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Protesters demonstrating against proposed tuition-fee increases set fire to a security hut in London's Parliament Square on Thursday.

Press Association

Ireland's aid deal faces vote next week

BY QUENTIN FOTTRELL

DUBLIN—Ireland's Prime Minister Brian Cowen said Thursday that he will put the country's €67.5 billion (\$89.34 billion) financial-aid package to a parliamentary vote on Wednesday, saying that it will lend political legitimacy to the deal and force opposition parties to support the package or offer alternatives.

Sufficient support this week for the austerity budget bodes well for the vote, which isn't a requirement of the package assembled by the European Union and the International Monetary Fund. A person close to the ruling coalition said they were "confident" that next week's motion on the EU-IMF deal would be passed, "having just seen through one of the most difficult budgets in the state's history."

The Irish stock market rose 0.9% Thursday, indicating that investors aren't troubled by the prospect of a close vote on the EU-IMF

Please turn to page 6

U.K. vote on fee boost sparks violent protests

BY LAURENCE NORMAN AND JENNA VOIGT

LONDON—The U.K.'s coalition government narrowly won a vote to raise the cap on tuition fees, a key political victory that came against a backdrop of large-scale and sometimes tense student protests outside Parliament.

Outside Parliament, as police helicopters buzzed overhead, tens of thousands of students gathered to protest the cap increase in a demonstration that turned violent. Pushing and shoving between police and protesters intensified after the vote concluded.

A spokesman for the Prince of Wales said the car was attacked when Prince Charles and his wife were on

their way to the theater, but that both were unharmed. He said one of the car windows was cracked but could not give any further details on the incident. Wire service photos showed a cracked window and paint splashes on the car.

The vote was the first major test of the coalition government, led by the Conservative Party and Prime Minister David Cameron, since it took office in May.

The issue has been a difficult one for the coalition's junior partner, the Liberal Democrat party, whose lawmakers pledged before May's election to vote down an increase in fees.

The vote on tripling the annual cap on annual fees to £9,000 (\$14,180) passed by

323 to 302 and will now go to the House of Lords.

The 21-vote edge was well below the 84-vote edge the coalition government would normally expect in passing legislation.

The slim margin of the government's win may raise doubts about the coalition's ability to stay the course over the next 4½ years at a time of deep austerity to pare the U.K.'s huge budget deficit.

On Thursday afternoon—shortly before the vote—Mike Crockart, Liberal Democrat lawmaker for Edinburgh West, resigned from his unpaid position as ministerial aide over the fees proposal.

"I have always believed that access to higher education is the key to narrowing

the gap between the richest and poorest in society and I cannot therefore vote for a system which I believe puts barriers in the path of able students," he said in his letter of resignation.

As expected, the Liberal Democrats split three ways on the vote. Among Liberal Democrat lawmakers, 27 voted in favor, 21 voted against, and eight abstained, including two who were abroad.

Seventeen of those supporting the bill were ministers, while those who voted against included former leaders Charles Kennedy and Menzies Campbell and party President Tim Farron.

Jenny Willott, a Liberal Democrat ministerial aide, voted against and stepped

down.

Lee Scott, a Conservative ministerial aide to Transport Secretary Philip Hammond, stepped down after abstaining. Former leadership candidate David Davis was among six Conservatives who opposed the bill.

John Denham, business spokesman for the opposition Labour Party, said "this is a moment of no turning back for [Liberal Democrat leader and Deputy Prime Minister Nick Clegg] and the Lib Dems. They have lost all credibility with the country and cannot now claim to be a party of fairness."

Alongside Mr. Clegg, all 17 Liberal Democrat ministers had pledged Tuesday to back

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The Quirk



Lenin on the communist block as Hungary bids adieu to an 'extinct era.' Page 29

World Watch

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PAGE TWO

Three steps to survival for euro zone

[Agenda]

BY WILLEM BUITER

Three steps are needed to rescue the euro, and possibly the European Union as a whole, from quickly collapsing in a wave of disorderly sovereign defaults and bank failures.

First, the size of the liquidity facilities providing temporary financial support to vulnerable nations must be increased to €2 trillion (\$2.64 trillion), of which at least half should be funded immediately. The current liquidity facilities stand at €860 billion. But because of the desire to maintain a triple-A credit rating for the largest component, the €440 billion European Financial Stability Facility (EFSF), the amount actually available to lend is only between €560 billion and €610 billion.

To this one can add the €67 billion worth of outright purchases (thus far) by the European Central Bank of euro-zone periphery sovereign debt. But even with that the total available is only between €727 billion and €777 billion.

That would do nicely to tide over Greece, Ireland and Portugal till mid-2013. Then the existing facilities expire and will be replaced by a permanent mechanism for the resolution of crises, designed to permit the (more) orderly restructuring of both old and new sovereign debt, through maturity extensions and haircuts for the creditors. However, it is probably not enough to fully fund the potential requirements of a troubled Spanish economy. It also falls well short of what would be needed to fund the countries like Italy, Belgium and France, should they be frozen out of the markets by a self-reinforcing and self-fulfilling wave of rising risk aversion and panic—and it certainly is not enough to deter such attacks.

Members of the euro, and even the EU as a whole, cannot in practice come up with an



The euro symbol outside European Central Bank headquarters in Frankfurt.

immediate €1 trillion. The International Monetary Fund is also not allowed to take part in any prefunding exercise. That leaves just two sources of possible funds. The first is non-EU sovereign-wealth funds. The second is the ECB. And given the first option is likely to be politically unattractive, that leaves only the ECB.

In principle, the ECB could provide €1 trillion (or even the entire €2 trillion) directly to the countries that need them, by expanding the scope of its sovereign-debt purchases on secondary markets. This need not involve any increase in the monetary base. The ECB could instead expand its nonmonetary liabilities, including term deposits, or by issuing ECB bills or bonds.

Major structural and fiscal reforms are required in all fiscally strained countries except Ireland.

This direct approach, however, is unlikely to appeal to the ECB. Instead, it could provide indirect support, either by lending to the EFSF or by purchasing securities issued by the EFSF directly, or in the secondary markets. The EFSF is a private entity (a limited liability company incorporated in

Luxembourg). But it could be turned into a bank, making it an eligible counterparty to the ECB's operations, as European Investment Bank (EIB) already is. Any debt sold by the EFSF to the ECB, or any loans provided by the ECB to the EFSF, could then be guaranteed by euro member states—they would be either E-bonds or E-loans.

Yet simply creating more liquidity will not be enough to save Europe. The Irish and Spanish sovereign-debt crisis is also a crisis of fiscal unsustainability and bank insolvency. Major structural and fiscal reforms are required in all fiscally strained countries except Ireland, where fiscal reforms suffice.

Any outcome that is fair and avoids moral hazard must therefore meet a second condition. Before a cent of taxpayers' money supports systemically important banks, the last unsecured creditor must have given his all, either through haircuts or the conversion of debt into equity.

At the moment the euro zone doesn't have a special insolvency regime that permits banks collectively to continue their systemically important functions while restructuring the balance sheets. The American resolution regime model for banks should be adopted quickly, preferably at the EU level, to cope with euro-zone and EU-wide cross-border banks.

Finally, a new mechanism is needed for the orderly resolution of sovereign-debt defaults. Burden sharing in the correction of an unsustainable fiscal position should see creditors share burdens, as well as taxpayers and the beneficiaries of government programs. Fairness and efficiency both point in the same direction here, although a variety of approaches can be used. These include statutory approaches, for instance a new IMF-style sovereign-debt restructuring mechanism. Contractual approaches involving collective action clauses, and other market-based approaches, could also be used—including deeply discounted "voluntary" exchanges of sovereign debt for new instruments.

The result of these steps would see interest rates rise and access to market funding impaired for euro-zone banks and sovereigns when bank or sovereign-debt restructuring with private burden sharing is anticipated by the markets, but not yet implemented.

This argues for the earliest possible restructuring of both bank debt and sovereign debt, and for the aggressive use of the newly enlarged liquidity facilities, including potentially large-scale financial support to prevent fundamentally solvent banks and sovereigns being tripped into unnecessary default by lack of market access.

Without such policy actions the euro, and possibly the EU, may not survive much beyond 2011. The political cement holding them together may erode should there be disorderly and, in part, unwarranted sovereign defaults.

The solutions are technically simple and politically difficult. This is apparent from the spectacle of the ECB and the euro-zone fiscal authorities engaging in a game of "chicken" about who will pick up the tab for the financial rescues.

Let's hope our leaders are up to the job.

The author is chief economist for Citi.

What's News

■ **A court in Italy convicted** Calisto Tanzi, the former owner and CEO of Parmalat, for the fraudulent bankruptcy of the dairy giant. Tanzi, who founded the firm, was sentenced to 18 years in jail. 19

■ **The U.K. aims to raise \$4 billion** a year through a levy on banks, with the five major British lenders paying half of that total, according to final draft legislation. 19

■ **The ECB warned** governments they risk unleashing an "unsustainable debt spiral" in financial markets if they fail to keep pledges to cut budget deficits. 6

■ **Diageo is in early talks** to buy Mey Icki, a deal that would value the Turkish spirits company at as much as \$2.5 billion. 19

■ **A power disruption forced** Toshiba to halt some operations at a chip plant, possibly causing a 20% drop in shipments to firms like Apple over the next two months. 20

Inside



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ONLINE TODAY

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Tech Europe

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'We want to make the electric car a platform for innovation. It's a huge opportunity.'

Renault's Carlos Ghosn on why cars could be next frontier for entrepreneurs



Continuing coverage



Get news and analysis on stories making headlines in Britain at wsj.com/uk

Question of the day

Will the Giving Pledge generate new money for charity or is it mostly for public-relations value?

Vote online at wsj.com/polls

Previous results

Q: Would you use an Internet do-not-track' tool if it were included in your Web browser?

Yes **92%**
 Maybe **5%**
 No **3%**

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NEWS

Tycoons agree to give away fortunes

By ROBERT A. GUTH
AND GEOFFREY A. FOWLER

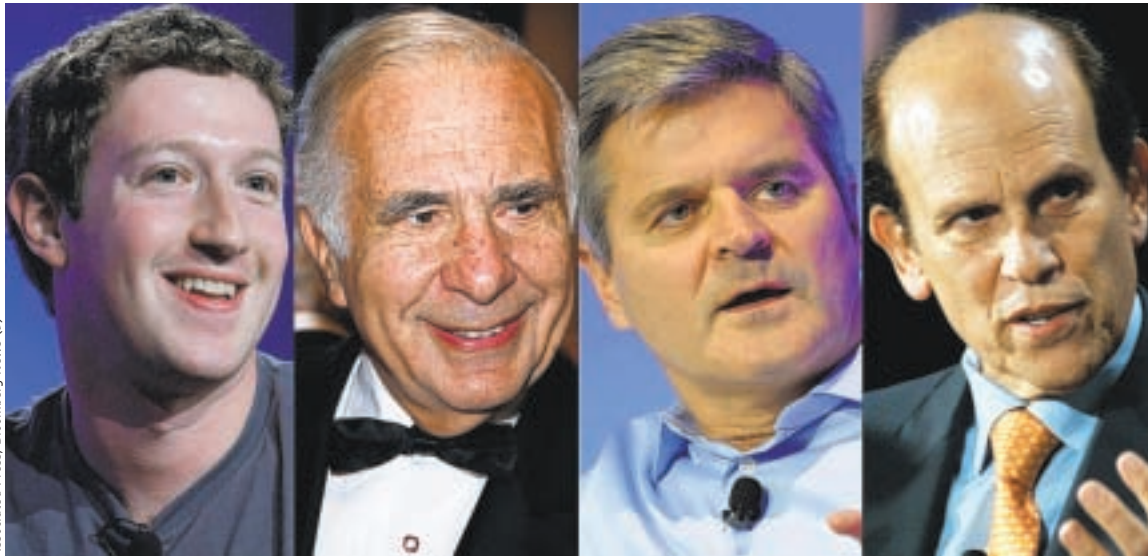
The billionaire founder of social network Facebook Inc. has agreed to give the majority of his wealth to charity, part of a broader group of rich entrepreneurs committing to philanthropy earlier in their lives.

Mark Zuckerberg has signed onto the "Giving Pledge," which asks its signatories to commit publicly to give away the majority of their wealth. The 26-year-old is one of 16 billionaires new to the pledge, which now totals more than 50 donors. New names include AOL co-founder Steve Case, investor Carl Icahn and former junk-bond king Michael Milken.

They join existing pledges made by wealthy individuals and families including Oracle Corp. founder Larry Ellison, film director George Lucas and New York Mayor Michael Bloomberg.

The Giving Pledge is an effort organized by software mogul Bill Gates and investor Warren Buffett to persuade the world's rich to boost their giving. "I view this as a call to others who might in their thirties or forties use some of their creativity to get involved in philanthropy earlier in life," Mr. Milken, 64, said of the pledge.

Those pledging are part of a broader shift in philanthropy, in which successful business people—often entrepreneurs—are giving more of their money to charity far earlier than their predecessors.



Left to right, Mark Zuckerberg, Carl Icahn, Steve Case and Michael Milken, are among 16 billionaires new to the pledge organized by Bill Gates and Warren Buffett.

Joining the pledge

Selected billionaires that have agreed to disburse their fortunes.

- Nicolas Berggruen
- Lee & Toby Cooperman
- Ted Forstmann
- David & Barbara Green
- Lyda Hill
- Sidney Kimmel
- Duncan MacMillan
- Joseph & Rika Mansueto

Source: The Giving Pledge

It was a trend that was helped along by Mr. Gates, who started his foundation while still leading Microsoft Corp.

Mr. Case, 52, and his wife Jean Case, 50, said they signed the pledge because they hoped it would help philanthropists learn from each other. "It is less about what size of a check that you write and more about the outcome," Mr. Case said.

Ms. Case said Internet entrepreneurs have a unique interest in philanthropy. "The folks that helped bring AOL to life were out to change the world," she said. "It seems a natural thing that as they look at the role they want to play, they are

giving back in big ways."

Messrs. Icahn and Zuckerberg weren't available to comment. In a video prepared by the Giving Pledge, Mr. Zuckerberg said, "There's so much that needs to be done, it would be better to start now."

The Giving Pledge was born in part from a dislike by Mr. Buffett for dynastic wealth. Mr. Buffett over the years has schooled Mr. Gates on philanthropy, giving him a copy of "The Gospel of Wealth," in which steel tycoon Andrew Carnegie argued that fortunes were often wasted by heirs and thus should be put to charitable use.

Starting last year, Mr. Gates, his

wife Melinda Gates, Mr. Buffett and other wealthy individuals hosted a series of dinners for billionaires to discuss setting up the pledge. That led to an announcement in June of the pledge and its earliest signers.

Since then, Mr. Gates, Ms. Gates and Mr. Buffett have been calling on billionaires to get their commitment. The pledge doesn't ask for specific donations, nor does it track giving; rather, it asks that pledge makers commit to giving away the majority of their wealth.

That proposition at times has been a tough sell, the pledge founders said. "People are super nice to us, but there is a certain awkward-

ness because it's a big decision," Mr. Gates said in an interview this week. "Sometimes the wife and the husband have never really talked through their priorities on the charity stuff."

Mr. Zuckerberg, who founded Facebook in his Harvard University dormitory before dropping out of college and working on the business full time in California, is one of the world's youngest billionaires, worth an estimated \$6.9 billion, according to Forbes. Yet since his wealth is from his ownership stake in a company that has yet to list on the stock market, much of that wealth is theoretical at this point.

Boy is arrested in Web attacks

By CASSELL BRYAN-LOW
AND JEANNE WHALEN

Dutch authorities said they arrested a 16-year-old boy suspected of being involved in attacks on the websites of MasterCard and Visa that were allegedly mounted by sympathizers of document-leaking website WikiLeaks.

Police arrested the suspect in The Hague on Wednesday night and said he had acknowledged being involved in the attacks against the websites of the two credit-card companies, according to the Dutch prosecution office. It added that police also seized computers and data-storage devices.

The boy, whom authorities didn't name, remains in custody and is due to appear before a judge on Friday.

Dutch police believe he is part of a larger group of WikiLeaks sympathizers behind the so-called denial-of-service attacks, in which computers flood a server to prevent it from displaying a Web page, according to the Dutch prosecution office. It added that the group conducting the attacks have named the effort Operation Payback. The police investigation continues.

MasterCard Inc. and Visa Europe, which both recently suspended payments to WikiLeaks, are among a growing list of organizations and individuals that have suffered online attacks in recent days.

The computer attacks have increased in intensity in recent days following the arrest Tuesday in Lon-

don of WikiLeaks founder Julian Assange in connection with sexual-misconduct allegations in Sweden. He has denied the allegations and hasn't been formally charged.

WikiLeaks itself has been under pressure from the U.S. following its release of thousands of State Department cables and other documents. Over the past week, a number of companies that provide WikiLeaks with various services have terminated their relationships with the organization.

The group behind the attacks appears to be a loose-knit collection of people identifying themselves as "Anonymous."

On Thursday a 22-year-old man claiming to be a spokesman for the hackers vowed on British Broadcasting Corp. radio that the attacks would continue. "I see this as becoming a war, but not your conventional war—this is a war of data," said the man, identifying himself only as "ColdBlood."

Speaking with an English accent, he said he hasn't been in contact with WikiLeaks regarding the campaign, saying that it's "very hard to get hold of anyone from WikiLeaks."

Later in the day, however, a post on a Twitter page claiming to represent Operation Payback dismissed the idea that "ColdBlood" was a spokesman for the effort.

—Elco Hiltermann
contributed to this article.

■ Diplomatic cables paint Shell as critical of Nigeria 22

Cartier

ROTONDE DE CARTIER
CENTRAL CHRONOGRAPH 9907 MC

18K WHITE GOLD 42MM CASE, BLACK ALLIGATOR STRAP. MANUFACTURE MECHANICAL MOVEMENT WITH MANUAL WINDING, CARTIER CALIBRE 9907 MC (II LINES 1/2, 35 JEWELS, 28,800 VIBRATIONS PER HOUR), CHRONOGRAPH WITH CENTRAL FUNCTION DISPLAY, COLUMN WHEEL, VERTICAL CLUTCH, TWO BARRELS, CARTIER C-SHAPED INDEX ASSEMBLY AND CÔTES DE GENÈVE FINISHING. MOVEMENT DEVELOPED AND ASSEMBLED BY THE CARTIER MANUFACTURE IN ACCORDANCE WITH WATCHMAKING TRADITIONS.

EUROPE NEWS

Turkish leader moves big banks to Istanbul

By JOE PARKINSON
AND AYLA ALBAYRAK

ISTANBUL—Turkish Prime Minister Recep Tayyip Erdogan said his government will move the country's top public financial institutions from the capital, Ankara, to Istanbul as part of a strategy to promote the commercial hub as an international financial center.

Members of his ruling Justice and Development Party, or AKP, have proposed to also move the central bank to Istanbul—setting up the institution as the next battleground to shape the nation's future between old-guard secularists and the country's Islamic-leaning government.

In a speech in Istanbul to mark the Turkish stock exchange's 25th anniversary, Mr. Erdogan, an Istanbul native, said plans to move the country's financial regulators and several state-owned banks, "cannot be delayed any longer." Turkey's official news agency, Anadolu Ajansi identified the banks as **TC Ziraat Bankasi AS**, **Turkiye Vakiflar Bankasi TAO** and **Turkiye Kalkinma Bankasi**.

Mr. Erdogan didn't mention the central bank. The AKP has put the central bank move on hold in the face of resistance from political opponents.

"It won't happen now because of opposition," said Nurettin Canikli, AKP Deputy Chairman, in a phone interview. "The goal now is to pass this before the elections next year." Parliamentary elections are due to be held in June.

Opposition parties see relocating the Central Bank of the Republic of Turkey as a first step in a bid by the government to move the entire capital from Ankara.

Modern Turkey's founder Mustafa Kemal Ataturk moved the capital to Ankara from Istanbul in order to make a clean break with the Ottoman Caliphate.

Deep roots

The evolution of Turkey's central bank

1847

The Ottoman government allows Istanbul bankers to set up the Bank of Dersaadet, which assumes the empire's external debt.

1856

The Ottoman Bank is established in Istanbul with capital from Britain and France.

1863

The Ottoman Bank, renamed the Imperial Ottoman Bank, partly assumes the functions of contemporary central banking.

1931

The Central Bank of the Republic of Turkey is established.

1932

The central bank is opened officially in Ankara, the republic's new capital.

Source: Turkish central bank
Photo: Bloomberg News



Agence France-Presse/Getty Images

Protesters on a statue of Winston Churchill in London's Parliament Square.

U.K. vote to increase tuition sparks protests

Continued from first page
the bill, although one was unable to vote Thursday because he was abroad.

May's coalition agreement between the Conservatives and Liberal Democrats allowed members of Mr. Clegg's party to abstain on an increase in fees.

The issue of the rise in fees has helped trigger a collapse in public support for Liberal Democrats since the general election. After winning 23% of votes in the national poll, a YouGov survey for the Sunday Times showed the party with 10%, compared with 39% for Labour and 41% for the Conservatives. Under the government's plans, which affect only English universities, the cap on tuition fees will rise to £9,000 for top universities from around £3,300.

However, upfront fees for full-time and many part-time students will be scrapped and graduates will start repaying the debt only once they earn more than £21,000 a year.

Thursday's protests are the latest in a string of occasionally violent demonstrations across the country in recent weeks. Nine police officers were injured and by early evening there were 10 arrests as police ac-

cused protesters of throwing bottles and flares at them, the Metropolitan Police said shortly before the vote. Police said 22 protesters were injured.

The protests started out peacefully but turned tense after students tore down barricades in Parliament Square in the center of London.

Students used the orange and white barriers to create their own containment wall against the police. At one point, riot police were deployed to prevent protesters breaking into Parliament, and a small group of protesters were televised smashing windows at the Treasury building near Parliament.

Meanwhile, a series of small fires in Parliament Square turned into a large bonfire as students started burning signs and banners. University student protesters were joined by high school students outside Parliament and it is the latter who will be affected by the increase in fees increase.

Tom Brommage, 16 years old, said higher fees would discourage people like him from taking up higher education. "If this goes ahead it will definitely put me off going to university," he said.

Megrahi said close to death

By BRUCE ORWALL

Convicted Lockerbie bomber Abdel Baset Al-Megrahi's health has sharply deteriorated amid news reports that he is close to death in Tripoli, more than 15 months after Scotland gave him a "compassionate release" from prison based on an estimate that he had just three months to live.

Libyan President Muammar Gaddafi, speaking to an audience at the London School of Economics via satellite link last week, suggested the health of Mr. Megrahi, who has terminal prostate cancer, had recently taken a turn for the worse. "His health is deteriorating," Mr. Gaddafi said, according to JANA, Libya's state news agency, adding: "He is still alive, but he is suffering and his health has very much deteriorated, unfortunately."

On Thursday, Sky News cited a source close to Mr. Megrahi's family saying he is "on life support and has been for some days. Many people have been waiting for him to die."

Mr. Megrahi's ability to far outlive the prognosis that set him free

has been a serious headache for the Scottish government that made the decision to release him from prison and return him home to Libya in August 2009. Mr. Megrahi is the only person convicted for the 1988 bombing of Pan Am Flight 103, which killed 270 people over Scotland.

In recent years, Libya applied intense pressure on the U.K. and Scotland to win his release from prison. Libya initially focused its efforts on securing his release through a prisoner-transfer agreement that was struck between the U.K. and Libya.

But Mr. Megrahi ultimately was set free not because of that agreement, but instead because he was diagnosed with prostate cancer in the fall of 2008. When that diagnosis was made, Libya quickly shifted its focus to securing a "compassionate release" for him.

The Libyan campaign for the compassionate release was also intense. According to a cables released this week by WikiLeaks, Libya voiced "dire consequences" that would result if Mr. Megrahi were to die in a Scottish prison.

close to the national treasury to better coordinate in times of crisis.

Mr. Canikli said the central bank's new premises would be housed in a purpose-built finance park on the Asian side of the Bosphorus strait, which splits Istanbul between East and West. Also in the new complex would be the relocated financial regulators and a new Istanbul stock exchange building. Mr. Canikli said land has already been allocated.

A spokesman for the central bank declined to comment on proposals to shift the bank, or on the proposed location.

"Specific threats have included the immediate cessation of all U.K. commercial activity in Libya, a diminishment or severing of political ties and demonstrations against official U.K. facilities," wrote Gene Cretz, the U.S. ambassador to Libya, in a January 2009 cable. He added that the Libyan government implied, but did not directly state, "that the welfare of U.K. diplomats and citizens in Libya would be at stake."

Mr. Megrahi was released in August 2009 after a final medical report by the head of the Scottish prison systems' health service estimated that he had about three months to live. Scotland says the prognosis was the result of a proper medical analysis. The full medical records relating to Mr. Megrahi's cancer haven't been released.

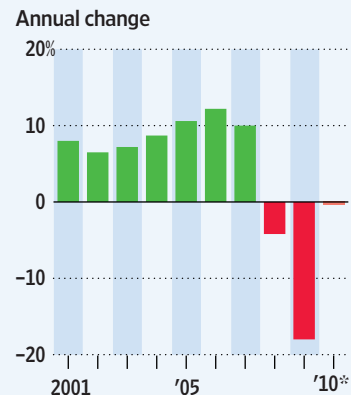
But the longer Mr. Megrahi lived, the more the prognosis came under attack.

In August, The Wall Street Journal reported that there was no evidence that any of the specialists involved in the care of Mr. Megrahi's cancer signed off on the three-month prognosis.

EUROPE NEWS

Long recovery | Latvia's economy has been badly hit by the financial crisis

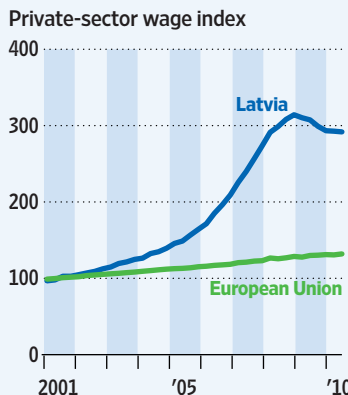
As Latvia's GDP has fallen...



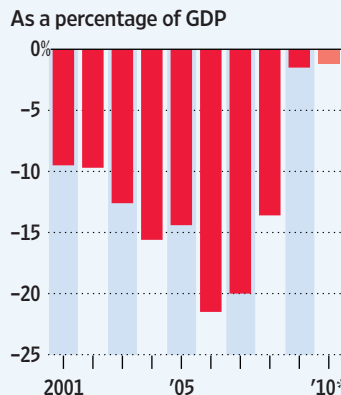
...and unemployment has risen...



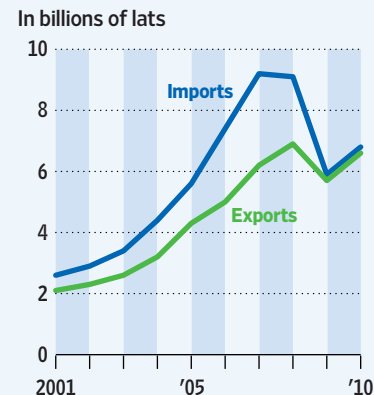
...the country has attempted to make itself more competitive by lowering wages to make exports cheaper.



But while Latvia's trade deficit has shrunk...



...it is because amid choked consumption, imports have fallen even more than exports.



Latvia's rebound comes with caveats

By MATTHEW DALTON

RIGA, Latvia—This small Baltic nation on Europe's periphery, racked by the biggest collapse of the global economic crisis, looks to be on the rebound: The International Monetary Fund in a report Thursday said the authorities' recovery plan is working, two days after Standard & Poor's raised Latvia's sovereign-credit rating.

But a number of economists say that some of the signs that appear to show Latvia's resurgence—its shrinking trade deficit, stable currency and falling budget deficit—obscure serious obstacles on Latvia's road back to economic health.

After an economic collapse that saw Latvia's gross domestic product fall 25%, Latvia took €7.5 billion (\$9.9 billion) of emergency financing in 2009 from the European Commission, the IMF and a group of Scandinavian banks. The country's plan was to return to growth by making its exports and manufacturing more competitive internationally.

Countries have traditionally done this by devaluing the national currency to make goods cheaper for international buyers. Latvia, though, decided to keep its currency, the lat, pegged to the euro—one of the world's strongest currencies during the crisis—in part because limiting the lat's movement against the euro is a precondition for Latvia's cherished goal of adopting the common currency.

Latvia instead attempted to make domestic manufacturing and services cheaper by suppressing wages across the economy, a process known as internal devaluation. Latvia's challenges in doing so show how the same process could be even more difficult for Greece, Spain and Portugal—countries that are locked into the euro but have labor markets that are less flexible than Latvia's.

"There's a big question as to whether the internal devaluation was effective," said Vyacheslav Dombrovsky, an economist at the Baltic International Centre for Economic Policy Studies in Riga. "We have so far not seen substantial changes in relative prices."

Some economists say that a currency devaluation would have helped Latvia's exporters create tens of thousands of jobs. As it is, large numbers of export-industry jobs have yet to materialize.

"It is impossible to earn money here in Latvia," said Igor Rozitis, 37, after a morning of work on a recent rainy day in Vermanes Garden, an elegant park in central Riga.



Latvian Central Bank Governor Ilmars Rimsevics says wages should rise following a government bid to suppress them.

Mr. Rozitis is an employee in a public-works program, conceived by the Latvian government during the crisis, that pays 100 lats (\$188) a month for 40 hours a week. Despite the low pay, the program has been wildly popular in this country of 2.2 million: About 69,000 people have participated since it was created in September 2009, and an additional 46,000 are on the waiting list. With unemployment high, workers count themselves lucky to have these jobs, even though they last for only six months.

But Mr. Rozitis, who lost his job cleaning ships at Riga's docks, says 100 lats isn't enough to live on in Riga. The father of three has moved to a smaller apartment and cut other spending, but he says he will probably look for work in Lithuania or elsewhere in Europe when his six-month stint ends.

If internal devaluation can work anywhere, it should be here, a country with flexible labor markets with almost no unions. Wages in the private sector averaged 16% annual growth from 2001 through 2008, amid a decade of expansion fueled by easy credit. When the government proposed slashing public-sector wages last year, there were brief protests but nothing like those staged by unions against Greek austerity measures.

Government salary cuts and other efforts have helped suppress overall wages in Latvia by 11.7% from October 2008 to July 2010.

But the problem, according to some economists, is that most of the wage decrease can be attributed to cuts in the public sector. Private-sector wages fell only 5.3% over the period, according to data from Eurostat, the EU's statistics agency. Latvia has demonstrated a tendency

that economists have noted the world over: Wages rise much more easily than they fall.

That has proved to be the case for wood processor Latvijas Finieris, one of the most competitive companies in one of the country's most competitive export industries. The company, whose main product is birch plywood, had losses in both 2008 and 2009. It was hit particularly hard because its competitors in Russia, Ukraine and Poland all benefited from major declines in the value of their currencies, says Uldis Bikis, Latvijas Finieris's chief executive. That made the need for wage cuts only more acute.

"For companies that are working in some regions like Russia, currency devaluation helps much faster," Mr. Bikis said. "This situation was very difficult for our company and the country. But we made much more, probably, structural changes that help for the future."

While the company cut expenses by 25% from 2007 to 2009, most of these cuts were in nonlabor costs. Latvijas Finieris fired some employees over the past three years, but its remaining 2,100 workers are earning more on average than they did in 2007, Mr. Bikis says. Meanwhile, the company's sales volumes of birch plywood are near to what they were in 2007, but the company's wage costs may still be too high to hire more workers and, in turn, further spur Latvia's economy.

Latvijas Finieris's experience sheds light on another indicator that appears to support the view that Latvia is recovering: that its once-large trade deficit, which stood at 22% of GDP in 2006, has nearly disappeared.

But as the firm's roughly steady exports show, the equalization

wasn't achieved by spurring sales abroad. Latvia's exports have held roughly steady, while its falling wages and high unemployment have helped stanch domestic consumption, cratering the country's demand for imports.

"The improvement we've seen in Latvia's international position is 90% due to a collapse in domestic demand rather than an improvement in competitiveness," said Lars Christensen, an economist at Danske Bank.

Latvian wages next year are actually expected to rise, said Finance Minister Andris Vilks. "We should see in some sectors at least 3% wage increases next year," Mr. Vilks said in an interview. "That is still very moderate—it wouldn't be painful or crucial for the productivity level."

While Mr. Bikis supports the decision to keep the lat pegged to the euro because it forced the company to make structural changes, other Latvian executives say it was a mis-

take. "The currency is overvalued considerably," said Vadims Rabsha, chief finance and administrative officer of the Latvian pharmaceutical company Grindeks. "It makes our life more difficult. But the government has chosen the path."

Grindeks, which focuses on making generic pharmaceutical ingredients, has recovered from the depths of the crisis. But Mr. Rabsha said a devalued lat would allow his company to do better, particularly in Russia, where the weaker ruble has hurt Grindeks's business.

The Latvian government and central bank has stoutly defended its euro peg throughout the crisis. Officials note that the economy has grown 2.2% so far this year while unemployment has begun to fall. They argue that devaluation would have made much of Latvia's euro-denominated debt unbearable, while possibly triggering currency crises across Eastern Europe.

"Let's not heat up old soup," said Latvian Central Bank Governor Ilmars Rimsevics, who is wary of even discussing the issue of currency devaluation. "For the third consecutive quarter, Latvia has experienced positive growth, which really proves that the chosen policies have been the right ones and that the competitiveness of the Latvian economy is clearly restored," he said in an interview.

The government says that, now the economy is growing again, crisis measures like the 100-lat work program can be cut. But Mark Griffiths, the International Monetary Fund's mission chief for Latvia, calls that a bad idea. "With unemployment so high, we need to strengthen social support programs, such as the 100 lats work program, and health benefits for the poor," he said.

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EUROPE NEWS



Agence France-Presse/Getty Images

Firefighters in Greece participated in a demonstration against the government's austerity measures in front of the Ministry of Economy in Athens on Thursday.

ECB urges nations to mind deficits

The European Central Bank warned governments Thursday that they risk unleashing an "unsustainable debt spiral" in the financial markets if they fail to follow through on their pledges to cut budget deficits.

By *Nina Koeppen*
in Frankfurt and
William Horobin in Paris

Although turmoil in European government bond markets has eased in recent days, the central bank of the 16 economies that use the euro said the "overall economic and financial situation is still fraught with risks."

In a semiannual report on financial stability, the ECB identified two main dangers: persistent concerns about dismal public finances and large imbalances between economies.

Worries about government debts could undermine economic growth and erode banking stability, a combination that the ECB dubbed a "triangle of vulnerabilities" that has already gripped Greece and Ireland.

Another risk is the possibility that global imbalances—a term used to refer to a large current-account deficit in the U.S. and large surpluses in countries such as China and Germany—could be unwound in a disorderly fashion.

Those forces could lead to "nega-

tive surprises of potential systemic importance," the ECB cautioned.

In a 210-page report, the ECB highlighted vulnerabilities to the region's banking sector, but didn't provide—as it did in the June report—an estimate of future write-downs.

One potential trouble spot for banks in the euro bloc will be their need to refinance roughly €1 trillion (about \$1.32 trillion) in bonds over the next two years, it said. That task will be even more difficult as private banks compete with governments for investor funds. "There is this question of competition with sovereigns," ECB Vice President Vitor Constancio told a news briefing.

Asked whether banks will face difficulties in meeting their refinancing needs, Mr. Constancio replied "it is hard to predict."

The report said a "small number" of euro-zone banks are still "excessively reliant" on short-term funds from the ECB, adding that those banks account for a "substantial share" of ECB lending.

Concerns "remain acute" about what will happen to these banks when the ECB phases out the special measures offering cheap bank funding that were introduced to soften the economic downturn. Last week the ECB voted to make unlimited loans available to banks at maturities of up to three months through the first quarter of 2011.

In other developments, France indicated it favored going slow on proposals to expand a euro-zone emergency bailout fund and also opposed the creation of pan-European government bonds. The comments, from an official on President Nicolas Sarkozy's staff, show Paris throwing its weight behind Germany's reluctance to back two ideas put forward as ways to douse Europe's debt crisis.

The official said a €440 billion fund—the main part of a €750 billion bailout assembled in May by the European Union and International Monetary Fund—was large enough for now. The fund will be drawn upon to help Ireland, but will be stretched to its limits if it is required to rescue Portugal and Spain.

"Today the fund has a size that allows it to confront possible demand so the question of increasing it is not being asked," the official said.

Mr. Constancio of the ECB told reporters in Frankfurt that increasing the fund could, "technically" speaking, help deal with Europe's sovereign-debt crisis, but declined to say whether he would favor such a move.

German Chancellor Angela Merkel and Mr. Sarkozy are due to meet Friday in Freiburg, Germany, with ministers from the two governments. Next week, the two will join other EU leaders in Brussels at a

summit to agree to a new bailout fund, aimed at replacing the existing fund after 2013. That is expected to require modest changes to treaties that bind the 27-nation EU.

The French official also dismissed the idea of introducing euro-zone bonds, which was floated this week by Luxembourg Prime Minister Jean-Claude Juncker and Italian Finance Minister Giulio Tremonti.

"It's [an idea] that poses difficulties, notably in terms of moral hazard and the sharing of costs and gains of such bonds," the French official said. Germany also has dismissed the so-called e-bond. But EU economy commissioner Olli Rehn in Athens on Thursday described it as "intellectually appealing."

He told the Greek Parliament that Europe was making good progress in tackling its problems. "But," Mr. Rehn added, "it is clear that European politicians, central bankers and national politicians must prove common and decisive leadership."

The ECB did cite some improvement in financial conditions since its June report, noting the profitability of Europe's big banking groups is rising. But it cautioned that they are significantly exposed to changes in interest rates as yields on long-term bond are beginning to diverge across the euro zone.

—*Nick Skrekas*
and *Alkman Granitsas* in Athens
contributed to this article.

Irish leader plans to put aid package to a vote

Continued from first page
package or the rancor that surrounds it. Ireland is contributing €17.5 billion, mostly from its national pension fund, to the bailout, bringing the tally to €85 billion.

Separately, Fitch Ratings downgraded Ireland's credit rating by three notches Thursday to triple-B-plus, two notches above Greece's rating. Fitch cited the costs of restructuring the country's banking system and loss of affordable access to market funding.

The euro briefly traded lower after the Fitch announcement before recovering.

On Thursday lawmakers in Ireland's lower house of parliament, or Dail, passed the social welfare bill, a central part of the government's €6 billion in budget cuts planned for next year; earlier in the week, the Dail passed major tax measures. The budget measures are a requirement of the EU-IMF package.

Mr. Cowen said the 38-page "memorandum of understanding" with the EU and IMF—which lends support to the government's €15 billion planned cuts over four years—has been drawn up legally and legitimately and is in the best interests of the country.

"Debating and supporting a motion in the Dail will also give certainty to the international community that the deal has been confirmed by the parliament, that the country is doing what needs to be done to repair its public finances and that Ireland is up to the challenge."

The opposition parties, left-of-center Labour, right-of-center Fine Gael and left-wing Sinn Fein, have been vocal in their opposition to both the EU-IMF deal and the government's 2011 budget, which represents the first installment of the promised austerity program.

But Mr. Cowen said Thursday: "Fine Gael, the Labour Party and Sinn Fein continue to try to make the public believe that there is an easy way out of the country's funding crisis. Given the seriousness of the situation, I do not believe this myth can be allowed to continue unchallenged."

The government isn't required to put the rescue plan to a vote but lawmakers do have to approve the spending plan unveiled this week.

BOE sticks to policy amid cloudy view

By *Natasha Brereton*

LONDON—The Bank of England's Monetary Policy Committee Thursday left its key interest rate and the stock of its bond purchases unchanged, and is unlikely to alter its policy for many months to come.

The forecast for the U.K. economy is unusually uncertain. Prices have been rising at a faster rate than the central bank's 2% target in 41 out of the past 50 months, and inflation

is forecast to remain above that level throughout next year. That means there is a risk that wage demands will increase, setting off a fresh round of price gains as businesses look to cover their higher costs.

The government is set to cut spending at a time when bank lending remains impaired, the U.K.'s major export markets are still fragile and much spare capacity remains in the economy, and over the medium term that may lead to an inflation

rate that is below the central bank's target.

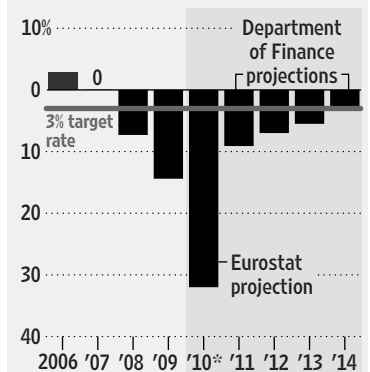
That lack of clarity about the outlook for prices resulted in a three-way split in the MPC's vote at the October and November meetings, with Adam Posen calling for an expansion in its quantitative-easing policy of buying bonds with freshly created central-bank money, Andrew Sentance calling for a modest rise in rates, and the majority opting for no change.

With the uncertainty likely to linger, it seems unlikely that either dissenter will win over a significant number of his colleagues any time soon.

However, recent signs that exports are picking up and will provide support to the economic recovery suggest that the BOE's next move is more likely to be an increase in its key interest rate rather than an increase in its bond purchases.

Fighting the deficit

Ireland's budget surplus/deficit as a percentage of GDP



*Includes one-time cost of bank bailout
Sources: Eurostat; Ireland's Department of Finance

U.S. NEWS

House Democrats aim to stop tax vote

BY MARTIN VAUGHAN
AND COREY BOLES

WASHINGTON—House Democrats continued to voice opposition to a tax deal between the White House and Republicans on Thursday and urged leaders not to bring the agreement up for a formal vote.

House Democrats, in a closed meeting, voiced near-unanimous opposition to extending Bush-era tax cuts for two years. It was unclear if House Speaker Nancy Pelosi (D., Calif.) would prevent the bill from coming to a floor vote because of Democratic opposition.

For now, negotiations continue. "We will continue discussions with the President and our Democratic and Republican colleagues in the days ahead to improve the proposal before it comes to the House floor for a vote," Ms. Pelosi said.

Ms. Pelosi said the move by the Democratic caucus was a rejection of "the Senate Republican tax provisions as currently written."

The vote was the latest expression of rank-and-file anger against the two-year extension of the Bush tax cuts, and is likely to drag out a final vote on the tax measure. House Democrats voted on a resolution



House Speaker Nancy Pelosi, center, walked to a meeting of the House Democratic Caucus on Capitol Hill on Thursday.

brought by Rep. Peter DeFazio (D., Ore.), to oppose the tax measure; such resolutions typically are non-binding.

"We have taken a position that this is not an acceptable package," said Mr. DeFazio. "We want a better deal."

In the Senate, Majority Leader Harry Reid (D., Nev.) said that he hoped the Senate leadership could very quickly release full details of

the tax legislation.

His Republican counterpart, Minority Leader Mitch McConnell (R., Ky.) said that it was his understanding the legislation was complete and the Senate could begin its formal work soon.

Despite the resolution, some House Democrats questioned whether it was really the intention of the party's lawmakers to block the tax deal.

"If it passes the Senate and this is the compromise that the president has committed to, what are we going to do, hold this up," Rep. Shelley Berkley (D., Nev.) said.

Ms. Berkley, who said she voiced her dissent to the resolution in the meeting, said the extension of the lapsed federal jobless benefits is too important to put at risk by trying to change the wider deal.

House Democrats are unhappy about several aspects of the legislation, but their criticism has been the loudest for the estate-tax provisions. The inheritance tax expired at the end of 2009 and is set to be reinstated from 2011 at a rate of 55% charged on estates over \$1 million. But the deal reached would renew the tax at a much lower rate of 35% on estates over \$5 million.

Fed is unlikely to alter monetary policy

BY JON HILSEN RATH

The Federal Reserve is likely to leave monetary policy unchanged next week at its final meeting this year as it assesses the impact of its bond-buying program and the unfolding tax debate in Washington.

The central bank has been buffeted by criticism of its plan to buy \$600 billion of Treasury bonds since unveiling it in early November. Internal and external critics say the program, aimed at keeping long-term interest rates low, could spur inflation or another asset bubble, stirring doubts about the Fed's commitment to the program and likely muting its impact.

But top Fed officials haven't expressed any inclination to veer from their course or to alter significantly their message to the public about the plan. Though the prospects of business and worker tax cuts and slightly stronger economic growth might reduce the Fed's incentive to add to the program later, persistently high unemployment and low inflation give the central bank little incentive to pull back now.

Fed Chairman Ben Bernanke is leaving his options open. "This is

not something that we've set into automatic motion going forward," he said in an interview last week with the CBS program 60 Minutes. "We want to continue to think about it—whether it needs to be changed, whether it needs to be increased or decreased or modified."

Despite the widespread criticism, Mr. Bernanke has maintained his commitment to the purchases. "The balance of risks is in favor of this policy," he said last week.

Several factors will play into Fed officials' thinking when they gather for their monetary-policy meeting Dec. 14:

Slightly Improved Growth Outlook. The economy could be gaining steam, but not enough that officials believe it no longer needs the Fed's support. Despite a disappointing November jobs report, other indicators, including retail sales, unemployment filings, factory reports and anecdotal evidence, gathered by the Fed's 12 regional banks point to slightly firmer growth.

Output has been growing at an annual rate of just over 2% for more than six months, barely at what Mr. Bernanke has described as the "escape velocity" needed to ensure sus-

tained economic expansion. The economy has to speed up to an annualized growth rate of between 3% and 3.6% next year just to meet Fed officials' modest expectations.

"We are in something of a soft patch," Richmond Fed President Jeffrey Lacker said in a speech Monday, adding that he is more optimistic than most private forecasters about a 2011 pickup. Still, even with better growth, few officials expect much progress on unemployment.

High unemployment and low inflation give the central bank little incentive to pull back now.

Fiscal Policy in Flux Mr. Bernanke got only part of what he wanted in the Obama administration's deal with congressional Republicans to extend Bush-era tax cuts and include new economic boosters such as a payroll-tax holiday. Mr. Bernanke wants steps to spur growth in the short term, but he also wants a longer-run plan to

reduce the federal budget deficit, which hasn't materialized.

The tax cuts could boost the U.S. economic growth rate by a half percentage point or more in 2011, but they also widen the budget deficit. The Fed would welcome the growth but doesn't want to be seen as facilitating deep long-run deficits with its bond-buying plans. Uncertainty about the budget outlook gives the Fed added incentive to keep monetary policy steady for now. If tax cuts boost growth, worsen deficit worries or stir new inflation concerns, the Fed could decide not to push the bond plan beyond \$600 billion, or even pull it back.

Assessing the Bond-Buying Plan The bond purchases have failed to push long-term rates lower, as hoped. Yields on 10-year Treasury notes have risen to 3.2% from 2.5% since Mr. Bernanke broached the bond-buying idea in late August. But top officials have argued that, on the margin, the program has eased broader financial conditions.

Stock prices are up 14% since late August. Moreover, some officials say long-term interest rates would be even higher without the program. Other factors have driven rates re-

cently, including improved economic data and the administration's tax plans. Europe's woes also have strengthened the dollar, which officials hadn't expected.

Communication strategy is part of the Fed's ongoing discussions. Officials considered in October and November tying the bond program more clearly to inflation. One idea was to signal continued bond buying until its forecast for inflation, now around 1%, moved toward 2%.

Some worried that approach could be confusing and others felt the Fed shouldn't tie policy just to inflation when it also has a mandate to bring unemployment down. If inflation continues to slow, the Fed could revisit this issue.

It could also consider whether to strengthen its commitment to keeping short-term interest rates near zero if markets begin to price in a tightening. Fed-funds futures markets indicate the Fed is expected to raise the fed-funds rate to 0.5% by early 2012. Though the Fed's forecast shows officials expect inflation to remain below their 2% goal and unemployment to be high through 2012, officials aren't inclined to push against market expectations.

Scientists create mice from two fathers

BY GAUTAM NAIK

Scientists have created mice that are the genetic product of two fathers, the latest in a series of unusual experiments in mammalian reproduction.

Researchers at the University of Texas M.D. Anderson Cancer Center and elsewhere first engineered a female mouse whose eggs contained the DNA from a male. When the female was mated with another male, the offspring had genetic contributions entirely from two males.

The study appears online in the

peer-reviewed journal *Biology of Reproduction*.

While the achievement is technically intriguing, its practical benefits are far from clear. Any move to try the same experiment in people is certain to be more complicated and controversial.

The study describes the technique as "a new form of mammalian reproduction" that could potentially be used to improve livestock breeds or preserve endangered species. More provocatively, the authors argue that if certain technical hurdles can be overcome, "then some day

two men could produce their own genetic sons and daughters." But those technical hurdles are extremely high.

A human embryo has 46 chromosomes, including two that determine sex. Females normally have two of the same, written as XX, while males have an X and a Y chromosome, or XY. Richard Behringer, lead author of the study and a developmental geneticist at M.D. Anderson in Houston, and his colleagues first took a cell from a male mouse—Dad A. They reprogrammed the cell so it became similar to an embryonic

stem cell. When copies of the cell were grown in a cell line, about 1% spontaneously lost the Y chromosome, an occurrence that happens when mistakes creep in during cell division. These cells were injected into blastocysts, early-stage embryos created from donor egg and sperm. The blastocysts then were transferred into surrogate mothers.

When the mouse babies were born, they had cells from both the blastocyst and from Dad A. When the females matured, some produced eggs containing only Dad A's genetic material.

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U.S. NEWS



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Defense Secretary Robert Gates awards medals in Afghanistan. The war there has fueled Pentagon spending.

Defense suppliers fear cuts in weapons buying

BY NATHAN HODGE

WASHINGTON—Hopes are dimming in the U.S. defense industry that Secretary of Defense Robert Gates might be able to stave off serious cuts in U.S. weapons-buying programs.

Earlier this year, Mr. Gates launched a drive to identify wasteful or duplicative spending at the Pentagon, aiming to realize savings of \$100 billion over the next five years. Mr. Gates' plan was to plow those savings back into weapons-modernization projects, ensuring that American troops overseas would be fully equipped even as military spending flattened out.

But with President Barack Obama's deficit commission recommending cuts in defense spending and an incoming Congress bent on budget cutting, many defense contractors doubt the Pentagon will actually get to keep any money it saves.

"Somebody might throw a wrench in that," said Michael Strianese, chief executive of **L-3 Communications Holdings Inc.**, a supplier of electronics, communications systems and support services to the Pentagon.

Speaking last week at an aerospace-finance conference in New York, Mr. Strianese said it was "too early to comment specifically" on what weapons programs might be

pared back or given the ax, but he noted that the deficit panel had identified "major platforms," or big-ticket weapons purchases, as a prime target for budget cuts.

Since the Sept. 11, 2001, terror attacks, the U.S. defense budget has effectively doubled, with total annual Pentagon spending now more than \$700 billion.

In November, preliminary recommendations issued by the deficit commission's co-chairmen listed a number of possible cuts to weapons programs, including the Marine Corps' Expeditionary Fighting Vehicle, the Army's Ground Combat Vehicle and a version of the F-35 Joint Strike Fighter. That report also suggested applying savings from the Pentagon's efficiency drive to deficit reduction, instead of other military uses. While the commission fell short of the votes required to send a deficit-reduction plan to Congress for a vote, its recommendations are likely to inform the drafting of the fiscal 2012 defense budget.

Mark DeYoung, president and chief executive of **Alliant Techsystems, Inc.**, expressed concern that the Pentagon's cost-savings effort would effectively be sacrificed to deficit reduction. "Clearly, that's on my mind; it's on a lot of CEOs' minds in the defense space," he said.

Mr. DeYoung, whose company supplies ammunition to the military, suggested that the midterm elec-

tions, which propelled fiscal conservatives into office on pledges to rein in federal spending, posed another threat to the Pentagon's plan.

"Is there the risk that the political environment that we're in today may not allow them to do that—and potentially the politicians want to look at opportunities to take those funds and align them to deficit reduction?" he said. "Certainly."

The Pentagon remains publicly committed to pursuing efficiency improvements and cost reductions, with the aim of redirecting those savings to higher-priority projects.

Ashton Carter, the Pentagon's acquisition chief, said the department recognized the need to be "respectful of the taxpayer in a time of fiscal and economic distress," but wanted to keep defense spending steady.

"We're not going to have an ever-growing budget, as we've had in the last decade," said Mr. Carter. "The country is at war, and I think people will continue to support a large level of defense spending."

Dennis Muilenburg, chief executive of **Boeing Co.**'s Boeing Defense, Space & Security, said much would depend on Congress and the new congressional leadership. "It's a very real challenge," he said. "We need to have a financial, a business process, that allows that [plan] to happen. That's going to take some partnership with [Capitol] Hill, some partnership with Congress."

U.S. companies hold tight to cash

BY JUSTIN LAHART

American companies are sitting on more cash than ever before, as they hold back from hiring and spending despite an improving economy and surging profits.

The U.S. Federal Reserve reported Thursday that nonfinancial companies in the U.S. held \$1.93 trillion in cash and other liquid assets at the end of September, up from \$1.8 trillion at the end of June.

Cash accounted for 74% of all company assets, which range from buildings to bonds, the highest proportion since 1959.

The cash piling up in corporate coffers has the potential to help the U.S. economy grow more vigorously and bring unemployment lower—if companies start to spend it on new plants.

But in the wake of the worst economic downturn since the 1930s, companies are hesitating to make that shift, said Brian Bethune, economist at IHS Global Insight.

In the aftermath of the 2000 dot-com bust, many nonfinancial companies adopted a more conservative stance, holding more cash and less debt. When the recession hit in late 2007, and the financial crisis erupted in 2008, their stronger balance sheets helped them weather the storm.

"They did well by being conservative," said Mr. Bethune. "Why would they depart from that?"

Much of the cash building up on corporate balance sheets belongs to technology companies, which don't have to tie up nearly as much of their money in plants, real estate, equipment and inventory as businesses involved in manufacturing and retailing.

Tech companies in the Standard & Poor's 500-stock index now hold some \$352 billion in cash and short-term investments, according to Standard & Poor's index analyst Howard Silverblatt.

Among the top holders is **Microsoft Corp.**, with \$43.25 billion in cash and short-term investments; **Cisco Systems Inc.**, with \$38.9 billion; and **Google Inc.**, with \$33.4 billion.

But the propensity to save, rather than spend, shows up across the U.S. corporate landscape. **FMC Corp.**, a Philadelphia-based chemical company, has sharply reduced its debt load and increased its access to cash in recent years, which helped shield it from the downturn.

The company doesn't plan to ex-

pand beyond its three main areas of business—herbicides and pesticides, food additives, and lithium that goes into batteries. Nor does FMC plan to make any major acquisitions. It is exploring ways to reinvest its cash in the company and, if it can't, it will likely pay it out to shareholders through dividends and stock buybacks, according to Chief Financial Officer Kim Foster.

But FMC is likely to maintain the conservative stance it adopted prior to the financial crisis. "That decision has been validated," Mr. Foster said. "We're not going to be financially aggressive going forward."

Another reason that U.S. companies have avoided spending their cash is that they don't believe the economy is strong enough to justify it. American household finances are still badly damaged, according to Deutsche Bank economist Torsten Slok, and that's acting as a drag on the consumer spending that ultimately powers the U.S. economy.

"The corporate sector is looking at the household sector and saying this is not the environment where we should expand our business," said Mr. Slok.

The Fed's data showed that U.S. households' net worth increased to \$54.9 trillion in the third quarter, up from \$53.7 trillion in the second quarter, but still well below the second-quarter 2007 peak of \$65.7 trillion.

Household debt, at \$13.4 trillion, was 118% of household income. That was down from a third-quarter 2007 peak of 130%, but was well above 2000's average level of 92%.

Some companies are opting to give their cash to shareholders through dividends or stock buybacks, rather than spending on expansion. That's what **Fastenal Co.**, which sells screws, nuts, bolts and other supplies to factories and construction companies, decided to do with a big chunk of the cash it has accumulated in recent quarters. On Monday, the company paid out a special dividend of 42 cents a share, or roughly \$62 million, a decision made in part because of uncertainty about what the U.S. tax policy on dividends would be next year.

But even after the dividend, the company, which had \$172 million in cash and cash equivalents at the end of the third quarter, is holding more cash than it did prior to last year.

"We're saving our firepower for when opportunities might come up," said Fastenal Chairman and founder Bob Kierlin.

Wind-power battle blows over Texas canyon

BY DANIEL GILBERT

A Texas commission won't allow a transmission line to cross the second-largest canyon in the U.S., a victory for preservationists that still raises thorny issues.

Skirting the majestic Palo Duro Canyon means the line delivering wind power from the Texas Panhandle will be longer and thus costlier for consumers. And it will still cut across land that is home to fragile wildlife populations.

Such conflicts over the routing of new transmission lines are likely to intensify as wind power evolves

from a niche to a significant portion of the energy portfolio.

Texas operates its own electric grid and doesn't face the difficulty of trying to site transmission lines across state lines. It has little federal land, which spares utilities that are building infrastructure an additional layer of bureaucracy.

Despite these advantages, plans to install new West Texas transmission lines for wind energy have sparked fierce opposition from a combination of landowners, developers and environmentalists.

In the case decided Wednesday by the Texas Public Utility Commis-

sion, Sharyland Utilities LP, privately owned by Hunter L. Hunt and family members, had proposed options that fell into four geographically distinct routes.

Two routes would run through the Palo Duro Canyon—a 120-mile formation of craggy, chiseled beauty, part of which is a state park. Two other routes would run north of the canyon, whose length is only surpassed by the Grand Canyon.

Susan Rogers, a non-practicing lawyer in Amarillo, belongs to a family that owns 1,800 acres in Palo Duro Canyon, where she says she cherishes watching bald eagles and

sheep that climb the canyon walls. When she received notice of Sharyland's plans in August 2009, she flung herself into the fray.

The campaign by the Rogers family and others bore fruit. An administrative law judge last month deemed the two geographic routes that traversed the canyon as "the least acceptable," writing that "it is beyond dispute that the canyon is considered an iconic feature of the Texas landscape."

The judge and the utility commission endorsed the northernmost route, the first choice of Sharyland. It runs through the Canadian River

Basin, and is the second-longest and most expensive option: Its estimated price tag of \$190.5 million is nearly \$18 million more than the shorter route proposed by the utility panel's legal staff, which also skirts Palo Duro Canyon.

Mark Bivins of the Texas Parks and Wildlife Commission disagrees with the decision. "The northern route in my mind drastically impedes the opportunity for people to get into the Canadian River Basin and enjoy the now un-trespassed property that these transmission lines would go across," he told the utility panel last week.

WORLD NEWS

North Korea revives sea border claim

BY EVAN RAMSTAD

SEOUL—North Korean dictator Kim Jong Il met a delegation of high-level Chinese officials on Thursday, but neither country indicated the visit would affect Pyongyang's aggression against South Korea, despite strong pressure from the South and other nations that China use its clout to rein in its ally.

Instead, North Korea earlier in the day made its most direct statement about its motivation for the Nov. 23 attack on the South's Yeonpyeong Island, reviving previous claims it has made for possession of all the waters around the island in the Yellow Sea. The internationally accepted boundary of the North's waters is a few miles north of the island.

Officially, South Korea remained calm about North Korea's claim, with government and defense agencies saying nothing in response. But analysts from all sides of the political spectrum in the South sharply criticized it.

In Pyongyang, a delegation led by Chinese State Councilor Dai Bingguo met Mr. Kim to discuss what state media from both countries described as "bilateral relations" and "issues of mutual concern." A spokeswoman at China's Ministry of Foreign Affairs declined further comment.

The U.S. and other countries have sharply criticized China for failing to exert pressure on North Korea to halt its aggression against the South. The foreign ministers of the U.S., Japan and South Korea earlier this week called for China to contain North Korea and warn it against further attacks.

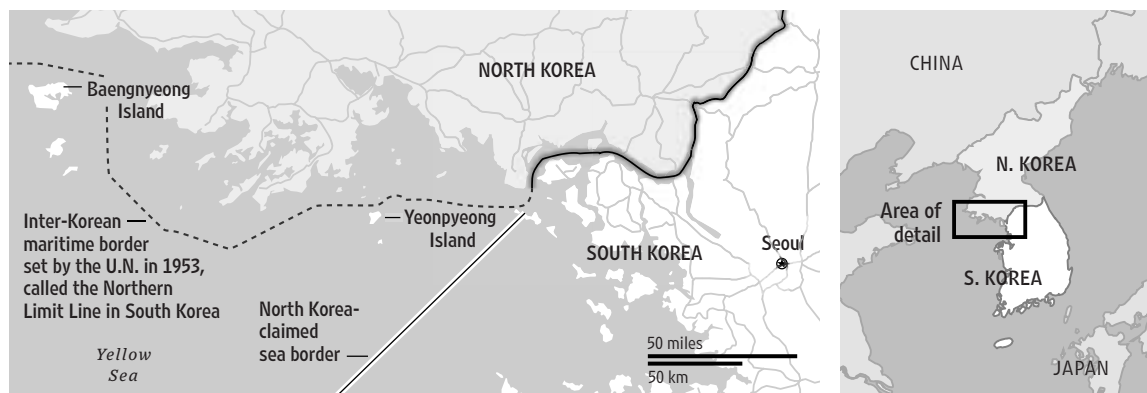
The chairman of the U.S. Joint Chiefs of Staff, Adm. Michael Mullen in visits to South Korea and Japan said China has the most influence on North Korea. "China must lead and guide North Korea to a better future," he said in Tokyo Thursday.

In response, the spokeswoman at China's Foreign Ministry said Thursday, "I'd like to ask the people who make accusations against China, what efforts have they made toward regional stability and peace?"

North Korea's public statements to explain the Nov. 23 attack have focused on the positioning of the inter-Korean maritime border off the



North Korean leader Kim Jong Il, right, receives Chinese State Councilor Dai Bingguo in Pyongyang on Thursday. Neither country indicated that the visit was prompting any shift in their stance on the North's aggression against South Korea.



countries' west coast.

Most analysts believe Pyongyang deeply wants the boundary redefined to allow its fishing vessels to reach open water in less time and its naval ships closer access to South Korea.

But some believe its growing aggressiveness on the matter is driven by other forces, such as its desire for South Korea to restart the unconditional financial payments it halted in 2008 and bolstering Mr. Kim's attempt to use military accomplishments to rally support for his son to succeed him as the country's leader.

Ever since the attack, which killed four South Koreans, North Korea has said it fired on the island because shells from an artillery test South Korea conducted on the island earlier on Nov. 23 fell into its waters.

But the North's statements didn't specify precisely where it believed South Korea fired, leaving open the interpretation that South Korea violated the internationally-accepted maritime border. Seoul denied firing into the North's waters.

On Thursday, North Korea again didn't say exactly where it thought South Korea fired but signaled it

didn't matter because it rejects the existing border, which its statement called a "bogus line."

"The above-said island is located deep inside the territorial waters of the [North Korean] side from the maritime demarcation line," the statement said.

Under the internationally-accepted border, the island is well within the South's waters.

"If any live shell firing is conducted from there, shells are bound to drop inside the territorial waters of the [North Korean] side no matter in which direction they are fired," the statement added.

South Korea acknowledges the test but said it fired southward, away from the inter-Korean maritime border as drawn up by the United Nations in the aftermath of the Korean War of the 1950s.

A preliminary analysis by the South's military of its response to the North's shelling—the perceived slowness of which has become a political issue in South Korea—showed that the artillery guns on the marine outpost on Yeonpyeong were facing south when the shelling began and had to be repositioned to fire back at North Korea.

North Korea since the late 1990s has grown more vocal and belligerent in its claim of a different maritime border, one that runs many miles to the south of the one drawn by the U.N. and known in South Korea as the Northern Limit Line, or NLL.

In North Korea's claim, five islands that have long been controlled by South Korea lie within its waters. However, North Korea hasn't claimed possession of the islands.

"What they say is totally unacceptable," said Kim Tae-woo, analyst at the Korea Institute of Defense Analysis and a hawk on North Korean policy matters. "They're infringing on the sovereignty and territory of the South."

The People's Participatory Party, a small political party in South Korea that earlier this week reiterated its advocacy for turning the disputed maritime border into a shared fishing area, also criticized the North's statement. "We can never accept their irrational claims," a spokesman said.

South Korea several years ago offered to allow North Korean fishing vessels into waters below the NLL and offered to pay North Koreans above-market prices for fish. But as part of the offer, North Korea would have been required to keep its military vessels above the NLL, something that Pyongyang rejected.

The two Koreas in 2007 agreed to create a "peace zone" in the disputed waters, but the agreement was vaguely worded and interpreted differently in the two countries, which later failed to reconcile the matter.

—Jaeyeon Woo in Seoul and Owen Fletcher in Beijing contributed to this article.

U.S. pushes reluctant Tokyo on Seoul ties

BY JULIAN E. BARNES AND YUKA HAYASHI

TOKYO—Japan reacted coolly to pressure from the U.S. to strengthen military cooperation with South Korea, suggesting that historical tensions and domestic political challenges will limit its ability to work directly with Seoul on efforts to prevent further aggression from North Korea.

Adm. Michael Mullen, chairman of the U.S. Joint Chiefs of Staff, Thursday repeated a suggestion made Wednesday in Seoul that the U.S. hold three-way defense exercises with Seoul and Tokyo. In meetings with Japanese defense officials, Adm. Mullen asked Japan to help South Korea hone some military skill sets, though he didn't press Tokyo on direct participation in defense exercises, according to officials familiar with the talks between

the two nations' military leaders.

South Korean officials Wednesday offered little reaction to the proposal. But the vice defense ministers from South Korea and Japan will meet in Tokyo on Friday to talk about North Korea and discuss improving military cooperation.

Adm. Mullen is hopeful that the existing defense cooperation of the three countries will eventually result in full joint exercises, the officials said.

North Korea's attack on a South Korean island last month has shaken the region, and officials in Washington hope the situation could help the U.S. achieve something it has long sought in East Asia but largely failed to build: closer ties between Japan and South Korea.

At the same time, such a development is likely to cause some alarm in Beijing, which would likely see such closer ties as a threat to

the expansion of its regional influence.

Adm. Mullen, meeting with Gen. Ryoichi Oriki, the top officer in the Japanese self-defense forces, asked Japan and South Korea to set aside historical animosities.

"We shouldn't let the past get in the way of the future," Adm. Mullen told the Japanese leaders, according to the U.S. officials.

Reaction from Tokyo, however, was muted, Japanese officials said.

The U.S. has a security treaty with both Japan and South Korea, and conducts frequent drills with both nations. However, the two Asian neighbors have no such agreement, as bilateral ties are still influenced by negative feelings in South Korea from Japan's 35-year occupation of the Korean peninsula that began a century ago. Military exchanges have only recently started, and on a limited scale.

"Before Japan can join exercises with South Korea, we need to consider cautiously their contents and the nature of our participation," a Japanese Defense Ministry spokeswoman said. "It's different from exercises with the U.S., which is our ally." Japan's pacifist constitution limits the activities of its military forces beyond what is considered strictly self defense.

In his private meetings, and to a degree in his public comments, Adm. Mullen said he was well aware of the history between the two countries, the limits of Japan's constitution and South Korea's sometime wariness of Tokyo. But he said the very real threat posed by North Korea was a powerful reason to look past old differences.

Still, persuading Japan over such a sensitive national-security issue will be a challenge for Washington, given the continued instability in

Japanese political leadership.

Facing plunging approval ratings, Prime Minister Naoto Kan, the second leader since the center-left Democratic Party of Japan swept to power in September 2009, has been increasingly focused on surviving domestic political challenges posed by a divided parliament, while putting off decisions on controversial policies.

There are already signs the prime minister may be willing to make compromises on some national-security issues to stay in power. As he tries to woo a small opposition party with pacifist views for parliamentary cooperation, the ruling party is moving to ditch a plan to ease a longstanding ban on weapons exports—which would allow Japanese defense contractors to participate more actively in joint developments of weapons and equipment with other big nations.

WORLD NEWS

China steps up Nobel response

BY JEREMY PAGE

BEIJING—China blocked access to several foreign media outlets, intensified a crackdown on political activists, and fired a fresh salvo of criticism at the U.S. on the eve of a ceremony Friday marking the award of the Nobel Peace Prize to Liu Xiaobo, a jailed Chinese dissident.

A hastily established Chinese organization held a rival ceremony on Thursday to present the inaugural "Confucius Peace Prize" to a Taiwanese politician—even though he wasn't present and his office said he hadn't been notified of the award.

A handful of Mr. Liu's overseas-based supporters, meanwhile, began arriving in Oslo for a ceremony that has triggered a global divide between mostly Western democracies on one side, and China and a host of predominantly authoritarian governments on the other.

China has refused to release Mr. Liu or allow his family and friends to attend the ceremony. It has also pressured other countries to boycott the event. Of the 65 Oslo-based ambassadors who were invited, 20 at least will be absent—double the number in 2009.

But the Nobel Committee and Mr. Liu's supporters appear equally determined to draw international attention to the ceremony—the first at which the award will not be collected since 1936, when it was given to Carl von Ossietzky, a German pacifist detained in a Nazi concentration camp.

Mr. Liu—a former literature professor who was sentenced to 11 years in prison for "state subversion" in December 2009—will be represented by an empty chair, with his photograph on it.

Some of Mr. Liu's words will be read out by Liv Ullman, a Norwegian actress, said Geir Lundestad, secretary of the Nobel Committee, adding that the committee didn't want to use a U.S. actor for fear of fueling Chinese accusations that the award was masterminded by the U.S. and its allies.

Among the musicians performing is Lynn Chang, a Chinese-American violinist who teaches at the Boston Conservatory. Mr. Chang still has family in China and has expressed concern that his appearance at the ceremony may prompt Chinese authorities to prevent him from visiting them, or even cause problems for some of his mainland Chinese students.

A children's choir will sing at the end of the ceremony in line with a personal request from Mr. Liu which he made when he was allowed a brief meeting with his wife, Liu Xia,



A man walks in front of a poster of Chinese dissident Liu Xiaobo at a Nobel Peace Center exhibition in Oslo, on Thursday.

after the award was announced in October.

"The short-term backlash from China is to be expected, but no one can be sure what the long-term effects will be," Mr. Lundestad said.

Chinese authorities stepped up their campaign Thursday by blocking many reports about Mr. Liu on the satellite television channels and websites of several Western news organizations, including the British Broadcasting Corp. and CNN.

Authorities routinely block broadcast segments on sensitive or politically charged events and did so around the time of the October announcement of Mr. Liu's award on the channels, which are mainly available in upscale hotels or housing compounds, but less-frequent reports in the interim period had been allowed to air without interference.

On Thursday, attempts to access the websites of the BBC, CNN or the Norwegian broadcaster NRK yielded error messages.

Police also intensified a crackdown on political activists across the country, warning many not to leave their homes or take part in celebrations marking Mr. Liu's award, according to rights groups.

Liu Xia has been under effective house arrest since the award was

announced, and dozens of other dissidents have had their movements or communications restricted.

China's government has said Mr. Liu is a criminal and rejected international criticism of his imprisonment as an attempt to undermine China. On Thursday, Beijing launched a fresh barrage of criticism, this time directed at the U.S. House of Representatives, which voted Wednesday 402-to-1 to congratulate Mr. Liu and again call for his immediate release.

The House resolution "disregards facts, confuses right and wrong, and crudely interferes in China's internal affairs," Foreign Ministry spokeswoman Jiang Yu told a regular news briefing. "We urge the U.S. lawmakers...to change their arrogant and unreasonable attitude, and show the respect they should have for the Chinese people and China's judicial sovereignty."

The Global Times, a tabloid newspaper published by Communist Party mouthpiece the People's Daily, said this year's Peace Prize had "caused the world confusion and divisions."

"All the applause has come from the West and the citizens of the third-world countries are all now China's allies," it said in an editorial.

The Global Times had suggested

three weeks ago that China should establish a "Confucius Peace Prize" to rival the Nobel. A group calling itself a nongovernmental organization has done just that, holding a ceremony Thursday to symbolically award the prize to Lien Chan, a former vice president of Taiwan who has encouraged reconciliation with mainland China.

"We believe that Mr. Lien Chan, with his knowledge, dignity, and political wisdom, would not refuse peace, and he would not refuse this prize," said Tan Changliu, an academic who is the new prize's main organizer.

But Mr. Lien did not attend, and the \$15,000 cash prize was collected instead by a young girl, whom organizers didn't identify. Mr. Lien had no plan to accept the award because "we haven't been notified by anyone," said Ting Yuan-chao, a spokesman for his office. "We don't even know which department and who is handling the award."

Organizers said the prize had nothing to do with the government, although an invitation to the ceremony had suggested involvement of a department under China's Ministry of Culture. Ministry officials said they had never heard of the prize.

—Aries Poon in Taipei
contributed to this article.

Haiti plans to review disputed election

BY INGRID ARNESEN

PORT-AU-PRINCE, Haiti—Haiti's electoral commission said Thursday it would review the results of last month's disputed presidential election after allegations of fraud and voter intimidation led to violent protests when the results were announced.

In a statement issued Thursday morning, the Haitian Provisional Electoral Council said that it would set up a "commission of verification" to review votes for the top three candidates in the Nov. 28 election. The board wouldn't be directed just by the government, but composed of Haitian and international election observers, some of whom had already called into question official results this week, and representatives of the top three winners.

Acknowledging the growing criticism of the vote, the commission cited "the problems and the dissatisfaction with results" and said a thorough review was needed to "reassure the Haitian population of the full transparency" of the process.

The decision is a change of course for the board that had been attempting to clear two candidates for a runoff in January. It found that Mirlande Manigat, a former first lady, had won 31% of the vote, and Jude Célestin, an engineer favored by the ruling party, came in second with 22.5%.

The result threw Haiti into two days of violence as thousands of protesters took to the streets.

Michel "Sweet Micky" Martelly, a singer who was popular among Haiti's poor, came in third with 21.8%, the commission said. Only Mrs. Manigat and Mr. Célestin would qualify for the runoff, under the rules.

The result threw Haiti into two days of violence as thousands of protesters, some carrying weapons and setting fire to buildings, took to the streets Wednesday. Many were supporters of Mr. Martelly, who claimed that their candidate had been unfairly robbed of the second-place seat by Mr. Célestin, who is supported by Haiti's President René Préval.

The U.S. Embassy also cast doubt on the official count calling the results "inconsistent" with figures from international and domestic election observers. The United Nations, too, said it was concerned about allegations of fraud.

As demonstrations continued Wednesday, protesters at one point set fire to the headquarters of Mr. Préval's party, witnesses said. A crowd also fought with U.N. peacekeepers in parts of Port-au-Prince, and the airport was closed after American Airlines canceled flights.

Streets in the capital Thursday had calmed again, even before the electoral board announced its review. But a sense of unease remained as most businesses remained closed and most downtown streets were barricaded.

U.S. bans Pakistan aid contractor

BY TOM WRIGHT

The U.S. government banned an American nonprofit group from receiving new funding because of its alleged misconduct in a \$150 million project in Pakistan, a move which shows the complexity facing a massive U.S. aid push in the region.

The U.S. Agency for International Development, an arm of the government which disburses aid, said an initial inquiry had found "substantiated evidence of misconduct" by Washington-based Academy for Educational Development.

AED, a nonprofit group involved in education, health and development programs, said in a statement it was cooperating with USAID's investigation and was reviewing its operations to address the agency's concerns.

USAID in July ended a five-year, \$150 million project run by AED to improve schools, roads and other infrastructure in Pakistan's tribal regions after its Office of Inspector General, an internal auditor, found evidence of fraud. In its semiannual report to Congress for the period ending Sept. 30, the auditor said it

had found evidence that staff working on the AED project had overpaid for goods.

Overpayment is seen as a way to siphon money out of aid contracts. The office said USAID had fired a dual Canadian-Pakistani citizen who was working on contract for USAID on the project because of evidence he used his position to get work for relatives.

The U.S. hopes to use a five-year \$7.5 billion civilian-aid package for Pakistan, which was adopted in 2009, to help combat poverty in areas which have been recruiting

grounds for the Taliban. Development in those areas is seen as necessary to help fulfill President Barack Obama's pledge to begin withdrawing troops from Afghanistan in July.

The failure of projects in the region that predate Mr. Obama's government, including the one run by AED, show how difficult it will be to ramp up aid spending there. USAID's Office of Inspector General said in its report to Congress that security issues in both Pakistan and Afghanistan "have hindered program accomplishment."