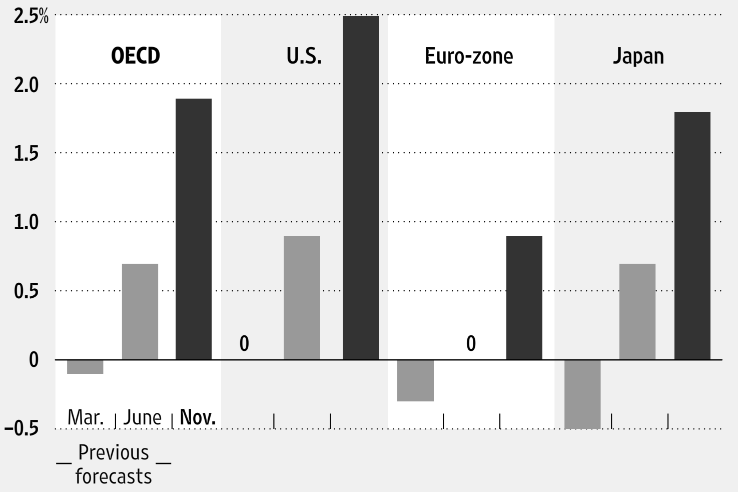
The OECD cited exchange rates as one risk to recoveries in Japan and the euro zone in light of the recent U.S. dollar depreciation. The OECD also joined the growing chorus of foreign governments and international organizations urging China to allow its yuan to appreciate.

"Countries catching up very rapidly like China normally would face an appreciation of their real exchange rate," Mr. Elmeskov said. "The Chinese have an interest in that taking place through real exchange appreciation rather than through inflation."

*—Brian Blackstone contributed to this article.*

**Looking better**

The OECD said economic recovery in its 30 member nations is still too timid to halt a continuing rise in unemployment. Forecast for 2010 GDP growth:




Source: Organization for Economic Cooperation and Development