Financial problems in Dubai hit the emirate's business schools
EXECUTIVE EDUCATION 10

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THE BIG READ 18-19

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Laying the health-care issue at the door of the prime minister

Getty Images

Labour Party aides man the doors as British Prime Minister Gordon Brown, his wife, Sarah, left, and Sam Prince from the National Health Service visit a health center near Leeds, England. See additional U.K. election-campaign coverage on pages 4 and 5

Retail sales help stoke U.S. upturn

BY MARK WHITEHOUSE

U.S. consumers turned in a surprisingly strong performance at stores, auto dealers, restaurants and other retail establishments in March, adding to a growing sense that the recovery could prove faster than widely anticipated.

Coming on top of a rebounding U.S. service sector, buoyant financial markets and new efforts to forgive mortgage debts, the 1.6% surge in retail sales is tempting forecasters to upgrade their assessments of the U.S. economy's ability to restore the more than eight million jobs lost since the recession began.

"There's a growing risk that we're underestimating the strength of the recovery," said Stephen Stanley, chief economist at Pierpont Securities in New York, noting that economic activity remains so sluggish that even a return to pre-recession levels can generate big gains. "If the economy pops, it's going to be faster than anyone is forecasting."

In the latest Wall Street Journal economic-forecasting survey, three out of four economists—including many of the most optimistic—said their forecasts for growth over the next 18 months were more likely to prove too low than too high. On average, the 56 economists in the poll expect U.S. gross domestic product, a measure of all the money spent on goods and services, to rise an inflation-adjusted 3.1% in 2010. Some nudged their estimates upward Wednesday, with Barclays Capital going to 3.8% from 3.5%.

The Dow Jones Industrial Average rallied Wednesday, up 103.69 points, or 0.9%, to 11123.11, after the retail sales report came out. The Commerce Department said consumers spent a seasonally adjusted $363 billion in March, up 1.6% from the previous

Please turn to page 8

The Quirk

College in a spin: Free-minded France runs state school for training DJs. **Page 33**

World Watch

A comprehensive rundown of news from around the world. **Pages 34-35**

Editorial & Opinion

Why is Amnesty International working with a Taliban supporter? **Page 15**

UBS gets rebuke from investors

BY KATHARINA BART

UBS AG shareholders Wednesday refused to absolve the board and management who ran the bank in 2007 for that year's heavy losses, a sharp rebuke from increasingly vocal investors.

Nearly 53% of the Zurich-based bank's shareholders voted against the so-called discharge. Chairman Kaspar Villiger said the vote was a "clear sign of dissatisfaction" that the board would take very seriously.

In 2007, UBS suffered $18 billion in losses on illiquid housing securities, leading to a 4.38 billion Swiss franc annual loss ($4.09 billion) that year.

The shareholder rejection came despite evidence that UBS is restoring its tarnished reputation and returning to profitability.

Reuters

CEO Oswald Grübel

Meanwhile, UBS eked out enough support for its pay report for 2009, though nearly 40% of shareholders voted against it, in another sign of shareholder anger toward management.

The financial crisis has highlighted banker pay as a possible cause of potentially risking activities and raised the ire of many investors.

Still, Wednesday's shareholder gathering was far less tense than past meetings, including four held in 2008, when UBS was forced to repeatedly seek help replenishing its capital, or in 2009, when outgoing managers were roundly criticized.

On Wednesday, shareholders booed one investor who suggested Mr. Villiger and Chief Executive Officer Oswald Grübel—brought on in early 2009 to restructure the bank—step down.

Executives voiced confidence that the bank is on the mend, but that it still faces a long and arduous road to recovery.

Full article on page 21

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PAGE TWO

How the FSA may dwarf central bank

[Agenda]

By Bill Jamieson

It sits at the heart of a humbled financial sector, but its staff and revenues are burgeoning. Its clients are captive, and its ability to charge them is virtually unconstrained. Its past competence has been questioned, but the growth of its intervention and remit is beyond question.

Step forward, or more accurately leap, the U.K. Financial Services Authority. It has grown massively in reach and resource in the wake of the global financial crisis. Its writ runs to financial-market supervision, risk monitoring and assessment, enforcement and financial crime and compliance. Companies under its surveillance are choking on fee increases that in some cases have doubled in just three years and query its own supervisory and performance standards. However its effectiveness is measured internally, a spate of sensational headlines in recent weeks has raised its profile to new heights.

The opposition Conservative Party confirmed plans in its manifesto to bring financial supervision and the FSA back within the ambit of the Bank of England. It was split off from the central bank by Labour's Gordon Brown in one of his first actions as finance minister in 1997.

But such has been the growth of the FSA since, the proposed re-merger may take on the dynamic of a reverse takeover.

Three years ago, before the financial crisis unfolded, the FSA had a total budget of £264 million for the year ended March 2007, a staff of 2,659 and a wage bill of £199 million. In its financial plan for 2010-11, the FSA envisages a budget of £455 million, a head count of 3,700 and a wage bill of £347 million, a rise on 2009-10 alone of £48 million or 16%.

Moreover, this budget total is struck after the shedding of a public-awareness objective that will be the concern of a new

Bloomberg News

Customers queue at a London branch of Northern Rock during the 2007 panic.

Consumer Finance Education Body—with a budget of £43.4 million.

In contrast, the central bank had a budget for operating costs last year of £279 million, a staff of 1,816—less than half that of the FSA—and a wage and pensions bill of £144 million. Quite how the Bank of England will adapt to this massive expansion without being swamped and rearrange its own governance and constitution has still to be detailed.

The regulator's budget is financed by levies on financial-services firms. For the new fiscal year, its annual funding needs are set to rise by 9.9%. This reflects, it says, a tougher approach to supervision and enforcement in the wake of the financial crisis.

The Association of British Insurers has formally protested at the latest increase, which comes on top of a 36% rise last year. Many insurers, it says, will have seen their fees double over the past three years—and this for a sector of the financial industry that came through the crisis relatively unscathed.

"It is difficult to see the justification," Peter Vipond, director of regulation and tax at the ABI, said this week, "for these increases as insurers and insurance regulation were proven to be both strong and stable during the financial crisis. We are concerned about the lack of effective oversight of the way in which the FSA sets its budget requirements and charges levies to firms."

But the FSA is on a roll, and there seems little prospect of a U.K. government—Labour or Conservative—putting a brake on its expansion. Last month, it successfully brought an insider-dealing prosecution against a former partner at the Queen's stockbrokers Cazenove. Malcolm Calvert, a 65-year-old Cazenove retiree who used an unknown insider to obtain confidential information in a series of proposed takeovers and mergers, was jailed for 21 months.

In a separate case, seven men were charged this month with running an insider-dealing ring alleged to have used confidential data to trade in 12 U.K.-listed firms including media giant Reuters during its 2007 take-over by Thomson Corp. It is the largest insider-dealing racket to be brought to the courts by the FSA as part of an intensifying crackdown on market abuse.

And this week, it secured banner headlines over hefty fines imposed on two former directors of collapsed mortgage-lending firm Northern Rock, where concerns over its solvency brought a depositor run in late 2007. Pictures sent around the world of queues of anxious savers waiting to withdraw their funds from its branches was a wake-up call for a complacent U.K. The regulator fined David Baker, the bank's former deputy chief executive, £504,000 and barred him from performing any role with "significant influence" in the financial sector. Richard Barclay, former managing credit director, was fined £140,000 for deliberately misreporting mortgage-arrears figures, making Northern Rock appear to be in better shape than it was.

The masking of the true health of the bank, whose 2007 annual report trumpeted the below average mortgage arrears figures, goes to the heart of what many saw as a culture of recklessness and denial that came to prevail over the banking sector.

The FSA has come a long way from an organization that in its early years went about the regulation of the small fry in retail financial services with all the demonic zeal of the Spanish Inquisition. Armed with a Draconian 700-page Conduct of Business Rules, it went after little independent financial-advisory firms selling investment products while the grand battleships of the banks were free to fuel a personal debt and mortgage-lending explosion. The encyclopedic Conduct of Business Rules bible has since been dropped.

Mr. Brown, now prime minister, in a rare moment of contrition this week, publicly apologized for reducing bank regulations in the years leading up to the financial crisis. "In the 1990s," he said, "the banks, they all came to us and said: "Look, we don't want to be regulated, we want to be free of regulation. All the complaints I was getting from people was, 'Look you're regulating them too much.' And actually the truth is that globally and nationally we should have been regulating them more."

With the Conservatives also proposing tighter financial regulation and an unforgiving public mood on the banking excesses of recent years, no early slowdown in the growth of the FSA looks likely.

—Bill Jamieson is executive editor of The Scotsman

What's News

■ **A senior EU official** backed a new crisis fund to help euro-zone members out of debt troubles like those Greece faces and warned that Portugal might need to impose more government austerity measures this year. 6

■ **Industrial production** in the euro zone rose sharply in February, auguring well for first-quarter GDP. 6

■ **J.P. Morgan reported** unexpectedly strong earnings, increasing optimism that U.S. banks are rebounding from the financial crisis. 21, 36

■ **The SEC voted** to propose new rules for large traders that would assign them unique identifiers and require them to report next-day transaction data when requested by regulators. 22

■ **Daimler said it expects** to resume paying a dividend this year as its sales increase and sought to assure shareholders it is positioned for a strong postcrisis rebound. 23

Inside

Going local could turn out to be the best career move yet. 31

Wages agreement brings halt to Spanish footballers' strike. 32

ONLINE TODAY

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Reader comment

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"[Germany] needs to stabilize Greece, with the long-term plan of kicking them out of the euro zone."

Reader **Daniel Feezor** comments on "Greek Political Risk Looms for Merkel"

Continuing coverage

Get continuous coverage as U.K. party leaders face off in their first debate at **wsj.com/ukelection**

Question of the day

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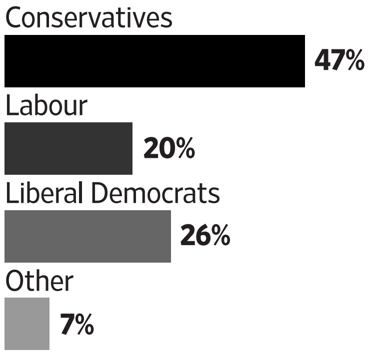
Q: Who would you vote for in the U.K. election?



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NEWS

Apple delays iPad launch in international markets

By Roger Cheng
And Yukari Iwatani Kane

Apple Inc. on Wednesday postponed the international launch of its iPad tablet computer by a month, saying it has been unable to keep up with stronger-than-expected U.S. demand.

The Cupertino, Calif., company had planned to start selling the iPad overseas in late April but said it is moving that launch until the end of May. Apple said in a statement that demand "will likely continue to exceed our supply over the next several weeks."

Apple added that the iPad has been "a runaway success in the U.S. thus far," with sales of more than 500,000 during its first week. It said it is taking a "large number" of preorders for the 3G models that will work with **AT&T** Inc.'s mobile network. Those will go on sale in the U.S. at the end of April.

The delay underscores how difficult it is for companies to accurately forecast demand for a new product. But some analysts say the situation gives them more reason to be bullish, since foreign customers are more likely to wait for the iPad than to buy alternative products.

"This is a good problem to have as long as they don't lose sales, and they won't," said Charlie Wolf, an analyst for Needham & Co., adding that the company will be helped by the fact that there aren't any other products like it on the market. Mr. Wolf says he expects Apple to handily beat his sales forecast of 1.25 million units for the quarter ending in June.

Apple's shares, which have more than doubled in the past year, were up $3.26, or 1.3%, to $245.69 in 4 p.m. composite trading Wednesday on the Nasdaq Stock Market.

The iPad launched earlier this month to great fanfare. Initial sales failed to meet some analysts' expectations, but it is already on track for stronger first-quarter sales than the iPhone, which has sold more than 50 million to date.

Still, many analysts say that after the initial launch fever, the iPad's longer-term success will depend on the kind of innovative applications and content that will be available on the device in coming months and years.

Apple's job in planning for the new product has been complicated by the fact that the iPad represents a new product category and requires special components. The company is building the iPad around its first internally designed microprocessor chip—manufactured by **Samsung Electronics** Co.—and the device also features an unusually advanced display and large battery.

Yair Reiner, an analyst at Oppenheimer & Co., said Apple faces complications with getting enough large sensors for the iPad's touch screens. "Apple is forcing suppliers to scale up on components that have never been mass-produced before," he said.

The delay affects the countries that were expected to get the iPad: Australia, Canada, France, Germany, Italy, Japan, Spain, Switzerland and the U.K. International operators, including **Vodafone Group** PLC, **France Télécom**'s Orange and **Telefónica** SA's O2, said Wednesday in separate, brief statements that they would announce dedicated price plans for the iPad at the end of May for the countries in which they will offer the device.

Some foreigners have already gotten their hands on iPads, as reflected in interviews with visitors to the U.S. at Apple stores during the product's initial launch. Those willing to pay a premium can also buy one on **eBay** Inc. for $600 to $1,000 or more.

Apple said it would unveil the international pricing and take preorders on May 10. An Apple spokeswoman said all models, including those that can be connected to cellular networks, will be available overseas at launch.

The company is scheduled to report its quarterly results on April 20.

—Shira Ovide and Adrian Kerr contributed to this article.

Associated Press

A Best Buy employee delivering iPads for stocking in Chicago this month.

EUROPE NEWS

Wary U.K. voters still up for grabs

Any candidate from the three major parties could win in Watford, one of several marginal seats in a close election

By Joe Parkinson
And Laurence Norman

Getty Images

British Prime Minister Gordon Brown and his wife, Sarah, arrive Friday at the home of Isabella Jordan for a gathering of Labour supporters

WATFORD, England—With the U.K. voters weeks away from going to the polls, the mood on the doorsteps in Watford, a town of around 81,000 to the northwest of London, is not one of excitement or partisan enthusiasm but of uncertainty.

All three main parties have a real chance of winning the parliamentary seat amid a broader national indecisiveness. An April 6 Ipsos Mori poll of swing seats showed 46% of the electorate could still change their minds on whom to vote for.

In the first days of the campaign, two of the three main party leaders visited the town, which was a solid Conservative seat until 1997 when the governing Labour Party captured it as part of its landslide win under former leader Tony Blair.

Labour won the Watford seat with a slim majority of 1,148 in the last election and that narrow lead is pressured by a harsh recession and last year's parliamentary-expenses scandal.

"The country is in a mess at the moment, so it's difficult to make a judgment. I've not ruled any of them out," says Maureen Titchener, a pensioner from Watford's Meriden estate, a blue-collar district.

Liberal Democrat leader Nick Clegg visited on the first day of the election as he sought to boost local candidate Sal Brinton's prospects of winning the seat she narrowly failed to claim in 2005.

Then on Friday, Prime Minister Gordon Brown and his wife, Sarah spent an hour with Labour lawmaker Claire Ward and a small group of voters in the modest living room of Isobell Jordan, an 81-year-old lifelong Labour supporter.

The U.K. recession has stalled the growth Watford achieved in the 1980s and 1990s as the city changed its base from industry to services. It now hosts the headquarters of the National Lottery, Hilton International hotel group, and the head office of the U.K. subsidiary of energy giant Total. The claimant-count unemployment rate here doubled over the year ended October 2009.

And Ms. Ward—the nation's youngest member of Parliament when she won Watford in 1997—ran into trouble during last year's expenses scandal. While she was exonerated of any wrongdoing, some voters chafed at her decision to claim tens of thousands of pounds in expenses for a second home in London, some 20 miles away.

Seeking to benefit from Ms. Ward's troubles is Conservative candidate Richard Harrington.

"It's all to play for here," Mr. Harrington said at his campaign headquarters surrounded by placards marked "Change."

He says Cameron's more centrist, open-minded Conservative Party has broadened its appeal in Watford, although the party image was harmed in 2008 when the original candidate, Ian Oakley, stood aside after pleading guilty of harassment charges.

But Mr. Harrington accepts that the Conservatives in 2010 are unlikely to achieve the kind of support Mr. Blair's Labour Party gained in 1997. "People fell in love with Blair in 1997 in a way that I don't think I'll see again in my lifetime. ... People will be voting reluctantly in many cases as many are disaffected," he said.

The Liberal Democrats think that sense of disillusion will benefit them, arguing that voters' anger is targeted at both the Conservatives and Labour, who have dominated British politics since the 1920s.

One key uncertainty in the Watford race—and nationally—is turnout and whether Labour will get out its traditional voters. An ICM poll Monday said only 55% of voters had definitely decided to vote. Lower-income voters—the bedrock of Labour support—are the most uncertain.

Labour's Ms. Ward, who opponents acknowledge is a talented, resilient campaigner, has surprised observers by turning out traditional voters in recent local ballots.

But she concedes, "I know I've got a challenge on my hands."

The scale of the challenge is evident in the working class area of Vicarage, home to Watford FC, the former top-flight football club that used to be owned by pop star Elton John, but was rescued from bankruptcy last month by major Conservative Party donor Michael Ashcroft.

"I always vote, but this year, I really don't know," said Richard Blake, a 51-year-old public-sector employee and former union steward.

Mr. Blake voted Labour in 1997 but has switched to the Green Party more recently and says that after the expenses scandal, not even fear of a Conservative victory has persuaded him to vote Labour.

"I think they're both as corrupt as each other," he said.

U.K. Election 2010

WSJ.com

ONLINE TODAY: Britain holds its first U.S.-style debate on domestic policy. Iain Martin will be live-blogging it at **WSJ.com/UKelection.**

U.K. consumer confidence fell in March

By Paul Hannon

LONDON—British consumer confidence weakened significantly in March as people became less optimistic about the outlook for the economy over the next six months.

The headline measure of confidence fell to 72 in March from 81 in February. The decline, released by the Nationwide Building Society, wiped out all of the gains made in the first two months of the year, and brought the measure back to its level of December 2009.

It will come as a blow to Prime Minister Gordon Brown, who is attempting to win the May 6 general election by convincing voters that his Labour government is best placed to nurture the economic recovery.

Most recent data and other surveys have suggested that the economic recovery is picking up.

The decline was driven by the sudden reversal of what had been a rising feeling of optimism about the outlook for the economy for the rest of this year.

The proportion of those surveyed who said the economy will be in better shape in six months' time fell to 33% from 39% in February, while the proportion of those saying it will be in the same condition as now rose to 48% from 44%. The survey was conducted before the March 24 budget.

There was also a surge in pessimism about the outlook for the jobs market, with 48% of respondents saying that there will be fewer jobs available in six months' time, compared with 43% in February. That is despite official figures that show the unemployment rate has started to fall.

If sustained, the decline in confidence could threaten the recovery. But it may simply reflect a pickup in uncertainty ahead of the election,

European Pressphoto Agency

Shoppers walk on by in a U.K. high street. Consumer confidence fell in March.

which is expected to be the tightest since 1992.

Nationwide said that a similar increase in concerns about the economic outlook and the jobs market occurred ahead of the last general election, which the Labour Party won in 2005.

"With an election looming, more people will be unsure as to whether they will be better or worse off in the coming months," said Martin Gahbauer, Nationwide's chief economist.

The central issue of the election campaign is which party is best placed to tackle the nation's huge budget deficit while inflicting least damage on the U.K.'s growth prospects.

Britain emerged from an 18-month recession only in the final quarter of last year, three to six months after most of the rest of the Group of 20 leading economies.

Figures on gross domestic product in the first quarter of this year will be released on April 23, and may affect how voters think about the economic outlook, either to the benefit or detriment of the government.

EUROPE NEWS

Policy lines are settled for election

By Ainsley Thomson

The Liberal Democrats, the U.K.'s smaller opposition party, completed the set of the U.K.'s election manifestoes on Wednesday outlining plans for billion of pounds in savings to cut the soaring U.K. budget deficit.

Party leader Nick Clegg said the Liberal Democrats, who could tip the balance of power in the event of a hung Parliament, were the only ones to provide full details on how they will make the savings needed to tackle the deficit, which was about 12% of gross domestic product in the last financial year.

"I believe this is the first time that a political party has spelled out its figures line-by-line in the manifesto," Mr. Clegg said, adding that the governing Labour Party and the opposition Conservatives were both attempting to "airbrush the recession out of this election."

Manifesto destiny | What Britain's parties are promising


Gordon Brown


David Cameron

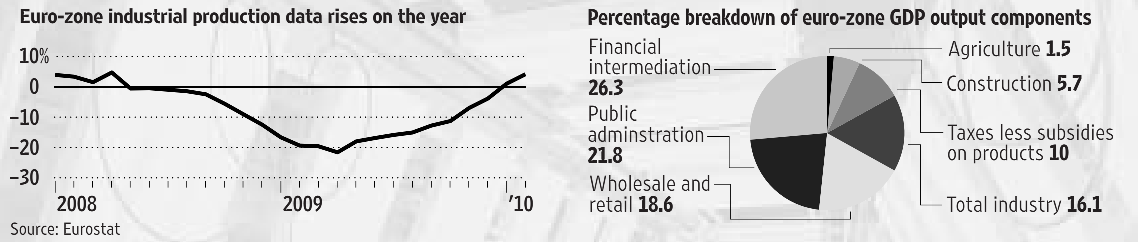

Nick Clegg

	Labour	Conservative	Liberal Democrats
Economy	Halve the deficit by 2014 with a mixture of growth, fair taxes. No major spending pledges.	Eliminate "most" of the U.K.'s structural deficit within five years. Spending cuts in all areas except Health and Foreign Aid. Abolish Labour's planned national-insurance rise for people earning £35,000.	Save £15 billion annually from cuts, including the scrapping of ID cards plans to replace the Trident nuclear-weapons system. Break up the big banks, divorcing their investment arms from retail operations.
Public services	Support NHS, schools and police. Will offer free care at home for everyone with the highest needs and create a new National Care Service.	Raise public productivity by increasing diversity of provision, extending payment by results and giving more power to consumers.	Cut the size of the Department of Health by half and put 3,000 more police on the streets
Foreign affairs	British forces will start to hand more responsibilities to Afghan forces later this year. Maintain military spending, but seek to reduce cost on procurement. Begin handing over some responsibilities to Afghan forces by the end of the year.	Commit to transatlantic alliance as a vehicle to deter Iran from nuclear weapons. Forge alliances beyond Europe and the U.S. Push to have more countries on the U.N. Security Council. Train Afghan security forces as a route to U.K. troop withdrawal.	Withdraw troops from Afghanistan by 2015, oppose military action on Iran's disputed nuclear program, authorize an inquiry into allegations Britain colluded in the torture overseas of suspected terrorists.
Europe	Preserve Britain's role as a "leading player in Europe." Rules out taking any powers back from Brussels.	Pass law to hold referendum on any future treaty that transfers power from Britain to EU Pass law to ensure ultimate authority stays with Westminster.	Party says it's in the U.K.'s long-term interest to join the euro, but promises a referendum.

Photos: Getty Images (left and right), European Pressphoto Agency (center)

EUROPE NEWS

Producing growth | Industry should boost euro-zone GDP



An employee inspects a Renault SA vehicle on the production line at the Renault factory in Valladolid, Spain.

Euro-zone's factory surge

Production close to two-year high, led by smaller countries

By Ilona Billington

LONDON— Euro-zone industrial production rose at a nearly two-year high in February, auguring well for first-quarter gross domestic product.

The stronger than expected outcome suggests that while the snowy weather may have weighed on some sectors around Europe, the euro zone's manufacturing sector was able to grow in the first two months of this year.

That is likely to buoy hopes that the economy expanded in the first three months of 2010, after a disappointing downward revision to 2009 fourth quarter GDP showed the economy stagnated compared with the third quarter of last year.

"If production were to remain unchanged in March, it would grow by 3.1% on the quarter in the first quarter as a whole, roughly consistent with a 0.6 percentage point contribution to GDP," said Martin van Vliet, euro-zone economist for ING Bank. "The European Central Bank will likely take encouragement from the continued industrial recovery," he said.

The ECB is widely expected to keep interest rates on hold into early 2011, although policy-makers continue to encourage governments to plan the withdrawal of their extraordinary fiscal stimulus measures where possible.

According to figures released by the European Union's statistics agency Eurostat, industrial production in the 16 countries that use the euro rose 0.9% from January and gained 4.1% from a year earlier, the sharpest year-on-year increase since a 4.7% jump in April 2008. Economists had forecast a 0.2% monthly increase and a 2.9% year-on-year rise, according to a Dow Jones Newswires survey last week.

Eurostat revised its monthly estimate for January lower, to show increases of 1.6% from December and 1.0% on the year. It originally estimated that industrial production rose 1.7% on the month and was 1.4% higher on the year in January.

By country, the three largest euro-zone economies didn't fare so well in February. Germany reported industrial output slipped 0.1% in February from January compared to a 1.1% rise in January from December. France and Italy were flat during February after gains of 1.1% and 1.9% in January respectively.

That means that the euro zone's month-on-month output growth was driven by gains in four member states: Ireland, Portugal, Slovenia and Luxembourg.

EU aide backs crisis fund

By Adam Cohen

BRUSSELS—A senior European Union official backed a new crisis fund to help euro-zone members out of debt troubles like those Greece faces and warned that Portugal, sometimes seen by financial analysts as the next European debt "domino" to fall, might need to impose more government austerity this year.

As financial markets continued to pressure the Greek government, despite the weekend announcement of details of a €30 billion ($40.76 billion) bailout plan, EU economy commissioner Olli Rehn said a new emergency fund was needed for euro-zone economies.

The commission isn't ready to make a firm proposal for the fund, but is still "reflecting" on it, he told a news conference in Brussels. But he described it as "a safety net of last resort, so unattractive that no country wants to end up in such a situation."

While the European Commission, the EU's executive arm, is likely to back such a fund, it may face opposition from some national governments and potentially requires changes to EU treaties. Still, Mr. Rehn said, "As we have seen, better safe than sorry....Better to be prepared for all kinds of developments."

Mr. Rehn said Portugal, which has pledged to cut its budget deficit to below 3% of gross domestic product by 2013 from an estimated 9.3% last year, might need more budget cuts this year if the economy doesn't grow as quickly the government expects. The government's forecast is for 2010 growth of 0.7%.

Still, Portugal is selling bonds at significantly lower interest rates than Greece. Reuters reported it sold €1.2 billion of 10-year government bonds Wednesday at an average interest rate of 4.34% and €805 million of two-year bonds at 1.715%.

Financial-market pressure on the Greek government ratcheted higher Wednesday amid continued uncertainty about how quickly a bailout could be activated. The bailout, which Greece has yet to request, would comprise as much as €30 billion of loans from fellow euro-zone members, at an interest rate of around 5%, supplemented by as much as €15 billion more from the International Monetary Fund.

The interest rate on 10-year Greek bonds climbed back over 7%, after slipping to 6.7% Monday. At these high rates, Greek officials have made clear that the government can't sustain its deficit-reduction program.

—Patrick McGroarty and Andrea Thomas contributed to this article.

With a notable exception, global growth is picking up

[Capital]

By David Wessel

When pooh-bahs and finance ministers, central bankers and economic seers ponder prospects for the world economy at their annual gathering in Washington later this month, the one region that will prompt the most worry is Europe.

The recession from which the world is emerging was made in America. But every day brings more evidence of improving economic health in the U.S. Its economy is now growing at a 3% annual pace, slower than what usually follows a sharp downturn but enough to raise hopes that hiring will pick up soon. Japan has issues, but recent data are encouraging. China's economy is so hot that the central bank is trying to cool it off. Singapore, a bellwether for the rest of Asia, said Wednesday its economy grew at a sizzling 32.1% annual rate in the first quarter and now anticipates 2010 growth of between 7% and 9%.

Europe? It seems likely to grow at little better than at a 1% annual pace this year—even if it avoids any unforeseen mishaps.

In a survey this week, The Wall Street Journal asked forecasters: Which major region is likely to be the biggest drag on global growth this year? Forty-six chose Europe, seven Japan. Not one picked another region. "Europe is driving along the edge of the Grand Canyon," one said. "It's all downside risk."

Economists at the Institute of International Finance, a group of international banks, recently made the first "meaningful upward revision" to their global growth forecast in six months, citing "more robust" home-growth demand in the U.S., Japan and emerging markets. For much of Europe, though, they see domestic demand as "worryingly lackluster." Michael Mussa of Washington's Peterson Institute for International Economics think tank, though more optimistic than most of his forecasting peers, said last week, "Western Europe is the one region where the recession proved significantly worse than I anticipated in April [2008] and where the extent of recovery so far has been disappointing."

China grabs headlines, but Europe still matters. Last year, the European Union produced $15 trillion in goods and services, slightly more than the U.S. China produced $5 trillion at current exchange rates. China, its economy benefiting from a huge dose of fiscal stimulus, probably is growing faster than is sustainable if it is to avoid inflation and bubbles. Europe, in contrast, is growing slower than its potential. One telling sign: China's inflation gauge is rising. But in Europe, prices in March were up 1.5% year over year—below the European Central Bank target of inflation "below but close to 2%."

Europe did fall into recession later than the U.S., and thus may recover later. Its export-driven factories are showing welcome signs of life. And very slow population growth means slower overall growth. (With fewer people, it takes less overall growth to boost living standards.) But the short-term outlook for Europe is distressingly bleak.

Debt-burdened Greece isn't the problem. It's a symptom. Wages and prices in Greece, Ireland, Italy, Portugal and Spain are too high to compete. The old solution was to devalue the currency, but sharing the euro makes that impossible. So wages and prices need to fall, as they are in Ireland. If the ECB is to avoid Continental deflation, then falling prices in Southern Europe must be matched with faster rising prices in stronger European countries to bring the euro-zone average close to the ECB target. But Germany won't stand for that much inflation. So the risk is that monetary policy makers in Europe will be too tight-fisted. And worries about government debt loads, and fixation on deficit targets set in a treaty that never contemplated a calamity like the one we just survived, block any substantial new fiscal stimulus to bolster demand.

Much of Europe, Germany especially, is proud of its exporting prowess, but every country can't count on exports to employ the millions left jobless by the recession. Some country has to be a consumer. And it can't be the U.S., which helped cause the crisis by borrowing and spending too much. China is beginning to do its part: Consumer spending there last year grew faster than the overall economy for the first time in years. But Germans and some other European consumers aren't spending readily. Perhaps aging Europeans fear government deficit-cutting will erode their pensions. Perhaps they are rightly worried about job prospects in an economy that does better at saving jobs at Opel auto factories in a recession than creating new jobs in recovery. (Where's Germany's Apple or Google?) Whatever the cause, European consumer caution—and governments' inability or unwillingness to reverse it—is a brake on the global economy.

And then there are the banks. Japan's escaped the worst of the financial crisis. U.S. banks are regaining their strength, if not yet their eagerness to lend. China's banks are a ticking time bomb. And Europe's—well, it's hard to say, and that's the problem. Investors and analysts keep whispering that European banks have yet to come clean and are sitting on undisclosed losses. Its biggest banks have smaller capital cushions that their U.S. counterparts. European bank lending to business is still shrinking.

It isn't hard to imagine Chinese economic officials—particularly if they finally let their currency rise a bit, as is widely expected—looking at their counterparts from around the world and saying: OK, we did pretty much everything you all asked. Let's talk about Europe.

EUROPE NEWS

Foreign loans fueled crisis in Iceland

Report says lending from Citi and Deutsche, among others, contributed to 'buildup of risk' that ravaged economy

By Charles Forelle

Large loans from foreign banks, including **Citigroup** Inc. and **Deutsche Bank** AG, helped to feed "the buildup of risk" in the Icelandic banking system, which collapsed spectacularly in 2008, a comprehensive report from a parliamentary commission concluded.

The big loans to wealthy Icelandic tycoons helped to fund their spree of corporate acquisitions—and helped turn the fish-exporting nation of 300,000 into an unlikely financial center. But to satisfy margin calls and other demands from their foreign lenders, the report indicates, the wealthy investors turned to Icelandic banks—in which they often had significant shares—for loans.

In some cases they used their own shares in the bank as collateral, the report says. That, eventually, helped to accelerate the banks' demise as the crisis deepened.

In one instance, Björgólfur Thor Björgólfsson, an Icelandic mogul, got a €153 million ($208 million) loan from **Landsbanki**, in which he and his father had a 41% stake, to satisfy demands from Deutsche Bank, which the report said had lent him €800 million in July 2007 to finance the takeover of generic-drug company Actavis Group.

Landsbanki's former chief executive described the deal in an interview with the commission: "Then it ends ... with us lending Björgólfur Thor our own money so he can honor certain things in Actavis," an apparent reference to satisfying debt covenants.

Such transactions between a bank and its major owners are out of step with banking rules elsewhere. "Here, we call it insider dealing," says Cornelius Hurley, director of the banking-law program at Boston University. Prof. Hurley notes that U.S. regulations put "Draconian" restrictions on the amount and terms of loans to insiders.

A Deutsche Bank spokeswoman declined to comment. A spokesman for Mr. Björgólfsson said that Mr. Björgólfsson was "in no way involved" with Landsbanki's decision to lend and that "approval was in accordance with relevant rules and regulations." He added that the loan was a "sound business decision" because Landsbanki already had an interest in Actavis. A representative of Actavis couldn't be reached to comment.

The parliamentary report, more than 2,000 pages long and published Monday, is a detailed attempt to find facts and lay out the causes of the worst banking-system failure of the global financial crisis. All three of Iceland's big banks collapsed in the space of days in October 2008, devastating Iceland's economy and sending it into the arms of the International Monetary Fund for a rescue. The meltdown plunged the wealthy Nordic nation into political chaos and triggered vast economic pain and soaring unemployment.

The report excoriates Iceland's political leaders, banking executives and financial regulators at the time. It said seven leaders demonstrated "gross negligence" in their handling of the Icelandic banks and their downfall.

It doesn't accuse the foreign banks of any wrongdoing, and it notes most of the foreign funding flooding Iceland came through the Icelandic banks, which then lent it on to the tycoons. But the report does lay out several instances of foreign banks' arranging direct loans to the tycoons—and the often-convoluted ways in which they were financed.

In one, Morgan Stanley lent €285 million to an investment company controlled by the brothers Karl Wernersson and Steingrímur Wernersson to finance the €800 million purchase of a Swedish bank. The Wernerssons had shares in Iceland's Glitnir bank, in which they had a significant stake, as collateral with Morgan Stanley.

When Glitnir's share price fell in early 2008, the Wernerssons needed to pay off the Morgan Stanley loan. Through a series of transactions, they got a loan to do so from Glitnir itself, posting, among other things, Glitnir shares as collateral.

A person familiar with the transaction said the Morgan Stanley loan was repaid in full and on time. The Wernerssons couldn't be reached to comment.

In another deal, according to the report, Kjalar hf, an investment company controlled by Ólafur Ólafsson, borrowed from Citigroup's Citibank unit in 2007, using as collateral shares in Iceland's **Kaupthing Bank** held by a Kjalar subsidiary, Elga Invest. Mr. Ólafsson was a major Kaupthing shareholder.

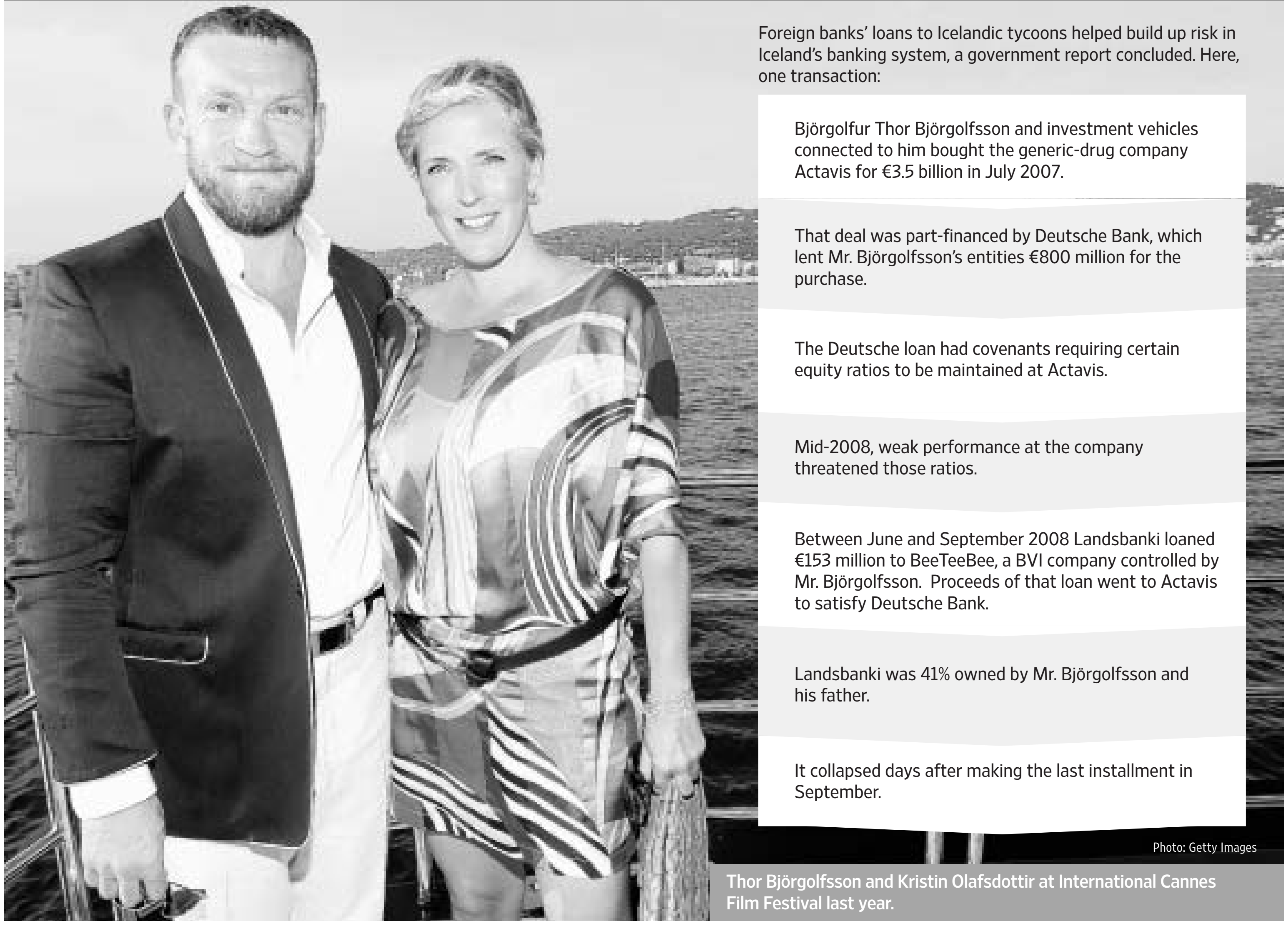
But in January 2008, with Kaupthing's share price falling, Citibank made a margin call. So Kjalar turned to Kaupthing. Kaupthing granted a €120 million loan. In March, after a fall in Iceland's currency, Kjalar borrowed more. The next month, Glitnir also made a loan to Kjalar.

"At the end of the day, Glitnir Bank and Kaupthing had lent €400 million to Kjalar and Egla Invest to pay the debts to Citibank and to prevent Citibank from seizing Kaupthing's shares," the report said.

A person answering the phone at Kjalar's office couldn't immediately discuss the matter and said Mr. Ólafsson was unavailable. Kaupthing and Glitnir, along with Landsbanki, were seized by the government in the wake of the collapse and were wound down. Citibank declined to comment.

The giant report's release has captivated Iceland. Actors from Reykjavik's city theater have been reading the text from the stage since Monday. (It is being Webcast, for the curious.)

Risky business | How foreign loans helped on the demise of Iceland's banks



Thor Björgolfsson and Kristin Olafsdottir at International Cannes Film Festival last year.

Russian official says import tariffs to stay

By John W. Miller

BRUSSELS—A top Russian politician said his country will resist pressure to remove the high import tariffs it imposed last year in a bid to soften the impact of financial crises on its economy.

Deputy Prime Minister Igor Shuvalov also said at a news conference that Russia still hopes to join the World Trade Organization by the end of the year as part of a customs union including Kazakhstan and Belarus. His remarks came a day after President Dmitry Medvedev called on the U.S. to do more to facilitate Russia's entry.

European Union and U.S. trade officials say it is unclear whether Russia really wants to join the 153-member Geneva-based organization. As a major exporter of oil and gas, a class of products not subjected to tariffs, and an importer of almost everything else, the Russian government may believe it has more to lose than to gain from membership, analysts say. Russia would have to lower the tariffs if it joined.

Mr. Shuvalov said Russia's motivations were sincere. "Without WTO access, modernization and innovation will be very difficult," he said. In particular, foreign investors want Russia to have WTO membership "so they know how to go to court, how to sue." if problems arise.

"The EU supports Russia's future accession to the WTO and we must work together to ensure the right conditions are in place," said John Clancy, the bloc's trade spokesman.

Mr. Shuvalov defended the import tariffs imposed early last year on cars, metals, farm equipment and many other products as an "anticrisis regulation" designed to help Russians keep their factory jobs in an "unstable" time. At a meeting two weeks ago, "ministers from many different sectors insisted we keep the tariffs," he said. "It is still not a stable situation."

A study last summer by the World Economic Forum, a think tank that holds a high-profile annual meeting in Davos, Switzerland, placed Russia 114th out of 121 nations in terms of ease to trade with. The average tariff on nonagricultural goods is now 11%, more than twice the level of the EU or the U.S.

"We understand that legally, we will have to cut tariffs when we finalize WTO membership," said Mr. Shuvalov. He said that unless Russia joins the WTO, "it will be very difficult, almost impossible to explain to the Russian public that we are letting in all these foreign goods."

Russia, which applied 17 years ago, is the only big country outside the WTO.

The U.S. "strongly supports Russia's accession to the WTO," William Burns, U.S. undersecretary of state, said Wednesday, according to wire reports. EU officials said they still had some issues to negotiate before supporting Russia's accession.

Russian imports fell 39% to $155.2 billion in 2009. A stronger ruble due to increasing oil and gas exports has helped trade recover.

U.S. NEWS

Jobs begin to sprout in some spots

An Arkansas town that weathered the downturn and drew a Caterpillar plant underlines a new employment trend

By Robert Guy Matthews

NORTH LITTLE ROCK, Ark.—Things are turning up in this blue-collar town of 61,000.

Miguel Ortegon, who was laid off last year as a supervisor at a plywood saw mill, has landed a job with **Caterpillar** Inc., which is hiring 600 workers for a new plant that will build motor graders. Shortly after, the 47-year-old received job offers from two other companies.

Mr. Ortegon is sticking with Caterpillar, in large part because it is putting him through a nine-week training program at the local community college. The program was a sign to Mr. Ortegon that the company was investing in him, and that sense of job security is important to him these days.

"The plywood mills, it is seasonal, one day they are hiring and the next day they are not," he said. "I would be wondering from day to day whether I would be working."

Job growth is slowly returning in parts of the U.S. economy. Retailers saw a 26% rise in job opening in February from January, the most of any sector, according to the U.S. Labor Department. Hotels, transportation, utilities and restaurants also had more job openings in February.

Even the manufacturing sector, which was hit early and hard in the recession and has an unemployment rate of about 15%, reported 17,000 more job openings in March than February, the Labor Department said.

"Wages are very depressed right now," said Dan Meckstroth, chief economist for the Manufacturers Alliance/MAPI. "But there are some pockets in the country that are showing job growth in the manufacturing sector."

The national unemployment rate is still hovering at 9.7%, as the number of people looking for jobs increased in relation to the total number of job openings in all sectors, according to the Labor Department.

North Little Rock has fared better through the downturn than some other industrial towns to the north, such as Youngstown, Ohio; East Chicago, Ind.; and Cleveland, which were more dependent on the auto and steel industries. North Little Rock, despite its relatively small population, has a diverse manufacturing base, which has helped keep unemployment at 7.5% this year.

North Little Rock and the immediate metro area are home to Union Pacific Railroad Co.'s largest locomotive and maintenance facilities, which employ about 1,200 people. LM Glasfiber, a windmill plant, has about 600 workers here.

L'Oréal USA, which makes cosmetics, employs about 700 people and is hiring more. J B Hunt Transportation Service, the trucking company with the bright-yellow 18-wheelers and Maverick Trucking are also based here.

"Not to say we don't have challenges, it appears we have been rather fortunate," said Patrick Henry Hays, the mayor of North Little Rock.

The town worked with the state to attract the new Caterpillar plant, offering a $13 million incentive package that included providing an electrical substation and improving water and sewage lines.

The benefits to the local economy are sizable. The Caterpillar plant will begin operations this summer and looks to provide 500 to 600 new jobs by the time the plant fully ramps up in 18 months or so. A variety of local business are also likely to get a lift as the plant comes online.

Terry Hartwick, president of the North Little Rock Chamber of Commerce, said he has fielded inquiries about selling products such as vending machines, computers, desks and copier machines to Caterpillar. "I have had dozens of businesses call me and say, 'Terry, I need a contact,' " Mr. Hartwick said.

Benjamin Krain for The Wall Street Journal

Miguel Ortegon, recently hired by Caterpillar, in front of a motor grader Tuesday in North Little Rock, Ark.

Jon Harrison, manager of Caterpillar's new plant, located on the eastern edge of North Little Rock, just off Interstate 440, is sifting through local suppliers. "Certainly there are opportunities for local vendors here," he said.

One of the biggest beneficiaries of Caterpillar's arrival is Pulaski Technological College. The college is helping with recruitment and spearheading Caterpillar's employee training program. Nine weeks, according to Carol Langston, the Pulaski Technological's vice president for college advancement, is unusually long for a job-training program.

But it also helps weed out workers who may not be committed or don't want to or can't learn new skills. "At least you know when people come in that they have basic skills and they have desire," Ms. Langston said.

Caterpillar selected 78 people for production positions who are undergoing 14 weeks of training before beginning their assignments. They also had to take a proficiency test and attend a day of pre-employment training.

"Our plan is to do this from this day forward, in terms of return on investment," said Mr. Harrison, the plant manager. "We are getting so much out of this."

Caterpillar's long training is one of the reasons the jobs are coveted by people longing for a sense of job security. Carol Morris, 43, was laid off from a U.S. Steel Corp. plant in March 2009 and hunted for work for months. She contacted Caterpillar in September and is now one of the first to participate in the training program.

She expects to graduate from training at the end of May, more than a year after being laid off.

Ms. Morris said U.S. Steel called her back to work, as the plant began to ramp up again, but she declined, betting that Caterpillar would be more stable. Her hours at Caterpillar are going to be from 7 a.m. to 3 p.m., a major change from the midnight shift she was working at U.S. Steel.

Ms. Morris said she could help her 10-year-old daughter with her homework and go to her sporting events now. "I am now in a better life position," she said.

Retail-sales jump fuels hopes for stronger upturn

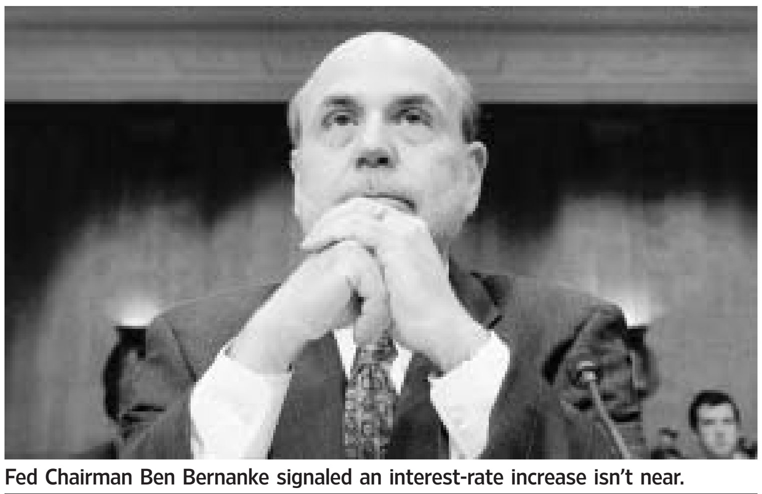
Continued from page 1

month and 7.6% from a year earlier, not adjusted for inflation. The annual rise, aided by better weather and an early Easter holiday, was the largest since July 2005.

The rebound is benefiting Robert Mayfield, owner of five Dairy Queen restaurants around Austin, Texas, where he recently launched a new $5 deal that includes a burger, fries, a drink and a small Blizzard dessert.

"The response was tremendous," he says, noting that same-store sales are up about 8% in March from a year earlier. "It does look like people are looking to get out and back into the scheme of things."

To be sure, there is still ample concern the recovery won't be strong enough to set off the virtuous cycle of rising employment and spending required for a robust expansion. With many consumers struggling under heavy debt burdens and banks pulling back sharply on lending, companies—particularly the small ones that tend to account for an outsize share of job creation—could have a hard time finding the confidence or credit they need to expand. Most estimates of U.S. growth remain well below the



Reuters

Fed Chairman Ben Bernanke signaled an interest-rate increase isn't near.

7%-to-8% level seen in the wake of previous deep recessions.

Optimists, though, see rising retail sales as a sign that the headwinds aren't doing too much to hold back U.S. consumers, whose purchases account for about two-thirds of the U.S. economy and a fifth of global demand. Richard Berner, chief U.S. economist at Morgan Stanley in New York, notes that new government incentives for banks to forgive mortgage principal could help sustain the spending, both by relieving the debt burden and preventing added foreclosures from weighing on house prices.

Meanwhile, the recovery in Asia is proving stronger than expected, with some countries posting double-digit growth rates, a trend that could help stimulate U.S. exports. In one positive sign, the export-order component of the Institute for Supply Management's service-sector activity index reached 57.5 in March, its highest point since June 2007.

"I think we've got to be careful in not thinking that we need to have all the problems solved in order to have a recovery," said Conrad DeQuadros, economist at consultancy RDQ Economics in New York.

Worries about economic headwinds could actually help fuel the recovery, as Federal Reserve officials focus on supporting growth rather than heading off inflation. In a speech Wednesday, Fed Chairman Ben Bernanke signaled that the central bank isn't likely to hit the brakes by raising interest rates anytime soon.

The Labor Department reported Wednesday that inflation remained subdued in March. Consumer prices rose a seasonally adjusted 0.1% from the previous month and 2.3% from a year earlier. Excluding volatile food and energy, prices were unchanged from February and up 1.1% from a year earlier, well within the Fed's comfort zone.

The March retail-sales report showed consumer spending broadening into the kind of big-ticket discretionary items people tend to buy when they feel more confident about the future. Sales of motor vehicles, clothing and furniture rose a seasonally adjusted 6.7%, 2.3% and 1.5%, respectively. Sales of electronics and appliances slipped in March, but were still up 1.7% from January and 3.6% from a year earlier.

"I'm more comfortable making these kinds of purchases now," said Nardo Reyes, who recently started a new job as a mate on the Staten Island Ferry, as he walked out of a New York Best Buy store with a new Sony BX3 television.

If the rebound lasts through the second quarter, it could start to make a bigger dent in the unemployment rate, which economists on average expect to remain at 9.3% at the end of this year.

Lisa King, senior vice president at retailer Raymour & Flanigan Furniture, says the company is aiming to add 100 salespeople over the next two to three months and open five new stores before the end of the year, thanks largely to rising sales at its stores throughout the Northeast.

"We're excited and very encouraged by what we're seeing this year," she said. "People are spending more time at home and more money on their home."

Southern Baptists shift focus to North

By Jennifer Levitz

WOODSTOCK, Ga.—Some 2,000 people witnessed the weekend ordainment of four Southern Baptist ministers at a church here, including one man poised to voyage to the religious frontier of upstate New York.

"Jesus, I thank you....We sure need to win in that area of the country," boomed Johnny Hunt, the silver-haired pastor of the First Baptist Church of Woodstock, 30 miles north of Atlanta, during a rousing Sunday evening sermon.

This region is the historical stronghold of the 165-year-old Southern Baptist Convention, the nation's largest Protestant denomination, with 16.3 million people. But alarmed at declining baptisms and membership, the Nashville-based convention is gearing up to send waves of ministers such as Dean Mabry, the New York-bound minister, money and "church planters"—who start churches from scratch—west and northeast to convert the "lost."

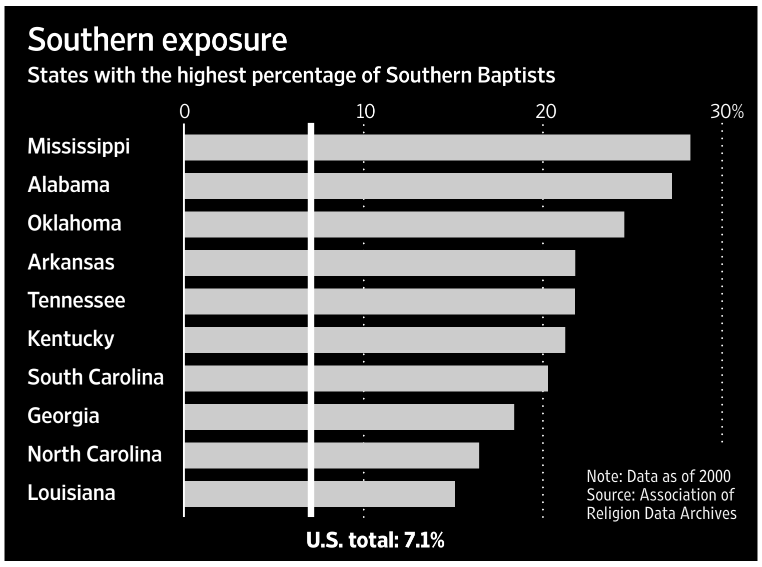
Mr. Mabry, a United Parcel Service Inc. parcel loader turned minister, is being sent to serve as pastor at a 25-member church in Herkimer, N.Y., that meets in a former used-car lot.

The Southern Baptists call the plan their largest strategy shift in 30 years. "We are hurting and we are in trouble. We have to do something," said Ronnie Floyd, an Arkansas pastor and chairman of the convention's "Great Commission Resurgence Task Force," which developed the strategy over the past year.

But Baptist leaders across the South, where 81% of the denomination's more than 40,000 U.S. churches are located, fear that local missions to help the needy could be sacrificed as more money is devoted to the pursuit of converts. "I am all for getting as many resources as you can to the unreached, but you can't forget about the base and the foundation," said Bill Mackey, executive director of the Kentucky Baptist Convention.

Southern Baptists, the nation's second-largest Christian denomination after the Catholic Church, reported in 2009 that membership fell slightly for the second straight year, according to the National Council of Churches. The Catholic Church, with 68 million U.S. members, has reported growth, boosted by new immigrants. The Southern Baptists say they can better attract immigrants as they move more into cities.

Most worrisome to Southern Baptists are falling baptisms, the key indicator of health for the denomination, whose core mission is to spread the gospel world-wide.



Southern Baptists baptized 342,198 people in 2008, 33,000 fewer than in 1950, even though the number of churches nearly doubled during that period, Mr. Floyd said.

Currently, Southern Baptist churches send part of collections—families are encouraged to donate 10% of income—to the convention to fund missions. The Cooperative Program brought in nearly $200 million last year. Half pays for overseas missions, while the rest goes to Southern Baptist seminaries and for missions in the U.S. and Canada.

A preliminary report by the task force calls for phasing out longstanding funding agreements to established Southern Baptist state conventions, in order to spend the money in places where there are fewer churches. Church representatives will vote on the report at the convention's annual meeting in June in Orlando, Fla.

—Aoun Sahi contributed to this article.

EXECUTIVE EDUCATION

Dubai's woes hit education

Fewer companies want to pay for classes; student demand falls

By Beth Gardiner

Dubai in its boom years was a lucrative market for international business schools eager to set up shop in a region rich in oil money and short on homegrown management expertise. But while classrooms for the most part are still full, the B-schools that launched executive-education programs in the desert emirate before its economy tanked last year now find themselves working in a very different environment.


Cass Business School
London's Cass Business School opened in Dubai in 2007

There's been a steep slide in interest from students based in Dubai, where many of the expats who might have enrolled in executive M.B.A. courses have lost their jobs and gone home, and the corporations that used to pay for employees to earn part-time degrees have slashed training budgets. Schools have started recruiting more heavily from neighboring areas whose economies are still relatively strong, particularly in nearby emirate Abu Dhabi and countries like Saudi Arabia and Qatar.

There's also been a shift in the business backgrounds students are coming from and the areas they choose to study. Finance and construction, once the Dubai economy's greatest strengths, send fewer students since the financial crisis and real-estate crash and, particularly in the case of finance, draw less interest in the classroom, program administrators say.

The city's troubles made headlines and shocked markets in November when the state-owned property company **Dubai World** said it sought to restructure $26 billion in debt. The local economy, though, had begun sliding months earlier, with the expats who had accounted for most of Dubai's executive M.B.A. students departing in droves.

London Business School, which began offering a Dubai-based executive M.B.A. two years ago, has cut its class size to 50 in one of the current cohorts and 60 in the other, down from more than 70 per cohort before the crisis. While application numbers have held steady, the proportion of highly qualified potential students fell, and administrators decided to trim numbers to maintain admission standards, says Prof. Naufel Vilcassim, the program's faculty director.

There are "fewer people who feel sufficiently secure in their jobs" to start an $88,000 degree, he says. "Fewer companies are willing to sponsor students, either financially or time-wise, and people who have financial resources want to keep their savings."

The steep decline in companies willing to foot the bill for employees' education has been a big factor, particularly in the hard-hit financial sector. "Corporate sponsorship is gone now in Dubai," says Ehsan Razavizadeh, the Dubai representative for London's Cass Business School. "It's not 100%, but I would say 90, 95% is gone."

Also down sharply is demand from Dubai companies for private programs tailored to their employees, Mr. Razavizadeh says. Such short courses were very popular when Cass opened up shop in Dubai in 2007, but the following year "the whole thing collapsed" there, although the market remains healthy in Abu Dhabi and neighboring countries, he says.

Dubai grew into an attractive market for international business schools over the past decade, thanks to the oil money flooding through the Gulf, a big expatriate population and strong government support for education.

Since the downturn, the decline in Dubai-based demand has been especially strong in finance, which has been hit in business schools worldwide. There are also fewer Dubai-based students from construction and real estate, once big boom areas for the emirate. Their numbers, though, have been largely made up by students from neighbors like Abu Dhabi and Saudi Arabia, where the building sector remains strong.

Foreign schools say they have stepped up recruiting from those markets in all subject areas, with Dubai's crash adding urgency to plans many say they already had to draw students from around the region.

"There's less of a pool in Dubai, there is no doubt about it," says Dr. Vilcassim. "We have had a need to aggressively market and take our message to those other markets in a way which may not have been done for the first few classes, or not with the same intensity."


London Business School
London Business School students in Dubai

Patricia McCall, Middle East and North Africa regional director for Duke University's Fuqua School of Business, says that while most of her program's prospective Gulf-based students still come from Dubai, Abu Dhabi, Saudi Arabia and even Lebanon and Jordan were becoming more important markets.

Nigel Banister, chief global officer at Britain's Manchester Business School, says he was surprised his program lost only a few students in the exodus of expatriates from Dubai, although like administrators from other schools, he says a number had lost or changed jobs.

In response, B-schools have boosted career services, adding résumé-writing workshops, networking events and partnerships with recruiting firms to help students through the insecure times.

They've also tried to mine the crisis for lessons, and Dubai's woes have become an important topic of classroom discussion, in courses from finance and macroeconomics to marketing. Dr. Vilcassim says he'd talked to branding students about how to repair the city's battered image. And Ms. McCall says Duke's global M.B.A. students, who attend study modules around the world, had gotten a close-up look at the Dubai economy during their recent stint there.

"It would be very hard for a student who didn't actually come here to understand Dubai's role," she says. "In the end, they left with a much broader and more realistic vision" of the city.

Learning lessons from sports

Schools say successful athletes can teach leadership and motivation

By Beth Gardiner

Business schools don't teach the fancy footwork of soccer or the smooth swings of golf, but they are increasingly seeking to train students who want to be part of the huge global business of sports.

A number of M.B.A. programs for working executives and full-time students focus on the management and branding skills needed to keep teams and leagues running, and the marketing expertise behind big endorsement and sponsorship deals. Other courses look to the playing field for lessons those in non-sporting sectors can learn from successful athletes.

John Weeks, a professor of leadership and organizational behavior at the Swiss school IMD, brought Jamaican sprinter Usain Bolt to campus with his coach to talk about the discipline and other mental skills that helped him win three gold medals at the 2008 Beijing Olympics.

"Many of us in business schools are a little bit wary of sports because of the overuse of sports metaphors," Dr. Weeks says. "So you want to be sure that you're doing more than just feeding this desire for metaphors."


ESSEC
Thierry Lardinoit of France's ESSEC

He says Mr. Bolt and his coach, Glen Mills, had a lot of practical ideas to offer. Mr. Mills says that when Mr. Bolt was discouraged by injury, he told him it was important to know how to lose before learning how to win and to accept setbacks as part of his journey. On the day of a meet, though, he told the runner he should stop thinking about failure and visualize only success.

"The ability to fail without breaking, I think, has direct applications for organizations," Dr. Weeks says.

An athlete who dominates his sport also has something to teach those who are searching for new goals to stay motivated, whether they're extremely successful entrepreneurs no longer in need of money or late-career workers stalling without the obvious goal posts that kept them moving forward when they were younger.

"Once those easy markers go away, how do you find motivation to continue to develop?" asks Dr. Weeks. Mr. Bolt, he says, found the answer by setting his sights on a new goal—transcending his sport by becoming one of the greatest athletes ever.

At Ashridge Business School in England, faculty in the Sport Business Initiative train businesspeople in the strategies of successful athletes while also schooling sports coaches in management skills that help them better lead their teams.

The program started in 2001, after the Rugby Football Union, the governing body of English rugby, approached the school for help with coach development, says John Neal, director of the initiative. Faculty began examining the management strategies of successful coaches, and offered lessons based on business skills like leadership, initiating and managing change and working in teams.

"Sports is very much about outcome, and what they've started to realize is if you understand process you get better outcomes," Mr. Neal says. The Sport Business Initiative has since worked with coaches from sporting organizations including the British Olympic Association, the Welsh Rugby Union and the English Cricket Board. "It was clearly a gap in the market," Mr. Neal says.

The Ashridge program also seeks to help business executives learn from professional athletes. One idea that transfers well to the boardroom is closely managing high achievers as well as poor performers, Mr. Neal says. Managers in the business world often leave top workers to their own devices while focusing their efforts on boosting those who do poorly. Coaches, on the other hand, also work closely with the best players, and are comfortable letting them focus mainly on their strengths, without wasting time on improving areas in which they are competent but not excellent, Mr. Neal says.

"Unless something you're not so good at is a fatal flaw, we don't even bother with it," he explains. "When it comes to the really top level and the pressure's on, your top players do what they're good at, and that's why you win." Most companies, on the other hand, "are risk-averse, they would select someone who is OK at most things," he says.

Such programs are gaining popularity on both sides of the Atlantic. Top American schools like Wharton offer sports-business programs, and MIT's Sloan School of Management runs a Sports Analytics Conference along with the television network ESPN.

John Clendenin, a visiting professor in the executive sports management master's program at IE Business School in Madrid, says the sports world and B-schools were a natural fit. "Sports is a very significant market space now, and the world of business needs to address it directly," he says. Event management, promotion, ticket sales and sponsorships have all come to require sophisticated business expertise, and moving former athletes to the front office without training no longer makes sense, he says.

At France's ESSEC Business School, the executive sports marketing program often numbers retired athletes and coaches among its students, says European Sport Marketing Chair Thierry Lardinoit. "They know that if they want to be relevant, they have to increase their" business skills, he says.