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THE JOURNAL REPORT

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Obama courts CEOs in move to rebuild ties

By Elizabeth Williamson

President Barack Obama will convene a one-day summit of corporate chief executives Wednesday as part of a renewed White House effort to build support among business leaders for his economic agenda.

Chief executives from Google Inc., Cisco Systems Inc., International Business Machines Corp., American Express Co., Dow Chemical Co. and Pepsico Inc. have been invited to the meeting at Blair House, adjacent to the White House, to discuss trade, tax, regulatory issues and the deficit.

The administration wants to persuade U.S. companies to unleash some of the $1.93 trillion in cash and other liquid assets in their treasuries. Cash as a share of total assets is at the highest level it has been in a half-century, the Federal Reserve said last week. Mr. Obama wants the nation's biggest companies to invest that money in expansion and new hires in the U.S.

Ideas for overhauling the tax code and cutting the deficit will be a substantial part of the Wednesday discussion, Presidential adviser Valerie Jarrett said, as would ideas for "a balanced approach to regulations—to promote economic growth and give business regulatory certainty and predictability while providing safety for the American people," she said.

"Regulations have been a fault line with business, so compromise on them would be a very welcome change," said Johanna Schneider, executive director of the Business Roundtable, composed of chief executives from the U.S.'s biggest multinationals.

The meeting will be private and won't be webcast, in contrast with some previous White House sessions with business leaders. After those highly publicized gatherings, some business participants said the public forum prevented them from speaking candidly and made the meeting seem like political theater.

Mr. Obama has met with chief executives since the start of his administration, but some who attended those meetings have complained that he didn't take their views into account in policies that resulted. Corporate leaders have expressed dismay at Mr. Obama's sometimes sharp criticism of multinational corporations and his administration's regulatory and tax policies, such as a proposal to raise taxes on income corporations earn overseas.

Business executives say they sense a difference in the approach taken by Mr. Obama since Democrats got trounced in the November congressio-

Please turn to page 3

Madoff son felt burden of father's fraud

Getty Images

Mark Madoff, convicted fraudster Bernard Madoff's older son, killed himself on the second anniversary of his father's arrest—the latest twist in the multibillion-dollar Ponzi scheme that upended lives and left Madoff business associates in legal limbo. **Articles on pages 8 and 9.**

U.S. to accelerate payouts for victims of BP's oil spill

By Dionne Searcey

People who say they have been harmed by **BP** PLC's Gulf Coast oil spill will have more options for faster payment of claims under a plan to be announced Monday by attorney Kenneth Feinberg.

Mr. Feinberg, who is administering the $20 billion fund set aside by BP to pay claims to those hurt financially or otherwise by the spill, said claimants in some instances could receive a final payment in as soon as two weeks.

Gulf residents and politicians from the region have criticized Mr. Feinberg as taking too long to cut checks to restaurant and resort owners, shrimpers and others whose livelihoods have suffered since the April spill.

He has said many of the claims came with improper documentation and so couldn't be processed.

As of Thursday, Mr. Feinberg had paid 163,946 claims for a total outlay of $2.4 billion.

Claimants were able to seek emergency payments up until Nov. 23. They have until August 2013 to make claims for a final, lump-sum payment—but to do so means they must give up their right to sue BP or any other company that may be connected with the spill.

Mr. Feinberg said 10,000 claimants have applied for final payments.

Starting this week, claimants who have received an emergency payment can opt to receive a final payment—$25,000 for businesses or $5,000 for individuals.

Mr. Feinberg said the process would avoid the tangle of paperwork needed to file other claims, requiring no more than checking a box on a form and signing a release not to sue.

Payments would be made within two weeks, he said.

"That allows the facility to clear out those eligible claimants who already received compensation and feel that compensation they received is adequate," Mr. Feinberg

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Take boasting about euroland deficit with a large pinch of disaggregation

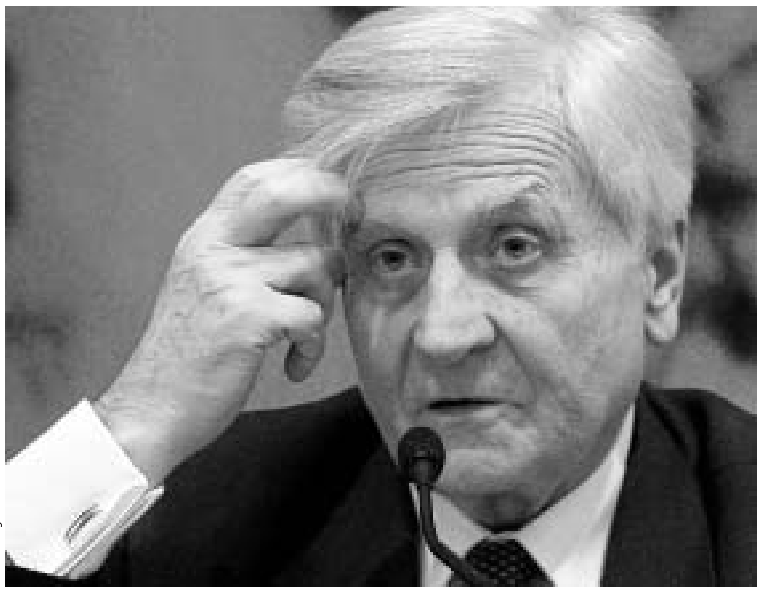
[Agenda]

By Irwin Stelzer

Disaggregate. Feel somehow unsoothed by reports that total crime has fallen? Disaggregate. You might find that total crime is down because car thefts have dropped sharply while violent muggings are on the rise, but not as rapidly as car thefts have fallen. So it is reasonable to avoid a dark street in the evening. Feel financially pressed by the lack of a salary increase even though the overall consumer price index is stable? Disaggregate. You might find that the price of electronic goods bought by youngsters has dropped sharply while food and drug prices have risen, but not quite as much. So don't expect to feel any better off when you go to the supermarket.

So with euroland. Take a bit of satisfaction in the fact that the overall euro-zone economy is showing strength, and that this modest growth seems set to continue in 2011, at a rate of 1.4% say economists at Citigroup Global Markets, or 1.9% if you prefer the crystal ball gazers at Goldman Sachs, who believe "the recovery is progressing nicely for the euro zone as a whole." To which Jean-Claude Trichet, head of the European Central Bank, adds that the overall euro-zone budget deficit comes to 6.3% of its GDP, compared to what he says is 11.3% in the U.S. and 9.6% in Japan. Why worry?

Disaggregate the figures for the euro zone and you find a far more significant story. Germany is growing and Spain is not, France is doing far better than Greece and Portugal but not as well as Germany, unemployment in Germany is 25% lower than in the euro zone as a whole, and half the rate in Spain. As for Mr. Trichet's boast about the low euro-zone deficit, take it with a pinch of disaggregation, lest you forget the double-digit deficits that brought Greece and Ireland down.



Bloomberg News

ECB President Jean-Claude Trichet speaking in Madrid on Friday.

It is unlikely that the aggregate data will bring joy to the citizens of Greece, Ireland, Spain and Portugal as they watch their living standards decline as taxes rise and benefits are cut. Rising growth in Germany won't buy much ouzo in Athens, Rioja in the tapas bars of Madrid, or Guinness in the pubs of Dublin. Unless, of course, policy makers figure out how to make the aggregate good news relevant to stricken countries on the periphery of the euro zone. Which is what they have set about doing in a triumph for those who have always seen the euro as merely a first step on the road to a federal Europe, with control of both monetary and fiscal policy in the hands of euroland institutions rather than individual nation states.

A triumph for those who have always seen the euro as merely a first step on the road to a federal Europe.

Euro-zone finance ministers have agreed to establish a Euro-zone Stability Mechanism (ESM), to replace existing loan and support facilities in 2013. According to Reuters, later this week the leaders of the 27-nation European Union will endorse their ministers' call for a re-opening of the Lisbon Treaty to incorporate in it the ESM, which will apparently cover liquidity needs of any of the 16 euroland countries that have liquidity but not insolvency problems, and only with "strict conditionality."

This latter caveat is inserted presumably to satisfy German chancellor Angela Merkel's insistence that creditors take a haircut as part of any bailout arrangement, and that the Eurocracy impose strict constraints and penalties on the budget deficits of those who rattle the beggar's bowl.

How the troubled euro-zone countries will get from here to 2013 is left unanswered. Which brings us back to the need for disaggregation. The overall growth figures conceal not only the weakness of the periphery countries, but the fact that the euro zone's engine of economic growth, Germany, is losing steam. Meanwhile, starting early in 2011 several euro-zone governments will be trying to persuade investors to buy their bonds just when banks in these countries will need to refinance €1 trillion ($1.3 trillion)of debt by selling long-term bonds.

Moreover, there will undoubtedly be elections in most of the periphery countries, and current indications are that the governments of Ireland, Spain, Portugal and (possibly) Italy will fall, making those countries' continued acceptance of the current bailout deals less than certain.

The heavy demands on the bond markets, combined with the political uncertainty in peripheral countries, should keep the bond vigilantes on their toes. As should the possibility that a reopening of the Lisbon Treaty, even if only to incorporate the two sentences the finance ministers claim are all that is needed to establish the ESM, may force some governments to hold referenda on the revised document.

The David Cameron of old —pre-coalition with Lib Dem europhiles, pre-the seeker-after applause from Paris and Berlin who agreed to an increase in the EU budget—might have been tempted to do just that. And a new Irish government, unhappy with the takeover of its finances by the Eurocracy, might just succumb to a similar temptation. Not likely, but possible. Which is all nervous investors need to accelerate their flight from peripheral euroland.

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Public relations value **67%**

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NEWS

Sweden treats blasts as terror attack

By Ian Edmondson

STOCKHOLM—Swedish authorities are treating as a terrorist attack two explosions near Christmas shoppers on Stockholm streets Saturday afternoon that left one person dead and two others injured, officials said Sunday.

Prime Minister Fredrik Reinfeldt urged patience as security officials investigated the incidents. They declined to confirm that the explosions or an email warning sent a few minutes earlier to Sweden's security service and a news agency were linked.

The two explosions, which targeted a busy pedestrian area in Stockholm, don't necessarily mean an increased threat to Sweden, the security chief said.

The blasts occurred minutes apart around 5 p.m. near Drottninggatan, a busy pedestrian shopping street in central Stockholm packed with Christmas shoppers.

People scattered in panic as a white Audi station wagon containing gas canisters exploded and burst into flames. Minutes later, a 28-year-old man died in what Swedish media said was an apparent suicide bomb attack a few hundred meters away from the car.

Witnesses reported seeing a man lying on the ground with blood appearing to come from his abdomen, and media reports said a bag containing nails lay on the ground beside him. Two people were taken to the hospital with light injuries.

"Three things occurred in a close space of time," Mr. Reinfeldt said at a news conference Sunday. "A car exploded in Olof Palmes Gata, a man blew himself at Bryggargatan, and a news agency and [Swedish security service] SAPO received a warning message."

"We cannot confirm that the events are linked, although it obviously raises questions," he added, urging people not to jump to conclusions or act hastily.

Officials said SAPO was treating the explosions as acts of terrorism, but they declined to give further details.

"So far, the investigation revolves mostly around the man," Anders Thornberg, the head of the security service, said at a news conference Sunday. He declined to indicate whether there was a link between the incidents or whether anyone else was involved, but said: "There could be."

Mr. Thornberg said that while the explosions were being treated as a terrorist act, that didn't necessarily mean an increased threat to Sweden.

"What has happened is very serious, but our assessment is that what has occurred does not alter our assessment of the threat level in Sweden," he said.

Agence France-Presse/Getty Images

Police patrol the Drottninggatan shopping street in Stockholm on Sunday, a day after two blasts hit the area.

Police said they were aware of the email but couldn't immediately confirm a link to the explosions.

Swedish media reported that an email sent minutes before the explosion to news agency TT and the security agency contained a reference to Lars Vilks, a Swedish artist responsible for a series of controversial drawings, which depicted the Prophet Muhammad as a dog, in 2007, as well as to Sweden's military presence in Afghanistan.

"Now your children, daughters and sisters shall die like our brothers and sisters and children are dying," the news agency quoted the email as saying.

Sweden has around 500 troops serving in the NATO-led International Security Assistance Force.

Mr. Vilks, who lives in southern Sweden, has faced numerous death threats and a suspected assassination plot since one of the drawings was first published by Swedish regional daily Nerikes Allehanda to illustrate an editorial on the importance of freedom of expression.

Mr. Reinfeldt asked people to remain calm while the security services investigate the events.

"Be patient and let the justice system do its job....When we get answers we will have a discussion about what we need to do in terms of security," he said.

Obama courts executives, building on their détente

Continued from first page

nal elections. Recent administration compromises on trade and taxes have encouraged business leaders.

In the past two weeks, the U.S. struck a deal to move the South Korea free-trade agreement through Congress, and Mr. Obama reached a compromise with Republicans on legislation that would renew Bush-era tax cuts while extending unemployment insurance and some renewable-energy tax credits.

Since the election, Mr. Obama "has done the right thing to reach out to people in both parties....I think he is going to be more experienced and build more coalitions than he was before," U.S. Chamber of Commerce President Tom Donohue said Friday on Fox News.

The White House and the chamber are discussing dates in January for Mr. Obama to address the group on jobs and the economy. That would expand an emerging détente with the group, after a campaign during which they feuded bitterly over the chamber's bankrolling of Republican candidates.

Chamber officials were also instrumental in the administration's breakthrough on the South Korea trade pact, pushing the government in Seoul and U.S. business to support improved terms for the U.S. auto industry.

White House officials say they will seek congressional ratification of the Korea pact in January. But some in the pro-trade camp remain skeptical. They say they want to see action on Korea coupled with an effort to pass long-stalled agreements with Colombia and Panama, and a move by Mr. Obama to resolve a festering trade dispute with Mexico.

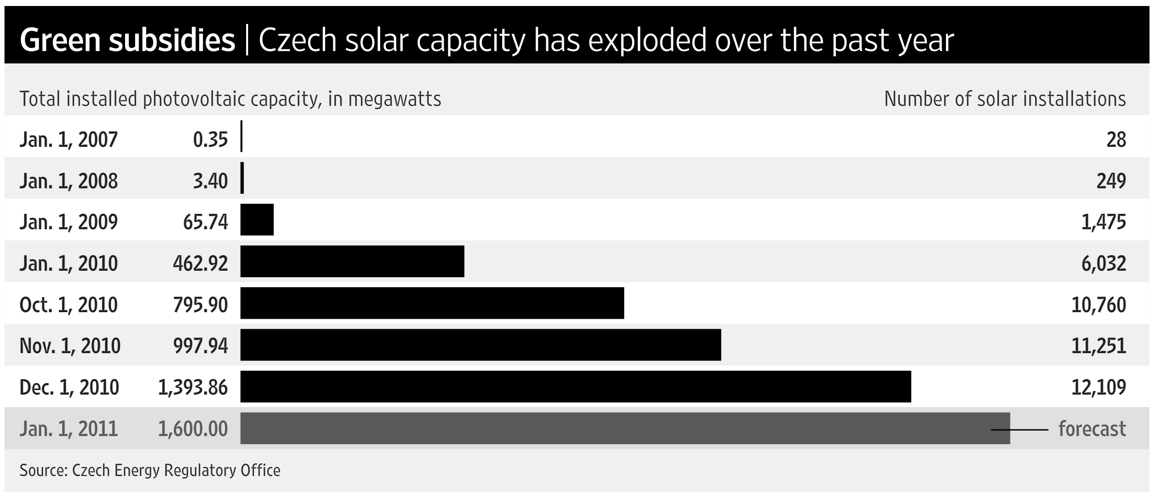
Mexico has imposed a range of tariffs on U.S. goods in response to a de facto U.S. ban on Mexican trucks. The ban, which has been ruled a violation of the North America Free Trade Agreement, was pressed for by the Teamsters union, whose members say the rival Mexican haulers don't adhere to U.S. safety standards.

The U.S. Chamber of Commerce facilitated a breakthrough in a South Korea trade pact, pushing the Seoul government and U.S. business to back improved terms.

The agenda Wednesday reflects concerns expressed in a "Roadmap for Growth" sent to the White House last week by the Business Roundtable. About 80 chief executives in Washington for a Roundtable meeting showed renewed optimism that Mr. Obama was serious about tackling their concerns, Ms. Schneider said.

"The tax compromise and the Korea deal made a big difference—there's a lot of respect, and the view that this could open the door to further compromises by the president and Congress," she said.

Recent dire reports on the federal deficit also served to focus the executives on collaboration with Washington, Ms. Schneider said.



Czech solar-tax plan sparks investor anger

By Sean Carney

PRAGUE—As global leaders assess the results of the United Nations summit on tackling global warming in the Mexican resort city of Cancun, which ended Friday, a political and legal mess is unfolding following the Czech Republic's efforts to reduce its carbon footprint.

From January 2011, this central European country of 10 million will subsidize zero-emission, photovoltaic electricity production at any solar installation that is connected to the country's grid by year's end.

The move is fully in line with the European Union's pledge to reduce greenhouse-gas emissions 20% by 2020 from 1990 levels. The build-up of solar-generation capacity should also reduce Czech dependence on fossil fuels—more than 50% of the country's power is currently generated by coal. This lofty, eco-friendly goal comes, however, at a cost to Czech consumers.

To spur investment in zero-emission solar power production, which last year accounted for less than 1% of Czech electricity generation, a 2005 law created generous subsidies. These now threaten, however, to increase electricity bills by as much as 20%, a shock to consumers, especially since the market price of electricity has fallen by around 20% over the past two years.

There are also fears the price rises, which apply to all users, commercial as well as domestic, will damp Czech economic growth.

Under the subsidy regime, solar power producers are to get 12,400 koruna (€494.4) per megawatt hour on top of the market price for electricity sold to the grid. Czech prices currently are around the European average of €50 per megawatt hour. Electricity distributors are obliged for the next 20 years to purchase all power generated through photovoltaic installations at prices including the subsidy. Those distributors say they have no choice but to pass along the higher prices. The extra cost of buying in solar power will be met by electrical power consumers via "environmental surcharges" on their bills.


Agence France-Presse/Getty Images

Czech Trade Minister Martin Kocourek

To limit the price shock, the government decided to create a new windfall tax of 26% on solar profits, which will be imposed for three years. Revenue from the tax will be used to ameliorate the price rises, holding them to 5% a year and giving consumers time to adjust to the increases.

But investors in solar power are outraged by the government's proposed tax, saying it is retroactive and therefore illegal. If enacted as planned on Jan. 1, the new tax would come after investments had been made, power plants built and payment terms with banks settled.

"We definitely have to take action. We'll have to provide more equity into the project, which creates a large problem; we'll have to subsidize it from our other businesses and resources," said Michal Gartner, chairman of **Photon Energy** AS.

Photon Energy was founded in 2008 by Czech and international investors and has since invested almost 1.3 billion koruna ($68.4 million) to build 15 megawatts of photovoltaic capacity in the country, making it a midsize player in the sector.

"We need to do everything we can to make sure we're adequately compensated," says Mr. Gartner, adding that the company, a member of the European Photovoltaic Industry Association, will probably take legal action together with others in the field.

The local Czech Photovoltaic Association is leading the legal rebuttal and said challenges will come via complaints to the Czech Constitutional Court and the European Union in Brussels, as well as via international arbitration.

"To retroactively change things is reckless and irresponsible behavior from any government," Mr. Gartner says. "It damages shareholders, and it's a very, very bad signal being sent to investors of all types."

Martin Kocourek, Czech trade minister, last Wednesday played down the risk of legal challenges and said governments can set taxes as needed. If the tax bill isn't passed into law and power prices rise, both Czech companies and foreign entities operating here will lose their competitiveness, he said.

Politicians "should focus on keeping the Czech economy competitive" and not be overly concerned with theoretical legal issues, Mr. Kocourek said.

The Czech problem has been exacerbated by the fall in the price of new photovoltaic equipment. The size of the subsidy was based on equipment costs in 2008 but since that time they have fallen by almost 30%. The government subsidy, however, remains unchanged.

Steady subsidies coupled with lower costs have attracted much more interest than politicians had foreseen, and installed photovoltaic capacity in the Czech Republic mushroomed 15 times since the beginning of 2009 as investors rush into the segment.

The Czech subsidy is even higher than Spain's €450 per megawatt hour subsidy implemented in 2008, which at the time was the world's most generous offer. Weighed down by fiscal debt and contracting economic growth, the Spanish government has since slashed its subsidies and solar farms authorized to generate power in the fourth quarter will get a subsidy of €259 per megawatt hour.

At the start of last year, the Czech Republic had a mere 65.7 megawatts of installed photovoltaic capacity, but by the end of this year when the window for lush subsidies closes, installed capacity will be 1,600 megawatts, the Czech energy regulator said.

■ In Cancun, rich countries agree to spend trillions on climate change 11

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Britain readies energy overhaul

By Guy Chazan

The U.K. is to publish proposals in the next few days for a major overhaul of its electricity market, designed to encourage big investments in low-carbon energy.

In the next few years, Britain plans to shut down many of its dirty coal-fired power plants, replace its aging fleet of nuclear reactors and build vast offshore wind farms.

But power companies say they lack incentives to switch from fossil fuels to renewables and nuclear, and are demanding more certainty that they can recoup what are likely to be massive investments in low-carbon technologies.

Britain has one of the most liberalized energy markets in the world, with many competing suppliers and few controls on electricity prices.

But a consensus has emerged that the market must be reformed if the U.K. is to raise the £200 billion ($316 billion) of investment required over the next 10 years to replace aging infrastructure and meet the country's climate change targets.

The issue of incentives is to be addressed in the government's consultation on electricity market reform, which begins this month. Ministers say the proposals it will contain could lead to the most fundamental reform of Britain's electricity sector since it was privatized 30 years ago.

Yet there are worries about the price. "Inevitably these changes will come at the cost of rising bills for consumers," says Roger Reynolds, utilities and renewables specialist at Nomura. "Managing the potential consumer backlash is a huge political challenge."

The consultation, which will last till next spring, is expected to include a plan to create a floor under the carbon price. The current price of allowances to emit CO_2 under the European Union's emissions trading program is seen as too low to encourage green investment. Ministers want to introduce a top-up tax on fossil-fuel power generators that kicks in when the carbon price drops below a certain level. It's expected to be part of the next U.K. budget, to be unveiled in the spring.

The government also favors capacity payments for low-carbon electricity generation. These would reward companies for making capacity available to the grid when supply is tight—even if much of the time it plants stands idle.

That idea is backed by **Electricité de France** SA, the French power company, which is spearheading the U.K.'s nuclear revival. EDF plans to build four new reactors in Britain by 2025. But it has made it clear it won't go ahead until Britain's electricity market is overhauled.

Other ideas being mooted include a low-carbon obligation, which requires energy suppliers to provide a certain proportion of power from low-carbon sources such as nuclear energy; and an emissions performance standard, which would limit the amount of carbon dioxide a new power station can emit.

Feed-in tariffs, which effectively guarantee renewable-energy producers an above-market price for their power, are also in the mix.


Press Association

Kingsnorth Power Station in Kent. The U.K. aims to shut down many of its coal-fired power plants and to encourage investment in green energy.

Exit poll: ruling party leads in Kosovo election

Associated Press

PRISTINA, Kosovo—An independent exit poll is showing Prime Minister Hashim Thaci's party leading in the Kosovo election.

The exit poll conducted Sunday by Kosovo-based Gani Bobi Center shows Mr. Thaci's Democratic Party of Kosovo six percentage points ahead of former coalition partners Democratic League of Kosovo, giving Mr. Thaci the upper hand in forming a government. Official results are expected Monday.

According to the poll, Mr. Thaci won 31%, with the LDK, or Democratic League of Kosovo, trailing with 25% of the vote and newcomer Albin Kurti winning 17% in his political debut. Mr. Kurti advocates Kosovo's unification with Albania and opposes any talks with Serbia.

The Kosovo election, the first general poll since the country's declaration of independence from Serbia in 2008, is marred by ethnic tension that many fear will split the world's newest country.

Serbia has called for Kosovo's Serb minority to boycott the vote in protest of its declaration of sovereignty, a vow of independence that Serbia has refused to acknowledge.

EUROPE NEWS

Thomas Meyer/Ostkreuz

Mr. Schäuble vowed to keep the euro stable: 'We have the means to do it.'

Germans debate Schäuble's idea for deeper union

BY LAURA STEVENS

BERLIN—Germany's ruling center-right coalition argued about whether further European integration is the solution to euro-zone problems after the country's finance minister said Friday that the country needs to be prepared to move into a deeper fiscal union.

Wolfgang Schäuble said in an interview with The Wall Street Journal that Germany would first try to work with the reform of the present structure, but if that doesn't work, it needs to think about moving toward further integration in fiscal policy for the 16-nation euro zone.

Many Germans, including leading members of the government, oppose further economic integration, fearing that Germany would be forced to pay the debts of other countries. Last week Luxembourg's premier called Germany "un-European" for dismissing a proposal for a common European bond, which would allow financially troubled countries to borrow at lower rates because of the backing of their stronger partners, including Germany.

"Euro bonds are just a cover name for other euro countries' unabashed attempt to pick the pockets of German taxpayers," said Alexander Dobrindt, the Christian Social Union's secretary general in an interview with the weekly Der Spiegel.

But Hans-Peter Friedrich, head of the CSU states group, told the weekly an increase in financial and fiscal connection is essential. "Given the immense changes in the euro zone, a common awareness should be developed in fiscal and financial policy."

Members of the conservative Christian Democrat Union voiced concerns about conflicting opinions between Chancellor Angela Merkel and Mr. Schäuble, saying other European nations will be able to divide them during negotiations at coming meetings in Brussels. Mr. Schäuble opposes euro bonds under present circumstances, but didn't rule them out if things change, while Chancellor Merkel is against them period.

Europe is still reeling from the nearly €70 billion rescue of Ireland and worrying about the creditworthiness of other indebted countries, such as Portugal. A rescue of a massive economy such as Spain would exhaust the nearly trillion-dollar bailout fund.

The Frankfurter Allgemeine Zeitung reported Sunday that euro bonds would cost German taxpayers €17 billion in the first three years. That would occur as interest rates on German bonds rose from 1.73% to 3.31%—an average of all euro zone countries' current rates—on the euro bonds. "There's a danger that an organization with unlimited mutual liability will be formed," Thomas Mayer, chief economist of Deutsche Bank, told the newspaper.

Meanwhile, Otmar Issing, former chief economist of the European Central Bank, told the paper that he thinks forcing taxpayers to participate without any say on the transfers is "profoundly undemocratic."

The German family-run businesses and young-entrepreneur associations joined in on the euro-bond criticism Sunday, releasing a joint open letter to the chancellor, which asked her to stop the open-ended bailout and to prevent euro bonds from making the problem worse. "There will be no solution, when accountability and responsibility are excluded for too long," the organizations wrote. "It would be better to look the problem in the eyes—what is €100 billion of direct help compared with doubling of our sovereign debt from €1.7 trillion when we take on the guarantees for lots of other European nations?"

Those who signed the letter also warned that it might not make sense for German companies to continue to do business in Germany if euro bonds become a reality. They also asked for the German government to look at leaving the euro, or even forming a new currency union with other fiscally strong members.

Germany's largest tabloid, the Bild Zeitung, interviewed Mr. Schäuble for its Sunday edition. In the interview, the finance minister reiterated Germany's commitment to the euro and his opposition to European bonds. "I'll say it again: The euro will not fail," he added.

WSJ.com

ONLINE TODAY: Read the full transcript of the Journal interview with Mr. Schäuble at **Europe.WSJ.com.**

Advertising Feature

Remixing Business

NEW TECHNOLOGY OFFERS FIRMS FLEXIBILITY, CAPITAL SAVINGS

By **Catherine Bolgar**

Cloud computing is redefining how businesses bring products and services to market.

Cloud computing turns your company's information-technology use into something like a utility—like water or electricity. You need more, you get more, and you pay a monthly bill for what you used.

"Cloud is the next generation of a company being able to get out of the business of IT and turn IT into an on-demand service, like calling UPS to ship a package instead of having your own trucks," says Joseph D. Coyle, chief technology officer in North America for Capgemini, the Paris-based global technology and consulting firm.

"Cloud" is defined by five characteristics:

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4. Rapid elasticity—you have unlimited resources; if you need more power, the cloud gives it to you.
5. Measured service—you pay for what you use when you use it.

There are different kinds of clouds, from public to private to hybrid and more. Hotmail and Gmail are clouds. Amazon and Google, for example, offer public clouds for other applications, or for storage. Other providers, such as Capgemini, offer private clouds, with customization and services like consulting or software upgrades.

Strict security requirements were one reason Royal Mail Group Ltd., the U.K. postal service, chose Capgemini Immediate—a cloud services solution—to transform its business and consumer online services, help to reduce its annual website IT costs, and support expansion and diversification into a wide range of web-based business opportunities without the delays of traditional IT. Most importantly, though, Royal Mail wanted to be able to quickly add or change online services. No longer a monopoly, it needs to stay ahead of the competition.

Meanwhile, having utility-style pricing helps Royal Mail "align our expenditure with revenue," says Stuart Curley, Royal Mail's chief technology officer.

The pricing model also means that instead of laying out a fortune for a new computer system, your company can allocate capital to other advantageous uses, says Andrew Bates, chief technology officer of Infostructure Transformation Services at Capgemini.

Cloud computing can change other parts of the organization as well. Over the past 20 years, businesses have focused on lean principles and on being No. 1 or No. 2 in a few categories, notes Andrew Mulholland, global chief technology officer for Capgemini. Now, customers increasingly want customized and personalized products. "It's smaller, faster, better-targeted edge-based selling in various markets," he says.

Your business is driven less by marketers deciding what will be available and more by customers proclaiming to the world online what they want, Mr. Mulholland says. "From the CEO level down, the ability to enter new markets, create value and raise the share price are all based on external business technology, using web services to reach people."

For more on this topic go to:
wsj.com/remixingbusiness

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U.S. NEWS

Obama envoy Holbrooke in hospital

By Jay Solomon

Richard Holbrooke, the U.S.'s special representative for Afghanistan and Pakistan, is in critical condition at a Washington hospital after undergoing emergency heart surgery Saturday, according to the State Department.

Mr. Holbrooke, 69 years old, was admitted to George Washington University Hospital on Friday suffering from a torn aorta. The career diplomat underwent surgery Saturday morning. He has been joined by his family, State Department spokesman P.J. Crowley said in a statement.

> **Holbrooke was an early critic of Afghan President Karzai and the corruption in the Kabul government.**

President Barack Obama said Saturday in statement: "Richard Holbrooke is a towering figure in American foreign policy, a critical member of my Afghanistan and Pakistan team, and a tireless public servant. We continue to pray for his recovery, and support his family in this difficult time."

Secretary of State Hillary Clinton, National Security Adviser Tom Donilon and Adm. Mike Mullen, chairman of the Joint Chiefs of Staff, visited Mr. Holbrooke at the hospital over the weekend, according to the White House.

Mr. Holbrooke has set a grueling schedule since taking the special representative's post early last year, regularly shuttling between Washington, Islamabad and Kabul. He also has sought to woo Asian, Middle Eastern and European countries to do more to help stabilize Afghanistan, making frequent stops in the United Arab Emirates, India and Saudi Arabia.

The special representative developed a mini-fiefdom on the first floor of the State Department in the past two years. He personally chose more than two dozen officials for his staff, including agricultural specialists, experts on Afghanistan's and Pakistan's tribes and political parties, and veterans of anti-money-laundering campaigns.

Under Mr. Holbrooke's watch, the number of U.S. civilian staff working for the American government in Afghanistan has tripled to more than 1,000.

Mr. Holbrooke was an early critic of Afghan President Hamid Karzai and the high levels of corruption in the Kabul government. The American diplomat's public rebukes of Mr. Karzai, even before joining the Obama administration, presaged Washington's contentious relations with Kabul in recent months.

Mr. Holbrooke has played perhaps an even larger role in Pakistan than Afghanistan. He aggressively pushed in early 2009 to strengthen Islamabad's civilian government led by President Asif Ali Zardari. And Mr. Holbrooke has regularly called for overhauling Pakistan's economy, after a 2008 financial crisis forced Islamabad to accept an International Monetary Fund-led bailout.

Reuters

Richard Holbrooke, U.S. special representative for Afghanistan and Pakistan, at a news conference in Kabul in October.

Mr. Holbrooke has been among the State Department's most successful and high-profile diplomats over the past four decades.

As a junior Foreign Service officer, he was stationed in Vietnam in the 1960s and went on to be part of the U.S. delegation in Paris that signed the truce with Hanoi that ended the Vietnam War.

Mr. Holbrooke also oversaw negotiations in Dayton, Ohio, that formalized in 1995 a peace agreement that ended the Balkan wars.

Mr. Holbrooke is known for his aggressive style in pressuring leaders such as Serbian President Slobodan Milosevic to make compromises.

Diplomats who have worked with Mr. Holbrooke say he is skillful in negotiations, alternatively shifting between flattering foreign leaders and insulting them.

Housing market on edge as lenders get tougher

[The Outlook]

By Nick Timiraos

Economists are worried that the U.S. housing sector may be heading into another downdraft as mortgage lenders continue to tighten already restrictive lending standards.

Such a scenario seemed less likely earlier this year, when home-buyer tax credits fueled a surge in sales. But sales have plunged in the second half of the year after those credits expired. New- and existing-home sales were down by more than 25% in October from a year ago.

Meanwhile, applications for mortgages have hovered near their lowest levels in more than a decade since May, even though mortgage rates have tumbled to their lowest levels in 60 years, with average 30-year, fixed-rate loans bottoming at 4.21% in October.

"We must realize that having very tight credit at the bottom of the cycle is a mistake. We are retarding the recovery," says Kenneth Rosen, a housing economist at the University of California at Berkeley.

The U.S. has normally relied on an expanding housing market to help lift the economy as it exits a recession by fueling manufacturing, consumer spending and job growth. In the first year of all postwar recoveries, residential investment has accounted for nearly one percentage point of gross-domestic-product growth, says Doug Duncan, chief economist at Fannie Mae. But today, it has accounted for around 0.1 percentage point of GDP growth.

Given the glut of foreclosures that will continue to hit the market, "at a time when you need more borrowers, you actually have less," says Laurie Goodman, senior managing director at Amherst Securities Group LP.

Lenders clamped down on the lax standards that fueled the housing bubble three years ago by requiring larger down payments, higher credit scores and greater documentation of borrowers' incomes and assets.

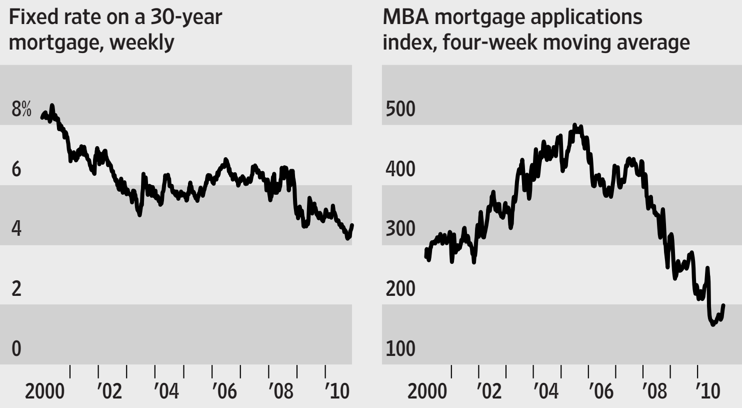
Economists say lending standards typically ease at this point in the business cycle as banks look for new business. But that isn't happening now because private lenders have ceded the market to government entities Fannie Mae, Freddie Mac and the Federal Housing Administration. Those agencies, saddled with losses, are under heavy political pressure to avoid taking any new risks. "The general feeling is, 'Let them be as tough as they want,' " says Guy Cecala, publisher of Inside Mortgage Finance.

During the third quarter, 13% of bank loan officers surveyed by the Federal Reserve reported that standards had grown tighter, while fewer than 4% said standards had loosened.

"Right now, we're in that vicious cycle where we tighten, which makes things worse, so we tighten, which makes things worse," says Bob Walters, chief economist at Quicken Loans. "How do you get out of that cycle? Folks in government are going to have to stand in and make some calls."

Burned out

Mortgage rates have fallen to their lowest levels in nearly 60 years, but demand for home purchases remains in a slump.



Source: U.S. Mortgage Bankers Association

Banks have become more restrictive in part because Fannie and Freddie are stepping up demands for banks to buy back defaulted loans when they can prove that the mortgage didn't meet underwriting guidelines, an expensive proposition for banks.

"Originators are scared to death. We are being intensely cautious because we understand that the franchise could be on the line," says Mr. Walters. He says tightening could continue "for at least a year, maybe longer."

Loan officers say one of the biggest problems right now is a requirement that borrowers prove their incomes by relying on at least two years of tax returns. That often trips up self-employed workers and small-business owners who take deductions that shrink their taxable income. It could also sink borrowers who were unemployed for a short time or had a recent salary reduction.

The consequence is that lending is bifurcating into two worlds. Salaried workers who can easily document their earnings are able to qualify for mortgages with down payments as low as 3.5% through the FHA. Self-employed borrowers are having a harder time even if they have assets stashed away.

Ivy Zelman, chief executive of housing research firm Zelman & Associates, says there are reasonable concerns that the government has provided "too much liquidity" in some markets through the FHA. But she says it's also the case that originators aren't always taking a careful look at an individual's ability to repay a loan, "and that could be preventing some truly good borrowers from getting loans."

Another worry is that the industry has also come to rely too heavily on credit-score cutoffs, something loan officers say can inhibit common sense underwriting. While the FHA has a minimum credit score for low-down-payment loans of 580, many banks won't sponsor loans with credit scores below 640. Average credit scores for borrowers with FHA-backed loans surpassed 700 in October for the first time.

No one wants a rerun of the past five years, when carelessness in underwriting fueled a painful explosion in mortgage liquidity. But the inverse carries its own dangers today: By imposing rigid standards that shut out qualified borrowers, banks and the government risk making it harder for the housing market to dig out of its hole.

U.S. NEWS

Economists see faster growth

By Phil Izzo

Economists have grown more optimistic about the outlook for U.S. growth next year, predicting the expansion will accelerate as 2011 progresses, according to the latest Wall Street Journal forecasting survey.

The 55 respondents, not all of whom answer every question, raised their growth projections for gross domestic product for nearly every period, including the current quarter. On average, the economists now predict GDP will grow 2.6% in the current quarter at a seasonally adjusted annual rate, up from the 2.4% growth they projected in last month's survey. The economy grew 2.5% in the third quarter.

The economists now see stronger expansion in the first half of 2011, with growth picking up speed as the year progresses. For the year, they expect GDP will rise 3%. Meanwhile, they've reduced the odds of a double-dip recession to just 15%, the lowest average forecast of the year, from 22% in the September survey.

At the same time, concerns remain about turmoil in Europe's economy, with the economists on average putting about 1-in-3 odds of a country exiting the euro zone in the next three years.

The majority of the respondents also say that there's a better chance the U.S. economy in 2011 will outperform their forecasts than that it will underperform. Thirty-five economists said the risks to their forecasts are more to the upside, while just 14 said the risk was to the downside.

> Europe still needs to take further action to put its debt crisis behind it, according to most economists in the forecasting survey.

Data on trade, retail sales, consumer sentiment and manufacturing have been looking better. Economists also were generally encouraged by news from Washington on a tax-cut compromise that included an unexpected temporary reduction in payroll taxes in addition an extension of the Bush-era tax cuts. The survey was conducted from Dec. 3-8, so not all of the forecasts take the tentative tax deal into account. Strong data on exports Friday also caused some economists to push up forecasts. Macroeconomic Advisers, for example, raised their fourth-quarter GDP tracking forecast by 0.3 percentage point to 2.3%.

"We have been anticipating the renewal of Bush tax cuts but not the possibility of payroll tax cuts," said Maury Harris of **UBS**. The added tax cut is expected to provide further stimulus to the economy and boost growth and jobs.

Also adding fuel to the recovery is the Federal Reserve's bond-buying program, though the economists said the effect may not be large. A Boston Fed study estimates that through 2012 the bond purchases will result in 700,000 additional jobs. Forty-two of 52 respondents called that estimate too optimistic.

To be sure, despite the rosier outlook there are still problems that could hold growth back. A disappointing November employment report showed a small 39,000 increase in jobs, while the unemployment rate ticked up for the first time in three months to 9.8%. Meanwhile, the housing market has shown some signs of stabilization but sales continue to be under stress and construction remains muted.

Europe still needs to take further action to put its debt crisis behind it, according to most economists in the survey.

Of the 55 economists polled, most of whom are based in the U.S., just seven said the euro zone doesn't need to take more steps to stem the debt crisis on its periphery. Twelve respondents said the bloc should boost its bailout funds, while eight suggested much higher bond purchases by the European Central Bank. Seven economists think the euro zone should issue collective bonds, while six want to see a debt restructuring of the most troubled nations.

"Any choice needs to be accompanied by difficult governance reforms," said Lou Crandall of Wrightson ICAP.

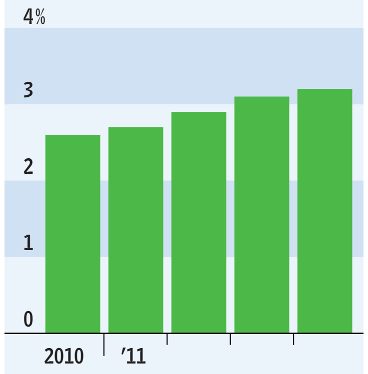
Meanwhile, on average, the economists put about 30% odds of a country exiting the euro zone in the next three years.

"The cost of leaving the euro zone is still greater than the alternative, even though it includes extremely harsh measures," said Diane Swonk of Mesirow Financial.

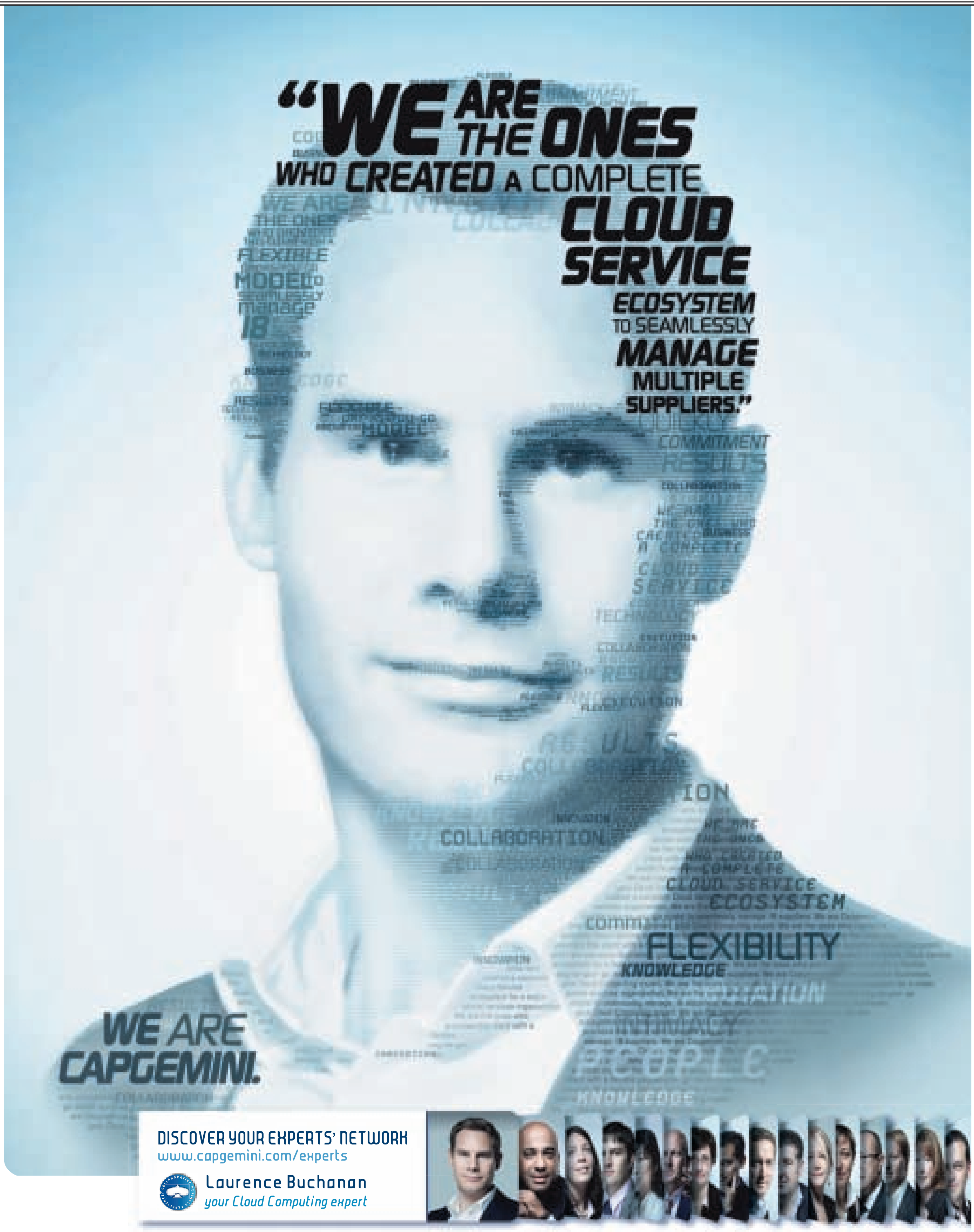
Though the odds of a country leaving are relatively low, some economists say that if the situation deteriorates further there may be little choice. "It looks unlikely, but a very weak economy could force someone out," said Bruce Kasman of J.P. Morgan Chase.

Brighter outlook

U.S. quarterly GDP, change from previous quarter at annual rate



Note: Seasonally adjusted
Source: WSJ survey of 55 economists



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THE MADOFF FRAUD

Lives in limbo, two years after scheme revealed

The mess he made | Still picking up after a massive fraud, two years on

Bernard Madoff, center, orchestrated the financial fraud of the century. Others in his orbit, clockwise from bottom left: brother Peter Madoff; whistleblower Harry Markopolos; wife Ruth; financier J. Ezra Merkin; trustee for Madoff's investors Irving Picard; and Austrian banker Sonja Kohn.

Photos: Getty Images, PRNewsFoto, Associated Press (3), Bloomberg News, APA-PictureDesk

By Jamie Heller and Joanna Chung

Two years ago, Bernard Madoff told his two sons that his multibillion-dollar investment business was "one big lie," according to authorities. Mr. Madoff was arrested a day after his dramatic confession and is now serving a 150-year sentence in federal prison.

Of seven people arrested besides Mr. Madoff, five were lower-level employees of his firm. The most senior figures charged have been his lieutenant and his accountant.

Today, nearly every life touched by the scandal has in some way been upended. In the latest twist, Mr. Madoff's eldest son, Mark Madoff, committed suicide on Saturday morning, the two-year anniversary of his father's arrest.

Irving Picard, the court-appointed trustee recovering assets for the victims, last week filed a rash of lawsuits seeking funds from people or firms he alleges were close to the scheme or unwittingly profited at the expense of others. On Friday, he sued Austrian banker Sonja Kohn, her relatives and related entities for $19.6 billion, the largest suit he's launched to recover money for victims of the decades-long fraud.

Here is a look at how others from Bernard Madoff's world are faring in the wake of the fraud of the century:

Ruth Madoff

In the hectic days after Bernard Madoff's fraud came to light two years ago, his wife, Ruth, was constantly trailed by paparazzi and television crews. She was shown venturing from their Upper East Side apartment on visits to the grocery store or to the federal jail in lower Manhattan where her husband was held for a time.

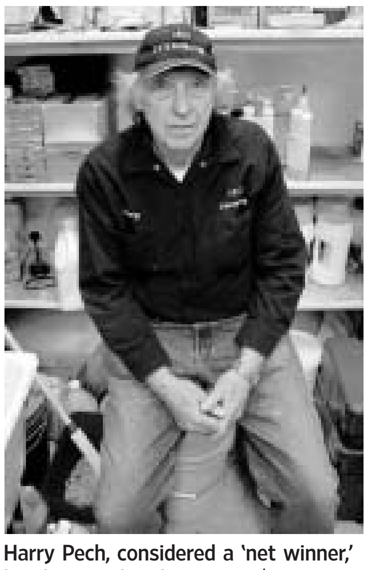
Since he was sentenced in June 2009, Ms. Madoff, 69, has tried to stay out of the glare. It is important to her husband that she not be hounded by the stigma of his crime, people familiar with her situation said.

Ms. Madoff was allowed to keep about $2.5 million in cash in an agreement with federal prosecutors last year, in exchange for giving up her claims to about $80 million in assets held in her name. She also was given back her passport, which she had surrendered as part of her husband's bail package.

According to a person familiar with the matter, federal investigators last year concluded there was no evidence that she actively participated in or concealed her husband's fraud. Mr. Picard, the court-appointed trustee, sued Ms. Madoff last year, seeking $44 million.

In January, Ms. Madoff registered a 1996 white, four-door Infiniti G20 Touring in Florida, listing her sister's home address in Boca Raton, Fla., as her mailing address. The New York Post reported this summer that she was living in Florida with friends and relatives and delivering meals to people who are homebound. A call to her sister's home wasn't returned.

—Chad Bray



Rob Bennett for The Wall Street Journal

Harry Pech, considered a 'net winner,' has been ordered to repay $642,000.

Peter and Shana Madoff

Peter Madoff, Bernard's 65-year-old brother and the former chief compliance officer at the firm, is not working; today he spends most of his time in the New York area between a home in Old Westbury on Long Island and a Manhattan apartment on Park Avenue, a person familiar with the matter said. Most of his assets are frozen pending the outcome of litigation.

Peter Madoff's attorney said in a January court filing as part of a civil lawsuit in New Jersey that he is under criminal investigation.

Peter Madoff's lawyer, Charles Spada, said in an email: "Peter Madoff had no knowledge of Bernard Madoff's Ponzi scheme and for the past two years has suffered enormous, irreparable harm from the consequences of his brother's fraudulent conduct." He added: "Peter's wife lost millions of dollars that had been invested with his brother and any suggestion that Peter was aware of his brother's fraud is absurd."

Shana Madoff, Peter's daughter, who was a compliance lawyer at the Madoff firm, lives with her husband and two children in a lower Manhattan apartment and isn't working either, a person familiar with her situation said. "She's doing pretty well, she's adjusting to a different life, and being a stay-at-home mom," the person said.

With her father and others, Ms. Madoff, 40, is fighting a suit filed a year ago by Mr. Picard seeking about $200 million in what he said were ill-gotten gains. He has alleged that Ms. Madoff and her father were derelict in their compliance duties. Her lawyer, Mark W. Smith, didn't respond to a request for comment. He has previously said she has done nothing wrong and was unaware of the fraud.

—Michael Rothfeld

J. Ezra Merkin

J. Ezra Merkin—art collector, former chairman of GMAC and the financier behind funds that funneled over $2 billion of charities' and other investors' money into the Madoff scheme—is mired in litigation.

Civil suits brought by the New York Attorney General and investors in his funds allege that he placed the bulk of the funds' money with the Madoff firm without investors' knowledge.

Last week, in the attorney general's case, Mr. Merkin's lawyer filed reams of documents and correspondence between Mr. Merkin and his clients in an attempt to show that some knew his funds were largely "feeders" to Madoff. Mr. Merkin is also engaged in settlement discussions with the attorney general, said a person familiar with the matter.

"This has been a horrendous two years for Mr. Merkin and his family," said Mr. Merkin's attorney Andrew Levander. "He continues to do what he can to maximize the remaining assets for his investors and hopes someday to put this all behind him."

Mr. Merkin sold his massive collection of Mark Rothko paintings and Alberto Giacometti sculptures for $330 million, money that may help pay back investors, depending on the outcome of litigation.

He has been spotted dining out for lunch at the famed eatery Michael's with hedge fund manager Bill Ackman, and he attended financier and philanthropist Michael Steinhardt's 70th birthday party last Saturday at the Four Seasons restaurant. Mr. Steinhardt, who lost about $2 million through his investment in one of Mr. Merkin's funds, said he sees Mr. Merkin about once a month.

"He feels great remorse in a lot of ways," said Mr. Steinhardt. "Whatever happens in the future, this will be a permanent scar and there is very little he can do about that."

—Liz Rappaport

The Cohns

Maurice "Sonny" Cohn, his daughter, Marcia Cohn, and their firm, Cohmad Securities Corp., drew a lot of attention after Mr. Madoff's arrest.

The firm got paid more than $100 million for referring investors to Madoff, according to the Securities and Exchange Commission. It also had multiple links to the Madoff operation. Messrs. Cohn and Madoff were longtime friends. Cohmad shared office space with the Madoff firm. Mr. Madoff partly owned Cohmad, which combined the two families' names.

Recently, without admitting or denying wrongdoing, the Cohns agreed to settle in November with the SEC over allegations of negligence in making statements to potential Madoff investors as well as not keeping accurate books and records. They agreed to refrain from violating certain securities laws. The SEC is considering steps that could include a suspension or bar from the securities industry, a spokesman said. Cohmad has stopped doing business. Ms. Cohn now lives in Miami with her three Shih Tzu dogs and trades commodities for her own account, people familiar with her activities say. She has looked for jobs, but has yet to land anything, one of these people said. Mr. Cohn splits time between Long Island and Florida and spends time with grandchildren, the person said.

—Aaron Lucchetti

Harry Markopolos

Many of those caught up in the Madoff affair came out with their reputations ruined or their wallets thinner.

Not Harry Markopolos.

Before the Madoff Ponzi scheme came to light, Mr. Markopolos was an unknown, and very frustrated, financial-fraud investigator living outside Boston. He had all but given up hope that the SEC would take action against Mr. Madoff, despite warning officials there for years that Mr. Madoff was a fraud.

That all changed when Mr. Madoff confessed his scheme. Mr. Markopolos became a star, a symbol of the inability of regulators to police financial markets.

Though he once disavowed any interest in book or movie deals, Mr. Markopolos has since written a best-selling book, "No One Would Listen," and is the focus of a soon-to-be-released documentary.

—Gregory Zuckerman

Harry Pech

In the years before Bernard Madoff was exposed, Dec. 11 was the day Harry Pech celebrated his granddaughter's birthday.

Now, he calls it "the day I lost my life."

The account Mr. Pech had in Bernard Madoff Investment Securities with his son held $874,000 at the time of the Ponzi scheme's collapse, they thought. But Mr. Picard denied their claim. Instead, in a lawsuit filed on Dec. 2, Mr. Picard demanded that the Pechs repay other victims $642,000, the amount he says they withdrew from the Ponzi scheme above their initial investments.

That makes them "net winners," says Mr. Picard. He has demanded that such investors must repay what they earned in "fictitious profits," instead of having their final account balances honored.

"Here is a guy who lost everything two years ago," said Mr. Pech's lawyer, Barry Lax. "And on the two-year anniversary of the money that was stolen from him, he is being sued by the trustee. It's just insult to injury."

Mr. Picard's stance toward net winners has been approved by a federal bankruptcy judge. That decision is on appeal.

Mr. Pech, 68 years old, an exterminator in Brooklyn, N.Y. , said he got into Madoff in the early 1980s, because a friend's father was an early investor.

He said much of the money he withdrew went to his wife in their divorce settlement, and her sister and others who had invested money through his account.

He says if he repaid, he wouldn't be able to meet his mortgage. Most of all, he resents still having to work, climbing up and down stairs.

"I can't do things I used to do," he said. "I would go and travel and eat and go to the best restaurants, because I always had that as a backup. When you have a million dollars there and all of a sudden it's gone, then what do you do?"

—Michael Rothfeld

THE MADOFF FRAUD

Madoff son felt unyielding pressure

By Aaron Lucchetti

Both Mark and Andrew Madoff had difficulty living with the burden of their father Bernard Madoff's fraud. But Mark, the older of the two, seemed to be having a harder time finding a way to move ahead, said people familiar with the men.

He often asked people how a father could do this to his sons, one friend noted.

Mark Madoff's death Saturday morning, at age 46 and on the second anniversary of his father's arrest, puts on stark display how the revelation of Bernard Madoff's decades-long Ponzi scheme has torn apart Mr. Madoff's family. A spokeswoman for the New York medical examiner's officer said Sunday that the death has been determined to be a suicide.

Just last week, a spokesman for the sons said "Mark remains unalterably bitter about his father's deception and the injury his father has caused."

Both the brothers, as well as their uncle Peter Madoff, were under criminal investigation in recent months, people familiar with the matter have said. Their representatives say they had no knowledge of the fraud.

Mark Madoff was "distraught" with reports that suggested he was part of the fraud and that investigators were still looking at him in connection with his father's Ponzi scheme, one person who had spoken with him said recently.

Getty Images

Mark Madoff with parents Bernard and Ruth Madoff in 2001. Mark hadn't spoken to them in two years before his death.

While Andrew Madoff, a survivor of lymphoma, started biking more than 160 kilometers a week and working with his fiancée in her consulting business, Mark Madoff in the last year spent time calling on old Wall Street contacts from his trading days. He tested the waters for a job, but there were no takers. He recently turned his attention to working on applications for iPads, one friend noted recently.

Neither son has talked with their parents for two years, a person familiar with the matter said.

Martin Flumenbaum, the attorney representing Mark Madoff and his brother, on Saturday said: "Mark Madoff took his own life today. This is a terrible and unnecessary tragedy. Mark was an innocent victim of his father's monstrous crime who succumbed to two years of unrelenting pressure from false accusations and innuendo. We are all deeply saddened by this shocking turn of events."

Bernard Madoff's lawyer, Ira "Ike" Sorkin, declined to say whether he had reached out to his client. "This is a great tragedy at many levels," said Mr. Sorkin. "He has expressed his remorse repeatedly and this can only add to his sorrow."

Mark Madoff grew up in the New York suburb of Roslyn, N.Y., and in 1986 went straight from the University of Michigan to work for his father at Bernard L. Madoff Investment Securities. In the 1990s and 2000s, Mark Madoff headed trading desks for the firm. Known as sociable, Mark Madoff often went out with his trading colleagues and hit the circuit of conferences where traders met. As he worked alongside his brother, Mark became known as the easier of the two to talk to, while Andrew was more driven and, some say, more book-smart.

Mark Madoff married his first wife, Susan, in 1989. They had two children and they divorced about a decade later. They had moved into a $1.6 million house in Greenwich, Conn., in 1994, according to public records. Saturday, the ex-wife, Susan Elkin, declined to discuss what happened. He moved back into the city in the mid-2000s, and into his current apartment building on Mercer Street, where he lived with his second wife, Stephanie Morgan, whom he married in 2003. In addition to their Manhattan home, they purchased a home in Nantucket, Mass., for $6.5 million in 2008. It's currently for sale, said a person familiar with Mark Madoff's finances.

—Sean Gardiner and Michael Rothfeld contributed to this article

A Saturday morning spectacle

By Steve Eder

NEW YORK—On Friday, Mark Madoff dropped off an envelope and a card for the parking attendants at Mercer Parking, where he stowed his black 2008 Land Rover. He gave the attendants $400 and a greeting card decorated with penguins from him and his wife thanking them for their help.

Anthony Diaz, 37 years old, an attendant at the garage, said Mr. Madoff, his wife, child, babysitter and dog often would leave early on Saturday mornings for trips to the family's summer home.

The Land Rover on Saturday was still parked in the garage, the attendant said. After 9 a.m., New York City police announced Mr. Madoff was found dead in his SoHo apartment. "He's a nice guy," said Mr. Diaz as a crowd of journalists and spectators on holiday shopping trips gathered around the crime scene. "I feel bad."

Mr. Madoff, 46, was found hanged with a dog leash attached to a living-room-ceiling pipe in his apartment by his father-in-law, Martin London, law-enforcement officials said. Mr. London notified police around 7:30 a.m. No suicide note was found, the officials said.

Mr. Madoff's two-year-old son, Nick, was found unharmed in a bedroom in the apartment, along with a dog. Police said that because the toddler was left alone, they planned to notify the city's Administration for Children's Services. The child was released to Mr. London. Detectives took at least one computer, an Apple, and BlackBerries as per a search warrant for analysis.

Law-enforcement officials said Mr. London went to the apartment in Manhattan's SoHo section at the request of Mr. Madoff's wife, Stephanie Morgan, who was in Florida, where she received an email Saturday morning from her husband indicating that she should have someone check on their son and indicated he was going to kill himself.

Associated Press

Mark Madoff's body is removed from his apartment building in SoHo.

According to police, one email to her read "Please send someone to take care of Nick" and another "I love you."

He also sent an email to his attorney, Martin Flumenbaum. According to police, it read, "Nobody wants to believe the truth. Please take care of my family."

Saturday morning, police were guarding the doors of his apartment building, shooing away those who got too close.

"What's going on here?" one person who walked by blurted out.

"Bernie Madoff's son killed himself in there," replied another passerby, pointing to the building.

The block between Prince and Houston streets is also the stomping grounds of celebrities such as Jon Bon Jovi and Kanye West, and attracts young, affluent residents.

Mr. Madoff's apartment is neighbors with Joyce Theater, a small contemporary dance theater. The hip Mercer Hotel and Mercer Kitchen restaurant are also within a stone's throw.

"We are just being nosy," said Linda Bessant, 34, who was standing with her fiancé, Stewart Hasler, 33. The couple was visiting New York from London and came across the crowd while sight-seeing in nearby Greenwich Village.

Around 12:20 p.m., police quickly wheeled Mr. Madoff's body on a cart out of the building and into a medical examiner's van. The sidewalk was packed with journalists and onlookers. Dozens of gawkers lifted their smart phones to photograph the moment, including two women who had stumbled upon the scene. The women talked between themselves, calling Mr. Madoff's apparent suicide a "selfish" act.

After his body was moved, the women quickly said, "Let's get lunch" and marched away.

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China pledges more efforts to curb inflation

By Andrew Batson
And Aaron Back

BEIJING—China's top leadership pledged to do more to combat inflation, as new figures showed consumer prices rising at the fastest rate in more than two years.

A statement issued Sunday at the end of the annual Central Economic Work Conference said Chinese leaders had agreed to "put stabilizing the overall price level in a more prominent position" in their ranking of economic-policy priorities.

President Hu Jintao and Premier Wen Jiabao both addressed the conference, a gathering of central and local government officials that sets economic priorities for the coming year. The new language out of one of the key events in China's economic calendar is likely to add to already-widespread expectations of higher interest rates and tighter credit in coming months.

China's central bank raised interest rates in October and has increased reserve requirements for commercial banks three times in the past month.

An unexpected and unwelcome pickup in inflation has driven the change in priorities: China's consumer price index rose 5.1% in November, the fastest rise since July 2008, government data showed Saturday. The figure was even higher than the surprise 4.4% gain in October, and was ahead of market expectations, though the 5.1% reading was widely reported in local media in the days leading up to the official announcement.

Food prices were a major driver of November's inflation, rising 11.7% from a year earlier, faster than October's 10.1% rise. But nonfood price inflation also accelerated, rising 1.9% from a year earlier after October's 1.6% rise, and other indicators of economic activity also picked up, in a sign that inflationary pressures could be spreading outside food.

"China's economy is obviously showing signs of overheating," J.P. Morgan Chase & Co. analyst Qian Wang said. Even with the global economy starting to rebound, China is likely to boost government spending next year as the start of a new five-year plan leads to the launch of many infrastructure projects, she said.

Industrial output, a key barometer in China's manufacturing-driven economy, rose 13.3% in November from a year earlier, the National Bureau of Statistics said, accelerating from October's 13.1% rise. And urban fixed-asset investment, China's main measure of capital spending, rose 24.9% from a year earlier in the January-November period, accelerating from the 24.4% rise in the January-October period.

The National Development and Reform Commission, China's top economic-planning agency, played down the pickup in inflation. In a statement Saturday, the agency said the pickup in November was largely driven by "temporary and seasonal factors," and that inflation will likely slow to 5% or lower in December. By then, some of the recent administrative measures Beijing has taken to rein in prices of agricultural commodities, including price controls and releasing state reserves of some goods, will be showing some effects.

But some economists worry the problem is bigger. "It's slightly alarming there's evidence of price pressure outside of food prices. It's the second month that [nonfood prices] have crept up," said Tom Orlik, an economist at Stone & McCarthy Research Associates.

The statement from the conference repeated the recent announcement that China's money and credit policy next year would be "prudent," rather than the "moderately loose" setting used this year.

In an indication that the leadership may be willing to let growth cool in order to address other issues, the statement called for "not blindly pursuing high growth" but instead putting "more focus on the quality and efficiency of growth, more focus on boosting employment and improving living standards."

Some economists think the latest reserve-ratio increase won't do all that much to address inflation, because it will affect only a small amount of funds in the banking system, and many expect another interest-rate move before the end of the year. "At a minimum, we'll see more reserve-ratio hikes," Mr. Orlik said, adding, "interest-rate hikes are back on the agenda as well."

However, Ms. Wang said that a higher level of inflation isn't necessarily a problem for China, as long as it doesn't get out of control.

—Liu Li, Owen Fletcher and Stefanie Qi contributed to this article.

Chinese Premier Wen Jiabao

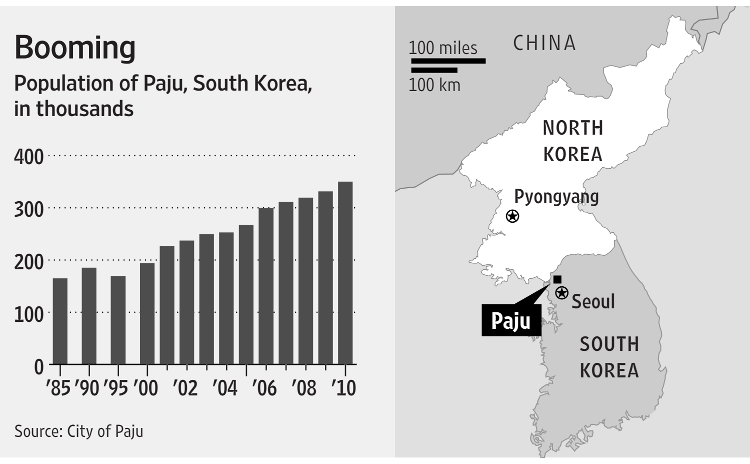
Source: China's National Bureau of Statistics
Photo: Xinhua/Zuma Press

Associated Press

A South Korean soldier passes an ad for a swimming complex in Paju, just 10 kilometers from the demilitarized zone.

Korean border town flourishes

By Gordon Fairclough



PAJU, South Korea—In April, Lee Woo-young moved with her family into a fancy high-rise apartment complex here, just 10 kilometers from the demilitarized zone that divides South Korea from the impoverished and heavily armed North.

Ms. Lee's new home is within range of North Korean artillery batteries dug in on the other side of the Imjin River. But she says she isn't worried, even after last month's shelling of a South Korean island by the North that killed four people.

"I don't really feel like there's a threat here," says Ms. Lee, 32 years old, her 3-year-old son playing nearby. She chose the neighborhood, she says, because "it has clean air and it's a good place to raise a kid."

This booming city—which abuts the DMZ—and its swelling population show how South Koreans in many ways have become inured to the threat posed by the North and discount the possibility of war with their neighbor.

Paju's success also complicates the calculus for South Korea's leaders as they weigh how to respond to attacks by North Korea and helps explain Seoul's caution so far. South Korea's people fear a conflict that could destroy the well-off, modern nation they have built.

"The South has more to lose from a war," says Lee Ju-hyun, a senior city government official in Paju. "We are much more developed, economically." Despite its location, Paju is one of South Korea's fastest-growing municipalities. Paju's population has climbed more than 80% in the past decade. Roughly 20,000 people moved to the city last year alone, the government says.

In many ways, the city's rise mirrors that of South Korea as a whole. Paju's economy is driven by high-tech manufacturing. Factories here churn out computer chips and the sophisticated LCD panels used in laptop computers and flat-screen televisions.

LG Display Co. has built one of the largest LCD-display manufacturing centers in the world in Paju, investing more than $7 billion in the project so far. Such industrial development has transformed the city.

Apartment towers have sprouted, with names such as Vivaldi and Noble Land. Downtown streets are lined with coffee shops, fast-food outlets, furniture showrooms and electronics stores. Ms. Lee's Hillstate apartments don't have any bomb shelters, but downstairs there is a well-equipped gym and an indoor golf practice range.

Across the DMZ, in the North, the view is of farm fields and villages. The main sign of economic progress is an industrial park built by the South when relations were warmer, home to South Korean factories that rely on cheap North Korean labor.

Since the collapse of the Soviet Union, North Korea's erstwhile benefactor, the North's economy has limped along, with help from China. Food and fuel are in short supply. Pyongyang has focused what resources it has on maintaining its military, one of the world's largest.

North Korea's bombardment of Yeonpyeong Island—home to fishing and farming villages as well as a South Korean marine outpost—late last month has caused some people to rethink the wisdom of living so close to the North.

Lim Hyun-jin commutes to Paju from Seoul for her job as a saleswoman in a cosmetics shop. "I had planned to move to Paju," she says. "But after Yeonpyeong, I've changed my mind."

Paju's Mr. Lee says that immediately after the attack on Yeonpyeong, some residents rushed to stock up on water and instant noodles, and some foreigners teaching English in the city decamped. But, he says, people quickly recovered.

Public-opinion surveys in the wake of the Yeonpyeong attack have found that a large majority of South Koreans felt their military should have had a stronger reaction to the North Korean barrage.The South responded by firing roughly the same number of shells from its own artillery back at the North's batteries.

People in Paju, however, say Seoul should be careful to avoid escalating the conflict. "If South Korea had acted more forcefully against the North, the situation would have been worse," says one 30-year-old cellphone salesman who declined to give his name."It's better to stop now. Doing more is more dangerous."

Most people interviewed in Paju also say they see little chance the North will launch an artillery strike on their city and even less that there will be a full-scale war. A large number of South Korean troops and some U.S. soldiers are stationed in the area. But most American combat troops have moved to bases farther south.

"I don't think there will be a war in my lifetime," says Mr. Lee, who was born and raised in Paju and oversees civil defense for the city government. He says people are accustomed to provocations from Pyongyang. "When you get used to being hit over and over, it doesn't really hurt anymore."

Meanwhile, LG is adding another mammoth factory to its LCD-screen production complex. The city is planning apartments for 200,000 more people expected to move to Paju in coming years, and former U.S. Army bases are being turned into parks and university campuses.

"It used to be, everyone was a farmer. This was really just countryside," says Lee Sang-hoon, 67, who was born in Paju before the outbreak of the Korean War in 1950 and now runs a small restaurant downtown. "Now it's a city."

"The Korean people, in their hearts, don't really believe there can be a war," he says.