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# Toyota faces record fine in car recall

By JOSH MITCHELL

WASHINGTON—U.S. regulators plan to fine **Toyota Motor Corp.** \$16.4 million for allegedly hiding gas-pedal problems from safety regulators, in what would be by far the largest civil penalty ever imposed against an auto maker.

The fine, the maximum allowed under law, would be for failing to notify regulators of a pedal defect in its cars for at least four months, the Transportation Department was set to announce late Monday.

Auto makers are required to notify regulators of a possible defect within five business days, officials said.

The defect, known as a "sticky pedal" and believed to be responsible for sudden acceleration of cars, led to the recall of 2.3 million U.S. vehicles in January.

Toyota has two weeks to respond to the proposed fine.

Company officials weren't immediately available for comment.

"We now have proof that Toyota failed to live up to its legal obligations," Transportation Secretary Ray LaHood said in a statement set to be released Monday. "Worse yet, they knowingly hid a dangerous defect for months from U.S. officials and did not take action to protect millions of drivers and their families. For those reasons, we are seeking the maximum penalty possible under current laws."

A Transportation Department official said additional fines were still being considered for Toyota, which has recalled some eight million cars globally for sudden-acceleration problems and is working to regain consumer trust.

Meanwhile, **General Motors Co.** said it will expand the use of its brake override technology.

GM said by 2012 it will

have expanded the use of its "enhanced smart pedal" technology to all passenger cars that have automatic transmissions and electronic throttle control, "providing an additional safeguard to enhance customer confidence."

The modification will allow electronic controls to reduce power to the engine in cases where the brake and accelerator pedals are being pressed at the same time.

"We know safety is top of mind for consumers, so we are applying additional technology to reassure them that they can count on the brakes in their GM vehicle," said Tom Stephens, vice chairman of GM's global product operations.

GM has been strong recently, showing a 43% increase in March domestic sales for the four brands the company will keep after its restructuring.

—Nathan Becker contributed to this article.

## Teeing up for another Masters tournament



Agence France-Presse/Getty Images

Tiger Woods in a practice round at the Masters golf tournament at Augusta National Golf Club in Georgia. It's Mr. Woods's first public golf appearance since a sex scandal overtook him in November.

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### The Quirk



Playboy memorabilia collectors aren't happy that merchandise is beginning to multiply like rabbits. Page 33

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

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Has Obama accepted a nuclear Iran? Page 15

## U.K. minister urges new rules to prevent a 'starved' economy

The global economy risks "being starved of credit" unless regulators can quickly agree on an international framework on capital and liquidity rules, warns U.K. trade minister Mervyn Davies.

He fears that while there is uncertainty about financial regulation, banks will opt for caution and business won't get the finance it needs.

In an interview with The Wall Street Journal, Lord Davies said that across the U.K., companies are complaining to him that they aren't able to get money from the banks, despite not having particularly high leverage levels.

The problem, he says, is affecting Western economies generally, not just the U.K., where last week data from the



Trade minister Lord Davies

Bank of England showed lending to nonfinancial companies fell by 4.1% year on year in February.

"The banking industry is

heading for a crash, it needs global agreement very quickly on capital, liquidity and remuneration," he says.

The former chairman of Standard Chartered PLC, the emerging-markets bank, Lord Davies is also highly critical about the lack of women on British company boards. He is demanding that companies should aim to have boards that represent the gender balance of their work force.

He is pressing the Financial Reporting Council to tell companies that, in their annual reports, they will have to state that they comply with this requirement or explain their failure to do so.

■ Full interview with trade minister Lord Davies ..... 14

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## PAGE TWO

# Spain is getting its economic vision from Peggy Lee and Frank Sinatra

## [ Agenda ]

BY IRWIN STELZER



Songbird Peggy Lee never offered herself as an economic forecaster, but her famous 1947 hit song, "Mañana," included such prophetic lines as "My pocket needs some money; once I had some money; my brother isn't working"—all to be attended to mañana.

Which seems to be the theme song of Spain's socialist president, José Luis Rodríguez Zapatero. His nation's economy continues to decline: Spain has been in recession for seven quarters; its unemployment rate, at close to 20%, is twice that of the euro zone; its budget deficit is 11.4% of GDP; Moody's ranks Spain at the top of its "misery index," the total of the unemployment rate and the deficit. The central bank expects growth next year to be an anemic 0.8% and sees no significant drop in the unemployment rate this year or next. Standard & Poor's has already lowered Spain's credit rating and its outlook on the country's sovereign debt from "stable" to "negative."

To which Mr. Zapatero has been responding with attacks on the Anglo-Saxon media and "the neoconservative model based on capitalism," industry minister Miguel Sebastián with insistence that the problems are "imported" (shades of Gordon Brown), and Labor Minister Celestino Corbacho with the charge that Spain's problems are due to "the neoconservative thinking preached by U.S. President George W. Bush, which has resulted in capitalism without borders."

Now, to the real world: one in which investors have made it clear they know the so-called Greek bailout trumpeted by euro-zone



Spanish Prime Minister José Luis Rodríguez Zapatero

officials is no such thing, so that Greece is paying twice as much (about 3.5 percentage points more) to borrow as solid Germany does.

**The labor market is a combination of workers who can't be fired and others with insecure tenure.**

Anyone who doubts German Chancellor Angela Merkel will do all she can to prevent any of her voters' money from being used to bail out what she sees as spendthrift countries that didn't swallow the tough medicine Germans took to gain global competitiveness doesn't understand German politics and sensibilities.

Which bodes ill for Spain: Even though its economy is five times as large as Greece's, Ms. Merkel is unlikely to have second thoughts about applying to it the same tough standards she applies to Greece—meaning, no bailout.

Spain has \$1 trillion in

sovereign debt outstanding, and, according to Desmond Lachman, a scholar at the American Enterprise Institute, a gross external debt burden of "a staggering 135% of GDP..." Worse still for Spain's prospects, "the Spanish economy has lost even more price and wage competitiveness than the Greek economy..."

Which raises the key question: Is the Zapatero government willing to impose the pain on Spain that will allow it to cut its fiscal deficit from 11.4% of GDP to 3% in 2013? Apparently not.

Yes, the retirement age will gradually be raised from 65 to 67, starting in 2013, and there will be an 87% cut in civil-service hiring. But Spain's deputy prime minister, María Teresa Fernández de la Vega, says that only 4.1 percentage points of the 8.4 percentage points of deficit reduction required by 2013 will come from reduced spending. The balance will come from tax increases and a crackdown on evasion (1.1 percentage points) and from economic growth, which the government believes will increase tax revenues and allow it

to cut back on stimulus spending.

The government is assuming the economy will grow at a rate of 3% in 2012 and 2013. It is alone in that view. The nation's central bank expects growth to come to only half of what the government is counting on. Angel Laborda, an economist at FUNCAS, a foundation that serves the nations' savings banks, says it is more realistic to assume growth will not exceed 2% until 2014.

If that: Spain sends 70% of its exports to other EU countries, and growth in the EU area is at a virtual standstill, suggesting the Zapatero government will have to look to a resumption of domestic demand to achieve its growth targets. Not likely with unemployment high and consumer confidence low.

No matter to Mr. Zapatero. He continues to place a higher premium on social solidarity than fiscal prudence. Actually, that's rather a nice way to put it. More accurately, the president places a higher premium on appeasing his trade-union supporters than on implementing the needed reforms. Those go far beyond an effective austerity program.

The labor market is a mess—a combination of workers who can't be fired, and others with short-term, insecure tenure. Productivity is low. The savings banks known as *cajas de ahorros* remain burdened with bad loans to property developers, and resistant to meaningful restructuring. Mr. Lachman of the AEI finds it "difficult to see how Spain's banking system will be spared a major crisis down the road."

But that's for mañana, or as Frank Sinatra put it in a different language, "Domani, forget domani. Let's forget about tomorrow for tomorrow never comes."

—Irwin Stelzer is a business adviser and director of economic-policy studies at the Hudson Institute.

## What's News

■ **The DJIA flirted** with 11,000, a level it hasn't topped since September 2008, as strong U.S. jobs growth and an unexpected rise in pending home sales added to an increasingly optimistic economic outlook. But Treasury yields hit 4% amid concerns about coming auctions. 27

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■ **Richard Branson** will announce plans Tuesday to sell a 21% stake in Virgin Money to billionaire investor Wilbur Ross for \$152 million. 25

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## ONLINE TODAY

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**"If Apple sold the operating system separately, this could wipe out Windows in a couple of years."**

Thomas Elmo commenting on an article about Apple's iPad



### Continuing coverage



Gordon Brown is expected to set the stage for the U.K. election. Get updates at [wsj.com/ukelection](http://wsj.com/ukelection)

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## NEWS



Bile Dahir for The Wall Street Journal

Somali naval forces, armed with AK-47s, recently launched daily sea patrols. But the 500 or so new recruits find themselves going up against well-funded and better-armed pirates.

# Admiral chases funds to beat pirates

*As Somali buccaneers rake in millions of dollars, the navy has to rely on five rickety boats to patrol Indian Ocean*

BY ABDINASIR MOHAMED

MOGADISHU, Somalia—Admiral Farah Ahmed, head of Somalia's navy, sailed out to patrol the coast for pirates on a recent morning, leading the country's entire armada: five rickety boats. They soon turned back, wary of running into better-armed foes.

Though Somali sailors carried AK-47s in this drill, Somali pirates carry automatic weapons and rocket-propelled grenades. So far, Somalia's navy has avoided clashes with those who are hijacking boats, kidnapping crew and wreaking havoc with international shipping lanes.

"I hope we will be able to inspect everything in our waters soon," the admiral said, as waves from the Indian Ocean knocked his tiny boats together.

Adm. Ahmed is trying hard to ensure his navy, launched last year, isn't a futile exercise. But with the impoverished Somali government as its chief backer, his modest maritime force has no warships, and little equipment or money.

Foreign donors, meanwhile, have focused on training security forces on the ground—Somalia's police and army—that the government needs to fend off al Qaeda-backed insurgents. The government is under siege in a tiny pocket of the capital, Mogadishu, the only territory it controls. As it struggles to stay in power, the piracy problem appears to have slipped down its priority list.

Somalia-based piracy has been transformed from early efforts to scare away foreign fishing trawlers into a multimillion-dollar business that defies the world's most powerful navies. Towns on the northern coast of Somalia have built entire economies on ransoms extracted from foreign governments. Lavish homes, hotels and new businesses have sprung up, built on million-dollar payouts.

Attacks by Somali pirates about

doubled last year to 217, according to the International Maritime Bureau's Piracy Reporting Centre. By 2009's close, it said, 12 ships and 263 crew members were still being held hostage.

Cargo ships have adopted tough tactics, spraying hijackers with high-pressure fire hoses and hiring armed contractors. Last Wednesday, an armed guard killed a suspected pirate as he attempted to board a Panamanian-flagged cargo ship.

International navies have started jointly patrolling the pirate-infested waters but haven't eradicated the problem. The European Union's antipiracy force, known as Operation Atalanta, mainly escorts ships bringing food to Somalia for the United Nations World Food Programme. It fires warning shots and sometimes intercepts so-called motherships—larger vessels that can provide food, water and fuel to smaller attack skiffs. The EU force coordinates its operations with Russian, Indian, Japanese and Chinese ships, as well as North Atlantic Treaty Organization warships.

Commander John Harbour, spokesman for the European Union's naval force, said that when antipiracy operations began in 2008, the rate of successful hijackings in the Gulf of Aden was one in three. Now, it's one in 10, he said, although pirates have begun attacking farther out in the Indian Ocean.

"You've got to remember we're like an international police force," Cmdr. Harbour said. "We're not saying we'll reduce piracy to zero...The problem lies on land, and that's why we need to try to resolve it on land."

On Monday, a South Korean navy destroyer was pursuing an oil supertanker believed to have been hijacked by pirates in the Indian Ocean off Somalia, officials told the Associated Press.

The warship had been in the Gulf of Aden on antipiracy operations and was ordered to move toward



Admiral Farah Ahmed, centre, is the head of Somalia's overstretched navy.

the South Korean-operated tanker's expected location in Somali waters nearly 1,000 miles southeast, South Korea's Foreign Ministry said.

The Somali government has vowed to crack down on piracy, but officials acknowledge more pressing problems. Somalia has been in chaos since the fall of military dictator Siad Barre in 1991, with the current government in power for about a year. Lawlessness and widespread unemployment have lured many young Somalis, who have never known anything but war, into a few of the only available professions—militancy and piracy.

Abdirizak Aden, permanent secretary of Somalia's information ministry, said the piracy problem is being fueled by foreign governments and companies that pay huge ran-

soms. Somalia's meager navy, on the other hand, could really use the cash. "You could shift that money and we could build...coastal capacity," he said.

At the moment, Somalia's coastal capacity is pretty much Adm. Ahmed. The 61-year old is a rare commodity in Somalia: a navy veteran. He served as the deputy naval commander under Mr. Barre, when Somali warships defended against piracy and illegal fishing. Adm. Ahmed still has the carriage of a commander, clean-shaven in a white uniform.

About 500 young men have accepted part-time slots with Somalia's fledgling navy, a rare chance at a salaried job in a country with few opportunities.

The admiral runs his men

through daily drills. They drop for push-ups and parade in the sand at a rundown port north of the capital, against a backdrop of buildings shattered by years of war. He occasionally supplements his fleet of five skiffs by renting a few fishing boats. "It's terrible to see better-funded warships doing nothing tangible to stop the pirates," he said. "If we were paid half of the money that the antipiracy warships receive, we could stop the pirates."

Adm. Ahmed's men are supposed to be paid monthly, but their salaries often come late or not at all. While there haven't been any defectors, Somali government officials say, Adm. Ahmed fears his newly trained recruits might take their skills to the side of the pirates for better pay. Pirates offer the potential of rich ransoms and plenty of qat, a mild stimulant chewed by Somali men.

Despite a slow start, Adm. Ahmed believes his forces could make inroads against the pirates. Rather than concentrating on deterrence, as the foreign navies do, the admiral said his men understand pirate tactics, know their bases and could gain intelligence about planned attacks.

Cmdr. Harbour, the EU naval spokesman, agrees that the local expertise the admiral's men bring would be an asset to the piracy fight. "If and when the Somali navy gains legs we'd be delighted to see them," he said.

For some Somali navy recruits, though, honor is part of the compensation. "I am very confident in making our waters safe," explained Said Abdulle, a 36-year-old former fisherman who joined up in hopes of earning a higher salary. "This is an admirable job for me." Like others, Mr. Abdulle says his maritime work for the government hasn't yet earned him a paycheck.

—Sarah Childress  
in Nairobi, Kenya,  
contributed to this article.

## EUROPE NEWS

# U.K. political parties gear up campaigns

By ALISTAIR MACDONALD

LONDON—The U.K.'s political parties manned their battle stations on Monday as they prepared for a likely announcement Tuesday by Prime Minister Gordon Brown to call a May election and launch what promises to be Britain's most exciting vote in over a decade.

Mr. Brown is expected to make his announcement Tuesday, and head to Buckingham Palace to ask Queen Elizabeth II to dissolve Parliament so campaigning can start. The government will have a few days to push through as much unfinished legislative business as it can before campaigning begins for the election, expected to be May 6.

In a speech after Mr. Brown's announcement, David Cameron, the leader of the opposition Conservative Party, will say he "can't wait to

get started," according to a person familiar with the matter.

Mr. Cameron will add: "We're fighting this election for the great ignored: young, old, rich, poor, black, white, gay, straight," this person said.

Such rhetoric will attempt to underline his credentials as the man who broadened the Tories' appeal after three successive landslide election defeats to Labour.

The Conservatives are ahead in opinion polls, with an average eight-percentage-point lead, according to Web site UK Polling Report. That is below the double-digit lead the party enjoyed for most of last year, and would lead to the election of the country's first minority government in around three decades.

On Monday, around 200 Conservative workers gathered at the party's London headquarters, many

arriving as early as 6 a.m. "As far as we are concerned the campaign has already started," said one of them.

On Tuesday, Mr. Cameron will go from London to the English Midlands city of Birmingham and then to Yorkshire, in northern England, as he begins his campaigning. As he does, 15 members of his so-called front-bench team will fan out across the U.K., the person familiar with his speech said.

Douglas Alexander, a Labour member of Parliament and the party's general election coordinator, briefed party campaign staff and volunteers in London on Monday.

"This election is about the economy," he said, according to a Labour spokesman. "It's about securing the recovery responsibly and cutting the deficit fairly—in a way that protects frontline services."

This message underscores both

the central theme of the election—the economy—and what will be a central dividing line between the major parties. The Tories talk of quickly cutting Britain's record deficit, while Labour says cutting debt too quickly will undermine the recovery.

Over the country's four-day Easter holiday weekend, the parties sparred over debt and over the issue of taxation.

In his weekly podcast, Mr. Brown compared the U.K. economy to soccer star Wayne Rooney, whose recent foot injury briefly led to concerns that he wouldn't be available to play for his country in this summer's World Cup.

"If we try and jump off the treatment table as if nothing had happened we'll do more damage to the economy—and frankly that means we risk a double-dip recession," Mr.

Brown said.

The Tories received a boost in opinion polls last week when they said they would reverse part of a planned rise in a payroll tax.

On Monday, Conservative finance spokesman George Osborne told the British Broadcasting Corp. that the party hopes not to raise taxes beyond current Labour government plans because spending cuts will do most of the work.

Mr. Osborne said he wouldn't rule out future tax increases entirely, but said that a rise in the value added tax, a sales tax, in particular, wasn't planned.

"The plans we set out involve around 80% of the work being done by spending restraint and 20% from tax increases—the tax increases are already in place," he said.

—Paul Hannon  
contributed to this article.

# The kingmaker of a hung Parliament

By ALISTAIR MACDONALD

Britain's Liberal Democrats, which for decades suffered the lack of influence that comes with being the U.K.'s No. 3 political party, this year claimed an unlikely new title—potential kingmaker.

Early indications are that party leader Nick Clegg would use his newfound sway to get tough on Britain's budget deficit and the banking industry. In an interview this week, Mr. Clegg said U.K. banks should "fear" the prospect of his party exerting greater influence.

New status for the 'LibDems' stems from the fact that, as things stand, neither the ruling Labour Party nor the opposition Conservatives is currently on track to win a majority of seats in Parliament. That raises the possibility that for the first time in more than three decades, a minority government could be voted in.

Of course, the Conservatives could regain their stride and win a majority, pushing the LibDems back into a less-prominent role. On Thursday the Conservatives were bolstered when a group of businessmen, including the heads of retailer Marks & Spencer PLC and drinks giant Diageo PLC, backed a Tory proposal to reverse Labour's planned increase in the national insurance tax. Some had been advisers or donors to the Labour government; Tory finance spokesman George Osborne spoke of Prime Minister Gordon Brown being "increasingly at war with British business."

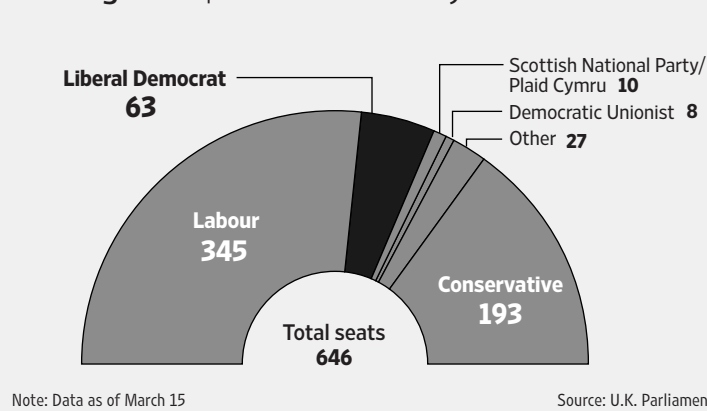
Even if the Tories don't win a majority—weekend polls showed them expanding their lead over Labour—getting close could lead them to tap another small party for backing, such as the Democratic Unionist Party. But as it stands, the prospect of a hung Parliament is adding to sense that this election will be Britain's most exciting in more than a decade.

The Liberal Democrats—who currently control almost 10% of Parliamentary seats—would be courted by both sides. Typically, the Liberal Democrats have advocated left-leaning policies on public spending but a right wing stance on the importance of the individual. Mr. Clegg said he would use his influence to push for spending cuts to tackle the



Nick Clegg, right, at a bicycle-recycling shop in Edinburgh, Scotland, this week, said banks should fear greater influence by the Liberal Democrats.

## Seating chart | U.K. Parliamentary seats



country's record deficit, projected at 11.8% of gross domestic product this year. He also intends to back aggressive banking reform and some higher taxes for the very richest. On foreign-policy, Mr. Clegg said he would push for closer ties with Europe and a tougher line on the 'special relationship' with the U.S.

The banking industry "should fear a Liberal Democrat govern-

ment, because a Liberal Democrat government or any Liberal Democrat influence in government will insist that, if we want a competitive and dynamic industry in the future, it will first undergo some very serious surgery," he said, in an example of his tough rhetoric. The party has promised to levy a 10% tax on bank's profits and to split higher-risk investment banking from the lower-

risk retail business.

Aside from the U.S. there are very few other nations dominated by two major parties. In British elections, what matters is winning the highest number of seats, rather than the highest proportion of the vote. The LibDems want a proportional system, and fellow champions say they hope that this election could be a watershed in which the leverage they could win will allow them to bargain for this.

"I think the Liberal Democrats are at historic point in their evolution," said Patrick Dunleavy, a professor of political science at the London School of Economics. In the event of a hung parliament "you would have to go back to the 1920s for the last time that they had so much influence," he said.

Once known as the Liberal Party, the LibDems vied with the Conservatives as one of the U.K.'s big two, until it was squeezed out at the start of the last century by the emergence of Labour. Mr. Clegg says he won't "put the cart before the horse" and say whether he would side with Labour or Conservative, or

whether he would enter into a formal coalition taking cabinet roles.

The 43-year-old has received mixed reviews since taking over as leader in 2007. The party has gained little ground in opinion polls and Mr. Clegg has been dismissed in some quarters as lacking statesman-like qualities. Others say that he is skilled communicator, and that under him and finance spokesman Vince Cable, the party has a strong voice on the biggest issues of the day: the recession and deficit.

The party also typically picks up points ahead of elections. In addition, Mr. Clegg likely will benefit from unprecedented attention for a LibDem leader in the coming televised debate among the leaders of the three main parties. Mr. Clegg will share the stage with Mr. Brown and Tory leader David Cameron in the U.K.'s first-ever televised debate among the party leaders before an election.

"I think the absolute priorities come what may, whatever the outcome of a general election, has to be financial responsibility," Mr. Clegg said. The party has outlined £15 billion (\$22.87 billion) of spending cuts over and above the cuts outlined by the government. That is just the "first installment" he said.

Other areas that will come under review include the defense budget and he says the overall size of the public sector is likely to shrink. Government spending as a proportion could hit 50% this year. In the U.S. it averaged 20.7% last year.

Mr. Clegg, who once studied at the University of Minnesota, also promises to promote a more balanced relationship with the U.S.

The LibDem leader says his party wouldn't have followed the U.S. as willingly into Iraq and would have been more critical of its use of Guantanamo Bay.

On some measures the Liberal Democrats have announced, Mr. Clegg says, "I don't think people have taken as much notice as they should. But he adds: "That is the fate of a Liberal Democrat leader."

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## EUROPE NEWS

# German failures may slow recovery

Forecast record insolvencies among country's dominant midsize companies this year threaten to hurt euro zone

BY LAURA STEVENS

BERLIN—Concern is growing that Germany's manufacturing rebound is too weak and too late to save many of the midsize companies that form the backbone of its industrial base, a factor that could slow economic recovery in Germany and the euro zone.

Bankruptcies among the *Mittelstand*—the small or midsize, mostly privately held businesses that dominate Germany's export-oriented economy and provide most of its jobs—have already contributed to high unemployment rates and blunted the country's slow march back to GDP growth. This year they are expected to reach a record level.

That could slow economic recovery not only in Germany, where the government projects gross domestic product will grow just 1.4% this year after slumping 5% last year, but also in the euro zone, because Germany is its biggest economy.

The 40,000 German companies projected to enter insolvency this year, up 16.6% from 2009, would surpass 2003's record 39,470, according to the *MittelstandMonitor*, an annual report on the sector.

About 98% of all German insolvencies are in the *Mittelstand* sector, according to *Creditreform*, an advisory and debt-collecting firm that cosponsored the report. "This wave of insolvencies is different from others previously because it's hitting ... the small industry players the hardest," said Michael Bretz, a spokesman for *Creditreform*.

Although German industries have been recovering steadily in recent months, activity is rebounding from such a low level that many companies are still struggling to stay afloat.

Europe's third-largest maker of trailers for trucks, *Kögel Trailers GmbH* in Burtenbach, is hoping for some relief this year after its revenue plummeted to an estimated €50 million (\$67 million) last year from €450 million in 2008.

The company entered insolvency in July but found a buyer in November. Still, the 90% drop in European trailer demand means Kögel's workers—cut to 442 from 763—are required to work only a couple of days a month. "At the moment, it's really more about survival" than recovery, said Andreas Lubitz, a company



A record 40,000 German firms are expected to enter insolvency this year, slowing bulls at the Frankfurt Stock Exchange.

spokesman.

More than 90% of all German companies are in the *Mittelstand* category—more than three million businesses ranging from local bakeries to auto-parts suppliers for major car makers such as *Volkswagen AG* and *BMW AG*. Roughly two-thirds of all employees in Germany work for a *Mittelstand* company.

And while Germany's major car makers or engineering giant *Siemens AG* might be more famous, smaller, often family-owned companies account for far more of Germany's output and employment. Often export-oriented, such companies frequently dominate specialized market niches world-wide.

Bigger firms with plenty of financial reserves, however, are better equipped to survive the lengthy downturn than smaller firms, which will have a tough fight this year, said Michael Lingenfelder, head of the Research Center for *Mittelstand Business* at the University of Marburg. He thinks bankruptcies will grow by 5% to 10% this year.

Midsize companies also are un-

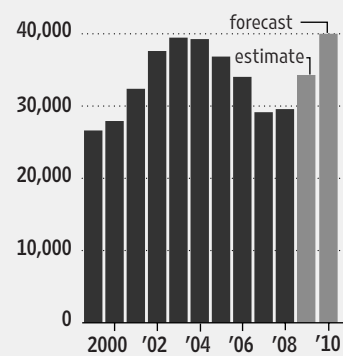
happy that Chancellor Angela Merkel's government has concentrated on helping big industry, including such assistance as the attempted rescue of *General Motors Co.*'s Opel unit and the country's cash-for-clunkers program.

While the government has tried to help by implementing extended "Kurzarbeit" programs that allow companies to temporarily pay employees on a part-time basis, Germany's budget constraints mean most companies must sink or swim in the marketplace. In addition, individual *Mittelstand* companies don't have the lobbying power of big companies such as Opel.

The frustration was clear at a recent meeting of the regional business association *IHK Schwaben* in Augsburg, Bavaria. "The government gives money where ... the best lobby stars are, where the best public-relations work is," said Hans-Werner Sinn, a leading German economist who heads the *Ifo* economics institute in Munich, drawing applause and nods in agreement from the roughly 250 regional busi-

## Fast-growing failures

Number of corporate insolvencies in Germany



Source: *Creditreform*

nesspeople in attendance.

The chairman of the opposition Social Democrats called Saturday for *Mittelstand* tax breaks to fuel job growth and investment, criticizing the governing coalition for focusing on the wrong things. "Small

and *Mittelstand* companies that have the courage to invest during the crisis—those are the ones the government must help," Sigmar Gabriel said in an interview on *Deutschlandradio Kultur*. "That creates jobs."

Among companies trying to bounce back from insolvency is one of Germany's most famous watch makers, *Uhrenfabrik Junghans GmbH* of Schramberg in the Black Forest.

The company, founded in 1861 and originally family owned, entered insolvency in August 2008 after its Hong Kong parent company ran into trouble, said Matthias Stotz, Junghans' chief executive officer. The company had to lay off 25 workers, reducing its staff to 93.

After a local entrepreneur bought Junghans in January 2009, the company jump-started its marketing campaign, using the slogan "Junghans-The German Watch," and within a year became profitable again.

Despite the growing bankruptcies, however, most *Mittelstand* companies are surviving—and some are even expecting a return to growth this year.

The *Ralf-Schneider Group* in Konstanz, which makes equipment for plastics industries, saw revenue sink about 30% to €72 million in 2009 as the manufacturing world was rocked by the crisis. However, the company, which has remained solvent, is projecting a recovery this year.

"It definitely did hit us—the crisis—but I don't think we suffered as badly as some," said Carl Litherland, a spokesman for the company. The globally active manufacturer, with about 450 employees, has survived the crisis because it is a family-owned business with a long-term view, he said.

"That's one of the strengths that Germany has—that so many companies in Germany are privately owned" and therefore don't have to worry about pleasing analysts and shareholders every quarter, Mr. Litherland said.

The company, whose customers include BMW and Siemens, is projecting revenue growth of 10% to 15% growth this year. "We're already seeing signs of recovery," he added, noting, however, that sales this year won't return to 2008 levels.

## Exports rise while retail sales stall

BY NICHOLAS WINNING

Exports are helping the euro zone's manufacturing sector bounce back from recession, but a drop in retail sales in Germany suggests the region's economic recovery is being held back by feeble domestic demand.

Germany's Destatis Federal Statistics Office said Thursday that retail sales were 0.4% lower in real terms in February. Sales for January and February combined were also 2.5% lower than in the first two months of 2009, it said.

But a survey by *Markit* showed euro-zone manufacturing output expanded at its fastest pace for 40 months in March, fueled by the strongest increase in new export orders in a decade.

"The recovery will continue to depend disproportionately on exports," said Colin Ellis, an economist at *Daiwa Capital Markets Europe*. "There is still frankly no sign of the German consumer stepping up to the plate and driving growth forward so we are going to see this export dependency continue."

Economists said the gulf between Germany's strong manufacturers and skeptical consumers may widen further as government support measures, such as the cash-for-clunkers scheme, are wound down.

*Markit's* manufacturing purchasing managers' index, a gauge of private sector output in the sector based on a survey of firms, rose to 56.6 in March from 54.2 in February, the highest level since November 2006. A reading above the neutral

50 mark indicates output is expanding.

"A weakened euro combined with rising global demand helped boost export growth to the highest for ten years in March," Chris Williamson, chief economist at *Markit*, said in a note.

Germany recorded the fastest rate of expansion in manufacturing output in the 14-year history of the survey, while France posted a 43-month high and Italy a 33-month peak. Spain and Ireland also returned to growth in March. Manufacturers attributed the higher levels of output and new orders to the market recovery, inventory rebuilding, the launch of new product lines, and recent weakness of the euro.

—Geoffrey T. Smith  
contributed to this article.



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EUROPE NEWS

# Vatican mulls abuse case

*Father Jeyapaul works in India following U.S. charges in 2007*

BY STACY MEICHTRY  
AND SUZANNE SATALINE

ROME—A priest charged with sexually abusing a teenage girl in Minnesota said in an interview he is working at a diocese in India while he waits for the Vatican to rule on his case, more than four years after the Holy See learned about the allegations.

Reached by phone on Friday at the Diocese of Ootacamund, India, the Rev. Joseph Pavanivel Jeyapaul said he was unaware that any criminal charges had been brought against him. Father Jeyapaul said he has no plans to return to the U.S. to face authorities.

Father Jeyapaul, 55 years old, was charged in 2007 with two counts of first-degree criminal sexual conduct by the Roseau County attorney for allegedly forcing a 15-year-old girl to perform oral sex on him in the fall of 2004 and threatening to kill her if she didn't cooperate, according to a complaint filed with the Roseau County attorney.

Father Jeyapaul—who was working in the Diocese of Crookston at the Blessed Sacrament Church in Greenbush, Minn., at the time of the alleged abuse—called the allegations of sexual abuse and threats “false.”

Lisa Hanson, Roseau County attorney, said her office is in the process of seeking extradition. She wouldn't discuss that process further saying, “we don't want to tip our hand.”

Father Jeyapaul said a 2007 internal church investigation into his 28 years as a pastor in India didn't produce any allegations of sexual abuse. Bishop Arulappan Amalraj of the Ootacamund diocese, which conducted the investigation, said in an interview that the Vatican contacted him in late 2006 and 2007 seeking information on Father Jeyapaul, adding he sent a report from the inquiry to the Vatican in early 2008.

Details of Father Jeyapaul's case began to emerge on Monday after Jeff Anderson, a lawyer representing Father Jeyapaul's alleged victim, disclosed letters between the di-

ocese of Crookston and Vatican officials discussing the priest's alleged abuse. Mr. Anderson filed a suit against the Diocese of Crookston on behalf of the alleged victim in July 2009, and the case is pending in Roseau County Court. The internal church documents were drawn through the discovery after the suit was filed.

In addition, Mr. Anderson has a lawsuit pending before the U.S. Supreme Court that seeks to hold the Holy See civilly liable for abuse committed by Catholic clergy. The case is awaiting an opinion by the U.S. Solicitor General's office before the court decides if it will accept it or not. The Diocese of Crookston didn't respond to emails and phone messages seeking comment.

Monday was a religious holiday at the Vatican. Phone calls to the office of Cardinal William Levada, Pope Benedict's successor at the Congregation for the Doctrine of the Faith, weren't answered. A Vatican spokesman declined to comment on the matter.



Pope Benedict XVI delivers a prayer Monday at Castel Gandolfo in Rome.



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## U.S. NEWS



Bloomberg News

Fed Chairman Ben Bernanke, at a House hearing last month, said the U.S. economy still needs low interest rates.

# Inflation fears split Fed

*Divided view comes as policy makers plot how to move on rates*

BY JON HILSENATH

The U.S. Federal Reserve's decisions to keep interest rates near zero and to flood the financial system with credit are sparking fears of an eventual outbreak of inflation.

But inside the Fed, an influential band of policy makers is fretting over the opposite: that the already-low rate of inflation is slowing further.

The presidents of the New York and San Francisco regional Fed banks, William Dudley and Janet Yellen, see the abating inflation rate as convincing evidence the economy still is burdened by excess capacity and needs to be sustained by the Fed. Others, led by Philadelphia Fed President Charles Plosser, argue that current inflation measures are distorted by an epic decline in housing costs and could mask a buildup of inflationary pressures.

This internal Fed debate over the behavior of inflation comes as the central bank plots an exit from an unprecedented experiment in easy money. Its read on inflation will influence how quickly it moves to raise short-term interest rates and drain huge sums it pumped into the financial system during the recession. Recent developments have given the inflation-rate-is-dropping camp an upper hand.

In 2008, overall consumer prices actually fell for the first time in half a century, but then rebounded as energy prices stabilized. Over the past 12 months, the consumer-price index

## Price break

The Fed's favored inflation measure shows a slowing pace of price increases.

Personal consumption expenditures price index, excluding food and energy, year-over-year percentage change



Source: U.S. Bureau of Economic Analysis

has risen 2.1%. But measures of inflation that strip out volatile energy and food prices are decelerating. Excluding food and energy, consumer prices in February were 1.3% higher than a year earlier. That was the smallest 12-month increase in six years, and well below year-over-year increases of above 2% before the recession.

"When unemployment is so high, wages and incomes tend to rise slowly, and producers and retailers have a hard time raising prices," Ms. Yellen, who is expected to be President Barack Obama's nominee to become the Fed's vice chairman, said in a speech last week. "That's the situation we're in today, and, as a result, underlying inflation pressures are already very low and trending downward."

Mr. Dudley made similar comments in Lexington, Va., last week. "The substantial amount of slack in productive capacity that exists today will likely only be absorbed gradually. Consequently, trend inflation, at least over the near term, should remain very low."

In this camp, one worry is that inflation-adjusted interest rates—also known as real interest rates—could rise even if the Fed sits on its hands. Such a rise would be a disincentive for businesses to invest in new projects and for consumers to spend. This unintended increase in

rates could put a brake on the economic recovery.

The opposing camp believes the combination of low rates and more than \$1 trillion the Fed has pumped into the financial system is a formula for inflation down the road. "As the economy improves and as lending picks up, the longer-term challenge we face will not be worrying about inflation being too low," Mr. Plosser said in an interview. "The risk is really to the upside of inflation over the next two to three years."

This camp focuses less on the amount of slack in the economy and more on the risk that consumers and businesses will anticipate inflation and act accordingly. At the Fed's mid-March meeting, Thomas Hoenig, president of the Kansas City Fed, argued for an increase in short-term interest rates "soon" to "lower the risks of...an increase in long-run inflation expectations."

Surveys and bond price movements suggest Americans expect inflation of around 2% year-in and year-out, and Fed officials believe this helps keep the inflation rate stable. A change in inflation expectations in either direction could become important in Fed deliberations.

Mr. Plosser also argues that the recent decline in the inflation rate is a mirage, greatly influenced by an unusual decline in housing costs, which are heavily weighted in many price indexes. Excluding the cost of shelter, consumer prices were up 3.4% from a year earlier in February, pushed up in part by energy prices.

Excluding food, energy and housing, they were up 2.6% from a year ago. "I want to be careful not to read too much into one measure of inflation that is very influenced by housing," Mr. Plosser said.

The Fed has said it would keep short-term rates low for an "extended period," a phrase which means at least several months—as long as inflation is subdued, inflation expectations are stable and the economy is slack.

A persistent slowing of the inflation rate could push rate increases into 2011. But if officials dismiss recent data or if the pace of price increases accelerates, the Fed may boost rates before year end.

## Obama fans have patience, but enthusiasm needs boost

[ Capital Journal ]

BY GERALD F. SEIB



Richard Buikema voted with enthusiasm for Barack Obama in 2008, and has watched intently as he's governed for the last 15 months.

Yet Mr. Buikema, a 52-year-old computer-training instructor, refers to the Obama administration as having only now reached a kind of "starting point" by passing a health-care overhaul. "It makes me feel like his presidency is starting to gain momentum," he says. "I hope that starts to build on itself.

As that suggests, Mr. Buikema describes himself as "very patient." The two crucial questions facing Democratic leaders are how widespread such patience is—and whether patience can be turned back into enthusiasm by the time November's midterm election rolls around.

This year's election will be about health care, of course, and certainly about the economy. But the biggest question hovering over it is a more generic one: Can President Barack Obama rekindle the excitement among his voters that so propelled Democrats in 2008?

Right now, Democrats suffer from an intensity deficit that stands as perhaps their single biggest barrier to continued control of Congress after November. The latest Wall Street Journal/NBC News poll measured that intensity gap at an eye-popping 21 points: 67% of Republicans said they were very interested in this fall's elections, compared with 46% of Democrats.

Smart Republicans and Democrats alike will remind you that it's still early, and the atmosphere volatile—which is why it's fascinating to listen to Mr. Buikema and 11 fellow Obama voters from California as they talk about the president and his party.

Two hours of conversation revealed that their enthusiasm is, indeed, submerged right now, pushed down by disillusionment over how little Washington seems to have changed. Yet it's also clear that the enthusiasm is still there if somebody can reach it.

The talk also reveals why the White House was so eager to get something—anything—passed on health care, for closing the deal on health was repeatedly cited by these voters as a sign that perhaps the hopes they invested in Mr. Obama in 2008 weren't squandered.

The conversation suggests that passage of a health bill also has at least begun improving the perceptions of the Democratic Congress among Obama voters. Yet President Obama stands out as the personification of the Democratic party for these voters, and he may be the only one really capable of bringing their enthusiasm back to the surface.

Surprisingly, though, for all the high marks the president gets for

his eloquence and intellect, there's a widespread feeling that he needs to do a better job at connecting with common folks, on health as well as other issues.

"You don't get that good ol' boy feeling from him," says Edward Hiramoto, a 74-year-old retiree. "He's a teleprompter kind of guy." Sometimes, Mr. Hiramoto says, "to me it sounds as if he's talking down to me rather than talking at me." These Obama supporters long for a bit of that Ronald Reagan touch.

The conversation was led by Peter Hart, a Democratic pollster who, along with Republican Bill McInturff, directs the Wall Street Journal-NBC News poll. The session was sponsored by the Annenberg Public Policy Center of the University of Pennsylvania. The voters drawn together in Sacramento include six Democrats, four independents and two Republicans. They form a disparate lot, and perhaps the only thing that unites them was that all voted for Mr. Obama.

No group of voters this small can be representative of a nation, of course, but the sentiments heard in this conversation mesh with findings from public polling.

There was much talk in the group that the president has, as Republican John Hubbard, a 46-year-old salesman put it, "fallen short" of the grand expectations that accompanied his inauguration. Nor is the health bill the president championed and signed beloved even by these Obama voters.

Mr. Hubbard thinks the bill overreached: "Everybody needs health care, but there are other ways to do it." Far more prevalent in this group, though, is the feeling that the health overhaul actually doesn't go far enough in changing the system.

Either way, though, Deborah Nassar, a 43-year-old manager at a telecom firm, voices a typical sentiment about what conclusion of the rancorous health-care debate means: "I think he's got the momentum now because of health care, and now I want him to work on the economy."

The Democratic Congress gets some positive, though hardly overwhelming reviews for getting health care done. Asked to grade Congress, these voters give it a mixture of B's and C's for its performance—hardly great coming from a largely Democratic group, but not the disastrous reading suggested by pre-health polling numbers.

It's also clear that while Washington operatives have been obsessing for months about what the health debate means for the fall election, these voters simply haven't focused on November. They offer mostly blank looks and vague answers when asked what they hope the outcome of voting will be. Only when pressed does the group express an overall preference for continued Democratic control.

Which simply illustrates Democrats' enthusiasm gap. That doesn't mean it won't be closed, but does show that the end of the health debate only allows the effort to start for Democrats.



U.S. NEWS

# Republicans fear census

*Party worries anti-government surge will hurt participation*

By NAFTALI BENDAVID

Some Republicans are worried that an anti-government surge among conservatives will lead to lower participation in the U.S. census, which they fear could reduce the number of Republican seats in Congress and state legislatures.

The census, which is currently being collated and is gathered every 10 years, dictates the distribution of federal funding, how many House members each state gets and how congressional and legislative districts are drawn within states.

Conservative activists this year have argued it is unconstitutional for the census to ask anything beyond the number of people in a household.

This year's census form also seeks information on race, gender and age, among other things, and filling it out is required by law. The census has asked similar questions for decades.

Rep. Michele Bachmann (R., Minn.), who is admired by many tea-party activists and ultra-conservatives, has said she will refuse to provide information about anything except the number of people in her household.

Rep. Ron Paul (R., Texas), a former presidential candidate with a small but ardent following, was the only lawmaker to vote against a recent congressional resolution urging participation in the census.

Respondents must answer all questions on the census at the risk of a fine of as much as \$100, according to the Census 2010 Web site. If forms are sent in incomplete, census workers are sent out to those homes to collect the missing data.

"The census should be nothing more than a headcount," Mr. Paul wrote this month in his weekly column. "It was never intended to serve as a vehicle for gathering personal information on citizens."

In a counter move, Rep. Patrick McHenry (R., N.C.), the top Republican on the House subcommittee that oversees the census, posted a message last week on Redstate.com, a popular conservative Web site, pleading with conservatives to fill out their forms.

The unstated concern: An underrepresentation of conservatives could mean fewer Republicans in Congress and state legislatures for the next 10 years.

"It's your constitutional duty to respond to this," Mr. McHenry said in an interview. "It's often difficult for conservatives to separate overall government intervention from a question as simple as the census."

In previous years it was mostly Democrats who complained about the census, warning that minorities and the poor may be undercounted because they are often hard to reach and distrust government. These groups often vote Democratic.

The Census Bureau is fighting a perception that the census goes beyond what the nation's founders intended, noting that the Constitution authorizes lawmakers to conduct the census "in such manner as they shall by law direct."

Critics argue that this means lawmakers are allowed to dictate only the methodology of the census.

But the Census Bureau and courts say this means lawmakers can decide what questions to ask on the census, in addition to a headcount. The bureau also notes that

this year's form is one of the shortest in memory.

Robert Groves, director of the Census Bureau, said the anti-government rhetoric surrounding the census is not new. "This stream of feeling and commentary and rhetoric has been with us for ever," he said. He doubted it would affect overall participation, but noted "there's still time."

According to Census Bureau figures, some of the most conservative states have among the lowest re-

sponse rates so far. About 48% of households in Texas and 53% in Alabama have mailed in their forms so far, for example, while the response rate in Massachusetts, a more-liberal state, is at about 57%.

The national participation rate for the 2010 census is at about 56%.

The pattern isn't uniform nationwide. Democratic-leaning New York state has posted a 50% response rate, for example, considerably less than Republican-leaning South Dakota's 65%.



A Washington, D.C., resident brings her form to an event to promote the census.

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## U.S. NEWS

# High court opening poses challenge

*Justice Stevens's musings about retirement spark questions over successor and finding another liberal voice*

By JESS BRAVIN

U.S. Supreme Court Justice John Paul Stevens's latest public musings about retirement highlight the challenge President Barack Obama faces in choosing a successor for the leader of the court's liberal minority.

Whomever Mr. Obama chooses, Justice Stevens's departure is likely to diminish the liberals' influence because of the personal and institutional dynamics that define the court.

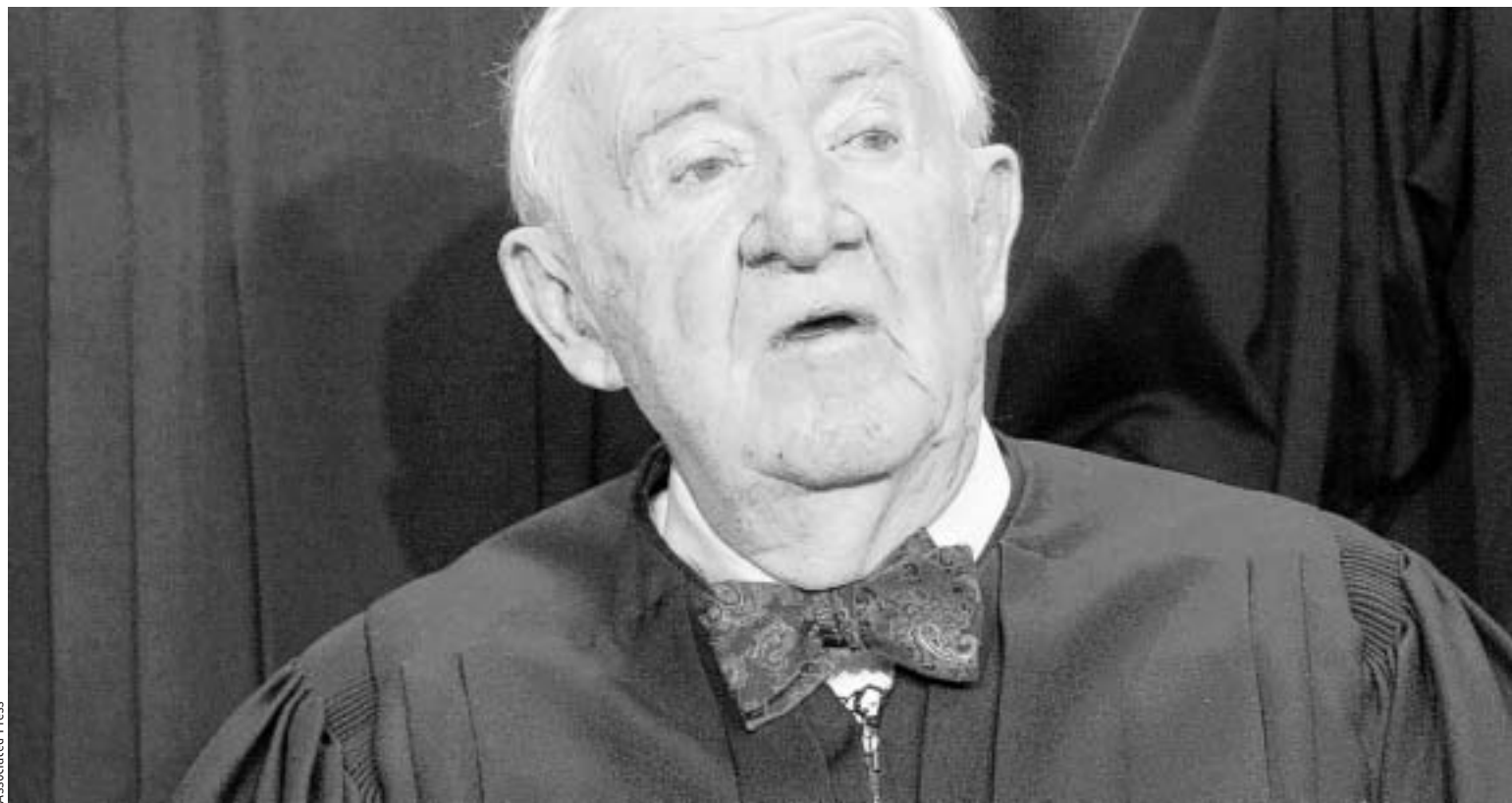
As the senior associate justice, Justice Stevens speaks immediately after Chief Justice John Roberts at the court's private meetings, where the justices follow seniority to decide which cases to hear and conduct straw votes after oral arguments. He has used his seniority and influence to shape decisions in cases where he has held the opposing view of Chief Justice Roberts.

"In a contentious case, you usually have one [conservative] argument and then a [liberal] counterargument, and the table is set for the other seven to speak and vote," said Jeffrey Fisher, a former Stevens law clerk and now co-director of Stanford Law School's Supreme Court Litigation Clinic. "They will need a new grounding."

Without Justice Stevens, the chief justice will be followed by fellow conservative Justices Antonin Scalia, Anthony Kennedy and Clarence Thomas before a liberal—Justice Ruth Bader Ginsburg—gets in a word.

Justice Stevens, in interviews published Sunday in the *New York Times* and *Washington Post*, left open the possibility he might serve another year. He turns 90 years old on April 20, and has said he intends to leave within the next three years. Whenever he leaves, there is likely to be a partisan Senate confirmation battle.

Senate Democratic leaders hope Justice Stevens delays his exit to postpone a bruising confirmation process so soon after the divisive



Justice John Paul Stevens, above in September, will turn 90 years old this month and has said he intends to leave the court within the next three years.

health-care fight.

"I think the gridlock in the Senate might well produce a filibuster," Sen. Arlen Specter, (D., Pa.), a member and former chairman of the Senate Judiciary Committee, told Fox News Sunday. "If a year passes, there's a much better chance we could come to a consensus," he said.

The Senate's No. 2 Republican, Jon Kyl of Arizona, wouldn't rule out filibustering an Obama Supreme Court pick. "It will all depend on what kind of a person it is," Mr. Kyl said on the same program.

Justice Stevens, appointed to the court in 1975 by President Gerald R. Ford, has had a pivotal role in some of the court's recent 5-4 decisions, including heated cases involving campaign finance, abortion rights, capital punishment, gun control and environmental regulation. In most

of these, Chief Justice Roberts and Justice Stevens have been on opposite sides, meaning that Justice Stevens, when in the majority, decides who writes the opinion.

Justice Stevens has exercised that power to great effect, court observers say, often framing issues in a way that can win the vote of Justice Kennedy, who sometimes departs from other conservatives in matters of individual rights and other issues.

After Justice Stevens retires, Justice Kennedy himself would hold that power should he join with the four liberal justices.

The White House has declined to comment on its preparations for selecting a successor, but people close to the process repeatedly have mentioned three names as likely candidates.

One is Mr. Obama's solicitor general, Elena Kagan, a former dean of Harvard Law School who was considered for the nomination that ultimately went to Justice Sonia Sotomayor. Despite her scholarly career, Ms. Kagan hasn't produced the kind of provocative writings that could provide ammunition for conservative opponents, legal experts say.

That also dims enthusiasm for her from liberal groups, who have been hoping for a full-throated progressive ready to joust with such determined conservatives as Chief Justice Roberts and Justice Scalia.

Liberals see a surer voice in another finalist for last year's vacancy, Judge Diane Wood of the Seventh U.S. Circuit Court of Appeals in Chicago.

On a court known for its intellectual heft, Judge Wood has proven a

serious counterweight to such influential conservative judges as Richard Posner and Frank Easterbrook, legal observers say.

For the same reason, conservative activists say they are more likely to fight Judge Wood's nomination.

A third oft-mentioned name is Judge Merrick Garland of the U.S. Court of Appeals for the District of Columbia Circuit.

As a Justice Department official in the Clinton administration, Judge Garland oversaw investigations into the Oklahoma City federal building bombing and the Unabomber, Theodore Kaczynski. That and several law-and-order decisions as an appellate judge have raised his standing with conservatives, who say they have found little with which to fight a Garland nomination.

## Animal-rights advocates step up tactics

By DIONNE SEARCEY

Animal-rights groups are aggressively stepping up legal tactics in an approach that is picking up steam in the U.S.

The latest such instance was heard in a Wisconsin court on Thursday involving sheep that died of decompression sickness.

In Madison, prosecutors declined to pursue University of Wisconsin officials and researchers whose test subjects, three sheep, inadvertently died of an illness that befalls deep-sea divers, decompression sickness or the bends, during U.S. Navy-financed experiments aimed at helping submariners.

But two animal-rights groups, Alliance for Animals and People for the Ethical Treatment of Animals, seized on a little-invoked state law to aid their case.

The law allows citizens to petition a judge to order prosecutions when there is probable cause to believe that a law has been violated and when a district attorney has re-

fused to issue a complaint.

At a hearing Thursday, an attorney for the animal groups asked Dane County Circuit Court Judge Amy R. Smith to order a special prosecutor to file civil charges against the university employees for killing animals using decompression, a condition caused by rapid changes in air pressure that can disrupt blood flow, which is outlawed in the state. The judge said she would issue a ruling later this month.

In an interview, Eric Sandgren, director of the university's Research Animal Resources Center, said the state's other animal-abuse laws contain language exempting researchers, and so the university assumed it was exempt from this law as well. He said the researchers didn't intend to kill the sheep by giving them the bends. "These are really important studies," he said.

State and local laws vary when it comes to animal-cruelty measures. Some animals, including farmed animals and rodents, have few if any

protections. But animal-rights groups are cleverly using existing laws to help protect them.

Lawyers in Indiana, Oregon and Washington state have used foreclosure laws to secure liens on horses, dogs and other pets of people charged with abuse to seize the ani-

**A senior counsel for PETA said in the 1990s animal activists in Virginia used local codes regulating boxing matches to halt a Kangaroo boxing event.**

mals. Because pets are considered property, the lawyers, working with local shelters can secure a lien equal to the cost of treating or boarding the abused animals and then auction them off for the price of the lien. The shelters so far have been the only bidders, allowing them to take

possession of the animals and then offer up the pets for adoption.

"These laws were not written with animals in mind but we're using them to protect animals," said Lisa Franzetta, a spokeswoman for the Animal Legal Defense Fund.

Lori Kettler, senior counsel for People for the Ethical Treatment of Animals, said in the 1990s animal activists in Virginia used local codes regulating boxing matches—that required participants to have no facial hair and to wear regulation boots—to halt a Kangaroo boxing event.

In the Wisconsin case, the animal groups' petition has named top university employees as suspected violators of the animal decompression law. The statute was aimed at animal shelters using decompression as a euthanasia technique, a practice now widely considered inhumane because it's painful.

Decompression sickness is a condition caused by rapid changes in air pressure that can disrupt blood flow.

Researchers say sheep are ideal as human substitutes in such tests because their lungs react similarly to those of humans.

After three sheep in university labs died from experiments involving a hyperbaric chamber—a device that regulates air pressure—animal groups pushed Dane County District Attorney Brian Blanchard to investigate.

Mr. Blanchard concluded that the university violated the law but that pursuing the violations "would not be a wise use of resources of this office," he wrote in a letter to university lawyers in October.

Violators are subject to civil fines up to \$500. "This is not somebody in their garage doing stuff," Mr. Blanchard said in an interview, adding that the research itself was not in question because it met federal protocols.

But the animal groups' attorney, Andrea J. Farrell, noted that Mr. Blanchard prosecutes far lesser violations such as speeding tickets and public urination.